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Final Exam (SUGGESTED SOLUTIONS)
Intermediate Financial Accounting I
Winter 2015
ADM2342 Sections M, N, & P

Name: _____ **ID#:** _____

Instructions

- Write your name and student ID number above.
- Indicate your section with an X in the table below.
- Reminder: it is an offence to have a cell phone or any other communication device in your possession during this exam's three hours. (see the Statement of Academic integrity on page 2 of this exam).
- This examination "SUGGESTED SOLUTION" comprises **5** questions over **23** numbered pages.
- Answer Question 1's multiple-choice questions on the SCANTRON sheet provided.
- Answer Questions **2-5** in this booklet.
- Booklet is **not** to be removed from the examination room. You may not separate the pages.
- Limit your answer to the space provided.
- This exam will be marked out of 100 marks for convenience and is 3 hours long. You should budget approximately 1.8 minutes per mark. The exam is worth 45% 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.
- Present value tables are provided on pages **22-23**.
- Language (non-electronic) dictionaries are allowed if permitted by the professor and/or the proctor.
- You ***must*** sign the Statement of Academic integrity on page 2 of this exam.
- At the end of the exam you must sign the "Exam Submission Sheet" as proof that you have personally handed this exam to the proctor.

Question			Marks
1	Ch 1-11	Multiple Choice	/18
2	Ch 8	Inventory	/16
3	Ch 9	Investments	/25
4	Ch 10	PP&E	/25
5	Ch 11	PP&E	/16
TOTAL			/100

Section	X
Section M: (Professor Conheady, Monday 11:30-1:00pm & Thursday 1:00-2:30pm)	
Section N: (Professor Kerr, Thursday 5:30-8:30pm)	
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 a final exam grade of zero.

QUESTION 1 (18 marks: 1 mark each)

Answer ALL parts to this question on the SCANTRON sheet provided. Each part is independent. The marker will not assess anything you write on this or the following page.

The multiple choice Qs have been intentionally omitted from the file posted to Brightspace.

QUESTION 1 (18 marks: 1 mark each) (continued)

Answer ALL parts to this question on the SCANTRON sheet provided. Each part is independent. The marker will not assess anything you write on this or the previous page.

The multiple choice Qs have been intentionally omitted from the file posted to Brightspace.

END OF MULTIPLE CHOICE

QUESTION 2 (16 marks)
Part 1 (7 marks)

Wagga Wagga Limited, a manufacturer of small tools, provided the following information from its accounting records for the year ended December 31, 2014:

Inventory at December 31, 2014 (based on physical count of goods in Wagga Wagga's plant, at cost, on December 31, 2014)	$1,720,000
Accounts payable at December 31, 2014	1,300,000
Total current assets	2,680,000
Total current liabilities	1,550,000
Net sales (sales less sales returns)	8,550,000

Additional information:

SAMPLE. Included in the physical count were tools billed on December 31, 2014 to a customer FOB shipping point. These tools had a cost of $37,000 and were billed (an invoice was sent to the customer) on December 30th, 2014 at $57,000. The shipment was on Wagga Wagga's loading dock waiting to be picked up by the common carrier.

1. Goods were in transit from a vendor to Wagga Wagga on December 31, 2014. The invoice cost was $51,000, and the goods were shipped FOB shipping point on December 29, 2014. Wagga Wagga will sell these items in 2015 for $87,500. These were excluded from the inventory count.

2. Inventory costing $38,000 was sent to an outside processor for plating on December 30, 2014. This was excluded from the inventory count.

3. Tools that were returned by customers and awaiting inspection in the returned goods area on December 31, 2014, were not included in the physical count. On January 8, 2015, these tools, costing $48,000, were inspected and returned to inventory. Credit memos totalling $58,000 were issued to the customers on the same date.

4. Tools shipped to a customer FOB destination on December 26, 2014, were in transit at December 31, 2014, and had a cost of $21,000. When it was notified that the customer received the goods on January 2, 2015, Wagga Wagga issued a sales invoice to the customer for $42,000. These goods were excluded from the inventory count.

5. Goods with an invoice cost of $27,000 that were received from a vendor at 5:00 p.m. on December 31, 2014, were recorded on a receiving report dated January 2, 2015. The goods were not included in the physical count, but the vendor's invoice was included in accounts payable at December 31, 2014.

6. Goods that were received from a vendor on December 26, 2014, were included in the physical count. However, the vendor invoice of $56,000 for these goods was not included in accounts payable at December 31, 2014, because the accounts payable copy of the receiving report was lost.

7. On January 3, 2015, a monthly freight bill in the amount of $7,000 was received. The bill specifically related to merchandise purchased and received in December 2014, and half of this merchandise was still in the inventory at December 31, 2014. The freight charges were not included in either the inventory account or accounts payable at December 31, 2014.

Required

Using the table provided prepare a schedule of adjustments to the initial amounts in Wagga Wagga's accounting records as at December 31, 2014. Show separately the effect, if any, of each of the seven transactions on each of the December 31, 2014 amounts. If the transaction has no effect on an initial amount that is shown, write "NONE."

QUESTION 2 (16 marks) (continued)
Part 1 (7 marks) (continued)

Wagga Wagga Limited
Schedule of Adjustments
December 31, 2014

	Inventory	Accounts Payable	Net Sales
Initial amounts	$1,720,000	$1,300,000	$8,550,000
Adjustments—increase (decrease)			
SAMPLE	NONE	NONE	(57,000)
1.			
2.			
3.			
4.			
5.			
6.			
7.			

