CONCORDIA UNIVERSITY
John Molson School of Business
Department of Accountancy

(Read this page carefully before you begin)

Course:	Introduction to Financial Accounting
Number:	ACCO 230.2 (all sections)
Sections:	AA (Professor T. Nowak) A (Professor H. Tadros) B (Professor S. Mroz)
Examination:	FINAL (3 hours)
Date:	December 15, 2010
No. of pages:	EIGHT (8), including this page. Ensure your copy is complete.
Materials allowed:	Non-programmable / non-graphical calculators, and one ordinary dictionary, i.e., not electronic. Pens, pencils, rulers, erasers.

IMPORTANT INSTRUCTIONS

- Answer Problem 1 (multiple-choice and fill-in-the-blanks) directly on this questionnaire, and not in the examination copybook (booklet).
- Show the answers for Problems 2, 3, 4 and 5 in the examination copybook (booklet) only. You may answer Problems 2, 3, 4 and 5 in any order you choose.
- Show details of all calculations, except for the multiple-choice questions and the first "fill-in-the-blanks" exercise (page 3).
- You may answer this entire exam in either pencil or ink (your choice).
- Invigilators will not answer any queries, unless you think there is actually an error in the exam.

Problem No.	Marks	Suggested time
1	23	33 mins.
2	19	36 mins.
3	17	33 mins.
4	23	44 mins.
5	18	34 mins.
	100	180 mins.

NAME (Last, then first) -- please print clearly ____

ID ____________________ **Section** _______

Problem 1 (23 marks; 33 minutes)

Part A (9 marks) *Multiple-choice*

For each of the following multiple-choice questions, **circle** the letter that corresponds to the best answer (avoid "overlaps").

1. The control activity related to not having the same person authorize and pay for goods is known as
   (a) segregation of duties.
   (b) independent checks of performance.
   (c) authorization of transactions and activities.
   (d) human resource controls.

2. During 2009 Y Ltd. incurred a net loss of $50,000 and issued $10,000 of common shares. On the company's balance sheet as at December 31, 2009 Y Ltd. showed total assets of $150,000. Which of the following statements is true if total liabilities increased by $20,000 during 2009?
   (a) Total assets at the *end of 2008* (not a "typo") were $210,000.
   (b) Total assets at the *end of 2008* (not a "typo") were $90,000.
   (c) Total assets at the *end of 2008* (not a "typo") were $170,000.
   (d) None of the above.

3. For X Ltd. purchases in 2010 are understated but the physical inventory at the end of 2010 is correct. What are the respective effects of this error on the following amounts in 2010?

	Gross profit	Cost of Goods Available for Sale
a.	Overstated	Understated
b.	Overstated	Overstated
c.	Understated	Overstated
d.	Understated	Understated

4. It was discovered that the bookkeeper for X Ltd. had recorded a $714 payment to a supplier on account (i.e., already recorded as Accounts payable) as follows: Dr. Accounts receivable $714; Cr. Cash $714. As a result of this entry
   (a) Accounts receivable is overstated by $714 and Accounts payable is overstated by $714.
   (b) Accounts payable is overstated by $714 and Accounts receivable is understated by $714.
   (c) Accounts payable is understated by $714 and Accounts receivable is understated by $714.
   (d) Accounts receivable is overstated by $714 and Accounts payable is understated by $714.

5. A repair shop received $65,430 cash in advance for repair services to be performed in the future. Cash was debited for $65,430 and Unearned Revenue was credited for $65,430 when the cash was received. If one-half (50%) of the repairs were actually completed by the end of the accounting period and no adjusting entry is made, this would cause

(a) Assets to be overstated and shareholders' equity to be understated.
(b) Shareholders' equity to be understated and liabilities to be overstated.
(c) Liabilities to be overstated and assets to be understated.
(d) None of the above.

6. If a company presently has a current ratio of 1.30, what will be the <u>respective</u> effects of the following two assumed transactions on the current ratio?

	Early Repayment of Long-term Bank Loan	Payment of Accounts Payable
(a)	Worsens	Improves
(b)	Worsens	No effect
(c)	Worsens	Worsens
(d)	No effect	Worsens

Part B (7 marks) *Impact of an inventory error*

Renko Lurch Ltd. uses a periodic inventory system. In its physical inventory count at December 31, 2009 the company erroneously *excluded* inventory that it, in fact, owned. The physical inventory count was, however, correct at the end of 2010. Assume the error has <u>not</u> been discovered. Indicate the effect of this error on the following selected financial statement items (*understated (U), overstated (O), or no effect (NE)*). The income tax rate is the same for both years. A blank answer will be considered incorrect.

