

Intermediate 1 Final Exam Review Questions

Cash and Receivables

Question 1

MNS Incorporated generated \$3.0 million in credit sales during the current year. Based on past experience, it is estimated that 2.5% of all credit sales will prove to be uncollectible. The balance of the allowance for doubtful accounts at December 31 is \$7,000 credit before the year end adjustment for uncollectible accounts. Accounts receivable at December 31 consists of the following:

<u>Account Classification</u>	<u>Amount</u>
Current	\$2,650,000
1-30 days past due	150,000
31-60 days past due	110,000
61-90 days past due	60,000
Over 90 days past due	30,000

Required:

- a. Calculate bad debts expense and record the related journal entry for the current year using the percentage of credit sales method.

Question 2

The trial balance before adjustment of MNS Company reports the following balances:

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Accounts receivable	\$100,000	
Allowance for doubtful accounts		\$ 2,000
Sales (all on credit)		650,000
Sales returns and allowances	40,000	

Required

- A. Prepare the entries for estimated bad debts assuming that doubtful accounts are estimated to be (1) seven percent of gross accounts receivable and (2) one percent of net sales.

- B. Assume that all the information above is the same, except that the Allowance for Doubtful Accounts has a debit balance of \$2,000 instead of a credit balance. How will this difference affect the journal entries in part (a)?

Inventory

Question 1

MNS Inc. had the following transactions:

March 10 – Purchased merchandise on account, \$10,000, terms 2/10, n/30.

March 17 – Returned part of March 10 purchase worth \$3,000, and received a credit on account.

April 1 – Remitted payment for March 10 purchase.

- A) Assume MNS Inc. records purchases at net amounts and uses a perpetual inventory system. Prepare the journal entries to record the transactions.
- B) Assume MNS Inc. records purchases at gross amounts and uses a physical/periodic inventory system. Prepare the journal entries to record the transactions.

Question 2

MNS Corporation is a supplier of beer nuts. The company uses FIFO. All purchases are made on account. During the month of December 2012, MNS inventory records showed the following transactions:

Date	Transaction	Nuts Purchased	Nut Cost	Nuts Sold	Nut Selling Price
Dec-1	Op. balance	600	\$0.12		
Dec-10	Purchase	700	\$0.10		
Dec-15	Sale			(900)	\$1.20
Dec-28	Sale			(300)	\$1.20
Dec-31	Purchase	400	\$0.09		

Instructions:

- (a) Assuming that MNS uses a perpetual inventory system, prepare the journal entries for each of the above listed transactions.
- (b) Assuming that MNS uses a periodic inventory system, prepare the journal entries for each of the above listed transactions.
- (c) What would be the difference in COGS and EI between parts (a) and (b)?
- (d) What other costing formula could MNS be using instead of FIFO? Would there be an advantage to doing so?

Question 3

On December 31, 2012 the entire inventory of the MNS Corporation was destroyed by a fire. Sales and purchases for the year had been \$2.0 million and \$1.2 million, respectively. The beginning inventory was \$450,000, and in the past MNS gross profit has averaged 30% of selling price.

Instructions:

Calculate the estimated cost of inventory destroyed, and give entries as of December 31, 2012 to close merchandise accounts.

Question 4

At December 31, 2010, MNS Ltd. Has outstanding non-cancellable purchase commitments for 45,500 litres of raw material at \$3.25 per litre. The material will be used in MNS' manufacturing process, and the company prices its raw materials inventory at cost or NRV, whichever is lower.

Instructions:

- a) Assuming that market price as at December 31, 2010, is \$3.55 per litre, how would this commitment be treated?
- b) Assuming that the market prices as at December 31, 2010, is \$2.60 per litre instead of \$3.55, how you treat this commitment?
- c) Prepare the entry for January 15, 2011, when the entire shipment is received, assuming that the situation in (b) existed at December 31, 2010, and that the market price in January 2011 is \$2.60 per litre. Explain your treatment.

Question 5

MNS Farms Inc. grows Christmas trees. It normally takes 12 years for a tree to grow to a suitable size, and the average selling price of a tree is \$24. The biggest costs to the business are pest control, fertilizer, and pruning trees over the 12-year period. These costs average \$12 per tree.

Instructions

- a) Assume that the fair value of each tree at the end of 2010 is \$8 and the opening value was \$5. Prepare the journal entries if the costs are capitalized each year.
- b) Assume that the fair value of each tree at the end of 2010 is \$8 and the opening value was \$5. Prepare the journal entries if the costs are expensed each year.

