

Department of Accountancy, John Molson School of Business
ACCO 320 – Intermediate Accounting II, Fall 2010
Dr. Kelly F. Gheyara/ Prof Trevor Hagyard

Final Examination
Monday, December 13, 2010, 19:00 - 22:00

Student Name: _____ **Student ID:** _____ **Section:** _____

Part	Marks	Proportionate Time	Score
Ques. I. Multiple Choice Questions	(26 marks)	46 minutes	
Ques. II. Pensions	(16 marks)	29 minutes	
Ques. III. Income Taxes	(19 marks)	34 minutes	
Ques. IV. Leases	(23 marks)	42 minutes	
Ques. V. Statement of Cash Flows	<u>(16 marks)</u>	<u>29 minutes</u>	
<u>TOTAL</u>	<u>100 Marks</u>	<u>180 minutes</u>	

Instructions:

1. Make sure you put your name, student ID, and section above as well as on the answer booklet AND put your ID on your desk, face up.
2. For multiple choice questions, make sure to circle the alphabet related to one answer you consider best. **Answers MUST BE on this exam booklet itself or they will not be marked.**
3. There is partial credit available on Questions II - VI. So make sure you **SHOW ALL YOUR WORK AND COMPUTATIONS.**
4. Calculators (non alphanumerical) and dictionaries are allowed; tables for time value of money are attached at the end of the exam. **One 8.5 x 11" sheet, written both sides, containing your notes maybe used during the exam.**
5. Allocate your time wisely... You have **3** hours to complete this exam. **You MUST STOP all your work** and turn in the exam when the invigilator says the time is up.
6. You MUST return (1) this document without any missing pages, (2) your answer booklet.

READ EACH PROBLEM AND THINK CAREFULLY.
GOOD LUCK!! I WISH YOU WELL...J

QUESTION I - Multiple Choice - 24 Marks)

INSTRUCTIONS: Answer **QUESTION IA and IB** on **THIS BOOKLET ONLY**. Answers written anywhere else **WILL NOT BE GRADED**.

Part 1A contains 9 questions - **Attempt ALL** questions but only your **BEST 8** answers will be counted.

Part 1B - **Attempt ALL 6** questions.

Part 1A- Multiple Choice Questions [8 x 1.5 marks each] 12 Marks

1. ABC declared and paid cash dividends in January of the current year to its common shareholders. The dividend:
 - a. will be added to the numerator of the earnings per share fraction for the current year.
 - b. will be added to the denominator of the earnings per share fraction for the current year.
 - c. will be subtracted from the numerator of the earnings per share fraction for the current year.
 - d. will be subtracted from the denominator of the earnings per share fraction for the current year.
 - e. **has no effect on the earnings per share for the coming year.**

2. Under current IFRS requirements, a contingent liability is recognized if
 - a. **the amount of the loss can be reliably estimated and it is probable that an asset has been impaired or a liability incurred as of the financial statement date.**
 - b. the amount of the loss cannot be measured reliably but it is probable that an asset has been impaired or a liability incurred as of the financial statement date.
 - c. it relates to a lawsuit commenced after the balance sheet date, the outcome of which can be reliably measured.
 - d. it relates to an asset recognized as impaired after the balance sheet date.

3. An early extinguishment of bonds payable, which were originally issued at a premium, is made by purchasing the bonds between interest dates. At the time of reacquisition
 - a. any deferred bond issue costs must be amortized up to the purchase date.
 - b. the premium must be amortized up to the purchase date.
 - c. interest must be accrued from the last interest date to the purchase date.
 - d. **all of these statements are correct.**

4. Glenn Inc. incurred an accounting and taxable loss for 2012. The corporation therefore decided to use the carry back provisions as it had been profitable up to this year. How should the amounts related to the carry back be reported in the 2012 financial statements?
 - a. The reduction of the loss should be reported as an adjustment to retained earnings.
 - b. The refund claimed should be reported as a future charge and amortized over five years.
 - c. **The refund claimed should be shown as a reduction of the loss in 2012.**
 - d. The refund claimed should be reported as revenue in the current year.

5. Smithson Ltd records an unrealized loss on short-term securities. This would result in what type of difference and in what type of future income tax?