	Beginning Inventory	Income Tax Expense	Net Earnings	Ending Retained Earnings	Ending Inventory	Days in Inventory	Net Sales
2009							
2010							
	//////////////	////////////////	//////////////	////////////////	//////////////////	////////////////	///////////////

Problem 1, continued

Part (C) (7 marks) *Fill in the blanks --- depreciation methods*

The comptroller of Wicker Cline Ltd. has asked for your help in assessing the impact of three widely used depreciation methods. Wicker Cline acquired a new machine for $150,000 on June 1, 2010. The estimated useful life is ten years, and the residual value is expected to be $10,000. The machine is expected to produce 8,000 units in *each* of the first eight years, and 5,500 units in *each* of the final two years. She has instructed you to complete the following schedule and use judgment when rounding. The company's fiscal year coincides with the calendar year.

Straight-line depreciation method is assumed:

Year	Depreciation expense	Carrying amount at end of year
2010	________________	________________________
2011	________________	________________________

Units-of-production depreciation method is assumed:

Year	Depreciation expense	Carrying amount at end of year
2010	________________	________________________
2011	________________	________________________

Double-diminishing-balance depreciation method is assumed:

Year	Depreciation expense	Carrying amount at end of year
2010	________________	________________________
2011	________________	________________________

Show calculations here, and on the back of this page if more space is required:

Problem 2 (19 marks; 36 minutes)

Find below selected (not all) transactions for Boccabella Corporation during 2010, the firm's first year of operations. The company uses a periodic inventory system.

Jan.	1	Issued 20,000 common shares at $25 cash per share.
Jan.	2	Purchased a trademark with an indefinite life for cash, $53,980.
Jan.	31a	Acquired equipment in exchange for 2,000 common shares at a time when the market price per share was $22. The estimated useful life of the equipment is three years, no residual value.
Jan.	31b	Paid $3,000 cash for transportation of the equipment.
May	8	Purchased merchandise inventory for cash, $11,900. This amount includes freight charges of $650 incurred by Boccabella.
June	15	Reacquired and cancelled 1,500 common shares for $27 cash per share.
Sept.	30	The Board of Directors declared a 10% common stock dividend. The shares will be distributed (issued) on October 30. The market price of the common shares was $23 per share on September 30.
Oct.	30	The common stock dividend is distributed.
Nov.	25	The Board of Directors declared a cash dividend of $0.40 per share, payable on December 20.
Dec.	1	Borrowed $200,000 from the Mauch McHale Bank (MMB). The ten-year loan carries an annual interest rate of 6%. A blended payment of $2,220 is due at the end of each month. *(Students are expected to know what the term "blended payment" means, and how it is applied.)*
Dec.	20	Paid the cash dividend.
Dec.	31a	Recorded depreciation on the equipment, using the double-diminishing-balance method. No previous entries were made for depreciation.
Dec.	31b	Made the blended payment of $2,220 to MMB.
Dec	31c	Sold the equipment for $19,475 cash because it will be replaced by leased equipment.
Dec.	31d	Management estimates the recoverable amount of the trademark to be $35,000.

Required (Show calculations, where applicable)

Prepare journal entries for the above events. If no entry is necessary, write "no entry". Narratives are not required. Please skip a line between each journal entry.

Problem 3 (17 marks; 33 minutes) *Accounting for bonds*

Stoney Ltd**.** issued $31,360,000 face value debentures on February 1, 2010 and received $32,425,600 cash from bond investors as a result. The annual contractual (coupon) rate is 8.5%, and interest must be paid semi-annually on July 31 and January 31, respectively. The bonds mature on January 31, 2020. The annual market rate was 8% for similar bonds at the time of issuance. Stoney's fiscal year ends on January 31. Stoney uses the direct method to report cash from operations.