Investments

Question 1

1. A bond that will mature in four years was bought one month ago when the price dropped. As soon as the value increases, which is expected next month, it will be sold.
2. Ten percent of the outstanding shares of MNS Corp. were purchased. The company is planning on eventually getting a total of 30% of the outstanding shares.
3. Bonds that will mature in five years are purchased. The company would like to hold them until they mature, but money has been tight recently and the bonds may need to be sold.
4. A bond that matures in 10 years was purchased with money that the company has set aside for an expansion project that is planned for 10 years from now.

Required

Each of the securities above is independent of the others and active quoted markets exist for the securities. Identify the best accounting model classification(s) [Amortized Cost; Cost, FV/Ni; FV/OCI], according to IFRS 9 for each of the securities described above.

Question 2

On January 1, 2011, MNS Inc. paid \$108,425 to acquire \$100,000 face value 8% bonds of Lamont Corporation to yield 6%. The bonds were dated January 1, 2011, and mature on December 31, 2015, with interest payable each January 1. The bonds had a fair value of \$110,000 on December 31, 2011. Assume effective interest method.

Instructions:

Assuming the FV/Ni model is applied, prepare the following entries in the books of MNS:

- (a) Acquisition of bonds on January 1, 2011
- (b) The year-end adjusting entries at December 31, 2011
- (c) The receipt of the first interest payment on January 1, 2012

Question 3

On January 1, 2011, MNS Limited purchased 2,500 shares (25%) of the common shares of Novotna Corp. for \$355,000. MNS uses the equity method to account for this investment. At the date of acquisition, the following additional information relates to the identifiable assets and liabilities of Novotna:

Carrying Amount

Fair Value

Assets not subject to depreciation	\$ 500,000	\$ 500,000
Assets subject to depreciation (10 years remaining)	800,000	860,000
Total identifiable assets	1,300,000	1,360,000
Liabilities	100,000	100,000

During 2011 Novotna reported the following information on its income statement:

Income before discontinued operations:	\$200,000
Discontinued Operations (net of tax)	70,000
Net Income	270,000
Dividends Declared and paid by Novotna Corp	120,000

Required

Calculate the acquired goodwill and prepare all journal entries MNS should make in 2011 regarding its investment in the Novotna shares.

Question 4

On May 1, 2011, MNS Inc. purchased \$120,000 of 5% bonds for \$124,000 plus accrued interest as a held-to-maturity investment. Interest is paid on July 1 and January 1 and the bonds mature on July 1, 2016. MNS uses the amortized cost model to account for this investment.

Instructions:

- Prepare the journal entry on May 1, 2011.
- The bonds are sold on November 1, 2012 at 103 plus accrued interest. Amortization was recorded when interest was received by the straight-line method. Prepare all entries required to properly record the sale.

Question 5

MNS Company has the following securities in its portfolio of temporary investments on December 31, 2011:

	<u>Cost</u>	<u>Market</u>
16,000 shares of M Corp., Common	\$160,000	\$139,000
10,000 shares of N Corp., Common	<u>182,000</u>	<u>185,000</u>
	<u>\$342,000</u>	<u>\$324,000</u>

All of the securities had been purchased in 2011. In 2012, MNS completed the following securities transaction:

April 1 Bought 600 shares of S Corp., Common @ \$50 plus fees of \$550.

The MNS portfolio of trading equity securities appeared as follows on December 31, 2012:

	<u>Cost</u>	<u>Market</u>
16,000 shares of M Corp. Common	\$139,000	\$156,000
10,000 shares of N Corp., Common	185,000	198,500
600 shares of S Corp., Common	<u>30,550</u>	<u>25,500</u>
	<u>\$354,550</u>	<u>\$380,000</u>

Instructions

Assuming MNS uses the FV-NI method, prepare the general journal entries for MNS Company for:

- (a) the 2011 year-end adjusting entry.
- (b) the purchase of the S Corp. shares.
- (c) the 2012 year-end adjusting entry.

Property, Plant, and Equipment

Question 1

MNS Company is an Ottawa-based manufacturer of automobile parts. In early January 2011, the company acquired land and a building to be used as the company's new head office. MNS issued a \$2,000,000, four-year non-interest bearing note to the seller. Payment is to be made in four equal installments of \$500,000 at the end of each year. As a result of a depressed real estate market, the fair value of the building cannot be readily determined. However, it has been ascertained that, given MNS Co's credit rating and market conditions, an interest rate of 8% would properly reflect the substance and credit risk of the negotiated payment schedule.

Other information:

One third (1/3) of the total value of the acquisition is attributable to the land.

The building is expected to have a useful life of 25 years.