	<u>Type of Difference</u>	<u>Future income tax</u>
a.	Reversible	Liability
b.	Reversible	Asset
c.	Permanent	Liability
d.	Permanent	Asset

6. Which of the following is a correct statement regarding one of the ASPE capitalization criteria?
- The lease transfers ownership of the property to the lessor.
 - The lease must contain a bargain purchase option.
 - The lease term is 75% or more of the leased property's estimated economic life.**
 - The fair value of the minimum lease payments is equal to 90% or more of the present value of the leased asset.
7. When preparing a statement of cash flows, an increase in accounts payable during a period would require which of the following adjustments in determining cash flows from operating activities?
- | | <u>Indirect Method</u> | <u>Direct Method</u> |
|----|------------------------|----------------------|
| a. | Increase | Decrease |
| b. | Decrease | Increase |
| c. | Increase | Increase |
| d. | Decrease | Decrease |
8. Under the immediate recognition approach, all past services costs.
- are deferred and amortized on a straight-line basis over the remaining life of the lease.
 - are expensed in the period they are incurred.**
 - recorded currently as unrecognized past service costs and amortized in the future by applying the corridor method.
 - are ignored and not recorded in the pension accounts..
9. When preparing a statement of cash flows (indirect method), an increase in ending inventory over beginning inventory will result in an adjustment to net income. Which of the four reasons stated below is *incorrect*?
- Because cash increased while sales increased.**
 - Because acquisition of inventory is an operating activity.
 - inventory purchased on credit during the period was more than inventory sold, resulting in a net cash increase.
 - cost of goods sold on an accrual basis is lower than on a cash basis.

Part 1B- Multiple Choice Questions [7 x 2 marks each] 14 Marks

10. The following information pertains to J Company's outstanding stock for 2009:

Common stock,	\$1 par, Shares outstanding, 1/1/09	10,000
	2-for-1 stock split, 4/1/09	10,000
	Shares issued, 7/1/09	5,000

Preferred stock,	\$100 par value, 7% cumulative	
	Shares outstanding, 1/1/09	4,000

What is the number of shares J should use to calculate 2009 basic earnings per share?

- | | | | |
|----|--------|----|---------------|
| a. | 20,000 | c. | 22,500 |
| b. | 25,000 | d. | 27,000 |

15. The unexpected gain or loss on plan assets in 2012 is
- a. **\$ 8,000 gain.**
 - b. \$16,400 loss.
 - c. \$63,600 gain.
 - d. \$89,400 gain.
16. The amount of unrecognized net actuarial gain amortized in 2012 is
- a. \$6,375
 - b. **\$6,250**
 - c. \$4,844
 - d. \$4,157

SOLUTION I

- | | | | |
|-----|---|-----|---|
| 1. | E | 13. | B |
| 2. | A | 14. | B |
| 3. | D | 15. | A |
| 4. | C | 16. | B |
| 5. | B | | |
| 6. | C | | |
| 7. | C | | |
| 8. | B | | |
| 9. | A | | |
| 10. | C | | |
| 11. | A | | |
| 12. | B | | |

QUESTION II - Accounting for Pensions (16 Marks)

VoikVell Corp. reports using IFRS and the deferral and amortization method in accounting for its pension plan. The accountant for VoikVell Corp has developed the following information regarding the company's defined benefit pension plan for 2012:

Current service cost	\$ 600,000
Actual return on plan assets	315,000
Contributions	1,080,000
Amortization of unrecognized past service costs	126,000
Benefits paid to retirees	72,000
Interest rate on ABO	10%
Expected rate of return on plan assets	8%

The balances for the following accounts as at December 31, 2011 were as follows:

Accrued Pension Assets/Liabilities	\$ 450,000 CR
Accrued Benefit Obligation	4,500,000 CR
Past Service Costs	750,000 DR

The Accrued Benefit Obligation was revalued on December 31, 2012 and it was estimated to be \$5,400,000.

Required:

- (1) Use the above information to identify the year-end balances in all pension-related off-balance-sheet accounts and the balance sheet account. Indicate debit/credit for all the balances and conclude whether the 2012 year-end balance sheet pension account is an accrued pension asset or liability, **Indicate credit entries by parentheses, e.g., (XX,000)**.
- (2) Prepare the journal entries to reflect the accounting for the company's pension plan for the year ending December 31, 2012.

