

CONCORDIA UNIVERSITY
John Molson School of Business
Department of Accountancy

(Read this page carefully before you begin)

Course: Introduction to Financial Accounting
Number: ACCO 230
Session: Fall 2013
Sections: A (Professor S. Mroz)
AA (Professor T. El Masri)
Examination: Final Exam (3 hours)
Date: Saturday, December 14, 2013
No. of Pages: **Ten (10)**, including this page and the 10th page of present value tables.
Ensure your copy is complete.
Materials Allowed: One non-programmable / non-graphical calculator, one ordinary dictionary (i.e., not electronic), pens, pencils, erasers, and rulers.

IMPORTANT INSTRUCTIONS

- Show all answers in the examination booklet only.
- Show details of all calculations, except for the multiple-choice questions (Problem 1).
- Instructors will not answer queries, unless you think there is actually an error in the exam.

Problem No.	Marks	Suggested Time (minutes)
1	20	36
2	21	38
3	15	27
4	24	43
5	20	36
Total	<u>100</u>	<u>180</u>

NAME (Last, first) -- please print clearly _____

ID _____

Section _____

PROBLEM 1 Multiple-choice (20 marks; 36 minutes)

In your answers booklet, show the BEST answer for each of the following.

1. When an account is written off using the allowance method for uncollectible accounts, accounts receivable
 - (a) is unchanged and the allowance account increases.
 - (b) increases and the allowance account increases.
 - (c) decreases and the allowance account decreases.
 - (d) decreases and the allowance account increases.

2. Under the allowance method for uncollectible accounts, when a specific account is written off
 - (a) total assets will be unchanged.
 - (b) net profit will decrease.
 - (c) total assets will decrease.
 - (d) total assets will increase.

3. An aging of a company's accounts receivable indicates that \$13,000 is estimated to be uncollectible. If the Allowance for Doubtful Accounts has a \$2,400 debit balance, the adjustment to record bad debts for the period will require a
 - (a) debit to Bad Debts Expense for \$15,400.
 - (b) debit to Bad Debts Expense for \$13,000.
 - (c) debit to Bad Debts Expense for \$10,600.
 - (d) debit to Allowance for Doubtful Accounts for \$13,000.

4. One might infer from a debit balance in Allowance for Doubtful Accounts that
 - (a) a posting error has been made.
 - (b) more accounts have been written off than had been estimated would be uncollectible.
 - (c) the percentage of receivables basis is being used.
 - (d) bad debts expense has been overestimated.

5. The difference between a depreciable asset's cost and its residual value is called
 - (a) the annual depreciation.
 - (b) accumulated depreciation.
 - (c) the depreciable amount.
 - (d) the revaluation amount.

6. The depreciation method that applies a constant percentage to the carrying amount at the beginning of the period in calculating depreciation is called
 - (a) straight-line.
 - (b) units-of-production.

- (c) diminishing-balance.
 - (d) diminishing units-of-production.
7. Equipment was purchased on January 1, "Year X" for \$39,000 with an estimated residual value of \$3,000. The current year's Depreciation Expense is \$4,000, calculated on the straight-line basis, and the balance of the Accumulated Depreciation account at the end of the year is \$12,000. The remaining useful life of the equipment is
- (a) 3 years.
 - (b) 5 years.
 - (c) 6 years.
 - (d) 9 years.
8. Tran Inc. purchased equipment for \$48,000, and estimated that the equipment will have a \$4,000 residual value at the end of its 8-year useful life. Using the double diminishing-balance method, the depreciation expense for the *third* year would be
- (a) \$9,000.
 - (b) \$6,750.
 - (c) \$6,188.
 - (d) \$5,500.
9. On October 1, 2012, Ming Wo Ltd. places a new asset into service. The cost of the asset is \$9,000 with an estimated 5-year life and \$1,500 residual value. Assuming that Ming Wo uses the double diminishing-balance method of depreciation, what is the carrying amount of the asset at December 31, 2012?
- (a) \$8,100
 - (b) \$6,750
 - (c) \$6,000
 - (d) \$5,400
10. Units-of-production is an appropriate depreciation method to use when
- (a) it is impossible to determine the productivity of the asset.
 - (b) the asset's use will be constant over its useful life.
 - (c) the company is a manufacturing company.
 - (d) the asset's use varies significantly from one period to another.

