

Mid Term Exam Intermediate Financial Accounting I Winter 2013 ADM2342

(SUGGESTED SOLUTIONS)

Name: _____

ID#: _____

Instructions:

- Write your name and student ID number above.
- Turn off all cell phones.
- This examination “**SUGGESTED SOLUTION**” comprises **5** questions over **15** numbered pages.
- Answer all questions in this booklet. The booklet is **not** to be removed from the examination room. You may not separate the pages.
- Do not answer questions using a pencil or erasable pen: if you do you will forfeit the right to ask that your exam be remarked.
- Limit your answer to the space provided. Blank space for rough work and supporting calculations are given at the end of each question.
- This exam will be marked out of 100 marks (for convenience) and is 2½ hours long. You should budget approximately 1.5 minutes per mark. The exam is worth **35%** of the overall course mark.
- Please do not ask the invigilator or the professor any questions, as they will not be answered. State reasonable assumptions, if you feel they are necessary.
- This exam paper must remain stapled: do not take this exam paper apart.
- Language (non-electronic) dictionaries are allowed but only after permission is given by the proctors at the examination.
- You **must** sign the Statement of Academic integrity on page 2 of this exam.

Question			Marks
Q 1	Chapters 1 & 2	8 multiple choice questions	/4
Q 2	Chapter 3		/12
Q 3	Chapter 4	Part 1	/4
		Part 2	/6
		Part 3	/5
		Part 4	/12
		Part 5	/8
Q 4	Chapter 5	4: part 1	/13
		4: part 2	/7
Q 5	Chapter 6	5: part 1	/16
		5: part 2	/7
		5: part 3	/6
		TOTAL	/100

Statement of Academic Integrity

The Telfer School of Management does not condone academic fraud, an act by a student that may result in a false academic evaluation of that student or of another student. Without limiting the generality of this definition, academic fraud occurs when a student commits any of the following offences: plagiarism or cheating of any kind, use of books, notes, mathematical tables, dictionaries or other study aid unless an explicit written note to the contrary appears on the exam, to have in his/her possession cameras, radios (radios with head sets), tape recorders, pagers, cell phones, or any other communication device which has not been previously authorized in writing.

Statement to be signed by the student:

I have read the text on academic integrity and I pledge not to have committed or attempted to commit academic fraud in this examination.

Signed: _____

Note: an examination copy or booklet without that signed statement will not be graded and will receive an exam grade of zero.

QUESTION 1 (4 marks)

Provide your answer to the following multiple choice questions in the table below. Only answers in the table will be marked.

- 1 An effective process of capital allocation is critical to a healthy economy because it:
(a) promotes productivity.
(b) encourages innovation.
(c) provides an efficient and liquid market for buying and selling securities.
(d) **All of the above (all of the above result from an effective process of capital allocation).**

- 2 Potential causes of management bias include all of the following except:
(a) **Financial statement users must exercise significant professional judgement in interpretation of financial information.**
(b) Financial statements provide information to users about management stewardship.
(c) Managers are often compensated based on the company's net income or share value.
(d) Many lending agreements and contracts require that certain financial benchmarks must be met.

- 3 Which one of the following organizations has not been a major influence in setting of financial reporting standards for Canadian entities?
(a) FASB (Financial Accounting Standards Board).
(b) AcSB (Accounting Standards Board).
(c) **CRA (Canada Revenue Agency).**
(d) IASB(International Accounting Standards Board).

- 4 Primary sources of GAAP for Canadian private companies do not include the following:
(a) *CICA Handbook* Sections 1000 to 3870.
(b) Accounting guidelines.
(c) **Appendices to CICA Handbook Sections 1000 to 3870 and Accounting guidelines.**
(d) **Pronouncements by accounting standard-setting bodies in other jurisdictions.**

- 5 Information that is relevant:
(a) has feedback/confirmatory value.
(b) has predictive value.
(c) is capable of making a difference in a decision.
(d) **All of the above (all of the above are ingredients of the characteristic of relevance).**

- 6 In providing information with the qualitative characteristics that make it useful, two overriding constraints that must be considered are:
(a) relevance and representational faithfulness.
(b) comparability and understandability.
(c) matching and control.
(d) **cost-benefit relationship and materiality.**

- 7 Increases in equity from peripheral or incidental transactions of an entity are:
(a) assets.
(b) **gains.**
(c) contributions by owners.
(d) revenues.

