

FINANCIAL ACCOUNTING 1 EXAMINATION
December 2005

Marks

Time: 3 Hours

Note:

Narratives for journal entries are not required.

18 Question 1

Select the *best answer* for each of the following unrelated items. Answer *each* of these items *in your examination booklet* by giving the number of your choice. For example, if the best answer for item (a) is (1), write (a)(1) in your examination booklet. If more than one answer is given for an item, that item will not be marked. Incorrect answers will be marked as zero. Marks will not be awarded for explanations.

Note:

1½ marks each

- a. Which of the following is *not* a characteristic of a corporation?
 - 1) A corporation is a separate legal entity.
 - 2) A corporation pays tax on its profits.
 - 3) A corporation's shareholders are subject to unlimited liability.
 - 4) A corporation conducts business with the rights, duties, and responsibilities of a person.

- b. Which of the following financial statements presents the financial position of a business at a certain point in time?
 - 1) Statement of owner's equity
 - 2) Income statement
 - 3) Cash flow statement
 - 4) Balance sheet

- c. In the last 4 years, Egnahc Ltd. has changed its method of inventory valuation from FIFO to weighted average, then back to FIFO. This selection of accounting principles would be in contravention of which of the following generally accepted accounting principles?
 - 1) Matching principle
 - 2) Consistency principle
 - 3) Cost principle
 - 4) Going-concern principle

- d. Hojey Co. purchased, on account, airline tickets costing \$7,000 for the owner's family vacation. Which of the following properly reflects the effect of this transaction on the accounting equation?
 - 1) Assets decrease \$7,000; no effect on liabilities; owner's equity increases \$7,000.
 - 2) No effect on assets; liabilities increase \$7,000; owner's equity decreases \$7,000.
 - 3) Assets decrease \$7,000; liabilities increase \$7,000; no effect on owner's equity.
 - 4) No effect on assets; no effect on liabilities; no effect on owner's equity.

Continued...

- e. A company's cash account has a credit balance. Which of the following would cause the cash account to have a credit balance?
- 1) The company purchased \$5,000 worth of supplies on account when the cash account balance was \$4,000.
 - 2) The company obtained a bank loan for \$5,000 when the cash account balance was \$4,000.
 - 3) The company wrote a cheque for \$5,000 when the cash account balance was \$4,000.
 - 4) The company received a cheque for \$5,000 when the cash account balance was \$4,000.
- f. Which of the following errors would *not* cause a trial balance to be out of balance?
- 1) In recording the purchase of inventory on account, the bookkeeper forgot to enter the debit side of the entry.
 - 2) The entry to record amortization expense debited both amortization expense and accumulated amortization.
 - 3) December's rent was recorded twice.
 - 4) The bookkeeper incorrectly totalled the accounts payable account.
- g. Denny Company's unadjusted merchandise inventory account balance at year end was \$23,000, but a physical count of the inventory revealed a balance of \$22,500. Denny uses a perpetual inventory system. Which of the following would be included in the adjusting entry?
- 1) A debit of \$500 to merchandise inventory
 - 2) A debit of \$500 to cost of goods sold
 - 3) A credit of \$500 to purchase allowances
 - 4) A credit of \$500 to purchases
- h. Leslie Anne Swim Company had accumulated the following cost and market data at November 30.

Inventory Categories	Cost	Market
Swim suits	\$10,000	\$10,500
Swim caps	3,000	2,000
Goggles	5,000	6,000

What is the lower-of-cost-or-market value for the inventory by major category?

- 1) \$17,000
 - 2) \$18,000
 - 3) \$18,500
 - 4) \$19,500
- i. Clementine Corporation's ending inventory is understated by \$5,000. What are the effects of this error on the current year's assets and cost of goods sold?
- 1) Assets are understated; cost of goods sold are understated.
 - 2) Assets are overstated; cost of goods sold are understated.
 - 3) Assets are understated; cost of goods sold are overstated.
 - 4) Assets are overstated; cost of goods sold are overstated.
- j. Which of the following states where the loss on disposal of an asset is normally reported on the financial statements?
- 1) In the operating expenses of the income statement
 - 2) In the other revenues and expenses section of the income statement
 - 3) As a direct decrease to the asset account on the balance sheet
 - 4) As a direct increase to the asset account on the balance sheet

Continued...

- k. Which of the following is *not* considered an intangible asset?
- 1) Goodwill
 - 2) Coal mine
 - 3) Copyright
 - 4) Leasehold
- l. A company paid \$2,400 for a 2-year insurance policy on June 1, 2004. The term of the policy was from July 1, 2004 until June 30, 2006. On December 31, 2004, which of the following statements would be true with respect to the insurance policy?
- 1) Cash flow from financing activities would equal \$2,400.
 - 2) Insurance expense would equal \$1,200.
 - 3) Prepaid insurance would equal \$1,800.
 - 4) Retained earnings will increase by \$600.

