CONCORDIA UNIVERSITY
DEPARTMENT OF ACCOUNTANCY

FINANCIAL ACCOUNTING
COMM 217 ALL SECTIONS

FINAL EXAMINATION (REGULAR)
FALL 2015

Name: ____________________________ ID: __________

Duration: 3 hours
Instructions (very important):

1. This examination paper consists of **11 pages including this page**. Please make sure your copy has all pages before commencing to write.
2. Make sure that your FULL name (last name first), Student ID and Section Letter are on the three documents: computer input sheet, answer booklet and examination paper.
3. You must answer the multiple choice questions by using the **computer input sheet**; darken the letter you choose **in pencil** on the computer input sheet. Write all your answers to the other questions in the **examination answer booklet**. You may answer the questions in any order you prefer. **Only the answers on the computer input sheet and in the examination booklet will be graded.**
4. Read the questions carefully and budget your time wisely.
5. **Show all calculations** on the examination booklet, and omit narratives for journal entries. Using abbreviated account names, headings, subheadings, totals and subtotals is not recommended, and it may be subject to mark deduction.
6. This is a closed book examination. However, a silent hand-held (not graphical or programmable) calculator and one standard language (not electronic) dictionary are permitted.
7. **Invigilators will not answer questions.**
8. Return the exam along with the computer input sheet and answer booklet(s) when you have finished.

Question	Topic	Total Marks
1	Multiple Choice	18
2	Long-Term Assets	21
3	Shareholders' Equity	11
4	Statement of Cash Flows	11
5	Long-Term Liabilities	17
6	Financial Statement Analysis	22
	Total	100

Question 1: ***Multiple Choice*** **(18 marks; 25 minutes)**

For each of the following multiple choice questions, choose the letter that corresponds to the **best** answer, and **show your answers on the computer input sheet**. Each correct answer is worth 1.5 marks.

1) During 2015 Albany Appliances sold 400 appliances worth $2,000,000. Each appliance comes with a one-year warranty, which Albany estimates will cost $75 each. During the year Albany spent $12,500 on warranty costs for the appliances sold in 2015. At the end of the 2015 the warranty liability and the warranty expense related to these sales would be:

	Warranty Liability	Warranty Expense
a)	$17,500	$12,500
b)	$17,500	$30,000
c)	$12,500	$12,500
d)	$30,000	$30,000

2) Maynard Manufacturing has a two-week gross payroll amount of $8,200 for its eight employees. Income tax of $1,080 is deducted from the employees' cheques, as well as 4.95% for Canada Pension Plan and 1.88% for Employment Insurance. The amount paid to employees would be:
   a) $6,560. b) $7,120. c) $7,640. d) $8,200.

3) At the beginning of the quarter, your company borrows $20,000 and signs a note, payable in four equal instalments of $5,000 each. Interest at an annual rate of 8% is paid at the end of the second and fourth quarter, whereas instalments are due at the end of each year. How does this note affect the amounts of current and non-current liabilities reported on the statement of financial position at the end of the first quarter?

	Current Liabilities	Non-current Liabilities
a)	Increase by $400	Increase by $20,000
b)	Increase by $1,600	Increase by $20,000
c)	Increase by $5,400	Increase by $20,000
d)	Increase by $5,400	Increase by $15,000

4) All other things equal, if the current stock price for a company's shares decreases and net earnings fall, then Earnings per Share (EPS) and Return on Equity (ROE) are affected as follows:
   a) EPS decreases and ROE increases.
   b) Both EPS and ROE decrease.
   c) EPS increases and ROE decreases.
   d) Both EPS and ROE increase.
   e) EPS decreases but ROE does not change.

5) If a company generates $3.15 in cash flows from operating activities for every $1 of net earnings, then the company's:

   a) Cash coverage ratio is 3.15.
   b) Return on equity is 3.15.
   c) Net profit margin is 3.15.
   d) Quality of earnings ratio is 3.15.

6) A company issues a 5-year bond with a $7,500 discount. Using straight-line amortization, the company should:
   a) Credit discount on bonds payable for $1,500 per year.
   b) Debit discount on bonds payable for $1,500 per year.
   c) Debit interest payable for $1,500 per year.
   d) Credit interest payable for $1,500 per year.

