**Weight:** 5%

**Marks:** 100

# Assignment #2: Revenue Recognition, Cash, Inventory, and Capital Assets

# Instructions

Read your assignment thoroughly.

**Handwritten answers will not be accepted.**

**Answer all questions in the space provided in the document.**

Show all your calculations.

Round up to the **nearest cent** for dollar amounts.

Round to **three decimal places** when the solution requires a percentage.

Refer to the Course Schedule for the assignment due date.

# Marking Criteria

|  |  |  |
| --- | --- | --- |
| **Question** | **Marks Allocated** | **Marks Obtained** |
| Question 1 | 9 |       |
| Question 2 | 10 |       |
| Question 3 | 5 |       |
| Question 4 | 5 |       |
| Question 5 | 10 |       |
| Question 6 | 10 |       |
| Question 7 | 11 |       |
| Question 8 | 11 |       |
| Question 9 | 9 |       |
| Question 10 | 10 |       |
| Question 11 | 10 |       |
| **Total** | **100** |  |

# Questions

**Question 1 (9 marks)**

Match the items below by entering the appropriate letter in the space provided.

1. Prenumbered documents
2. Non-Current Assets
3. Unearned revenues
4. Custody of an asset should be kept separate from the record-keeping for that asset
5. Television monitors, garment sensors and burglar alarms are examples
6. Prepaid expenses
7. Bonding employees
8. FOB Shipping Point
9. Accrued expenses
10. Collusion
11. Accrued revenues
12. Invest idle cash
13. Net Sales
14. Tangible Asset
15. Freight Out
16. Gross Profit
17. Periodic Inventory System
18. Contra Revenue
19. Goodwill
20. Perpetual Inventory System
21. FOB Destination
22. Intangible Asset

|  |  |
| --- | --- |
|  | 1. Segregation of duties
 |
|  | 1. A revenue not yet earned; collected in advance.
 |
|  | 1. Prevent a transaction from being recorded more than once.
 |
|  | 1. Physical controls
 |
|  | 1. An expense incurred; not yet paid or recorded.
 |
|  | 1. The shipping of goods that would be included in the seller’s inventory at the end of a period if they are still in transit.
 |
|  | 1. A basic principle of cash management.
 |
|  | 1. An expense not yet incurred; paid in advance.
 |
|  | 1. Insurance protection against misappropriation of assets.
 |
|  | 1. Two or more employees circumventing prescribed procedures.
 |
|  | 1. Examples are franchise and trademarks.
 |
|  | 1. Revenue earned; not yet collected or recorded.
 |
|  | 1. Sales less sales returns and allowances and sales discounts.
 |
|  | 1. Freight cost to deliver goods to customers reported as an operating expense.
 |
|  | 1. An account that is offset against a revenue account on the income statement.
 |
|  | 1. Can be identified only with a business as a whole.
 |
|  | 1. The shipping of goods that would be included in the buyer’s inventory at the end of a period if they are still in transit.
 |
|  | 1. Requires a physical count of goods on hand to calculate cost of goods sold.
 |

**Question 2 (10 marks)**

Ezra Inc. prepared the following condensed income statement using the cash basis of accounting:

EZRA INC.

Income Statement, Cash Basis

Year Ended December 31, 2015

Service revenue $820,000

Expenses 640,000

Profit $180,000

**Additional data:**

1. Depreciation on a company automobile for the year amounted to $9,000. This amount is not included in the expenses above.
2. On January 1, 2015, paid for a two-year insurance policy on the automobile amounting to $1,800. This amount is included in the expenses above.
3. Service revenue does not include $50,000 of services provided on account in 2015 for which payment will be received in 2016. It does, however, include $20,000 collected in 2015 for services to be performed in 2016.
4. Expenses do not include $50,000 of advertising expenses that were incurred in 2015 but won’t be paid for until 2016.
5. The expenses do not include salaries in the amount of $2,500 owed to employees for the work done between the last time they were paid and year end.
6. The expenses include property taxes covering the period from July 1, 2015 to June 30, 2016 in the total amount of $1,200 that were paid in 2015.
7. On March 1, 2015 Ezra purchased $60,000 of equipment. It paid $15,000 in cash and signed a 5 year, 5% note payable for the balance. The equipment’s useful life is expected to be 10 years, and other than recording the initial purchase, no further journal entries have been made regarding the equipment or the note. Ezra uses the straight-line method for depreciating all assets.
8. A count showed that $650 worth office supplies are still on hand at year end, even though Ezra records all office supply purchases as expenses when made.