10 Question 2

Note:

2½ marks each

- a. On April 4, Vuong Company bought merchandise on account from Davis Company for \$2,000, terms 1/10, n/30. On April 8, Vuong returned merchandise worth \$400 to Davis. On April 13, Vuong paid Davis the balance due. What was the amount of cash paid?
- 1) \$1,584
 - 2) \$1,600
 - 3) \$1,980
 - 4) \$2,000
- b. Maple Lumber Company uses a periodic inventory system. If Maple Lumber has beginning inventory of \$40,000, cost of goods sold of \$150,000, and ending inventory of \$80,000, how much inventory did Maple Lumber purchase during the year?
- 1) \$110,000
 - 2) \$190,000
 - 3) \$230,000
 - 4) \$270,000
- c. Foothills Company had net sales of \$160,000 for the month of January. The beginning inventory on January 1 was \$40,000, and during January the cost of goods purchased totalled \$90,000. If the gross profit ratio is 25%, what is the cost of ending inventory at January 31 under the gross profit method?
- 1) \$10,000
 - 2) \$30,000
 - 3) \$32,500
 - 4) \$40,000
- d. A piece of equipment was purchased for \$60,000. It had an estimated salvage value of \$4,000 and an estimated useful life of 8 years. After 4 years of use, the estimated salvage value was revised to \$6,000 but the estimated life was unchanged. Assuming straight-line amortization, what would be the amortization expense for year 5?
- 1) \$ 6,500
 - 2) \$ 6,750
 - 3) \$ 8,000
 - 4) \$13,500

8 Question 3

Treasure Company had the following beginning inventory, purchases, and sales for the month of February:

Beginning inventory	150 units @ \$5/unit
February 5 purchases	200 units @ \$6/unit
February 25 purchases	500 units @ \$8/unit
February 12 sales	250 units @ \$10
February 27 sales	400 units @ \$12

Treasure Company uses a perpetual inventory system.

Required

- 4 a. Calculate the cost of goods sold for February, assuming a last-in first-out (LIFO) cost flow method is used.
- 3 b. Calculate the gross profit for the February 12 sales, assuming a weighted-average cost flow method is used.
- 1 c. Which assumed cost flow method gives the same ending inventory value regardless of whether a perpetual or periodic system is used?

7 Question 4

Case Company purchased a new delivery truck for \$36,000 cash on January 1, 2003. It was estimated to have a salvage value of \$4,000 after being driven 128,000 kilometres. During 2003 and 2004, the truck was driven 40,000 and 30,000 kilometres, respectively.

Required

- 1 a. Prepare the journal entry to record the purchase of the delivery truck on January 1, 2003.
- 3 b. Prepare the journal entries to record the amortization expense for the years 2003 and 2004.
- 2 c. Show, in good form, how the asset will be presented on the balance sheet as at December 31, 2004.
- 1 d. Calculate the amortization expense for the delivery truck for the year ended December 31, 2003, using the straight-line method of amortization. Assume a 4-year useful life.

4 Question 5

EJ's Restaurant commenced operations on January 1, 2004. The company's fiscal year end is December 31 and it prepares financial statements only annually. Following is a selection of transactions that occurred during 2004.

- 1 a. On February 1, 2004, the company purchased office supplies for \$4,000 cash. In recording the purchase, the office supplies inventory account was increased and the cash account was decreased on the books of EJ's restaurant. On December 31, 2004, an inventory count determined that the supplies on hand was \$300.
- 1 b. Each Sunday, EJ's pays its employees for the past week's work. The amount of the payroll is \$5,040 for a 7-day work week. December 31, 2004 fell on a Friday.
- 1 c. The top floor of the restaurant building has an apartment that was rented out. On September 1, 2004, the tenant paid \$4,800 cash to the restaurant to cover the first 6 months of rent. On receipt of the cash, EJ's increased the cash account and increased the unearned rent account for the full amount of \$4,800.
- 1 d. The company had not yet received December's telephone bill but the bookkeeper estimated it would be \$410.

Required

Prepare the adjusting journal entry(ies) that would be required at December 31, 2004 for each of the transactions listed in (a) to (d) above.

6 Question 6

At the end of Heinrich's Pro Shop's fiscal year on December 31, 2004, the following accounts appeared in alphabetical order in its adjusted trial balance. All accounts have natural balances and the company uses a perpetual inventory system.

Accounts payable	\$ 23,000
Accounts receivable	25,000
Cash	20,000
Cost of goods sold	244,000
General and administrative expenses	32,000
Interest expense	6,000
L.A. Heinrich, capital	80,000
L.A. Heinrich, drawings	17,000
Merchandise inventory	70,000
Sales	385,000
Sales discounts	13,000
Selling expenses	61,000

Required

- 1 a. What amount would Heinrich's report as net sales on its year-end multiple-step income statement? You must show your calculations to receive marks.
- 1 b. What amount would Heinrich's report as gross profit on its year-end multiple-step income statement? You must show your calculations to receive marks.
- 1 c. What amount would Heinrich's report as income from operations on its year-end multiple-step income statement? You must show your calculations to receive marks.
- 3 d. Prepare closing entries for Heinrich's Pro Shop.

12 Question 7

Pring Ltd. uses the allowance method to account for uncollectible accounts. Based on past history and industry experience, the company estimates bad debts as 3% of accounts receivable. On January 1, 2004, the balance of accounts receivable was a \$72,000 debit and allowance for doubtful accounts had a credit balance of \$3,100. Following is a summary of transactions for the year ended December 31, 2004:

1. Total sales for the year amounted to \$1,200,000, of which \$310,000 were cash sales, \$400,000 were credit card sales, and the remainder were made on credit with terms 1/10, n/30. Pring accepts credit cards only from two banks, both of whom charge the company a fee of 2%.
2. Accounts receivable collected during the year equalled \$420,000, with 50% of the customers taking advantage of the sales discount.
3. During the year, accounts receivable of \$2,800 were determined to be uncollectible and were written off.

