

**FINAL EXAM (REGULAR) - DURATION: 2.5 HOURS  
WINTER 2021**

Name: \_\_\_\_\_ ID: \_\_\_\_\_ Section: \_\_\_\_\_

**Instructions (very important):**

1. All non-multiple choice questions must be answered in a word document (.doc or .docx).  
You may answer the questions in any order you prefer, make sure to identify the question you are answering. You should name the file as follows:  
Familyname\_Firstname\_StudentID#.
2. Write your FULL name (last name & first) and Student ID on top of the first page of the document carrying your answers.
3. If an answer to a non-multiple choice question requires calculations, show the details to earn the allocated marks. Do not show your calculations for multiple choice questions as they are marked as correct or incorrect, regardless of showing detailed calculations. Omit narrative explanations for journal entries.
4. Abbreviating any names (for example: account names, headings, subheadings, totals, subtotals, etc.) may be subject to mark deduction.
5. This is a closed book examination. However, a silent hand-held (not graphical or programmable) calculator and one standard language or digital dictionary are permitted.

**GOOD LUCK!**

**Question 1: Statement of Cash Flows (13 marks; 22 minutes)**

The Niakwa Industries prepared the following statement of earnings and comparative statement of financial position for 2020:

**NIAKWA INDUSTRIES**  
**Statement of Earnings**  
**For the Year Ended December 31, 2020**

Net sales	\$1,900,000
Cost of sales	<u>980,000</u>
Gross profit	920,000
<i>Operating expenses</i>	
Depreciation expense—property, plant and equipment	200,000
Amortization expense—patents	27,000
Other operating expenses	<u>197,000</u>
Earnings from operating activities	496,000
<i>Non-operating activities</i>	
Interest expense	160,000
Loss on sale of land	<u>100,000</u>
Net earnings before income tax	236,000
Income tax (30%)	<u>70,800</u>
<b>Net Earnings</b>	<b><u><u>\$ 165,200</u></u></b>

**NIAKWA INDUSTRIES**  
**Comparative Statement of Financial Position**  
**December 31, 2020**

<u><b>Assets</b></u>	<b>2020</b>	<b>2019</b>
<b>Current Assets</b>		
Cash	\$ 405,200	\$ 200,000
Accounts Receivable	180,000	350,000
Investments	460,000	320,000
Inventory	<u>2,336,000</u>	<u>2,090,000</u>
<b>Total Current Assets</b>	<b>3,381,200</b>	<b>2,960,000</b>
<b>Non-Current Assets</b>		
Property, Plant, and Equipment	880,000	800,000
Less: Accumulated Depreciation	(760,000)	(560,000)
Patents, net	<u>192,000</u>	<u>219,000</u>
<b>Total Non-Current Assets</b>	<b>312,000</b>	<b>459,000</b>
<b>Total Assets</b>	<b><u>\$3,693,200</u></b>	<b><u>\$3,419,000</u></b>
 <b><u>Liabilities and Shareholders' Equity</u></b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 389,000	\$ 265,000
Accrued Payables	160,000	240,000
Dividends Payable	80,000	80,000
Income Taxes Payable	<u>27,000</u>	<u>42,000</u>
<b>Total Current Liabilities</b>	<b>656,000</b>	<b>627,000</b>
<b>Non-Current Liabilities</b>		
Note Payable (Long-Term)	180,000	560,000
Bonds Payable	<u>900,000</u>	<u>400,000</u>
<b>Total Non-Current Liabilities</b>	<b>1,080,000</b>	<b>960,000</b>
<b>Total Liabilities</b>	<b>1,736,000</b>	<b>1,587,000</b>
 <b>Shareholders' Equity</b>		
Common Shares	1,600,000	1,600,000
Retained Earnings	<u>357,200</u>	<u>232,000</u>
<b>Total Shareholders' Equity</b>	<b>1,957,200</b>	<b>1,832,000</b>
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b><u>\$3,693,200</u></b>	<b><u>\$3,419,000</u></b>

Additional information:

1. Equipment was purchased for \$400,000 cash.
2. Cash dividends of \$40,000 were paid in 2020.
3. Land was sold for \$220,000 cash
4. Changes in the note payable and bonds payable accounts were through cash transactions.
5. Any additional transactions were non-cash transactions and can be ignored for this question.

**Required:**

Prepare a complete Statement of Cash Flows for 2020 using the indirect method for the operating section. Ignore supplementary disclosure (**13 marks**).

## Question 2: Journal Entries (7 Marks; 13 minutes)

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)**

## Question 3: Multiple Choice Questions: (30 questions, 2 marks each: Total marks, 60; 115 minutes)

Use the following information to answer questions 1 to 14.

Presented below are the statement of earnings (2020) and the statement of financial position (2019 and 2020) for Trek Inc.