Use the following information to answer questions 11-14.

The following totals for the month of April were taken from the payroll register of Sandhu Corp.

Gross salaries	\$19,500
CPP withheld	965
Income taxes withheld	4,200
Medical insurance deductions	675
EI withheld	347
Union dues withheld	324

11. The journal entry to record the monthly payroll on April 30 would include a
 - (a) debit to Salaries Expense for \$19,500.
 - (b) credit to Salaries Payable for \$19,500.
 - (c) debit to Salaries Payable for \$15,300.
 - (d) debit to Salaries Expense for \$12,989.

12. The journal entry to record payment of the net payroll would include a
 - (a) debit to Salaries Payable for \$12,989.
 - (b) debit to Salaries Payable for \$15,300.
 - (c) debit to Salaries Payable for \$19,500.
 - (d) credit to Cash for \$19,500.

13. The journal entry to record the accrual of the employee's portion of Canada Pension Plan (CPP) would include a
 - (a) credit to CPP Payable of \$965.
 - (b) debit to CPP Expense of \$965.
 - (c) credit to Employee Benefits Expense of \$965.
 - (d) debit to CPP Payable of \$965.

14. Assuming Sandhu Corp is also required to remit 140% of the employees' EI withholdings as their share of employee benefits, the journal entry to record the accrual of the employer's portion of EI would include a
 - (a) credit to EI Payable of \$486.
 - (b) debit to EI Expense of \$347.
 - (c) credit to EI Payable of \$347.
 - (d) debit to EI Payable of \$486.

15. Raglan Ltd. issued a five-year note payable for \$85,000 on January 1, 2012. Each January the company is required to pay \$17,000 on the note. How will this note be reported on the December 31, 2013 statement of financial position?
 - (a) Non-current liability, \$85,000
 - (b) Non-current liability, \$68,000
 - (c) Non-current liability, \$68,000; Current liability, \$17,000
 - (d) Non-current liability, \$51,000; Current liability, \$17,000

16. Which of the following statements regarding the date of a cash dividend declaration (dividend to be paid at a later date) is NOT true?
 - (a) The dividend can be cancelled once it has been declared.
 - (b) The corporation is committed to a legal, binding obligation.
 - (c) The board of directors formally authorizes the cash dividend.
 - (d) A liability account must be created or increased.

17. Indicate the respective effects of the declaration of a cash dividend (to be paid at a later date) on the following statement of financial position sections:

	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Total Shareholders' Equity</u>
(a)	Increase	Decrease	No change
(b)	No change	Increase	Decrease
(c)	Decrease	Increase	Decrease
(d)	Decrease	No change	Increase

18. Which of the following statements about dividends is NOT correct?
- (a) Cash dividends are generally declared quarterly as a dollar amount per share.
 - (b) Dividends can be declared on both preferred and common shares.
 - (c) The board of directors is obligated to declare dividends.
 - (d) Dividends can be in cash or stock.
19. JKL Inc. has 10,000, \$2, noncumulative preferred shares and 150,000 common shares issued. What is the total annual dividend on the preferred shares?
- (a) \$10,000
 - (b) \$20,000
 - (c) \$150,000
 - (d) \$300,000
20. At December 31, 2012, Gem Garments Inc. has 10,000, \$5, cumulative preferred shares issued. If the board of directors declares a \$40,000 dividend at this date
- (a) the company will still owe the preferred shareholders \$10,000 and should record a dividend payable for this amount.
 - (b) the company will never owe the preferred shareholders anything further for this dividend.
 - (c) \$10,000 will be disclosed as dividends in arrears in the notes to the financial statements.
 - (d) the company still has to pay the preferred shareholders \$50,000, regardless of what amount was declared.