Required

- 6 a. Prepare the journal entry(ies) that would have been made during the year to record the transactions described above.
- 4 b. Prepare the adjusting journal entry(ies) that would have been made at the end of the year to account for bad debts.
- 1 c. Prepare the journal entry(ies) Pring would have made to account for uncollectible accounts, assuming the company used the direct method to account for bad debts.
- 1 d. Pring maintains a petty cash fund of \$100 to cover taxi charges on rush deliveries. At the end of December, the petty cash box had no cash and had taxi bills totalling \$95. Prepare the journal entry(ies) that would be required to replenish the petty cash fund at the end of December 2004.

10 Question 8

The following information relates to Petrie Ltd. for the year ended December 31, 2004:

1. On April 1, 2004, the company issued \$1,000,000 of 7%, 5-year bonds. Interest is to be paid semi-annually on September 30 and March 31. On the date of issue, the market interest rate was 6%.
2. On June 1, 2004, Petrie borrowed \$300,000 from the bank to help finance the purchase of a new building. The loan is repayable in 3 equal instalments of \$100,000, with the first payment to commence on May 31, 2005. The interest rate on the loan is 8% and interest is payable annually on May 31.

Required

- 3 a. Calculate the issue price of the bonds (see attached present value tables).
- 1 b. Prepare the journal entry(ies) to record the issuance of the bonds.
- 2 c. Prepare the adjusting journal entry(ies) to accrue bond interest, excluding the amortization of any bond premium or discount, at December 31, 2004.
- 2 d. Prepare the journal entry(ies) to record the bond interest payment on March 31, 2005.
- 2 e. Show, in good form, how the 3-year term loan and any related interest will be presented on the balance sheet on December 31, 2004.

10 Question 9

On January 1, 2004, Paulo and Helen formed a partnership to provide architectural services to clients. On that date, Paulo invested \$10,000 cash, land with a fair market value of \$20,000, and a building with a fair market value of \$70,000. Helen's initial investment was \$45,000 cash. The partners agreed to share income and losses in the following sequence: yearly salary allowances of \$30,000 to Paulo and \$30,000 to Helen; 4% interest allowances on the beginning balance; and the balance in the ratio of 3:1 for Paulo and Helen, respectively. In the first year of operations, the partnership earned income of \$200,000. During 2004, Paulo withdrew \$25,000 and Helen withdrew \$10,000.

Required

- 2 a. Prepare the journal entry(ies) to record the initial capital investment of the partners on January 1, 2004.
- 1 b. Prepare the journal entry(ies) to record the partners' withdrawals for 2004.
- 6 c. Prepare a statement showing the allocation of the first year's income to the partners.
- 1 d. Prepare the journal entry(ies) to allocate the first year's income to the partners.

15 Question 10

Following is the balance sheet for Flooms Ltd. as at July 31, 2004, as well as the company's income statement and cash flow statement for the year ended July 31, 2005.

FLOOMS LTD.
Balance Sheet
July 31, 2004

Assets	
Cash	\$ 120,000
Inventory	158,000
Prepaid advertising	30,000
Building and equipment	2,190,000
Accumulated amortization — building and equipment	(1,120,000)
Land	<u>580,000</u>
	<u>\$ 1,958,000</u>
Liabilities and shareholders' equity	
Unearned revenue	\$ 15,000
Wages payable	15,000
Interest payable	8,000
Notes payable	580,000
Common shares	800,000
Retained earnings	<u>540,000</u>
	<u>\$ 1,958,000</u>

FLOOMS LTD.
Income Statement
year ended July 31, 2005

Sales		\$ 5,200,000
Gain on sale of land		<u>30,000</u>
		5,230,000
Cost of goods sold	\$ 2,860,000	
Other expenses	839,000	
Wage expense	520,000	
Amortization expense — building and equipment	160,000	
Advertising expense	308,000	
Interest expense	<u>48,000</u>	<u>4,735,000</u>
Net income		<u>\$ 495,000</u>

Continued...

FLOOMS LTD.
Cash Flow Statement
year ended July 31, 2005

Cash flows from operating activities	
Cash received from customers	\$ 5,206,000
Cash paid to suppliers	(2,942,000)
Cash paid for other expenses	(839,000)
Cash paid for wages	(525,000)
Cash paid for advertising	(306,000)
Cash paid for interest	(44,000)
	550,000
 Cash flows from investing activities	
Sale of land	100,000
Purchase of equipment	(210,000)
	(110,000)
 Cash flows from financing activities	
Increase in note payable	20,000
Dividends paid	(400,000)
	(380,000)
 Net increase in cash	 60,000
Cash, July 31, 2004	120,000
Cash, July 31, 2005	\$ 180,000

Additional information

1. The company does not offer its customers credit terms nor is it able to purchase inventory on credit from its suppliers. As a result, the company does not have any accounts receivable from customers or accounts payable to inventory suppliers.
2. No equipment was sold during the year and all equipment purchases were cash purchases.
3. No land was purchased during the year. However, excess land was sold for cash proceeds.

Required

Prepare the balance sheet for Flooms Ltd. at July 31, 2005.

FINANCIAL ACCOUNTING 1 [FA1] EXAMINATION

Before starting to write the examination, make sure that it is complete and that there are no printing defects. This examination consists of 9 pages and 1 page of attachments. There are 10 questions for a total of 100 marks.

READ THE QUESTIONS CAREFULLY AND ANSWER WHAT IS ASKED.

To assist you in answering the examination questions, CGA-Canada includes the following glossary of terms.

Glossary

From David Palmer, *Study Guide: Developing Effective Study Methods* (Vancouver: CGA-Canada, 1996).
Copyright David Palmer.

