

CONCORDIA UNIVERSITY
John Molson School of Business
Department of Accountancy

Read this page before you begin

Course: Introduction to Financial Accounting

Number: ACCO 230.4

Sections: Sections C and D (S. Mroz); Section BB (D. Henri)

Examination: FINAL (3 hours)

Date: May 1, 2010

No. of Pages: **Eleven (11), including this page.** Ensure your copy is complete.

Materials Allowed: Non-programmable / non-graphical calculators, one ordinary dictionary, i.e., not electronic, pens, pencils, rulers, erasers.

INSTRUCTIONS

- Show all answers in the spaces provided. If space is insufficient, use the back of the page.
- Answer in either pencil or ink (your choice). Please be as neat as possible.
- Show details of all calculations, except for multiple-choice.
- Invigilators will not answer questions, unless you think there is an error in the exam questionnaire. If you ask a question and there is no error, you will be advised to read the question more carefully.

Student name (please print very clearly) _____

ID number _____

Section _____

For instructor's use only

Problem 1 ()	_____
Problem 2	_____
Problem 3	_____
Problem 4	_____
Problem 5	_____
Total	=====

Problem 1 (45 marks; 81 minutes)*Multiple choice and "fill in the blanks"***Part (A) (24 marks; 43 minutes)***Multiple-choice*

In all cases **circle clearly** (no overlap) the letter that corresponds to the **best** answer.

Use the following information to answer multiple-choice questions **1 to 6**.

The Queen Street Zoo operates a drive-through tourist attraction in Toronto. The company *adjusts its accounts at the end of each month*. The *selected* accounts appearing below reflect account balances on **April 30, 2009** after all adjusting entries were prepared on April 30, 2009.

Prepaid Rent	\$12,000 dr.
Fencing	40,000 dr.
Accumulated Depreciation—Fencing	6,000 cr.
Unearned Ticket Revenue	500 cr.

Other data:

- Four months' rent (April, May, June and July) was paid on March 31, 2009 and recorded as Prepaid rent on that date.
- The fencing is being depreciated at \$7,200 per year, using the straight-line method.
- Unearned ticket revenue represents tickets sold for future zoo visits. All tickets were sold on March 31, 2009 at \$4.00 each and were recorded as Unearned ticket revenue. During April, customers used twenty-five (25) tickets.

1. Monthly rent expense is
 - (a) \$4,000
 - (b) \$3,000
 - (c) \$1,000
 - (d) \$2,000
 - (e) \$6,000
2. The age of the fencing, in months, as at April 30, 2009 is
 - (a) 10
 - (b) 8
 - (c) 4
 - (d) 6
 - (e) 9
3. The number of tickets sold on March 31 was
 - (a) 25
 - (b) 75
 - (c) 125
 - (d) 150
 - (e) 175
4. The adjusting entry made on April 30 for rent expense included
 - (a) a debit to Rent Expense for \$3,000.
 - (b) a debit to Prepaid Rent for \$3,000.
 - (c) a debit to Rent Expense for \$4,000.
 - (d) a debit to Rent Expense for \$2,000.
 - (e) None of these.
5. The adjusting entry made on April 30 for depreciation expense included
 - (a) a credit to Depreciation Expense for \$600
 - (b) a debit to Accumulated Depreciation - Fencing for \$800
 - (c) a debit to Depreciation Expense for \$1,200
 - (d) a debit to Depreciation Expense for \$7,200
 - (e) None of these

6. The adjusting entry made on April 30 for ticket revenue included
 - (a) a debit to Unearned Ticket Revenue for \$600
 - (b) a debit to Unearned Ticket Revenue for \$100
 - (c) a debit to Ticket Revenue for \$100
 - (d) a debit to Ticket Revenue for \$600
 - (e) None of these

7. A merchandiser will show earnings before income taxes of exactly \$0 when
 - (a) net sales equals cost of goods sold.
 - (b) cost of goods sold equals gross profit.
 - (c) operating expenses equal net sales.
 - (d) gross profit equals operating expenses.
 - (e) operating expenses equals cost of goods available for sale.

8. Which of the following expressions is incorrect?
 - (a) Gross profit – operating expenses = earnings before income taxes
 - (b) Sales – cost of goods sold = gross profit
 - (c) Sales – gross profit = cost of goods sold
 - (d) Operating expenses – cost of goods sold = gross profit
 - (e) Net sales + sales discounts + sales returns and allowances = gross sales.

9. Inventory becomes part of the cost of goods sold when a company
 - (a) pays for the inventory.
 - (b) purchases the inventory, whether for cash or on account.
 - (c) sells the inventory to a customer.
 - (d) receives payment from the customer.
 - (e) None of these.

