

ADM 2342 X
INTERMEDIATE FINANCIAL ACCOUNTING 1
Spring/Summer 2011
Solutions

..... / 20 marks

NAME: _____

STUDENT #: _____

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

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

Question No. 1 (6marks)

Circle the best answer for each of the following three (3) multiple-choice questions. Each question is worth 2 marks. No account will be taken of any explanations or notes provided. Circle only one item per question.

1. Beamer Company has 100,000 common shares outstanding and has a policy of paying a \$1.20 dividend for each of these shares. Beamer has an income tax rate of 40%. Its retained earnings statement for 2011 had a closing balance of \$1,346,000. Assuming an opening balance of \$400,000, dividend payments were made according to its usual policy, and there are no other adjustments, Beamer's 2011 net income must have been

- a. \$1,066,000 🎵 $(\$1,346,000 - (\$1.20 \times 100,000) - \$400,000)$
- b. \$1,186,000
- c. \$ 946,000
- d. none of the above

2. Dollard Company reported the following information for 2011:

Sales revenue	\$520,000
Cost of goods sold	350,000
Operating expenses	55,000
Gain on the sale of capital assets	50,000
Cash dividends received on investment securities	2,000

For 2011, on a multiple-step income statement, Dollard would report a non-operating revenue/gain of

- a. \$165,000
 - b. \$115,000
 - c. \$58,000
 - d. \$52,000 🎵 $(\$50,000 + \$2,000)$
3. Zack Corporation's trial balance of income statement accounts for the year ended December 31, 2011 included the following: (Note: The total debits do not equal the total credits because this is a partial trial balance and does not include balance sheet accounts.)

	Debit	Credit
Sales		\$170,000
Cost of goods sold	\$ 70,000	
Administrative expenses	28,000	
Loss on sale of equipment	11,000	
Sales commissions	9,000	
Interest revenue		6,000
Freight-out	2,000	
Loss of warehouse due to flood	13,000	
Loss from operation of discontinued division	25,000	
Bad debt expense	4,000	
Totals	\$162,000	\$176,000

Other information:

Zack's income tax rate is 30%.

Finished goods inventory:

January 1, 2011	\$86,000
December 31, 2011	98,000

On Zack's multiple-step income statement for 2011,

The income from continued operations is

- a. \$17,500
- b. \$52,800
- c. \$24,500
- d. \$27,300 🎵 $(\$176,000 - \$162,000 + \$25,000) \times (1 - 30\%) = \$27,300$

Question No. 2 (3marks)

Wesley Limited decided on January 1, 2010 to discontinue its plastic making division. The division, considered a reportable segment, was sold on June 1, 2010. Division assets with a carrying value of \$650,000 were sold for \$500,000 net of disposal costs of \$40,000. Operating income from January 1, to May 30, 2010 for the division amounted to \$80,000. Currently, the estimated fair value of the division assets is \$350,000.

Required:

Ignoring taxes, what amount should be reported on Wesley's income statement for the year ended December 31, 2010, under the caption "discontinued operations"? Show calculations. Do not prepare an Income Statement.

Answer:

The amount to be shown on Wesley's Income Statement for the year ended December 31, 2011 under "Discontinued Operations" is:

$$(\$500,000 - \$650,000) \text{ loss} + \$80,000 \text{ income} = \underline{\underline{\$70,000}} \text{ overall loss.}$$

Question No. 3 (11marks)

Kaola Corporation is a public company and follows IFRS. Kaola has operations both in Canada and abroad. Kaola has just completed its first year of operations. Kaola has a tax rate of 40%. There are 200,000 common shares outstanding for the year. Its results and other information for that year (2010) included the following information:

Sales	\$900,000
Cost of goods sold	430,000
Operating expenses	80,000
Other revenues	28,000
Actuarial gain (net) on defined benefit pension plan	20,000
Loss (net) from translating the statements of foreign operations	(45,000)

Required:

Based on the information provided, prepare a combined statement of income (multiple-step format) and comprehensive income.

Answer:

KAOLA CORPORATION
Combined Statement of Income and Comprehensive Income
For the Year Ended December 31, 2010

<i>Sales</i>		<i>900,000</i>
<i>Cost of goods sold</i>		<i>430,000</i>
<i>Gross profit</i>		<i>470,000</i>
<i>Operating expenses</i>		<i>80,000</i>
<i>Income from operations</i>		<i>390,000</i>
<i>Other revenues</i>		<i>28,000</i>
<i>Income before income tax</i>		<i>418,000</i>
<i>Income tax expense (40%)</i>		<i>167,200</i>
<i>Net income</i>		<i>250,800</i>
<i>Other comprehensive income</i>		
<i>Actuarial gain on defined benefit plan</i>		
<i>(net of tax expense of \$13,333)</i>	<i>20,000</i>	
<i>Loss from translating statements of foreign</i>		
<i>operations (net of tax recovery of \$30,000)</i>	<i>(45,000)</i>	<i>(25,000)</i>
<i>Comprehensive income</i>		<i><u>\$225,800</u></i>
<i>EPS (\$250,800 ÷ 200,000)</i>		<i><u>\$1.254</u></i>