Principles of Accounting___Quiz 2

(Chapter 3,4 and 5, close book)

Question 1 (10 points)

Solutions:

1. Jan.31
   Accounts Receivable. 875
   Service Revenue. 875
2. Jan.31
   Utilities Expense. 650
   Utilities Payable. 650
3. Jan.31
   Depreciation Expense. 400
   Accumulated Depreciation-Equipment. 400
4. Jan.31
   Insurance Expense. 2000 ($24,000/12)
   Prepaid Insurance. 2000
5. Jan.31
   Supplies Expense. 1200 ($1,600-$400)
   Supplies. 1200

Question 2 (16 points)

Solutions:

(1)

Y company

Income Statement

For the year ended July 31, 2022

Revenues		
Service revenue	$ 62,000	
Rent revenue	8,500	
Total revenue		$ 70,500
Expenses		
Salaries and wages expense	51,700	
Utilities expense	22,600	
Depreciation expense	4,000	
Total expense		78,300
Net loss		$ (7,800)

Y company
Retained Earnings Statement
For the year ended July 31, 2022

Retained earnings, August 1, 2021		$ 21,200
Less: Net Loss	$ 7,800	
Dividends	3,000	10,800
Retained earnings, July 31, 2022		$ 10,400

(2)

Y company
Balance Sheet
July 31, 2022

Assets

Current assets		
Cash	$ 14,200	
Accounts receivable	9,780	
Total current assets		$ 23,980
Property, plant, and equipment		
Equipment	30,400	
Less: accumulated depreciation-equipment	6,000	24,400
Total assets		$ 48,380

Liabilities and stockholders' equity

Current liabilities		
Accounts payable	$ 4,100	
Salaries and wages payable	2,080	
Total current liabilities		$ 6,180
Long-term liabilities		
Notes payable		1,800
Total liabilities		7,980
Stockholders' equity		
Common stock	30,000	
Retained earnings	10,400	40,400
Total liabilities and stockholders' equity		$ 48,380

Question 3 (4 points)

<u>Solutions:</u>

(1)

	Current year	Prior year
ROA	0.111 (=439,190/3,947)	0.102 (=368,403/3,612,015)

The increase in ROA from 0.102 in the prior year to 0.111 in the current year means that the firm earned $0.009 more for each $1 of investment.

(2)

ROA analysis	Current year	Prior year
Net Income/Net Sales	0.1206 (=439,190/3,642,937)	0.1194 (=368,403/3,085,290)
*Net Sales/Average Total Assets	0.9229 (=3,642,937/3,937,331)	0.8542 (=3,085,290/3,612,015)
ROA	0.111	0.102

The increase in ROA is caused by increased in both net profit margin and asset turnover (from 0.119 to 0.121 and from 0.854 to 0.923, respectively). The company's profit margin and efficiency appear to have increased with the economic recovery.