10. A company using a perpetual inventory system that returns goods purchased on credit would
 - (a) debit Accounts Payable and credit Merchandise Inventory.
 - (b) debit Accounts Payable and credit Freight-in.
 - (c) debit Accounts Payable and credit Sales Returns and Allowances.
 - (d) debit Accounts Payable and credit Purchases.
 - (e) debit Accounts Payable and credit Purchase Returns and Allowances.

11. The respective normal account balances of Sales, Sales Returns and Allowances, and Sales Discounts are
 - (a) credit, credit, credit.
 - (b) debit, credit, debit.
 - (c) credit, debit, debit.
 - (d) credit, debit, credit.
 - (e) None of these is correct.

12. Which of the following should not be included in the inventory of ABC Inc.,
 - (a) goods taken home temporarily for trial by a customer of ABC Inc. on approval (no invoice has been made)
 - (b) goods purchased by ABC Inc. FOB shipping point and still in transit.
 - (c) consigned goods from XYZ Limited stored in ABC Inc.'s warehouse.
 - (d) choices (a) and (b) above.
 - (e) choices (b) and (c) above.

13. Two companies report the same cost of goods available for sale but each uses a different inventory cost formula. If the purchase price of goods has increased steadily during the period, then the company using
 - (a) Average cost will have the lower ending inventory cost.
 - (b) FIFO will have the higher cost of goods sold.
 - (c) FIFO will have the lower ending inventory cost.
 - (d) Average cost will have the lower cost of goods sold.
 - (e) Both (b) and (c) will be true if prices are rising.

Use the following information to answer multiple-choice questions **14 to 16**.

A machine was acquired on January 1, 2009, at a cost of \$80,000. The machine was originally estimated to have a residual value of \$5,000 and an estimated life of 5 years. The machine is expected to produce a total of 100,000 components during its life, distributed as follows, 15,000 in 2009; 20,000 in 2010; 20,000 in 2011; 30,000 in 2012; and 15,000 in 2013.

14. If the units of production method is used, the carrying amount of the equipment on December 31, 2011 is
- (a) \$41,250
 - (b) \$41,000
 - (c) \$38,750
 - (d) \$46,250
 - (e) \$36,000
15. If the double-diminishing balance method is used, the carrying amount of the equipment on December 31, 2011 is
- (a) \$17,280
 - (b) \$62,720
 - (c) \$28,800
 - (d) \$23,800
 - (e) \$12,280
16. If the single-diminishing balance method is used, depreciation expense for the year 2010 is
- (a) \$15,000
 - (b) \$12,800
 - (c) \$16,000
 - (d) \$19,200
 - (e) \$28,800

Part (B)

(6 marks; 11 minutes)

Fill in the blanks -- Dividends

Determine the impact (decrease "D", increase "I", or no effect "NE") of a cash dividend and a stock dividend, respectively, on the selected items appearing below. Assume cash dividends are paid immediately upon declaration, and stock dividends are issued immediately upon declaration. A blank cell will be ignored, i.e., will be marked "incorrect".

IMPACT ON:			
	Cash Dividend	Stock Dividend	
Free cash flow			
Total shareholders' equity			
Share capital account <i>only</i>			
Retained earnings account <i>only</i>			
Net earnings			
Working capital			

Calculate the missing amounts in the table.

	Acme Corp.		Connors Inc.
Sales	\$8,500,000		
Net earnings	\$950,000		
Average total assets			\$600,000
Profit margin (one decimal place)			4.0%
Asset turnover (one decimal place)			3.0 times
Return on assets (one decimal place)	20.0%		

Show work here, and on the back of this page if necessary:

Solve for the missing items. Assume straight-line depreciation is used.

		Machine X	
Cost			
Residual value		\$10,000	
Estimated useful life		40 years	
Annual depreciation amount		\$6,000	
Number of <i>months</i> owned at time of disposal			
Accumulated depreciation at disposal date			
Proceeds of disposal		\$220,000	
Gain on disposal		\$18,000	
Impact of disposal on <i>Total Assets</i> on the disposal date (increase, decrease, or no change). If increase or decrease, by how much?			

Show work here, and on the back of this page if necessary:

Accounting for bonds payable

Required (Round calculations to the nearest dollar)

1. Show the journal entry to record the issuance of the bonds, January 1, 2009. (1 mark)

2. Show the journal entry to record interest on each of the following dates, assuming the *only* previous entry was the one you made on January 1. (5 marks)
 - (a) July 1, 2009

 - (b) Dec. 31, 2009 (CC's year-end date)

3. Show in good form the Liabilities section of CC's balance sheet as at December 31, 2009. (3.5 marks)

4. Show the journal entry to record the payment of interest on January 1, 2010. (1 mark)

5. Assume that CC Ltd. redeems ten percent (10%) of the bonds for cash at 95 on Jan. 1, 2010 *immediately after* the payment of interest on that date. Show the journal entry to record this redemption. (At "95" is a term used in the course, and students are expected to know its meaning). (3.5 marks)

Problem 3 (22 marks; 40 minutes)*Cash flow statement*

The HM Company has provided you with financial information for the years 2009 and 2008, respectively. The year-end date is December 31 for each year.