Compare	Examine qualities or characteristics that resemble each other. Emphasize <i>similarities</i> , although differences may be mentioned.	Illustrate	Make clear by giving an <i>example</i> , e.g., a figure, diagram or concrete example.
Contrast	Compare by observing <i>differences</i> . Stress the dissimilarities of qualities or characteristics. (Also Distinguish between)	Indicate	Provide a short explanation.
Criticize	Express your own <i>judgment</i> concerning the topic or viewpoint in question. Discuss <i>both</i> pros and cons.	Interpret	Translate, give examples of, solve, or comment on a subject, usually making a judgment on it.
Define	Clearly state the <i>meaning</i> of the word or term. Relate the meaning <i>specifically</i> to the way it is used in the subject area under discussion. Perhaps also show how the item defined differs from items in other classes.	Justify	Prove or give reasons for decisions or conclusions.
Describe	Tell the <i>whole</i> story in narrative form.	List	Present an itemized series or tabulation. Be <i>concise</i> . Point form is often acceptable. (Also Enumerate or Identify)
Diagram	Give a drawing, chart, plan or graphic answer. Usually you should label a diagram. In some cases, add a brief explanation or description.	Outline	This is an <i>organized</i> description. Give a general overview, stating main and supporting ideas. Use headings and sub-headings, usually in point form. <i>Omit minor details</i> .
Discuss	This calls for the most <i>complete</i> and <i>detailed</i> answer. Examine and analyze carefully and present both pros and cons. To discuss briefly requires you to state in a few sentences the critical factors.	Prove	Establish that something is true by citing evidence or giving clear logical reasons.
Evaluate	This requires making an <i>informed</i> judgment. Your judgment must be shown to be based on <i>knowledge</i> and <i>information</i> about the subject. (Just stating your own ideas is not sufficient.) Cite authorities. Cite advantages and limitations.	Relate	Show how things are connected with each other or how one causes another, correlates with another, or is like another.
Explain	In explanatory answers you must clarify the cause(s), or reasons(s). State the “how” and “why” of the subject. Give reasons for differences of opinions or of results.	Review	Examine a subject critically, analyzing and commenting on the important statements to be made about it.
		State	Present the main points in brief, clear sequence, usually omitting details, illustrations, or examples.
		Summarize	Give the main points or facts in condensed form, like the summary of a chapter, omitting details and illustrations.
		Trace	In narrative form, describe progress, development, or historical events from some point of origin.

Table 1 Present Value of \$1 $\frac{1}{(1+i)^n}$

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	18%	20%
1	.9901	.9804	.9709	.9615	.9524	.9434	.9346	.9259	.9174	.9091	.9009	.8929	.8850	.8772	.8696	.8621	.8475	.8333
2	.9803	.9612	.9426	.9246	.9070	.8900	.8734	.8573	.8417	.8264	.8116	.7972	.7831	.7695	.7561	.7432	.7182	.6944
3	.9706	.9423	.9151	.8890	.8638	.8396	.8163	.7938	.7722	.7513	.7312	.7118	.6931	.6750	.6575	.6407	.6086	.5787
4	.9610	.9238	.8885	.8548	.8227	.7921	.7629	.7350	.7084	.6830	.6587	.6355	.6133	.5921	.5718	.5523	.5158	.4823
5	.9515	.9057	.8626	.8219	.7835	.7473	.7130	.6806	.6499	.6209	.5935	.5674	.5428	.5194	.4972	.4761	.4371	.4019
6	.9420	.8880	.8375	.7903	.7462	.7050	.6663	.6302	.5963	.5645	.5346	.5066	.4803	.4556	.4323	.4104	.3704	.3349
7	.9327	.8706	.8131	.7599	.7107	.6651	.6227	.5835	.5470	.5132	.4817	.4523	.4251	.3996	.3759	.3538	.3139	.2791
8	.9235	.8535	.7894	.7307	.6768	.6274	.5820	.5403	.5019	.4665	.4339	.4039	.3762	.3506	.3269	.3050	.2660	.2326
9	.9143	.8368	.7664	.7026	.6446	.5919	.5439	.5002	.4604	.4241	.3909	.3606	.3329	.3075	.2843	.2630	.2255	.1938
10	.9053	.8203	.7441	.6756	.6139	.5584	.5083	.4632	.4224	.3855	.3522	.3220	.2946	.2697	.2472	.2267	.1911	.1615
11	.8963	.8043	.7224	.6496	.5847	.5268	.4751	.4289	.3875	.3505	.3173	.2875	.2607	.2366	.2149	.1954	.1619	.1346
12	.8874	.7885	.7014	.6246	.5568	.4970	.4440	.3971	.3555	.3186	.2858	.2567	.2307	.2076	.1869	.1685	.1372	.1122
13	.8787	.7730	.6810	.6006	.5303	.4688	.4150	.3677	.3262	.2897	.2575	.2292	.2042	.1821	.1625	.1452	.1163	.0935
14	.8700	.7579	.6611	.5775	.5051	.4423	.3878	.3405	.2992	.2633	.2320	.2046	.1807	.1597	.1413	.1252	.0985	.0779
15	.8613	.7430	.6419	.5553	.4810	.4173	.3624	.3152	.2745	.2394	.2090	.1827	.1599	.1401	.1229	.1079	.0835	.0649
16	.8528	.7284	.6232	.5339	.4581	.3936	.3387	.2919	.2519	.2176	.1883	.1631	.1415	.1229	.1069	.0930	.0708	.0541
17	.8444	.7142	.6050	.5134	.4363	.3714	.3166	.2703	.2311	.1978	.1696	.1456	.1252	.1078	.0929	.0802	.0600	.0451
18	.8360	.7002	.5874	.4936	.4155	.3503	.2959	.2502	.2120	.1799	.1528	.1300	.1108	.0946	.0808	.0691	.0508	.0376
19	.8277	.6864	.5703	.4746	.3957	.3305	.2765	.2317	.1945	.1635	.1377	.1161	.0981	.0829	.0703	.0596	.0431	.0313
20	.8195	.6730	.5537	.4564	.3769	.3118	.2584	.2145	.1784	.1486	.1240	.1037	.0868	.0728	.0611	.0514	.0365	.0261
21	.8114	.6598	.5375	.4388	.3589	.2942	.2415	.1987	.1637	.1351	.1117	.0926	.0768	.0638	.0531	.0443	.0309	.0217
22	.8034	.6468	.5219	.4220	.3418	.2775	.2257	.1839	.1502	.1228	.1007	.0826	.0680	.0560	.0462	.0382	.0262	.0181
23	.7954	.6342	.5067	.4057	.3256	.2618	.2109	.1703	.1378	.1117	.0907	.0738	.0601	.0491	.0402	.0329	.0222	.0151
24	.7876	.6217	.4919	.3901	.3101	.2470	.1971	.1577	.1264	.1015	.0817	.0659	.0532	.0431	.0349	.0284	.0188	.0126
25	.7798	.6095	.4776	.3751	.2953	.2330	.1842	.1460	.1160	.0923	.0736	.0588	.0471	.0378	.0304	.0245	.0160	.0105
30	.7419	.5521	.4120	.3083	.2314	.1741	.1314	.0994	.0754	.0573	.0437	.0334	.0256	.0196	.0151	.0116	.0070	.0042
40	.6717	.4529	.3066	.2083	.1420	.0972	.0668	.0460	.0318	.0221	.0154	.0107	.0075	.0053	.0037	.0026	.0013	.0007
50	.6080	.3715	.2281	.1407	.0872	.0543	.0339	.0213	.0134	.0085	.0054	.0035	.0022	.0014	.0009	.0006	.0003	.0001