**Instructions:**

Using the above additional information, prepare the adjusting entries that should be made by Ezra Inc. on December 31 if they were following the requirements of accrual accounting. **Omit explanations but show all calculations.** A table is provided on the following page.

| **Date** | **Account Titles** | **Debit** | **Credit** |
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**Question 3 (5 marks)**

The following is a list of accounts and their balances (all normal balances) as of July 31, 2014 for Jones and Mark, Inc. All adjusting entries have been made and are included in the balances.

Cash $35,300

Utilities expense 800

Accounts receivable 16,000

Prepaid insurance 5,000

Service revenue 24,600

Supplies 1,500

Rent expense 3,600

Accumulated depreciation – equipment 3,200

Accounts payable 11,000

Unearned service revenue 9,800

Common shares 27,000

Retained earnings 17,000

Dividends 1,000

Equipment 20,000

Salary expense 8,200

Depreciation expense 1,200

Prepare the closing journal entries for Jones and Mark, Inc.

| **Date** | **Account Titles** | **Debit** | **Credit** |
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**Question 4 (5 marks)**

John Smith has worked for Dr. Bosworth for several years. John demonstrates a loyalty that is rare among employees. He has not taken a vacation in the last three years. One of John's primary duties at the doctor office is to open the mail and list the cheques received. He also takes cash from patients as patients leave. At times, it is so hectic that John does not bother with giving patients a receipt for the cash paid on their accounts. He assures the patients that he will send them a receipt. When the office is not busy, John offers to help Mary post the payments to the patients' accounts receivable. She is always happy to receive his help because he is a very conscientious worker.

Identify any internal control activities that may be violated in this doctor office situation.

**Question 5 (10 marks)**

Indicate whether each of the following statements is true or false. Questions with more than one answer selected will be marked as incorrect. **Each question is worth 1 mark.**

1. Revenue is generally recognized (recorded) when there is an increase in a liability or a decrease in an asset.

[ ]  True

[ ]  False

1. If a company has no beginning inventory and the unit cost of inventory items does not change during the year, the unit cost assigned to the cost of goods sold will be the same under FIFO and average cost formulas.

[ ]  True

[ ]  False

1. All property, plant, and equipment must be depreciated for accounting purposes.

[ ]  True

[ ]  False

1. If merchandise costing $2,500, terms 2/10 n/30, is paid within 10 days, the amount of the purchase discount is $250.

[ ]  True

[ ]  False

1. Using the units-of-production method of depreciation for equipment will generally result in more depreciation expense being recorded over the life of the asset than if the straight-line method had been used.

[ ]  True

[ ]  False

1. Expense recognition is tied to changes in assets and liabilities.

[ ]  True

[ ]  False

1. Once goods leave the premises of the seller, they should never be added to the seller’s physical inventory count.

[ ]  True

[ ]  False

1. If net sales are $1,000,000 and cost of goods sold is $800,000, the gross profit margin is 20%.

[ ]  True

[ ]  False

1. Since some costs are not recorded, adjusting entries are necessary.

[ ]  True

[ ]  False

1. An error that overstates the ending inventory will cause profit for the period to be understated.

[ ]  True

[ ]  False

**Question 6 (10 marks)**

For each of the following items, indicate by using the appropriate code letter (I, O, F, or N) which section of the statement of cash flows it would appear in. **Each item is worth 1 mark.**

I: Investing activity

O: Operating activity

F: Financing activity

N: Not shown – no impact on cash

1. Retirement of bonds payable with cash.
2. Declaration and payment of a cash dividend.
3. Received cash to reduce accounts receivable balances.
4. Borrowed cash by obtaining a long-term bank loan.
5. Conversion of bonds payable into common shares.
6. Used cash to purchase merchandise inventory.
7. Sale of equipment for cash at book value.
8. Issue of preferred shares for cash.
9. Purchase of land for cash.
10. Payment of cash of interest outstanding on a short-term notes payable.

