Financial Accounting

In Session Detail Review Material

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Disclaimer:

These questions are designed to provide the student with a general review of areas covered on the CMA Entrance Examination. While the topic coverage and the number of response stems is consistent with that on the Entrance Examination, the level of difficulty of questions on the Entrance Exam tends to be a notch higher for the following reasons -- the length of question (entrance exam questions tend to be longer requiring more time to read); the types of distracters (the entrance examination tends to use distracters such as none of the above, all of the above and both x and y to a larger degree than other examinations); and the direction of the calculation (the entrance examination will often have you work back to front, middle to either front to back and so on).

Use of the Material

These questions will be covered in depth in the review session. The pace will be quick (frantic?) so students are advised to at least have read them (and at best have worked through them under exam conditions).

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Conceptual Framework

1. (-) A primary user of accounting information with a direct financial interest in the business is a
   a) labour union.
   b) customer.
   c) regulatory agency.
   d) creditor.

2. Which of the following is true with regard to the objectives of financial reporting?
   a) Financial reporting provides a basis for owners or prospective owners to evaluate the desirability of investment in the organization.
   b) Financial reporting, utilizing conservatism to understate net assets and net profit, provides a basis for management to minimize taxation.
   c) Financial reporting, utilizing historical costs, provides a basis for creditors and potential creditors to assess the desirability of extending credit to the organization.
   d) Both a) and c) above.

3. (-) Amortization expense is most justified based on the concept of
   a) conservatism.
   b) full disclosure.
   c) matching.
   d) materiality.

4. Which of the following organizations is **NOT** involved in the development of generally accepted accounting principles (GAAP) in Canada?
   a) Canada Revenue Agency (CRA).
   b) Financial Accounting Standards Board (FASB).
   c) Canadian Institute of Chartered Accountants (CICA).
   d) Accounting Standards Board (AcSB).

5. Where there is a significant uncertainty with respect to the measurement of an item
   a) do not record anything in the financial statements.
   b) recognize the item in the financial statements and disclose the measurement uncertainty in the notes to the financial statements.
   c) do not record anything in the financial statements and disclose the measurement uncertainty in the notes to the financial statements.
   d) measurement uncertainty is a fact of life and should be ignored.

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Accounting Cycle

6. Preparing closing entries is one step in the accounting cycle. Which of the following would qualify as a closing entry?
   a) Interest expense $126,000
      Interest payable $126,000
   b) Retained earnings $108,000
      Profit and Loss summary $108,000
   c) Income tax expense $288,000
      Income tax payable $288,000
   d) Unearned rental revenue $432,000
      Rental revenue $432,000

7. Chen Company's account balances at December 31, 2012 for Accounts Receivable and the Allowance for Doubtful Accounts are $640,000 debit and $1,200 credit. Sales during 2012 were $1,500,000. It is estimated that 1% of sales will be uncollectible. The adjusting entry would include a credit to the allowance account for
   a) $16,200.
   b) $15,000.
   c) $13,800.
   d) $6,400.

8. Perez Corporation received cash of $6,000 on August 1, 2012 for one year's rent in advance and recorded the transaction with a credit to Rent Revenue. The December 31, 2012 adjusting entry is
   a) debit Rent Revenue and credit Unearned Rent, $2,500.
   b) debit Rent Revenue and credit Unearned Rent, $3,500.
   c) debit Unearned Rent and credit Rent Revenue, $2,500.
   d) debit Cash and credit Unearned Rent, $3,500.

Use this information for the following questions:

The profit and loss statement of Carsen Corporation for 2012 included the following items:

Interest revenue	$ 75,500
Salaries expense	65,000
Insurance expense	9,600

The following balances have been excerpted from Carsen Corporation's balance sheets:

	December 31 2012	December 31 2011
Accrued interest receivable	$9,100	$7,500
Accrued salaries payable	8,900	4,200
Prepaid insurance	1,100	1,500

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9. The cash received for interest during 2012 was
   a) $66,400.
   b) $73,900.
   c) $75,500.
   d) $77,100.

10. The cash paid for salaries during 2012 was
   a) $69,700.
   b) $60,300.
   c) $60,800.
   d) $73,900.

11. The cash paid for insurance premiums during 2012 was
   a) $8,500.
   b) $8,100.
   c) $10,000.
   d) $9,200.

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12. Denny Co. sells major household appliance service contracts for cash. The service contracts are for a one-year, two-year, or three-year period. Cash receipts from contracts are credited to Unearned Service Revenues. This account had a balance of $900,000 at December 31, 2012 before year-end adjustment. Service contract costs are charged as incurred to the Service Contract Expense account, which had a balance of $225,000 at December 31, 2012.

Service contracts still outstanding at December 31, 2012 expire as follows:

During 2013	$190,000
During 2014	285,000
During 2015	125,000

What amount should be reported as Unearned Service Revenues in Denny's December 31, 2012 balance sheet?
   a) $675,000
   b) $600,000
   c) $375,000
   d) $300,000

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Profit and loss statement

Use this information for the following question:

13. Carey Corporation prepares its financial statement using Accounting Standards for Private Enterprise.

A review of the December 31, 2012, unadjusted financial statements of Carey Corporation revealed that under the caption "extraordinary losses," Carey reported a total of $615,000. Further analysis revealed that the $615,000 in losses was comprised of the following items:

(1) Carey recorded a loss of $150,000 incurred in the abandonment of equipment formerly used in the business.
(2) In an unusual and infrequent occurrence, a loss of $350,000 was sustained as a result of hurricane damage to a warehouse.
(3) During 2012, several factories were shut down during a major strike by employees, resulting in a loss of $85,000.
(4) Uncollectible accounts receivable of $30,000 were written off as uncollectible.

Ignoring income taxes, what amount of loss should Carey report as extraordinary on its 2012 profit and loss statement?

a) $150,000
b) $350,000
c) $500,000
d) $615,000

14. Catt Company prepares its financial statement using Accounting Standards for Private Enterprise..

Catt Company, with an applicable income tax rate of 40%, reported net profit of $280,000. Included in profit for the period was an extraordinary loss from flood damage of $40,000 before deducting the related tax effect. The company's profit before income taxes and extraordinary items was

a) $400,000.
b) $740,000.
c) $506,667.
d) $490,667.

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Error Corrections

Use this information for the following questions:

The financial statements of Block, Inc. for 2011 and 2012 contained the following errors:

	2011	2012
Ending inventory	$5,000 overstated	$8,000 understated
Insurance expense	2,400 understated	1,300 overstated

15. Assuming that none of the errors was detected or corrected, by what amount will 2011 profit before taxes be overstated or understated?
    a) $2,600 understated
    b) $2,600 overstated
    c) $7,400 overstated
    d) $7,400 understated

16. Assuming that none of the errors was detected or corrected, by what amount will 2012 profit before taxes be overstated or understated?
    a) $14,300 understated
    b) $11,900 understated
    c) $6,700 understated
    d) $6,700 overstated

Use this information for the following questions:

Marco, Inc. is a calendar-year corporation. Its financial statements for the years 2011 and 2012 contained errors as follows:

	2011	2012
Ending Inventory	$ 6,000 understated	$10,000 overstated
Amortization Expense	11,000 overstated	7,000 overstated

(Ignore taxes.)

17. Assuming that the errors made in 2011 were corrected, but that the errors made in 2012 were not detected, by what amount will 2012 profit before taxes be overstated or understated?
    a) $3,000 overstated
    b) $10,000 overstated
    c) $17,000 overstated
    d) $3,000 understated

18. Assuming that *none* of the errors was detected or corrected, by what amount will retained earnings at December 31, 2012 be overstated or understated?
    a) $23,000 understated
    b) $17,000 understated
    c) $8,000 understated
    d) $10,000 overstated

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19. Assuming that *none* of the errors was detected or corrected, and that no additional errors were made in 2013, by what amount will current assets at December 31, 2013 be overstated or understated?
    a) $10,000 overstated
    b) $0
    c) $4,000 overstated
    d) $10,000 understated

Use this information for the following questions:

At Ivan Company, events and transactions during 2012 included the following. The tax rate for all items is 30%.

(1) Amortization for 2010 was found to be understated by $30,000.
(2) A strike by the employees of a supplier resulted in a loss of $20,000.
(3) The inventory at December 31, 2010 was overstated by $40,000.
(4) A business segment that had a book value of $400,000 was nationalized by a foreign government. No compensation is expected to be received on the loss of these operations.

20. The effect of these events and transactions on 2012 profit from continuing operations net of tax would be
    a) $14,000.
    b) $35,000.
    c) $63,000.
    d) $294,000.

21. The effect of these events and transactions on 2012 net profit net of tax would be
    a) $14,000.
    b) $294,000.
    c) $315,000.
    d) $343,000.

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22. The following information was extracted from the accounts of Cola Corporation at December 31, 2012:

	CR(DR)
Total reported profit since incorporation	$1,500,000
Total cash dividends paid	(800,000)
Cumulative effect of changes in accounting principle	(120,000)
Total stock dividends distributed	(200,000)
Adjustment to a prior period, (2011 tax reassessment recorded May 1, 2014)	66,000

What should be the balance of retained earnings at December 31, 2012?
    a) $446,000
    b) $500,000
    c) $380,000
    d) $566,000

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Use this information for the following questions:

The following trial balance of Thompson Corp. at December 31, 2012 has been properly adjusted except for the income tax expense adjustment.

