COMM 217 Final Exam Review Questions Fall 2018 with Solutions

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
Net Earnings	$ 12,000.00	$ 12,600.00

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 for cash; no other investments were acquired

Required:

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

LAURIER INCORP
STATEMENT OF CASH FLOWS
@ DECEMBER 31 2018

CASH FROM OPERATING ACTIVITIES					
start: Net earnings after tax				$ 12,000.00	*taken from Statement of Earnings*
Non-cash item	Depreciation expense (addback)	$ 15,200.00			
Non-cash item	Loss on Sale of furniture (addback)	$ 1,200.00			
Non-cash item	Gain on Sale of investments (deduct)	-$ 800.00			
Current Asset	Increase in Accts Receivable (deduct)	-$ 45,700.00			
Current Asset	Decrease in Inventory (addback)	$ 20,000.00			
Current Liability	Increase in Accts Payable (addback)	$ 3,900.00			
	Net CF from Operations		*a*	$ 5,800.00	
CASH FROM INVESTING ACTIVITIES					
STA	Sale of ST Investments (increase in cash)	$ 6,000.00			
LTA	Sale of Furniture (increase in cash)	$ 600.00			
LTA	Sale of LT Investments (increase in cash)	$ 1,800.00			
LTA	Purchase of Furniture (decrease in cash)	-$ 38,000.00			
	Net CF from Investments		*b*	-$ 29,600.00	
CASH FROM FINANCING ACTIVITIES					
Debt	Increase in ST Bank Loan (increase in cash)	$ 10,000.00			
Debt	Issuance of Bonds (increase in cash)	$ 28,000.00			
Equity	Issuance of Shares (incease in cash)	$ 2,000.00			
Dividends	Payment of Dividends (decrease in cash)	-$ 18,000.00			
	Net CF from Financing		*c*	$ 22,000.00	
TOTAL NET CASH FLOW (A+B+C)				-$ 1,800.00	*x+ $34,000 = $32,200*
Add: BEGINNING CASH BALANCE, May 1, 2016				$ 34,000.00	*taken from SFP*
= ENDING CASH BALANCE, April 30, 2016				$ 32,200.00	*taken from SFP*

DISCLOSURE

Interest paid	$ 9,600.00
Income tax paid	$ 4,000.00

ST Investments

$ 8,000.00	-$ 1,000.00
	-$ 5,000.00
$ 2,000.00	

Cash	$ **1,800.00**	
Gain on Sale of Inv		$ **800.00**
ST Investments		$ **1,000.00**

Furniture & Fixtures

	$ 26,000.00	-$ 5,000.00
CV	$ 21,000.00	
	$ 38,000.00	
	$ 59,000.00	

Acc depreciation

$ 3,200.00	-$ 12,000.00	
	-$ 8,800.00	CV
	-$ 15,200.00	deprec exp for c/y
	-$ 24,000.00	

Cash	$ 600.00	
Acc deprec	$ 3,200.00	
Loss on Sale of Furn	$ 1,200.00	
Furniture		$ 5,000.00

Furniture	$ 38,000.00	
Cash		$ 38,000.00

Retained Earnings

18000	-25300
	-12000
	-19300

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.

1. Record the journal entry or entries related to Papineau's acquisition of the two assets.

Item	**FMV**	**% of FMV**	**Purchase Price**	**Allocated Cost**
Land	$240,000 a	a/c = 60%	x $350,000	= $210,000
Equipment	$160,000 b	b/c = 40%	x $350,000	= $140,000
	$400,000 c	c = 100%	x $350,000	= $350,000

LAND		EQUIPMENT	
$210,000		$140,000	
$2,000		$570	
		$1000	
Jan 1: $212,000		Jan 1: $141,570	

Jan 1. 2017	**Equipment**	**$141,570**	
	Land	**$212,000**	
	Note Payable		**$250,000**
	Cash		**$103,750**

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

Units of Production Method

Formula: $\frac{\text{Cost – RV}}{\text{EUL \# units}} \times \text{\# units produced}$

Cost = $141,570
RV = $6,000
EUL # units = 100,000
units produced = 9,000

<u>Step 1:</u>
<u>Depreciation expense up to Sept 30, 2017:</u>

$\frac{\$141,570 - \$6,000}{100,000} \times 9,000$

= $12,201
Not prorated since based on 9,000 units produced up until this date.