7) Which of the following statements most appropriately describes the purpose of depreciation of a long-lived tangible asset?
   a) To indicate how the asset has physically deteriorated.
   b) To show that the asset will eventually and gradually become obsolete.
   c) To reflect the decline in the asset's market value over time.
   d) To match the cost of the asset to the period in which it generates revenue.

8) The retained earnings account has a beginning balance of $321,975 and an ending balance of $356,413. Net earnings is $40,251. Which of the following statements is true?
   a) $34,438 would be added when determining cash flows from financing activities.
   b) $40,251 would be added when determining cash flows from financing activities.
   c) $5,813 would be subtracted when determining cash flows from financing activities.
   d) None of the above statements is true.

9) Company X paid Company Y $1.35 million for a new plant. During the same accounting period, Company X experienced the following changes in its statement of financial position: cash decreased by $350,000, accounts receivable increased by $321,300, inventory increased by $275,800, property, plant, and equipment increased by $752,900, and bonds payable increased by $1 million. The net cash flow from financing activities is:
   a) An inflow of $1 million.
   b) An inflow of $1.35 million.
   c) An inflow of $752,900.
   d) An outflow of $350,000.

10) Typically, all other things equal, a profitable company that pays little or no dividends:
   a) Will experience relatively stable stock prices over time.
   b) Is a bad investment.
   c) Will reinvest its earnings which can lead to greater growth potential.
   d) All of the above.

11) A company sells $200,000 in long-term bonds at par and uses the cash received to reduce its accounts payable. Which of the following statements is true for the company at its year end?
   a) The quick ratio will increase but the times interest earned ratio will decrease.
   b) Both the quick ratio and the times interest earned ratio will increase.
   c) The quick ratio will decrease but the times interest earned ratio will increase.
   d) Both the quick ratio and the times interest earned ratio will decrease.

12) Which of the following statements is *true*?
   a) Long-lived tangible assets will not be used up within one year, but there is no minimum useful life for long-lived intangible assets.
   b) Items in a company's inventory that are not expected to be sold for in the next year are considered long-lived assets.
   c) All long-lived intangible assets must be expensed over a period of 40 years or less.
   d) Intangible assets with indefinite lives are not amortized.

Question 2: ***Long-Term Assets*** **(21 marks, 30 minutes)**

This question consists of two independent parts.

PART A

Montreal-Cab Inc. owns a vehicle that was purchased on January 1, 2007 for $45,000. The vehicle has been depreciated using the straight-line method over 10 years and has a residual value of $5,000. On September 30, 2015, Montreal-Cab sold it for $7,000 cash and bought a new vehicle for $50,000 by signing a 8%, four-year bank loan. Principal and interest are due at maturity. Additional costs incurred were: an insurance premium for one year, $1,500 and preparation charges (i.e., registration, licence plate,…) for $3,000, all paid for in cash. Montreal-Cab depreciates the new vehicle using the double-declining-balance method over five years. The new vehicle has an estimated residual value of $6,000.

Required (show all your calculations):
Prepare the journal entries to record all the transactions that occurred on September 30, 2015, and the related adjusting entries for the fiscal year end December 31, 2015. **(13 marks)**

PART B

You received the following information from a company's December 31, 2014 financial statements:

Asset	Useful Life	Depreciation Method	Date of Purchase	Historical Cost	Accumulated Depreciation	Carrying Amount
Land	Indefinite	A	B	C	D	E
Building	40 years	Straight-line	F	$640,000	$128,000	$512,000
Equipment	10 years	Double-declining balance	July 2, 2011	$60,000	G	H
Truck	I	Straight-line	January 2, 2008	$50,000	$35,000	$15,000

Additional information:

i. The company's fiscal year ends on December 31, 2014.
ii. The land and building were purchased on the same date for an aggregate price of $700,000.
iii. The residual value for each asset category is zero.
iv. The company does not use the units-of-production method for depreciation.

Required (show all your calculations):
Determine the unknown values in the above table (i.e., cells A through I). **(8 marks)**

Question 3: ***Shareholders' Equity*** **(11 marks; 25 minutes)**

The following information is extracted from the statements of financial position of WestJet Airlines.

	December 30 2014	**December 30 2013**
Shareholders' Equity		
Share capital	$ 603,287,000	$ 603,861,000
Contributed surplus	0	6,751,000
Retained earnings	1,102,300,000	916,795,000
Total shareholders' equity	$1,705,587,000	$1,520,656,000

Net earnings for the year ended December 30th, 2014 is $283,957,000.

