



VOTRE LIEN AVEC CE QUI COMPTE — CONNECTS YOU TO WHAT MATTERS

**Mid Term Exam #1 (2^{1/2} hours = 150 minutes)
Intermediate Financial Accounting I
Winter 2018
ADM2342**

(SUGGESTED SOLUTIONS)

Name: _____

ID#: _____

Instructions:

- Write your name and student ID number above. Display your student ID on your desk during the exam.
- Turn off all cell phones.
- This examination “**SUGGESTED SOLUTION**” comprises **6** questions over **20** numbered pages.
- Answer all questions in this booklet.
- The booklet is **not** to be removed from the examination room. You may not separate the pages.
- Do not answer questions using a pencil or erasable pen: if you do, you will forfeit your right to request a review of your exam.
- Limit your answer to the space provided. Blank space for rough work and supporting calculations are given at the end of each question. All supporting calculations **must** be shown.
- This exam will be marked out of 100 marks (for convenience) and is **2.5 hours (150 minutes)** long. You should budget approximately 1.5 minutes per mark. The exam is worth **25%** of the overall course mark.
- Please do **not** ask the invigilator or the professor any questions, as they will **not** be answered. State reasonable assumptions, if you feel they are necessary.
- Language (non-electronic) dictionaries are allowed but only after permission has been given by the proctors at the start of the examination.
- You **must** sign the Statement of Academic Integrity on page 2 of this exam.

Question			Marks
Q 1	Chapters 1 & 2	10 x 1 mark MCQs	/10
Q 2	Chapter 2		/10
Q3	Chapter 3		/12
Q4	Chapter 4	Part 1	/11
		Part 2	/6
		Part 3	/4
Q 5	Chapter 5	Part 1	/13
		Part 2	/12
Q 6	Chapter 6	Part 1	/11
		Part 2	/11
TOTAL			/100

Section	X
Section M: (Professor Conheady, Monday 11:30-1:00pm & Thursday 1:00-2:30pm)	
Section N: (Professor Li, Tuesday & Thursday, 5:30-7:00pm)	
Section P: (Professor Conheady, Monday 8:30-10:00am & Thursday 10:00-11:30am)	

Statement of Academic Integrity

The Telfer School of Management does not condone academic fraud, an act by a student that may result in a false academic evaluation of that student or of another student. Without limiting the generality of this definition, academic fraud occurs when a student commits any of the following offences: plagiarism or cheating of any kind, use of books, notes, mathematical tables, dictionaries or other study aid unless an explicit written note to the contrary appears on the exam, to have in his/her possession cameras, radios (radios with head-sets), tape recorders, pagers, cell phones, or any other communication device which has not been previously authorized in writing.

Statement to be signed by the student:

I have read the text on academic integrity and I pledge not to have committed or attempted to commit academic fraud in this examination.

Signed: _____

Note: an examination copy or booklet without that signed statement will not be graded and will receive an exam grade of zero.

QUESTION 1 (10 marks)

Answer ALL parts of this question. Each part is independent. **Circle** the answer you choose. Choose only one answer per question.

1. In order to be relevant, financial information must have all of the following ingredients of fundamental qualities except

a. be free from error.

b. have predictive value.

c. be material.

d. have confirmatory value.

2. Which of the following (a-c) are not true concerning a conceptual framework in accounting?

a. It should be a basis for standard-setting.

b. It should allow practical problems to be solved more quickly by reference to it.

c. It should be based on fundamental truths that are derived from the laws of nature.

d. All of the above (a-c) are true.

3. Fundamental qualitative characteristics include

a. verifiability and relevance.

b. relevance and representational faithfulness.

c. relevance and comparability.

d. representational faithfulness and timeliness.

4. Which of the following is true about understandability as a qualitative characteristic of financial statements?

a. Users with no knowledge of business and financial accounting matters are expected to understand the financial statements.

b. The onus to prepare understandable statements and to be able to understand them lies with the preparer and the user.

c. The onus to prepare understandable statements and to be able to understand them lies with the preparer.

d. Where the underlying transactions or economic events are more complex, the user is expected to understand them without the assistance of an advisor.