<b>Trek Inc.</b>	
<b>Statement of Earnings</b>	
<b>For the year ended December 31, 2020</b>	
<b>(in thousands of dollars)</b>	
Sales	\$1,640
Cost of sales	<u>(800)</u>
<i>Gross profit</i>	840
Depreciation expense	(40)
Selling and administrative expenses	<u>(400)</u>
<i>Earnings from operations</i>	400
Loss on sale of equipment	(6)
Interest expense	<u>(24)</u>
<i>Earnings before income taxes</i>	370
Income tax expense	<u>(100)</u>
<b>Net earnings</b>	<b><u>\$ 270</u></b>

**Trek Inc.**  
**Statement of Financial Position**  
**(in thousands of dollars)**

	<b>Dec. 31, 2020</b>	<b>Dec. 31, 2019</b>
<b>Assets</b>		
Cash	\$ 52	\$ 60
Short-term Investments	80	40
Account Receivable (net)	198	80
Inventories	240	160
Prepaid Expenses	3	7
Property, Plant and Equipment (net)	<u>857</u>	<u>853</u>
<b>Total Assets</b>	<b><u>\$1,430</u></b>	<b><u>\$1,200</u></b>
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities	\$ 240	\$ 160
Bonds Payable	200	200
Common Shareholders' Equity	<u>990</u>	<u>840</u>
<b>Total Liabilities and Shareholders' Equity</b>	<b><u>\$1,430</u></b>	<b><u>\$1,200</u></b>

Additional information:

- a) Trek, Inc. purchased new equipment in 2020 for \$55,000. It also sold used equipment during the year.
- b) Trek Inc. had 84,000 common shares outstanding at December 31, 2019. On January 2, 2020, Trek Inc. sold and issued 6,000 additional common shares for a total amount of \$60,000. There were no other transactions affecting common shares during 2020. The market price per share was \$33 at December 31, 2020. Trek's board of directors declared dividends at December 31, 2020, payable in January 2021.

1. The current ratio is equal to:

- a. 2.39
- b. 1.38
- c. 0.22
- d. 3.25

2. The quick ratio is equal to:

- a. 2.39
- b. 1.38
- c. 0.22
- d. 0.55

3. The inventory turnover ratio is equal to:
- a. 4.00
  - b. 3.33
  - c. 5.00
  - d. 8.20
4. The return on assets ratio is equal to:
- a. 21.86%
  - b. 20.53%
  - c. 22.36%
  - d. 18.88%
5. The times interest earned ratio is equal to:
- a. 12.25
  - b. 0.08
  - c. 11.25
  - d. 16.42
6. The price-earnings ratio is equal to:
- a. 11.00
  - b. 0.09
  - c. 10.28
  - d. 10.65
7. The dividend yield ratio is equal to:
- a. 6.06%
  - b. 1.51%
  - c. 4.00%
  - d. 18.33%
8. What is the amount of cash that Trek Inc received for the sale of the equipment?
- a. \$5,000
  - b. \$38,000
  - c. \$30,000
  - d. \$13,000

9. The quick ratio measures the ability of the company
- to pay its total liabilities with cash on-hand
  - to pay its current liabilities using quick assets
  - to pay its current liabilities with current assets
  - to transform its total assets into cash
10. Which of the following is **NOT TRUE** about the inventory turnover ratio?
- The ratio measures how many times average inventory was purchased and sold during the period
  - If an ice cream stand has consistently weak sales due to rainy weather, this would likely result in a low inventory turnover ratio.
  - A company's inventory turnover ratio should be compared across the years and to its competitors' inventory turnover ratios in order to conclude whether it is favorable or not.
  - A high turnover ratio typically means a company has weaker sales and declining demand for a company's product.
11. Which of the following best explains the purpose of the debt-to-equity ratio?
- It is an exclusive measure of the proportion of cash in a company that is financed via bank loans or shares issued to investors.
  - It measures how much debt has been used to finance the acquisition of assets relative to equity financing.
  - It measures how much of a company's start-up costs were financed either through debt or asset financing.
  - It measures the ability of the company to pay its total liabilities with total assets.
12. Which of the following is **TRUE** about the price earnings ratio?
- It measures the relationship between a company's earnings per share at the beginning and ending of a given period.
  - It is considered a test of solvency.
  - Its calculation requires information about the current market price per share.
  - It measures how the company's product prices impact its earnings.
13. The write-off of an uncollectible account receivable would have which effect on the company's quick ratio? Assume the quick ratio is less than 1.
- Increase
  - Decrease
  - No effect
  - Dollar amounts are needed to determine the direction of the effect.

14. Which of the following transactions would represent a decrease in the company's current ratio, which equals 0.93?
- The write-off of an account receivable
  - The purchase of the company's own bonds from bondholders
  - The issuance of shares in exchange for land
  - The purchase of merchandise inventory on account.

**Questions 15 to 20 relate to the following information:**

Ferry Inc. issued a \$250,000 bond on March 1, 2020. The bond has a stated interest rate of 10%, matures on March 1, 2023 and pays interest on September 1 and March 1 of every year. The market interest rate was 12% when the bond was issued. Ferry Inc. has a December 31 year end and uses the effective interest method to amortize bond discount or premium, and uses a discount or premium account.

Present value factors for selected periods and interest rates are shown below.

