

**ACC2363  
INTERMEDIATE ACCOUNTING 2**

**TERM TEST 1  
October 2012**

Professor: Susan Fisher

**INSTRUCTIONS:**

- 1 - Books, notes and extra paper are not permitted.
- 2 - Calculators are permitted.
- 3 - All questions must be answered on this paper. The last page of the test has been provided as a spare page for any question.
- 4- You can do rough work on the reverse side of any page, but place your answer and details of relevant calculations only in the spaces provided.
- 5 - Duration - 1 hour and 50 minutes

SHOW ALL DETAILS OF RELEVANT CALCULATIONS.

	Description	Minutes	Marks	Score
1	Share Transaction Effect	10	6	2 1/2
2	Warranties	10	6	2
3	Dividends	15	10	10
4	Debt/Equity – Theory	15	10	2
5	Share Retirement	20	18	18
6	Reacquisition of Bonds	20	14	3
7	Liabilities – Short Answer	10	10	4
8	Project Theory	10	5	4 1/2
	Bonus Question		3	3
	Total	110	80 + 3	44 1/2
	Percentage			57 1/2

**STUDENT NAME:** \_\_\_\_\_

**Question 1: (10 minutes - 6 marks)**

The Grindstone Island Milling Company had the following amounts reported in its shareholders equity section on December 31, 2011

Preferred Shares (\$5 dividend (30,000 authorized, 5,000 issued)	\$40,000
Common Shares (unlimited authorized, 30,000 issued)	\$250,000
Contributed Surplus (from common shares)	\$ 55,000
Retained Earnings	\$240,000

During the 2012 year, the company had the following transactions:

- May 5, purchased 5,000 of its own common shares for \$10.00 a share and cancelled the shares
- June 1, issued 4,000 preferred shares for \$12 a share
- Aug 8 Declared and distributed a 15% stock dividend on common shares when the common shares were trading at \$12.00
- Sept 15 - Issued 2,000 common shares in exchange for land. Land was listed at \$25,000 while the shares were actively trading at \$10 a share.
- Nov 1, - the board of directors declared a 3 for 1 stock split on common shares
- Dec 1 - Declared a dividend of \$.50 a share on common stock. Dividend to be paid Dec 31 to shareholders of record on December 31, 2010

Indicate the numerical effects of the following transactions on the table. If there is no effect on a category please indicate this with a NE.

	Assets	Liabilities	Share Capital	Contributed Surplus	Retained Earnings	Shareholders Equity
1	NE	NE	NE	↑	↓	↑
2	NE	NE	NE	NE	↓	↓
3	NE	NE	↑	NE	↓	NE
4	NE	NE	NE	↑	NE	NE
5	NE	NE	↓	NE	NE	NE
6	NE	NE	NE	NE	↓	NE

**Question 2 (10 minutes - 6 marks)**

Tantramar Equipment Company sells computers for \$2,000 each and also gives each customer a 3-year warranty that requires the company to perform periodic services and to replace defective parts. During 2011, the company sold 500 computers. Based on past experience, the company has estimated the total 3-year warranty costs as \$40 for parts and \$80 for labour. (Assume sales all occur at December 31, 2011 which is the company year end)  
 In 2012, Ellefson incurred actual warranty costs relative to 2011 computer sales of \$5,000 for parts and \$12,000 for labour.

**Instructions**

(a) Under the accrual warranty treatment, give the entries to reflect the above transactions for 2011 and 2012.

	2011	2012
Journal Entry	Debit: Warranty Expense 12000 Credit: Cash 12000 Debit: Cash 60000 Credit: Warranty Liab. 60000 Debit: Warranty Expense 1000 Credit: Cash 1000	Debit: Cash 12000 Credit: Warranty Liab. 12000 Debit: Cash 12000 Credit: Warranty Liab. 12000

(b) The transactions of part (a) create what balance under current liabilities in the 2011 & 2012 balance sheet?

