

## **WARNING**

This material has been reproduced and communicated to you by or on behalf of *Charles Darwin University* in accordance with section 113P of the *Copyright Act 1968 (Act)*.

The material in this communication may be subject to copyright under the Act.  
Any further reproduction or communication of this material by you may be the subject of copyright protection under the Act.

**Do not remove this notice**



Family Name					
Given Name/s					
Student Number					
Teaching Period	Semester 2, 2018				

ACT501 – Accounting Principles	<b>DURATION</b>	
	Reading Time:	<b>10 minutes</b>
	Writing Time:	<b>180 minutes</b>
<b>INSTRUCTIONS TO CANDIDATES</b>		
<b>Section A:</b> Suggested Time: 180 mins	<b>Short Answer Questions:</b> Answer ALL 7 questions Marks : 100	
<p>Section A must be answered on the Answer sheet provided and must be handed in with your answer booklet. Please ensure that your name and student number are clearly indicated on your Answer Sheet and at the top of this examination paper.</p> <p>1.2 Note that questions <b>ARE NOT</b> of equal value. 1.3 Read <b>ALL</b> questions carefully.</p>		
<b>EXAM CONDITIONS</b>		
<u>You may begin writing from the commencement of the examination session.</u> The reading time indicated above is provided as a guide only.		
This is a RESTRICTED OPEN BOOK examination		
Any non-programmable calculator is permitted		
No handwritten notes are permitted		
Any hard copy, unannotated English dictionary is permitted		
<b>ADDITIONAL AUTHORISED MATERIALS</b>	<b>EXAMINATION MATERIALS TO BE SUPPLIED</b>	
No additional printed material is permitted	1 x 16 Page Book 1 x Scrap Paper	

**THIS EXAMINATION IS PRINTED  
DOUBLE-SIDED.**

**THIS PAGE HAS BEEN INTENTIONALLY  
LEFT BLANK.**

**Section A**  
**Short Answer Questions**

**Total No of Marks for this section: 100**

This section should be answered in the Answer Booklet provided.

Marks for each question are indicated.

**Q. 1 (Marks: 16)**

A comparative balance sheet for Rocker Company appears below:

ROCKER COMPANY  
Comparative Balance Sheet

	<u>Dec. 31, 2017</u>	<u>Dec. 31, 2016</u>
<u>Assets</u>		
Cash	\$ 34,000	\$11,000
Accounts receivable	18,000	13,000
Inventory	25,000	17,000
Prepaid expenses	6,000	9,000
Long-term investments	-0-	17,000
Equipment	60,000	33,000
Accumulated depreciation—equipment	<u>(20,000)</u>	<u>(15,000)</u>
Total assets	<u>\$123,000</u>	<u>\$85,000</u>
<u>Liabilities and Shareholders' Equity</u>		
Accounts payable	\$ 17,000	\$ 7,000
Bonds payable	36,000	45,000
Share Capital	40,000	23,000
Retained earnings	<u>30,000</u>	<u>10,000</u>
Total liabilities and stockholders' equity	<u>\$123,000</u>	<u>\$85,000</u>

Additional information:

1. Net income for the year ending December 31, 2017 was \$35,000.
2. Cash dividends of \$15,000 were declared and paid during the year.
3. Long-term investments that had a cost of \$17,000 were sold for \$14,000.
4. Sales for 2017 were \$120,000.

**Required**

Prepare a statement of cash flows for the year ended December 31, 2017, using the indirect method.

## Q. 2 (Marks 14)

State the effect of the following transactions on the current ratio. Use increase, decrease, or no effect for your answer. Give short reasons for your answer.

- (a) Collection of an accounts receivable. (2 marks)
- (b) Declaration of cash dividends. (2 marks)
- (c) Additional shares are sold for cash. (2 marks)
- (d) Short-term investments are purchased for cash. (2 marks)
- (e) Equipment is purchased for cash. (2 marks)
- (f) Inventory purchases are made for cash. (1 marks)
- (g) Accounts payable are paid. (3 marks)

Note : Current Ratio = Current Assets / Current Liability

## Q. 3 (Marks: 15)

ABC Company received a bank statement for the month of October 2017, which showed a balance per bank of \$3,600. The company's Cash account in the general ledger showed a balance of \$1,204 at October 31. Other information that may be relevant in preparing a bank reconciliation for October follows:

1. The bank returned an NSF cheque from a customer for \$280.
2. The company recorded cash receipts of \$250 on October 31 but this amount does not appear on the bank statement.
3. A cheque correctly written by ABC and paid by the bank for \$1,740 was incorrectly recorded in the cash payments journal for \$1,470. The cheque was a payment on account.
4. Cheques which were written in September but still had not been presented to the bank for payment at October 31 amounted to \$780.
5. The bank included a credit memorandum for \$1,236, which represents a collection of a customer's note by the bank for the company; principal amount of the note was \$1,200 and the remainder was interest.
6. The bank included a \$20 debit memorandum for service charges for the month of October.
7. Cheques written in October which have not been paid by the bank at October 31 amounted to \$1,200.