SOLUTION II

VoikVell Corp
Pension Work Sheet—2012

General Journal Entries					Memo Entries		
	Annual Pension Expense	Cash	Accrued Pension Asset/(Liab)	Accrued Benefit Obligation	Plan Assets	Unrecognized Past Service Cost	Unrecognized Net (Gain) Loss
Bal., Dec. 31, 2011			(450,000)	(4,500,000)	3,300,000	750,000	
Service cost ¹	600,000			(600,000)			
Interest cost	450,000			(450,000)			
Expected return	(264,000)				264,000		
Amortization of PSC	126,000					(126,000)	
Contributions		(1,080,000)			1,080,000		
Benefits paid				72,000	(72,000)		
Unrecognized gain/loss ²					51,000		(51,000)
Unrecognized gain/loss ³				78,000			(78,000)
Journal entry for 2012	<u>912,000</u>	<u>(1,080,000)</u>	<u>168,000</u>				
			<u>(282,000)</u>	<u>(5,400,000)</u>	<u>4,623,000</u>	<u>624,000</u>	<u>(129,000)</u>

⁽¹⁾ $\$4,500,000 \times 10\% =$ \$450,000

⁽²⁾ $\$315,000 - (\$3,300,000 \times 8\%) =$ \$ 51,000

⁽³⁾ $\$5,478,000 - 5,400,000 =$ \$ 78,000

(b) Pension Expense	912,000	
Accrued Pension Asset/Liability		912,000
Accrued Pension Asset/Liability	1,080,000	
Cash		1,080,000

QUESTION III - Accounting for Income Taxes (19 Marks)

Section A - Current and future income taxes (12 Marks)

EltroGames Ltd, a publicly traded corporation, which follows IFRS, is in the process of preparing its financial statements for its second year of operations ending December 31, 2012. The company uses the future tax method. Pertinent information follows:

1. Accounting income before tax is \$1,500,000.
2. Depreciation on property, plant and equipment (PPE) in the books is \$150,000 and CCA claimed will be \$250,000. At the beginning of the year, the book value of the PPE was \$1,200,000.
3. EltroGames sells a product with a 2-year warranty. The estimated warranty cost is \$100 per unit. At the beginning of 2012, the balance in the warranty liability account was \$400,000. During 2012, EltroGames sold 5,000 units of the product and paid out a total sum of \$200,000 in warranty costs incurred. They expect that the adjusted warranty liability balance at the end of 2012 to be spent evenly over 2013 and 2014. At the end of 2011, EltroGames had also expected the adjusted warranty liability amount to be paid evenly over 2012 and 2013.
4. The beginning balance of the Future Income Tax Liability account related to the PPE was \$60,000. The beginning balance of the Future Income Tax Asset account related to the warranty was \$160,000.
5. The accounting income before tax included \$50,000 in entertainment expenses, of which only 50% can be deducted for income tax purposes.
6. As of the beginning of 2012, the enacted income tax rate went down from 40% to 35%.
7. On December 31, 2012, the company received three years advance rent income (for 2013 through 2015) of \$90,000, which was recorded as unearned revenue for book purposes, but which must be reported as 2012 revenue for income tax purposes.

Required:

- i] Reconcile the accounting income before tax to taxable income.
 - ii] Prepare the required income tax related journal entries for 2012.
 - iii] Prepare the bottom section of the 2012 income statement, beginning with income before income taxes.
 - iv] What are the amounts and the balance sheet classifications of the future income tax asset and future income tax liability accounts at December 31, 2012?
-

Section B - Income tax loss carryover (7 Marks)

In its first four years of operations Peridot Jewelers reported the following operating income (loss) amounts:

2006	150,000
2007	100,000
2008	(425,000)
2009	450,000

There were no other future income taxes in any year. In 2008, Peridot elected to carry back its operating loss. The enacted income tax rate, known one year in advance, was 40% for 2006-2008 and 30% for 2009.

Required:

- i] Determine the amount to be reported by Peridot in its 2009 income statement as future and current income tax expense.
- ii] Determine the amount to be reported by Peridot in its 2009 income statement as current income tax payable.
- iii] Prepare all income tax related journal entries for 2008 and 2009.