Table 2 Present Value of an Annuity of \$1 Per Period for n Periods $\frac{1 - (1+i)^{-n}}{i}$

Number of Periods	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%	16%	18%	20%
1	.9901	.9804	.9709	.9615	.9524	.9434	.9346	.9259	.9174	.9091	.9009	.8929	.8850	.8772	.8696	.8621	.8475	.8333
2	1.9704	1.9416	1.9135	1.8861	1.8594	1.8334	1.8080	1.7833	1.7591	1.7355	1.7125	1.6901	1.6681	1.6467	1.6257	1.6052	1.5656	1.5278
3	2.9410	2.8839	2.8286	2.7751	2.7232	2.6730	2.6243	2.5771	2.5313	2.4869	2.4437	2.4018	2.3612	2.3216	2.2832	2.2459	2.1743	2.1065
4	3.9020	3.8077	3.7171	3.6299	3.5460	3.4651	3.3872	3.3121	3.2397	3.1699	3.1024	3.0373	2.9745	2.9137	2.8550	2.7982	2.6901	2.5887
5	4.8534	4.7135	4.5797	4.4518	4.3295	4.2124	4.1002	3.9927	3.8897	3.7908	3.6959	3.6048	3.5172	3.4331	3.3522	3.2743	3.1272	2.9906
6	5.7955	5.6014	5.4172	5.2421	5.0757	4.9173	4.7665	4.6229	4.4859	4.3553	4.2305	4.1114	3.9975	3.8887	3.7845	3.6847	3.4976	3.3255
7	6.7282	6.4720	6.2303	6.0021	5.7864	5.5824	5.3893	5.2064	5.0330	4.8684	4.7122	4.5638	4.4226	4.2883	4.1604	4.0386	3.8115	3.6046
8	7.6517	7.3255	7.0197	6.7327	6.4632	6.2098	5.9713	5.7466	5.5348	5.3349	5.1461	4.9676	4.7988	4.6389	4.4873	4.3436	4.0776	3.8372
9	8.5660	8.1622	7.8661	7.4533	7.1078	6.8017	6.5152	6.2469	5.9952	5.7590	5.5370	5.3282	5.1317	4.9464	4.7716	4.6065	4.3030	4.0310
10	9.4713	8.9826	8.5302	8.1109	7.7217	7.3601	7.0236	6.7101	6.4177	6.1446	5.8892	5.6502	5.4262	5.2161	5.0188	4.8332	4.4941	4.1925
11	10.3676	9.7868	9.2526	8.7605	8.3064	7.8869	7.4987	7.1390	6.8052	6.4951	6.2065	5.9377	5.6869	5.4527	5.2337	5.0286	4.6560	4.3271
12	11.2551	10.5753	9.9540	9.3851	8.8633	8.3838	7.9427	7.5361	7.1607	6.8137	6.4924	6.1944	5.9176	5.6603	5.4206	5.1971	4.7932	4.4392
13	12.1337	11.3484	10.6350	9.9856	9.3936	8.8527	8.3577	7.9038	7.4869	7.1034	6.7499	6.4235	6.1218	5.8424	5.5831	5.3423	4.9095	4.5327
14	13.0037	12.1062	11.2961	10.5631	9.8986	9.2950	8.7455	8.2442	7.7862	7.3667	6.9819	6.6282	6.3025	6.0021	5.7245	5.4675	5.0081	4.6106
15	13.8651	12.8493	11.9379	11.1184	10.3797	9.7122	9.1079	8.5595	8.0607	7.6061	7.1909	6.8109	6.4624	6.1422	5.8474	5.5755	5.0916	4.6755
16	14.7179	13.5777	12.5611	11.6523	10.8378	10.1059	9.4466	8.8514	8.3126	7.8237	7.3792	6.9740	6.6039	6.2651	5.9542	5.6685	5.1624	4.7296
17	15.5623	14.2919	13.1661	12.1657	11.2741	10.4773	9.7632	9.1216	8.5436	8.0216	7.5488	7.1196	6.7291	6.3729	6.0472	5.7487	5.2223	4.7746
18	16.3983	14.9920	13.7535	12.6593	11.6896	10.8276	10.0591	9.3719	8.7556	8.2014	7.7016	7.2497	6.8399	6.4674	6.1280	5.8178	5.2732	4.8122
19	17.2260	15.6785	14.3238	13.1339	12.0853	11.1581	10.3356	9.6036	8.9501	8.3649	7.8393	7.3658	6.9380	6.5504	6.1982	5.8775	5.3162	4.8435
20	18.0456	16.3514	14.8775	13.5903	12.4622	11.4699	10.5940	9.8181	9.1285	8.5136	7.9633	7.4694	7.0248	6.6231	6.2593	5.9288	5.3527	4.8696
21	18.8570	17.0112	15.4150	14.0292	12.8212	11.7641	10.8355	10.0168	9.2922	8.6487	8.0751	7.5620	7.1016	6.6870	6.3125	5.9731	5.3837	4.8913
22	19.6604	17.6580	15.9369	14.4511	13.1630	12.0416	11.0612	10.2007	9.4424	8.7715	8.1757	7.6446	7.1695	6.7429	6.3587	6.0113	5.4099	4.9094
23	20.4558	18.2922	16.4436	14.8568	13.4886	12.3034	11.2722	10.3711	9.5802	8.8832	8.2664	7.7184	7.2297	6.7921	6.3988	6.0442	5.4321	4.9245
24	21.2434	18.9139	16.9355	15.2470	13.7986	12.5504	11.4693	10.5288	9.7066	8.9847	8.3481	7.7843	7.2829	6.8351	6.4338	6.0726	5.4509	4.9371
25	22.0232	19.5235	17.4131	15.6221	14.0939	12.7834	11.6536	10.6748	9.8226	9.0770	8.4217	7.8431	7.3300	6.8729	6.4641	6.0971	5.4669	4.9476
30	25.8077	22.3965	19.6004	17.2920	15.3725	13.7648	12.4090	11.2578	10.2737	9.4269	8.6938	8.0552	7.4957	7.0027	6.5660	6.1772	5.5168	4.9789
40	32.8347	27.3555	23.1148	19.7928	17.1591	15.0463	13.3317	11.9246	10.7574	9.7791	8.9511	8.2438	7.6344	7.1050	6.6418	6.2335	5.5482	4.9966
50	39.1961	31.4236	25.7298	21.4822	18.2559	15.7619	13.8007	12.2335	10.9617	9.9148	9.0417	8.3045	7.6752	7.1327	6.6605	6.2463	5.5541	4.9995

