CONCORDIA UNIVERSITY
DEPARTMENT OF ACCOUNTANCY

FINANCIAL ACCOUNTING
COMM 217 ALL SECTIONS

SOLUTION TO EXAM 2, FALL 2021

Solution to Question A: Bank Reconciliation

Req. 1 (5 marks)

BANKREC INC.
Bank Reconciliation, October 31, 2021

Company's Books		*Bank Statement*	
Ending cash balance per books	$7,000	Ending balance per bank statement	$6,885
Additions:		**Additions:**	
Error in recording cheque to supplier ($752 – $572)	180	Deposit in transit......................	625
	7,180		7,510
Deductions:		**Deductions:**	
NSF cheque	(500)	Outstanding cheques	(840)
Bank service charge	(10)		
Ending correct cash balance	$6,670	Ending correct cash balance	$6,670

Req. 2 (3 marks)

Bank service charges expense	10	
Cash		10
Accounts receivable	500	
Cash		500
Cash	180	
Accounts payable		180

Req. 3 (2 marks)

Any two of the following answers:

1. Employees who receive cash do not also disburse cash.
2. Employees who handle cash do not have access to the accounting records.
3. All receipts of cash are recorded and deposited at the bank, and are not used directly to make payments.
4. Disbursements are made by serially numbered cheques, only upon the authorization of a person other than the cheque signer.
5. Other valid points.

Solution to Question B: Accounting for Long-Lived Assets (24 marks)

Req. 1 (11 marks)

Land..	364,000	
Building	546,000	
Note payable		600,000
Cash ($250,000 + $50,000 + $10,000)......................		310,000

Total consideration given, or cost, is $850,000 + $50,000 + $10,000 = $910,000**.**

Total market value of assets acquired = $1,000,000.

Allocation of cost:

(a) Land: $910,000 x ($400,000 / $1,000,000) = $364,000.

(b) Building: $910,000 x ($600,000 / $1,000,000) = $546,000.

Building	160,000	
Cash (or Accounts payable)		160,000
Machinery	350,000	
Cash		350,000

Acquisition cost = $320,000 x 0.95 + $22,000 + $24,000

Trucks	300,000	
Cash (or Accounts payable)		300,000

Note that the licensing and insurance fees should not be added to the cost because these fees are renewable on a regular basis.

Req. 2 (**3 marks**)

Depreciation expense – building	31,300	
Accumulated depreciation – building		31,300

($546,000 + $160,000 – $80,000) / 20 years = $31,300

Req. 3 (**1.5 marks**)

Depreciation expense – machinery, 2nd year = $350,000 x (48,000 / 700,000) = $24,000

Req. 4 (**2 marks**)

Depreciation expense – trucks, 1st year = $300,000 x 30% = $90,000

Depreciation expense – trucks, 2nd year = ($300,000 – $90,000) x 30% = $63,000

Req. 5 (**3.5 marks**)

Cash	35,000	
Accumulated depreciation – trucks	30,600	
Trucks		60,000
Gain on sale of trucks		5,600

Accumulated depreciation per truck = ($90,000 + $63,000) / 5

Req. 6 (**3 marks**)

Intangible assets are long-lived assets that lack physical existence. Examples include patents, copyrights, trademarks, franchises and technology. *(Two examples are sufficient.)*

An intangible asset should initially be recorded at cost. If it has a definite life, it should be amortized over its economic or legal life.

Intangibles should be written down to their recoverable value if there is an impairment in their value.

Intangibles are normally shown net of amortization in the non-current section of the statement of financial position.

Question C: Multiple Choice Questions: (36 marks)

1. D. A debit to allowance for doubtful accounts for $4,300.

2. A. A debit to bad debts expense for $9,000.
   Credit sales = $1,060,000 – 760,000 = $300,000
   Bad debt expense = $300,000 x 3% = $9,000

3. C. $6,800.

Allowance for Doubtful Accounts

Write-offs, fiscal year 2020	4,300	7,500	Bad debt expense, FY, 2020, $250,000 x 3%
		3,200	Ending balance, September 30, 2020
Write-offs, fiscal year 2021	5,400	9,000	Bad debt expense, FY, 2021, $300,000 x 3%
		6,800	Ending balance, September 30, 2021

4. B. 12.88

   Receivables turnover ratio = Net credit sales / Average net accounts receivable
   = $300,000 / [(24,700 – 3,200) + (31,900 – 6,800)/2]

5. A. $4,920. [$18,400 x 0.1 + $4,700 x 0.4 + $1,600 x .75]

6. D. A debit to bad debts expense for $6,650. [$6,170 – ($4,920 – $5,400)]

Allowance for Doubtful Accounts

		4,920	Ending balance, September 30, 2020
Write-offs, fiscal year 2021	5,400	6,650	Bad debt expense, FY, 2021
		6,170	Ending balance, September 30, 2021

Ending balance, September 30, 2021 = [$24,300 x 0.1 + $5,600 x 0.4 + $2,000 x .75]

7. B. The aging of accounts receivable method matches bad debts expense with credit sales in the same period.

8. B. $88,000.
   Ending inventory, FIFO = Number of units in ending inventory x Unit cost
   = 8,000 units* x $11
   * Ending inventory (units) = Beginning inventory + units purchased – units sold
   = 7,000 + 19,000 – 10,000 + 8,000 – 16,000 = 8,000

9. C. $227,000. [$56,000 + 19,000 x $9]

10. A. 69.49%
Gross profit percentage = (Net sales – Cost of sales) / Net sales
$$\text{GP \%} = [(10{,}000 \times \$27 + 16{,}000 \times \$30 - \underbrace{10{,}000 \times \$30 \times 2\%}_{\text{Sales discount}}) - 227{,}000] / \$744{,}000 = 69.49\%$$

11. A. 3.33 [$240,000 / ($56,000 + $88,000) / 2]

12. D. $8.73 [($56,000 + 19,000 x $9) / (7,000 + 19,000)]

13. B. If the WAC method is used, the cost of ending inventory at December 31, 2020 under the periodic system would be smaller than the cost of ending inventory under the perpetual system.

14.	**Effect on Cost of Sales**	**Effect on Net Earnings**
B.	Overstated by $2,000	Understated by $1,200 [$2,000 x (1 – 0.40)]

15. C. $65,700 [($71,700 – 2,000) + 15,000 – 19,000]

16. C. $9,000

17. C. $191,050 [$196,500 – 3,700 – 1,750]

18. B. No separate information is kept to control inventory shrinkage.