Thompson Corp.
Trial Balance
December 31, 2012

	Dr.	Cr.
Cash	$ 875,000	
Accounts receivable (net)	2,695,000	
Inventory	2,085,000	
Property, plant, and equipment (net)	7,366,000	
Accounts payable and accrued liabilities		$ 1,501,000
Income taxes payable		654,000
Future income tax liability		85,000
Common stock		2,350,000
Contributed surplus		3,680,000
Retained earnings, 1/1/06		3,650,000
Net sales and other revenues		13,360,000
Costs and expenses	11,080,000	
Income tax expenses	1,179,000	
	25,280,000	$25,280,000

Other financial data for the year ended December 31, 2012:

- Included in accounts receivable is $960,000 due from a customer and payable in quarterly installments of $120,000. The last payment is due December 29, 2014.
- The balance in the Future Income Tax Liability account pertains to a temporary difference that arose in a prior year, of which $20,000 is classified as a current liability.
- During the year, tax installments of $425,000 were charged to income tax expense. The current and future tax rate on all types of income is 30%.

In Thompson's December 31, 2012 balance sheet,

23. The current assets total is
 a) $6,080,000.
 b) $5,655,000.
 c) $5,535,000.
 d) $5,175,000.

24. The final retained earnings balance is
 a) $4,751,000.
 b) $4,836,000.
 c) $5,176,000.
 d) $5,105,000.

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Revenue Recognition

25. In accounting for a long-term construction-type contract using the percentage-of-completion method, the gross profit recognized during the first year would be the estimated total gross profit from the contract, multiplied by the percentage of the costs incurred during the year to the
    a) total costs incurred to date.
    b) total estimated cost.
    c) unbilled portion of the contract price.
    d) total contract price.

26. How should earned but unbilled revenues at the balance sheet date on a long-term construction contract be disclosed if the percentage-of- completion method of revenue recognition is used?
    a) As construction in process in the current asset section of the balance sheet.
    b) As construction in process in the non-current asset section of the balance sheet.
    c) In a note to the financial statements until the customer is formally billed for the portion of work completed.
    d) As a receivable in the current asset section of the balance sheet.

27. The principal disadvantage of using the percentage-of-completion method of recognizing revenue from long-term contracts is that it
    a) is unacceptable for income tax purposes.
    b) gives results based upon estimates which may be subject to considerable uncertainty.
    c) is likely to assign a small amount of revenue to a period during which much revenue was actually earned
    d) it requires the recognition of losses midway through unprofitable contracts whereas with completed contract the losses can be deferred until the contract is completed.

28. Coffer Construction Corporation contracted to construct a building for $1,500,000. Construction began in 2012 and was completed in 2013. Data relating to the contract are summarized below:

Year ended December 31,	2012	2013
Costs incurred	$600,000	$460,000
Estimated costs to complete	400,000	———

Coffer uses the percentage-of-completion method as the basis for profit recognition. For the years ended December 31, 2012 and 2013, respectively, Coffer should report gross profit of
    a) $270,000 and $170,000.
    b) $900,000 and $600,000.
    c) $300,000 and $140,000.
    d) $0 and $440,000.

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Use this information for the following questions:

In 2012, Raymond Corporation began construction work under a three- year contract. The contract price is $3,000,000. Raymond uses the percentage-of-completion method for financial accounting purposes. The profit to be recognized each year is based on the proportion of costs incurred to total estimated costs for completing the contract. The financial statement presentations relating to this contract at December 31, 2012, follow:

Balance Sheet	
Accounts receivable——construction contract billings	$100,000
Construction in progress	$375,000
Less contract billings	300,000
Costs and recognized profit in excess of billings	75,000

Profit and loss statement	
Profit (before tax) on the contract recognized in 2012	$75,000

29. How much cash was collected in 2012 on this contract?
    a) $100,000
    b) $200,000
    c) $25,000
    d) $300,000

30. What was the initial estimated total profit before tax on this contract?
    a) $375,000
    b) $400,000
    c) $500,000
    d) $600,000

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31. Squad Construction Co. has consistently used the percentage-of- completion method of recognizing revenue. During 2012, Squad entered into a fixed-price contract to construct an office building for $6,000,000. Information relating to the contract is as follows:

At December 31

	2012	2013
Percentage of completion	15%	45%
Estimated total cost at completion	$4,500,000	$4,800,000
Gross profit recognized (cumulative)	225,000	540,000

Contract costs incurred during 2013 were

a) $1,440,000.
b) $1,485,000.
c) $1,575,000.
d) $2,160,000.

32. On February 1, 2012, Fair Contractors agreed to construct a building at a contract price of $3,000,000. Fair estimated total construction costs would be $2,000,000 and the project would be finished in 2014. Information relating to the costs and billings for this contract is as follows:

	2012	2013	2014
Total costs incurred to date	$ 750,000	$1,320,000	$2,300,000
Estimated costs to complete	1,250,000	1,690,000	-0-
Customer billings to date	1,100,000	2,000,000	3,000,000
Collections to date	1,000,000	1,750,000	2,950,000

Instructions

Fill in the correct amounts on the following schedule. For percentage-of-completion accounting and for completed-contract accounting, show the gross profit that should be recorded for 2012, 2013, and 2014.

Percentage-of-Completion Gross Profit		Completed-Contract Gross Profit	
2012	____________	2012	____________
2013	____________	2013	____________
2014	____________	2014	____________

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33. Company O is in the 2nd year of a 4 year contract. Costs to complete the contract are expected to escalate to such an extent that a loss on the contract is now anticipated. When should the loss be recognized under the percentage-of-completion method and under the cost recovery method?

	Percentage of Completion	**Cost Recovery Method**
a)	At the end of the contract	Immediately
b)	Immediately	At the end of the contract
c)	Over the remaining life of the contract	Over the remaining life of the contract
d)	Immediately	Immediately

34. On April 15, Year 5, SFC Inc. consigned 70 units of Product A to HGL Inc. Each unit cost SFC Inc. $400 to produce and it cost $800 to ship the consigned units to HGL Inc. On December 31, Year 5, HGL Inc. reported that it had sold 35 units for $700 each, and remitted to SFC Inc. the proceeds of sales, less a 10% commission, administration costs of $200, and delivery costs to customers amounting to a total of $500. What profit on the consigned sales will SFC Inc. report for Year 5?
    a) $6,550
    b) $13,900
    c) $21,350
    d) $6,950

35. MM Co. sells equipment on an installment basis and since it is unable to use the percentage of completion method, reports these sales using the cost recovery method.

    The following data is available for sales made in Years 1 and 2:

		Year 1	**Year 2**
Sales		$500,000	$800,000
Cost of sales		$300,000	$560,000
Collections during the year	- on Year 1 sales	$150,000	$150,000
	- on Year 2 sales		$240,000

What amount of realized gross profit should be reported on MM Co.'s Year 2 profit and loss statement?
    a) $240,000
    b) $72,000
    c) $0
    d) $117,000

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Use this information for the following questions:

Sloan Company's investment portfolio which is appropriately included in current assets is as follows:

December 31, 2012

	Cost	Fair Value	Unrealized Gain (Loss)
Arlington Corp.	$260,000	$210,000	$(50,000)
Downs, Ltd.	245,000	265,000	20,000
	$505,000	$475,000	$(30,000)

36. Ignoring income taxes, what amount should be reported as a charge against profit in Sloan's 2012 profit and loss statement if 2012 is Sloan's first year of operation and it accounts for these investments as held for trade?
    a) $0
    b) $20,000
    c) $30,000
    d) $50,000

37. Ignoring income taxes, what amount should be reported as a charge against profit in Sloan's 2012 profit and loss statement if 2012 is Sloan's first year of operation and Sloan has made the irrevocable election pertaining to equity investments not held for trade under IFRS 9?
    a) $0
    b) $20,000
    c) $30,000
    d) $50,000

Use this information for the following questions:

The following pertains to G Co.'s temporary investment portfolio as at December 31:

Temporary Investments	Face Value	Number of Shares	Cost	Market Value	Unrealized Gain(Loss)
Canadian Air shares		1,000	$31,500	$39,375	$7,875
Superior shares		10,500	$246,750	$243,625	($3,125)
Volatile bonds	$100,000		$92,750	$92,000	($750)

38. What amount of net temporary investments should be reported on G Co.'s December 31 balance sheet if all the investments in the portfolio have been classified as held for trade?
    a) $378,875
    b) $371,000
    c) $375,000
    d) $378,250

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39. What amount of gain or loss should be reported in other comprehensive income on G Co.'s December 31 financial statements if all of the investments in shares in the portfolio have been classified as held for trade and the investments in bonds have been classified as held to maturity?
   a) $0
   b) $750 loss
   c) $3,875 loss
   d) $4,750 gain

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40. At the close of its first year of operations, December 31, 2012, Linn Company had accounts receivable of $440,000, after deducting the related allowance for doubtful accounts. During 2012, the company had charges to bad debt expense of $90,000 and wrote off, as uncollectible, accounts receivable of $40,000. What should the company report on its balance sheet at December 31, 2012, as accounts receivable before the allowance for doubtful accounts?
   a) $570,000
   b) $490,000
   c) $390,000
   d) $310,000

41. During the year, Lantz Company made an entry to write off a $4,000 uncollectible account. Before this entry was made, the balance in accounts receivable was $60,000 and the balance in the allowance account was $4,500. The net realizable value of accounts receivable after the write-off entry was
   a) $60,000.
   b) $59,500.
   c) $51,500.
   d) $55,500.