The following is part of the Share Capital note from WestJet's 2014 financial statements:

> *"During the year ended December 30, 2014, the Corporation purchased and cancelled a total of 1,435,150 common voting shares for total cash consideration of $39,431,000. The average book value of the shares repurchased was $4.70 per share. The excess of the market price over the average book value was $32,685,795."*

Required (show all the calculations):

1. Prepare the journal entry to record the share repurchase transaction. (**3 marks**)
2. Why do you think WestJet decided to repurchase the shares? State all the reasons you can think of. (**2 marks**)
3. Did West Jet declare any dividend in fiscal year 2014? If so, compute the amount of dividends declared by the company. **(2 marks)**
4. Assume, that the company is considering the three following courses of actions:
   a) Paying a $0.50 cash dividend
   b) Distributing a 5% stock dividend
   c) Effecting a 2-for-1 stock split.

   Management would like to increase investors' interest in the shares without diluting the ownership for current shareholders. At the same time, they would like to maintain their plans to expand the operations. *Explain* how each of the abovementioned courses of actions will affect (i.e., increase, decrease or no effect): common shares, retained earnings and market price per share. Which course of action would you recommend to management? (no marks will be awarded for only providing the effect).(**4 marks**)

Question 4: ***Statement of Cash Flows*** **(11 marks; 20 minutes)**

Samson Inc. is a publicly listed company that uses IFRS for financial reporting purposes. Samson's partial list of comparative accounts as of March 31, 2015 and 2014, is as follows:

	March 31		
	2015	2014	Change
Cash	5,200	4,400	800
Short term investment (30 days treasury bills)	20,000	6,200	13,800
Accounts receivables	46,400	43,600	2,800
Inventory	35,800	29,600	6,200
Prepaid expenses	2,650	2,800	(150)
Long-term investments	5,230	2,230	3,000
Prepaid rent – Long term	4,000	0	4,000
Accounts payable	22,800	24,200	(1,400)
Salaries and wages payable	500	1,300	(800)
Income tax payable	13,000	29,500	(16,500)
Interest payable	3,000	1,500	1,500
Income tax withheld from employees	8,500	6,900	1,600

Samson's statement of earnings for the year ended March 31, 2015 is as follows:

Samson Inc.
Statement of Earnings
For the year ended March 31, 2015

Sales		$465,500
Cost of goods sold		260,000
Gross Profit		205,500
Operating expenses		
Salaries and wages expenses	$64,500	
Depreciation expense	7,500	
Administrative expenses	18,000	
Rent expense	21,000	
Amortization of patents	1,500	
		112,500
Earnings from operations		93,000
Non-operating items		
Bond interest expense	6,750	
Gain on retirement of bonds	16,600	
		9,850
Earnings before income tax expense		102,850
Income tax expense		30,200
Net earnings		$ 72,650

Additional information:

a) Bond interest expense includes $750 of bond discount amortized.
b) During the year the company retired $500,000 of its outstanding bond payable, paying $16,600 less than the bonds carrying amount.
c) There is insufficient information to allow you to prepare a *complete* statement of cash flows.

Required (show all your calculations):

1. Prepare the cash from operating activities section of the statement of cash flows, assuming the indirect method is used. **(8 marks)**
2. Calculate the amounts that would be reported within this section if the direct method were used for the following items: **(3 marks)**
   a. Cash paid to employees
   b. Interest paid

Question 5: ***Long-term Liabilities*** **(17 marks; 40 minutes)**

On June 30, 2014, MEM Corp. sold and issued at 105.73435 percent a $4 million, 20-year, 6.5% bonds. The market rate was 6% on that date. The bonds pay annual interest on June 30. The company's fiscal year ends on December 31, and it uses the effective interest method in accordance with IFRS.

