



# COMM 217 Final Exam Review Solution

Financial Accounting (Concordia University)



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## SHAREHOLDERS' EQUITY (Chapter 11)

(Fall 2020 Final Exam – #15 to #17)

Use the following information to answer questions 15-17.

Vegan's Delight Foods (VDF) Incorporated reported the following balances in its shareholders' equity accounts as of January 1, 2020:

Preferred shares, \$2 (20,000 shares authorized, 15,000 shares issued)	\$375,000
Common shares (50,000 authorized, 30,000 issued)	250,000
Contributed surplus	10,000
Retained earnings	250,000

- 15) On January 15, 2020, VDF paid the annual dividend on preferred shares and a dividend of \$3 per common share. These dividends had been declared on December 31, 2019. Which of the following journal entries is correct?

- ☒ a. Retained earnings 210,000  
Cash 210,000
- b. Dividends declared 120,000  
Dividends payable – preferred 30,000  
Dividends payable – common 90,000
- ☒ c. Dividends payable – preferred 30,000  
Dividends payable – common 90,000  
Cash 120,000
- d. Dividends payable – preferred 60,000  
Dividends payable – common 150,000  
Cash 210,000

$$\begin{aligned} P/S &: 15,000 \times 2 = 30,000\$ \\ C/S &: 30,000 \times 3 = 90,000\$ \\ \hline &120,000\$ \end{aligned}$$

decrease  
decrease  
decrease

- 16) VDF sold and issued on February 1, 2020, 20,000 common shares and received \$10 cash per share. What is the balance of the Common Shares account after the issuance?

- ☒ a) \$450,000  
b) \$416,667  
c) \$50,000  
d) \$250,000  
e) None of the above amounts.

$$\begin{aligned} \text{Beg. Jan. 1} & \quad C/S \quad 250,000 \\ \text{Feb. 1} & \quad 20,000 \times 10\$ = 200,000 \\ \hline \text{Balance} & \quad C/S \quad 450,000 \end{aligned}$$

- ~~17) VDF purchased on May 31, 2020, 2,000 of its own common shares at \$20 per share and cancelled them. This transaction is recorded by debiting the following account(s):~~

- ~~a) Common Shares for \$40,000.~~  
~~b) Common Shares for \$18,000 and Retained Earnings for \$22,000.~~  
~~c) Common Shares for \$18,000 and Loss on Repurchase of Shares for \$22,000.~~  
~~d) Common Shares for \$16,667, Contributed Surplus for \$10,000, and Retained Earnings for \$13,333.~~  
☒ e) Common Shares for \$18,000, Contributed Surplus for \$10,000 and Retained Earnings for \$12,000.

## LONG-LIVED ASSETS (Chapter 8)

### (Fall 2020, Exam 2 – Question 4)

#### Question 4: Long-lived Assets (14 marks)

Following its business plan to expand to North America, Walton Corporation decided to open its first branch in Toronto. On January 1, 2019, Walton Corporation made the purchase of land, building, and furniture and fixtures to begin its operations. The following expenses were incurred:

- ✓ – Basket purchase of land, building, furniture and fixtures: \$313,000
- ✓ – Legal fees: \$7,000.
- ✗ – Delivery of furniture and fixtures incurred by supplier: \$2,500
- ✓ – Additional fees to prepare the building for usage: \$2,000
- ✗ – Financing cost to finance the purchase: \$6,000

#### Additional information

- Appraised values at the time of the purchase were: land \$70,000; building, \$227,500; and furniture and fixtures, \$52,500.
- The fiscal year of Walton Corporation ends on December 31. Depreciation of the building, furniture, and fixtures started on January 1, 2019.

#### Required:

- a) Determine the amounts that should be recorded for the land, building, and furniture and fixtures as at January 1, 2019. **(5 marks)**
- b) The building had an estimated useful life of 20 years and residual value of \$30,000. Prepare the journal entry to record depreciation for the building in 2019 using the straight-line method. **(2 marks)**
- ✗ c) Furniture and fixtures are expected to have useful lives of 5 years and a residual value of 4,000. Calculate the amount of depreciation on the furniture and fixtures for 2020, assuming that Walton uses the double-declining balance method of depreciation for such assets (round to the nearest dollar)? **(2 marks)**
- ✗ d) Assume that the carrying amount (book value) of the furniture and fixtures is \$6,221 at December 31, 2022. Prepare the journal entry to record the depreciation for 2023. **(3 marks)**
- e) Walton sold the furniture and fixtures on January 1, 2024 for \$5,000 in cash, record any necessary journal entries related to this transaction. **(2 marks)**

a).