PROBLEM 2 Accounting for receivables (21 marks; 38 minutes)

Yolo Ltd. sells widgets. The company uses the percentage of accounts receivable method to estimate uncollectible accounts receivable. At December 31, 2011 (the company's fiscal year end) management estimated that 5% of accounts receivable were doubtful of collection. The balance of accounts receivable was \$5,000,000 as at December 31, 2011. Because of improving general economic conditions management estimated that only 3% of accounts receivable were doubtful of collection as at December 31, 2012.

All sales are made on credit, with terms 2/10 net 30. Sales in 2012 were \$80,000,000. During 2012 the company collected \$78,000,000 cash from its customers. This amount includes \$56,000,000 cash from customers who took advantage of the discount (*hint: work "backwards" to determine how much these customers originally owed*).

During 2012 two of Yolo's customers went bankrupt. These customers owed Yolo \$300,000 in total, and management wrote off their receivables.

Required:

- 1) How much was the balance in Allowance for Doubtful Accounts as at December 31, 2011? Also, how much was the net realizable value of accounts receivable as at December 31, 2011? **(2 marks)**
- 2) Show, in proper form, summary journal entries for 2012 to record sales, collections, and the write-off. Omit narratives. *Please skip a line between entries.* **(4 marks)**
- 3) How much is the balance in Accounts Receivable as at December 31, 2012? **(2 marks)**
- 4) Show, in proper form, the journal entry to record bad debts expense for 2012. **(3 marks)**
- 5) How much is the net realizable value of accounts receivable as at December 31, 2012? **(2 marks)**
- 6) Compute the accounts receivable turnover ratio and average collection period for 2012. Do you think the firm is doing a good job managing receivables? Explain briefly. **(3 marks)**
- 7) Answer this requirement independently of all others. Assume that the firm recovered in cash a customer's account for \$5,000 which had previously been written off. Show, in proper form, the journal entry to record the recovery. **(2 marks)**
- 8) An intern in Yolo's accounting department thinks it would be preferable to use the aging of accounts receivable method to estimate uncollectible accounts, instead of the percentage of accounts receivable method. Do you agree with the intern? Explain briefly, being sure to define the aging method as part of your explanation. **(3 marks)**

PROBLEM 3 Accounting for long-term assets (15 marks; 27 minutes)

This question has four independent parts.

Part 1

The management of Randee Ltd. is reviewing the firm's intangible assets for possible impairment. The following information is available as at December 31, 2012. A trademark with a cost of \$100,000 and accumulated amortization of \$10,000 has an estimated recoverable amount of \$80,000. Goodwill with a carrying amount of \$60,000 has an estimated recoverable amount of \$70,000.

Required:

- a) Is the trademark impaired? If so, show the necessary journal entry. If not, how do you know?
- b) Is the goodwill impaired? If so, show the necessary journal entry. If not, how do you know?

(3 marks)

Part 2

On January 1, 2010, Claire Ltd. paid \$200,000 for a machine which has an estimated useful life of ten years and an estimated residual value of \$10,000. This machine is depreciated using the *double-diminishing-balance method*.

Required:

Assume that depreciation has been correctly calculated and recorded up to December 31, 2012. Prepare the journal entry to record the disposal of this machine if Claire Ltd. sold it for \$154,000 cash on January 1, 2013. **(4 marks)**

Part 3

On January 1, 2008, Billy Ltd. paid \$100,000 for a machine which had an estimated useful life of fifteen years and no residual value. The machine is depreciated using the *straight-line method*. On July 1, 2013, Billy Ltd. spent \$30,000 cash to replace a major component of the machine. After this major replacement, Billy's management concluded that the machine's original estimated useful life increased by five years, and that residual value would be \$5,000.

Required:

How much is the depreciation expense for 2013, assuming the *straight-line method* is still used? No journal entries are requested. **(5 marks)**

Part 4

On July 1, 2009, Rudolph Corp. paid \$120,000 for a truck which has an estimated useful life of 250,000 kilometers and an estimated residual value of \$20,000. The truck is depreciated using the *units-of-production method*. The truck had been driven a total of 210,000 kilometers from 2009 to 2011, and 50,000 kilometers in 2012. (All figures are correct, there is no "typo".)

