



**THE UNIVERSITY OF THE WEST INDIES  
FIVE ISLANDS CAMPUS**

Summer/Semester III

**Examinations of Summer 2020/2021**

**Course Code:** ACCT1002  
**Course Title:** Introduction to Financial Accounting  
**Date of Assessment:** Friday August 6<sup>th</sup> 2021  
**Time:** 1:00 P.M.  
**Duration:** 2 Hours

---

**INSTRUCTIONS TO CANDIDATES:**

This paper has 3 pages and 6 questions.

**YOU ARE REQUIRED TO ANSWER ALL QUESTIONS.**

**THIS ASSESSMENT IS WORTH 60 % OF YOUR FINAL GRADE.**

**ASSIGNMENT DETAILS FROM INSTRUCTORS:**

Please Answer ALL questions.

**Question 1 – 10 MARKS**

Billy Company prepares monthly financial statements. Below are listed some selected accounts and their balances in the November 30<sup>th</sup> trial balance before any adjustments have been made for the month of November.

**BILLY COMPANY**  
**Trial Balance (Selected Accounts)**  
**November 30, 2020**

	<u>Debit</u>	<u>Credit</u>
Supplies	\$2,700	
Prepaid Insurance	3,150	
Office Equipment	16,200	
Accumulated Depreciation		\$1,000
Unearned Rent Revenue		1,200

(Note: Debit columns does not equal credit column because this is a partial listing of selected account balances.)

An analysis of the account balances by the company's accountant provided the following additional information:

1. A physical count of office supplies revealed \$800 on hand on November 30.
2. A two-year life insurance policy was purchased on June 1 for \$3,600.
3. Office equipment depreciated \$3,000 per year.
4. The amount of rent received in advance that remains unearned at November 30 is \$400.

**Instructions:**

Using the above additional information, prepare the adjusting entries (including narrations) that should be made by Billy Company on November 30 to prepare its monthly financial statements.

**Question 2 – 10 MARKS**

Stock Company had 100 units in beginning inventory at a total cost of \$300,000. The company bought 200 more units that cost \$680,000. At the end of the year there were 75 units in ending inventory.

**Instructions:**

1. Calculate the values of Ending Inventory and Cost of Goods Sold under FIFO. **(3 marks)**
2. Calculate the values of Ending Inventory and Cost of Goods Sold under Average-Cost. **(4 marks)**
3. Based on the results in (a) and (b), which method would result in the higher net income? **(1 mark)**
4. Which method would result in the value of the inventories approximating current cost in the statement of financial position? **(1 mark)**
5. Based on the results in (a) and (b), which method would result in the company paying less taxes? **(1 mark)**

**QUESTION 3- 10 MARKS**

The following information pertains to Missed Calls Company:

1. Cash balance per bank, July 31, \$7,293.
2. July bank service charge not yet recorded \$28

**QUESTION 4 – 10 MARKS**

At December 31, 2016 Text Messages Company had a credit balance of \$15,000 in Allowance for Doubtful Accounts. During 2017 accounts totaling \$14,100 were written off. One of the accounts written off, in the amount of \$1,800, was later collected in 2017. At December 31, 2017 an aging schedule indicated that the balance in Allowance for Doubtful Accounts should be \$17,800.

**Required:**

Prepare the journal entries to record all of the 2017 transactions as outlined in the paragraph before. (10 marks). Show calculations for the Allowance for Doubtful Account Adjustment.

**QUESTION 5 – 10 MARKS**

Plankton Company purchased a new machine on October 1, 2011, at a cost of \$120,000. The company estimated that the machine will have a residual value of \$12,000. The machine is expected to be used for 10,000 working hours during its 5-year useful life.

**Required:**

Compute the depreciation expense under the following methods for the year (s) indicated.

1. Straight-line for 2011 (**2 marks**)
2. Units-of-activity for 2011, assuming machine usage was 1,700 hours (**3 marks**)
3. Declining balance method using double the straight-line rate for 2011 and 2012 (**5 marks**)

**QUESTION 6 – 10 MARKS**

Answer **True** or **False** for each of the independent transactions listed below.

1. A manufacturing company would report the cost of items only partially processed as inventory in the balance sheet.
2. Both merchandising and manufacturing companies normally have multiple inventory accounts.
3. When using a perpetual inventory system, freight charges on goods purchased are debited to a Freight expense account.
4. If a supplier ships goods f.o.b. destination, title passes to the buyer when the supplier delivers the goods to be transported to buyer.
5. If ending inventory is understated, then net income is understated.
6. If both purchases and ending inventory are overstated by the same amount, net income is not affected.
7. Freight charges on goods purchased are considered a period cost and therefore are not part of the cost of the inventory.
8. Purchase Discounts Lost is a period expense and is reported as an expense item in the income