Throughout the year, the company incurred maintenance costs in the amount of \$69,000.

A parking lot was built at a cost of \$150,000. The work was completed on July 1 and is expected to have a useful life of 10 years.

The company uses straight-line depreciation for all its PP&E assets.

Instructions

Prepare all journal entries that are required to record the above events and transactions.

Question 2

In 2012, MNS Company exchanged equipment for two trucks. The equipment had been purchased for \$120,000 fifteen years ago and has since been fully depreciated. While the equipment was recently appraised at \$19,000, a reliable valuation for the trucks was not available.

Instructions

Prepare the required entry to record the exchange.

Question 3

MNS Inc traded one of its used trailers (cost \$40,000, net book value \$8,000) for another used trailer worth \$8,800. MNS also pays \$800 in the transaction. Prepare the journal entry to record the exchange assuming the transaction lacks commercial substance.

Question 4

MNS Motels Inc. owns a motel that it had purchased on January 1, 2010 for \$3,000,000. The cost applicable to the basic structure of the motel is \$2,000,000 and is accounted for in a separate account, classified as "structures". The company is using the revaluation model to account for its structures and revalues them annually. MNS takes straight-line depreciation over the asset's 20-year useful life with no residual value.

The asset's fair values were as follows:

Dec-31-2010: Equal to its book value.

Dec-31-2011: \$1,450,000.

Instructions

Assuming MNS uses the accumulated depreciation account in its revaluation, prepare all required journal entries for 2010 and 2011.

Question 5

On January 20, 2011, MNS Corp. purchased a luxury apartment complex in Calgary for \$10 million. In addition to the purchase price, MNS paid:

Transfer fees	\$50,000
Legal fees	\$20,000
Non-refundable taxes	\$100,000

The complex qualifies as investment property.

MNS applies the fair value method to all its investment property.

Fair value information:

Dec-31-2011: \$9.1 million

Dec-31-2012: \$10.9 million

Dec-31-2013: \$11.7 million

Instructions

Prepare all required journal entries for 2011, 2012 and 2013.

Depreciation, Impairment, and Disposition

Question 1

MNS Co. purchased a piece of equipment which cost \$68,900, has a \$4,900 residual value, and a 6-year useful life on January 1, 2009. The equipment is expected to produce 10,000 units of output over its life. In 2009, 2,300 units were produced. In 2010, 1,750 units were produced.

Required:

Calculate the amortization expense for **2010** using each of the following methods:

- a. Straight-line
- b. Units of production
- c. Double-declining-balance

Question 2

MNS Corporation's balance sheet includes the following asset:

Equipment	\$100,000
Less: Accumulated depreciation	(30,000)
Carrying amount	\$70,000

After performing its annual review for impairment, MNS obtains the following data:

Asset value in use:	\$60,000
Fair value less selling costs:	\$64,000

Instructions

Assuming MNS uses the rational entity impairment model,

1. Calculate the recoverable amount.
2. Calculate the impairment loss.
3. Prepare the entry to record the impairment loss

Question 3

MNS company has a policy to overhaul its trucks after every 50,000 km's. The associated costs of the overhauls are tracked in separate accounts.

At December 31, 2010 the balances are as follows:

<u>Overhaul:</u>	
Cost:	\$20,000
Less:	
Accumulated Depreciation:	<u>(\$16,400)</u>
Net book value	\$3,600

On January 1, 2011, after the driver had reported problems with the truck's engine, a decision was made to do an early overhaul (i.e. 9,000 km prior to the next scheduled overhaul). The overhaul was completed on January 7, 2011 at a cost of \$28,000.

Because of a slowdown in the economy, the truck only operated for 21,000 km for the remainder of 2011.

Instructions

Prepare the appropriate journal entries for 2011 relating to the truck's overhaul.

Question 4

MNS Green Limited has determined that its lawn maintenance division is a cash-generating unit. The carrying amounts of the assets in the division at December 31, 2011, are as follows:

Land	\$ 25,000
Building	\$ 50,000
Equipment	\$ 30,000
Trucks	<u>\$ 15,000</u>
Total	\$120,000

The division has been assessed for impairment and it is determined that the recoverable amount is \$108,000.

Instructions:

- a) Determine the allocation of the impairment loss to the assets, assuming that none of the individual assets in the division have a determinable recoverable amount on their own. Prepare any related journal entries.

- b) Determine the allocation of the impairment loss to the assets, assuming that the only individual asset in the division that has a determinable recoverable amount on its own is the building, which has a fair value less cost to sell of \$46,000. Prepare any related journal entries.