**Instructions**

- a. Prepare a bank reconciliation for ABC Company for October which reconciles the balance per books and the balance per bank to their adjusted correct balances. (10 marks)
  
- b. Prepare the necessary adjusting entries for ABC Company at October 31, 2017. (5 marks)

**Q. 4 (Marks: 10)**

An inexperienced accountant for Morgan Company made the following incorrect entries.

a. Notes Receivable .....	21,600	
Accounts Receivable.....		20,000
Interest Revenue .....		1,600

Facts: Accepted a \$20,000, 1 year, 8% note from Joe Wood Company for balance due on account.

b. Accounts Receivable.....	20,000	
Sales Revenue .....		20,000

Facts: Accepted Visa credit card for \$20,000; the service fee is 2%.

c. Allowance for Doubtful Accounts .....	12,300	
Notes Receivable .....		12,000
Interest Revenue .....		300

Facts: M. Adler dishonoured a \$12,000, 10%, 3-month note because of bankruptcy. Adler is expected to pay. No interest had been accrued on the note.

**Required:**

Prepare entries to correct Morgan Company's books based on the facts given. Do not reverse out incorrect entries that were recorded above, but rather prepare journals to correct the account balances so that they reflect the proper amounts. Give brief explanations for your journal entry.

**Q. 5 (Marks: 18)**

Ritter Company issues \$1,200,000 of 10%, 10-year bonds on January 1, 2017, at 102. Interest is payable semi-annually on July 1 and January 1. The company uses the straight-line method of amortization.

**Required:**

- (a) Journalize the entries for the bonds on (1) January 1, 2017, (2) July 1, 2017, and (3) December 31, 2017. (9.5 marks)
- (b) Show the balance sheet presentation of the bonds at December 31, 2017. (2 marks)
- (c) Assume on July 1, 2017, after paying interest, Ritter calls bonds having a face value of \$600,000. The call price is 101. Record the redemption of the bonds. (6.5 marks)

Note: Explanations are not required.

**Q. 6 (Marks: 12)**

The following information is available for Queen Company, which has an accounting year-end on December 31, 2015.

- a. A truck was purchased on June 1, 2013, for \$200,000. It was estimated to have a \$20,000 salvage value after being driven 120,000 kilometres. During 2015, the truck was driven 20,000 kilometres. The units-of-activity method of depreciation used.
- b. A building was purchased on January 1, 1988, for \$3,000,000. It is estimated to have a \$30,000 salvage value at the end of its 40-year useful life. The straight-line method of depreciation is being used.
- c. Store equipment was purchased on January 1, 2014, for \$280,000. It was estimated that the store equipment would have a \$28,000 salvage value at the end of its 5-year useful life. The double-declining balance method of depreciation is being used.

**Required**

Complete the table shown below by filling in the appropriate amounts.

Assets	Accumulated Depreciation 1/1/15	Depreciation Expense for 2015	Book Value at 31/12/15
Truck	\$ 75,000	\$	\$
Building	\$2,004,750	\$	\$
Equipment	\$ 112,000	\$	\$

**Q. 7 (Marks: 15)**

Consider the unadjusted trial balance of Reliable Limo Service Pty Ltd at 30 June 2017 given in the attached table.

Additional adjustment data at June 30 is as follows:

1. Accrued service revenue at 30 June, \$1,500
2. One-fifth of the prepaid rent expired during the month. Supplies on hand at 30 June, \$700
3. Depreciation on vehicle for the month, \$1,400
4. The five-day weekly payroll of \$1,500 is paid every Friday. June 30 was a Tuesday.

**Required:**

- a. Prepare adjusted trial balance on the table attached. Indicate each adjusting entry by number as stated above. (10 marks)
- b. Prepare a classified balance sheet for the company as at June 30, 2017. (5 marks)



Student Number: \_\_\_\_\_

Student Name : \_\_\_\_\_

Reliable Limo Service P/L						
Trial Balance						
As at 30 June 2017						
Account	Unadjusted TB		Adjustments		Adjusted TB	
	Dr	Cr	Dr	Cr	Dr	Cr
Cash	6,900					
Accounts Receivables	1,100					
Prepaid Rent	3,500					
Supplies	1,100					
Vehicle	77,000					
Accumulated Depreciation – Vehicle		3,400				
Accounts payable		3,300				
Share Capital		80,000				
Dividends	4,400					
Service Revenue		9,600				
Salary Expense	1,500					
Fuel Expense	800					
<b>Total</b>	<b>96,300</b>	<b>96,300</b>				