COMM 217 Final Exam Review Questions Fall 2018

Financial Accounting (Concordia University)

CHAPTER 5 – CASH FLOWS

You have been provided with the following set of financial statements for Laurier Inc, a private baked goods company located in Montreal's Mile End neighborhood.

LAURIER INC
COMPARATIVE STATEMENTS OF FINANCIAL POSITION
as reported at December 31, 2018

	2018	**2017**
ASSETS		
Cash	$ 32,200.00	$ 34,000.00
Short term Investments	$ 2,000.00	$ 8,000.00
Accounts Receiavble	$ 56,300.00	$ 10,600.00
Inventory	$10,000.00	$ 30,000.00
Furniture and fixtures	$ 59,000.00	$ 26,000.00
Accumulated Depreciation	-$ 24,000.00	-$ 12,000.00
Long Term Investments	$ 2,000.00	$ 3,000.00
LIABILITIES & SHAREHOLDERS' EQUITY		
Bank Loan - due on Jan 1. 2019	$ 18,000.00	$ 8,000.00
Accounts Payable	$ 17,000.00	$ 13,100.00
Bonds Payable - due on Jan 1. 2029	$ 28,000.00	$ -
Common Shares	$ 24,000.00	$ 22,000.00
Retained Earnings	$ 19,300.00	$ 25,300.00

LAURIER INC
COMPARATIVE STATEMENTS OF EARNING
as reported at December 31, 2018

	2018	**2017**
Sales Revenue	$ 980,000.00	$ 880,000.00
Cost of Goods Sold	-$ 640,000.00	-$ 560,000.00
Gross Profit	$ 340,000.00	$ 320,000.00
Operating Expenses		
Depreciation Expense	-$ 15,200.00	-$ 12,000.00
Selling & General Expenses	-$ 298,800.00	-$ 288,000.00
Earnings from Operations	$ 26,000.00	$ 20,000.00
Non-Operating Items		
Interest Expense	-$ 9,600.00	-$ 3,200.00
Loss on Sale of Furniture	-$ 1,200.00	$ -
Gain on Sale of Investments	$ 800.00	$ -
Earnings before Income Tax	$ 16,000.00	$ 16,800.00
Income Tax Expense	-$ 4,000.00	-$ 4,200.00
<u>Net Earnings</u>	<u>$ 12,000.00</u>	<u>$ 12,600.00</u>

Additional Information:

(1) During 2018, Laurier Inc sold one of the short term investments for cash.

(2) During 2018, Laurier Inc sold damaged furniture for cash with an original cost of $5,000 and accumulated depreciation of $3,200; it also acquired additional equipment for cash.

(3) Dividends were declared and paid-in full

(4) LT investments were sold at their book value for cash.

Required:

Prepare a complete Statement of Cash Flows using the indirect method for the year ending 2018.

CHAPTER 8 – LONG LIVED ASSETS

Papineau Inc is a jewelry manufacturer based in Montreal, Quebec with a fiscal year end of December 31.

On January 1, 2017 the company paid $350,000 for new equipment and an acre of land from HGS Industries. The fair market values of the land was assessed at $240,000 and $160,000 for the equipment. Papineau Inc signed a $250,000 note payable and paid the remaining balance in cash for this acquisition on January 1, 2017.

The company incurred the following costs on Jan 1. 2017 and paid cash:

Installation of equipment	$570
Transportation of equipment (paid by HGS Industries)	$230
Title fees at acquisition for land	$2,000
Replacement of power supply in equipment before use	$1,000

Papineau Inc will also require a maintenance cleaning and check-up of the equipment from Industrial Cleaning Inc every September 30 at a cost of $125.