- 8 Which of the following is a major concern about “matching”?
(a) It illustrates the cause and effect relationship between the money spent to earn revenues and the revenues themselves.
(b) Matching focuses on the income statement while accounting standard setters are moving towards a balance sheet focus.
(c) Matching permits certain costs to be deferred and treated as assets even though they may not meet the definition of assets.
(d) **Both (b) and (c): [both (b) and (c) are major concerns about “matching”].**

Only answers entered in this table will be marked.

1	2	3	4	5	6	7	8

QUESTION 2 (12 marks)

The trial balance of Santos Corporation is reproduced below. The following information items (a) to (f) are relevant to the preparation of adjusting entries needed to both properly match revenues and expenses for the period and reflect the proper balances in the real and nominal accounts.

- (a) After an aging of accounts receivable, it was determined that three percent of the accounts will become uncollectible.
- (b) Equipment depreciation is calculated using the straight-line method, with an eight-year life and \$1,000 salvage value.
- (c) Salesmen are paid commissions of 11 percent of sales. Commissions on sales for the last week of December have not been paid.
- (d) The note payable was issued on October 1, 2012, bearing interest at 8 percent, due Feb. 1, 2013.
- (e) A physical inventory of supplies indicated \$280 of supplies currently in stock.
- (f) Provisions of a lease contract specify payments must be made by Santos one month in advance, with monthly payments at \$900/month. This provision has been complied with as of Dec. 31, 2012.

Required

As the accountant for Santos Corporation, you are to prepare adjusting entries based on items (a) to (f) above. Round all calculations to the nearest dollar.

Santos Corporation
December 31, 2012

Accounts	Trial Balance	
	Dr.	Cr.
Cash	5,400	
Marketable Securities	4,050	
Accounts Receivable	40,000	
Allowance for Doubtful Accounts		420
Merchandise Inventory	16,800	
Supplies	1,040	
Equipment	49,000	
Accum. Depreciation – Equipment		9,500
Accounts Payable		4,400
Notes Payable		4,250
Common Stock		40,000
Retained Earnings		25,340
Cost of Goods Sold	238,520	
Office Salaries	20,800	
Sales Commissions Expense	29,000	
Lease/Rent Expense	7,200	
Miscellaneous Expense	2,200	
Sales		330,100
Totals	414,010	414,010

QUESTION 2 (12 marks)31/12/2012 adjusting entries and explanations

(a) Bad Debt Expense.....	780	
Allowance for Doubtful Accounts.....		780
(3% of accounts receivable is $3\% \times \$40,000$, which is \$1,200. Since the allowance account has a credit balance of \$420 before adjustment, \$780 must be added to the allowance account.)		
(b) Depreciation Expense	6,000	
Accumulated Depreciation—Equipment.....		6,000
(\$49,000 – \$1,000 is \$48,000. One-eighth of \$48,000 is \$6,000.)		
(c) Sales Commissions	7,311	
Sales Commissions Payable.....		7,311
(11% of sales is $11\% \times \$330,100$, which is \$36,311. The balance in the Sales Commissions account is \$29,000 before adjustment, indicating that \$7,311 of commissions are accrued but unpaid.)		
(d) Interest Expense.....	85	
Interest Payable.....		85
($\$4,250 \times .08 \times 3/12 = \85)		
(e) Supplies Expense	760	
Supplies.....		760
(The balance of \$1,040 in the Supplies account before adjustment less the correct ending balance of \$280 is \$760.)		
(f) Prepaid Rent.....	900	
Rent Expense		900
(Since the trial balance contains no account for prepaid rent, the \$900 lease payment has apparently been debited to Rent Expense. An account must be set up for the Prepaid Rent.)		

QUESTION 3 (35 marks)

Answer ALL parts to this question. Each part is independent.

PART 1: (4 marks)

Provide clear, complete and concise answers for the following.

1. What are revenues?
 2. What are losses?
-
1. Revenues are increases in economic resources either by way of inflows or enhancements of assets of an entity or settlements of liabilities resulting from the ordinary activities of an entity.
 2. Losses are decreases in equity (net assets) from peripheral or incidental transactions of an entity from all other transactions and other events and circumstances affecting the entity during a period except those that result from revenues or investment by owners.

PART 2: (6 marks) (yes, this question was asked in Quiz #1)

List the criteria that must be met for a non-current asset to be considered (classified as) *held for sale*.