42. Concept Inc.'s recorded cash balance on December 31, Year 4, was $12,500. However, the controller had not yet recorded any of the following items in the corporation's books:
   - A customer's cheque dated January 3, Year 5, in the amount of $2,300 was deposited on January 3rd , Year 5. This cheque was in payment of a sale made on December 31, Year 4.
   - A cheque issued by Concept Inc. to a supplier in the amount of $1,400, dated and mailed on December 31, Year 4, was not picked up by the post office until January 4, Year 5. This was a payment against an amount owing at year end.
   - A customer's cheque in the amount of $2,500 originally deposited on December 15, Year 4, was returned by the bank with the December 31st bank statement and was marked NSF. The cheque was replaced by the customer on January 15, Year 5, and cleared Concept Inc.'s bank on January 21, Year 5.
   - A customer's cheque in the amount of $300 dated December 31, Year 4, was received on January 4 and deposited by Concept Inc. on January 5, Year 5.

   What should be the cash balance on Concept Inc.'s balance sheet as at December 31, Year 4?
   a) $8,600
   b) $11,200
   c) $11,100
   d) $10,000

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43. The balance of all Company K's current asset accounts combined was $125,000 on December 1. During December, the following transactions took place:
    - Purchase of $20,000 of inventory for cash
    - Receive a $15,000 deposit from a customer for work to be completed next month
    - Purchase of $10,000 of machinery on account
    - Retirement of $30,000 in bonds payable with cash

    What is the combined December 31 balance in the current asset accounts?
    a) $80,000
    b) $140,000
    c) $120,000
    d) $110,000

44. If the month-end bank statement shows a balance of $31,000, outstanding cheques are $12,000, a deposit of $4,000 was in transit at month end, and a cheque for $500 was erroneously charged by the bank against the account, the correct balance in the bank account at month end is
    a) $22,500.
    b) $23,500.
    c) $15,500.
    d) $38,500.

45. In preparing its bank reconciliation for the month of April 2012, Gregg, Inc. has available the following information.

Balance per bank statement, 4/30/11	$35,140
NSF cheque returned with 4/30/11 bank statement	450
Deposits in transit, 4/30/11	4,000
Outstanding cheques, 4/30/11	5,200
Bank service charges for April	20

    What should be the correct balance of cash at April 30, 2012?
    a) $34,370
    b) $33,940
    c) $33,490
    d) $33,470

46. May Co. prepared an aging of its accounts receivable at December 31, 2012 and determined that the net realizable value of the receivables was $290,000. Additional information is available as follows:
    - Allowance for uncollectible accounts at 1/1/11 credit balance $ 34,000
    - Accounts written off as uncollectible during 2012 23,000
    - Accounts receivable at 12/31/11 320,000
    - Uncollectible accounts recovered during 2012 5,000

    For the year ended December 31, 2012, May's bad debt expense would be
    a) $20,000.
    b) $23,000.
    c) $16,000.
    d) $14,000.

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47. For the year ended December 31, 2012, Colt Co. estimated its allowance for uncollectible accounts using the year-end aging of accounts receivable. The following data are available:

• Allowance for uncollectible accounts, 1/1/11	$51,000
• Estimated uncollectible accounts during 2012 (2% on credit sales of $2,000,000)	40,000
• Uncollectible accounts written off, 11/30/11	46,000
• Estimated uncollectible accounts per aging, 12/31/11	69,000

After year-end adjustment, the bad debt expense for 2012 should be

a) $46,000.
b) $57,000.
c) $69,000.
d) $64,000.

48. Under the allowance method of recognizing uncollectible accounts, the entry to write off an uncollectible account

a) increases the allowance for uncollectible accounts.
b) has no effect on the allowance for uncollectible accounts.
c) has no effect on net profit.
d) decreases net profit.

49. Benoit Inc.'s December 31, Year 4, records showed that the accounts receivable balance was made up of the following amounts:

- Trade accounts receivable in the amount of $141,900. These receivables are currently in good standing, but it is estimated that $23,000 will become uncollectible eventually.
- Down payment on a new delivery van in the amount of $5,000.
- Deposit for June Year 5 rent (i.e. the last month of the lease) in the amount of $8,500.
- Amount receivable for goods on consignment in the amount of $13,000, which represents the selling price for goods originally costing Benoit Inc. $10,000.

Using the allowance method, what is the correct balance for the Accounts Receivable account as at December 31, Year 4?

a) $118,900
b) $141,900
c) $154,000
d) $145,400

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50. A trial balance before adjustment included the following:

	Debit	Credit
Accounts receivable	$90,000	
Allowance for doubtful accounts		$ 730
Sales		360,000
Sales returns and allowances	8,000	

Give journal entries assuming that the estimate of uncollectibles is determined by taking (1) 5% of gross accounts receivable and (2) 1% of net sales.

51. For the year 2012, the gross profit of Roadwise Company was $320,000; the cost of goods manufactured was $850,000; the beginning inventories of goods in process and finished goods were $76,000 and $95,000, respectively; and the ending inventories of goods in process and finished goods were $92,000 and $135,000, respectively. The sales of Roadwise Company for 2012 must have been
   a) $810,000.
   b) $1,130,000.
   c) $1,154,000.
   d) $1,114,000.

52. Information regarding accounting policies adopted by a company is essential to financial statement users. Which of the following is an example of a required disclosure for merchandise inventory?
   a) Composition of inventory, i.e. raw material, work-in-process, and finished goods.
   b) Change in the basis of inventory valuation from the previous period.
   c) Method of determining cost of inventory.
   d) Both b) and c) above.

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Use this information for the following questions:

The following information was available from the inventory records of Lear Company for January:

	Units	Unit Cost	Total Cost
Balance at January 1	3,000	$9.77	$29,310
Purchases:			
January 6	2,000	10.30	20,600
January 26	2,700	10.71	28,917
Sales:			
January 7	(2,500)		
January 31	(4,200)		
Balance at January 31	1,000		

53. Assuming that Lear does *not* maintain perpetual inventory records, what should be the inventory at January 31, using the weighted- average inventory method, rounded to the nearest dollar?
    a) $10,505
    b) $10,237
    c) $10,260
    d) $10,360

54. Assuming that Lear maintains perpetual inventory records, what should be the inventory at January 31, using the moving-average inventory method, rounded to the nearest dollar?
    a) $10,505
    b) $10,237
    c) $10,260
    d) $10,360

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(+) B Ltd., which began retail operations on January 1, Year 1, uses a periodic weighted average inventory system. B Ltd. has a December 31 fiscal year end. The following purchases were made by B Ltd.:

	Units Purchased	Unit Cost
January 1, Year 1	4,500	$ 9
April 1, Year 1	2,000	10
October 1, Year 1	5,000	9
February 1, Year 2	6,500	11
September 1, Year 2	8,000	8
June 1, Year 3	12,000	11

The following sales were recorded by B Ltd.:

	Year 1	Year 2	Year 3
Units sold	9,000	11,000	14,000
Average unit selling price	$18	$19	$23

55. In Year 3, B Ltd. decided to change its inventory accounting method to a periodic first-in first-out (FIFO) system. On its Year 3 balance sheet, with comparative figures for Year 2, B Ltd. would report which of the following amounts as inventory?
    a) Year 3 - $44,000 Year 2 - $61,000
    b) Year 3 - $44,000 Year 2 - $48,000
    c) Year 3 - $44,000 Year 2 - $66,000
    d) Year 3 - $39,000 Year 2 - $61,000

Use this information for the following questions:

Transactions for the month of June were:

	Purchases		Sales
June 1 (balance)	400 @ $3.20	June 2	300 @ $5.50
3	1,100 @ 3.10	6	800 @ 5.50
7	600 @ 3.30	9	500 @ 5.50
		10	200 @ 6.00
15	900 @ 3.40	18	700 @ 6.00
22	250 @ 3.50	25	150 @ 6.00

56. Assuming that perpetual inventory records are kept in dollars, the ending inventory on a FIFO basis is
    a) $1,900.
    b) $1,920.
    c) $2,065.
    d) $2,100.

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57. Assuming that perpetual inventory records are kept in units only, the ending inventory on an average-cost basis, rounded to the nearest dollar, is
   a) $1,980.
   b) $1,956.
   c) $1,970.
   d) $1,995.

---

58. When valuing raw materials inventory at lower of cost and market, what is the meaning of the term "market"?
   a) Net realizable value
   b) Net realizable value less a normal profit margin
   c) Current replacement cost
   d) Discounted present value

59. Lower of cost and market
   a) is most conservative if applied to the total inventory.
   b) is most conservative if applied to major categories of inventory.
   c) is most conservative if applied to individual items of inventory.
   d) must be applied to major categories for taxes.

60. Net realizable value is
   a) acquisition cost plus costs to complete and sell.
   b) selling price.
   c) selling price plus costs to complete and sell.
   d) selling price less costs to complete and sell.

61. A markup of 40% on cost is equivalent to what markup on selling price?
   a) 29%
   b) 35%
   c) 40%
   d) 60%

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62. Miller, Ltd. estimates the cost of its physical inventory at March 31 for use in an interim financial statement. The rate of markup on cost is 25%. The following account balances are available:

Inventory, March 1	$220,000
Purchases	172,000
Purchase returns	8,000
Sales during March	350,000

The estimate of the cost of inventory at March 31 would be

a) $34,000.
b) $104,000.
c) $121,500.
d) $78,000.