Wagga Wagga Limited
Schedule of Adjustments
December 31, 2014

	Inventory	**Accounts Payable**	**Net Sales**
Initial amounts	**$1,720,000**	**$1,300,000**	**$8,550,000**
Adjustments:			
SAMPLE	**NONE**	**NONE**	**(57,000)**
1.	**51,000**	**51,000**	**NONE**
2.	**38,000**	**NONE**	**NONE**
3.	**48,000**	**NONE**	**(58,000)**
4.	**21,000**	**NONE**	**NONE**
5.	**27,000**	**NONE**	**NONE**
6.	**NONE**	**56,000**	**NONE**
7.	**3,500**	**7,000**	**NONE**
Total adjustments*	**188,500**	**114,000**	**(115,000)**
Adjusted amounts*	**$1,908,500**	**$1,414,000**	**$8,435,000**

***Not required in your answer.**

QUESTION 2 (16 marks) (continued)
Part 1 (7 marks) (continued)

The explanations below are <u>not required</u> in students' answers.

SAMPLE

The $37,000 of tools on the loading dock was properly included in the physical count. The sale should not be recorded until the goods are picked up by the common carrier. Therefore, no adjustment is made to inventory, but sales must be reduced by the $57,000 billing price.

1. **The $51,000 of goods in transit from a vendor to Wagga Wagga was shipped f.o.b. shipping point on 29/12/14. Title passes to the buyer as soon as goods are delivered to the common carrier when sold f.o.b. shipping point. Therefore, these goods are properly includable in Wagga Wagga's inventory and accounts payable at 31/12/14. Both inventory and accounts payable must be increased by $51,000.**

2. **The work in process inventory sent to an outside processor isWagga Wagga's property and should be included in ending inventory. Since this inventory was not in the plant at the time of the physical count, the inventory column must be increased by $38,000.**

3. **The tools costing $48,000 were recorded as sales ($58,000) in 2014. However, these items were returned by customers on December 31, so 2014 net sales should be reduced by the $58,000 return. Also, $48,000 has to be added to the inventory column since these goods were not included in the physical count.**

4. **The $21,000 of Wagga Wagga's tools shipped to a customer f.o.b. destination are still owned by Wagga Wagga while in transit because title does not pass on these goods until they are received by the buyer. Therefore, $21,000 must be added to the inventory column. No adjustment is necessary in the sales column because the sale was properly recorded in 2015 when the customer received the goods.**

5. **The goods received from a vendor at 5:00 p.m. on 31/12/14 should be included in the ending inventory, but were not included in the physical count. Therefore, $27,000 must be added to the inventory column. No adjustment is made to accounts payable, since the invoice was included in 31/12/14 accounts payable.**

6. **The $56,000 of goods received on 26/12/14 was properly included in the physical count of inventory; $56,000 must be added to accounts payable since the invoice was not included in the 31/12/14 accounts payable balance.**

7. **Since one-half of the freight-in cost ($7,000) pertains to merchandise properly included in inventory as of 31/12/14 $3,500 should be added to the inventory column. The remaining $3,500 debit should be reflected in cost of goods sold. The full $7,000 must be added to accounts payable since the liability was not recorded. Note that the freight charges could also be recorded as freight-in and not necessarily capitalized in ending inventory under the periodic presentation of Cost of Goods Sold, so an answer of none in the inventory column would also be acceptable.**

QUESTION 2 (16 marks) (continued)
Part 2 (5 marks)

Farmer John Industries Inc. is in the business of producing organic foods for sale to restaurants and in local markets. The company uses IFRS and has a June 30 fiscal year end.
As an experiment, the company has decided to attempt raising organic free-range chickens. On May 1, 2014, Farmer John purchased 100 new hatchlings for cash at a total cost of $1,000. The company incurred feed and labour costs of $150 per month to look after the chicks until their maturity. Their accounting policy is to capitalize these costs.
At fiscal year-end on June 30, the company estimated that the chickens would mature in mid-October. At year end they have a fair value of $1,800 and the company would have to transport the chickens to their customers at an average cost of $3 per chicken.

Required

(a) Prepare the journal entries to record the inventory activity relating to the chickens for the month of May.
(b) Prepare the journal entries to record the inventory activity relating to the chickens for the month of June, including any year-end adjustments required under IAS 41 *Agriculture*.

a) May 1 – 31

Biological Assets	**1,000**	
Cash		**1,000**
Biological Assets	**150**	
Accounts Payable		**150**

b) June 30, 2014

Biological Assets	**150**	
Accounts Payable		**150**

Cost of hatchlings	**$1,000**
Costs of feed and labour	**300**
Total costs incurred to date	**1,300**

Fair Value:

Current fair value	**1,800**
Less transportation costs	**300**
Fair value less costs to sell	**$1,500**

Year End Adjustment 1500 – 1300 = 200

Biological Assets	**200**	
Unrealized Gain or Loss		**200**

QUESTION 2 (16 marks) (continued)
Part 3 (4 marks)

Laphrog Limited produces whiskey. Certain quality whiskeys take many years to age. The company has borrowed funds to cover the costs of this aging process and incurred $100 in related borrowing costs this year.

Required

(a) Prepare the journal entry to record the $100 interest under IFRS.
(b) Show the possible journal entries under ASPE.

(a) The whiskey is a 'qualifying asset' under IAS 23.

IAS 23.1 Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset. Other borrowing costs are recognised as an expense.
IAS 23.5 This Standard uses the following terms with the meanings specified:
Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds.
*A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. (***This explanation is not required in students' answers).**

Dr	**Inventory**	**100**	
Cr	**Interest Payable**		**100**

Since the interest is capitalized, it is recorded as part of the cost of the inventory of wine.

(b) Under ASPE, companies can choose to either capitalize or expense the interest.

