130312

National Exams May 2013
98-Ind-B7, Financial and Managerial Accounting
3 hours duration

1. Answer the questions only in the space provided.
2. You have three hours to complete the exam.
3. Be clear and concise. **Please use point form.**
4. At the end of this question booklet there are two pages of Formula Sheets.
5. There are 17 pages in this booklet, including this cover sheet. **Please ensure you have all 17 pages before commencing the exam.**
6. When done, hand in all pages in this booklet.
7. **UNLESS OTHERWISE REQUESTED, IT WILL BE ASSUMED THAT ALL ANSWERS ARE BASED ON CANADIAN GAAP (ASPE). If you wish to answer based on IFRS (International Financial Reporting Standards) you must state so in each answer where applicable.**
8. **This is a closed book exam. One of two calculators is permitted, any Casio or Sharp approved models.**
9. **If you have concerns about the possible interpretation of a question please state what assumptions you feel you need to make in answering the question. If in the opinion of the marker, the assumptions are reasonable and do not assume away the basic intent of the question, your answer will be marked based on your assumptions.**

Question #	Marks	
Question 1	28	
Question 2 or 3	28	
Question 4	14	
Question 5	12	
Question 6	8	
Question 7	10	
Total	100	

Question 1 (28 marks)

Using the worksheets on the following pages, record each of the following transactions, showing the account name and the amount. Unless otherwise stated, you are to use accrual accounting. If you believe that no entry is required for one or more of the transactions, state this and justify your response by specifying the relevant accounting assumption or principle that supports *leaving it off the books of the company.*

On the sheets provided record:

EITHER the transactions

OR the journal entries

Eg.) You paid a supplier $2,500 for goods received last month.

Good Service Corp. was set up by three Engineering students on January 1, 2011.

1. On that date, the investors exchanged $36,000 cash (in total), for 3,000 shares of the company.
2. On the same day, the corporation borrowed $10,000 from a local bank and signed a three-year note, payable on December 31, 2013. Interest of 10 percent is payable each December 31.
3. *On January 1, 2011, the corporation purchased supplies* for $20,000 cash. Operations started immediately.

At the yearend, Dec. 31/11, the corporation had completed the following additional business transactions (summarized):

4. Performed services and billed customers for $100,000, of which $94,000 was collected by year-end.
5. Used up $5,000 of supplies while rendering services.
6. Paid $54,000 for other service expenses.
7. Paid $1,000 in annual interest expense on the note payable.
8. Paid $8,000 of income taxes to Canada Revenue Agency, being all of the income tax for the year.

They following transactions also occurred:

9. On Dec 15/11, they declared a $10,000 dividend.
10. On Dec 31/11 they paid the dividend

You are to indicate the account and where applicable, the account classification (see below) for each part of each entry.

CA - Current Asset
NCA - Non-current Asset
CL - Current Liability
NCL - *Non-current Liability*

EITHER Record the Transactions <u>OR</u> Record the Journal entries

Transaction #		Assets =	Liabilities	+ Share Capital	+ Revenue	- Expenses	- Dividends
eg.		Cash/CA ($2,500)	Accounts Payable/CL ($2,500)				
1							
2							
3							
4							
5							

6							
7							
8							
9							
10							

Question 1 cont'd

EITHER Record the Transactions OR Record the Journal entries

T#	Account and classification where applicable	DR	CR
Eg.	*Accounts Payable/CL*	*2,500*	
	Cash/CA		*2,500*

T#	Account and classification where applicable	DR	CR

DO: EITHER - QUESTION 2

OR - QUESTION 3

Question 2 (28 Marks)

DO NOT DO THIS QUESTION IF YOU HAVE CHOOSEN TO DO QUESTION 3

Bob "Happy" Harley started Happy Harley Motorcycles Inc. on January 1, 2010. At the start of the 2011 year its account balances were:

Cash	$10,000	Trade payables	$16,000
Accounts receivable	50,000	Deferred revenue	6,400
Supplies	24,000	Note payable (due in 3 years)	80,000
Equipment	16,000	Share capital	16,000
Land	12,000	Retained earnings	57,600
Building	64,000		

The following is a list of the transactions for the month of January, 2011.

a. Received a $500 deposit from a customer who wanted her motorcycle rebuilt.

b. Rented part of their building to a bicycle repair shop; received $500 for one month's

c. Delivered 10 rebuilt motorcycles to customers, who paid $16,000 in cash

d. Received $8,000 from customers as payment on their account

e. Received January's electricity bill for $420, to be paid in February

f. Ordered $800 in supplies

g. Paid $1,900 on account to suppliers

h. Received from one of the shareholders an $850 tool (equipment) to be used in the business

i. Paid $8,500 in wages to employees *for work in January*

j. Declared and paid a cash dividend of $3,000

k. Received and paid for $800 in supplies

Question 2 cont'd

DO NOT DO THIS QUESTION IF YOU HAVE CHOOSEN TO DO QUESTION 3

Required:

(i) Prepare an Income Statement, in good form, for the month of January, 2011.