- Authorized plan to sell exists
- Asset available for immediate sale
- Active search for a buyer
- Sale is probable within a year
- Asset is reasonably priced and marketed
- Unlikely that plan to sell will change

QUESTION 3 (35 marks) (continued)

Answer ALL parts to this question. Each part is independent.

PART 3: (5 marks)

For each of the items listed below, indicate how it should be treated by a company that prepares multi-step income statements. Use the following letter code for your selections:

- a. Revenue or expense item from operations on the income statement
- b. Discontinued operations
- c. Other revenues and gains and other expenses and losses
- d. Adjustment to the retained earnings reported for the end of the prior year.

- _____ 1. The bad debt rate was increased from 1 percent to 2 percent, thus increasing bad debt expense.
- _____ 2. Obsolete inventory was written off. This was the first loss of this type in the company's history but it was deemed to be immaterial/insignificant.
- _____ 3. An uninsured casualty loss was incurred by the company. This was the first loss of this type in the company's 50-year history.
- _____ 4. Income earned last year which was inadvertently omitted from last year's income statement.
- _____ 5. The company sold one of its warehouses at a loss.
- _____ 6. Settlement of litigation with federal government related to income taxes of three years ago. The company is continually involved in various adjustments with the federal government related to its taxes.
- _____ 7. A loss incurred from expropriation (the company owned resources in South America which were taken over by a dictator unsympathetic to Canadian business).
- _____ 8. The company neglected/forgot to record its depreciation in the previous year.
- _____ 9. Discontinuance of all production in Canada. The Canadian manufacturing operations were relocated in Mexico.
- _____ 10. Loss on the sale of inventory.

- | | | | |
|------|------|------|-------|
| 1. a | 4. d | 7. c | 10. a |
| 2. a | 5. c | 8. d | |
| 3. c | 6. a | 9. b | |

Question 3 (35 marks) (continued)

Answer ALL parts to this question. Each part is independent.

PART 4: (12 marks)

Messi Limited follows ASPE. Recently, the company decided to sell its Interior Design Division. After two years of losses and heavy competition, a plan to dispose of the division was put in place. An initial plan was presented to the board of directors on August 23, 2012 and was finalized and unanimously approved by the board of directors at the end of 2012. The sale is expected to be completed by June 30, 2013.

Other pertinent information is as follows:

- Messi's 2012 **after tax income**¹ from continuing operations excluding the results of the Interior Design Division was \$681,000.
- From January 1, 2012 to August 22, 2012 the Interior Design Division reported revenues of \$270,000 and expenses of \$245,000. From August 23, 2012 to December 31, 2012, the division reported revenues of \$22,000 and expenses of \$307,000.
- Management estimates that after-tax legal and audit fees of \$40,000 as well as after-tax severance payments of \$55,000 will be required on the sale of the division's net assets. A portion of these costs is estimated to be offset by the after-tax proceeds of \$50,000 expected from the sale of the division's assets.

Required

Assuming the Interior Design Division qualifies for treatment as a discontinued operation, prepare, with appropriate disclosure, a partial income statement for Messi Limited for the year ended December 31, 2012. Assume an applicable tax rate of 40%. The statement should begin with income from continuing operations.

**Messi Limited
Income Statement (Partial)
For the Year Ended December 31, 2012**

Income from continuing operations	\$681,000	OR \$681,000
Income tax (if you assume \$681,000 is before income tax)		<u>272,400</u>
Income from continuing operations		408,600
Discontinued operations *		
Loss from operations of discontinued Interior Design Division (net of tax saving of \$104,000)	\$(156,000)	
Impairment loss on Interior Design Division (net of tax saving of \$30,000)	<u>(45,000)</u>	<u>201,000</u>
Net income	<u>\$460,000</u>	<u>\$207,600</u>

* **Footnote:**

On December 31, due to continued losses, the board of directors approved management's plan to dispose of the Interiors Design Division. The sale is anticipated to be completed by June 30, 2013.

The pre-tax operating results of the Interior Design Division for 2012 are as follows:

Revenues	$\$270,000 + \$22,000 = \$292,000$
Expenses	<u>$\\$245,000 + \\$307,000 = \\$552,000$</u>
Net loss	<u>$(\\$260,000)$</u>

The tax saving relating to the operations of the Interior Design Division is $\$260,000 \times 40\% = \$104,000$. The after-tax loss, therefore, is \$156,000.