CGA-CANADA
FINANCIAL ACCOUNTING 1 EXAMINATION
December 2005
SUGGESTED SOLUTIONS

Marks

Time: 3 Hours

18 Question 1

Note:

1½ marks each

Sources/calculations:

- a. 3) Topic 1.2 (Level 1)
- b. 4) Topic 1.5 (Level 1)
- c. 2) Topic 1.6 (Level 2)
- d. 2) Topic 1.7 (Level 1)
- e. 3) Topic 2.4 (Level 1)
- f. 3) Topic 2.5 (Level 1)
- g. 2) Topic 4.5 (Level 2)
- h. 1) Topic 5.2 (Level 1)
- i. 3) Topic 5.3 (Level 1)
- j. 2) Topic 7.5 (Level 2)
- k. 2) Topic 7.7 (Level 2)
- l. 3) Topic 2.2 (Level 1)

10 Question 2

Note:

2½ marks each

Sources/calculations:

- a. 1) Topic 4.2 (Level 1)
 $(2,000 - 400) \times 0.99 = \$1,584$
- b. 2) Topic 4.7 (Level 2)
 $80,000 + 150,000 - 40,000 = \$190,000$
- c. 1) Topic 5.4 (Level 2)
 $(40,000 + 90,000) - (160,000 \times 0.75) = \$10,000$
- d. 1) Topic 7.3 (Level 1)
 $60,000 - [(60,000 - 4,000) / 8 \times 4] = \$32,000$
 $(32,000 - 6,000) / 4 = \$6,500$

8 Question 3

Source: Topic 5.1 (Level 1)

- 4 a. LIFO cost of goods sold = \$4,650

	Purchases	Cost of Goods Sold	Inventory Balance
Beginning inventory	150 @ \$5 = \$ 750		150 @ \$5 = \$ <u>750</u>
February 5	200 @ \$6 = \$1,200		150 @ \$5 = \$ 750 200 @ \$6 = <u>1,200</u> <u>\$1,950</u>
February 12		200 @ \$6 = \$1,200 50 @ \$5 = 250	100 @ \$5 = \$ <u>500</u>
February 25	500 @ \$8 = \$4,000		100 @ \$5 = \$ 500 500 @ \$8 = <u>4,000</u> <u>\$4,500</u>
February 27		400 @ \$8 = <u>3,200</u>	100 @ \$5 = \$ 500 100 @ \$8 = <u>800</u> <u>\$1,300</u>
		<u>\$4,650</u>	