***Required (round all your calculations to the nearest dollar and show all your work)*:**

1. Show how the liability accounts affected by this bonds payable would be presented on the statement of financial position as at December 31, 2014. **(5 marks)**
2. Prepare the journal entry for the first interest payment to the bondholders. **(2 marks)**
3. Should an investor buy a bond at premium or at discount? Be specific in your response. **(2 marks)**
4. MEM Corp. decided on June 30, 2015 (immediately after paying interest to shareholders) to redeem the outstanding bonds at 106 percent. Show how the presentation of this transaction would be reported on: a) the statement of earnings and b) the statement of cash flows. MEM uses the indirect method to prepare the operating section of the statement of cash flows. **(6 marks)**
5. Why would MEM Corp. engage in an early redemption of its bonds? **(2 marks)**

Question 6: ***Financial Statements Analysis*** **(22 marks; 40 minutes)**

Dorel Industries Inc. is a Canadian company, based in Montreal, Quebec, which designs and manufactures juvenile products, bicycles and other recreational products, and home furnishings.

As a recent employee of Dorel, you were given the company's financial statements (see page 9, 10 and 11 of this examination booklet) by your supervisor who asked you to calculate the following financial ratios:

a. Net Profit Margin b. Return on Equity c. Current Ratio
d. Debt-to-Equity e. Cash coverage ratio f. Fixed Asset Turnover

Additional information:

a) Dorel's fiscal year ends on December 30, 2014.
b) The market price per share is $30 at December 30, 2014.
c) The weighted average number of shares outstanding at December 30, 2014 is 28,124,269.

Required (show all your calculations):

1. Calculate the six ratios above. Round all your calculations to two decimal points. **(7 marks)**
2. Assume an investor approaches you because she is concerned about the 2014 loss. Based on the ratios you calculated above and in comparison with prior year's ratios (where possible), explain to her the company's financial situation. You may use other information from Dorel's financial statements in your analysis. **(7 marks)**
3. How much cash was paid during the year to the suppliers of inventories? Note 16 (below) provides additional information about Trade and other payables. **(3 marks)**

NOTE 16 – TRADE AND OTHER PAYABLES

	December 30, 2014	December 30, 2013
	$	$
Trade creditors and accruals	**428,728**	336,606
Salaries payable	**42,864**	32,281
Other accrued liabilities	**16,307**	10,424
Balance of sale (Note 7)	**2,628**	—
	490,527	379,311

4. Assume that the current portion of Provisions relates entirely to product warranties. The cost of repairs and product replacements under warranty during 2014 amounts to $34,561. Prepare the journal entries to record all the transactions that affected the current portion of Provisions during 2014. **(3 marks)**
5. In the statement of financial position Dorel refers to Note 27 for details on Contingencies. Explain why the contingencies are reported in a Note to the financial statement rather than in the Liabilities section. **(2 marks)**

	2014	2013
	$	$
		Restated (Note 3)
Sales	2,661,559	2,417,291
Licensing and commission income	15,995	18,158
TOTAL REVENUE	2,677,554	2,435,449
Cost of sales (Note 6)	2,072,230	1,875,737
GROSS PROFIT	605,324	559,712
Selling expenses	235,776	231,724
General and administrative expenses (Note 3)	210,691	194,190
Research and development expenses	36,111	32,905
Restructuring and other costs (Note 6)	18,781	19,575
Impairment losses on goodwill and trademarks (Notes 12, 13 and 32)	125,821	—
OPERATING PROFIT (LOSS)	(21,856)	81,318
Finance expenses (Notes 3, 17 and 31)	8,073	18,665
INCOME (LOSS) BEFORE INCOME TAXES	(29,929)	62,653
Income taxes (Note 28)		
Current	11,688	15,680
Deferred	(20,348)	(10,696)
	(8,660)	4,984
NET INCOME (LOSS)	(21,269)	57,669
EARNINGS (LOSS) PER SHARE (Note 29)		
Basic	(0.66)	1.81
Diluted	(0.66)	1.79

	As at December 30, 2014	As at December 30, 2013
	$	$
ASSETS		
CURRENT ASSET		
Cash and cash equivalents (Note 30)	47,101	40,074
Trade and other receivables (Note 8)	474,704	456,465
Inventories (Note 9)	633,022	555,567
Other financial assets (Note 10)	4,299	231
Income taxes receivable	15,731	11,626
Prepaid expenses	25,343	26,200
	1,200,200	1,090,163
Assets held for sale (Note 6)	1,308	—
	1,201,508	1,090,163
NON-CURRENT ASSETS		
Property, plant and equipment (Note 11)	226,893	181,299
Intangible assets (Notes 12 and 13)	519,798	500,381
Goodwill (Note 13)	544,782	637,084
Other financial assets (Note 10)	571	620
Deferred tax assets (Note 28)	31,009	24,356
Other assets (Note 14)	5,398	6,060
	1,328,451	1,349,800
	2,529,959	2,439,963