Deprec expense $12,201
Acc deprec – Equipm. $12,201

<u>Step 2:</u>
<u>Close acc depreciation to equipment</u>

Equipment	
$ 141,570.00	-$ 12,201.00
CV = $ 129,369.00	

Acc depreciation	
$ 12,201.00	-$ 12,201.00

Acc deprec – Equipm $12,201
Equipment $12,201

<u>Step 3:</u>
<u>Record consideration received (cash), remove equipment carrying value and plug Gain or Loss</u>

Cash $125,000
Loss on disposal $4,369
Equipment $129,369

Additional entry from narrative information:

Maintenance expense $125
Cash $125

Double Declining Method

Formula: $\frac{2}{\text{EUL \# yrs}} \times \text{CV}$

Cost = $141,570
EUL # yrs = 10

<u>Step 1:</u>
<u>Depreciation expense up to Sept 30, 2017:</u>

2/10 x $141,570 = $28,314

$28,314 is amount for full year

$28,314 x 9/12 = $21,236

Deprec expense $21,236
Acc deprec – Equipm. $21,236

<u>Step 2:</u>
<u>Close acc depreciation to equipment</u>

Equipment	
$ 141,570.00	-$ 21,236.00
CV = $ 120,334.00	

Acc depreciation	
$ 21,236.00	-$ 21,236.00

Acc deprec – Equipm $21,236
Equipment $21,236

<u>Step 3:</u>
<u>Record consideration received (cash), remove equipment carrying value and plug Gain or Loss</u>

Cash $125,000
Gain on disposal $4,666
Equipment $120,334

Additional entry from narrative information:

Maintenance expense $125
Cash $125

Straight Line Method

Formula: $\frac{\text{Cost – RV}}{\text{EUL \# yrs}}$

Cost = $141,570
RV = $6,000
EUL # years = 10

<u>Step 1:</u>
<u>Depreciation expense up to Sept 30, 2017:</u>

$\frac{\$141,570 - \$6,000}{10} = \$13,557$

$13,557 is amount for full year
$13,557 x 9/12 = $10,168

Deprec expense $10,168
Acc deprec – Equipm. $10,168

<u>Step 2:</u>
<u>Close acc depreciation to equipment</u>

Equipment	
$ 141,570.00	-$ 10,168.00
CV = $ 131,402.00	

Acc depreciation	
$ 21,236.00	-$ 10,168.00

Acc deprec – Equipm $10,168
Equipment $10,168

<u>Step 3:</u>
<u>Record consideration received (cash), remove equipment carrying value and plug Gain or Loss</u>

Cash $125,000
Loss on disposal $6,402
Equipment $131,402

Additional entry from narrative information:

Maintenance expense $125
Cash $125

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

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

There is no depreciation expense for land; land does not depreciate.

b) Record the necessary journal entry for this transaction.

Jan 1. 2020	**Cash**	**$500,000**	
	Gain on Disposal – Land		**$288,000**
	Land		**$212,000**

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.

Date	Transaction	Units	Cost p. unit	Ending Inv $
01-Dec	Beginning	100	$ 15.00	$ 1,500.00
WA cost = Ending Inv $ / # units				
WA cost = $1,500 / 100 units			$ 15.00	
04-Dec	Sale	-80	$ 15.00	-$ 1,200.00
11-Dec	Purchase	150	$ 16.50	$ 2,475.00
WA cost = Ending Inv $ / # units				
WA cost = $2,775 / 170 units			$ 16.32	
13-Dec	Sale	-120	$ 16.32	-$ 1,958.40
20-Dec	Purchase	160	$ 17.00	$ 2,720.00
WA cost = Ending Inv $ / # units				
WA cost = $3536.60 / 210 units			$ 16.84	
27-Dec	Sale	-100	16.84	-$ 1,684.00
ENDING		110		$ 1,852.60
		Ending Inv #		Ending Inv $
Cost of Goods Sold = $1,200 (4 Dec) + $1,958.40 (13 Dec) + $1,684 (27 Dec)				
Cost of Goods Sold = $4842.20				

2. Calculate gross profit for the month of December.

Gross Profit = Sales Revenue – Cost of Goods Sold

Sales Revenue	
80 units @ 20.00 =	**$1,600**
120 units @ 21.00 =	**$2,520**
100 units @ 22.00 =	**$2,200**
Total Sales Revenue	**$6,320**
Less: Cost of Goods Sold*	**$(4,842)**
= GROSS PROFIT	**$1,478**

***Previously Calculated as: $1,200 + $1,958 + $1,684**

3. What would be beginning inventory at January 1, 2019? Show calculations if needed.

The beginning inventory at Jan 1, 2019 would be the ending inventory at Dec 31, 2018; there is no additional calculation needed as it was solved for in part 1 as 110 units.

