**COM 202 Class Preparation – September 16th**

**Parker DeBruyne**

**V00837207**

**BE1.1** **(**[**LO 1**](https://jigsaw.vitalsource.com/books/9781119594543/epub/OPS/c01.xhtml?favre=brett#c01-feafxd-0004)**)** The following list presents different types of evaluations made by various users of accounting information:

1. Determining if the company can pay for purchases made on account
2. Determining if the company has complied with income tax regulations
3. Determining if the company could afford a 1% salary increase
4. Determining if an advertising campaign was cost-effective
5. Determining if the company’s net income may result in a share price increase
6. Determining if the company should use debt or equity financing
   1. Beside each user of accounting information listed in the left-hand column of the table that follows, write the number of the evaluation above (1 to 6) that the user would most likely make.
   2. Indicate if the user is internal or external. The first item has been done for you as an example.

|  | **(a) Type of Evaluation** | **(b) Type of User** |
| --- | --- | --- |
| Investor | 5 | External |
| Marketing manager | 4 | Internal |
| Creditor | 1 | External |
| Chief financial officer | 6 | Internal |
| Canada Revenue Agency | 2 | External |
| Labour union | 3 | External |

*Identify forms of business organization*.

**BE1.2** **(**[**LO 2**](https://jigsaw.vitalsource.com/books/9781119594543/epub/OPS/c01.xhtml?favre=brett#c01-feafxd-0006)**)** Match each of the following forms of business organization—(1) proprietorship, (2) partnership, (3) public corporation, or (4) private corporation—with the set of characteristics that best describes it.

1. \_\_(1)\_\_ Simple to set up; founder retains control
2. \_\_(4)\_\_ Separate legal entity; shares closely held
3. \_\_(3)\_\_ Easier to transfer ownership and raise funds; no personal liability
4. \_\_(2)\_\_ Shared control; increased skills and resources
5. \_\_(4)\_\_ Issues shares; can choose to follow IFRS or ASPE accounting standards

*Identify business activities and cash impact*.

**BE1.5** **(**[**LO 4**](https://jigsaw.vitalsource.com/books/9781119594543/epub/OPS/c01.xhtml?favre=brett#c01-feafxd-0013)**)** Use the accounting equation to answer these independent questions:

ASSETS = LIABILITIES + SHAREHOLDERS' EQUITY

1. The shareholders’ equity of Sansom Corporation is $120,000. Its total liabilities are $55,000. What is the amount of Sansom’s total assets?

$175,000

1. The liabilities of Houle Corporation are $170,000. Houle’s share capital is $100,000 and its retained earnings are $90,000. What is the amount of Houle’s total assets?

$360,000

1. The total assets of Pitre Limited are $150,000. Its share capital is $50,000 and its retained earnings are $25,000. What is the amount of its total liabilities?

$75,000

1. The total assets of Budovitch Inc. are $500,000 and its liabilities are equal to half its total assets. What is the amount of Budovitch’s shareholders’ equity?

$250,000

*Use accounting equation*.

**BE1.6** **(**[**LO 4**](https://jigsaw.vitalsource.com/books/9781119594543/epub/OPS/c01.xhtml?favre=brett#c01-feafxd-0013)**)** At the beginning of the year, Xul Ltd. had total assets of $720,000 and total liabilities of $420,000. Use this information to answer each of the following independent questions.

1. If Xul’s total assets increased by $250,000 during the year and total liabilities decreased by $80,000, what is the amount of shareholders’ equity at the end of the year?

Total Assets = $720,000

Total Liabilities = $420,000

Total Shareholders’ Equity = $300,000

Total Assets + Increase = $970,000

Total Liabilities + Decrease = $340,000

Total Shareholders’ Equity at year end = $630,000

1. During the year, Xul’s total liabilities decreased by $100,000. The company reported net income of $90,000, sold additional shares for $125,000, and did not declare any dividends during the year. What is the amount of total assets at the end of the year?

Total Assets at year start = $720,000

Total Liabilities = $420,000

Total Shareholders’ Equity = $300,000

Total Assets at year end = $720,000 - $100,000 + $90,000 + $125,00 = $835,000

Total Liabilities + Decrease = $320,000

Total Shareholders’ Equity = $300,000 + $90,000 + $125,000 = $515,000

1. If Xul’s total assets decreased by $90,000 during the year and shareholders’ equity increased by $120,000, what is the amount of total liabilities at the end of the year?

*Identify financial statement*.