63. For 2012, cost of goods available for sale for Vale Corporation was $900,000. The gross profit rate was 30%. Sales for the year were $800,000. What was the amount of the ending inventory?

a) $0
b) $340,000
c) $270,000
d) $240,000

64. The following information is available for Kerr Company for 2012:

Freight-in	$ 30,000
Purchase returns	75,000
Selling expenses	150,000
Ending inventory	260,000

The cost of goods sold is equal to 300% of selling expenses. What is the cost of goods available for sale?

a) $450,000.
b) $740,000.
c) $665,000.
d) $710,000.

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Investments

Use this information for the following questions:

The summarized balance sheets of Noble Company and Barnes Company as of December 31, 2012 are as follows:

Noble Company
Balance Sheet
December 31, 2012

Assets	$400,000
Liabilities	$ 50,000
Capital shares	200,000
Retained earnings	150,000
Total equities	$400,000

Barnes Company
Balance Sheet
December 31, 2012

Assets	$300,000
Liabilities	$ 75,000
Capital shares	185,000
Retained earnings	40,000
Total equities	$300,000

65. If Noble Company acquired a 20% interest in Barnes Company on December 31, 2012 for $45,000 and during 2013 Barnes Company had net profit of $25,000 and paid a cash dividend of $10,000, applying the equity method would give a debit balance in the Investment in Barnes Company account at the end of 2013 of
    a) $37,000.
    b) $45,000.
    c) $50,000.
    d) $48,000.

66. If Noble Company acquired a 30% interest in Barnes Company on December 31, 2012 for $67,500 and during 2013 Barnes Company had net profit of $25,000 and paid a cash dividend of $10,000, applying the equity method would give a debit balance in the Investment in Barnes Company account at the end of 2013 of
    a) $67,500.
    b) $72,000.
    c) $75,000.
    d) $72,500.

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67. ABC Incorporated and DEF Limited have entered into a business arrangement to develop and market a new computer product. The life of the product is expected to be two years. The venturers have agreed to call this business arrangement GHI Joint Venture. ABC holds 60% of the equity of GHI as Class A shares and DEF holds 40% of the equity as Class B shares. Each venturer contributed assets valued at $1 million and agreed to share equally in all profits and losses as well as in making all decisions. The essential attribute of this arrangement that distinguishes it as a joint venture is that
    a) each of the venturers contributed equally to the joint venture and agreed to share equally in all profits and losses.
    b) the venturers agreed to call the arrangement a joint venture.
    c) the life of the product is short, only two years.
    d) each of the venturers agreed to share equally in making all decisions.

68. On January 1, Year 5, Co. Q purchased 25% of the publicly-traded common shares of Co. R for $3 million. Co. Q is a major customer of Co. R. The book value of Co. R on that date was $11 million and the fair value of a major asset with a 25-year remaining life was $1 million greater than its book value. During Year 5, Co. R's reported net profit was $500,000 and it paid dividends of $200,000. The market value on December 31, Year 5, of the Co. R shares held by Co. Q was $3.1 million. What amount(s) should Co. Q record on its Year 5 profit and loss statement in relation to its investment in Co. R's shares?
    a) $115,000 of investment income.
    b) $50,000 of dividend income.
    c) $50,000 of dividend income and $100,000 of unrealized holding gain.
    d) $125,000 of investment income.

69. Crown Corporation earns $120,000 and pays cash dividends of $40,000 during 2012. Mace Corporation owns 3,000 of the 10,000 outstanding shares of Crown and exercises significant influence. What amount should Mace show in the investment account at December 31, 2012 if the beginning of the year balance in the account was $160,000?
    a) $196,000
    b) $160,000
    c) $184,000
    d) $240,000

70. Xanadu Corp. issued a note with a face value of $10,000 and a zero interest rate with a two-year term, in return for $8,573. Determine the implicit interest rate for the note.
    a) 6%
    b) 7%
    c) 8%
    d) 9%

71. For a note receivable with a face rate of zero, an implicit rate of 8%, a term of 3 years, a present value of $14,000 and a face value of $17,636, the interest to record at the end of the first year is equal to
    a) $1,120.
    b) zero.
    c) $1,411.
    d) $112.

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72. Alberta Corp issued a note with a face value of $20,000 and a 3-year term. The note pays interest based on a stated rate of 5% annually, when the market rate of interest is 10%. The present value of the note is
    a) $20,000.
    b) $22,723.
    c) $18,000.
    d) $17,513.

73. On January 1, 2012, Affleck Co. purchased 25% of Pitts Corp.'s common shares; no goodwill resulted from the purchase. Affleck appropriately carries this investment at equity and the balance in Affleck's investment account was $360,000 at December 31, 2012. Pitts reported net profit of $225,000 for the year ended December 31, 2012, and paid dividends totaling $90,000 during 2012. How much did Affleck pay for its 25% interest in Pitts?
    a) $326,250
    b) $382,500
    c) $393,750
    d) $438,750

74. On January 1, Year 5, Co. Q purchased 25% of the publicly-traded common shares of Co. R for $3 million. Co. Q is a major customer of Co. R. The book value of Co. R on that date was $11 million and the fair value of a major asset with a 25-year remaining life was $1 million greater than its book value. During Year 5, Co. R's reported net profit was $500,000 and it paid dividends of $200,000. The market value on December 31, Year 5, of the Co. R shares held by Co. Q was $3.1 million. What amount(s) should Co. Q record on its Year 5 profit and loss statement in relation to its investment in Co. R's shares?
    a) $115,000 of investment income.
    b) $50,000 of dividend income.
    c) $50,000 of dividend income and $100,000 of unrealized holding gain.
    d) $125,000 of investment income.

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Property Plant & Equipment

75. On April 1, Renfro Corporation purchased for $765,000 a tract of land on which was located a warehouse and office building. The following data were collected concerning the property:

	Current Assessed Valuation	Vendor's Original Cost
Land	$300,000	$250,000
Warehouse	200,000	150,000
Office building	400,000	300,000
	$900,000	$700,000

What are the appropriate amounts that Renfro should record for the land, warehouse, and office building, respectively?

a) Land, $250,000; warehouse, $150,000; office building, $300,000.
b) Land, $300,000; warehouse, $200,000; office building, $400,000.
c) Land, $273,214; warehouse, $163,929; office building, $327,857.
d) Land, $255,000; warehouse, $170,000; office building, $340,000.

76. On July 1, 2012, Blanco Corporation purchased factory equipment for $300,000. Residual value was estimated to be $8,000. The equipment will be amortized over ten years using the double declining-balance method. Counting the year of acquisition as one-half year, Blanco should record amortization expense for 2013 on this equipment of

a) $60,000.
b) $54,000.
c) $52,560.
d) $48,000.

77. Marsh Corporation purchased factory equipment that was installed and put into service January 2, 2012, at a total cost of $90,000. Residual value was estimated at $6,000. The equipment is being amortized over four years using the double declining-balance method. For the year 2013, Marsh should record amortization expense on this equipment of

a) $21,000.
b) $22,500.
c) $42,000.
d) $45,000.

78. On April 13, 2012, Foley Co. purchased machinery for $240,000. Residual value was estimated to be $10,000. The machinery will be amortized over ten years using the double declining-balance method. If amortization is calculated on the basis of the nearest full month, Foley should record amortization expense for 2013 on this machinery of

a) $41,600.
b) $40,800.
c) $41,100.
d) $41,866.

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79. Hermitage Inc. purchased a building for $800,000 on January 1, 2002. At the time of acquisition, the building had an estimated residual value of $300,000 and an estimated useful life of twenty years. The company has recorded monthly amortization using the straight-line method. On January 1, 2012, it is decided to put the building up for sale at the price of $1,200,000. At December 31, 2012, the building is still for sale. The correct amortization to record for 2012 is
   a) $25,000.
   b) nil.
   c) $40,000.
   d) $60,000.

80. During 2012, Geiger Co. sold equipment that had cost $196,000 for $117,600. This resulted in a gain of $8,600. The balance in Accumulated Amortization——Equipment was $650,000 on January 1, 2012, and $620,000 on December 31. No other equipment was disposed of during 2012. Amortization expense for 2012 was
   a) $30,000.
   b) $38,600.
   c) $57,000.
   d) $117,000.

81. A machine with an eight-year estimated useful life and an estimated 10% residual value was acquired on January 1, 2010. The amortization expense for 2012 using the double declining-balance method would be original cost multiplied by
   a) 90% x 25% x 25%.
   b) 75% x 75% x 25%.
   c) 90% x 75% x 25%.
   d) 25% x 25%.

82. A company installed an assembly line costing $50,000 in Year 6. In Year 10, the company invested $100,000 to automate the line. The automation increased productive capacity of the assembly line but did not increase the market value and did not affect its useful life. Proper accounting for the cost of the automation should be to
   a) report it as an expense in Year 10.
   b) debit the accumulated amortization account by $100,000.
   c) allocate it between the property plant & equipment accounts and accumulated amortization accounts.
   d) debit the property plant & equipment account by $100,000.

83. Galaxy Inc. purchased equipment that had an estimated salvage value of $15,000 at the end of 8 years (20% of its original cost). After 4 years, the equipment was sold for $25,000 resulting in a gain on sales of equipment being recognized on the profit and loss statement. At the time of sale, the equipment had produced 700,000 of the anticipated 1,000,000 parts it was purchased to produce.