If a company chooses to expense the interest:

Dr	**Interest Expense**	**100**	
	Cr	**Interest payable**	**100**

If a company chooses to capitalize the interest, the entry will be the same as shown in part (a)

QUESTION 3 (25 marks)
Part 1 (14 marks)

On January 1, 2014, Bradford Incorporated, a public company that follows IFRS, paid $321,778 (rounded) to acquire 6% bonds of Angel Company. The bonds have a maturity value of $300,000. The market rate of interest for transactions of equivalent risk is 4%. The bonds are dated January 1, 2014 and mature on January 1, 2018 with interest receivable on December 31 of each year. Bradford uses the fair value through other comprehensive income (FV-OCI) with recycling model to account for these bonds and follows the policy of reporting interest income at the end of each accounting period. The fair value of the bonds at December 31, 2014 is $310,000. The bonds are sold for $310,000 on January 1, 2015. The company's accounting year end is December 31.

Required

(a) Present calculations that show how the $321,778 is calculated. (2 marks)

(b) Prepare the journal entry on January 1, 2014 to record the purchase of the bond by Bradford Incorporated. (1 marks)

(c) Prepare Bradford's journal entries on December 31, 2014 related to its investment in Angel Company bonds. (5 marks)

(d) Prepare the journal entry to record disposition of the bond investment at January 1, 2015. (3 marks)

(e) Assume Bradford Incorporated had used the amortized cost model to account for this investment instead of the FV-OCI model.
   i) Name the impairment testing model that would be applied in this situation; (1 mark)
   ii) Assuming the revised amounts and timing of future cash flows can be reasonably estimated, explain how an impairment loss would be calculated. (2 marks)

Purchase cost of the bond (rounded):

(a) Principal $300,000 x (P/F, 4%,4) (.85480) = $ 256,440
Interest $18,000 (PVOA $_{n=4;\ i=4\%}$) (3.62990) = 65,338
Purchase cost $321,778

(b) 1 January 2014:
Investment in bonds: Angel Company (FV-OCI) 321,778
Cash 321,778

Bond Amortization Table (not required in students' answers)

Date	Cash Received (6%)	Effective Interest (4%)	Premium Amortization	Balance of Premium	CV of Bond Investment
01/01/14	—	—	–	21,778	321,788
31/12/14	18,000	12,871	5,129	16,649	316,659
31/12/15	18,000	12,666	5,334	11,315	311,315
31/12/16	18,000	12,453	5,447	5,768	305,768
31/12/17	18,000	12,231	5,769	(1)*	299,999

** rounding error*

QUESTION 3 (25 marks) (continued)
Part 1 (14 marks) (continued)

(c)

31 December 2014:

Cash	*18,000*	
Investment in Bonds: Angel Company (FV-OCI)		*5,129*
Interest Income..... ……..		*12,871*
Unrealized Gain or Loss (FV-OCI) ……..	*6,649*	
Investment in Bonds: Angel Company (FV-OCI) .		*6,649*

Carrying amount on Dec 31, 2014 before FV adjustment:	
$321,778 - $5,129	*316,649*
FV at Dec 31, 2014	*310,000*
FV adjustment required on Dec. 31, 2014	*(6,649)*

(d)

1 January 2015:

Cash	*310,000*	
Investment in Bonds: Angel Company (FV-OCI)		*310,000*
Loss on Investment in Bonds: Angel Company (NI)	*6,649*	
Unrealized Gain or Loss (FV-OCI)		*6,649*

(e)

i. *If Bradford Incorporated had accounted for this investment using the amortized cost model instead of the FV-OCI model, the applicable impairment testing model would be the incurred loss model. [Expected loss model is also an acceptable answer].*

ii. *Assuming the revised amounts and timing of future cash flows can be reasonably estimated, the impairment loss is calculated as the difference between the investment's carrying amount and the present value of revised expected cash flows discounted at the historic discount rate (i.e. the interest rate originally used to measure the investment).*

QUESTION 3 (25 marks) (continued)
Part 2 (5 marks)

Fox Ltd. invested $1 million in Gloven Corp. early in the current year, receiving 25% of its outstanding shares. At the time of the purchase, Gloven Corp. had a carrying amount of $3.2 million. Gloven Corp. pays out 35% of its net income in dividends each year. Assume that Fox Ltd. applies IFRS and that the 25% holding of Gloven shares is sufficient to enable Fox to significantly influence the operating, investing, and financing decisions of Gloven.

Required

Use the information in the following T account for the investment in Gloven to answer the following questions (show all supporting calculations):

Investment in Gloven Corp.

1,000,000	
110,000	
	38,500
	14,000

(a) How much was Fox Ltd.'s share of Gloven Corp.'s net income for the year? (1 mark)
(b) How much was Fox Ltd.'s share of Gloven Corp.'s dividends for the year? (1 mark)
(c) How much was Fox Ltd.'s annual depreciation of the excess payment for capital assets? (1 mark)
(d) Assuming that depreciable assets had a remaining useful life of 10 years when Fox acquired its investment in Gloven, how much of the payment in excess of carrying amount was assigned to goodwill? Show all supporting calculations. (2 marks)

(a) $110,000, the increase to the Investment account.

(b) If the payout ratio is 35%, then 35% of their portion of the net income is their share of dividends: $110,000 X 35% = $38,500, the credit to the investment account.

(c) Annual depreciation of excess payment for capital assets = $14,000, the remaining credit to the investment account.