- 3 b. Sales 250 @ \$10 = \$ 2,500
 Cost of goods sold 250 @ \$5.57¹ 1,393
 Gross profit \$1,107

¹ (150 × \$5) + (200 × \$6) = \$1,950 / 350 = \$5.57 per unit

- 1 c. FIFO or specific identification

7 Question 4

Source: Topic 7.3 (Level 1)

1 a.	Delivery truck.....	36,000	
	Cash.....		36,000
3 b.	Amortization expense [(36,000 – 4,000) / 128,000 = 0.25 × 40,000]	10,000	
	Accumulated amortization.....		10,000
	Amortization expense [(36,000 – 4,000) / 128,000 = 0.25 × 30,000]	7,500	
	Accumulated amortization.....		7,500

- 2 c. **CASE COMPANY**
Partial Balance Sheet
 December 31, 2004

Property, plant and equipment

Delivery truck	\$ 36,000
Less: Accumulated amortization (10,000 + 7,500)	<u>17,500</u>
	<u>\$ 18,500</u>

- 1 d. $\frac{\$36,000 - \$4,000}{4 \text{ years}} = \$8,000$

4 Question 5

Source: Topic 3.2 (Level 1)

1	a.	Office supplies expense (4,000 – 300)	3,700	
		Office supplies		3,700
1	b.	Wage expense (5,040 × 5/7)	3,600	
		Wages payable		3,600
1	c.	Unearned rent (4,800 × 4/6)	3,200	
		Rent revenue		3,200
1	d.	Telephone expense	410	
		Telephone payable		410

6 Question 6

Source: Topic 4.6 (Level 1)

1	a.	$\$385,000 - \$13,000 = \$372,000$		
1	b.	$\$385,000 - \$13,000 - \$244,000 = \$128,000$		
1	c.	$\$385,000 - \$13,000 - \$244,000 - \$32,000 - \$61,000 = \$35,000$		
3	d.	Sales	385,000	
		Income summary		385,000
		Income summary	356,000	
		Sales discounts		13,000
		Cost of goods sold		244,000
		General and administrative expenses		32,000
		Interest expense		6,000
		Selling expenses		61,000
		Income summary	29,000	
		L.A. Heinrich, capital		29,000
		L.A. Heinrich, capital	17,000	
		L.A. Heinrich, drawings		17,000

12 Question 7

Source: Topics 6.3 and 6.8 (Level 1)

6	a.	Cash [310,000 + (400,000 – 8,000)].....	702,000	
		Credit card expense (400,000 × 0.02)	8,000	
		Accounts receivable (1,200,000 – 310,000 – 400,000)	490,000	
		Sales.....		1,200,000
		 Cash (420,000 – 2,100)	417,900	
		Sales discounts (420,000 × 0.5 × 0.01)	2,100	
		Accounts receivable.....		420,000
		 Allowance for doubtful accounts.....	2,800	
		Accounts receivable.....		2,800
4	b.	Bad debt expense.....	3,876	
		Allowance for doubtful accounts.....		3,876

Accounts receivable

72,000	
490,000	2,800
139,200	420,000

Allowance for doubtful accounts

	3,100
2,800	
3,876	300
4,176 ¹	

¹ 0.03 × 139,200 = 4,176

1	c.	Bad debt expense.....	2,800	
		Accounts receivable.....		2,800
1	d.	Delivery expense	95	
		Cash over and short	5	
		Cash.....		100

10 Question 8

Source: Topics 8.1 and 8.8 (Level 1)

3 a. Issue price of the bond:

Cash Flow	Amount	Present Value Factor	Present Value
Par value	\$ 1,000,000	0.7441	\$ 744,100
Interest (annuity)	35,000	8.5302	<u>298,557</u>
			<u>\$ 1,042,657</u>

1 b. Cash..... 1,042,657
 Bonds payable 1,000,000
 Premium on bonds payable..... 42,657

2 c. Interest expense (1,000,000 × 0.07 × 3/12)..... 17,500
 Interest payable..... 17,500

2 d. Interest expense 17,500
 Interest payable..... 17,500
 Cash 35,000

2 e. **PETRIE LTD.**
Partial Balance Sheet
 December 31, 2004

Liabilities

Current liabilities	
Interest payable (300,000 × 0.08 × 7/12)	\$ 14,000
Current portion of long-term debt	<u>100,000</u>
Long-term debt	<u>114,000</u>
	<u>200,000</u>
	<u>\$314,000</u>

10 Question 9

Source: Topic 9.2 (Level 1)

2	a.	Cash.....	10,000	
		Land.....	20,000	
		Building.....	70,000	
		Paulo, Capital		100,000
		Cash.....	45,000	
		Helen, Capital		45,000
1	b.	Paulo, Withdrawals	25,000	
		Helen, Withdrawals	10,000	
		Cash.....		35,000

6 c. PAULO AND HELEN PARTNERSHIP
Allocation of Net Income
year ended December 31, 2004

	Paulo	Helen	Total	
Net income			\$ 200,000	
Less: Salary allowance	\$ 30,000	\$ 30,000	<u>(60,000)</u>	
			140,000	
Less: Interest @ 4%	4,000	1,800	<u>(5,800)</u>	
			134,200	
Share of income (75%Paulo:25%Helen)	<u>100,650</u>	<u>33,550</u>	<u>(134,200)</u>	
			<u>\$ 0</u>	
	<u>\$134,650</u>	<u>\$ 65,350</u>		
1	d.	Income summary	200,000	
		Paulo, Capital		134,650
		Helen, Capital		65,350

15 Question 10

Source: Topic 10.2 (Level 1)

