

COMM 217 – Financial Accounting
Solutions to Exam 1 – Winter 2021

Question 1 – Financial Statement Compilation

MontEgg Inc.

Statement of Earnings

For the Year Ended December 31, 2020

(in thousands of dollars)

Net Sales	\$ 2,192
Cost of Sales	<u>(1,800)</u>
Gross Profit	<u>392</u>
<u>Operating Expenses</u>	
Rent Expense	(111)
Advertising Expense	(7)
Salaries Expense	(128)
Depreciation Expense - Equipment	<u>(7)</u>
Total Operating Expenses	<u>(253)</u>
Earnings from Operations	<u>139</u>
<u>Non-Operating Activities (or Items) /Other Income and Expenses</u>	
Interest Revenue	6
Rent Revenue	12
Loss on disposal of Equipment	<u>(8)</u>
Total Non-Operating Activities	<u>10</u>
Earnings before Income Tax	149
Income Tax Expense	<u>(12)</u>
Earnings from Continuing Operations	137
Discontinued Operations (net of tax)	<u>(125)</u>
Net Earnings	<u><u>\$ 12</u></u>
Earnings per share	<u><u>\$ 0.24</u></u>

Net earnings / Number of shares outstanding = \$12/50

MontEgg Inc.
Statement of Financial Position
As at December 31, 2020
(in thousands of dollars)

Assets

Current Assets

Cash	\$ 44
Accounts Receivable	20
Inventory	78
Loan Receivable - due May 25, 2021	<u>7</u>

Total Current Assets 149

Non-Current Assets

Equipment	125
Less: Accumulated Depreciation - Equipment	(7)
Land	103
Goodwill	<u>55</u>

Total Non-Current Assets 276

Total Assets \$ 425

Liabilities & Shareholders' Equity

Liabilities

Current Liabilities

Accounts Payable	\$ 63
Deferred Revenue	71
Interest Payable	4
Income Tax Payable	<u>10</u>

Total Current Liabilities 148

Non-Current Liabilities

Note Payable - due January 31, 2025	<u>100</u>
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Total Liabilities 248

Shareholders' Equity

Contributed Capital	100
Retained Earnings (Note 1)	<u>77</u>

Total Shareholders' Equity 177

Total Liabilities & Shareholders' Equity \$ 425

Note 1: Calculation of retained earnings

Retained Earnings - January 1, 2020	\$ 67
Add: Net Earnings	12
Less: Dividends Declared	<u>(2)</u>
Retained Earnings - December 31, 2020	<u>\$ 77</u>

Question 2 – Multiple-Choice Questions

1. a)
2. b)
3. a) \$88,950 $[\$127,000 \times 0.45 + \$83,000 \times 0.35 + \$11,000 \times .025]$
4. a)
5. c)
6. d)
7. c)
8. a)
9. b)
10. d)
11. a)
12. c)
13. b)
14. d)
15. a)
16. a)
17. a)
18. b)
19. b) \$129,000 $[\text{Sales revenue} - \text{Cost of sales} = \$229,000 - \$100,000]$
20. c) (\$42,000) $[\$229,000 - (\$100,000 + \$71,000 + \$100,000)]$
21. b) \$21 $[229,000 - (100,000 + 71,000 + 100,000 + 31,000) + 73,000 + 21,000] / [(750 + 1,250) / 2]$
22. c) 8.71% $[\$21,000 / (100,000 + 120,000 + 21,000)]$; beginning SE is unknown
23. a) 1.61 $[\$150,000 / (\$31,000 + \$52,000 + \$10,000)]$
24. d)
25. c) \$300,000 $[\text{Total assets} = \$1,500,000; \text{NCA} = \$1,500,000 - \$1,200,000]$
26. d)
27. c)
28. a)
29. d)
30. a)
31. c)
32. d)
33. c)