

Name: _____

Section: G___ Score: ____ / 100

This quiz is worth 7.5% of the overall course grade and should take up to 75 minutes to complete. The quiz will be graded out of a total of 100 points. Read each question carefully, and do your best to answer it. Make sure to show your work when answering questions, as partial credit will be awarded for work that, while not leading to the correct answer, shows significant progress towards it.

Question 1 (24 points):

A new coffee shop has arrived in town! After 3 months of operations, they realize that they should probably have an accountant. As part of the terms of their venture capital equity funding they received to start up, they are required to provide an IFRS compliant set of financial statements to their investors. They have asked you to write out journal entries for the last month's transactions. Please record the journal entries as they should have been recorded at the time that the transactions occurred (ignore any potentially needed adjusting entries for now):

- 1) Purchased \$20,000 worth of coffee beans on account. All the coffee beans have been received.
- 2) Made \$50,000 in sales, using \$8,000 of inventory, all paid at the time of the transaction.
- 3) Prepaid rent expense of \$10,000, covering half of the current month and half of the next month.
- 4) Bought back 100 common shares for \$5,000 from an investor the venture capitalist didn't like.
- 5) Paid a typical electricity bill of \$4,000 halfway through the month.
- 6) In the process of shipping \$5,000 worth of coffee beans to a specialty grocery store in Dempsey at a price of \$20,000. The business paid in cash already, but the beans haven't all shipped yet.

NUMBER	ACCOUNTS	DR	CR
1			
2			
3			
4			
5			
6			

(Question 1 continued) Next, prepare a simple income statement, listing each expense separately. Include gross profit and operating profit. Tax expense is \$0.

Question 2 (22 points):

The same coffee company needs more help. They just realized that, under IFRS, they need to book adjusting entries before making their financial statements. The CFO made the following notes that he thinks will be helpful:

- Half of the beans have been shipped to the grocer in Dempsey
- Next month's electricity bill is expected to be average
- They have a big coffee roaster that cost \$12,000. They expect it to last around 5 years, and can sell it off for around \$2,000 after that. Straight line depreciation is preferred.
- The venture capitalist said they do *not* need to worry about taxes for this process

Using both the CFO's notes and the information from question 1, determine the **four** needed adjusting entries, and write out the journal entries for them.

NUMBER	ACCOUNT	DR	CR
1			
2			
3			
4			

What is the effect of these entries on the firm's profit – that is, has it gone up or down, and by how much?

Answer:

Question 3 (26 points)

A few months later, the CFO summons you again. This time, he is trying to figure out how to deal with some of the venture capitalist's complicated equity transactions. As you may recall, the company previously bought back 100 shares for \$5,000. This is the only source of treasury shares for the firm. The venture capitalist has started using this for a mix of employee compensation and investment. The following transactions have since occurred, in order:

- 1) Allowed the CEO and CFO to purchase 20 shares each at half the historical cost of the shares for incentive purposes.
- 2) Convinced another venture capital fund to buy 50 shares at \$100 each.
- 3) Declared a \$1 dividend per share. There were originally 1,000 shares issued, but treasury shares do not receive dividends.
- 4) Dividends were paid.
- 5) Gave you the option to purchase the remaining 10 shares for a total of \$200, for helping out so much.

The CFO would greatly appreciate it if you could determine what the journal entries should be for these five actions.

NUMBER	ACCOUNT	DR	CR
1			
2			
3			
4			
5			

Question 4 (16 points)

After a large marketing campaign, the company has really expanded its business-to-business sales. These transactions have almost all been on account rather than in cash. No one thought much of it until one of them clients wrote them a letter stating that they were going bankrupt and that their outstanding debt of \$2,000 would not be payable. The coffee company, at the moment, does not have any allowance for uncollectible accounts set up, i.e., it has a zero balance. They have requested your expertise on this topic to help them book the loss on this transaction and to set up a proper allowance.

First, what is the journal entry for the \$2,000 uncollectible account, assuming none will ever be collected? The CFO would like you to use the “allowance for uncollectible accounts” account in this transaction.

NUMBER	ACCOUNT	DR	CR
1			

Second, using the below information on remaining A/R and allowance schedule, please calculate what the amount should be in the allowance account.

- 1) Dempsey Grocer with \$5,000 outstanding for 65 days
- 2) CBD Grocer with \$7,000 outstanding for 25 days
- 3) Tanglin café with \$3,000 outstanding for 32 days
- 4) Serangoon café with \$3,000 outstanding for 4 days
- 5) Sentosa café with \$2,000 outstanding for 45 days

DAYS	0-30	31-60	61-90
PERCENT UNCOLLECTIBLE	2%	10%	50%

Answer:

(Question 4 continued) Third, the CFO would like to know what journal entry should be recorded to adjust the allowance account to the proper value.

NUMBER	ACCOUNT	DR	CR
1			

Question 5 (12 points): Read the below mini-case and answer the questions that follow.

Uber for Travelling Salesmen*

Traditionally, in-person business sales has been both time and capital intensive, with companies needing to either hire a workforce in each target city, or fly out trained employees weekly. Consequently, it has been reserved for only high value targets – those companies that can purchase in large quantities or that can purchase high value products.

In an effort to open up in-person business sales to more businesses, Universal Avenue, a Swedish startup, is attempting to build up an Uber-like base of young salespeople all over the globe. Instead of companies training their own salespeople and maintaining their own offices abroad, Universal Avenue envisions a world where well trained salespeople are hired on demand. All a company has to do is send a job description and training materials to Universal Avenue, and they automatically match salespeople to the company and train them. Companies then pay Universal Avenue (who in turn pays the sales people) based on performance – if there are no sales, then there's no cost. Likewise, salespeople working for Universal Avenue receive no payment unless they make a sale.

*Based on *Coming Next: The On-Demand Sales Force*, WSJ, May 31, 2015.

Questions on next page

Case questions:

- 1) What is a potential risk that might affect the success of the sales campaign, based on how Universal Avenue is set up? Consider the following three situations, and come up with 1 risk for each, briefly explaining your reasoning for the risk:
 - a. Multiple salespeople working for the same client in the same location.
 - b. A salesperson working for multiple companies simultaneously.
 - c. Sales are done via cash as opposed to electronically.
- 2) How might Universal Avenue provide direction to their salespeople to fix each of the issues identified above?

Issue a:

Issue b:

Issue c:

Solution to a:

Solution to b:

Solution to c:

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