	2011	2012
Warranty Liab.	60000	43000

**QUESTION 3: (15 minutes - 10 marks)**

The outstanding share capital of Millay Corporation consists of 6,500 - \$10 preferred shares with a value of \$650,000 and 11,000 common shares with a value of \$1,550,000. The matching dividend for commons, if applicable is \$5.00 a share. Participation is based on the relative dollar value of the share classes. Assuming that the company has retained earnings of \$740,000 that are to be entirely paid out in dividends and that preferred dividends were not paid during the two years preceding the current year, state how much each class of shares should receive under each of the following conditions:

Round all entries to whole dollar amounts.

**Instructions**

**Part A:** Show how much the preferred and common shareholders will receive if the preferred shares are cumulative and non participating.

preferred  $6,500 \times 10 = 65000 \times 2 = 130000 + 65000 = 195000$   
 Common  $- 740000 - 195000 = 545000$

	Preferred	Common	Total
Current	130000	545000	675000
Dividends	130000	180000	310000
% to Common		550000 ✓	
total	195000	680000	875000
splitting amount	147000	343000	490000
Shares	342000	398000	740000 ✓

3/3

**Part B:** Show how much the preferred and common shareholders will receive if the preferred shares are cumulative and fully participating

	Preferred	Common	Total
Current	740000	680000	1420000
Dividends	130000	180000	310000
% to Common		550000 ✓	
total	195000	680000	875000
splitting amount	147000	343000	490000
Shares	342000	398000	740000 ✓

7/7

Current pref / pref outstas X common share value

$650000 / 605000 = 11\%$

$0.30 \times 70$

$0.10 \times 10$

$10 / 10$

Preferred	650000	0.30
Common	1300000	70
total	1950000	

**QUESTION 4 (15 minutes; 10 marks)**

a. Why could a redeemable preferred share be classified as a liability instead of equity? (2 marks)

payor set dividend

b. What is convertible debt? (2 marks)

When the debt can be changed into common shares

c. When is a stock option "in the money"? (2 marks)

stock option is the money when the issue price is less than the current market price

d. What does "vesting" mean? (2 marks)

vesting means that the rights to the shares are now owned by the individual holder those rights

e. When an employee stock option follows the equity settled classification plan, when is the compensation expense recorded and at what value? (2 marks)

recorded at the time

**QUESTION 5 ( 20 minutes; 18 marks)**

**Part**

Senior Skiers Ltd. Started the 2012 year with the following showing in their equity section on their balance sheet.

Preferred Shares \$5 dividend (50,000 authorized, 10,000 issued)	\$40,000 = 4
Common Shares (unlimited authorized, 50,000 issued)	\$700,000 = 14
Contributed Surplus (relating to preferred share transactions)	\$ 25,000
Retained Earnings	\$240,000

During the year the company had the following transactions:

- March 15: re-purchased and retired 5,000 common shares at \$12
- April 30: re-purchased and retired 7,000 common shares at \$11
- June 15: re-purchased and retired 1,000 preferred shares at \$5
- August 31: re-purchased and retired 10,000 preferred shares at \$17.60

**Part A: Journalize these transactions**

Mar 15			
Common Shares		70000	
Contrib Capital Common Share			100000
CASH			600000 ✓
Apr 30			
Common Shares		98000	
Contributed Capital Common Share			21000
CASH			77000 ✓
June 15			
Prefer. Shares		1000	
Contributed Cap. Pref. Share			1000
CASH			5000 ✓
Aug. 31			
Prefer Share		36000 ✓	
Contributed Surp. Pref Share			21000 ✓
CASH			98400 ✓
			158400 ✓

**Part B: List the equity accounts and indicate the ending balances in the equity accounts.**

Name of Account	Issued	Balance
Prefer. Shares (\$5 dividend (50,000 authorized))	0	✓
Common Shares (38000 issued)	538000	✓
Contributed Surplus (Common)	31000	✓
Contributed Surplus (Prefer.)	0	✓
RET	141,600	✓

5/30  
8.30

5/3

5/26

**QUESTION 6 (20 minutes; 14 marks)**

Prepare the necessary journal entries to record the following transactions relating to the long-term issuance of bonds of Dieppe Ltd.