	AV		BV
Land	70,000	$\frac{70k}{250k} \times 320k$	64,000
Building	227,500	$\frac{227,500}{350k} \times 320k$	208,000 + 2000 = 210k
F & F	52,500	$\frac{52,500}{350k} \times 320k$	48,000
	<u>350,000</u>		<u>320,000</u> + 2k =

Total Acquisition Cost
Basket Price 313,000
Legal Fees 7,000
<u>320,000</u>

$$\begin{aligned}
 \text{b) dep. exp} &= \frac{\text{Cost} - \text{RV}}{\text{Useful life}} \\
 &= \frac{210k - 30k}{20} \\
 &= 9000
 \end{aligned}$$

$$\text{Acc. dep. } 9000 \overset{A}{=} (+XA, -A) + \overset{SE}{\text{dep. exp. } 9000}$$

(e) 5 years.

1/1/2019		1/1/2024
Buy the F&F 48000	dep: $\frac{48000 - 4000}{5} = 8800$	Sold it 5000

A

=

L

+

S E

F&F	-48,000				
Acc. dep.	-44,000	(-XA, +A)			
Cash	+5,000				
				Gain on disposal	+1,000

## FINANCIAL STATEMENT & RATIO ANALYSIS (Chapter 12)

(Fall 2020 Final Exam – #21 to #29)

Use the following information for questions 21-29.

Comparative financial statement data of ABC Hardware Ltd. are as follows:

<b>ABC HARDWARE LTD.</b>		
<b>Comparative Statement of Earnings</b>		
<b>For the Years Ended December 31, 2020 and 2019</b>		
	<b>2020</b>	<b>2019</b>
Net sales .....	\$ 351,500	\$ 310,000
Cost of sales .....	<u>201,000</u>	<u>155,000</u>
Gross profit .....	150,500	155,000
Operating expenses .....	<u>65,000</u>	<u>71,000</u>
Earnings from operations .....	85,500	84,000
Interest expense .....	<u>26,000</u>	<u>20,000</u>
Earnings before income tax .....	59,500	64,000
Income tax expense .....	<u>19,000</u>	<u>22,500</u>
Net Earnings .....	<u>\$ 40,500</u>	<u>\$ 41,500</u>

<b>ABC HARDWARE LTD.</b>			
<b>Comparative Statement of Financial Position December 31, 2020 and 2019</b>			
<b>(and selected account balances at December 31, 2018)</b>			
	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Current assets:</b>			
Cash .....	\$ 20,000	\$ 20,000	\$ 15,000
Short-term investments .....	1,000	5,000	0
Accounts receivables, net .....	116,000	80,500	62,500
Inventories .....	149,000	137,000	86,000
Prepaid expenses .....	<u>6,000</u>	<u>9,000</u>	
Total current assets .....	292,000	251,500	
Property, plant, and equipment, net .....	<u>154,500</u>	<u>143,500</u>	
Total assets .....	<u>\$446,500</u>	<u>\$395,000</u>	351,500
Total current liabilities .....	\$141,000	\$138,500	
Long- term liabilities .....	<u>114,500</u>	<u>121,000</u>	
Total liabilities .....	255,500	259,500	
Preferred shares .....	25,000	25,000	
Common shares .....	80,000	65,000	65,000
Retained earnings .....	<u>86,000</u>	<u>45,500</u>	19,000
Total liabilities and shareholders' equity .....	<u>\$446,500</u>	<u>\$395,000</u>	

**Other information:**

- a. The market price of ABC Hardware Ltd. common shares was \$19.00 on December 31, 2020 and \$31.00 on December 31, 2019.
- b. The weighted-average number of common shares outstanding was 15,000 during 2020 and 12,000 during 2019.
- c. All sales are on credit.
- d. Cash provided by operating activities (before interest and tax payments) was \$78,000 in 2020 and \$80,000 in 2019. In addition, the company paid interest of \$26,000 in 2020 and \$20,000 in 2019.

21) Calculate ABC Hardware Ltd.'s quick ratio for **2020**.

- a) 0.97
  - b) 0.14
  - c) 0.15
  - d) 2.07
  - e) None of the above numbers.
- $$= \frac{\text{Cash} + \text{ST Investment} + \text{A/R}}{\text{Current Liability}} = \frac{20,000 + 1,000 + 116,000}{141,000} = 0.9716$$

22) What is ABC Hardware Ltd.'s Inventory turnover for **2020**?