	2009	2008
Cash	\$17,000	\$40,000
Accounts Receivable	312,000	125,000
Merchandise inventory	36,000	25,000
Prepaid rent	0	7,000
Land, at cost	29,000	38,000
Equipment , at cost	690,000	600,000
Less: Accumulated depreciation	(224,000)	(215,000)
TOTAL ASSETS	\$860,000	\$620,000
Accounts payable	\$63,000	\$32,000
Rent payable	4,000	0
Bonds payable, due 2020	120,000	45,000
Common shares	195,000	75,000
Retained earnings	478,000	468,000
TOTAL LIABILITIES & EQUITIES	\$860,000	\$620,000

Additional information:

- 1) Net earnings for 2009 was only \$11,000. The calculation of net earnings *includes* the following *selected* items and amounts: Cost of goods sold, \$180,000; Gross profit, \$160,000; Depreciation expense, \$32,000; Gain on sale of land, \$2,000; Loss on sale of equipment, \$4,000; and Rent expense, \$16,000.
- 2) New equipment was purchased for \$120,000 cash in 2009. Old equipment was sold for cash in 2009 (the amount can be derived).
- 3) A small cash dividend was declared and paid in 2009 (the amount can be derived).
- 4) Accounts payable relates only to transactions with suppliers of merchandise inventory.

Required

a) How much cash was paid to suppliers of merchandise inventory in 2009? (2 marks)

b) How much cash was paid for rent in 2009? (2 marks)

c) How much cash was collected from customers in 2009? (2 marks)

d) Prepare in proper form a complete Cash Flow Statement for 2009 (i.e., all sections). Use the indirect method for the Operating section. Show your answer on the next page. (16 marks)

Answer for Part (d) of Problem 3.

Problem 4**(10 marks; 18 minutes)***Financial ratios*

The following summary information relates to V Inc. for 2009 and 2008, respectively.

	<u>2009</u>	<u>2008</u>
<u>Assets</u>		
Cash	\$ 85,000	\$ 195,000
Accounts receivable	86,000	30,000
Merchandise inventory	50,000	20,000
Property, plant, and equipment, net	<u>300,000</u>	<u>220,000</u>
Total assets	<u>\$521,000</u>	<u>\$465,000</u>
<u>Liabilities and Shareholders' Equity</u>		
Accounts payable	\$ 80,000	\$ 40,000
Note payable, due June 15, 2010	90,000	90,000
Common share capital (5,000 shares)	225,000	225,000
Retained earnings	<u>126,000</u>	<u>110,000</u>
Total liabilities and shareholders' equity	<u>\$521,000</u>	<u>\$465,000</u>

Condensed Statement of Earnings for 2009

Sales	\$199,000
Cost of goods sold	147,000
Operating expenses	21,000
Interest expense	5,000
Income tax expense	<u>8,000</u>
Net earnings	<u>\$18,000</u>

Additional information

- 90% of all sales are made on credit.
- Market price per share, December 31, 2009 was \$28.
- Cash *used* by operating activities, \$18,000 (this figure is correct, you do not need to "prove" it).

Required

Calculate each of the following ratios for 2009 using the formulae in the text. Round calculations to one decimal place. Definitions are not required.

a) Dividend payout ratio (hint: first determine the *total* amount of dividends declared).

b) Dividend yield ratio.

c) Return on common shareholders' equity.

d) Accounts receivable turnover ratio.

e) Cash current debt coverage ratio

Problem 5**(9 marks; 16 minutes)***Accounting for bad debts*

The comptroller of B Ltd. has asked for your assistance. The company follows GAAP and has a December 31st yearend. The unadjusted balance in Allowance for Doubtful Accounts at December 31, 2009 was \$1,000 debit, before the adjusting entry for bad debts expense was made. An aging of the accounts receivable as at December 31, 2009 revealed the following:

		<u>Estimated Percentage Uncollectible</u>
Current accounts (not past due)	\$150,000	1%
1-30 days past due	15,000	3%
31-60 days past due	8,000	6%
61-90 days past due	5,000	12%
Over 90 days past due	<u>6,000</u>	30%
Total Accounts Receivable	<u>\$184,000</u>	

(a) What is the most likely reason that there is a debit balance in the allowance account? (2 marks)

(b) Prepare the adjusting journal entry on December 31, 2009 to recognize bad debts expense.
Show all calculations. (5 marks)

(c) How much is the net realizable value of accounts receivable after your journal entry for (b) above has been recorded? (2 marks)

End of Final Examination