   Based on this information, which method of amortization was Galaxy Inc. using for this equipment?
   a) Units of production (activity method).
   b) Straight-line method.
   c) Double-declining balance.
   d) Composite method using a rate of 10%.

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84. On October 1, 2012, Sundemon Company purchased for $720,000 snow-making equipment having an estimated useful life of six years with an estimated residual value of $30,000. Amortization is taken for the portion of the year the asset is used. The asset is a Class 8 asset with a maximum CCA rate of 20%. The company has a December 31 year end

Required

For each of the following independent assumptions, calculate the depreciation.

1. Straight line - 2012
2. Sum of the years digits – 2012
3. Sum of the years digits – 2013
4. Declining balance - 2013
5. Double declining balance – 2014

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Intangibles

85. Santo Corporation applied for a patent on January 1, 2003, that was granted on January 1, 2006. To protect its patent, the corporation purchased on January 1, 2012 a patent on a competing product which was originally issued on January 10, 2009. Because of its unique plant, Santo Corporation does not feel the competing patent can be used in producing a product. The cost of the competing patent should be
    a) amortized over a maximum period of 20 years.
    b) amortized over a maximum period of 14 years.
    c) amortized over a maximum period of 11 years.
    d) expensed in 2012.

86. Wrigley, Ltd. went to court this year and successfully defended the brand name of its product, "Sweet Gum," from infringement by a competitor. The cost of this defense should be charged to
    a) patents and amortized over the legal life of the patent.
    b) legal fees and amortized over 5 years or less.
    c) expenses of the period.
    d) trademarks and amortized over the same period of time as the "Sweet Gum" trademark.

87. Negative goodwill arises when
    a) the book value of identifiable net assets acquired exceeds the purchase price.
    b) the fair value of identifiable net assets acquired exceeds the purchase price.
    c) the fair value of identifiable net assets acquired is less than the purchase price.
    d) the fair value of identifiable net assets acquired exceeds the book value.

88. Purchased goodwill should be
    a) written off as soon as possible against retained earnings.
    b) written off as soon as possible as an extraordinary item.
    c) written off by systematic charges as a regular operating expense over the period benefited, but not more than 40 years.
    d) not written off but rather reduced only if impairment occurs.

89. Which of the following principles *best* describes the current method of accounting for research costs?
    a) Associating cause and effect
    b) Systematic and rational allocation
    c) Income tax minimization
    d) Immediate recognition as an expense

90. Which of the following is *not* a method of calculating goodwill?
    a) Capitalize excess earnings
    b) Discount the excess earnings for a limited number of years
    c) Capitalize total average earnings and subtract the fair value of net assets
    d) All of these are methods of calculating goodwill.

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91. The owners of TSS Ltd. are contemplating selling the business. The cumulative earnings for the past five years amounted to $850,000, including unusual gains of $50,000. The fair value of TSS Ltd.'s net identifiable assets is $775,000. New owners of the business would expect to realize the industry average rate of return on investment of 15%. Assuming TSS Ltd.'s expected earnings will continue into perpetuity, what amount would a prospective buyer pay for goodwill?
   a) $75,000
   b) $116,250
   c) $43,750
   d) $291,667

92. The general ledger of Nordic Corporation as of December 31, 2012, includes the following accounts:

Copyrights	$ 20,000
Deposits with advertising agency (will be used to promote goodwill)	13,500
Discount on bonds payable	33,750
Excess of cost over fair value of identifiable net assets of acquired subsidiary	245,000
Trademarks	45,000

In the preparation of Nordic's balance sheet as of December 31, 2012, what should be reported as total intangible assets?
   a) $357,250
   b) $323,500
   c) $310,000
   d) $290,000

The net assets of Milner Co. total $2,200,000 and earnings for the last five years total $1,800,000. Included in the earnings are extraordinary losses of $150,000 and unusual gains of $60,000. A 12% return on net assets is considered normal for the industry.

93. If goodwill is calculated by capitalization of average excess earnings at 16%, the estimate of goodwill is
   a) $787,500.
   b) $600,000.
   c) $487,500.
   d) $712,500.

94. Under Accounting Standards for Private Enterprises, an asset retirement obligation should be recognized when
   a) an asset is impaired and is available for sale.
   b) operation of an asset has resulted in an additional obligation such as the cost of cleaning up an oil spill.
   c) there is a legal obligation to make expenditures to restore the site of the asset at the time of closure.
   d) an obligation exists to purchase a long-lived asset.

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95. Company P has acquired 70% of a retail store operation by purchasing the assets and assuming the liabilities of Company Q for net proceeds of $800,000. Company Q's balance sheet on the date of the sale with related fair market values is as follows:

Assets:	**Book Value**	**Fair Market Value**
Cash	$ 60,000	$ 60,000
Other current assets	173,000	383,000
Property, plant & equipment	457,000	560,000
Total assets	$690,000	$1,003,000
Liabilities and shareholders' equity:		
Liabilities	$240,000	$ 240,000
Shareholders' equity	450,000	
Total liabilities and shareholders' equity	$690,000	

What is the value assigned to goodwill to be included in Company P's consolidated balance sheet (rounded to the nearest $100)?

a) $37,000
b) $265,900
c) $379,900
d) $97,900

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Current Liabilities

96. TKC Ltd. sells product A for $5,000 each, including a one-year warranty. It also offers a 2-year extended warranty for $400 that takes effect after the original one-year warranty period. On the basis of past experience, the initial one-year warranty costs the company an average of $80 per unit sold, and the extended warranty costs $300 per extended warranty sold. During Year 10, the company sold 300 units of the product and 160 extended warranties. Actual warranty costs incurred in Years 10, 11, 12 and 13 for the units of product A sold in Year 10 were as follows:

Year 10	$12,000
Year 11	$24,000
Year 12	$24,000
Year 13	$12,000

Assuming all sales and warranty expenses are incurred evenly over the year, what amounts would be recorded on the December 31, Year 10 and Year 11 balance sheets pertaining to these warranties?

		Year 10	Year 11
a)	Warranty liability	$60,000	$36,000
b)	Unearned warranty revenue	$64,000	$48,000
	Warranty liability	$12,000	
c)	Unearned warranty revenue	$64,000	$32,000
d)	Unearned warranty revenue	$64,000	$48,000
	Warranty liability	$60,000	$36,000

97. Contingent gains should be accrued in the financial statements only when
    a) it is likely that a future event will confirm that an asset has been acquired at the date of the balance sheet.
    b) the amount of the gain can be reasonably estimated.
    c) a contingent loss of an equal or greater amount exists at the date of the balance sheet.
    d) none of the above.

98. Which of the following is the proper way to report a gain contingency?
    a) As an accrued amount
    b) As deferred revenue
    c) As an account receivable with additional disclosure explaining the nature of the contingency
    d) As a disclosure only

99. A contingent liability
    a) definitely exists as a liability but its amount and due date are indeterminable.
    b) is accrued even though not reasonably estimated.
    c) is not disclosed in the financial statements.
    d) is the result of a loss contingency.

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100. Vividly Co. follows Accounting Standards for Private Enterprises.

Vividly Co. is being sued for illness caused to local residents as a result of negligence on the company's part in permitting the local residents to be exposed to highly toxic chemicals from its plant. Vividly 's lawyer states that it is likely that Vividly will lose the suit and be found liable for a judgment costing Vividly anywhere from $600,000 to $3,000,000. However, the lawyer states that the most likely cost is not determinable. As a result of the above facts, Vividly should accrue

a) a loss contingency of $600,000 and disclose an additional contingency of up to $2,400,000.
b) a loss contingency of $1,800,000 and disclose an additional contingency of up to $1,200,000.
c) a loss contingency of $1,800,000 but *not* disclose any additional contingency.
d) no loss contingency but disclose a contingency of $600,000 to $3,000,000.

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Long Term Liabilities

101. On January 1, 2012, Port Co. sold 12% bonds with a face value of $500,000. The bonds mature in five years, and interest is paid semiannually on June 30 and December 31. The bonds were sold for $538,500 to yield 10%. Using the effective interest method of amortization, interest expense for 2012 is
    a) $50,000.
    b) $53,696.
    c) $53,850.
    d) $60,000.

102. On January 1, Year 1, BDS Inc. issued $1,000,000 of 8% bonds due in five years, with semi-annual interest payments on June 30 and December 31 each year. Because the investors were only willing to accept an effective annual interest rate of 10% (compounded semi-annually), the bonds sold for $922,783. Using the effective interest method, what would BDS Inc. record as interest expense for the period January 1 to June 30, Year 1?
    a) $46,139
    b) $40,000
    c) $36,911
    d) $50,000

103. On July 1, 2010, Paris, Inc. issued 9% bonds in the face amount of $1,000,000, which mature on July 1, 2020. The bonds were issued for $939,000 to yield 10%, resulting in a bond discount of $61,000. Paris uses the effective interest method of amortizing bond discount. Interest is payable annually on June 30. At June 30, 2012, Paris's unamortized bond discount (rounded to the nearest $1,000) should be
    a) $53,000.
    b) $51,000.
    c) $48,800.
    d) $43,000.

104. On January 1, 2012, Malcolm Co. issued ten-year bonds with a face value of $500,000 and a stated interest rate of 10%, payable semiannually on June 30 and December 31. The bonds were sold to yield 12%. Table values are:

Instructions

a) Calculate the issue price of the bonds.
b) Without prejudice to your solution in part (a), assume that the issue price was $442,000. Prepare the amortization table for 2012, assuming that amortization is recorded on interest payment dates.