Required (Show calculations, where applicable)

1. Show the journal entry to record the issuance of the bonds, February 1, 2010. (1.5 marks)

2. Assume that Stoney Ltd. uses the effective interest method, in accordance with IFRS. Show the journal entry to record interest on the first interest date, July 31, 2010. (There were no previous entries in respect of interest.) (2.5 marks)

3. On August 1, 2010 Stoney Ltd. redeems 10% (one-tenth) of face value bonds for cash at 99. Show the journal entry to record this early redemption of bonds. Ignore any accrued interest for the one day (August 1). *(At "99" is a term students are expected to understand.)* (3.5 marks)

4. The comptroller has asked you to tell her the immediate impact (*better, worse, no effect, or unknown based on given facts)* on the following financial measures as a result of the early redemption of bonds per Requirement (3), above. Calculations are not required.
   (a) Free cash flow
   (b) Current ratio
   (c) Gross profit margin ratio
   (d) Asset turnover ratio
   (e) Cash total debt coverage ratio
   (f) Earnings per share (EPS)
   (g) Return on assets ratio
   (h) Debt to total assets ratio (4 marks)

5. Assume there are no other early redemptions, i.e., just the early redemption per Requirement (3), above. Answer the following questions based on this assumption.

   (a) How much interest will be paid to bondholders on January 31, 2011? Journal entries are not required. (1.5 marks)

   (b) How much interest expense will be incurred in total for the period February 1, 2010 to January 31, 2020? Journal entries are not required. (4 marks)

Problem 4 (23 marks; 44 minutes) *Preparation of Cash flow statement*

Below are the summary balance sheets for Jones Ltd. at Dec. 31, 2010 and 2009, respectively:

	2010	2009
Cash	$137,000	$178,000
Accounts receivable	57,000	45,000
Merchandise inventory	67,000	30,000
Prepaid operating expenses	42,000	55,000
Land	17,000	0
Equipment	820,000	694,000
Accumulated depreciation	(210,000)	(170,000)
Total Assets	$930,000	$832,000
Accounts payable	$ 47,000	$584,000
Income taxes payable	37,000	20,000
Note payable, due 2013	91,000	0
Common shares	160,000	25,000
Retained earnings	595,000	203,000
Total Liabilities and Equity	$930,000	$832,000

The income statement for 2010 is shown below:

Sales	$8,100,000
Cost of goods sold	4,500,000
Gross profit	3,600,000
Operating expenses (includes depreciation of $43,000)	2,700,000
Operating income	900,000
Interest expense	4,000
Loss on disposal of equipment	1,000
Earnings before income taxes	895,000
Income tax expense	423,000
Net earnings	$ 472,000

Additional information related to events in 2010

1. Equipment was acquired for $134,000 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 2010.
3. Jones declared and distributed a $15,000 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 2010. 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 2010? How much cash was paid to suppliers of merchandise inventory in 2010? (4 marks)

3. Comment on the company's ability to manage cash during 2010. Be specific. (3 marks)

<u>Problem 5</u> (18 marks; 34 minutes) *Accounting for receivables and bad debts*

During 2010 the following selected summary transactions occurred for Bateman & Brand Ltd:

1. Sales, $17,000,000 -- of which 90% were on account, terms 3/10 n/30.

2. Sales returns and allowances, $150,000 -- all related to credit customers and all made within five days of the related date of sale.

3. Cash collections of $15,306,600 from credit customers. Because of the very attractive credit terms all of these customers paid within the discount period.

4. Interest added to overdue accounts, $2,000.

5. Write-offs of accounts receivable deemed uncollectible, $7,000.

6. Cash recoveries of accounts receivable previously written off, $1,000.

<u>Additional information</u>

- Net realizable value of Accounts receivable, December 31, 2009, was $1,485,000. This represents 99.0% of Accounts receivable as at December 31, 2009.

- Estimated uncollectible accounts receivable according to an aged analysis of accounts receivable, December 31, 2010 is $17,000.

<u>Required</u> (Show calculations, where applicable)

a. Prepare journal entries for summary transactions 1 to 6, above. (7 marks)

b. Prepare the adjusting journal entry to record bad debts expense for 2010. (Hint: first update *Allowance for doubtful accounts* for transactions affecting that account in 2010.) (3 marks)

c. Show, in good form, how accounts receivable would be presented on the company's comparative balance sheet as at December 31, 2010. (3 marks)

d. Calculate the accounts receivable turnover ratio for 2010. What does your result suggest about the firm's ability to manage accounts receivable during 2010? Be specific. (3 marks)

e. If cost of goods sold averages 40% of net sales, how much was the gross profit dollar amount in 2010? A statement of earnings is not required. (2 marks)

End of the final examination