The equipment has the following additional information:

- Residual value $6,000
- Estimated useful life (years) 10
- Estimated useful life (units) 100,000
- Number of units produced in 2017 9,000

Required:

1. Record the journal entries related to Papineau's acquisition of the land and equipment.
2. Suppose Papineau sold the equipment on September 30, 2017 for cash of $125.000. Consider each of the following in-dependent scenarios based on the above information and prepare <u>all journal entries</u> required on September 30, 2017:

a) Assume Papineau Inc used the units-of-production method for depreciation

b) Assume Papineau Inc used the double-declining method for depreciation

c) Assume Papineau Inc used the straight-line method for depreciation

3. If the land was sold on January 1, 2020 for $500,000:

a) What would be the depreciation expense at this date?

b) Record the necessary journal entry for this transaction.

CHAPTER 7 – INVENTORY

Cote Vertu Inc sells phone chargers at various metro stations in Montreal. The following information for the month of December is compiled by the company's accounting technician:

Date	Transaction	Units	Cost per unit	Selling price
Dec 1	Beginning Balance	100	$15.00	
Dec 4	Sale	80	$18.00	$20.00
Dec 11	Purchase	150	$16.50	
Dec 13	Sale	120	$18.75	$21.00
Dec 20	Purchase	160	$17.00	
Dec 27	Sale	100	$20.00	$22.00

The company uses the perpetual inventory system and the weighted average costing method. All purchases and sales are made on account.

Required:

1. Calculate the ending inventory in units and in dollars as well as the cost of goods sold at December 31.
2. Calculate gross profit for the month of December.
3. What would be beginning inventory at January 1, 2019? Show calculations if needed.

CHAPTER 10 – LONG TERM LIABILITIES (BONDS)

Snowdon Inc is a large apparel company located in Montreal's NDG-CDN neighborhood. The company has decided to expand its operations outside of Quebec and issue bonds to help with the costs of this expansion. On January 1, 2018 Snowdon Inc issued $25,000,000 in long-term bonds with the following specifications:

Maturity Date	Jan 1, 2028
Coupon Rate	7%
Payments made	every January 1
Market Rate at issuance	8%

The company has elected to use the effective interest method for accounting the bonds and has a December 31 year end.

Below are the market rates reported throughout the life of the bond:

2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
8%	10.5%	11%	9%	10%	10.5%	11%	10.25%	10%	10.5%

Required:

1. Prepare the journal entry for the issuance of the bonds.
2. Prepare the required journal entries at the following dates:
   i) December 31, 2018
   ii) January 1, 2019
   iii) December 31, 2019
   iv) January 1, 2020
3. On February 1, 2020, Snowdon redeemed 80% of the bonds; at this time bonds were selling at 104. Record the journal entry for this transaction.
4. What would be the total interest expense recorded over the life of the bond at January 1, 2028?

CHAPTER 11 – SHAREHOLDERS' EQUITY

Joliette Company, a public company in Montreal's Hochelaga-Maisonneuve neighborhood, reported the following amounts on their Statement of Financial Position at December 31, 2017.

Preferred Shares, $8 dividend (10,000 shares authorized, 2,000 issued)	$200,000
Common Shares, (100,000 shares authorized, 25,000 issued)	$100,000
Contributed Surplus	$155,000
Retained Earnings	$250,000
Total Shareholders' Equity	**$705,000**

During 2018, the following transactions took place:

1. Paid the annual dividend on preferred shares and a $3 per share dividend on common shares. These dividends had been declared on December 31, 2017.
2. Repurchased 3,700 common shares for $35 per share and cancelled them.
3. Issued 1,000 preferred shares at $105 per share (at the beginning of the year).
4. Declared a 10% stock dividend on the outstanding common shares when the shares were selling for $45 per share.
5. Issued the stock dividend.
6. Declared the annual dividend on preferred shares and a $2 per share dividend on common shares on December 31, 2018.

Additional Information:

- Contributed Surplus arose from excess of proceeds over cost on previous cancellation of common shares.
- Total Assets at December 31, 2018 were $1,916,000
- Gross profit, operating expenses and income tax expense for 2018 were reported as $1,000,000, $500,000 and $50,000 respectively.

Required:

1. Prepare the journal entries required for each transaction

2. Prepare the Shareholders' Equity section of the Statement of Financial Position at December 31, 2018 year end.

3. What would Total Liabilities be equal to at December 31, 2018? Show your calculation.