(d)

Cost of 25% of investment in Gloven Corp.	**$1,000,000**
25% of carrying amount of Gloven Corp.	
25% X $3,200,000	**(800,000)**
Payment in excess of share of carrying amount	**200,000**
Fair value allocated to depreciable assets	
$14,000 X 10	**(140,000)**
Unexplained excess assigned to goodwill	**$ 60,000**

QUESTION 3 (25 marks) (continued)
Part 3 (6 marks)

Niger Corp. provided you with the following information about its investment in Fahad Corp. shares purchased in May 2014 and accounted for using the FV-OCI method without recycling:

Cost	$39,900
Fair value, December 31, 2014	$41,750
Fair value, December 31, 2015	$32,200

Required

(a) Prepare the adjusting journal entries needed on December 31, 2014 and December 31, 2015. (2 marks)

(b) Assume Niger sold its investment in Fahad Corp. on February 13, 2016, for $38,000. Prepare the journal entry(ies) needed on this date. (4 marks)

(a)

December 31, 2014

FV-OCI Investments	**1,850**	
Unrealized Gain or Loss - OCI		**1,850**

December 31, 2015

Unrealized Gain or Loss - OCI	**9,550**	
FV-OCI Investments		**9,550**

(b)

February 13, 2016

FV-OCI Investments	**5,800**	
Unrealized Gain or Loss - OCI		**5,800**

($38,000 - $32,200)

Cash	**38,000**	
FV-OCI Investments		**38,000**

Retained Earnings	**1,900**	
Unrealized Gain or Loss - OCI		**1,900**

($39,900 - $38,000)

QUESTION 4 (25 marks)
Part 1 (12 marks)

Hayes Industries Corp. purchased the following assets during the current year.

Required

Provide the journal entries necessary to record the acquisition of each of the following five assets assuming that Hayes prepares financial statements in accordance with IFRS.

Assets 1 and 2 (2 marks)
These assets were purchased together for $100,000 cash. The following information was gathered:

Description	Initial Cost on Seller's Books	Depreciation to Date on Seller's Books	Book Value on Seller's Books	Appraised Value
Machinery	$100,000	$50,000	$50,000	$90,000
Office Equipment	60,000	10,000	50,000	30,000

Asset 3 (3 marks)
This machine was acquired by making a $10,000 down payment and issuing a $30,000, two-year, zero-interest-bearing note for the balance. The note is to be paid off in two $15,000 instalments made at the end of the first and second years. It was determined that the asset could have been purchased outright for $35,000.

Asset 4 (2 marks)
Office equipment was acquired by issuing 100 no par value common shares. The shares are actively traded and had a closing market price the day the office equipment was acquired of $9.25 per share. Alternatively, the office equipment could have been purchased for a cash price of $900.

Asset 5 (5 marks)
A machine was acquired by trading in an older machine that has the same value in use. The company remains in the same economic position after the exchange as before. Facts concerning the trade-in are as follows:

Cost of machine traded	$110,000
Accumulated depreciation to date of sale	44,000
Fair market value of machine traded	54,000
Cash received by Hayes	3,000
Fair market value of machine acquired	51,000

QUESTION 4 (25 marks) (continued)
Part 1 (12 marks) (continued)

Acquisition of Assets 1 and 2 (2 marks)

Use Appraised Values to break-out the lump-sum purchase

Description	Appraisal	%	Lump-Sum	Cost
Machinery	90,000	90/120	100,000	75,000
Office Equipment	30,000	30/120	100,000	25,000
	120,000			

Machinery	75,000	
Office Equipment.....	25,000	
Cash		100,000

Acquisition of Asset 3 (3 marks)

Use the cash price as a basis for recording the asset with a discount recorded on the note.

Machinery.....	35,000	
Cash.....		10,000
Notes Payable		25,000

(Alternatively, the Notes Payable could be recognized at $30,000 along with a Discount on Notes Payable of $5,000.)

The difference between the $25,000 notes payable and the future payments of $30,000 should be amortized to interest income over the two years.

Acquisition of Asset 4 (2 marks)

Under IFRS, the fair value of the office equipment acquired should be used to measure its acquisition cost.

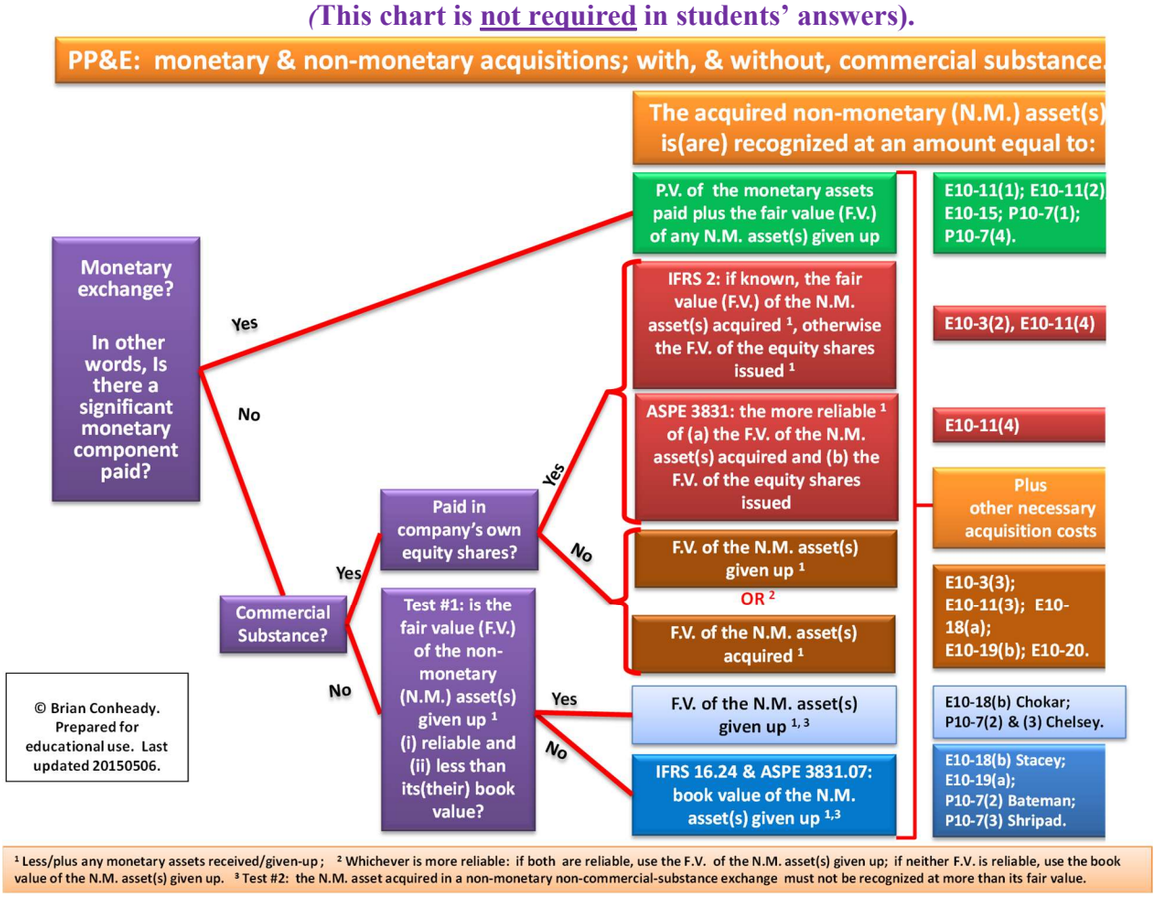
Office Equipment	900	
Common Shares		900