Total Assets at year start = $720,000

Total Liabilities = $420,000

Total Shareholders’ Equity = $300,000

Total Assets + Drop = $630,000

Total Liabilities = $210,000

Total Shareholders’ Equity = $420,000

**BE2.9** **(**[**LO 3**](https://jigsaw.vitalsource.com/books/9781119594543/epub/OPS/c02.xhtml?favre=brett#c02-feafxd-0018)**)** The following selected items relate to the qualitative characteristics and the constraint on of useful financial information discussed in this chapter:

1. Comparability
2. Completeness
3. Confirmatory value
4. Cost constraint
5. Faithful representation
6. Free from material error
7. Materiality
8. Neutrality
9. Predictive value
10. Relevance
11. Timeliness
12. Understandability
13. Verifiability

Match each characteristic to one of the statements below:

1. \_\_7\_\_ Information that has predictive and confirmatory value and is material has this fundamental qualitative characteristic.
2. \_\_13\_\_ Information that is complete, neutral, and free of material error has this fundamental qualitative characteristic.
3. \_\_6\_\_ Public accountants perform audits to determine this enhancing qualitative characteristic.
4. \_\_8\_\_ This quality requires that we should not select information to favour one position over another.
5. \_\_12\_\_ This enhancing qualitative characteristic describes information that a reasonably informed user can interpret and comprehend.
6. \_\_9\_\_ When information provides a basis for forecasting income for future periods, it is said to have this quality.
7. \_\_1\_\_ This enhancing qualitative characteristic requires that similar companies should apply the same accounting principles to similar events for successive accounting periods.
8. \_\_2\_\_ This quality results in information that has nothing important omitted.
9. \_\_4\_\_ This restriction requires that the value of the information presented should be greater than the cost of providing it.
10. \_\_3\_\_ This quality describes information that confirms or corrects users’ prior expectations.
11. \_\_11\_\_ This enhancing qualitative characteristic requires that information be available to decision makers before it loses its ability to influence their decisions.
12. \_\_5\_\_ Faithful representation means that information is complete, neutral, and this third quality.
13. \_\_10\_\_ This quality allows items of insignificance that would not likely influence a decision not to be disclosed.

*Identify bases of measurement*.

P1.9A (LO 4) Incomplete financial statements for Baxter Inc. follow.

**Instructions**

1. Calculate the missing amounts for [1] to [13]. Note that you may not be able to solve the items in numerical order.

[See Financial Statements Below]

1. Explain **(1)** the sequence for preparing the financial statements, and **(2)** the interrelationships among the statement of income, statement of changes in equity, and statement of financial position.

The sequence for preparing the financial statements is:

* + 1. Statement of Income
    2. Statement of Changes In Equity
    3. Statement of Financial Position
    4. Statement of Cash Flows

You need the NET INCOME from your Statement of Income for your Statement of Changes in Equity, then you need your TOTAL EQUITY from your Statement of Chances in Equity for your Statement of Financial Position, and finally you need your CASH amount from your Statement of Financial Position for your Statement of Cash Flows.

*Prepare corrected statement of financial position; identify financial statements for ASPE*.

| **Baxter Inc. Statement of Income Year Ended November 30, 2021** | |
| --- | --- |
| Service revenue | $225,000 |
| Operating expenses | $180,000 |
| Income before income tax | 45,000 |
| Income tax expense | 9,000 |
| Net income | $36,000 |

| **Baxter Inc. Statement of Changes in Equity Year Ended November 30, 2021** | | | |
| --- | --- | --- | --- |
|  | **Common Shares** | **Retained Earnings** | **Total Equity** |
| Balance, December 1, 2020 | $0 | $0 | $0 |
| Issued common shares | 250,000 |  | 250,000 |
| Net income |  | 36,000 | 36,000 |
| Dividends declared |  | (15,000) | (15,000) |
| Balance, November 30, 2021 | $250,000 | $ 21,000 | $271,000 |

| **Baxter Inc. Statement of Financial Position November 30, 2021** | | | |
| --- | --- | --- | --- |
| **Assets** | | **Liabilities and Shareholders’ Equity** | |
| Cash | $ 22,000 | Liabilities |  |
| Accounts receivable | 34,000 | Accounts payable | $93,000 |
| Land | $300,000 | Bank loan payable | 600,000 |
| Buildings | 390,000 | Total liabilities | 693,000 |
| Equipment | 218,000 | Shareholders’ equity |  |
| Total assets | $964,000 | Common shares | $250,000 |
|  |  | Retained earnings | $21,000 |
|  |  | Total shareholders’ equity | $271,000 |
|  |  | Total liabilities and shareholders’ equity | $964,000 |