ILLINOIS
Gies College of Business

Financial Accounting

Module 2 Cases

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QUESTION ONE

Smith & Jones Sporting Goods Co. started operations on 1 October, 2015, and at 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

	30 Sept 2017
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

QUESTION ONE

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

QUESTION ONE

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

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

QUESTION ONE

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.

QUESTION ONE

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	Inven-tories	A/R	Cash	Prepaid insurance	Accounts payable	Dividends	Common Stock	Income Statement	Retained Earnings
OB	*17,000*	*14,000*	*13,056*	*10,035*	*0*	*18,891*	*0*	*34,000*	*0*	*1,200*
1. Payment to creditors				*(8,300)*		*(8,300)*				
2. Collection from customers			*(4,500)*	*4,500*						
3. Sales			*2,685*	*6,265*					*8,950*	
3. Cost of sales		*(5,300)*							*(5,300)*	
4. Wages				*(3,500)*					*(3,500)*	
5. Purchase merchandise		*1,900*				*1,900*				
6. Issue stock				*2,000*				*2,000*		
7. Insurance				*(1,200)*	*900*				*(300)*	
8. Dividends							*350*			*(350)*
9. Transfer R/E									*150*	*(150)*
CB	*17,000*	*10,600*	*11,241*	*9,800*	*900*	*12,491*	*350*	*36,000*	*0*	*700*

QUESTION ONE: Balance Sheet

	30 Sept 2017	30 Sept 2018
Fixed Assets		
PPE	17,000	17,000
Current Assets		
Inventories	14,000	10,600
Account Receivable	13,056	11,241
Cash	10,035	9,800
Prepaid Insurance	-	900
Total Assets	54,091	49,541

QUESTION ONE: Balance Sheet

	30 Sept 2017	30 Sept 2018
Current Liabilities		
Accounts Payable	18,891	12,491
Dividends	-	350
Total Liabilities	18,891	12,841
Equity		
Common Stock	34,000	36,000
Retained Earnings	1,200	700
Total Equity	35,200	36,700
Total Liabilities and Equity	54,091	49,541

QUESTION ONE: Income Statement

	30 Sept 2018
Sales	8,950
Cost of Sales	5,300
Gross Profit	3,650
Operating Expenses	3,800
Profit before Interest and Tax	(150)
Interest	0
Profit before Tax	(150)
Tax	0
Profit after Tax	**(150)**

QUESTION TWO

In each of the following questions, you have transactions that were either “missed” or made in 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 notation:

overstated (O), understated (U), or no effect (NE)

QUESTION TWO

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.

QUESTION TWO

1. Sparrow & Nightingale is a retailer that sells rare books and DVDs. On September 25, 2016, Sparrow & Nightingale prepaid the next 12 months' insurance policy (i.e., covering October 1, 2016–September 30, 2017) on their shop for $18,000 in cash. Sparrow & Nightingale's accountant did not record the entry for prepayment of the insurance policy, nor did he or she make any other entries during the year for the insurance policy.

Current assets	*Long-term assets*
Current liabilities	*Long-term liabilities*
Capital stock	*Retained earnings*
Net income	

QUESTION TWO

1. Sparrow & Nightingale is a retailer that sells rare books and DVDs. On September 25, 2016, Sparrow & Nightingale prepaid the next 12 months' insurance policy (i.e., covering October 1, 2016–September 30, 2017) on their shop for $18,000 in cash. Sparrow & Nightingale's accountant did not record the entry for prepayment of the insurance policy, nor did he or she make any other entries during the year for the insurance policy.

	Assets		Liabilities		Shareholders' Equity		
	Current Asset	Long-Term Asset	Current Liability	Long-Term Liability	Capital Stock	Retained Earnings	Income Statement
Sept. 25, 2016	(18,000) +18,000						
Dec. 31, 2016	(4,500)						(4,500)
Dec. 31, 2016						(4,500)	4,500
End Balance	(4,500)					(4,500)	

QUESTION TWO

1. Sparrow & Nightingale is a retailer that sells rare books and DVDs. On September 25, 2016, Sparrow & Nightingale prepaid the next 12 months' insurance policy (i.e. covering October 1, 2016–September 30, 2017) on their shop for $18,000 in cash. Sparrow & Nightingale's accountant did not record the entry for prepayment of the insurance policy, nor did he or she make any other entries during the year for the insurance policy.