QUESTION 4 (25 marks) (continued)
Part 1 (12 marks) (continued)

Acquisition of Asset 5 (5 marks)

(This is a 'fair value cap' situation)	Debit	Credit
Cash	3,000	
Equipment (new)	51,000	
Loss on disposal of equipment = a **PLUG** figure	12,000	
Accumulated depreciation (old)	44,000	
Equipment (old)		110,000
Test #1: the old non-monetary asset's $66,000 carrying amount exceeds $51,000 [its $54,000 fair value less $3,000 cash received].		
Test #2: Test #1's $51,000 does not exceed the new non-monetary asset's $51,000 fair value: thus, recognize the new non-monetary asset at $51,000.		

(This chart is not required in students' answers).



QUESTION 4 (25 marks) (continued)
Part 2 (5 marks)

Sangakkara Corp. is listed on the Colombo Stock Exchange and following IFRS. The company purchased land with two old buildings on it as a factory site for $460,000. The property tax assessment on this property was $350,000: $250,000 for the land and the rest for the buildings. It took six months to tear down the old buildings and construct the factory.

The company paid $50,000 to raze the old buildings and sold salvaged lumber and brick for $6,300. Legal fees of $1,850 were paid for title investigation and drawing up the purchase contract. Payment to an engineering firm was made for a land survey, $2,200, and for drawing the factory plans, $82,000. The land survey had to be made before final plans could be drawn. The liability insurance premium that was paid during construction was $900. The contractor's charge for construction was $3,640,000. The company paid the contractor in two instalments: $1,200,000 at the end of three months and $2,440,000 upon completion.

Required

Determine costs as they should be recorded in (i) the land account and (ii) building account of Sangakkara Corp. Assume that the land survey was for the building. Show all supporting calculations.

The allocation of costs would be as follows:

	Land	Building
Land	**$460,000**	
Razing Costs	**50,000**	
Salvage	**(6,300)**	
Legal Fees	**1,850**	
Survey		**$2,200**
Plans		**82,000**
Liability Insurance		**900**
Construction		**3,640,000**
	$505,550	**$3,725,100**

QUESTION 4 (25 marks) (continued)
Part 3 (8 marks)

(a) On January 1, 2014, ABC Company acquires a plot of land at a cost of $200,000. The land is accounted for under the revaluation model and is revalued each two years, as shown in the following table.

Date of revaluation	Revalued amount
31/12/2016	$210,000
31/12/2018	$185,000

Required

Provide any necessary journal entries regarding the land on 31/12/2016 and 31/12/2018. (4 marks)

31/12/2016

Land	**10,000**	
Revaluation surplus (OCI)		**10,000**

31/12/2018

Revaluation surplus (OCI)	**10,000**	
Revaluation loss (NI)	**15,000**	
Land		**25,000**

(d) On January 1, 2014, XYZ Company acquires a plot of land at a cost of $200,000. The asset is accounted for under the revaluation model. The land is revalued each two years, as shown in the following table.

Date of revaluation	Revalued amount
31/12/2016	$190,000
31/12/2018	$215,000

Required

Provide any necessary journal entries regarding the land on 31/12/2016 and 31/12/2018. (4 marks)

31/12/2016

Revaluation loss (NI)	**10,000**	
Land		**10,000**

31/12/2018

Land	**25,000**	
Revaluation gain (NI)		**10,000**
Revaluation surplus (OCI)		**15,000**

QUESTION 5 (16 marks)
Part 1 (11 marks)

Due to unexpected strong global competition for its products Enniskerry Corp. has noticed indications that its manufacturing equipment may be impaired and provides you with the following details regarding its Equipment account at December 31, 2015.

Carrying amount (book value)	$4,000,000
Fair value	3,200,000
Costs of disposal	20,000
Undiscounted future cash flows from use and eventual sale	4,100,000
Present value of the future cash flows from use and eventual sale	3,500,000

Required

(a) Assume Enniskerry Corp. follows ASPE.
- i. Is the equipment impaired? Show all supporting calculations.
- ii. Must Enniskerry Corp.'s management perform the above [(a)i] calculation each year? Explain your answer.
- iii. If the equipment is impaired, provide the journal entry necessary to record the impairment.
- iv. Can an impairment loss on the equipment be reversed in subsequent periods, and, if so, is there a limit to such reversals? If there is a limit explain how it is calculated.