Required:

Show the journal entry to record depreciation expense for 2012. **(3 marks)**

PROBLEM 4 Preparation of cash flow statement (24 marks; 43 minutes)

Below are the summary balance sheets for Jones Ltd. at Dec. 31, 2012 and 2011, respectively:

	<u>2012</u>	<u>2011</u>
Cash	\$157,000	\$178,000
Accounts Receivable	57,000	65,000
Merchandise Inventory	66,000	10,000
Prepaid Operating Expenses	22,000	55,000
Land	17,000	0
Equipment	821,000	694,000
Accumulated Depreciation	(210,000)	(170,000)
Total Assets	\$930,000	\$832,000
Accounts Payable	\$57,000	\$484,000
Income Taxes Payable	27,000	20,000
Note Payable, due 2015	95,000	0
Common Shares	160,000	25,000
Retained Earnings	591,000	303,000
Total Liabilities and Equity	\$930,000	\$832,000

The income statement for 2012 is shown below:

Sales	\$8,100,000
Cost of Goods Sold	<u>4,800,000</u>
Gross Profit	3,300,000
Operating Expenses (<u>includes</u> depreciation of \$45,000)	<u>2,700,000</u>
Operating Income	600,000
Interest Expense	4,000
Gain on Disposal of Equipment	<u>6,000</u>
Earnings before Income Taxes	602,000
Income Tax Expense	<u>250,000</u>
Net Earnings	<u><u>\$352,000</u></u>

Additional information related to events in 2012:

- 1) Equipment was acquired for \$135,000 cash. Also, certain equipment was disposed of in exchange for cash (the amount can be derived).
- 2) Land was acquired in exchange for common shares. No land was sold during 2012.
- 3) Jones declared and distributed a \$25,000 common stock dividend.
- 4) Accounts payable relates only to transactions with suppliers of merchandise inventory.

Required (Show calculations, where applicable):

- 1) Prepare in good form a complete cash flow statement (all sections) for the year 2012. Use

the indirect method for the operating section of the statement. Include a note that describes any non-cash investing and financing activities. **(16 marks)**

- 2) How much cash was paid for operating expenses in 2012? How much cash was paid to suppliers of merchandise inventory in 2012? **(4 marks)**
- 3) Comment on the company's ability to manage cash during 2012. Be specific. **(4 marks)**

PROBLEM 5 Accounting for bonds (20 marks; 36 minutes)

TGE Limited is a large Canadian company with an excellent credit rating. The company issued 4% (annual coupon rate), \$12,000,000 face value debenture bonds on January 1, 2012. The bonds mature on December 31, 2021 and are callable at any time at 115 (i.e., at 115% of face value). Interest is paid semi-annually on July 1 and December 31, respectively. The market rate at the time of issuance was 6% per annum.

For your information, the present value tables are shown on the next page.

Required (Show details of all calculations; ignore closing entries):

- a. Calculate the Bonds' Issuance Price. **(3 marks)**
- b. Were the debentures issued at par, a discount or a premium? Explain. **(1 mark)**
- c. Show the journal entry that TGE would make on January 1, 2012 to record the issuance of the bonds. **(2 marks)**
- d. Assume that TGE uses the effective interest method to amortize bond discount or premium. Show the journal entries that TGE would make on July 1, 2012 and December 31, 2012 in respect of the bonds (two entries). **(8 marks)**
- e. Assume that TGE uses the effective interest method to amortize bond discount or premium. Assume also that TGE exercises its call privilege and redeems 50% of the bonds on January 1, 2013. Show the journal entry that TGE would make to record this early redemption of bonds. **(4 marks)**
- f. Give two good reasons why a firm might redeem bonds prior to their maturity date. **(2 marks)**

END OF FINAL EXAMINATION