CONCORDIA UNIVERSITY
DEPARTMENT OF ACCOUNTANCY

FINANCIAL ACCOUNTING
COMM 217 ALL SECTIONS

SOLUTION TO EXAM 1 - FALL 2021

Question A

Req. 1

Transaction	Account debited	Account credited	Amount	
a)	Repair supplies expense	Repair supplies	$ 7,600	= $8,900 – 1,300
b)	Insurance expense	Prepaid insurance	2,100	
c)	Depreciation expense	Accumulated depreciation – Repair equipment	7,000	
d)	Deferred repair revenue	Repair fees revenue	800	
e)	Wages expense	Wages payable	900	
f)	Interest expense	Interest payable	200	=$16,000 x 0.05 x 3/12 OR =$16,000 x 0.05 – $600
g)	Accounts receivable	Cash	1,800	
h)	Utilities expense	Utilities payable	900	

Req. 2

Accounts payable	$ 7,200	
Deferred repair revenue	700	[$1,500 – $800]
Wages payable	900	[Transaction e)]
Interest payable	200	[Transaction f)]
Utilities payable	100	[Transaction h)]

Question B

Req. 1

Canada Clothing Inc.
Statement of Earnings
For the Year Ended December 31, 2020
(in millions of dollars)

Sales revenue	$ 904
Cost of sales	(350)
Gross profit	554
Operating expenses:	
Depreciation expense	(70)
General expenses	(122)
Selling and administrative expenses	(247)
Total operating expenses	(439)
Earnings from operations	115
Non-operating items / Other income and expenses	
Interest expense	(31)
Gain on sale of equipment	2
Earnings before income taxes	86
Income tax expense	(16)
Net Earnings	$ 70
Earnings per share*	$ 0.64

*EPS = Net earnings / Average number of shares outstanding = $70 / 110 = $0.64

Req. 2

Canada Clothing Inc.
Statement of Financial Position (Partial)
As at December 31, 2020
(in millions of dollars)

Assets	
Current Assets	
Cash	$ 478
Accounts receivable	41
Inventories	342
Income tax receivable	5
Other current assets	31
Total Current Assets	897
Non-Current Assets	
Property, plant and equipment, net	350
Intangible assets	155
Goodwill	105
Total Non-Current Assets	610
Total Assets	$1,507

Req. 3

The following ratios can be computed. Any two of these ratios are acceptable.

Earnings per share = Net earnings / Average number of shares outstanding = $70 / 110 = $0.64

This ratio measures the profitability of the company in a specific year on a per share basis.

Net profit margin = Net earnings / Sales revenue = $70 / $904 = 0.0774 (rounded) = 7.74%

This ratio measures how much profit is earned as a percentage of revenues generated during the period. A rising ratio signals more efficient management of sales and expenses.

Total assets turnover = Sales revenue / Average total assets
= $904 / [($1,120 + $1,507)/2] = $904 / $1,313.5 = 0.69 (rounded)

This ratio measures the sales generated per dollar of assets. A high ratio signifies efficient management of assets.

Return on assets = [Net earnings + Interest expense (net of tax)] / Average total assets
= [$70 + 31 x (1 – 0.186*)] / $1,313.5 = 0.0725 = 7.25%

* Tax rate = Income tax expense / Earnings before income taxes = $16 / $86 = 0.186

ROA measures how much the firm earned from the use of its assets. It is the broadest measure of profitability and management effectiveness.

Question C: Multiple-Choice

1. B
2. C
3. D
4. C [An external transaction is an exchange between the company and an external party.]
5. E [A transaction is recorded based on supporting documents. The source documents are the first step in an accounting cycle.]
6. C [Rent expense is $200 per month. At December 31, 2020, rent has been prepaid for January and February, 2021. Hence, the Prepaid Rent account should have a balance of $400.]
7. B [Credit sales = Total sales x 0.75
   Credit sales = Cash collections + increase in accounts receivable = $260,000 + $4,000
   Credit sales = $264,000 → Total sales = Credit sales / 0.75 = $352,000]
8. A
9. D
10. B
11. D
12. C
13. D [Total assets = $1,000 (cash) + $600 (inventory) + $500 (accounts receivable) – $300 (inventory) = $1,800.]
14. B [Adjusting entries are internal transactions that do not involve external parties. Answers A, C and D involve external parties.]
15. D
16. B
17. C