(b) Assume Enniskerry Corp. follows IFRS and has chosen to use the historic cost model rather than the revaluation model for its manufacturing equipment.
- i. Is the equipment impaired? Show all supporting calculations.
- ii. Must Enniskerry Corp.'s management perform the above [(b)i] calculation each year? Explain your answer.
- iii. If the equipment is impaired, provide the journal entry necessary to record the impairment.
- iv. Can an impairment loss on the equipment be reversed in subsequent periods and, if so, is there a limit to such reversals? If there is a limit explain how it is calculated.

(a) Assume Enniskerry Corp. follows ASPE.

i. Is the equipment impaired? Show all supporting calculations.

No, because the carrying amount $4,000,000 does not exceed $4,100,000, the sum of the undiscounted cash flows expected to result from its use and eventual disposition of.

ii. Must Enniskerry Corp.'s management perform the above [(a)i] calculation each year? Explain your answer.

No, because ASPE 3063.09 states 'A long-lived asset shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable'.

iii. If the equipment is impaired, provide the journal entry necessary to record the impairment.

Not impaired: no J/Es.

iv. Can an impairment loss on the equipment be reversed in subsequent periods and, if so, is there a limit to such reversals?

No. ASPE Section 3063.06: An impairment loss shall not be reversed if the fair value subsequently increases.

(b) Assume Enniskerry Corp. follows IFRS.

i. Is the equipment impaired? Show all supporting calculations.
Yes, because the carrying amount of $4,000,000 exceeds the recoverable amount (defined by IAS 36.6 - see Note 7 below) of $3,500,000 [which is the higher of the fair value $3,200,000 less the costs of disposal of $20,000 and the present value of the future cash flows from use and eventual sale $3,500,000].

ii. Must Enniskerry Corp.'s management perform the above [(b)i] calculation each year?
No, because IAS 36.9 stipulates 'An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.'

Comment: not required in students' answers.
IAS 36.110: An entity shall assess at the end of each reporting period whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable amount of that asset. (not required in students' answers]

iii. If the equipment is impaired, provide the journal entry necessary to record the impairment.

Impairment loss (equipment)	**500,000**	
Accumulated impairment loss (equi pment)*		**500,000**

***or, Equipment**

iv. Can an impairment loss on the equipment be reversed in subsequent periods and, if so, is there a limit to such reversals?
Yes, an impairment loss reversal can be recognized in a subsequent period under both the cost and revaluation models.

IAS 36.117: The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

The increased carrying amount of the asset due to an impairment loss reversal cannot exceed the asset's fair value.

QUESTION 5 (16 marks) (continued)
Part 2 (3 marks)

Zhou Industries Ltd. presents you with the following information:

Date purchased	June 30, 2013
Cost	$150,000
Residual value	$50,000
Life in years	10
Depreciation method	Double-declining-balance

Required

Determine the accumulated depreciation at December 31, 2015. Show all supporting calculations.

Cost, 30 June 2013:		**$150,000**
Year	**Depreciation expense**	**31/12 Carrying amount**
2013	**$15,000**	**$135,000**
2014	**28,500**	**106,500**
2015	**24,150**	**$82,350***
	$67,650	

$15,000 = $150,000 x 20% x 6/12
$28,500 = [($150,000 x 20% x 6/12) + ($135,000 x 20% x 6/12)]
$24,150 = [($135,000 x 20% x 6/12) + ($106,500 x 20% x 6/12)]

*carrying amount cannot be reduced to less than $50,000, the asset's residual value. **(This comment is not required in students' answers).**

Part 3 (2 marks)

Define *residual value*.

"The **residual value** is defined as the estimated amount a company would **receive today** if it disposed of the asset, less any related disposal costs, if the asset were at the **same age and condition expected at the end of its useful life**." Page 672, Kieso et al, 10th Can. Ed.

Financial Tables

Table 2: PRESENT VALUE of $1.00 that is received in the future.

