

**FINAL EXAM (REGULAR) - DURATION: 2.5 HOURS
FALL 2020**

Name: _____ ID: _____ Section: _____

Instructions (very important):

1. All questions are multiple choice and must be answered in COLE.
2. There is no need to show any calculations.
3. 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.

GOOD LUCK!

Use the following table and information to answer question 1 .

Present Value Tables

TABLE A.1: Present Value of \$1, $p = 1/(1 + i)^n$

Periods	2%	2.5%	2.75%	3%	3.75%	4%	4.25%	5%	5.5%
1	0.980	0.976	0.973	0.971	0.964	0.962	0.960	0.952	0.948
2	0.961	0.952	0.947	0.943	0.929	0.925	0.920	0.907	0.899
3	0.942	0.929	0.922	0.915	0.895	0.889	0.883	0.864	0.852
4	0.924	0.906	0.897	0.889	0.863	0.855	0.847	0.823	0.807
5	0.906	0.884	0.873	0.863	0.832	0.822	0.812	0.784	0.765
6	0.888	0.862	0.850	0.838	0.802	0.790	0.779	0.746	0.725
7	0.871	0.841	0.827	0.813	0.773	0.760	0.747	0.711	0.687
8	0.854	0.821	0.805	0.790	0.745	0.731	0.717	0.677	0.652
9	0.837	0.801	0.783	0.766	0.718	0.703	0.688	0.645	0.618
10	0.820	0.781	0.762	0.744	0.692	0.676	0.660	0.614	0.585
20	0.673	0.610	0.581	0.553	0.479	0.456	0.435	0.377	0.343
Periods	6%	7%	8%	9%	10%	11%	12%	13%	14%
1	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877
2	0.890	0.873	0.857	0.842	0.826	0.812	0.797	0.783	0.770
3	0.840	0.816	0.794	0.772	0.751	0.731	0.712	0.693	0.675
4	0.792	0.763	0.735	0.708	0.683	0.659	0.636	0.613	0.592
5	0.747	0.713	0.681	0.650	0.621	0.594	0.567	0.543	0.519
6	0.705	0.666	0.630	0.596	0.565	0.535	0.507	0.480	0.456
7	0.665	0.623	0.584	0.547	0.513	0.482	0.452	0.425	0.400
8	0.627	0.582	0.540	0.502	0.467	0.434	0.404	0.376	0.351
9	0.592	0.544	0.500	0.460	0.424	0.391	0.361	0.333	0.308
10	0.558	0.508	0.463	0.422	0.386	0.352	0.322	0.295	0.270
20	0.312	0.258	0.215	0.178	0.149	0.124	0.104	0.087	0.073

TABLE A.2: Present Value of Annuity of \$1, $P = [1 - 1/(1 + i)^n]/i$

Periods	2%	2.5%	2.75%	3%	3.75%	4%	4.25%	5%	5.5%
1	0.980	0.976	0.973	0.971	0.964	0.962	0.959	0.952	0.948
2	1.942	1.927	1.920	1.914	1.893	1.886	1.879	1.859	1.846
3	2.884	2.856	2.842	2.829	2.788	2.775	2.762	2.723	2.698
4	3.808	3.762	3.739	3.717	3.651	3.630	3.609	3.546	3.505
5	4.714	4.646	4.613	4.580	4.483	4.452	4.421	4.330	4.270
6	5.601	5.508	5.462	5.417	5.285	5.242	5.200	5.076	4.996
7	6.472	6.349	6.289	6.230	6.058	6.002	5.947	5.786	5.683
8	7.326	7.170	7.094	7.020	6.803	6.733	6.664	6.463	6.335
9	8.162	7.971	7.878	7.786	7.521	7.435	7.351	7.108	6.952
10	8.983	8.752	8.640	8.530	8.213	8.111	8.011	7.722	7.538
20	16.351	15.589	15.227	14.878	13.896	13.590	13.294	12.462	11.950
Periods	6%	7%	8%	9%	10%	11%	12%	13%	14%
1	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877
2	1.833	1.808	1.783	1.759	1.736	1.713	1.690	1.668	1.647
3	2.673	2.624	2.577	2.531	2.487	2.444	2.402	2.361	2.322
4	3.465	3.387	3.312	3.240	3.170	3.102	3.037	2.975	2.914
5	4.212	4.100	3.993	3.890	3.791	3.696	3.605	3.517	3.433
6	4.917	4.767	4.623	4.486	4.355	4.231	4.111	3.998	3.889
7	5.582	5.389	5.206	5.033	4.868	4.712	4.564	4.423	4.288
8	6.210	5.971	5.747	5.535	5.335	5.146	4.968	4.799	4.639
9	6.801	6.515	6.247	5.995	5.759	5.537	5.328	4.132	4.946
10	7.360	7.024	6.710	6.418	6.145	5.889	5.650	5.426	5.216
20	11.470	10.594	9.818	9.129	8.514	7.963	7.469	7.025	6.623