The impairment loss is the estimated after-tax loss relating to the disposal of the Interior Design Division and is comprised of the following items:

Estimated proceeds from sale of assets:	\$50,000
Less: Legal and audit fees	\$40,000
Less: Severance payments to staff	<u>\$55,000</u>
After-tax impairment loss	<u>$(\\$45,000)$</u>

The overall pre-tax impairment loss, using a 40% tax rate, is $\$45,000 \div (1 - 40\%) = \$75,000$. Therefore, the tax saving relating to this loss must be \$30,000.

¹ "after tax" was not in the original exam: hence two possible solutions are provided.

Question 3 (35 marks) (continued)

Answer ALL parts to this question. Each part is independent.

PART 5: (8 marks)

Dr. John Gleason, M.D., maintains the accounting records of Bones Clinic on a *cash basis*. During 2012, Dr. Gleason collected \$146,000 in revenues and paid \$55,470 in expenses. At January 1, 2012, and December 31, 2012, he had accounts receivable, unearned service revenue, accrued expenses, and prepaid expenses as follows (all long-lived assets are rented):

	January 1	December 31
Accounts receivable	\$9,250	\$16,100
Received but unearned service revenue	2,840	1,620
Accrued (not yet paid) expenses	3,435	2,200
Prepaid expenses	2,000	1,775

Last week, Dr. Gleason asked you, his accountant, to help him determine his income on the *accrual basis*.

Required

Prepare an income statement on an accrual basis for the current year. Show all supporting calculations

Bones Clinic
Conversion of Income Statement
From Cash Basis to Accrual Basis
For the Year 2012

	Cash Basis	Adjustments		Accrual Basis
		Add	Ded.	
Receipts from fees:	\$146,000			
–Fees receivable, Jan. 1			\$9,250	
+Fees receivable, Dec. 31		\$16,100		
+Unearned fees, Jan. 1		2,840		
–Unearned fees, Dec. 31			1,620	
Revenue from fees				\$154,070
Disbursements:	55,470			
–Accrued expenses, Jan. 1			3,435	
+Accrued expenses, Dec. 31		2,200		
+Prepaid expenses, Jan. 1		2,000		
–Prepaid expenses, Dec. 31			1,775	
Operating expenses	_____			54,460
Receipts over disbursements—cash basis	<u>\$90,530</u>			_____
Net income—accrual basis				<u>\$ 99,610</u>

QUESTION 4 (20 marks)

Answer ALL parts to this question. Each part is independent.

PART 1: (13 marks)

Luongo Inc. follows ASPE. Luongo had the following balance sheet at the end of 2011:

Luongo Inc Balance Sheet <u>December 31, 2011</u>			
Cash	\$20,000	Accounts payable	\$30,000
Accounts receivable	21,200	Long-term notes payable	41,000
Investments – fair value through net income	32,000	Common shares	100,000
Plant assets (net)	81,000	Retained earnings	23,200
Land	40,000		
	<u>\$194,200</u>		<u>\$194,200</u>

During 2012, the following occurred:

1. Luongo Inc. sold part of its investment portfolio for \$19,000. This transaction resulted in a gain of \$3,400 for the firm. The company often sells and buys securities of this nature.
2. A tract of land was purchased for \$18,000 cash.
3. Long-term notes payable in the amount of \$17,000 were retired before maturity by paying \$17,000 cash.
4. An additional \$26,000 in common shares was issued.
5. Dividends totalling \$9,200 were declared and paid to shareholders.
6. Net income for 2012 was \$32,000 after allowing for depreciation of \$12,000.
7. Land was purchased through the issuance of \$30,000 in bonds.
8. At December 31, 2012, cash was \$41,000; accounts receivable were \$41,600; and accounts payable remained at \$30,000.

Required

- (a) Prepare a statement of cash flows in good form for the year ended December 31, 2012. Assume dividends paid are treated as financing activities. (11 marks)
- (b) What is the cash flow pattern for Luongo? Discuss any areas of concern. (2 marks)

Luongo Inc.
Statement of Cash Flows
For the Year Ended December 31, 2012

Cash flows from operating activities		
Net income		\$32,000
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	\$12,000	
Gain on sale of investments	(3,400)	
Increase in accounts receivable (\$41,600 – \$21,200)	(20,400)	(11,800)
Net cash provided by operating activities		20,200
Cash flows from investing activities		
Sale of investments	19,000	
Purchase of land	(18,000)	
Net cash provided by investing activities		1,000
Cash flows from financing activities		
Issuance of common shares	26,000	
Retirement of notes payable	(17,000)	
Payment of cash dividends	(9,200)	
Net cash used by financing activities		(200)
Net increase in cash		21,000
Cash at beginning of year		20,000
Cash at end of year		<u>\$41,000</u>

Note: The purchase of land through the issuance of \$30,000 of bonds is a significant non-cash financing transaction that would be disclosed in notes accompanying the financial statements.