Period/Per	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%
1	0.9900990	0.9803922	0.9708738	0.9615385	0.9523810	0.9433962	0.9345794	0.9259259	0.9174312	0.9090909	0.9009009	0.8928571
2	0.9802960	0.9611688	0.9425959	0.9245562	0.9070295	0.8899964	0.8734387	0.8573388	0.8416800	0.8264463	0.8116224	0.7971939
3	0.9705901	0.9423223	0.9151417	0.8889964	0.8638376	0.8396193	0.8162979	0.7938322	0.7721835	0.7513148	0.7311914	0.7117802
4	0.9609803	0.9238454	0.8884870	0.8548042	0.8227025	0.7920937	0.7628952	0.7350299	0.7084252	0.6830135	0.6587310	0.6355181
5	0.9514657	0.9057308	0.8626088	0.8219271	0.7835262	0.7472582	0.7129862	0.6805832	0.6499314	0.6209213	0.5934513	0.5674269
6	0.9420452	0.8879714	0.8374843	0.7903145	0.7462154	0.7049605	0.6663422	0.6301696	0.5962673	0.5644739	0.5346408	0.5066311
7	0.9327181	0.8705602	0.8130915	0.7599178	0.7106813	0.6650571	0.6227497	0.5834904	0.5470342	0.5131581	0.4816584	0.4523492
8	0.9234832	0.8534904	0.7894092	0.7306902	0.6768394	0.6274124	0.5820091	0.5402689	0.5018663	0.4665074	0.4339265	0.4038832
9	0.9143398	0.8367553	0.7664167	0.7025867	0.6446089	0.5918985	0.5439337	0.5002490	0.4604278	0.4240976	0.3909248	0.3606100
10	0.9052870	0.8203483	0.7440939	0.6755642	0.6139133	0.5583948	0.5083493	0.4631935	0.4224108	0.3855433	0.3521845	0.3219732
11	0.8963237	0.8042630	0.7224213	0.6495809	0.5846793	0.5267875	0.4750928	0.4288829	0.3875329	0.3504939	0.3172833	0.2874761
12	0.8874492	0.7884932	0.7013799	0.6245970	0.5568374	0.4969694	0.4440120	0.3971138	0.3555347	0.3186308	0.2858408	0.2566751
13	0.8786626	0.7730325	0.6809513	0.6005741	0.5303214	0.4688390	0.4149644	0.3676979	0.3261786	0.2896644	0.2575143	0.2291742
14	0.8699630	0.7578750	0.6611178	0.5774751	0.5050680	0.4423010	0.3878172	0.3404610	0.2992465	0.2633313	0.2319948	0.2046198
15	0.8613495	0.7430147	0.6418619	0.5552645	0.4810171	0.4172651	0.3624460	0.3152417	0.2745380	0.2393920	0.2090043	0.1826963
16	0.8528213	0.7284458	0.6231669	0.5339082	0.4581115	0.3936463	0.3387346	0.2918905	0.2518698	0.2176291	0.1882922	0.1631217
17	0.8443775	0.7141626	0.6050164	0.5133732	0.4362967	0.3713644	0.3165744	0.2702690	0.2310732	0.1978447	0.1696326	0.1456443
18	0.8360173	0.7001594	0.5873946	0.4936281	0.4155207	0.3503438	0.2958639	0.2502490	0.2119937	0.1798588	0.1528222	0.1300396
19	0.8277399	0.6864308	0.5702860	0.4746424	0.3957340	0.3305130	0.2765083	0.2317121	0.1944897	0.1635080	0.1376776	0.1161068
20	0.8195445	0.6729713	0.5536758	0.4563869	0.3768895	0.3118047	0.2584190	0.2145482	0.1784309	0.1486436	0.1240339	0.1036668
21	0.8114302	0.6597758	0.5375493	0.4388336	0.3589424	0.2941554	0.2415131	0.1986557	0.1636981	0.1351306	0.1117423	0.0925596
22	0.8033962	0.6468390	0.5218925	0.4219554	0.3418499	0.2775051	0.2257132	0.1839405	0.1501817	0.1228460	0.1006687	0.0826425
23	0.7954418	0.6341559	0.5066917	0.4057263	0.3255713	0.2617973	0.2109469	0.1703153	0.1377814	0.1116782	0.0906925	0.0737880
24	0.7875661	0.6217215	0.4919337	0.3901215	0.3100679	0.2469785	0.1971466	0.1576993	0.1264049	0.1015256	0.0817050	0.0658821
25	0.7797684	0.6095309	0.4776056	0.3751168	0.2953028	0.2329986	0.1842492	0.1460179	0.1159678	0.0922960	0.0736081	0.0588233
26	0.7720480	0.5975793	0.4636947	0.3606892	0.2812407	0.2198100	0.1721955	0.1352018	0.1063925	0.0839055	0.0663136	0.0525208
27	0.7644039	0.5858620	0.4501891	0.3468166	0.2678483	0.2073680	0.1609304	0.1251868	0.0976078	0.0762777	0.0597420	0.0468936
28	0.7568356	0.5743746	0.4370768	0.3334775	0.2550936	0.1956301	0.1504022	0.1159137	0.0895484	0.0693433	0.0538216	0.0418693
29	0.7493421	0.5631123	0.4243464	0.3206514	0.2429463	0.1845567	0.1405628	0.1073275	0.0821545	0.0630394	0.0484879	0.0373833
30	0.7419229	0.5520709	0.4119868	0.3083187	0.2313774	0.1741101	0.1313671	0.0993773	0.0753711	0.0573086	0.0436828	0.0333779
31	0.7345771	0.5412460	0.3999871	0.2964603	0.2203595	0.1642548	0.1227730	0.0920160	0.0691478	0.0520987	0.0393539	0.0298017
32	0.7273041	0.5306333	0.3883370	0.2850579	0.2098662	0.1549574	0.1147411	0.0852000	0.0634384	0.0473624	0.0354540	0.0266087
33	0.7201031	0.5202287	0.3770262	0.2740942	0.1998725	0.1461862	0.1072347	0.0788889	0.0582003	0.0430568	0.0319405	0.0237577
34	0.7129733	0.5100282	0.3660449	0.2635521	0.1903548	0.1379115	0.1002193	0.0730453	0.0533948	0.0391425	0.0287752	0.0212123
35	0.7059142	0.5000276	0.3553834	0.2534155	0.1812903	0.1301052	0.0936629	0.0676345	0.0489861	0.0355841	0.0259236	0.0189395
36	0.6989249	0.4902232	0.3450324	0.2436687	0.1726574	0.1227408	0.0875355	0.0626246	0.0449413	0.0323492	0.0233546	0.0169103
37	0.6920049	0.4806109	0.3349829	0.2342968	0.1644356	0.1157932	0.0818088	0.0579857	0.0412306	0.0294083	0.0210402	0.0150985
38	0.6851534	0.4711872	0.3252262	0.2252854	0.1566054	0.1092389	0.0764569	0.0536905	0.0378262	0.0267349	0.0189551	0.0134808
39	0.6783697	0.4619482	0.3157535	0.2166206	0.1491480	0.1030555	0.0714550	0.0497134	0.0347030	0.0243044	0.0170767	0.0120364
40	0.6716531	0.4528904	0.3065568	0.2082890	0.1420457	0.0972222	0.0667804	0.0460309	0.0318376	0.0220949	0.0153844	0.0107468