SOLUTION III
Section A

(i) Reconciliation:

Accounting income before tax		1,500,000
Add back 50% of entertainment expense		25,000
Warranty expense	500,000	
Warranty costs allowable	<u>200,000</u>	300,000
Depreciation expense	150,000	
CCA for tax purpose	<u>250,000</u>	(100,000)
Rent received in advance		<u>90,000</u>
Taxable income for 2012		<u>1,815,000</u>
Tax payable		<u>635,250</u>

(ii) Calculate the changes in future income tax assets and liabilities

Future income taxes related to PPE

Balance, Future income tax liability Dec 31/2011		60,000
Enacted tax rate in 2011		40%
Reversible difference due to PPE in 2011		150,000
Reversible difference due to PPE in 2012		<u>100,000</u>
Accumulated reversible differences end of 2012		250,000
Enacted tax rate in 2012		<u>35%</u>
Balance, Future income tax liability Dec 31/2012		<u>87,500</u>
Increase in future income tax liability in 2012		<u>27,500</u>

Future income taxes related to warranty

Reversible difference due to warranty in 2011		400,000
Enacted tax rate in 2011		<u>40%</u>
Future income tax asset Dec 31/2011		160,000
Reversible difference due to warranty in 2012		<u>300,000</u>
Accumulated reversible differences end of 2012		700,000
Enacted tax rate in 2012		<u>35%</u>
Future income tax asset Dec 31/2012		<u>245,000</u>
Increase in future income tax asset in 2012		<u>85,000</u>

Future income taxes related to unearned rent

Rent received in advance		90,000
Enacted tax rate		<u>35%</u>
Increase in future income tax asset due to unearned rent		<u>31,500</u>

Journal entries

Future income tax asset.....	116,500	
Future income tax liability		27,500
Future income tax benefit		89,000
Current income tax expense.....	635,250	
Income taxes payable.....		635,250

OR

Rate change on fixed asset TD:

FIT liability 7,500
Prov-I/T-F 7,500(150k*.4-.35)

Rate change on warranty TD:

Prov-I/T-F 20,000
FIT asset 20,000(400K*.4-.35)

CCA>depn 2012

Prov-I/T-F 35,000
FIT liability 35,000(100k*.35)

Rent 2012

FIT asset 31,500
Prov-I/T-F 31,500(90k*.35)

Warranty 2012

FIT asset 105,000
Prov-I/T-F 105,000(300k*.35)

(iii) Bottom section of the income statement for 2012

Income before tax 1,500,000
Income tax expense
 Current 635,250
 Future (89,000) (546,250)
Net income 953,750

(iv) Balance sheet presentation of future income tax accounts

Current Assets

Future income tax asset ((245,000 x 1/2) + (31,500 x 1/3)) **133,000**

Non-Current Assets

Future income tax asset ((245,000 x 1/2) + (31,500 x 2/3)) 143,500

Future income tax liability 87,500

56,000

Section B

i] Amount to be reported as income tax expense

\$450,000 x 30% = **\$135,000**

OR

2008- (425k)
LCB-06/07 250k*.4= 100k, refundable currently
LCF 175k *.3=52.5k, future refundable

2009- 450k
less LCF (175k)*.3=52.5 used future tax asset
bal. 275k*.3= 82.5 current tax expense
135k total tax expense

ii] **Amount to be reported as current income tax payable**

$$[\$450,000 - (\$425,000 - 150,000 - 100,000)] \times 40\% = \quad \mathbf{\$ 82,500}$$

iii] **Income tax related journal entries for 2008 and 2009**

2008	Income Tax Refund Receivable	100,000	
	Current Income Tax Benefit (100,000 + 150,000) x 0.4		100,000
	Future Income Tax Asset		
	Future Income Tax Benefit (425,000 - 250,000) x 0.30	52,500	52,500
2009	Current Income Tax Expense	82,500	
	Income Tax Payable (450,000 - 175,000) x 0.30		82,500
	Future Income Tax Expense	52,500	
	Future Income Tax Asset		52,500

QUESTION IV - Accounting for Leases (23 Marks)

Common Data

On January 1, 2008, Kanadair Jets Inc. enters into a four year, non-cancellable lease agreement to lease a regional jet plane to Canuk Airlines, with payments required at the end of each year. The following information relates to this agreement:

- ☞ The airplane cost Kanadair Jets \$17,600,000. On the date of the lease, it has an estimated fair market value of \$20,000,000 and a useful life of five years with a zero residual value at the end of that time due to technological obsolescence.
- ☞ Executory costs of \$132,000 annually related to the leased plane will be initially paid by Kanadair Jets and collected from Canuk Airlines.
- ☞ Annual year-end lease payments set will allow Kanadair Jets to earn an 8% return on its investment.
- ☞ When the plane will revert to Kanadair Jets at the end of the four-year period, it is estimated to carry a fair market value of \$4,000,000 though there is no guarantee from Canuk regarding this value.
- ☞ IFRS applies to Kanadair Jets and private enterprise GAAP applies to Canuk Airlines. Both companies have December 31 year ending.
- ☞ **You may round all computed amounts to the nearest dollar for this problem.**

Section A

Required: Use the data given above in the Common Data section to answer Questions (i) - (iv) for Kanadair Jets **ONLY**.

