INSTRUCTIONS TO CANDIDATES

Section A:
Mark the correct answer to each question on the separate answer sheet.

Section B:
Answer the compulsory question in this section in the answer book provided.

Section C:
Answer your choice of two (2) from the three (3) questions in this section in the answer book provided.

Mark value of each question

Section A: 25%
Composed of twenty five (25) multiple-choice questions each worth 1%.

Section B: 35%
Composed of one (1) compulsory question worth 35%.

Section C: 40%
Choice of two (2) from three (3) questions each worth 20%.

DO NOT TURN THIS PAGE OVER UNTIL YOU ARE TOLD TO DO SO
This question paper has (12) pages, including this cover page and is printed on both sides.

Course: HD in Theme Park & MICE Tourism
Course Code: 81934A

Course: HD in Sustainable Tourism
Course Code: 81932F

Course: HD in Hotel and Catering
Course Code: 81301

Course: HD in Travel and Tourism
Course Code: 81302

Course: HD in Leisure Studies
Course Code: 81303

Course: HD in Hotel and Catering
Course Code: 81901A

Course: HD in Entertainment Business Operations
Course Code: 81931F

Course: HD in e-Tourism
Course Code: 81933F

HST-3-304
Accounting for the Hospitality Industry

Final Examination 2007/08
Date: 15th January, 2008
Time: 9:30 a.m. – 12:00 noon
Total Time: 2.5 hours
SECTION B

Answer the compulsory question in this section in the answer book provided.

Question 26

The account balances in the ledger of Mario Hotel on February 28, 2007 (the end of its fiscal year), were as follows:

<table>
<thead>
<tr>
<th>Debit Balances</th>
<th>Credit Balances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash $936</td>
<td>Accumulated depreciation $312</td>
</tr>
<tr>
<td>Accounts receivable $718</td>
<td>Notes payable $375</td>
</tr>
<tr>
<td>Food inventory       $468</td>
<td>Accounts payable $345</td>
</tr>
<tr>
<td>Furniture &amp; fixtures $780</td>
<td>Common stock $720</td>
</tr>
<tr>
<td>Supplies inventory   $112</td>
<td>Customers’ deposits $140</td>
</tr>
<tr>
<td>Prepaid insurance    $195</td>
<td>Retained earnings (at Feb 28, 2006) $546</td>
</tr>
<tr>
<td>Salaries expense     $312</td>
<td>Rooms sales $650</td>
</tr>
<tr>
<td>Licence expense      $86</td>
<td>Food sales $390</td>
</tr>
<tr>
<td>Utilities expense    $148</td>
<td>Beverage sales $230</td>
</tr>
<tr>
<td>Other expenses       $78</td>
<td>Other income $125</td>
</tr>
<tr>
<td></td>
<td>3,833</td>
</tr>
<tr>
<td></td>
<td>3,833</td>
</tr>
</tbody>
</table>

The additional data for the adjustments are as follows:

i. Food inventory on hand at February 28, 2007, $158.
ii. The 1-year notes payable, which were issued on November 1, 2006, bears interest at 20% annual percentage rate.
iii. Expired insurance not recorded, $60.
iv. Customers’ deposits applied in room reservations in February, $110.
v. Depreciation is provided on the basis of straight line method, assuming a 5-year useful life with no salvage value.

Required:

a. Set up ‘T’ accounts with the balances for the following accounts only: ‘food inventory’, ‘customers’ deposits’, ‘prepaid insurance’ and ‘accumulated depreciation’. (2 marks)

b. Record adjusting entries in the general journal. (5 marks)

c. Post adjusting entries, adding other ‘T’ accounts as necessary. (2 marks)


e. Journalize closing entries. (3 marks)

f. Post closing entries to the following accounts only: ‘food sales’ and ‘utilities expense’ (1 mark)

HST-3-304
g. Prepare a post-closing trial balance as of February 28, 2007. (2 marks)
h. Record reversing entries in the general journal on March 1, 2007. (1 mark)
i. Use a flow chart diagram to outline the 'accounting process cycle'. (4 marks)

SECTION C

Answer your choice of two (2) from the three (3) questions in this section in the answer book provided.

Question 27

The Swift Tour Bus Line made the following purchases and payments during the month of November.

Nov. 1  Purchased beverage worth $1,800 on 3/10, net 30 credit terms from Pancy Beverage, Inc.
7     Purchased cleaning supplies for $845 cash, from the Fast-Kleen Company.
9     Paid the appropriate amount due for beverage purchases made on November 1 from Pancy Beverage, Inc.
18    Paid November rent of $1,664 to Truly Real Estates Company.
20    Received water invoice for $390 from the Winter Water Co. but did not pay it immediately. The invoice covers the period from the November 1 to November 15.
21    Received and paid the fuel invoice for $2,041 from Metro Gas Company.
25    Purchased kitchen equipment worth $2,860 on 2/10, net 60 terms from the Vitality Company (record in sundry columns).