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.

If the market rate of the bonds is 8% and the stated/coupon rate is 7% - this means the market is offering a higher interest rate for other investments/bonds even though Snowdon already prepared this bond with a coupon rate equal to 7%.

Will Snowdon simply go as-planned and hand-over the bond with a lower interest without any modifications? No!

Snowdon gives the investor a discount at issuance (more cash) to make up for this lousy coupon payment over the life of the bond. Investors will be okay with the low coupon payments since they will pay less at issuance (a discount).

The cash Snowdon Corp will receive at the sale of the bonds is the PV of the CFs associated with them using the market rate at issuance. There are two CFs associated with the bond: the principal of which will be repaid at maturity in 10 years (lump sum/single amount) and the interest payments which are annual (once per year).

So, we have the PV of the principal + PV of the annuity interest payments in calculating the issue amount:

(1) PV of principle – we will need to use the PV table associated with "1$" or "a single, lump sum amount"
(2) PV of interest payments – we will need to use the PV table associated with an "annuity"

PV Inputs			**PV Factor**	
Number of Payments	1 per year x 10 years = **10**		Principle	0.4632
Market Interest Rate per Payment	8% per year = **8%**		Annuity	6.7101

Principal	**Coupon Payment** **Principal x Coupon Rate x Time**
$25,000,000	$25,000,000 x 7% x 12/12 = $1,750,000 per payment

PV of Principal = $25,000,000 x 0.4632 = $11,580,000
PV of Interest Payments = $64,000 x 6.7101 = $11,742,675
ISSUE PRICE OF SNOWDON'S BONDS $23,322,675

Jan 1, 2018

CASH…………………………………………….………$23,322,675
DISCOUNT ON BOND PAYABLE…………………$**1,677,325** *
BONDS PAYABLE……………………………………….………$25,000,000

2. Prepare the required journal entries at the following dates:

December 31, 2018

	7%	Int Pay	8%		
Date	Coupon Payment	Cash	Interest Expense	Amortiz of Disc	Carrying Value
01-Jan-18	$ -		$ -	$ -	$ 23,322,675.00
31-Dec-18	$ 1,750,000.00	Int Pay	$ 1,865,814.00	$ 115,814.00	$ 23,438,489.00

At Dec 31, the coupon payment has not been paid but it must be accrued at year end and the appropriate interest expense matched with Jan-Dec recorded on the Statement of Earnings.

Dec 31, 2018 (Y/E)

INTEREST EXPENSE...$1,865,814
AMORTIZ OF BOND DISCOUNT…………………………………………………$115,814
INTEREST PAYABLE...$1,750,000

January 1, 2019

	7%	Int Pay	8%		
Date	Coupon Payment	Cash	Interest Expense	Amortiz of Disc	Carrying Value
01-Jan-18	$ -		$ -	$ -	$ 23,322,675.00
31-Dec-18	$ 1,750,000.00	Int Pay	$ 1,865,814.00	$ 115,814.00	$ 23,438,489.00
01-Jan-19	$ 1,750,000.00	Cash	$ -	$ -	$ 23,438,489.00

On Jan 1, 2019 we simply pay out the coupon payment we accrued at the end of 2018; all the expense-work was done so it's just a matter of debiting out the accrual and crediting cash.

Jan 1. 2019 1st Coupon Payment

INTEREST PAYABLE...$1,750,000
CASH...$1,750,000

December 31, 2019

	7%	Int Pay	8%		
Date	Coupon Payment	Cash	Interest Expense	Amortiz of Disc	Carrying Value
01-Jan-18	$ -		$ -	$ -	$ 23,322,675
31-Dec-18	$ 1,750,000	Int Pay	$ 1,865,814	$ 115,814	$ 23,438,489
01-Jan-19	$ 1,750,000	Cash	$ -	$ -	$ 23,438,489
31-Dec-19	$ 1,750,000	Int Pay	$ 1,875,079	$ 125,079	$ 23,563,568

At Dec 31, the coupon payment has not been paid but it must be accrued at year end and the appropriate interest expense matched with Jan-Dec recorded on the Statement of Earnings.