16/02/2013 exam-day comment:

During the exam a few students asked whether the indirect or direct method should be used when answering this question. Answer: insufficient information is provided to employ the direct method. This leads to the following question: what additional information do you think would be needed so that you could employ the direct method for this question?

Question 4 (20 marks) (continued)

Answer ALL parts to this question. Each part is independent.

PART 1: (13 marks) (continued)

Part b: Luongo has managed to more than double its cash balance in the year from cash generated from operating activities. While obtaining external financing for the majority of its investments, it has also had an alarming increase in its accounts receivable. Unless this increase is justified from increased sales or from a conscious change in credit policies, management should investigate the causes for this level of increase.

Question 4 (20 marks) (continued)

Answer ALL parts to this question. Each part is independent.

PART 2: (7 marks)

Gatineau Company in the past has various classifications listed below on its balance sheet. The company uses IFRS. You are asked for your professional opinion concerning the appropriate classification of each of the items 1-14 below.

- | | |
|------------------------------|--|
| a. Current Assets | f. Current Liabilities |
| b. Investments and Funds | g. Long-term Liabilities |
| c. Capital Assets | h. Contributed Surplus and Common Shares |
| d. Intangible Capital Assets | i. Retained Earnings |
| e. Other Assets | j. Other Liabilities |

Required

Indicate by letter how each of the following items should be classified. If an item need not be reported on the balance sheet, use the letter "X." A letter may be used more than once or not at all. If an item can be classified in more than one category, choose the category most favored by your textbook.

- ___ 1. Bank overdraft.
- ___ 2. Salaries which the company budget (for next year) shows will be paid to employees next year.
- ___ 3. Goods in process at a manufacturing plant.
- ___ 4. Appropriation of retained earnings for bonded indebtedness.
- ___ 5. Organization (legal, incorporation, etc) costs.
- ___ 6. Payroll cash fund.
- ___ 7. Goods held on consignment.
- ___ 8. Accrued revenue (dividends & interest) on temporary investments in stocks and bonds.
- ___ 9. Advances of salaries & commissions to salespersons.
- ___ 10. Premium received upon the issuance of long term bonds payable
- ___ 11. Employees' payroll deductions (for example: income tax, union dues, pension contributions).
- ___ 12. Cash set aside in a sinking fund which will be used on 31/12/2017 to pay off a bond-liability upon its maturity.
- ___ 13. Rent revenue collected in advance.
- ___ 14. Factory building retired from use and held for sale

Solution

- | | | | | |
|------|------|------|-------|-------|
| 1. f | 4. i | 7. x | 10. g | 13. f |
| 2. x | 5. x | 8. a | 11. f | 14. e |
| 3. a | 6. a | 9. a | 12. b | |

QUESTION 5 (29 marks)

Answer ALL parts to this question. Each part is independent.

PART 1: (16 marks)

Excel Construction Ltd. has entered into a \$9.5 million fixed price contract beginning in March 2012 to build a sports stadium for Lansdowne Enterprises Ltd. Excel’s controller has collected the following for the construction period:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Cash collected to date	\$3,100,000	\$7,250,000	\$9,350,000
Estimated costs to complete	4,675,000	1,270,000	-0-
Progress billings to date	3,500,000	7,600,000	9,500,000
Costs incurred on the contract during the year	3,825,000	4,675,000	1,300,000