Periods	Present Value of \$1				Present Value of Ordinary Annuity of \$1			
	5%	6%	10%	12%	5%	6%	10%	12%
3	0.8638	0.8396	0.7513	0.7118	2.7232	2.6730	2.4869	2.4018
6	0.7462	0.7050	0.5645	0.5066	5.0757	4.9173	4.3553	4.1114

15. The amount of cash received for the bond issue on March 1, 2020 is equal to:
- \$250,000
  - \$237,716
  - \$61,466
  - \$262,686
16. The journal entry to record the issuance of bonds on March 1, 2020 should included a credit to:
- Discount on bonds payable for \$12,284
  - Bonds payable for \$250,000
  - Premium on bonds payable for \$12,686
  - Bonds payable for \$237,716
17. Which of the following statements is **TRUE**?
- Ferry Inc. would record a discount on bonds payable at the issuance date.
  - Ferry Inc. would record interest expense at the issuance date.
  - The stated rate, or coupon rate, is used to calculate interest expense on a bond.
  - Ferry Inc. would record a premium on bonds payable at the issuance date.



18. The interest expense that should be recorded on September 1, 2020 is
- a. \$12,500
  - b. \$14,263
  - c. \$13,134
  - d. \$28,526
19. The interest expense Ferry Inc. would record on December 31, 2020 is
- a. \$9,579
  - b. \$28,737
  - c. \$7,924
  - d. \$8,735
20. Total interest expense during the bond's life would equal:
- a. \$75,000
  - b. \$87,284
  - c. \$90,000
  - d. \$77,314

**Questions 21 to 30 are independent of each other.**

21. Which of the following is **NOT TRUE**?
- a. If the stated rate is equal to the market rate on the issuance date of a bond, no premium or discount on the bond will need to be recorded.
  - b. Private companies are required to amortize bonds payable using the effective-interest method.
  - c. Public companies are required to amortize bonds payable using the effective-interest method.
  - d. All the listed answers are not true.
22. Which of the following is **TRUE**?
- a. When the carrying value of a bond is less than its retirement price, a gain on early debt retirement will be recorded.
  - b. A convertible bond allows for a bond to be converted at a future date into shares of the issuer's common shares.
  - c. Interest payments to debtholders are not required to be paid if the company reports a net loss and subsequently no income.
  - d. None of the listed answers are true.

23. Which of the following statements is **TRUE**?

- a. Dividends and interest are both expenses related to corporate financing.
- b. The statement of changes in equity statement reports dividends declared, as well as all gains or losses on disposal of long-lived assets.
- c. Once a cash dividend is declared, the corporation has a liability payable to its shareholders until the dividend is paid.
- d. Stock dividends on common shares do not affect retained earnings.

24. Assume the following share capital structure for Wolf Inc.:

- Preferred shares, 6%, \$25 par value, cumulative, 2,000 shares outstanding, with dividends in arrears for the years 2018, 2019, and 2020.
- Common shares, no par value, 2,000 shares outstanding.

Total dividends declared in 2021 were \$30,000. The total amount of dividends payable to common shareholders is

- a. \$30,000.
- b. \$27,000.
- c. \$21,000.
- d. \$18,000.

25. The statement of earnings would **not** include

- a. the effect on prior years of changes in accounting standards
- b. the effect of non-operating transactions.
- c. the effect of discontinued operations.
- d. the effect of impairment of goodwill.

26. Which of the following events decreases shareholders' equity?

- a. Payment of a previously declared cash dividend.
- b. Declaration of a 5-percent stock dividend.
- c. Declaration of a cash dividend for preferred shares.
- d. Declaration of a 2-for-1 stock split.

27. Which of the following statements is **not** correct?

- a. Ownership of common shares gives the owner a voting right.
- b. If a company's shares are sold by one shareholder to another, this transaction must be recorded by the company, and Share Capital would increase.
- c. The authorization of share capital does not result in a transaction that is recorded by the company.
- d. Legal capital cannot be distributed to shareholders.

28. Which one of the following would normally be considered a disadvantage of the corporate form of organization?

- a. Limited liability of shareholders
- b. Separate legal existence
- c. Continuous life
- d. Government regulation

29. The following information is taken from the statement of financial position and related disclosures of Blue Bird Corporation:

Total contributed capital	\$5,400,000
Outstanding shares:	
\$1.50 preferred shares, no-par-value, callable at \$25.50, issued at \$25 per share	40,000 shares
Common shares, no-par-value	100,000 shares
Preferred dividends in arrears	two years
Total shareholders' equity	\$4,700,000

Which of the following statements is **not** correct?

- a. The preferred dividends in arrears amount to \$120,000 and should appear as a liability in the corporation's statement of financial position.
  - b. The average issue price per common share is \$44.
  - c. The shareholders' equity section of the statement of financial position should show a deficit of \$700,000.
  - d. The corporation has not paid any dividends on common shares during the past two years.
30. Which of the following transactions will cause an increase on both sides (left and right) of the basic accounting equation?
- a. Collection of cash from a customer who purchased merchandise on account.
  - b. Payment to a supplier for inventory purchased on account.
  - c. Conversion of bonds to common shares.
  - d. Purchase of equipment for cash.