(9 Marks)

Question 2 cont'd

DO NOT DO THIS QUESTION IF YOU HAVE CHOOSEN TO DO QUESTION 3

Required:
(ii) Prepare a Statement of Financial Position (Balance Sheet), in good form, for the month of January, 2011.

(19 Marks)

Question 3

DO NOT DO THIS QUESTION IF YOU HAVE CHOOSEN TO DO QUESTION 2

3 (a) Tao Industries, Inc. developed standard costs for direct material and direct labor. In 2012 Tao estimated the following standard costs for one of their major products, the 50-gallon plastic container.

	Standard quantity	Standard price
Direct materials	0.25 pounds	$40 per pound
Direct labor	0.03 hours	$18 per hour

During August, Tao produced and sold 8,000 containers using 1,900 pounds of direct materials at an average cost per pound of $41 and 250 direct labor hours at an average wage of $18.25 per hour. Determine the following variances for August:

Required: **(18 marks)**

a. Total direct material cost variance.
b. Direct material price variance.
c. Direct material quantity variance.
d. Total direct labor cost variance.
e. Direct labor rate variance.
f. Direct labor efficiency variance.

Question 3 cont'd

DO NOT DO THIS QUESTION IF YOU HAVE CHOOSE TO DO QUESTION 2

3 (b) The following information pertains to Ortega Corporation during the last 2 quarters of the year:

Month	Sales	Purchases
July	$15,000	$5,000
August	17,000	6,000
September	19,000	7,000
October	21,000	8,000
November	24,000	9,000
December	30,000	10,000

Receipts - Cash is collected from customers in the following manner:

Month of sale (2% cash discount)	30%
Month following sale	50%
Two months following sale	15%
Amount uncollectible	5%

Disbursements – Purchases are paid in cash in the following manner:
40% in the month of purchase,
The balance in the following month.

Required: **(10 marks)**

a. Prepare a summary of cash receipts for the 4th quarter.
b. Prepare a summary of cash disbursements for the 4th quarter.

Question 4

The following information was taken from the yearend accounts of Glare Import Company.

Required:
Fill in all of the missing dollar amounts. **(14 MARKS)**

Income Statement item	Year 1	Computation	Year 2	Computation
Gross sales revenue	$210,000		$255,000	
Sales discounts			5,000	
Net sales revenue	207,000			
Cost of sales			60%	
Gross profit	40%			
Operating expenses	42,800			
Profit before income taxes			70,000	
Income tax expense (30%)				
Profit before discontinued operations				
Discontinued operations, net of tax	10,000 (loss)		2,500 (gain)	
Profit				
Earnings per share (8,000 shares outstanding)				

Question 5 (12 Marks)

Grey Manufacturing has prepared the following flexible budget for October and it is in the process of interpreting the variances. F denotes a favorable variance and U denotes an unfavorable variance.

	Flexible Budget	----------Variances---------- Price/Rate	Quantity/Efficiency	Actual Results
Material A	$30,000	$1,000F	$3,000U	$32,000
Material B	40,000	500U	1,500F	39,000
Direct labor	50,000	500U	2,500F	48,000

Required:

a. Explain what each of the following variances indicates. **(8 marks)**

i. For Material A, the favorable price variance indicates that...
ii. For Material A, the unfavorable quantity variance indicates that...
iii. For direct labor, the unfavorable price variance indicates that...
iv. For direct labor, the favorable efficiency variance indicates that...

b. Which two variances do you think should be investigated by management? Why? **(4 marks)**

Question 6 (8 Marks)

Bealing Company has the following operating profit:

Sales	$400,000
Variable Costs	160,000
Contribution Margin	$240,000
Fixed Costs	140,000
Operating Profit	$100,000

a. Bealing could increase revenues by 10% by reducing sales discounts by 10%. There will be no changes in variable or fixed costs.
Required:
What would be the percentage increase in operating profits? **(4 marks)**

b. Refer to the original information in this problem. Suppose Bealing's sales people discounted sales another 2% with no change in variable or fixed costs.
Required:
What is the change in operating profits? **(4 marks)**

Question 7 (10 marks)

Roberts Company uses a periodic inventory system. Based on the company's accounting records, one of their products showed the following trans actions for the fiscal year ended September 30, 2012.