Based on the above information Excel’s controller prepared the following gross profit schedule for the construction period:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Contract price: (A)	<u>9,500,000</u>	<u>9,500,000</u>	<u>9,500,000</u>
Costs:			
Opening balance of costs	0	3,825,000	8,500,000
Costs incurred during year	<u>3,825,000</u>	<u>4,675,000</u>	<u>1,300,000</u>
Costs incurred to date	3,825,000	8,500,000	9,800,000
Estimated costs to complete	<u>4,675,000</u>	<u>1,270,000</u>	<u>0</u>
Total estimated costs	<u>8,500,000</u>	<u>9,770,000</u>	<u>9,800,000</u>
Percentage complete	<u>45.00%</u>	<u>87.00%</u>	<u>100.0%</u>
Revenue to date	4,275,000	8,265,000	9,500,000
Less previous revenue	<u> </u>	<u>(4,275,000)</u>	<u>(8,265,000)</u>
Revenue for the year	<u>4,275,000</u>	<u>3,990,000</u>	<u>1,235,000</u>
Construction expense for year	<u>3,825,000</u>	<u>4,710,000</u>	<u>1,265,000</u>
Gross profit for this year	<u>\$450,000</u>	<u>\$(720,000)</u>	<u>\$(30,000)</u>

Required

Under the earnings approach for Excel Construction Ltd:

- Prepare all necessary journal entries for 2013 and 2014, including the entries to close the contract accounts upon completion, assuming the percentage-of-completion method is used. Do not present journal entries for 2012. (10 marks)
- Prepare partial comparative income statements for the fiscal years ending December 31, 2013 and 2014. (2 marks)
- Prepare a balance sheet at December 31, 2013, that shows the accounts related to the contract and includes their classifications. (4 marks)

Solution

a) 2013:

Construction in Process	4,675,000	
Materials, Cash, Payables, etc.		4,675,000
Construction Expenses.....	4,710,000	
Construction in Process (Loss).....		720,000
Revenue from Long-term Contracts		3,990,000
Accounts Receivable (7,600 – 3,500).....	4,100,000	
Billings on Construction in Process.....		4,100,000
Cash (7,250 – 3,100).....	4,150,000	
Accounts Receivable.....		4,150,000

2014:		
Construction in Process	1,300,000	
Materials, Cash, Payables, etc.		1,300,000
Construction Expenses.....	1,265,000	
Construction in Process.		30,000
Revenue from Long-term Contracts		1,235,000
Accounts Receivable (9,500 – 7,600)	1,900,000	
Billings on Construction in Process.....		1,900,000
Cash (9,350 – 7,250).....	2,100,000	
Accounts Receivable.....		2,100,000
Billings on Construction in Process.....	9,500,000	
Construction in Process		9,500,000

2013:

Income Statement

Revenue from long-term contract	\$3,990,000
Construction expense	<u>4,710,000</u>
Gross profit (loss)	(\$720,000)

2014:

Income Statement:

Revenue from long-term contract	\$1,235,000
Construction expense	<u>1,265,000</u>
Gross profit (loss)	(\$30,000)

31/12/2013 Balance Sheet

Current assets:

Receivables	
(400 + 4,100 – 4,150)	\$ 350,000
Inventories: construction in process totalling	
\$8,230,000* less billings of \$7,600,000	630,000

* Balance Dec. 31, 2012	\$4,275,000
2013 Construction Costs	4,675,000
2013 Gross profit	<u>(720,000)</u>
Balance Dec. 31, 2013	<u>\$8,230,000</u>

This t-account not required in your solution.

Inventories:	
construction in process (ignores the impact of billings)	
	<u>3,825,000</u>
	450,000
31/12/2012	<u>4,275,000</u>
	4,675,000
	<u>-720,000</u>
31/12/2013	<u>8,230,000</u>
	1,300,000
	<u>-30,000</u>
31/12/2014	<u>9,500,000</u>

Question 5 (29 marks) (continued)

Answer ALL parts to this question. Each part is independent.

PART 2: (7 marks)

List the criteria that must be met so that revenue can be recognized when using the *earnings approach*.

Performance is achieved:

Risks and rewards of ownership/control are transferred (normally applies to goods);
and/or

Earnings process substantially complete.
and

Measurability reasonably assured:

Revenue, and
Cost of sales.

Collectability is reasonably assured.

PART 3: (6 marks)

Bill and hold sales occur when delivery is delayed at the buyer's request but the buyer takes title and accepts billing. Describe the criteria that must be met for *bill and hold* sales to be recognized as revenue.

Revenue is recognized when the buyer takes title, provided:

(a) it is probable that delivery will be made;

(b) the item is

- on hand,
- identified and
- ready for delivery to the buyer at the time the sale is recognized;

(c) the buyer specifically acknowledges the deferred delivery instructions; and

(d) the usual payment terms apply.

[Not required in your solution: revenue is not recognized when there is simply an intention to acquire or manufacture the goods in time for delivery.]