5. The role of provincial securities commissions in Canada in relation to financial reporting is to

a. ensure that investors have access to the information they need to make informed decisions.

b. make recommendations for financial accounting standards

c. form professional judgements regarding overall adherence to GAAP.

d. develop standards for financial reporting by publicly traded companies.

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QUESTION 1 (10 marks) (continued)

Answer ALL parts of this question. Each part is independent. Circle the answer you choose. Choose only one answer per question.

6. Objectives of financial reporting do not include

- a. providing information about the liquidation value of an enterprise.
- b. providing information about changes in an entity's economic resources, obligations, and equity/net assets.
- c. providing information about an entity's economic resources, obligations, and equity/net assets.
- d. providing information that is useful to users in making resource allocation decisions.

7. Which of the following does not describe a cause of management bias?

- a. The need to comply with contracts, such as debt covenants.
- b. The desire for all stakeholders to have access to all information.
- c. The tendency to downplay negative events.
- d. The desire to meet financial analysts' expectations.

8. Which of the following are factors contributing to fraudulent financial reporting?

- a. Weak internal controls
- b. Unrealistic internal budgets
- c. Unrealistic expectations
- d. All of the above (all of the above are factors that contribute to fraudulent financial reporting)

9. In providing information with the qualitative characteristics that make it useful, two overriding constraints that must be considered are:

- a. relevance and representational faithfulness.
- b. comparability and understandability.
- c. matching and control.
- d. cost-benefit relationship and materiality.

10. Companies and their auditors have adopted a general rule of thumb that anything above 5% of _____ is considered material.

- a. assets
- b. liabilities
- c. pretax income from continuing operations
- d. revenues

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QUESTION 2 (10 marks)

Define the following financial statement elements

Asset

Revenue

Gain

Discontinued operations

QUESTION 2 (10 marks) (continued)

Define the following financial statement elements

Assets have three essential characteristics:

1. There is some economic benefit to the entity.
2. The entity has control over that benefit.
3. The benefits result from a past transaction or event

Revenues are

- increases in economic resources,
- either by inflows or other enhancements of an entity's assets or by settlement of its liabilities,
- which result from an entity's **ordinary (operating) activities**.

Gains are

- increases in equity (net assets)
- from an entity's **peripheral or incidental transactions** and from all other transactions and other events and circumstances affecting the entity during a period,
 - except those that result from revenues or investments by owners.

Discontinued operations include
components of an enterprise

- that have been **disposed of** (by sale, abandonment, or spinoff)
or
- are classified as *held for sale*

where:

1. they represent (or are part of a plan to dispose of) a major line of business or geographical area; or
2. they are a subsidiary acquired for resale.

QUESTION 3 (12 marks)

The trial balance for Hanna Resort Limited on August 31 is as follows:

HANNA RESORT LIMITED**Trial Balance****August 31, 2018**

	Debit	Credit
Cash	\$ 6,700	
Prepaid insurance	3,500	
Supplies	1,800	
Land	20,000	
Buildings	142,000	
Accumulated depreciation—buildings		\$ 20,448
Equipment	16,000	
Accumulated depreciation—equipment		4,320
Accounts payable		4,800
Unearned rent revenue		4,600
Notes payable		77,000
Common shares		81,000
Retained earnings		4,680
Dividends declared	5,000	
Rent revenue		68,002
Salaries and wages expense	43,200	
Insurance expense	12,250	
Interest expense	3,080	
Utilities expense	7,720	
Repairs and maintenance expense	3,600	
	\$264,850	\$264,850

Additional information:

1. The balance in Prepaid Insurance is the cost of August and September 2018, the last two months of an insurance policy that will expire on September 30, 2018.
2. An inventory count on August 31 shows \$650 of supplies on hand.
3. Buildings and equipment are depreciated straight-line. From the date of purchase, the buildings have an estimated useful life of 25 years, and the equipment has an estimated useful life of 10 years. For both asset categories, residual value is estimated to be 10% of cost.
4. (i) Rent revenue includes amounts received for September rentals in the amount of \$8,000.
(ii) Of the unadjusted Unearned Rent Revenue of \$4,600, one half was earned prior to August 31.
5. Salaries of \$375 were unpaid at August 31.
6. Rent of \$800 was due from tenants at August 31.
7. The note payable interest rate is 8% per year, and the note has been outstanding since December 1, 2017. No principal repayments are due.