Table 4: PRESENT VALUE of Annuity of $1.00 in arrears.												
Period/Per	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%
1	0.990099	0.980392	0.970874	0.961538	0.952381	0.943396	0.934579	0.925926	0.917431	0.909091	0.900901	0.892857
2	1.970395	1.941561	1.913470	1.886095	1.859410	1.833393	1.808018	1.783265	1.759111	1.735537	1.712523	1.690051
3	2.940985	2.883883	2.828611	2.775091	2.723248	2.673012	2.624316	2.577097	2.531295	2.486852	2.443715	2.401831
4	3.901966	3.807729	3.717098	3.629895	3.545951	3.465106	3.387211	3.312127	3.239720	3.169865	3.102446	3.037349
5	4.853431	4.713460	4.579707	4.451822	4.329477	4.212364	4.100197	3.992710	3.889651	3.790787	3.695897	3.604776
6	5.795476	5.601431	5.417191	5.242137	5.075692	4.917324	4.766540	4.622880	4.485919	4.355261	4.230538	4.111407
7	6.728195	6.471991	6.230283	6.002055	5.786373	5.582381	5.389289	5.206370	5.032953	4.868419	4.712196	4.563757
8	7.651678	7.325481	7.019692	6.732745	6.463213	6.209794	5.971299	5.746639	5.534819	5.334926	5.146123	4.967640
9	8.566018	8.162237	7.786109	7.435332	7.107822	6.801692	6.515232	6.246888	5.995247	5.759024	5.537048	5.328250
10	9.471305	8.982585	8.530203	8.110896	7.721735	7.360087	7.023582	6.710081	6.417658	6.144567	5.889232	5.650223
11	10.367628	9.786848	9.252624	8.760477	8.306414	7.886875	7.498674	7.138964	6.805191	6.495061	6.206515	5.937699
12	11.255077	10.575341	9.954004	9.385074	8.863252	8.383844	7.942686	7.536078	7.160725	6.813692	6.492356	6.194374
13	12.133740	11.348374	10.634955	9.985648	9.393573	8.852683	8.357651	7.903776	7.486904	7.103356	6.749870	6.423548
14	13.003703	12.106249	11.296073	10.563123	9.898641	9.294984	8.745468	8.244237	7.786150	7.366687	6.981865	6.628168
15	13.865053	12.849264	11.937935	11.118387	10.379658	9.712249	9.107914	8.559479	8.060688	7.606080	7.190870	6.810864
16	14.717874	13.577709	12.561102	11.652296	10.837770	10.105895	9.446649	8.851369	8.312558	7.823709	7.379162	6.973986
17	15.562251	14.291872	13.166118	12.165669	11.274066	10.477260	9.763223	9.121638	8.543631	8.021553	7.548794	7.119630
18	16.398269	14.992031	13.753513	12.659297	11.689587	10.827603	10.059087	9.371887	8.755625	8.201412	7.701617	7.249670
19	17.226008	15.678462	14.323799	13.133939	12.085321	11.158116	10.335595	9.603599	8.950115	8.364920	7.839294	7.365777
20	18.045553	16.351433	14.877475	13.590326	12.462210	11.469921	10.594014	9.818147	9.128546	8.513564	7.963328	7.469444
21	18.856983	17.011209	15.415024	14.029160	12.821153	11.764077	10.835527	10.016803	9.292244	8.648694	8.075070	7.562003
22	19.660379	17.658048	15.936917	14.451115	13.163003	12.041582	11.061240	10.200744	9.442425	8.771540	8.175739	7.644646
23	20.455821	18.292204	16.443608	14.856842	13.488574	12.303379	11.272187	10.371059	9.580207	8.883218	8.266432	7.718434
24	21.243387	18.913926	16.935542	15.246963	13.798642	12.550358	11.469334	10.528758	9.706612	8.984744	8.348137	7.784316
25	22.023156	19.523456	17.413148	15.622080	14.093945	12.783356	11.653583	10.674776	9.822580	9.077040	8.421745	7.843139
26	22.795204	20.121036	17.876842	15.982769	14.375185	13.003166	11.825779	10.809978	9.928972	9.160945	8.488058	7.895660
27	23.559608	20.706898	18.327031	16.329586	14.643034	13.210534	11.986709	10.935165	10.026580	9.237223	8.547800	7.942554
28	24.316443	21.281272	18.764108	16.663063	14.898127	13.406164	12.137111	11.051078	10.116128	9.306567	8.601622	7.984423
29	25.065785	21.844385	19.188455	16.983715	15.141074	13.590721	12.277674	11.158406	10.198283	9.369606	8.650110	8.021806
30	25.807708	22.396456	19.600441	17.292033	15.372451	13.764831	12.409041	11.257783	10.273654	9.426914	8.693793	8.055184
31	26.542285	22.937702	20.000428	17.588494	15.592811	13.929086	12.531814	11.349799	10.342802	9.479013	8.733146	8.084986
32	27.269589	23.468335	20.388766	17.873551	15.802677	14.084043	12.646555	11.434999	10.406240	9.526376	8.768600	8.111594
33	27.989693	23.988564	20.765792	18.147646	16.002549	14.230230	12.753790	11.513888	10.464441	9.569432	8.800541	8.135352
34	28.702666	24.498592	21.131837	18.411198	16.192904	14.368141	12.854009	11.586934	10.517835	9.608575	8.829316	8.156564
35	29.408580	24.998619	21.487220	18.664613	16.374194	14.498246	12.947672	11.654568	10.566821	9.644159	8.855240	8.175504
36	30.107505	25.488842	21.832252	18.908282	16.546852	14.620987	13.035208	11.717193	10.611763	9.676508	8.878594	8.192414
37	30.799510	25.969453	22.167235	19.142579	16.711287	14.736780	13.117017	11.775179	10.652993	9.705917	8.899635	8.207513
38	31.484663	26.440641	22.492462	19.367864	16.867893	14.846019	13.193473	11.828869	10.690820	9.732651	8.918590	8.220993
39	32.163033	26.902589	22.808215	19.584485	17.017041	14.949075	13.264928	11.878582	10.725523	9.756956	8.935666	8.233030
40	32.834686	27.355479	23.114772	19.792774	17.159086	15.046297	13.331709	11.924613	10.757360	9.779051	8.951051	8.243777