FLOOMS LTD.
Balance Sheet
July 31, 2005

Assets		
Cash		\$ 180,000
Inventory [158,000 – (2,860,000 – 2,942,000)]		240,000
Prepaid advertising [30,000 – (308,000 – 306,000)]		28,000
Building and equipment (2,190,000 + 210,000)		2,400,000
Accumulated amortization —		
building and equipment (1,120,000 + 160,000)		(1,280,000)
Land [580,000 – (100,000 – 30,000)]		<u>510,000</u>
		<u>\$ 2,078,000</u>
Liabilities and Shareholders' Equity		
Unearned revenue [15,000 – (5,200,000 – 5,206,000)]		\$ 21,000
Wages payable [15,000 + (520,000 – 525,000)]		10,000
Interest payable [8,000 + (48,000 – 44,000)]		12,000
Notes payable (580,000 + 20,000)		600,000
Common shares		800,000
Retained earnings (540,000 + 495,000 – 400,000)		<u>635,000</u>
		<u>\$ 2,078,000</u>

END OF SOLUTIONS

CGA-CANADA

FINANCIAL ACCOUNTING 1 EXAMINATION December 2005 EXAMINER'S COMMENTS

General Comments

Students performed well on this examination. They demonstrated a satisfactory to excellent understanding of all material tested except for determining the issue price of bonds (Question 8), closing entries/multiple step income statement format (Question 6), and the calculation of bad debt expense using the accounts receivable approach (Question 7).

Specific Comments

Question 1 Multiple choice (Levels 1 and 2)

Performance on this question was excellent. Students had the most difficulty with parts (h) and (j).

Question 2 Multiple choice (Levels 1 and 2)

Performance on this question was satisfactory. Students had the most difficulty with part (c), with option 3) being the most common incorrect answer.

Question 3 Assigning costs to inventory (Level 1)

Performance on this question was satisfactory.

Part (a) was answered fairly well by most students. The most common error was in the per-unit calculation of the remaining units. Many students had problems with part (b). Although most were able to calculate the weighted-average cost per unit, they did not know how to use the number to arrive at gross profit. Performance in part (c) was varied, with the answers covering all types of cost flow methods.

Question 4 Amortization of capital assets (Level 1)

Performance on this question was excellent.

Most students demonstrated a good understanding of all four parts of this question. For those students who did have problems, the main areas of difficulty were in calculating units-of-production amortization and financial statement presentation. A few people did not account for salvage value when calculating straight-line amortization.

Question 5 Preparation of adjusting journal entries (Level 1)

Performance on this question was satisfactory.

Part (a) of this question was answered fairly well. The calculations were usually correct but some students made errors in naming the accounts. In part (b), many students did not adjust for the 5 days in December. However, the account names were generally correct, with a debit to expense and credit to liability. In part (c), some errors were made in both naming and in the calculation. Many students used expense to prepaid accounts instead of unearned revenue to revenue accounts. Most students had difficulty with part (d). Many students did not think an entry was required because the bill had not yet been received; those that made an entry often did not know how to label the accounts.

Continued...

Question 6 Preparation of a multiple step income statement and closing entries (Levels 1 and 2)

Performance on this question was unsatisfactory.

Parts (a) and (b) were answered well. In part (c), most students used interest expense in the calculation of income from operations. Common errors in part (d) included the closing out of sales discounts in the entry to close sales, and the exclusion of cost of goods sold in the expense closing entry. Many students did well with the entry to move drawings to capital, although some students believed that drawings should flow through the income summary. Students should ensure they know the various financial statement formats and are able to prepare closing entries.

Question 7 Accounting for a petty cash fund and bad debt expense (Level 1)

Performance on this question was unsatisfactory.

Part (a) was answered fairly well. The entries that presented the most difficulty in part (a) were the entry to record credit card sales (students were unsure of what account to debit) and the entry to write off an uncollectible account receivable (the most common error was to debit bad debt expense).

Students had the most difficulty with part (b) of this question. Many students did not include all entries from part (a) in the calculation of the balance in accounts receivable and allowance for doubtful accounts. In addition, a number of students did not consider the balance in allowance for doubtful accounts in arriving at the dollar amount of the bad debts expense entry.

Parts (c) and (d) were answered well by most students.

Question 8 Presentation of the current and non-current portion of notes payable and estimation of the issue price of bonds (Level 1)

Performance on this question was poor.

Some students did not attempt this question and many of the students who did so were not able to correctly determine the amount at which the bond was issued. Parts (c) and (d) were answered reasonably well. Part (e) was poorly answered because many students did not split the loan into the current and non-current portions. In addition, in part (d), many students did not calculate the interest on the loan and, for those that did, many had the wrong amount. Students should ensure they cover Module 8 material in sufficient depth to be able to answer questions at the appropriate level (that is, Level 1 or Level 2).

Question 9 Partnership journal entries and allocation of partnership earnings to partners (Level 1)

Performance on this question was satisfactory.

Parts (a) and (b) presented little difficulty for most students. Part (c) was also well done by many students. The main errors in part (c) included the use of an incorrect ratio (usually 2:1) to allocate the remaining income and the deduction of withdrawals to arrive at the remaining income to be split. The most common error in part (e) was the use of the wrong account to debit the income summary (usually sales or retained earnings).

Question 10 Cash flow statement using the direct method (Level 1)

Performance on this question was satisfactory.

This question on cash flow statements required students to prepare a period end balance sheet using the information contained in the beginning of the period balance sheet, the cash flow statement, and the income statement for the year. Although few students were able to complete a balance sheet that balanced, most students obtained many of the part marks.