For each of the following multiple choice questions, choose the letter that corresponds to the **best** answer.

Use the following information to answer questions 1-7.

Carey Ltd. issued 5-year, \$5,000,000 bonds on July 1, 2020. The debentures have an annual stated (contractual) interest rate of 4% with interest payable semi-annually on December 31 and June 30, beginning December 31, 2020. The annual market rate for similar bonds was 6% at the time of issuance. The company uses the effective interest method to amortize any discount or premium on bonds and has a December 31 fiscal year end. You **must** use the present value factors provided in this exam in your calculations. Do not use a financial calculator to calculate present value.

- 1) How much money did Carey Ltd. receive on the bond issuance date?
 - a) \$4,156,200
 - b) \$4,577,400
 - c) \$4,573,000
 - d) \$5,447,450
 - e) \$5,000,000

- 2) Assume that at issuance, the market interest rate for similar bonds was 2% instead of the 6% given in the question above, Carey Ltd.'s bond issue price would be
 - a) An unknown amount given the speculative nature of bond values.
 - b) An amount greater than face value since bondholders would be willing to pay relatively more for a highly liquid investment.
 - c) An amount greater than face value since bondholders would be willing to pay a premium for an investment generating a return exceeding the market yield for comparable bonds.
 - d) An amount equal to par value since investors are rational and they never pay anything more (or less) than the amount they will receive on the maturity date.
 - e) An amount less than par value because investors would be attracted to similar bonds in the market paying an interest rate of 2%.

- 3) Total interest expense over the life of the bond would equal
 - a) \$1,000,000
 - b) \$1,500,000
 - c) \$1,422,700
 - d) \$1,843,800
 - e) \$1,427,000

For questions 4 to 7, assume that the present value of Carey's bonds was \$4,800,000 at the date of issuance and that the company uses a discount or premium account. The other information about Carey Ltd. are valid for questions 4-7.

4) Which journal entry should Carey Ltd. prepare to record the issuance of the bonds?

- | | | |
|---------------------------|-----------|-----------|
| a) Cash | 5,000,000 | |
| Bonds payable | | 5,000,000 |
| b) Cash | 4,800,000 | |
| Discount on bonds payable | 200,000 | |
| Bonds payable | | 5,000,000 |
| c) Cash | 5,000,000 | |
| Bonds payable | | 4,800,000 |
| Discount on bonds payable | | 200,000 |
| d) Cash | 4,800,000 | |
| Bonds payable | | 4,800,000 |
| e) Cash | 4,800,000 | |
| Loss on bonds payable | 200,000 | |
| Bonds payable | | 5,000,000 |

5) Which journal entry should Carey Ltd. prepare on December 31, 2020?

- | | | |
|---------------------------|---------|---------|
| a) Interest expense | 144,000 | |
| Cash | | 144,000 |
| b) Interest expense | 100,000 | |
| Discount on bonds payable | 44,000 | |
| Cash | | 144,000 |
| c) Interest expense | 100,000 | |
| Cash | | 100,000 |
| d) Interest expense | 144,000 | |
| Bonds payable | | 44,000 |
| Cash | | 100,000 |
| e) Interest expense | 144,000 | |
| Cash | | 100,000 |
| Discount on bonds payable | | 44,000 |

6) What is the bonds' net book value (carrying amount) on December 31, 2020?

- It would depend on the market interest rate on December 31, 2020. This rate is not provided in the problem, therefore, the bonds' net book value is unknown on December 31, 2020.
- \$4,844,000.
- \$5,000,000.
- \$4,800,000.
- \$4,756,000.