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Shareholder Equity

105. "Gains" on sales of treasury shares should be credited to
   a) contributed surplus.
   b) the share capital account.
   c) retained earnings.
   d) other income.

106. Which of the following transactions does *not* result in a decrease to retained earnings?
   a) Declaration and issuance of a stock dividend.
   b) Incurrence of a net loss for the period.
   c) Acquisition of treasury shares for less than the original issue price.
   d) Correction of an error in which amortization expense was under-stated in a prior period.

107. Declaration and issuance of a stock dividend
   a) increases the current ratio.
   b) decreases the amount of working capital.
   c) decreases total shareholders' equity.
   d) has no effect on total assets, liabilities, or shareholders' equity.

108. If management wishes to "capitalize" part of the earnings, it may issue a
   a) scrip dividend.
   b) stock dividend.
   c) property dividend.
   d) liquidating dividend.

109. Dividends are not paid on
   a) non-cumulative preferred shares.
   b) nonparticipating preferred shares.
   c) treasury common shares.
   d) Dividends are paid on all of these.

110. A retained earnings appropriation always means the company is
   a) setting aside cash for a specific purpose.
   b) disclosing managerial policy.
   c) preventing unusual losses.
   d) improving the debt-equity ratio.

111. Boehm Company acquired 12,000 shares of its own common shares at $20 per share on February 5, 2012, and sold 6,000 of these shares at $27 per share on August 9, 2013. The market value of Boehm's common shares was $24 per share at December 31, 2012, and $25 per share at December 31, 2013. What account(s) should Boehm credit in 2013 to record the sale of 6,000 shares?
   a) Treasury Shares for $162,000
   b) Treasury Shares for $120,000 and Contributed from Treasury Shares for $42,000
   c) Treasury Shares for $120,000 and Retained Earnings for $42,000
   d) Treasury Shares for $144,000 and Retained Earnings for $18,000

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Witan Co. issued 100,000 no par common shares for $1,200,000. Witan acquired 4,000 shares of its own common shares at $15 per share. Three months later, Witan sold 2,000 of these shares at $19 per share.

112. If instead of holding the shares as treasury shares, Witan had been required to cancel them, Witan should debit
   a) Common Shares for $48,000 and Retained Earnings for $12,000.
   b) Contributed Surplus for $48,000 and Retained Earnings for $12,000.
   c) Contributed Surplus for $60,000.
   d) Common Shares for $60,000.

113. The value of a perpetual bond is equal to
   a) present value of principal and interest.
   b) present value of interest alone.
   c) present value of the principal alone.
   d) nil.

114. Retractable preferred shares should be recorded as
   a) share capital and contributed surplus.
   b) share capital.
   c) debt.
   d) contributed surplus.

115. Chizu Co. has 100,000 no par value common shares authorized, issued, and outstanding. All 100,000 shares were issued at $8 per share. Retained earnings of the company are $120,000. If 10,000 shares of Chizu common were reacquired at $6 and cancelled,
   a) shareholders' equity would decrease $80,000.
   b) contributed surplus would decrease $10,000.
   c) retained earnings would decrease $10,000.
   d) contributed capital would increase $20,000.

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Earnings Per Share

116. At December 31, 2012, Meyer Company had 500,000 common shares issued and outstanding, 400,000 of which had been issued and outstanding throughout the year and 100,000 of which were issued on October 1, 2012. Net profit for the year ended December 31, 2012, was $510,000. What should be Meyer's 2012 earnings per common share, rounded to the nearest penny?
    a) $1.02
    b) $1.27
    c) $1.20
    d) $1.13

117. Eva Co. had 600,000 common shares outstanding on January 1, issued 84,000 shares on May 1, purchased 42,000 treasury shares on September 1, and issued 36,000 shares on November 1. The weighted average shares outstanding for the year is
    a) 634,000.
    b) 648,000.
    c) 662,000.
    d) 676,000.

118. On January 2, 2012, Starr Co. issued at par $10,000 of 6% bonds convertible in total into 1,000 of Starr's common shares. No bonds were converted during 2012. Throughout 2012, Starr had 1,000 shares of common shares outstanding. Starr's 2012 net profit was $6,000. Starr's income tax rate is 30%.

    No potentially dilutive securities other than the convertible bonds were outstanding during 2012. Starr's diluted earnings per share for 2012 would be (rounded to the nearest penny)
    a) $3.00.
    b) $3.21.
    c) $3.30.
    d) $6.42.

119. At December 31, 2011, Collins Company had 500,000 common shares outstanding. On October 1, 2012, an additional 100,000 common shares were issued. In addition, Collins had $5,000,000 of 6% convertible bonds outstanding at December 31, 2011, which are convertible into 225,000 common shares. No bonds were converted into common shares in 2012. The net profit for the year ended December 31, 2012, was $1,500,000. Assuming the income tax rate was 30%, the diluted earnings per share for the year ended December 31, 2012 should be (rounded to the nearest penny)
    a) $3.26.
    b) $2.40.
    c) $2.28.
    d) $2.00.

120. On January 2, 2012, Dane Co. issued at par $300,000 of 9% convertible bonds. Each $1,000 bond is convertible into 30 shares. No bonds were converted during 2012. Dane had 50,000 common shares outstanding during 2012. Dane's 2012 net profit was $160,000 and the income tax rate was 30%. Dane's diluted earnings per share for 2012 would be (rounded to the nearest penny)
    a) $2.71.
    b) $3.03.
    c) $3.20.
    d) $3.58.

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121. At December 31, 2011, Morris Co. had 800,000 common shares outstanding. In addition, Morris had 300,000 shares of preferred shares which were convertible into 500,000 common shares. During 2012, Morris paid $300,000 in cash dividends on the common shares and $200,000 in cash dividends on the preferred shares. Net profit for 2012 was $1,700,000 and the income tax rate was 40%. The diluted earnings per share for 2012 is (rounded to the nearest penny)

a) $.93.
b) $1.31.
c) $1.26.
d) $1.88.

122. Dexter Corporation had 300,000 common shares outstanding at December 31, 2012. In addition, it had 90,000 stock options outstanding, which had been granted to certain executives, and which gave them the right to purchase Dexter's shares at an option price of $37 per share. The average market price of Dexter's common shares for 2012 was $50. What is the number of shares that should be used in calculating diluted earnings per share for the year ended December 31, 2012?

a) 300,000
b) 331,622
c) 366,600
d) 323,400

123. Which of the following type of dividends does *not* reduce retained earnings?

a) Cash dividend
b) Stock dividend
c) Property dividend
d) Liquidating dividend

124. What financial instruments would be classified as debt?

a) Cumulative preferred shares that may be redeemed at the company's option
b) Non-cumulative preferred shares that may be converted into common shares at the company's option
c) Redeemable preferred shares that may be exchanged for cash or common shares at the company's option
d) Term preferred shares

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This information pertains to the following questions.

ODP Inc.'s year-end shareholders' equity at December 31, Year 6, consisted of the following:

Preferred shares, 6%, cumulative, convertible, 75,000 issued	$1,500,000
Common shares, 600,000 issued	$3,000,000
Retained earnings	$2,000,000

Each preferred share is convertible into four common shares. On January 1, Year 7, ODP Inc. issued stock options that entitled the holder to purchase 90,000 common shares at $8 per share. On August 31, Year 7, ODP Inc. issued 180,000 common shares for $1,800,000 cash. The company's reported net profit after taxes for Year 7 was $380,000 (assume a 40% tax rate). Prior to Year 5, dividends were paid annually; however, no preferred or common dividends were declared or paid in Year 5, Year 6 or Year 7. No preferred shares were converted and none of the stock options were exercised by the end of Year 7. The average market price of ODP Inc.'s common shares during Year 7 was $10 per share.

125. What is ODP Inc.'s basic earnings per share for Year 7 (rounded to the nearest cent)?
   a) $0.49
   b) $0.37
   c) $0.58
   d) $0.44

126. (+) What is ODP Inc.'s book value per share at December 31, Year 7 (rounded to the nearest cent)?
   a) $10.00
   b) $8.86
   c) $9.21
   d) $8.72

127. (+) Now assume that ODP Inc. had paid preferred dividends each year and a dividend of $0.20 per common share was declared and paid on December 31, Year 7. What is ODP Inc.'s diluted earnings per share for Year 7 (rounded to the nearest cent)?
   a) $0.40
   b) $0.30
   c) $0.57
   d) $0.39

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Future Income Taxes

128. Stanley Corporation purchased a computer on January 2, 2011, for $600,000. The computer has an estimated 5-year life with no residual value. The straight-line method of amortization is being used for financial statement purposes and the following CCA amounts will be deducted for tax purposes:

2011	$120,000
2012	192,000
2013	115,200
2014	69,000
2015	69,000
2016	34,800

Stanley Corporation follows Accounting Standards for Private Enterprise and records future taxes. Assuming an income tax rate of 30% for all years, the net future tax liability that should be reflected on Stanley's balance sheet at December 31, 2012, should be

	Future Tax Liability	
	Current	Non-current
a)	$0	$21,600
b)	$1,440	$20,160
c)	$20,160	$1,440
d)	$21,600	$0

129. A reconciliation of Raymond Company's pretax accounting profit with its taxable income for 2012, its first year of operation, is as follows:

Pretax accounting profit	$6,000,000
Excess tax amortization	(180,000)
Taxable income	$5,820,000

The excess tax amortization will result in equal net taxable amounts in each of the next three years. Enacted tax rates are 40% in 2012, 35% in 2013 and 2014, and 30% in 2015. The total future tax liability to be reported on Raymond's balance sheet at December 31, 2012, is

a) $72,000.
b) $60,000.
c) $63,000.
d) $54,000.