- (i) Indicate the type of lease Kanadair Jets has entered into. Support your conclusion by applying the appropriate criteria for the classification. Clearly state the criteria specified under IFRS and indicate which criteria apply.
- (ii) Determine the **total** annual instalment which Kanadair Jets seeks to receive from the lease contract.
- (iii) Prepare the lease related journal entries on the accounting books of the lessor on
January 1, 2008
December 31, 2009
- (iv) Assume that the fair market value of the plane returned by Canuk Airlines on December 31, 2011 is \$2,450,000. Prepare the journal entry to record the transaction for receiving the returned aircraft.

Section B

Required: Use the data given above in the Common Data section to answer Questions (v) - (vii) for Canuk Airlines **ONLY**.

- (v) Indicate the type of lease Canuk Airlines has entered into. Support your conclusion by applying the appropriate criteria for the classification.

- (vi) Canuk Airlines is unaware of the interest rate used by Kanadair Jets to establish the minimum lease instalments. Determine the amount for which the lease will be recorded. Canuk Airlines has been paying an interest rate of 10% per annum for its operating loans.
- (vii) Prepare the lease related journal entries on the accounting books of Canuk Airlines on
January 1, 2008
December 31, 2008

Section C

Required: Use the data given above in the Common Data section to answer Questions (viii) - (ix) in **Section C**. Also assume for this section **ONLY** that the residual value for the returned aircraft was guaranteed by Canuk Airlines. Assume the interest rates used by Kanadair Jets and by Canuk Airlines are 8% and 10% respectively.

- (viii) Determine the amount of the minimum lease instalment.
- (ix) Determine the amount at which the lease will be recorded on January 1, 2008 by Canuk Airlines.

SOLUTION IV

Section A

- i] Under IFRS, the presence of any one or a combination of the following situations will normally support classification as a finance lease:
1. There is reasonable assurance that the lessee will obtain ownership of the leased asset by the end of the lease term.
 2. The lease term is long enough that the lessee will receive substantially all of the economic benefits expected to be derived from using the leased property over its economic life.
 3. The lease allows the lessor to recover substantially all of its investment in the leased property and to earn a return on the investment
 4. The leased asset is so specialized that, without major modification, it would be of use only to the lessee.

Both #1 and #3 apply here, and since only one criterion has to be satisfied, this is a **capital lease**, and would be classified as a “**manufacturers lease**” for Kanadair.

- ii] **Total annual instalment which Kanadair Jets seeks to receive from the lease contract**

Fair Value of plane	\$20,000,000	
Less: PV of residual value	<u>(2,940,120)</u>	[0.73503 x 4,000,000]
Recoverable principal	<u>\$17,059,880</u>	
PV Factor, Ordinary Annuity	3.31213	
Annual Lease Instalment	\$ 5,150,728	[17,059,880 / 3.31213]
Add: Executory costs recovered	<u>132,000</u>	
Total Annual Instalment	<u>\$ 5,282,728</u>	

- iii] **Lease related journal entries**

January 1, 2008:

Lease Payments Receivable	24,602,912	
Cost of Sales	14,659,880	[(5,150,728 x 4) + 4,000,000]
Sales	17,059,880	[17,600,000 - 2,940,120]
Inventory	17,600,000	[20,000,000 - 2,940,120]
Unearned Interest Income	4,602,912*	[24,602,912 - 20,000,000]

***Rounding Error: \$22**

December 31, 2009:

Cash	5,282,728	
Lease Payments Receivable	5,150,728	
Executory Costs	132,000	
Unearned Interest Income	1,315,942	
Interest Income	1,315,942	

- iv] **Journal entry to record the receiving of the returned aircraft**

Inventory	2,450,000	
Loss on Leased Aircraft	1,550,000	
Lease Payments Receivable	4,000,000	

Section B

v] **Type of lease Canuk Airlines has entered into**

This is a capital lease to Canuk since the lease term is 80% ($4 \div 5$) of the asset's economic life. In addition, the present value of the minimum lease payments is more than 90% of the fair value of the asset.