Required

Journalize the adjusting entries on August 31, 2018 for the three-month period June 1 to August 31, 2018.

QUESTION 3 (12 marks) (continued)

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1			
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QUESTION 3 (12 marks) (continued)

1.	Insurance Expense (\$3,500 x 1/2).....	1,750	
	Prepaid Insurance		1,750
2.	Supplies Expense (\$1,800 – \$650)	1,150	
	Supplies.....		1,150
3.	Depreciation Expense	1,278	
	Accumulated Depreciation— Buildings		1,278
	(\$142,000 – \$14,200 = \$127,800; \$127,800 / 25 = \$5,112 per year; \$5,112 x 3/12 = \$1,278)		
	Depreciation Expense	360	
	Accumulated Depreciation— Equipment		360
	(\$16,000 – \$1,600 = \$14,400; \$14,400 / 10 = \$1,440; \$1,440 x 3/12 = \$360)		
4.(i)	Rent Revenue.....	8,000	
	Unearned Rent Revenue		8,000
(ii)	Unearned Rent Revenue	2,300	
	Rent Revenue		2,300
5.	Salaries and Wages Expense	375	
	Salaries and Wages Payable		375
6.	Accounts Receivable	800	
	Rent Revenue		800
7.	Interest Expense	1,540	
	Interest Payable		1,540
	[((\$77,000 x 8%) x 3/12]		

QUESTION 4 (21 marks)

Answer ALL parts of this question. Each part is independent.

Part 1 (11 marks)

Wagga-Waga Corporation's capital structure consists of 200,000 common shares. In recent years Wagga-Waga Corporation generated annual net income in excess of \$2,000,000 but is concerned about this year's performance. At December 31, 2018, the company's accounting year-end, an analysis of the accounts and discussions with company officials revealed the following information regarding its continuing operations:

Land	\$370,000
Patents	100,000
Retained earnings, January 1, 2018	270,000
Interest expense	17,000
General and administrative expenses.....	160,000
Dividends declared	29,000
Allowance for doubtful accounts.....	5,000
Notes payable (maturity July 1, 2021).....	200,000
Machinery and equipment	450,000
Materials and supplies	40,000
Accounts payable.....	60,000
Sales	1,200,000
Purchase discounts.....	18,000
Purchases	720,000
Earthquake loss.....	60,000
Selling expenses.....	128,000
Cash	60,000
Accounts receivable.....	90,000
Common shares.....	200,000
Accumulated depreciation	180,000
Dividend revenue.....	18,000
Inventory, January 1, 2018	152,000
Inventory, December 31, 2018	125,000
Unearned service revenue.....	4,400
Accrued interest payable.....	1,000

On September 1, 2018, Wagga-Waga sold its Yuhan division to Tendulkar Industries for a gain (pre-tax) of \$300,000. This gain is not included in any of the numbers shown above. During the period January 1 to August 31, the discontinued operation incurred an operating loss (pre-tax) of \$500,000. This loss is not included in any of the numbers shown above.

Unless indicated otherwise, you may assume a 30% income tax rate. The company follows IFRS.

Required

Prepare, in good form, Wagga-Waga's multiple-step income statement for 2018.

QUESTION 4 (21 marks) (continued)

Part 1 (11 marks) (continued)