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130. Oswald Corporation's partial profit and loss statement after its first year of operations is as follows:

Profit before income taxes		$1,750,000
Income tax expense		
Current	$ 483,000	
Future	42,000	525,000
Net profit		$1,225,000

Oswald uses the straight-line method of amortization for financial reporting purposes and CCA for tax purposes. The amount charged to amortization expense on its books this year was $700,000. No other differences existed between book profit and taxable income except for the amount of amortization. Assuming a 30% tax rate, what amount was deducted for amortization on the corporation's tax return for the current year?

a) $560,000
b) $665,000
c) $700,000
d) $840,000

Easton Co. at the end of 2012, its first year of operations, prepared a reconciliation between pretax financial profit and taxable income as follows:

Pretax financial profit	$300,000
Estimated litigation expense	750,000
Installment sales	(600,000)
Taxable income	$450,000

The estimated litigation expense of $750,000 will be deductible in 2014 when it is expected to be paid. The gross profit from the installment sales will be realized in the amount of $300,000 in each of the next two years. The estimated liability for litigation is classified as non-current and the installment accounts receivable are classified as $300,000 current and $300,000 non-current. The income tax rate is 30% for all years.

131. The income tax expense is

a) $90,000.
b) $135,000.
c) $150,000.
d) $300,000.

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Wisteria Co. at the end of 2012, its first year of operations, prepared a reconciliation between pretax financial profit and taxable income as follows:

Pretax financial profit	$ 600,000
Estimated litigation expense	800,000
Extra amortization for taxes	(1,200,000)
Taxable income	$ 200,000

The estimated litigation expense of $800,000 will be deductible in 2013 when it is expected to be paid. Use of the amortizable assets will result in taxable amounts of $400,000 in each of the next three years. The income tax rate is 30% for all years.

132. The future tax asset to be recognized is
   a) $60,000 current.
   b) $120,000 current.
   c) $180,000 current.
   d) $240,000 current.

Amber Corporation reported the following results for its first three years of operation:

2011 profit (before income taxes)	$ 40,000
2012 loss (before income taxes)	(360,000)
2013 profit (before income taxes)	400,000

There were no permanent or temporary differences during these three years. Assume a corporate tax rate of 30% for 2011 and 2012, and 40% for 2013.

133. Assuming that Amber elects to use the carry back provision, what net profit (loss) is reported in 2012? (Assume that any future tax asset recognized is more likely than not to be realized.)
   a) $(360,000)
   b) $0
   c) $(348,000)
   d) $(220,000)

134. In its 2012 profit and loss statement, Shark Corp. reported amortization of $555,000 and interest revenue from a Canadian corporation of $105,000. Shark reported CCA of $825,000 on its 2012 income tax return. The difference in amortization is the only temporary difference, and it will reverse equally over the next three years. Shark's statutory income tax rates are 35% for 2012, 30% for 2013, and 25% for 2014 and 2015. What amount should be included in the future income tax liability in Shark's December 31, 2012 balance sheet?
   a) $72,000
   b) $93,000
   c) $112,500
   d) $131,250

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135. On January 1, 2012, Jill, Inc. purchased a machine for $270,000 which will be amortized $27,000 per year for financial statement reporting purposes. For income tax reporting, the asset is a Class 8 asset with a CCA rate of 20%. Assume a present and future statutory income tax rate of 30%. What amount should be added to Jill's future income tax liability for this temporary difference at December 31, 2012?

a) $16,200
b) $9,000
c) $8,100
d) $0

136. Which of the following would increase a company's future income tax liability?

a) Amortization of capital assets for accounting purposes during the year is less than the capital cost allowance claimed for tax purposes for the year.
b) Accounts payable related to meals and entertainment expenses have decreased over the past two years.
c) Installment sales revenue is accrued for accounting purposes, but is not recognized for tax purposes until the cash is collected. Accrued sales have steadily increased over the past two years.
d) Both a) and c) above.

137. On January 1, 2012, Cole Corp. purchased 40% of the voting common shares of Slay, Inc. (a U.S. company) and appropriately accounts for its investment by the equity method. During 2012, Slay reported earnings of $450,000 (Canadian) and paid dividends of $150,000. (Canadian). Cole assumes that all of Slay's undistributed earnings will be distributed as dividends in future periods when the statutory tax rate will be 30%. Cole's current statutory income tax rate is 25%. The increase in Cole's future income tax liability for this temporary difference is

a) $90,000.
b) $75,000.
c) $54,000.
d) $36,000.

138. RJT Inc. has been profitable in Years 1 to 5, but in Year 6 it incurred an unusual accounting loss before taxes of $100,000. RJT Inc. had $40,000 of accounts receivable that was recognized as revenue for accounting purposes in Year 6, but would not be recognized for tax purposes until Year 7.

Other Information:

1. RJT Inc. has eligible past taxable income of $90,000 against which any Year 6 taxable loss can be carried back.
2. RJT Inc. expects to generate substantial profits again in each of the next 5 years.
3. RJT Inc.'s current income tax rate of 40% has remained unchanged for the past 5 years.
4. At the end of Year 5, there were no future tax assets or liabilities recorded on RJT Inc.'s balance sheet.

In RJT Inc.'s Year 6 financial statements, what amounts will be disclosed as current and future income tax expenses and/or benefits?

a) Current tax benefit of $36,000; future tax benefit of $4,000
b) Current tax benefit of $56,000; future tax expense of $16,000
c) Current tax benefit of $0; future tax benefit of $40,000
d) Current tax benefit of $24,000; future tax benefit of $16,000

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Pension and Post Retirement Benefit Expense (Doesn't reflect July 2011 revisions)

139. When a company adopts a pension plan, the prior service costs should be charged to
    a) operations of current and future periods.
    b) operations of prior periods.
    c) operations of the current period.
    d) retained earnings.

140. Unrecognized gains and losses that relate to the calculation of pension expense should be
    a) recorded currently as an adjustment to pension expense in the period incurred.
    b) recorded currently and in the future by applying the corridor method which provides the amount to be amortized.
    c) amortized over a 15-year period.
    d) recorded only if a loss is determined.

141. Presented below is pension information related to Kyle, Inc. for the year 2012:

Service cost	$ 72,000
Interest on projected benefit obligation	54,000
Actual return on plan assets	24,000
Amortization of prior service cost due to increase in benefits	12,000
Expected return on plan assets	18,000

The amount of pension expense to be reported for 2012 is
    a) $108,000.
    b) $144,000.
    c) $162,000.
    d) $120,000.

142. Coble, Inc. sponsors a defined benefit pension plan. The following data relates to the operation of the plan for the year 2012.

Service cost	$ 100,000
Contributions to the plan	110,000
Actual return on plan assets	90,000
Projected benefit obligation (beginning of year)	1,200,000
Market-related and fair value of plan assets (beginning of year)	800,000

The expected return on plan assets and the obligation were both 10%. The amount of pension expense reported for 2012 is
    a) $100,000.
    b) $130,000.
    c) $140,000.
    d) $220,000.

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143. Presented below is information related to Marley Ltd. pension data for 2012:

Service cost	$900,000
Actual return on plan assets	210,000
Interest on projected benefit obligation	390,000
Amortization of experience loss	90,000
Amortization of unrecognized prior service cost	165,000
Expected return on plan assets	180,000

What amount should be reported for pension expense in 2012?

a) $1,365,000
b) $1,335,000
c) $1,515,000
d) $1,155,000

Use this information for the following questions:

The following information for Able Enterprises is given below:

December 31, 2012

Assets and obligations	
Plan assets (at fair value)	$ 1,800,000
Accumulated benefit obligation	1,760,000
Projected benefit obligation	1,920,000
Unrecognized prior service costs	246,000
Unrecognized gains (net)	(210,000)

Amounts to be recognized	
Prepaid/(accrued) pension cost at beginning of year	$ (48,000)
Pension expense	???????
Contribution	324,000

144. What is the pension expense that Able Enterprises should report for 2012?

a) $324,000
b) $120,000
c) $360,000
d) $252,000

145. What is the amount that Able Enterprises should record as Prepaid/Accrued Pension Cost as of December 31, 2012?

a) $36,000
b) $120,000
c) $84,000
d) $0

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146. What is the amount that should be recorded on the balance sheet as the *total* liability related to pensions as of December 31, 2012?

a) $36,000
b) $120,000
c) $84,000
d) $1,920,000

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147. Presented below is pension information related to Siksay Company as of December 31, 2012:

Accumulated benefit obligation	$3,000,000
Projected benefit obligation	3,500,000
Plan assets (at fair value)	2,500,000
Unrecognized prior service cost	100,000

The amount to be reported as Prepaid/Accrued Pension Cost as of December 31, 2012 is

a) $1,100,000.
b) $1,000,000.
c) $900,000.
d) $600,000.

On January 1, 2012, Nina Inc. has the following balances:

Projected benefit obligation	$1,400,000
Fair value of plan assets	1,250,000

The interest rate for the obligation and the plan assets is 10%.
Other data related to the pension plan for 2012 are:

Service cost	$80,000
Amortization of unrecognized prior service costs	18,000
Contributions	90,000
Benefits paid	75,000
Actual return on plan assets	88,000
Amortization of unrecognized net gain	6,000

148. The balance of the projected benefit obligation at December 31, 2012 is

a) $1,524,000.
b) $1,530,000.
c) $1,543,000.
d) $1,545,000.