vi] **The amount for which the lease will be recorded by Canuk Airlines**

Minimum Lease Instalment	\$ 5,150,728
Present Value, Ordinary annuity, 10%	<u>3.16986</u>
Capitalized Value	<u>\$16,327,087</u>

(vii) **Lease related journal entries on the accounting books of the lessee on**

January 1, 2008

December 31, 2008

January 1, 2008

Leased Aircraft	16,327,087	
Lease Obligation		16,327,087

December 31, 2008

Interest Expense	1,632,708	[0.1 x 16,327,087]
Lease Obligation	3,518,020	[5,282,728 - 1,632,708]
Executory Costs	132,000	
Cash		5,282,728
Amortization Expense	4,081,772	[16,327,087 / 4]
Acc. Amortization - Aircraft		4,081,772

Section C

(viii) Determine the amount of the minimum lease instalment.

Same as in (ii) above: **\$5,150,728**

(ix) Determine the amount at which the lease will be recorded on January 1, 2008 by Canuk Airlines.

Minimum Lease Instalment	\$ 5,150,728
Present Value, Ordinary annuity, 10%	<u>3.16986</u>
Capitalized Value	<u>\$16,327,087</u>
Guaranteed Residual Value	4,000,000
Present Value, Single Amount, 10%	<u>0.68301</u>
Present Value, Guaranteed Residual Value	<u>\$ 2,732,040</u>
Capitalized Value	<u>\$19,059,127</u>

QUESTION V - Statement of Cash Flows (16 Marks)

Section A - Statement of Cashflows – Indirect Method (10 marks)

The HalVeen Corporation reports under PE GAAP and it reported *net changes* in the balance sheet data for the calendar year 2012 as follows:

Account	Debit	Credit
Cash	\$ 92,000	
Temporary investments		\$121,000
Accounts receivable	59,900	
Inventory	74,200	
Prepaid expenses		22,800
Long term investment (100% owned subsidiary)		20,000
Plant and equipment	235,000	
Accumulated depreciation		155,000
Accounts payable	80,700	
Accrued liabilities		16,500
Future income tax liability	15,500	
Long term bonds		80,000
Common shares		240,000
Retained earnings	<u>98,000</u>	
	<u>\$655,300</u>	<u>\$668,300</u>

Other information regarding the corporation's 2012 year:

An analysis of the Retained Earnings account shows the following:

Retained earnings, December 31, 2011		\$1,300,000
Add: Net income		<u>287,000</u>
Subtotal		1,587,000
Deduct: Cash dividend	\$(145,000)	
Stock dividend	<u>(240,000)</u>	<u>(385,000)</u>
Retained earnings, December 31, 2012		<u>\$1,202,000</u>

1. On January 2, 2012, temporary investments costing \$121,000 were sold for \$150,000.
2. The company paid the cash dividend February 1, 2012, and distributed the stock dividend on August 1, 2012.
3. Accounts receivable of \$16,200 and \$19,400 were considered uncollectible and written off in 2012 and 2011, respectively.
4. Major repairs of \$25,000 to the equipment were debited to the Plant and Equipment account during the year.
5. The 100% owned subsidiary reported a net loss for the year of \$20,000.
6. At January 1, 2012, the cash balance was \$136,000.
7. Long term bonds were sold at par.

Required:

Prepare a cash flow statement for 2012 in good form using the indirect method.

SOLUTION V

Section A

Statement of Cash Flows Year ended December 31, 2012

Cash provided by operating activities		
Net income		\$287,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity investment loss	\$ 20,000	
Depreciation expense	155,000	
Gain on sale of temporary investments	(29,000)	
Decrease in future income tax liability	(15,500)	
Increase in accounts receivable	(59,900)	
Increase in inventory	(74,200)	
Decrease in prepaid expenses	22,800	
Decrease in accounts payable	(80,700)	
Increase in accrued liabilities	<u>16,500</u>	<u>(45,000)</u>
Cash provided by operating activities		242,000
 Cash flows provided by (used in) investing activities		
Sale of temporary investments	150,000	
Purchase of plant and equipment	(210,000)	
Major repairs to equipment	<u>(25,000)</u>	
Net cash provided by (used in) investing activities		(85,000)
 Cash provided by (used in) financing activities		
Payment of cash dividend	(145,000)	
Sale of bonds	<u>80,000</u>	
Net cash provided by (used in) financing activities		<u>(65,000)</u>
Net increase in cash		92,000
Cash, January 1, 2012		<u>136,000</u>
Cash, December 31, 2012		<u>\$228,000</u>