**Question 7 (11 marks)**

Answer all of the questions by selecting the answer you think is correct. Questions with more than one answer selected will be marked as incorrect. **Each question is worth 1 mark.**

1. Each of the following companies is a merchandising company, **except** a:

[ ]  a. Wholesale parts company

[ ]  b. Candy store

[ ]  c. Furniture store

[ ]  d. Moving company

1. Significant noncash transactions would not include:

[ ]  a. conversion of preferred shares into common shares.

[ ]  b. asset acquisition through issue of a note payable.

[ ]  c. loans to other companies.

[ ]  d. exchange of equipment.

1. The primary difference between a periodic and a perpetual inventory system is that a periodic system:

[ ]  a. Keeps a detailed record showing the inventory on hand at all times

[ ]  b. Provides better control over inventories

[ ]  c. Records the cost of goods sold on the date the sale is made

[ ]  d. Determines the cost of goods sold at the end of the accounting period

1. Under the perpetual inventory system, in addition to making the entry to record the sale, a company would:

[ ]  a. Debit Merchandise Inventory and credit Cost of Goods Sold

[ ]  b. Debit Cost of Goods Sold and credit Purchases

[ ]  c. Debit Cost of Goods Sold and credit Merchandise Inventory

[ ]  d. Make no additional entry until the end of the period

1. A company sells $10,000 on account in the current year and collects $7,500 of these accounts receivable. It incurs $6,000 in expenses on account during the year and pays $4,000 of its accounts payable. The company would report what amount of net earnings under the cash and accrual bases of accounting, respectively?

[ ]  a. $4,000 on the cash basis and $3,500 on the accrual basis

[ ]  b. $3,500 on the cash basis and $4,000 on the accrual basis

[ ]  c. $6,000 on the cash basis and $3,500 on the accrual basis

[ ]  d. $1,500 on the cash basis and $6,000 on the accrual basis

1. Which of the following items does not appear in the operating activities section of the statement of cash flows?

[ ]  a. cash payments to suppliers

[ ]  b. cash collections from customers

[ ]  c. depreciation expense

[ ]  d. cash payments for interest

1. A company purchased land for $120,000 cash; $7,000 was spent to demolish an old building on the land before construction of a new building could start; and $1,500 was received for material salvaged from the old building. The cost of the land would be recorded at:

[ ]  a. $125,500.

[ ]  b. $120,000.

[ ]  c. $127,000.

[ ]  d. $128,500.

1. An error in the physical count of goods on hand at the end of a period resulted in a $10,000 overstatement of the ending inventory. The effect of this error in the current period is:

 **Cost of Goods Sold** **Net Earnings**

[ ]  a. Understated Understated

[ ]  b. Overstated Overstated

[ ]  c. Understated Overstated

[ ]  d. Overstated Understated

1. Bray's Tune-Up Shop Ltd. follows the revenue recognition principle. Bray services a car on May 31. The customer picks up the vehicle on June 3 and mails the payment to Bray on June 5. Bray receives the cheque in the mail on June 6. When should Bray show that the revenue was earned?

[ ]  a. June 6

[ ]  b. May 31

[ ]  c. June 5

[ ]  d. June 3

1. Which of the following is not true for an operating expenditure?

[ ]  a. It is recorded with a debit to a statement of financial position account.

[ ]  b. It benefits the current period only.

[ ]  c. It is incurred to maintain an asset in its normal operating condition.

[ ]  d. It often recurs.

1. A merchandiser will produce earnings from operations of exactly $0 when:

[ ]  a. Net sales equals cost of goods sold

[ ]  b. Cost of goods sold equals gross margin

[ ]  c. Operating expenses equal net sales

[ ]  d. Gross profit equals operating expenses

**Question 8 (11 marks)**

The following information was taken from the adjusted trial balance of Lucy’s Lemons Inc. at December 31, 2015. All accounts have normal balances.

Accounts payable $ 52,000

Accounts receivable 18,700

Accumulated depreciation—Building 44,900

Advertising expense 38,500

Building 600,000

Cash 85,000

Common shares 417,500

Cost of goods sold 410,500

Depreciation expense 12,000

Freight out 22,000

Interest expense 5,700

Interest revenue 2,000

Rental revenue 6,000

Retained earnings, Jan 1 154,800

Salaries expense 279,500

Salaries payable 5,200

Sales 798,500

Sales discounts 8,200

Sales returns and allowances 29,000

Utilities expense 9,200

**Instructions**

Use the above information to prepare a multiple-step income statement for the year ended December 31, 2015. A form is provided on the following page.