Dec 31, 2019 (Y/E)

INTEREST EXPENSE..$1,875,079
AMORTIZ OF BOND DISCOUNT……………………………………………….$125,079
INTEREST PAYABLE..$1,750,000

January 1, 2020

	7%	Int Pay	8%		
Date	Coupon Payment	Cash	Interest Expense	Amortiz of Disc	Carrying Value
01-Jan-18	$ -		$ -	$ -	$ 23,322,675
31-Dec-18	$ 1,750,000	Int Pay	$ 1,865,814	$ 115,814	$ 23,438,489
01-Jan-19	$ 1,750,000	Cash	$ -	$ -	$ 23,438,489
31-Dec-19	$ 1,750,000	Int Pay	$ 1,875,079	$ 125,079	$ 23,563,568
01-Jan-20	$ 1,750,000.00	Cash	$ -	$ -	$ 23,563,568

Jan 1. 2020 2nd Coupon Payment

INTEREST PAYABLE..$1,750,000
CASH...$1,750,000

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.

Snowdon doesn't want to wait until 2028 to pay off all the bonds. So, they decide as a company they will redeem 'buy back' 80% of them at 104% which will be a premium they pay the bondholder to forego continuing interest payments on the remaining life of the bond.

Snowdon is redeeming 80% of the bonds; the bonds have a face value of $25,000,000 so 80% of that = $20,000,000 worth of bonds. They are redeeming (paying cash) for the bonds at 104% or 1.04 times the face value, so: $20,000,000 x 104% = $20,800,000.

Cash Paid for Redemption: $25,000,000 x 80% redeemed x 104% = $20,800,000

Just like a Long-lived asset, where we compared the cash received against the carrying value of the asset disposed, for redemption of bonds: we compare the cash we're paying to redeem against the carrying value of the bonds at redemption date to determine whether there is a gain or loss.

We need to calculate the carrying value at the redemption date of Feb 1, 2020.

	7%	Int Pay	8%		
Date	Coupon Payment	Cash	Interest Expense	Amortiz of Disc	Carrying Value
01-Jan-18	$ -		$ -	$ -	$ 23,322,675
31-Dec-18	$ 1,750,000	Int Pay	$ 1,865,814	$ 115,814	$ 23,438,489
01-Jan-19	$ 1,750,000	Cash	$ -	$ -	$ 23,438,489
31-Dec-19	$ 1,750,000	Int Pay	$ 1,875,079	$ 125,079	$ 23,563,568
01-Jan-20	$ 1,750,000	Cash	$ -	$ -	$ 23,563,568
01-Feb-20	$ 145,833.33		$ 157,090.45	$ 11,257.12	$ 23,574,825

Coupon Payment = $1,750,000 x 1/12
Interest Expense = $23,563,568 x 8% x 112
Amortiz of Discount = Interest Expense – Coupon Payment

The CV at Feb 1, 2020 of the Bonds is $23,574,825 BUT we are only redeeming 80% of them:
So, 80% x $23,574,825 = $18,859,860 = CV of bond's redeemed

Therefore, if we are paying cash to redeem these bonds equal to $20,800,000 (calculated above) and the carrying value of those bonds equal $18,859,860 – we are paying more than what they are worth (a loss).

BONDS PAYABLE.. $20,000,000 ☞ *80% x face value of Bonds $25M*
LOSS ON REDEMPTION OF BONDS................................. $1,940,140 ☞ *Solved or above*

DISCOUNT ON BONDS PAYABLE..$ 1,140,140 ☞ *"Plug" or 80% of Disc CV* *
CASH...$20,800,00 ☞ *Solved for above*

* Calculated as Beg Disc balance (at issuance) =**1,677,325**
Less: amortizations (115,814 + 125,079 + 11,257) = (252,150)
= CV of Discount at Redemption Date = 1,425,175
Now calculate 80% of this to reflect amount redeemed = 1,425,175 x 80% = **$1,140,140**

4. What would be the total interest expense recorded over the life of the bond at January 1, 2028?

Remember that the coupon payment is made up of two components:
(1) The interest expense
(2) The Discount we accounted for at issuance

At the end of the bond's life we know we will have paid coupons totalling: 10 x $1,750,000 = $17,500,000
And we know that the discount face value at issuance (which we are amortizing over 10 years) = $1,677,825
So the remainder will be total interest expense recorded over the 10 years = **$19,177,325**

*if there had been a premium instead of a discount at issuance, the same math could be used to solve interest expense except the premium total would be deducted from total coupon payments.