Current assets	*(O) 4,500*	*Long-term assets*	*NE*
Current liabilities	*NE*	*Long-term liabilities*	*NE*
Capital stock	*NE*	*Retained earnings*	*(O) 4,500*
Net income	*(O) 4,500*		

QUESTION TWO

2. On April 13, 2018, YaHo, Inc. sold inventory, which originally cost $13,560, to customers for $21,000 on account. YaHo, Inc. did not record either of the entries related to this sale.

Current assets

Long-term assets

Current liabilities

Long-term liabilities

Capital stock

Retained earnings

Net income

QUESTION TWO

2. On April 13, 2018, YaHo, Inc. sold inventory, which originally cost $13,560, to customers for $21,000 on account. YaHo, Inc. did not record either of the entries related to this sale.

	Assets		Liabilities		Shareholders' Equity		
	Current Asset	Long-Term Asset	Current Liability	Long-Term Liability	Capital Stock	Retained Earnings	Income statement
Sale	21,000						21,000
Cost of sale	(13,560)						(13,560)
Dec 2018						7,440	(7,440)
End Balance	7,440					7,440	

QUESTION TWO

2. On April 13, 2018, YaHo, Inc. sold inventory, which originally cost $13,560, to customers for $21,000 on account. YaHo, Inc. did not record either of the entries related to this sale.

Current assets	*(U) 7,440*	*Long-term assets*	*NE*
Current liabilities	*NE*	*Long-term liabilities*	*NE*
Capital stock	*NE*	*Retained earnings*	*(U) 7,440*
Net income	*(U) 7,440*		

QUESTION TWO

3. On 5/13, The Gathering Sound purchased merchandise worth $13,000 from suppliers on account. On 5/28, The Gathering Sound paid $9,370 in cash to these suppliers. Suppose the accountant at The Gathering Sound Ltd. forgot to record both of these entries.

Current assets

Long-term assets

Current liabilities

Long-term liabilities

Capital stock

Retained earnings

Net income

QUESTION TWO

3. On 5/13, The Gathering Sound purchased merchandise worth $13,000 from suppliers on account. On 5/28, The Gathering Sound paid $9,370 in cash to these suppliers. Suppose the accountant at The Gathering Sound Ltd. forgot to record both of these entries.

	Assets		Liabilities		Shareholders' Equity		
	Current Asset	Long-Term Asset	Current Liability	Long-Term Liability	Capital Stock	Retained Earnings	Income statement
Purchase	13,000		13,000				
Payment	(9,370)		(9,370)				
End Balance	3,630		3,630				

QUESTION TWO

3. On 5/13, The Gathering Sound purchased merchandise worth $13,000 from suppliers on account. On 5/28, The Gathering Sound paid $9,370 in cash to these suppliers. Suppose the accountant at The Gathering Sound Ltd. forgot to record both of these entries.

Current assets	*(U) 3,630*	*Long-term assets*	*NE*
Current liabilities	*(U) 3,630*	*Long-term liabilities*	*NE*
Capital stock	*NE*	*Retained earnings*	*NE*
Net income	*NE*		

QUESTION THREE

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

	2015
1 March	$24,000
	2016
1 March	$25,200

QUESTION THREE

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

QUESTION THREE

	Assets		Shareholder's Equity	
	Cash	**Prepaid Rent**	**IS**	**Retained Earnings**
2015				
Prepayment 1 March	*(24,000)*	*24,000*		
Rent March–December		*(20,000)*	*(20,000)*	
Transfer R/E			*20,000*	*(20,000)*
Closing Balance	*(24,000)*	*4,000*	*0*	*(20,000)*

QUESTION THREE

	Assets		Shareholder's Equity	
	Cash	**Prepaid Rent**	**IS**	**Retained Earnings**
2016				
Opening Balance	*(24,000)*	*4,000*	*0*	*(20,000)*
Rent January–February		*(4,000)*	*(4,000)*	
Prepayment 1 March	*(25,200)*	*25,200*		
Rent March–December		*(21,000)*	*(21,000)*	
Transfer R/E			*25,000*	*(25,000)*
Closing Balance	*(49,200)*	*4,200*	*0*	*(45,000)*