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**Question 9 (9 marks)**

Wong Corporation sells many products. Below is an analysis of the inventory purchases and sales of for the month of March. Wong uses the perpetual inventory system.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Purchases** |  | **Sales** |
|  |  | **Units** | **Unit Cost** |  | **Units** | **Selling Price/Unit** |
| **March 1** | **Beginning inventory** | **200** | **$60** |  |  |  |
| **March 3** | **Purchase** | **60** | **75** |  |  |  |
| **March 4** | **Sales** |  |  |  | **70** | **$120** |
| **March 10** | **Purchase** | **200** | **82** |  |  |  |
| **March 16** | **Sales** |  |  |  | **80** | **130** |
| **March 19** | **Sales** |  |  |  | **80** | **130** |
| **March 25** | **Sales** |  |  |  | **50** | **130** |
| **March 30** | **Purchase** | **40** | **90** |  |  |  |

Answer the questions using the FIFO and moving weighted average cost formulas. You may find it useful to use the templates provided on the following pages, but there are no marks associated with completing the template.

1. The total ending inventory in **units**, regardless of the inventory valuation method is:

1. The total ending inventory cost for **March 31** that would appear on Wong’s statement of financial position using the **FIFO** method is:

1. The cost of goods sold for the **March 4** sale using the **FIFO** method is:

1. The total gross margin (percentage) for the month of March using the **FIFO** method is:

1. The total ending inventory cost for **March 31** that would appear on Wong’s statement of financial position using the **Moving Weighted Average** method is:

1. The total cost of goods sold for the month of March using the **Moving Weighted Average** method is:

1. The total gross margin (percentage) for the **March 25** sales using the **Moving Weighted Average** method is:

1. The total gross margin (percentage) for the month of March using the **Moving Weighted Average** method is:

1. The total amount of units sold in the month of March, regardless of the inventory valuation method is:

**FIFO Template**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Description** | **Purchases** | **Cost of Goods Sold** | **Ending Inventory Balance** |
| **Units** | **Cost** | **Total** | **Units** | **Cost** | **Total** | **Units** | **Cost** | **Total** |
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**Moving Weighted Average Template**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Description** | **Purchases** | **Cost of Goods Sold** | **Ending Inventory Balance** |
| **Units** | **Cost** | **Total** | **Units** | **Cost** | **Total** | **Units** | **Cost** | **Total** |
|       |       |       |       |       |       |       |       |       |       |       |
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**Question 10 (10 marks)**

For each item listed below, enter a code letter (D, I, or N) in the blank space to indicate the usual allocation terminology for the item. **Each item is worth 1 mark.**

D: Depreciated/Amortized

I: Subject to impairment test only

N: Not depreciated/amortized

1. Copyrights
2. Land
3. Buildings
4. Patents
5. Trademarks
6. Licenses
7. Equipment
8. Franchises
9. Goodwill
10. Land improvements

**Question 11 (10 marks)**

A machine was acquired on January 1, 2010, at a cost of $100,000. The machine was originally estimated to have a residual value of $10,000 and an estimated life of nine years. The machine is expected to produce a total of 200,000 components during its life, distributed as:

|  |  |
| --- | --- |
| **Year** | **Number of Components** |
| 2010 | 15,000 |
| 2011 | 25,000 |
| 2012 | 25,000 |
| 2013 | 25,000 |
| 2014 | 25,000 |
| 2015 | 25,000 |
| 2016 | 25,000 |
| 2017 | 20,000 |
| 2018 | 15,000 |

Using the straight-line, units of production, and double-diminishing balance methods, answer the following questions.

1. The 2010 amortization expense using the straight-line method is:

1. The 2012 amortization expense using the straight-line method is:

1. The 2010 amortization expense using the units of production method is:

1. The 2013 amortization expense using the units of production method is:

1. The 2011 amortization expense using the double-diminishing balance method is:

1. The 2013 amortization expense using the double-diminishing balance method is:

1. Which method results in the highest depreciation expense in the first two years?

1. Which method results in the highest depreciation expense over all nine years?

1. What would the adjusting entry look like to record the 2012 depreciation expense for double-diminishing balance method?

| **Date** | **Account Titles** | **Debit** | **Credit** |
| --- | --- | --- | --- |
|       |       |       |       |
|       |       |       |       |
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