WAGGA-WAGA CORPORATION
Statement of Income
For the Year Ended December 31, 2018

Sales		\$1,200,000
Cost of goods sold (see Schedule A)		<u>729,000</u>
Gross profit on sales		471,000
Operating expenses		
Selling expenses	128,000	
General and administrative expenses	<u>160,000</u>	
Total operating expenses		<u>288,000</u>
Operating income		183,000
Other revenue and gains		
Dividend revenue		18,000
Other expenses and losses		
Interest expense.....	(17,000)	
Loss from earthquake.....	<u>(60,000)</u>	<u>(77,000)</u>
Income from continuing operations before taxes		124,000
Income taxes		<u>37,200</u>
Income from continuing operations.....		86,800
Discontinued operations		
Loss from operations of the Mumbai division (net of tax of \$150,000).....	(\$350,000)	
Gain on disposal of the Mumbai division (net of tax of \$90,000).....	<u>210,000</u>	<u>(140,000)</u>
Net loss		<u><u>\$ (53,200)</u></u>
Earnings per share:		
Income from continuing operations		\$0.43 ^a
Discontinued operations		<u>(0.70) ^b</u>
Net income		<u><u>(\$0.27) ^c</u></u>

- ^a \$86,800 / 200,000 shares
- ^b (\$140,000) / 200,000 shares
- ^c (\$53,200) / 200,000 shares

Schedule A
Calculation of Cost of Goods Sold
For the Year Ended December 31, 2017

Merchandise inventory, Jan. 1		\$152,000
Purchases	\$720,000	
Less purchase discounts	<u>18,000</u>	
Net purchases		<u>702,000</u>
Merchandise available for sale		854,000
Less merchandise inventory, Dec. 31		<u>125,000</u>
Cost of goods sold.....		<u><u>\$729,000</u></u>

QUESTION 4 (21 marks) (continued)
Answer ALL parts of this question. Each part is independent.

Part 2 (6marks)

Presented below are changes in selected account balances of Heys Inc. during last year, except for retained earnings.

	Increase (Decrease)		Increase (Decrease)
Cash.....	\$22,000	Accounts payable.....	\$28,000
Accounts receivable (net)	(9,000)	Bonds payable.....	(14,000)
Inventory	48,000	Common shares.....	72,000
Plant Assets (net)	24,000		

The only entries in retained earnings were for net income and a dividend declaration of \$12,000.

Required (to earn marks you must provide supporting calculations)

Calculate the net income for last year.

Calculation of net income:

Change in assets (\$94,000 – \$9,000)	\$85,000	Increase
Change in liabilities (\$28,000 – \$14,000)	<u>14,000</u>	Increase
Change in shareholders' equity	71,000	Increase
Add back dividend declared	12,000	
Less common shares	<u>(72,000)</u>	
Net income	<u>\$11,000</u>	

Part 3 (4 marks)

Total Ltd. reported the following balances at January 1, 2018:

Common shares.....	\$370,000
Retained earnings.....	70,000
Accumulated other comprehensive income.....	71,000

During the year Total earned net income of \$310,000 and generated other comprehensive income of \$64,000.

Required

Prepare a statement of shareholders' equity for the year ended December 31, 2018.

TOTE LTD.
Statement of Shareholders' Equity
For the Year Ended December 31, 2018

	Total	Common Shares	Comprehensive Income	Retained Earnings	Accumulated Other Comprehensive Income
Beginning balance	\$511,000	\$370,000		\$ 70,000	\$71,000
Net income	310,000		<u>\$310,000</u>	310,000	
Other comprehensive income	64,000		<u>64,000</u>		64,000
Comprehensive income			<u>\$374,000</u>		
Ending balance	<u>\$885,000</u>	<u>\$370,000</u>		<u>\$380,000</u>	<u>\$135,000</u>

The Comprehensive Income column is not required in this statement or in your solution.

QUESTION 5 (25 marks) (continued)

Answer ALL parts of this question. Each part is independent.

Part 1(13 marks)

STING-RAY Corporation prepares the operating section of its Statement of Cash Flows using the direct method, as follows:

STING-RAY CORPORATION
Operating Section, Statement of Cash Flows
For the Year Ended December 31, 2018

Cash receipts from customers		\$480,000
Cash payments:		
Insurance	\$30,000	
Interest	45,000	
Wages.....	250,000	
Income taxes	<u>55,000</u>	<u>380,000</u>
Cash from operations		<u>\$100,000</u>

Additional information:

	Balances at Dec 31	
	2018	2017
Prepaid insurance.....	4,000	8,000
Accumulated depreciation - equipment	105,000	95,000
Wages payable	25,000	15,000
Income taxes payable.....	19,000	12,000
Interest payable.....	3,000	9,000
Accounts receivable.....	\$30,000	\$50,000

No equipment was sold during 2018.