- 7) Assume that Carey decided to call (redeem) the bonds at 101 on the morning of January 1, 2021. Which one of the following statements would be correct?
- A loss on bond redemption should be debited by \$206,000.
 - A gain on bond redemption should be credited by \$206,000.
 - No gain or loss should be recorded in relation to this transaction.
 - A loss on bond redemption should be debited by \$50,000.
 - A gain on bond redemption should be credited by \$50,000.

Use the following information to answer questions 8 to 14.

Musical Instruments Ltd. (MIL) sells different types of flutes and wind instruments to bands, orchestras and music stores. Selected information from MIL's comparative financial statements are provided below for the fiscal years ended December 31, 2020 and 2019.

Financial Statement Item	2020	2019
Accounts receivable, net	\$ 28,150	\$ 5,300
Inventories	5,000	15,000
Furniture and fixtures, at cost	29,500	13,000
Accumulated depreciation – Furniture and fixtures	12,000	6,000
Investments (long term)	1,000	1,500
Accounts payable	8,500	6,550
Dividends payable	-0-	300
Mortgage notes payable	14,000	-0-
Share capital	12,000	11,000
Retained earnings	9,650	12,650
Sales revenue	245,000	
Cost of sales	160,000	
Loss on sale of furniture	300	
Gain on sale of investments	200	
Net earnings	3,000	

Additional information:

- In 2020, MIL sold older obsolete furniture with an original cost of \$1,000 and \$600 of accumulated depreciation up to the date of sale.
- During 2020, MIL sold one of the non-current investments that had cost \$500.

For questions 8 to 12, assume that MIL uses the indirect method of reporting cash flows from operating activities for 2020.

- 8) The amount of depreciation expense that should be added to net earnings is:
- \$6,000.
 - \$6,600.
 - \$12,000.
 - Not determinable without having a detailed statement of earnings.

- 9) The loss on sale of furniture is reported in which section of the statement of cash flows?
- a) Operating activities as an addition to net earnings
 - b) Investing activities as a cash outflow
 - c) Operating activities as a deduction from net earnings
 - d) The loss would not be reported in the statement of cash flows because it does not affect cash.
- 10) The operating activities section of the statement of cash flows includes the following adjustments to net earnings:
- a) An addition of \$22,850 for accounts receivable and an addition of \$1,950 for accounts payable
 - b) A deduction of \$10,000 for inventories and a deduction of \$300 for dividends payable
 - c) An addition of \$10,000 for inventories and an addition of \$1,950 for accounts payable
 - d) None of the above statements is correct.
- 1) The investing activities section of the statement of cash flows would report:
- a) A cash inflow of \$16,500 for the purchase of new furniture and fixtures.
 - b) A cash inflow of \$500 for the sale of non-current investments.
 - c) A cash outflow of \$100 for the sale of furniture.
 - d) A net cash outflow of \$16,700 for all investing activities during the year.
- 2) The cash outflow for dividends during 2020 is:
- a) \$3,000.
 - b) \$300.
 - c) \$6,300.
 - d) \$6,000.

For questions 6 and 7, assume that MIL uses the direct method of reporting cash flows from operating activities for 2020.

- 3) The amount reported for cash collections from customers is:
- a) \$245,000.
 - b) \$222,150.
 - c) \$267,850.
 - d) Not determinable without an analysis of aged accounts receivable.
- 4) The amount reported for cash payments to suppliers is:
- a) \$150,000.
 - b) \$158,050.
 - c) \$148,050.
 - d) \$151,950.

Use the following information to answer questions 15-17.

Vegan's Delight Foods (VDF) Incorporated reported the following balances in its shareholders' equity accounts as of January 1, 2020:

Preferred shares, \$2 (20,000 shares authorized, 15,000 shares issued)	\$375,000
Common shares (50,000 authorized, 30,000 issued)	250,000
Contributed surplus	10,000
Retained earnings	250,000