Required

a. Prepare a purchases journal and cash disbursements journal similar to those below and journalize these transactions. (8 marks)

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Accounts Payable CR</th>
<th>Food Inventory DR</th>
<th>Beverages Inventory DR</th>
<th>Sundry Accounts Name</th>
<th>Amount DR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
b. Prepare the required general ledger and subsidiary ledger accounts in ‘T’ account format. Assume beginning account balances are zero. (3 marks)

c. Post from the journals to the general ledger and subsidiary ledger accounts, performing all required posting steps. (4 marks)

d. Prepare an accounts payable subsidiary ledger schedule and verify that it balances. (2 marks)

e. What are the purposes for setting up ‘control accounts’ in the general ledger? (3 marks)

Question 28

The Ashley Tour bus Company purchased a small tour bus for $28,600 on March 31, 2006, the company’s fiscal year end. Management estimates that it will be in usable condition for only 120,000 miles after a major overhaul which cost $9,100. On the other hand, the useful life is expected to be 5 years. Its salvage value is estimated to be $7,700. Management expects to operate the bus as follows:

<table>
<thead>
<tr>
<th>Fiscal year ended</th>
<th>Miles covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2007</td>
<td>28,500</td>
</tr>
<tr>
<td>March 31, 2008</td>
<td>27,300</td>
</tr>
<tr>
<td>March 31, 2009</td>
<td>24,500</td>
</tr>
<tr>
<td>March 31, 2010</td>
<td>21,200</td>
</tr>
<tr>
<td>March 31, 2011</td>
<td>18,500</td>
</tr>
</tbody>
</table>

Required:

a. Calculate the annual depreciation for each year of the life of the bus using the following depreciation methods:
   i. Straight-line (3 marks)
   ii. Double-declining balance (3 marks)
   iii. Units-of-output (3 marks)
   iv. Sum-of-years’-digits (3 marks)

b. What is the effect of different depreciation methods on net income? (2 marks)

c. Which depreciation method is best to use in this situation? Explain. (2 marks)

d. Which method(s) stated in part (a) is/are classified as ‘accelerated’ method(s)? And in what way can this kind of methods accelerate the depreciation? (2 marks)

e. Briefly elaborate the rationale behind accelerated depreciation methods. (2 marks)
Question 29

The Baywatch Hotels, Inc. has drawn the following trial balance as of November 30, 2003:

<table>
<thead>
<tr>
<th>Debit Balances</th>
<th>Credit Balances</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash $1,248</td>
<td>Accumulated depreciation $1,162</td>
</tr>
<tr>
<td>Short-term investments 1,560</td>
<td>Notes payable (short-term) 2,860</td>
</tr>
<tr>
<td>Notes receivable (due Jan 2, 2004) 2,106</td>
<td>Accounts payable 1,646</td>
</tr>
<tr>
<td>Accounts receivable 598</td>
<td>Allowance for doubtful accounts 455</td>
</tr>
<tr>
<td>Inventories 962</td>
<td>Customers deposits 273</td>
</tr>
<tr>
<td>Prepaid expenses 403</td>
<td>Common stock 6,630</td>
</tr>
<tr>
<td>Furniture and equipment 8,580</td>
<td>Additional paid-in capital 520</td>
</tr>
<tr>
<td>China, glassware, and uniforms 390</td>
<td>Retained earnings 4,030</td>
</tr>
<tr>
<td>Franchises 936</td>
<td>Sales 19,448</td>
</tr>
<tr>
<td>Pre-opening expenses 1,534</td>
<td></td>
</tr>
<tr>
<td>Treasury stock 1,703</td>
<td></td>
</tr>
<tr>
<td>Departmental expenses 7,020</td>
<td></td>
</tr>
<tr>
<td>General &amp; administration expenses 8,360</td>
<td></td>
</tr>
<tr>
<td>Interest expenses 1,624</td>
<td></td>
</tr>
<tr>
<td></td>
<td>37,024</td>
</tr>
</tbody>
</table>

Additional information:

i. Income taxes for the year ended November 30, 2003 have not been recorded. Income tax rate is 25%.

ii. Dividends declared during the fiscal year 2003 were $9,100. They were already deducted from retained earnings.

Required:

a. Briefly explain the significance of account classification in the preparation of a balance sheet. (2 marks)

b. Prepare a properly classified balance sheet of Baywatch Hotels as of November 30, 2003. (15 marks)

c. How can a classified balance sheet help to evaluate the ‘financial position’ of a firm? (3 marks)