- a) 1.41
  - b) 2.46
  - c) 1.35
  - d) 1.13
  - e) None of the above numbers.
- $$\frac{\text{COGS}}{\text{Avg. Inventory}} = \frac{201,000}{\frac{(137,000 + 149,000)}{2}} = 1.4056$$

23) The inventory turnover ratio

- a) Is used to analyze profitability
  - b) Is used to measure solvency
  - c) Depends on the type of inventory valuation method
  - d) Validates the acid-test ratio
  - e) Measures how quickly a firm sells its merchandise inventory
- FIFO/WA

24) Calculate ABC Hardware Ltd.'s accounts receivable turnover ratio for **2020**.

- a) 3.03
  - b) 3.58
  - c) 3.85
  - d) 2.05
  - e) None of the above numbers.
- $$= \frac{\text{Net Credit Sales}}{\text{Avg. Net A/R}} = \frac{351,500}{\frac{(80,500 + 116,000)}{2}} = 3.58$$

25) If trade receivables are collected quickly, it may indicate that

- a) Accounts receivables turnover is low
  - b) The company's credit policies may be overly stringent.
  - c) Credit is often granted to customers with high credit risk.
  - d) The company is becoming more profitable.
  - e) The company's net profit margin ratio is low.
- High

26) Calculate ABC Hardware Ltd.'s times interest earned ratio for 2020 and 2019 respectively.

- a) 1.56 and 2.08
- b) 2.29 and 3.20
- c) 3.29 and 4.20
- d) 3.00 and 4.00
- e) None of the above ratios.

$$\text{Times Interest Earned Ratio} = \frac{\text{Net Earnings} + \text{Interest exp} + \text{I.T. exp}}{\text{Interest exp.}}$$

2020 :  $\frac{40,500 + 26,000 + 19,000}{26,000} = 3.2885$

2019 :  $\frac{41,500 + 20,000 + 22,500}{20,000} = 4.2$

27) What is ABC Hardware Ltd.'s return on equity for 2019?

- a) 24.8%
- b) 37.8%
- c) 30.6%
- d) 42.7%
- e) None of the above percentages.

$$\text{Return on Equity} = \frac{\text{Net Earnings}}{\text{Avg. SE}} = \frac{41,500}{\frac{(84,000 + 135,000)}{2}} = 37.8\%$$

28) A company's return on equity (ROE) is useful in

- a) assessing how indebted it is.
- b) Assessing how liquid it is based on shareholders' investment in the company.
- c) giving a clear picture of how investors view the company.
- d) assessing its profitability based on shareholders' investment in the company.
- e) assessing its profitability based on shareholders' and creditors' investments in the company.

29) Calculate ABC Hardware Ltd.'s Price/earnings ratio for 2020.

- a) 9.18
- b) 8.96
- c) 7.04
- d) 6.86
- e) None of the above ratios.

$$\text{Price/Earnings Ratio} = \frac{\text{Market Share Price}}{\text{Earnings per share}} = \frac{19}{2.7} = 7.037$$

### CURRENT LIABILITIES (Chapter 9)

#### (Winter 2021 Final Exam – Question 2)

$$\text{EPS} = \frac{\text{Net Earnings} - \text{PS}}{\text{Avg. c/s Outstanding}} = \frac{40,500 - 0}{15,000} = 2.7$$

*deducted dividend.*

This question consists of two **independent** parts.

1. A gym's sales of annual memberships for \$40,000 have been included in **Membership fees revenue**. This amount was received on July 1, 2020 for memberships which are valid from July 1, 2020 to June 30, 2021. Examine whether it is appropriate to include the entire \$40,000 in revenues for the year ended December 31, 2020. If it is appropriate, provide justification. If it is not appropriate, explain why and prepare the required journal entry to adjust the accounts. (2 marks)
2. Wellefson Equipment Company sells computers for \$2,000 each and also gives each customer a **1-year warranty** that requires the company to perform periodic services and to replace defective parts. During 2020, the company sold for cash 500 computers that had a cost of \$700 each. Based on past experience, the company has estimated warranties to be 3% of sales. ~~During 2020, the Company reimbursed customers for 10 defective computers, which were returned to the manufacturer.~~ Record the journal entries to reflect the above transactions for 2020. The Company uses a perpetual inventory system. (5 marks)