Required (to earn marks you must provide supporting calculations)

Determine the amounts for the following items that would appear in STING-RAY's 2018 income statement.

Sales revenue	
Insurance expense	
Interest expense	
Depreciation expense	
Wages expense	
Income tax expense	

Note: your solution does not have to present the income statement displayed below. Your answer should provide its amounts and their supporting calculations.

STING-RAY CORPORATION
Income Statement (Accrual Basis)
For the Year Ended December 31, 2018

Revenue ($\$480,000 + \$30,000 - \$50,000$)		\$460,000
Expenses		
Wages ($\\$250,000 + \\$25,000 - \\$15,000$)	\$260,000	
Insurance ($\\$30,000 + \\$8,000 - \\$4,000$)	34,000	
Depreciation ($\\$105,000 - \\$95,000$).....	10,000	
Interest ($\\$45,000 + \\$3,000 - \\$9,000$)	<u>39,000</u>	
Total expenses		<u>344,000</u>
Income before income tax		116,000
Income tax ($\\$55,000 + \\$19,000 - \\$12,000$).....		<u>62,000</u>
Net Income.....		<u>\$54,000</u>

QUESTION 5 (25 marks)

Answer ALL parts of this question. Each part is independent.

Part 2 (12 marks)

A list of the accounts, without dollar amounts, that appear in Lagos Limited's financial statements follows:

Accounts Receivable	Pension Liability, non-current
Land	Bonds Payable—due in four years
Salaries and Wages Payable	Prepaid Rent
Land Held for Future Plant Site	Buildings
Accumulated Depreciation—Buildings	Purchase Returns and Allowances
Loss on Investments	Cash
Accumulated Depreciation—Equipment	Purchases
Notes Payable (due in six months)	Restricted Cash
Accumulated Other Comprehensive Income	Notes Receivable (due in five years)
Intangible Assets—Patents (net of accumulated amortization)	Commission Expense
	Retained Earnings
Unrealized Holding Gain or Loss—OCI	Common Shares
Advances to Employees	Sales Revenue
Advertising Expense	Intangible Assets—Copyrights (net of accumulated amortization)
Petty Cash	
Allowance for Doubtful Accounts	Sales Discounts
Preferred Shares	Dividends Payable
Fair Value—OCI Investments	Selling Expenses
Equipment	Inventory
Income Tax Payable	Unearned Subscriptions Revenue
Gain on Sale of Equipment	FV-NI (Fair Value—Net Income) Investments
Interest Receivable	

Required

Prepare Lagos Limited's classified statement of financial position in good form, without specific dollar amounts.

QUESTION 5 (25 marks) (continued)**Answer ALL parts of this question. Each part is independent.****Part 2 (12 marks) (continued)**

Company Name Statement of Financial Position December 31, 20XX	
Assets	Liabilities and Shareholders' Equity
Current assets Cash* Less restricted cash FV - NI investments Accounts receivable Less allowance for doubtful accounts Interest receivable Advances to employees Inventory Prepaid rent Total current assets Long-term investments Notes receivable due in five years Land Held for future plant site FV – OCI investments Restricted cash Total long-term investments Property, plant, and equipment Land Buildings Less accumulated depreciation—buildings Equipment Less accumulated depreciation—equipment Total property, plant, and equipment Intangible assets Patents (net of amortization) Copyrights (net of amortization) Total intangible assets Total assets	Current liabilities Notes payable Income tax payable Salaries and wages payable Dividends payable Unearned subscriptions revenue Total current liabilities Long-term liabilities Bonds payable Pension obligation Total long-term liabilities Total liabilities Shareholders' equity Capital shares Preferred shares (description) Common shares (description) Total capital shares Retained earnings Accumulated other comprehensive income Total shareholders' equity
Total liabilities and shareholders' equity	Total liabilities and shareholders' equity

*** Cash includes cash and petty cash**

QUESTION 6 (22 marks)

Answer ALL parts of this question. Each part is independent.