	As at December 30, 2014	As at December 30, 2013
	$	$
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness (Note 15)	**27,053**	72,546
Trade and other payables (Note 16)	**490,527**	379,311
Other financial liabilities (Note 10)	**1,655**	3,231
Income taxes payable	**19,046**	7,075
Long-term debt (Note 18)	**62,556**	344,374
Provisions (Note 19)	**37,727**	44,570
	638,564	851,107
NON-CURRENT LIABILITIES		
Long-term debt (Note 18)	**490,188**	13,183
Net pension and post-retirement defined benefit liabilities (Note 22)	**46,128**	31,701
Deferred tax liabilities (Note 28)	**89,199**	87,171
Provisions (Note 19)	**1,765**	1,993
Written put option and forward purchase agreement liabilities (Note 17)	**44,640**	92,570
Other financial liabilities (Note 10)	**2,063**	2,727
Other long-term liabilities	**10,428**	12,751
	684,411	242,096
EQUITY		
Share capital (Note 23)	**199,927**	190,458
Contributed surplus	**25,691**	26,994
Accumulated other comprehensive income	**(20,579)**	67,824
Other equity	**579**	—
Retained earnings	**1,001,366**	1,061,484
	1,206,984	1,346,760
	2,529,959	2,439,963

COMMITMENTS AND GUARANTEES (Note 26)
CONTINGENCIES (Note 27)

See accompanying notes.

ON BEHALF OF THE BOARD

Martin Schwartz
_________________ DIRECTOR

Jeffrey Schwartz
_________________ DIRECTOR

	2014	2013
	$	$
CASH PROVIDED BY (USED IN):		*Restated (Note 3)*
OPERATING ACTIVITIES		
Net Income (Loss)	**(21,269)**	57,669
Items not involving cash:		
Depreciation and amortization (Notes 11 and 12)	**65,436**	56,269
Impairment losses on goodwill and trademarks (Note 13)	**125,821**	—
Unrealized losses (gains) arising on financial assets and financial liabilities classified as held for trading	**92**	—
Finance expenses (Note 31)	**8,073**	18,665
Restructuring costs (Note 6)	**4,892**	15,432
Income taxes expense (recovery) (Note 28)	**(8,660)**	4,984
Share-based payments (Note 24)	**763**	1,489
Defined benefit pension and post-retirement costs (Note 22)	**2,544**	3,239
Loss on disposal of property, plant and equipment	**617**	446
	178,309	158,193
Net changes in balances related to operations (Note 30)	**(33,159)**	8,934
Income taxes paid	**(25,057)**	(17,173)
Income taxes received	**7,014**	12,793
Interest paid	**(26,148)**	(18,936)
Interest received	**689**	469
CASH PROVIDED BY OPERATING ACTIVITIES	**101,648**	144,280
FINANCING ACTIVITIES		
Bank indebtedness	**(41,483)**	20,442
Increase of long-term debt	**249,033**	18,195
Repayments of long-term debt	**(26,926)**	(14,243)
Repayments of written put option and forward purchase agreement liabilities (Note 17)	**(1,600)**	(1,995)
Financing costs	**(6,740)**	(562)
Share repurchase (Note 23)	—	(321)
Issuance of share capital (Note 23)	**7,241**	6,740
Dividends on common shares (Note 23)	**(38,651)**	(38,185)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**140,874**	(9,929)
INVESTING ACTIVITIES		
Acquisition of businesses (Notes 7 and 30)	**(170,551)**	(71,924)
Additions to property, plant and equipment (Notes 11 and 30)	**(35,745)**	(41,801)
Disposals of property, plant and equipment	**903**	410
Additions to intangible assets (Notes 12 and 30)	**(22,109)**	(20,489)
CASH USED IN INVESTING ACTIVITIES	**(227,502)**	(133,804)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**(7,993)**	1,216
NET INCREASE IN CASH AND CASH EQUIVALENTS	**7,027**	1,763
Cash and cash equivalents, beginning of year	**40,074**	38,311
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 30)	**47,101**	40,074