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

#1	The dividends were already declared in the prior year so they are resting as a dividend payable at this time.		
	Dividend Payable (*Preferred Shares = $8 x 2,000*)	**$ 16,000.00**	
	Dividend Payable (*Common Shares = $3 x 25,000)*	**$ 75,000.00**	
	Cash		**$ 16,000.00**
	Cash		**$ 75,000.00**
#2	When you repurchase prior issued shares you are paying a price to the shareholders to buy them back. If the company repurchased 3,700 common shares at $35 per share that's a credit to cash. To cancel the shares, we have to debit them out at the price they were issued at. When we observe the SH equity info at the top of the problem we can see that 25,000 common shares were issued for a total of $100,000 So: $100,000 divided by 25,000 shares = $4 per share The spread between what we paid to buy them back and what their initial issue was at is plugged to contributed surplus.		
	Common Shares (3,700 x $4)	**$ 14,800.00**	
	Contributed Surplus (plug: $129,500 - $14,800)	**$ 114,700.00**	
	Cash		**$ 129,500.00**
#3.	By issuing 1,000 preferred shares at $105 per share we are receiving cash for issuing these shares.		
	Cash	$ 105,000.00	
	Preferred Shares		$ 105,000.00
#4	A stock dividend is a dividend to shareholders but not in $; it is a dividend paid byway of additional shares. The company here is going to pay a stock dividend equal to 10%: every shareholder holding common shares will get an additional 10% shares. To calculate this we need to know how many common shares are outstanding at this moment in time:		

Common Shares		
Beginning Balance	25000	*given as beginning balance in problem*
Repurchase	-3700	*from transaction #2*
Balance Outstanding	21300	

So, we have 21,300 common shares outstanding: 21,300 x 10% = 2130 additional shares
We will account for this stock dividend of common shares using the current selling price which is given as $45/share.
The stock dividend will come out of Retained Earnings and because it is only declared it will be classified as "distributable"

	Retained Earnings (2,130 x $45)	$ 95,850.00	
	Stock Dividend Distributable		$ 95,850.00
#5	Now, we learn that the stock dividend previously "declared" is now issued. We are not issuing a dividend in cash; we are issuing a dividend in common shares. So, much like we would do for a dividend payable (for cash) we debit out the stock dividend distributable and credit the shares that are now issued for it.		
	Stock Dividend Distributable	$ 95,850.00	
	Common Shares		$ 95,850.00
#6.	By declaring an annual dividend we are not paying anything out in cash but simply recording the liability. We know preferred shares pay out a fixed $8 dividend per share and we are told common shares will pay out a 2$ dividend per share. The issue now is calculating how many shares are oustanding to declare the dividend:		

Preferred Shares		***Common Shares***	
Beginning Balance	2000	Beginning Balance	25000
New Issuance (#3)	1000	Repurchase	-3700
Balance Outstanding	3000	Stock Dividend	2130
		Balance Outstanding	23430

Now we know there are 3000 preferred shares outstanding and 23,430 common shares outstanding
We simply multiply the dividend dollar amount by respective to each of these class of shares - take from Retained Earnings - and then report a liability as Dividends Payable

Retained Earnings (*Preferred Shares = $8 x 3,000)*	$ 24,000.00	
Retained Earnings (*Common Shares = $2 x 23,430)*	$ 46,860.00	
Dividends Payable		$ 24,000.00
Dividends Payable		$ 46,860.00

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

	JOLIETTE COMPANY			
	STATEMENT OF FINANCIAL POSITION			
	as at Dec 31, 2018			
SHAREHOLDERS' EQUITY				
CONTRIBUTED CAPITAL				
Share Capital				
Preferred Shares		$ 305,000.00		*Note 1*
Common Shares		$ 181,050.00		*Note 2*
Total Share Capital			**$ 486,050.00**	
CONTRIBUTED SURPLUS			**$ 40,300.00**	*Note 3*
RETAINED EARNINGS				
Beginning Balance		$ 250,000.00		*Given*
Add: Net Earnings		$ 450,000.00		*Note 4*
Less: Dividends		-$ 166,710.00		*Note 5*
Ending Retained Earnings			**$ 533,290.00**	
TOTAL SHAREHOLDERS' EQUITY			**$ 1,059,640.00**	*Note 6*
Note 1:	**$200,000 + $105,000**			
Note 2:	**$100,000 + $95,850 - $14,800**			
Note 3:	**$155,000 - $114,700**			
Note 4:	**$1,000,000 - $500,000 - $50,000**			
Note 5:	**$95,860 + $46,860 + $24,000**			
Note 6:	**$486,050 + $40,300 + $533,290**			

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

Total Assets + Total Liabilities = Shareholders' Equity

Total Assets + X = Shareholders' Equity

$1,916,000 + X = $1,059,640

X = $1,916,000 - $1,059,640

X = $856,360 = Total Liabilities