

**13**  
**Question 1 (13 marks, suggested time 13 minutes)**  
**Accounts Receivable**

Hi-Fi Systems Ltd. provided the following information:

**Balance as at January 1, 2005:**

Accounts receivable	\$135,000
Allowance for doubtful accounts	12,300

Sales during the year ended, December 31, 2005	\$1,000,000
<b>Total cash collections*</b> during the year ended December 31, 2005	875,000
Write-offs during the year ended December 31, 2005	26,000
Recoveries of amounts previously written off during 2005	1,200

\*including collection of recoveries and cash sales

Hi-Fi Systems Ltd. uses the % of credit sales method for calculating bad debt expense. The industry average (and the percentage used by Hi-Fi) for 2005 was 1.75%. The average accounts receivable turnover rate for companies in the same industry in the year 2005 was 12.3x.

For 2005, 94% of sales were on credit. Average accounts receivable for the year 2004 were \$128,000.

**Required:**

- Calculate the bad debt expense for the year ended December 31, 2005. **(1 mark)**
  
- Calculate the balance in the accounts receivable account as at December 31, 2005. **(3 marks)**
  
  
  
  
  
  
  
  
  
  
- Calculate the balance in the allowance for doubtful accounts as at December 31, 2005. **(3 marks)**



**Question 2 (16 marks, suggested time 16 minutes)**  
**Temporary Investments**

Notakloo values its Temporary Investments using the market method (per class). Notakloo Ltd. had the following information regarding its temporary investments for the years ended 2004 and 2005, and 2006:

Description	# of shares purchased (sold)	Date purchased	Purchase price per share	Date sold	Sales price per share
Apple Co.	500	Feb. 2004	\$16.00		
Butter Ltd.	1,000	Feb 2004	\$4.50		
Apple Ltd.	(250)			Aug 2004	\$13.50
Cocoa Inc.	3,000	Nov 2004	\$1.75		
Butter Inc.	(1,000)			July 2005	\$5.00
Cocoa Inc.	(1,000)			Oct 2006	\$1.50

Market value per share, December 31	2004	2005	2006
Apple Co.	\$14.00	\$9.00	\$9.00
Butter Inc.	\$8.00	\$3.00	\$2.00
Cocoa Inc.	\$1.70	\$2.10	\$1.45

**Required:**

- a. Prepare the journal entries required to record the sales of temporary investments on the dates noted below: (6 marks)

Date	Account description	Debit	Credit
Aug 2004			
July 2005			
Oct 2006			

b. Prepare the journal entries required to record the year end adjustments for the years ended December 31, 2004, 2005 and 2006. (6 marks) Use the space provided below for your calculations.

Date	Account description	Debit	Credit
Dec 31, 2004			
Dec 31, 2005			
Dec 31, 2006			

8  
Question 3 (8 marks, suggested time 8 minutes)

8  
**Inventory**

Doggets Wholesale Ltd. sells everything from food to electronics. One of its products, Lumps Tomato Sauce is purchased in bulk (5,000 cans per order). The following is a summary of the available inventory for the year ended December 31, 2005:

	<u># of cans</u>	<u>cost per can</u>	<u>Total cost</u>
Beginning inventory	340	@ \$0.65	\$ 221
First purchase	5,000	@ \$0.70	3,500
Second purchase	5,000	@ \$0.75	3,750
Third purchase	5,000	@ \$0.80	4,000
Fourth purchase	<u>5,000</u>	@ \$0.85	<u>4,250</u>
	<u>20,340</u>		<u>\$15,721</u>

Sales of Lumps Tomato Sauce per can were steady in the year 2005 at 1,300 cans per month. Doggets Wholesale Ltd. uses the periodic inventory system.

**PART A**

**Required:**

- Calculate the value of Ending Inventory at December 31, 2005 using FIFO. (2 marks)
  
  
  
  
  
  
  
  
  
  
- Calculate Cost of Goods Sold for the year ended December 31, 2005 using weighted average. (3 marks)
  
  
  
  
  
  
  
  
  
  
- Calculate ending inventory for the year ended using LIFO. (3 marks)

## ~~Revenue Recognition~~ Revenue Recognition

Fallmark signed a contract to build a house on December 1, 2004. The client agreed to a sales price of \$380,000 (excluding land). On December 31, 2004 the estimated **total** costs to build the house were \$210,000 (excluding land). Actual total costs to the end of December 2004 were \$45,000.

Unfortunately for Fallmark, things did not go as planned. Due to unforeseen weather conditions, Fallmark still hadn't finished the house by the end of December 31, 2005. In fact, the estimated **total** costs to complete the house were now \$450,000 (excluding land). Actual costs from December 1, 2004 to the end of December 2005 were \$350,000.

On March 1, 2006, the client got tired of living in a tent and agreed to accept the house "as is" for a total price of \$400,000 (rather than the original contract price of \$380,000). **Total** (and final) actual costs from December 1, 2004 to the end of March 1, 2006 were \$375,000.

### Required:

- a. Calculate the profit or loss to be recognized in the three years ended December 31, 2004, 2005 and 2006 using the percentage of completion method. (8 marks)

2004

2005

2006

**Question 5** (20 marks; suggested time 20 minutes)

**Capital Assets**

On June 1, 2003, Malroy Limited purchased as a unit at a bankruptcy auction for \$500,000 a welder which was mounted on the back of a large truck. Due to the auction matter of the purchase, it was not possible to acquire the welder without also buying the truck. The appraised value of the truck and welder was \$412,500 for the welder and \$137,500 for the truck. Before going to the auction Malroy had contacted another corporation that would pay Malroy \$130,000 for the truck. Later that afternoon the truck was sold at this agreed upon price.

Additional information about the truck and machine are as follows:

During June 2003:

- spent \$5,000 removing the welder from the truck
- spent \$3,000 having the welder shipped to their factory
- lost \$20,000 in profit from two days lost sales as Malroy had to shut down the entire factory for two days to install the machine
- spent \$7,000 advertising and promoting to new and continuing customers that they had acquired the welder and now could do new procedures.
- On June 30, 2003 the welder was ready for use.

On September 1, 2003 Malroy spent \$34,000 replacing an electrical component of the welder which had worn out due to use.

**Required:**

**Part A:**

What is the carrying value (cost ignoring accumulated amortization) of the welder on the books of Malroy on December 31, 2003? Carefully show how you derived this amount. (5 marks)

**Part B:**

On December 31, 2003 (year end), management estimated that the welder would last a total of 10 years and have a salvage value of \$50,000.

On January 1, 2004 Malroy spent \$29,000 upgrading the welder so it can do a new welding procedure.

During 2005 management reviewed their previous estimates of useful life and salvage value. They revised them such that they now felt the welder would last only until June 30, 2010 (a total useful life of 8 years) and the salvage value would be \$35,000.

Malroy uses the straight line method to derive amortization expense.

**Required:**

Calculate amortization expense for 2003 (**2 marks**), 2004 (**3 marks**), and 2005 (**4 marks**) as it relates to the welder.

**2003:**

**2004:**

**2005:**

**Part C:**

On July 1, 2006 the welder was sold for \$150,000

**Required:**

- a. Prepare the journal entry to record the amortization expense for the six months on the welder (**2 marks**) and the subsequent the disposal of the welder on July 1, 2006. (**4 marks**)