

ACCY500 Accounting Measurement, Reporting and Control: Module 2 Cases

Question 1: Smith & Jones Sporting Goods Co. - Recording Transactions

Smith & Jones Sporting Goods Co. started operations on 1 October 2015 and on 30 September 2017 had the following summary:

	30 Sept. 2017
Fixed Assets	
PPE	17,000
Current Assets	
Inventories	14,000
Cash	10,035
Accounts Receivable	13,056
Total Assets	54,091
Current Liabilities	
Accounts Payable	18,891
Total Liabilities	18,891
Equity	
Common Stock	34,000
Retained Earnings	1,200
Total Equity	35,200
Total Liabilities and Equity	54,091

During the year ended 30 September 2018 (i.e., third year of operation), the company engages in the following transactions:

- 1. Payment of \$8,300 of accounts payable to suppliers
- 2. Collection of \$4,500 of accounts receivable from customers
- 3. Sale of sporting goods merchandise originally costing \$5,300 for \$8,950 of which 30% is on credit, the remaining 70% is in cash
- 4. Payment of \$3,500 for employee wages in cash
- 5. Purchase of sporting goods merchandise from suppliers on credit for \$1,900

6. Issue 500 shares of common stock in exchange for \$2,000 in cash

In addition, the company also engaged in the following two transactions which need to be recorded in the 2017/2018 accounts:

- 7. On 30 June 2018, the company prepaid an annual insurance premium of \$1,200. This policy covers 1 July 2018 30 June 2019.
- 8. On 31 October 2018, the company will pay a dividend of \$350.

Required:

Please record these transactions in a worksheet and prepare a Balance sheet and Income statement using the templates on the following pages.

	Assets				Liabilities			Equity		
	Fixed Assets	Inventories	A/R	Cash	Prepaid Insurance	Accounts Payable	Dividends	Common Stock	Income Statement	Retained Earnings
ОВ										
1. Payment to Creditors										
2. Collection from Customers										
3. Sales										
3. Cost of Sales										
4. Wages										
5. Purchase Merchandise										
6. Issue stock										
7. Insurance										
8. Dividends										
9. Transfer R/E										
10. CB										



Gies College of Business

Balance Sheet

Daiance Succi	30 Sept 2017	30 Sept 2018
Fixed Assets		
PPE		
Current Assets		
Inventories		
Accounts Receivable		
Cash		
Prepaid Insurance		
Total Assets		
Current Liabilities		
Accounts Payable		
Dividends		
Total Liabilities		
Equity		
Common Stock		
Retained Earnings		
Total Equity		
Total Liabilities and Equity		

Income Statement

	30 Sept 2018
Sales	
Cost of Sales	
Gross Profit	
Administrative Expenses	
Profit Before Interest & Tax	
Interest	
Profit Before Tax	
Tax	
Profit After Tax	

Question 2: Missing/Erroneous Transactions

In each of the following questions, you have transactions that were either "missed" or made an error in the annual financial statements ending on December 31.

Indicate the amounts involved and the effects on each of the accounts listed, using the following notations:

	• Overstated	(O)		
	• Understated	l (U)		
	• No Effect (1	NE)		
Each tr	ansaction is independ	dent (i.e., the first	transaction does not affect	t the second, etc).
			nounts the financial staten nistaken transactions. Igno	
1.	2016, Sparrow & I covering October 1. Sparrow & Nightin	Nightingale prepa , 2016 – Septemb gale's accountant	at sells rare books and DVI aid the next 12 months' er 30, 2017) on their sho did not record the entry other entries during the	insurance policy (i.e. p for \$18,000 in cash. for prepayment of the
	Current Assets Current Liabilities Capital Stock Net Income		Long-Term Assets Long-Term Liabilities Retained Earnings	
2.			ld inventory, which origing YaHo, Inc. did not recor	
	Current Assets Current Liabilities Capital Stock Net Income		Long-Term Assets Long-Term Liabilities Retained Earnings	
3.	suppliers on accoun	t. On May 28th, Th	d purchased merchandise he Gathering Sound paid the The Gathering Sound Ltd	\$9,370 in cash to these
	Current Assets Current Liabilities Capital Stock		Long-Term Assets Long-Term Liabilities Retained Farmings	

Net Income

Question 3: Moving On Ltd. - Accrual vs. Cash Accounting

Moving On Ltd. started operations on March 1st, 2015 and in each of its first two years prepaid one year's rent on the building used for operations. The end of Moving On Ltd.'s accounting period is December 31st:

2015
1 March \$24,000

2016
1 March \$25,200

Making whatever assumptions you consider reasonable, use the template below and prepare the relevant extracts from the transaction worksheets for 2015 and 2016.