	Units	Unit Cost
Beginning Inventory, October 1, 2011	1,600	$ 90
Purchases on November 9, 2011	2,400	$ 92
Sale on January 4, 2012 at $138 each	2,800	
Purchases on June 7, 2012	2.000	$ 97
Sale on September 1, 2012 at $144 each	800	
Sales return on September 5, 2012 (see below)	8	

Note: The sales return on September 5, 2012 relates to the sale made on Sept. 1, 2012

Required:
a: Calculate the cost of the ending inventory for the product at September 30, 2012 and the cost of goods sold for the product for the fiscal year ending September 30, 2012 assuming that Roberts uses the weighted-average inventory costing method. **(6 marks)**

b: Calculate the cost of the ending inventory for the product at September 30, 2012 and the cost of goods sold for the product for the fiscal year ending September 30, 2012 assuming that Roberts uses the first-in, first-out (FIFO) inventory costing method.
(4 marks)

2008 Formula/information Sheet

Ratio	Formula
A/R turnover	Net credit sales / Average net accounts receivable
Avg. days to sell inventory	365 / Inventory turnover
Avg. collection period	365 / A/R turnover
Current ratio	Current assets / Current liabilities
Debt/Equity ratio	Total liabilities / Shareholders' equity
Dividend yield	Dividends per share / Market price per share
Earnings per share	Net income + Dividends / Average # of common shares outstanding
Financial leverage	Average total assets / Average shareholders' equity
Fixed asset turnover	Net sales / Average net capital assets
Gross profit percentage	Gross profit / Net sales
Inventory turnover	Cost of goods sold / Average inventory
Price/earnings ratio	Current market price per share / Earnings per share
Profit margin	Income (Before Extraordinary items) / Net sales revenue
Quality of Income	Cash flow from Operating Activities / Net Income
Quick Ratio (Acid Test)	Quick Assets (Cash and near-cash assets) / Current Liabilities
Return on equity	Net income / Average shareholders' equity
Return on assets	Net income + Interest expense / Average total assets
Times interest earned	Net income + Interest expense + Income tax expense / Interest expense
Total asset turnover	Net sales / Average total assets
Working capital	Current assets – Current liabilities

The Assumptions Underlying Financial Statements

Separate-Entity	Each business must be accounted for as an individual organization, separate and apart from its owners, all other persons, and other entities.
Unit-of-Measure	Each business entity accounts for and reports its financial results primarily in terms of the national monetary unit.
Continuity (or Going-Concern)	A business is assumed to be able to continue to operate for at least one year beyond the current balance sheet date.
Periodicity	The long life of a company can be reported in shorter periods, usually no longer than one year.

The Qualitative Characteristics of Financial Statements

Relevance	Financial information is relevant if it can influence users' decisions by helping them assess the impact of past activities and/or predict future events.
Reliability	Financial information is reliable when it is verifiable, unbiased, and accurate.
Comparability	Financial information is comparable when it enables users to identify similarities and differences between two sets of financial reports produced by two different companies.
Consistency	Financial information is consistent when it is prepared using the same accounting methods and principles over time.

The Constraints Affecting Financial Statements

Materiality	Material amounts are amounts that are significant enough to influence a user's decision. Immaterial amounts need not conform to GAAP.
Cost-Benefit	Financial information should be produced only if the perceived benefits of increased decision usefulness exceed the expected costs of providing the information.

Key Generally Accepted Accounting Principles

Historical cost	An asset should be recorded at its historical, cash-equivalent cost as at the date of acquisition.
Conservatism	Special care should be taken to avoid (1) overstating assets and revenues, and (2) understating liabilities and expenses.
Revenue recognition	Revenue should only be recognized when *all* of the following three criteria have been met: 1. The earnings process is complete or nearly complete, meaning that the company has provided all or substantially all of the goods or services promised to the customer. 2. An exchange transaction takes place at a measurable amount, meaning that the customer provides cash or a promise to pay cash in an amount that is measurable at the time of the exchange. 3. Collection is reasonably assured, meaning that there is a significant likelihood of collecting the amount due from the customer.
Matching	Expenses should be recorded in the period during which the related resources were consumed to earn revenues, regardless of when cash is paid.

The Cost of Goods Sold (CGS) Equation

Beginning Inventory + Purchases = Cost of Goods Available for Sale
Cost of Goods Available for Sale – Ending Inventory = CGS

Capital Asset Amortization Formulas

Straight-line	$\frac{\text{Net Book Value} - \text{Residual value}}{\text{Estimated remaining useful life}}$
Units-of-Production	$\frac{(\text{Cost} - \text{Residual value}) \times \text{Units produced}}{\text{Estimated total production units}}$
Declining-balance	$(\text{Cost} - \text{Accumulated amortization}) \times \frac{(2)}{(\text{Estimated useful life})}$

GAAP Criteria for Accounting for Contingent Liabilities

	Likely that loss will occur	Likelihood is not determinable	Not Likely that loss will occur
Loss subject to reasonable estimate	Accrue	Disclose	Do not accrue or disclose
Loss not subject to reasonable estimate	Disclose	Disclose	Do not accrue or disclose

Expanded Accounting Equation:

Assets = Liabilities + Share Capital + Revenue - Expenses - Dividends

or

Assets = Liabilities + Share Capital + Revenue + (Expenses) + (Dividends)