QUESTION FOUR

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

	31 March 2016
Current Assets	
Cash	52,980
Accounts Receivable	5,300
Inventories	4,670
Fixed Assets	
PPE	25,000
Total Assets	87,950

	31 March 2016
Current Liabilities	
Accounts Payable	4,950
Long-Term Liabilities	
Notes 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

QUESTION FOUR

During the year ended 31 March 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. 75% 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

QUESTION FOUR

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

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

QUESTION FOUR

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

6. Collection of $8,050 in cash of accounts receivable.
7. Payment of $450 in cash for utilities used during the year.

QUESTION FOUR

In addition, as a result of these transactions, the company will engage in the following two transactions, which need to be recorded in the 2016/17 accounts:

8. On 15 April 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 30 June 2017.

QUESTION FOUR

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		
	Cash	AR	Inven-tories	PPE	AP	Note payable	Tax payable	Wages payable	Common Stock	Income Statement	Retained Earnings
OB	*52,980*	*5,300*	*4,670*	*25,000*	*4,950*	*35,000*	*0*	*0*	*20,000*	*0*	*28,000*
1. Purchase of merchandise inv.	*(8,450)*		*33,800*		*25,350*						
2. Payment to creditors	*(17,330)*				*(17,330)*						
3. Payment of interest	*(1,750)*									*(1,750)*	
4. Sale of merch.	*19,085*	*19,085*								*38,170*	
4. Cost of sale			*(17,245)*							*(17,245)*	
5. payment of wages	*(15,300)*									*(15,300)*	
6. Collection from debtors	*8,050*	*(8,050)*									
7. payment of utilities	*(450)*									*(450)*	
8. Additional wages								*500*		*(500)*	
9. Tax							*819*			*(819)*	
10. Transfer R/E										*(2,106)*	*2,106*
CB	*36,835*	*16,335*	*21,225*	*25,000*	*12,970*	*35,000*	*819*	*500*	*20,000*	*0*	*30,106*

QUESTION FOUR: Balance Sheet

	31 March 2016	31 March 2017
Current Assets		
Cash	52,980	36,835
Account Receivable	5,300	16,335
Inventories	4,670	21,225
Fixed Assets		
PPE	25,000	25,000
Total Assets	87,950	99,395

QUESTION FOUR: Balance Sheet

	31 March 2016	31 March 2017
Current Liabilities		
Accounts Payable	4,950	12,970
Tax Payable	0	819
Wages Payable	0	500
Long-Term Liabilities		
Note Payable	35,000	35,000
Total Liabilities	39,950	49,289
Equity		
Common Stock	20,000	20,000
Retained Earnings	28,000	30,106
Total Equity	48,000	50,106
Total Liabilities and Equity	87,950	99,395

QUESTION FOUR: Income Statement

	31 March 2017
Sales	38,170
Cost of Sales	17,245
Gross Profit	20,925
Operating Expenses	16,250
Profit before Interest and Tax	4,675
Interest	1,750
Profit before Tax	2,925
Tax	819
Profit after Tax	**2,106**

QUESTION FIVE

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 notation:

overstated (O), understated (U), or no effect (NE)

QUESTION FIVE

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.

QUESTION FIVE

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 27, 2015, for the pay period December 13–December 27. They will next be paid $8,400 on Friday, January 10th, 2016, for the two-week pay period ending on January 10 (for this pay period, assume there are 2 work days left in December and 8 work days in January). The accountants for Gott's GuitarWorks did not record the entry for the wage payment on December 27, 2015, nor did they make any other entries on December 31, 2015, related to the 2 remaining workdays in December.