	As	sets	Share	holder's Equity
	Cash Prepaid Rent		IS	Retained Earnings
2015				
Prepayment 1 March				
Rent Mar Dec.				
Transfer R/E				
Closing Balance				
2016				
Opening Balance				
Rent Jan. – Feb.				
Prepayment 1 March				
Rent Mar. – Dec.				
Transfer R/E				
Closing Balance				

Question 4: Waltzing Along, Inc. - Recording Transactions

Waltzing Along, Inc., a retailer which sells running apparel and footwear, began operations on April 1st, 2015 and at March 31st, 2016 had the following summary:

	31 March 2016
Current Assets	
Cash	52,980
Accounts Receivable (A/R)	5,300
Inventories	4,670
Fixed Assets	
PPE	25,000
Total Assets	87,950
Current Liabilities	
Accounts Payable (A/P)	4,950
Long-term Liabilities	
Note Payable	35,000
Total Liabilities	39,950
Equity	
Common Stock	20,000
Retained Earnings	28,000
Total Equity	48,000
Total Liabilities and Equity	87,950

During the year ending March 31st, 2017 (i.e., second year of operation), the company engages in the following transactions:

- 1. Purchase of merchandise inventory worth a total of \$33,800 from suppliers. Seventy-five percent of this inventory was purchased on credit, the remaining 25% was paid for in cash.
- 2. Cash payment of \$17,330 of accounts payable
- 3. Payment of interest on note payable of \$1,750
- 4. Sale of merchandise inventory originally costing \$17,245 for \$38,170. Customers paid 50% in cash and the remaining 50% was purchased by customers on credit.
- 5. Payment of \$15,300 in wages to workers in cash for work completed during the year
- 6. Collection of \$8,050 in cash of accounts receivable

7. Payment of \$450 in cash for utilities used during the year

In addition, as a result of these transactions, the company will engage in the following two transactions which need to be recorded in the 2016 and 2017 accounts:

- 8. On April 15th, 2017, the company will pay an additional \$500 in wages to workers for work completed during March 2017.
- 9. Tax (at a rate of 28%) is payable on the company's profit before tax and is due on June 30^{th} 2017.

Required:

Please record these transactions in a worksheet and prepare a Balance sheet and Income statement using the templates on the following pages

	Assets				Lia	bilities			Equity		
	Cash	AR	Inventories	PPE	AP	Note Payable	Tax Payable	Wages Payable	Common Stock	Income Statement	Retained Earnings
OB											
1. Purchase of Merchandise Inv.											
2. Payment to Creditors											
3. Payment of Interest											
4. Sale of Merch.											
4. Cost of Sale											
5. Payment of Wages											
6. Collection From Debtors											
7. Payment of Utilities											
8. Additional Wages											
9. Tax											
10. Transfer R/E											
СВ											

Balance Sheet

Daiance Sheet	31 March 2016	31 March 2017
Current Assets		
Cash		
Accounts Receivable (A/R)		
Inventories		
Fixed Assets		
PPE		
Total Assets		
Current Liabilities		
Accounts Payable (A/P)		
Tax Payable		
Wages Payable		
Long-Term Liabilities		
Note Payable		
Total Liabilities		
Equity		
Common Stock		
Retained Earnings		
Total Equity		
Total Liabilities and Equity		

Income Statement

	31 March 2017
Sales	
Cost of Sales	
Gross Profit	
Administrative Expenses	
Profit Before Interest & Tax	
Interest	
Profit Before Tax	
Tax	
Profit After Tax	

Question 5: Missing/Erroneous Transactions

In each of the following questions, you have transactions that were either "missed" or made an error in the annual financial statements ending on December 31st.

Indicate the amounts involved and the effects on each of the accounts listed using the following notation: Overstated (O) Understated (U) No Effect (NE) Each transaction is independent (i.e., the first transaction does not affect the second, etc). For each question, be sure to show by what amounts the financial statements are wrong before the corrections are made for the forgotten or mistaken transactions. Ignore any effect of taxes. 1. Gott's GuitarWorks pays wages of \$8,400 to its workers every two weeks (i.e. \$8,400 for every 10 work days, or \$840 per work day). Workers are paid \$8,400 on Friday, December 27th, 2015 for the pay period December 13th - December 27th. They will next be paid \$8,400 on Friday, January 10th, 2016 for the two week pay period ending on January 10th (for this pay period, assume there are two work days left in December and eight work days in January). The accountant for Gott's GuitarWorks did not record the entry for the wage payment on December 27th, 2015, nor did they make any other entries on December 31st, 2015 related to the two remaining work days in December. Current Assets Long-Lerm Assets Current Liabilities Long-Term Liabilities Capital Stock Retained Earnings Net Income 2. She's A Star, Corp. issued 1,000 shares of common stock in exchange for \$15,000 in cash on December 11th, 2011 and purchased equipment worth \$4,000 in cash. Neither entry was recorded. Current Assets Long-Term Assets Current Liabilities _____ Long-Term Liabilities Capital Stock Retained Earnings Net Income 3. Space Inc. receives a bill for \$925 for December's utilities on December 31, 2018. This utility bill will be paid on January 9th, 2019. Space Inc.'s accountant did not record any entries related to December's utility bill. Current Assets Long-Term Assets Long-Term Liabilities Current Liabilities Capital Stock Retained Earnings

Net Income

Question 6: Say Something - Accrual vs. Cash Accounting

Say Something, Inc. started trading on January 1^{st} , 2015. On June 1^{st} , 2015, it took out a sixyear bank loan of \$42,000 at 5% annual interest rate. Interest payments are made semi-annually on May 31^{st} and November 30^{th} .

Making whatever assumptions you consider reasonable, use the template below and prepare the relevant extracts from the transaction worksheets for 2015 and 2016.

	Assets	Liabil	ities	Share	holder's Equity
	Cash	Accruals	Bank Loan	IS	Retained Earnings
2015					
Bank loan 1 June 2015					
Interest Payment 30 November					
Accrual					
Transfer R/E					
Closing Balance					
2016					
Opening Balance					
Interest Payment 31 May					
Interest Payment 30 November					
Accrual					
Transfer R/E					
Closing Balance					