Part 1 (11 marks)

In 2018, the following transactions occurred between Eagles Wholesale Corp. (consignor) and Patriots Stores (consignee):

On March 2, 2018 Eagles shipped merchandise costing \$52,000 to Patriots. Eagles paid \$4,000 for freight and Patriots paid \$3,000 for advertising (to be reimbursed by Eagles). By the end of the third quarter of 2018 (September 30, 2018), Patriots advised Eagles that all the merchandise has been sold for \$70,000, and forwarded the proceeds (net of a 15% commission and the outlay for advertising) to Eagles.

Required

- a) Prepare all necessary journal entries for Eagles Wholesale Corp. to account for these transactions. Eagles follows IFRS 15 when accounting for revenue.
- b) Prepare all necessary journal entries for Patriots Stores to account for these transactions.

Eagles' journal entries:

Inventory on Consignment (with Patriots)	52,000	
Merchandise Inventory		52,000
To record Shipment of consigned merchandise		
Inventory on Consignment (with Patriots)	4,000	
Cash		4,000
To record Payment of freight costs		
Cash	56,500	
Advertising Expense	3,000	
Commission Expense	10,500	
Revenue from Consignment Sales		70,000
To record Remittance from consignee (Patriots)		
Cost of Goods Sold (52,000 + 4,000)	56,000	
Inventory on Consignment (with Patriots)		56,000
To record Cost of sales for consignment sales		

Patriots' journal entries:

Receivable from Consignor (Eagles)	3,000	
Cash		3,000
To set up receivable for advertising		
Cash	70,000	
Payable to Consignor (Eagles)		70,000
To record sale		
Payable to Consignor (Eagles)	70,000	
Receivable from Consignor (Eagles)		3,000
Commission Revenue*		10,500
*\$70,000 x 15% = \$10,500		
Cash		56,500
To record Remittance to consignor (Eagles)		

QUESTION 6 (22 marks)

Answer ALL parts of this question. Each part is independent.

Part 2 (11 marks)

Black Rock Company manufactures equipment and is listed on the Toronto Stock Exchange. Black Rock's products range from simple automated machinery to complex systems containing numerous components. Unit selling prices range from \$140,000 to \$1,200,000 and are quoted inclusive of installation. The installation process does not involve changes to the features of the equipment to perform specifications.

On July 1, 20XX Black Rock Company and White Sands Inc. sign a contract with the following terms:

- White Sands agrees to acquire equipment, to be delivered and installed by Black Rock, for a price of \$400,000.
- White Sands is obligated to pay Black Rock the \$400,000 upon installation of the equipment.

Black Rock delivers the equipment on August 1, 20XX, and completes the installation of the equipment on October 1, 20XX. Using market data, Black Rock and White Sands determine the installation service is estimated to have a fair value of \$20,000 while the equipment's fair value is \$390,000.

Black Rock's cost of the equipment is \$268,000. The equipment has a useful life of 7 years. Assume the equipment and the installations are two distinct performance obligations that should be accounted for separately.

Required

- a) How should the transaction price of \$400,000 be allocated among the service obligations? Show all supporting calculations.

Having been provided the market values of the installation and the equipment, the 'relative stand-alone selling-price' basis [see IFRS 15.74] is used to allocate the transaction price, as follows:

\$20,000	4.878%	\$19,512
\$390,000	95.122%	\$380,488
\$410,000	100%	\$400,000

- b) Prepare the necessary journal entries for Black Rock for this revenue arrangement on July 1, 20XX, August 1, 20XX and October 1, 20XX, assuming Black Rock receives payment when installation is completed.

July 1, 20XX: Contract signing

No journal entry is made: at this stage neither party has performed on the contract.

August 1, 20XX: Equipment Delivery

Contract Asset.....	380,488	
Sales Revenue		380,488
Cost of Equipment Sold.....	268,000	
Equipment Inventory		268,000

October 1, 20XX: Equipment Installation

Cash.....	400,000	
Installation Revenue		19,512
Contract Asset.....		380,488

If there was a cost of labour associated with installation, we would record that here, too; however, this information was not provided in the question.

ROUGH WORK
[this page will not be marked by the examiner]

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