- 15) On January 15, 2020, VDF paid the annual dividend on preferred shares and a dividend of \$3 per common share. These dividends had been declared on December 31, 2019. Which of the following journal entries is correct?
- a) Retained earnings 210,000
Cash 210,000
- b) Dividends declared 120,000
Dividends payable – preferred 30,000
Dividends payable – common 90,000
- c) Dividends payable – preferred 30,000
Dividends payable – common 90,000
Cash 120,000
- d) Dividends payable – preferred 60,000
Dividends payable – common 150,000
Cash 210,000
- 16) VDF sold and issued on February 1, 2020, 20,000 common shares and received \$10 cash per share. What is the balance of the Common Shares account after the issuance?
- a) \$450,000
b) \$416,667
c) \$50,000
d) \$250,000
e) None of the above amounts.
- 17) VDF purchased on May 31, 2020, 2,000 of its own common shares at \$20 per share and cancelled them. This transaction is recorded by debiting the following account(s):
- a) Common Shares for \$40,000.
b) Common Shares for \$18,000 and Retained Earnings for \$22,000.
c) Common Shares for \$18,000 and Loss on Repurchase of Shares for \$22,000.
d) Common Shares for \$16,667, Contributed Surplus for \$10,000, and Retained Earnings for \$13,333.
e) Common Shares for \$18,000, Contributed Surplus for \$10,000 and Retained Earnings for \$12,000.

Use the following information to answer questions 18-20.

The shareholders' equity section of ABC Inc. included the following components at January 1, 2020:

Preferred shares (10,000 shares outstanding)	\$250,000
Common shares (30,000 shares outstanding)	300,000
Retained earnings	400,000

The preferred shares have a cumulative dividend preference and pay an annual dividend of \$1 per share.

- 18) ABC's board of directors declared and issued a 40% stock dividend on May 31, 2020. The market price per share was \$15 on that date. The next day, June 1, 2020, ABC's market price per share dropped to \$11. Which of the following statements is correct?
- a) The Common Shares account will increase by \$180,000.
 - b) Retained Earnings will decrease by \$120,000.
 - c) The Common Shares account will increase by \$132,000.
 - d) Total shareholders' equity will increase by \$120,000.
 - e) This transaction will not affect any component of shareholders' equity.
- 19) ABC did not declare any dividends in either 2018 or 2019. Because of profitable operations in 2020, ABC's board of directors approved on December 31, 2020, the payment of dividends on preferred shares and a dividend of \$2 per common share. These dividends are payable on January 31, 2021. ABC reported net earnings of \$300,000 for 2020. What is the balance of Retained Earnings at December 31, 2020?
- a) \$586,000.
 - b) \$406,000.
 - c) \$486,000.
 - d) \$466,000.
 - e) None of the above amounts.
- 20) What is ABC's earnings per share for the year 2020?
- a) \$9.67
 - b) \$7.50
 - c) \$8.06
 - d) \$8.33
 - e) None of the above amounts.

Use the following information for questions 21-29.

Comparative financial statement data of ABC Hardware Ltd. are as follows:

ABC HARDWARE LTD.
Comparative Statement of Earnings
For the Years Ended December 31, 2020 and 2019

	2020	2019
Net sales	\$ 351,500	\$ 310,000
Cost of sales	<u>201,000</u>	<u>155,000</u>
Gross profit	150,500	155,000
Operating expenses	<u>65,000</u>	<u>71,000</u>
Earnings from operations	85,500	84,000
Interest expense	<u>26,000</u>	<u>20,000</u>
Earnings before income tax	59,500	64,000
Income tax expense	<u>19,000</u>	<u>22,500</u>
Net Earnings	<u>\$ 40,500</u>	<u>\$ 41,500</u>

ABC HARDWARE LTD.
Comparative Statement of Financial Position December 31, 2020 and 2019
(and selected account balances at December 31, 2018)

	2020	2019	2018
Current assets:			
Cash	\$ 20,000	\$ 20,000	\$ 15,000
Short-term investments	1,000	5,000	0
Accounts receivables, net	116,000	80,500	62,500
Inventories	149,000	137,000	86,000
Prepaid expenses	<u>6,000</u>	<u>9,000</u>	
Total current assets	292,000	251,500	
Property, plant, and equipment, net	<u>154,500</u>	<u>143,500</u>	
Total assets	<u>\$446,500</u>	<u>\$395,000</u>	351,500
 Total current liabilities	 \$141,000	 \$138,500	
Long- term liabilities	<u>114,500</u>	<u>121,000</u>	
Total liabilities	255,500	259,500	
Preferred shares	25,000	25,000	
Common shares	80,000	65,000	65,000
Retained earnings	<u>86,000</u>	<u>45,500</u>	19,000
Total liabilities and shareholders' equity	<u>\$446,500</u>	<u>\$395,000</u>	

Other information:

- The market price of ABC Hardware Ltd. common shares was \$19.00 on December 31, 2020 and \$31.00 on December 31, 2019.
- The weighted-average number of common shares outstanding was 15,000 during 2020 and 12,000 during 2019.
- All sales are on credit.
- Cash provided by operating activities (before interest and tax payments) was \$78,000 in 2020 and \$80,000 in 2019. In addition, the company paid interest of \$26,000 in 2020 and \$20,000 in 2019.