QUESTION FIVE

Current assets

Long-term assets

Current liabilities

Long-term liabilities

Capital stock

Retained earnings

Net income

QUESTION FIVE

	Assets		Liabilities		Shareholders' Equity		
	Current Asset	Long-Term Asset	Current Liability	Long-Term Liability	Capital Stock	Retained Earnings	Income Statement
Dec. 27, 2015	(8,400)						(8,400)
Dec. 31, 2015			1,680				(1,680)
Dec. 31, 2015						(10,080)	10,080
End Balance	(8,400)		1,680			(10,080)	

QUESTION FIVE

Current assets	*(O) 8,400*	*Long-term assets*	*NE*
Current liabilities	*(U) 1,680*	*Long-term liabilities*	*NE*
Capital stock	*NE*	*Retained earnings*	*(O) 10,080*
Net income	*(O) 10,080*		

QUESTION FIVE

2. She’s A Star, Corp. issued 1,000 shares of common stock in exchange for $15,000 in cash on December 11, 2011 and purchased equipment worth $4,000. Neither entry was recorded.

Current assets *Long-term assets*

Current liabilities *Long-term liabilities*

Capital stock *Retained earnings*

Net income

QUESTION FIVE

2. She's A Star, Corp. issued 1,000 shares of common stock in exchange for $15,000 in cash on December 11, 2011 and purchased equipment worth $4,000 in cash. Neither entry was recorded.

	Assets		Liabilities		Shareholders' Equity		
	Current Asset	Long-Term Asset	Current Liability	Long-Term Liability	Capital Stock	Retained Earnings	Income statement
Stock issue	15,000				15,000		
Equipment	(4,000)	4,000					
End Balance	11,000	4,000			15,000		

QUESTION FIVE

2. She's A Star, Corp. issued 1,000 shares of common stock in exchange for $15,000 in cash on December 11, 2011 and purchased equipment worth $4,000 in cash. Neither entry was recorded.

Current assets	*(U) 11,000*	*Long-term assets*	*(U) 4,000*
Current liabilities	*NE*	*Long-term liabilities*	*NE*
Capital stock	*(U) 15,000*	*Retained earnings*	*NE*
Net income	*NE*		

QUESTION FIVE

3. Space Inc. receives a bill for $925 for December's utilities on December 31, 2018. This utility bill will be paid on January 9, 2019. Space Inc.'s accountant did not record any entries related to December's utility bill.

Current assets	*Long-term assets*
Current liabilities	*Long-term liabilities*
Capital stock	*Retained earnings*
Net income	

QUESTION FIVE

3. Space Inc. receives a bill for $925 for December's utilities on December 31, 2018. This utility bill will be paid on January 9, 2019. Space Inc.'s accountant did not record any entries related to December's utility bill.

	Assets		Liabilities		Shareholders' Equity		
	Current Asset	Long-Term Asset	Current Liability	Long-Term Liability	Capital Stock	Retained Earnings	Income statement
Utility bill			925				(925)
Dec. 2018						(925)	925
End Balance			925			(925)	

QUESTION FIVE

3. Space Inc. receives a bill for $925 for December's utilities on December 31, 2018. This utility bill will be paid on January 9^{t} 2019. Space Inc.'s accountant did not record any entries related to December's utility bill.

Current assets	*NE*	*Long-term assets*	*NE*
Current liabilities	*(U) 925*	*Long-term liabilities*	*NE*
Capital stock	*NE*	*Retained earnings*	*(O) 925*
Net income	*(O) 925*		

QUESTION SIX

Say Something, Inc. started trading on 1 January 2015. On 1 June 2015, it took out a 6-year bank loan of $42,000 at 5% annual interest rate. Interest payments are made semi-annually on May 31st and November 30th.

QUESTION SIX

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

QUESTION SIX

	Assets	Liabilities		Shareholder's Equity	
	Cash	Accruals	Bank Loan	IS	Retained Earnings
2015					
Bank loan 1 June 2015	42,000		42,000		
Interest payment 30 November	(1,050)			(1,050)	
Accrual		175		(175)	
Transfer R/E				1,225	(1,225)
Closing balance	40,950	175	42,000		(1,225)

QUESTION SIX

	Assets	Liabilities		Shareholder's Equity	
	Cash	Accruals	Bank Loan	IS	Retained Earnings
2016					
Opening balance	40,950	175	42,000		(1,225)
Interest payment 31 May	(1,050)	(175)		(875)	
Interest payment 30 November	(1,050)			(1,050)	
Accrual		175		(175)	
Transfer R/E				2,100	(2,100)
Closing balance	38,850	175	42,000		(3,325)