On June 30, 2009 Dieppe Ltd. Issued 12% 20 year bonds with a face value of \$400,000. The bonds were issued at 98 and they were callable at 104 at any date after June 30<sup>th</sup>, 2011. Interest is paid annually on June 30<sup>th</sup>.

I/Y

Record the Journal entry for the issuance of the bonds.

CASH	980		
Discount on bond pay.	24000	392,000	✓
Bond payable		416,000	✓

Prepare an effective interest table for the bonds to June 30, 2011.

Date	PMT	Exp	Capital	CV
1				(392000) ✓
2				
3				
4				
5				

Int. Exp. 148,135      480000      Bond pay, loss on redemption  
 cash bonds payable 135

On June 30<sup>th</sup>, 2011, the bonds were called and new 10% bonds were sold in the amount of \$500,000 at 102 due in 20 years. Record the retirement of the old bonds and the issue of the new bonds.


Note Rec.  
 Discount, Debit  
 sales

Cash Dis Dr  
 Note CR  
 Int. Exp.  
 discount on Note pay  
 cash

bond pay  
 loss on bond retirement  
 Dis count on bond pay.  
 cash

compon contribute cap on retirement  
 cash      credit

3/14  
 12

**QUESTION 7: ( 10 minutes 10 marks)**

a. What is the definition of a liability?

past event  
present future obligation  
future sacrifice

b. Outline the difference between a financial and a non-financial liability.

Not financial

c. Give an example of a non-financial liability and discuss why it would not be a financial liability

warranty provision

d. Which method of amortization of a discount/premium on bonds is allowed under ASPE?

eff. Int.  
straight line

e. How are debt issues costs accounted for?

amort over the life  
of the bond.

**QUESTION 8: (10 minutes 5 marks)**

Choose one of the following questions to answer based on the public company you analyzed.

**Part A: Apple (5 marks)**

What is the company's year end? Comment on the company's share structure. What has their dividend history been? Has the company done any stock splits? Is the company's cash position strong?


**Part B: Facebook (5 marks)**

What is the company's year end? What classes of shares does the company have? Describe any recent significant acquisitions of other companies? If there was an acquisition, how was it financed? Is the company's cash position strong?


**Part C: Google (5 marks)**

What classes of shares does the company have? Comment on the latest class of shares created. Did the company have any corporate acquisitions in the past year? If there were acquisitions, how were they financed? Comment on the company's cash position.

① there are common shares A/B	✓
② there were going to have C - which no voting shares	✓
③ they had grants - such as youtube	✓
④ paid cash for them	✓

3/5  


**Part D: IBM (5 marks)**

How often does IBM pay dividends? Has the company had any recent stock splits? What classes of shares does the company have? Comment on the any significant recent changes in these classes of shares. Is the company's cash position positive? Are the financial statements consolidated? Does this add to the understandability of the company?


**Part E: Microsoft (5 marks)**

Comment on the equity position of the company, in particular the retained earnings. What classes of shares does the company have? Have there been significant changes in these shares recently? What is the dividend policy of the company? Comment on the cash position.


**Part F: Mitel (5 marks)**

Comment on the equity position of the company, in particular the retained earnings. What classes of shares does the company have? Have there been significant changes in these shares recently? What is the dividend policy of the company?


**Part G: RIM (5 marks)**

When is the company's year end? Comment on the relative values of the company's retained earnings vs the contributed capital. What is the company's dividend policy? Have there been any repurchases of shares by the company?

① Dec. 31 is the yearend (book?)
② they are common shares only issued
③ no dividend
④ yes they have repurchased there share
⑤ the book value 18.46 & the market value 26.25

**Bonus Marks (3 Marks):**

Ignoring the company which you analyzed; identify **three facts** about the shareholders equity of **one** of the other companies mentioned above which was described in a presentation.


please refer to google or

4/5