- 21) Calculate ABC Hardware Ltd.'s quick ratio for 2020.
- a) 0.97
 - b) 0.14
 - c) 0.15
 - d) 2.07
 - e) None of the above numbers.
- 22) What is ABC Hardware Ltd.'s Inventory turnover for 2020?
- a) 1.41
 - b) 2.46
 - c) 1.35
 - d) 1.13
 - e) None of the above numbers.
- 23) The inventory turnover ratio
- a) Is used to analyze profitability
 - b) Is used to measure solvency
 - c) Depends on the type of inventory valuation method
 - d) Validates the acid-test ratio
 - e) Measures how quickly a firm sells its merchandise inventory
- 24) Calculate ABC Hardware Ltd.'s accounts receivable turnover ratio for 2020.
- a) 3.03
 - b) 3.58
 - c) 3.85
 - d) 2.05
 - e) None of the above numbers.
- 25) If trade receivables are collected quickly, it may indicate that
- a) Accounts receivables turnover is low.
 - b) The company's credit policies may be overly stringent.
 - c) Credit is often granted to customers with high credit risk.
 - d) The company is becoming more profitable.
 - e) The company's net profit margin ratio is low.
- 26) Calculate ABC Hardware Ltd.'s times interest earned ratio for 2020 and 2019 respectively.
- a) 1.56 and 2.08
 - b) 2.29 and 3.20
 - c) 3.29 and 4.20
 - d) 3.00 and 4.00
 - e) None of the above ratios.

- 27) What is ABC Hardware Ltd.'s return on equity for 2019?
- a) 24.8%
 - b) 37.8%
 - c) 30.6%
 - d) 42.7%
 - e) None of the above percentages.
- 28) A company's return on equity (ROE) is useful in
- a) assessing how indebted it is.
 - b) Assessing how liquid it is based on shareholders' investment in the company.
 - c) giving a clear picture of how investors view the company.
 - d) assessing its profitability based on shareholders' investment in the company.
 - e) assessing its profitability based on shareholders' and creditors' investments in the company.
- 29) Calculate ABC Hardware Ltd.'s Price/earnings ratio for 2020.
- a) 9.18
 - b) 8.96
 - c) 7.04
 - d) 6.86
 - e) None of the above ratios.

The following questions are unrelated to previous questions and independent of each other.

- 30) The cash coverage ratio is used to examine
- a) if a company's operating cash flows are sufficient to cover its interest payments.
 - b) if a company's cash account is sufficient to cover its interest payments.
 - c) if a company's cash collection is sufficient to cover its interest payments.
 - d) if a company's cash account could potentially cover future provisions.
 - e) a company's speed of cash collection.
- 31) Cash receipts from interest and dividends are classified as
- a) either investing or operating activities.
 - b) investing activities.
 - c) operating activities.
 - d) financing activities
 - e) either financing or operating activities.
- 32) Which of the following statements is correct?
- a) The periodic interest payment on a bond is based on the market interest rate.
 - b) When issuing bonds, companies usually sell the bonds to an underwriter which, in turn, sells the bonds to the potential buyers.
 - c) Selling a bond at a premium means that the amount received is lower than the face value of the bond.
 - d) The nominal interest rate and the market interest rate are usually equal on the date of issuance of the bond.

- 33) Which of the following statements is incorrect?
- a) Owners' equity is the residual interest in the organization's assets after deducting liabilities.
 - b) Assets are economic resources controlled by the entity as a result of past transactions.
 - c) Liabilities are economic obligations or claims against the assets of an organization by outsiders.
 - d) Assets should always be greater than the sum of liabilities and owners' equity.
- 34) 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.
- 35) From the point of view of a common shareholder, which of the following relationships would be considered to have the lowest significance?
- a) The return on assets is consistently higher than the industry average.
 - b) The return on equity has increased in each of the last five years.
 - c) Net earnings is greater than the amount of working capital.
 - d) The return on assets is greater than the rate of interest being paid to creditors.