149. The fair value of plan assets at December 31, 2012 is

a) $1,177,000.
b) $1,263,000.
c) $1,353,000.
d) $1,428,000.

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150. (+) The following information relates to SEN Ltd.'s defined benefit pension plan for Year 20:

Actual return on pension fund assets	$160,000
Expected return on pension fund assets	$184,000
Pension benefits paid to retirees	$ 90,000
Amortization of unrecognized past service costs	$120,000
Amortization of unrecognized net actuarial loss	$ 66,000
Interest on accrued benefits (projected benefit obligation)	$290,000
Service costs	$640,000

What was SEN Ltd.'s net pension expense for Year 20?

a) $932,000
b) $1,022,000
c) $956,000
d) $800,000

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Finance leases

151. On December 31, 2006, Westby Co. leased a machine from Earl, Ltd. for a five-year period. Equal annual payments under the lease are $315,000 (including $15,000 annual executory costs) and are due on December 31 of each year. The first payment was made on December 31, 2006, and the second payment was made on December 31, 2007. The five lease payments are discounted at 10% over the lease term. The present value of minimum lease payments at the inception of the lease and before the first annual payment was $1,251,000. The lease is appropriately accounted for as a finance lease by Westby. In its December 31, 2007 balance sheet, Westby should report a lease liability of
    a) $951,000.
    b) $936,000.
    c) $855,900.
    d) $746,100.

Consider the following information regarding a 5-year, non-cancellable finance lease:

Lease term (January 1, Year 1, to December 31, Year 5)	5 years
Residual value at end of lease	$7,000
Annual lease payment, due at the beginning of each year	$18,143
Fair value of asset, January 1, Year 1	$80,000
Economic life of asset 5 years	
Present value of lease payments	$75,656
Lessee's incremental annual borrowing rate	12%
Lessor's implicit rate of return (known to lessee)	10%

There is no bargain purchase option or renewal option at the end of the lease, and no executory costs. Both the lessee and lessor use straight-line amortization for similar assets.

152. What is the total amount of expenses pertaining to the lease that would be recorded in the lessee's financial statements in Year 1?
    a) $15,131
    b) $20,882
    c) $18,143
    d) $20,159

153. Assume that the lessor had manufactured the asset at a cost of $65,000 and would usually sell such an asset at a price equal to its fair market value of $80,000. Also assume that the lease would not qualify as an operating lease for accounting purposes for the lessor. By what amount would the lessor's profits before taxes for Year 1 be increased as a result of the lease?
    a) $5,751
    b) $15,000
    c) $20,751
    d) $6,543

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Use this information for the following questions:

Consider the following information regarding a 4-year, non-cancellable finance lease:

Lease term (January 1, Year 1, to December 31, Year 4)	4 years
Residual value at end of lease	$11,000
Annual lease payment, due at the beginning of each year	$22,890
Fair value of asset, January 1, Year 1	$90,000
Economic life of asset	6 years
Present value of lease payments	????
Lessee's incremental annual borrowing rate	10%
Lessor's implicit rate of return (known to lessee)	8%

There is no bargain purchase option or renewal option at the end of the lease, and no executor costs. Both the lessee and lessor use straight-line amortization for similar assets.

154. What is the total amount of expenses pertaining to the lease that would be recorded in the lessee's financial statements in Year 1?
   a) $27,032
   b) $22,890
   c) $24,508
   d) $25,189

155. Assume that the lessor had manufactured the asset at a cost of $75,000 and would usually sell such an asset at a price equal to its fair market value of $90,000. Also assume that the lease would not qualify as an operating lease for accounting purposes for the lessor. By what amount would the lessor's profits before taxes for Year 1 be increased as a result of the lease?
   a) $4,772
   b) $15,000
   c) $19,719
   d) $6,890

Use this information for the following questions:

On January 2, 2012, Hart Ltd. signed a ten-year non-cancelable lease for a heavy duty drill press. The lease stipulated annual payments of $70,000 starting at the end of the first year, with title passing to Hart at the expiration of the lease. Hart treated this transaction as a finance lease. The drill press has an estimated useful life of 15 years, with no residual value. Hart uses straight-line amortization for all of its plant assets. Aggregate lease payments were determined to have a present value of $420,000, based on implicit interest of 10%.

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156. In its 2012 profit and loss statement, what amount of interest expense should Hart report from this lease transaction?
   a) $0
   b) $26,250
   c) $35,000
   d) $42,000

157. In its 2012 profit and loss statement, what amount of amortization expense should Hart report from this lease transaction?
   a) $70,000
   b) $46,667
   c) $42,000
   d) $28,000

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158. Ito Company, as lessee, enters into a lease agreement on July 1, 2012, for equipment. The following data are relevant to the lease agreement:

- The term of the non-cancelable lease is 4 years, with no renewal option. Payments of $126,807 are due on June 30 of each year.
- The fair value of the equipment on July 1, 2012 is $420,000. The equipment has an economic life of 6 years with no residual value.
- Ito amortizes similar machinery it owns on the double declining-balance basis.
- The lessee pays all executory costs.
- Ito's incremental borrowing rate is 10% per year. The lessee is aware that the lessor used an implicit rate of 8% in calculating the lease payments (present value factor for 4 periods at 8%, 3.31213; at 10%, 3.16986.

Instructions

(a) Indicate the type of lease Ito Company has entered into and what accounting treatment is applicable.

(b) Prepare the journal entries on Ito's books that relate to the lease agreement for the following dates: (Round all amounts to the nearest dollar. Include a partial amortization schedule.)

1. July 1, 2012.
2. December 31, 2012 (year-end)
3. June 30, 2013.
4. December 31, 2013 (year-end)

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Accounting Changes

159. Which of the following disclosures is *not* required for a change from double declining-balance to straight-line?
   a) The cumulative effect on prior years, net of tax, in the current profit and loss statement
   b) The justification for the change
   c) The effect of the change on profit and earnings per share for the current and each prior period presented.
   d) The effect of the change on each financial statement line item.

160. Stone Company changed its method of pricing inventories from FIFO to the weighted average cost formula. What type of accounting change does this represent?
   a) A change in accounting estimate for which the financial statements for the prior periods included for comparative purposes should be presented as previously reported.
   b) A change in accounting policy for which the financial statements for prior periods included for comparative purposes should be presented as previously reported.
   c) A change in accounting estimate for which the financial statements for prior periods included for comparative purposes should be restated.
   d) A change in accounting policy for which the financial statements for prior periods included for comparative purposes should be restated.

161. For accounting policy changes and errors, which of the following is *not* allowed?
   a) To use retroactive treatment for a policy change without restatement, if restatement is impractical
   b) To use prospective treatment for a policy change, if allowed in the transition policy
   c) To net accounting errors for disclosure purposes
   d) None of these is allowed.

Goya Company purchased a machine on January 1, 2009, for $600,000. At the date of acquisition, the machine had an estimated useful life of six years with no residual value. The machine is being amortized on a straight-line basis. On January 1, 2012, Goya determined, as a result of additional information, that the machine had an estimated useful life of eight years from the date of acquisition with no residual value. An accounting change was made in 2012 to reflect this additional information.

162. What is the amount of amortization expense on this machine that should be charged in Goya 's profit and loss statement for the year ended December 31, 2012?
   a) $60,000
   b) $75,000
   c) $120,000
   d) $150,000

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Mara Company's December 31 year-end financial statements contained the following errors:

	Dec. 31, 2011	Dec. 31, 2012
Ending inventory	$1,500 understated	$2,200 overstated
Amortization expense	$ 400 understated	———

An insurance premium of $3,600 was prepaid in 2011 covering the years 2011, 2012, and 2013. The prepayment was recorded with a debit to insurance expense. In addition, on December 31, 2012, fully amortized machinery was sold for $1,900 cash, but the sale was not recorded until 2013. There were no other errors during 2012 or 2013 and no corrections have been made for any of the errors. Ignore income tax considerations.

163. What is the total net effect of the errors on Mara's 2012 net profit?
   a) Net profit understated by $2,900.
   b) Net profit overstated by $1,500.
   c) Net profit overstated by $2,600.
   d) Net profit overstated by $3,000.

164. What is the total net effect of the errors on the amount of Mara's working capital at December 31, 2012?
   a) Working capital overstated by $1,000.
   b) Working capital overstated by $300.
   c) Working capital understated by $900.
   d) Working capital understated by $2,400.

165. What is the total effect of the errors on the balance of Mara's retained earnings at December 31, 2012?
   a) Retained earnings understated by $2,000.
   b) Retained earnings understated by $900.
   c) Retained earnings understated by $500.
   d) Retained earnings overstated by $700.

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Cash Flow Statements

166. Which of the following statements is correct?
   a) The indirect method starts with profit before income tax.
   b) The direct method is known as the reconciliation method.
   c) The direct method is more consistent with the primary purpose of the statement of cash flows.
   d) All of these.

167. In reporting extraordinary transactions on a statement of cash flows (indirect method) under Accounting Standards for Private Enterprises, the
   a) operating activities should start with profit before extraordinary items.
   b) net of tax amount of an extraordinary gain should be added to net profit.
   c) net of tax amount of an extraordinary gain should be deducted from net profit.
   d) gross amount of an extraordinary gain should be added to net profit.

168. Which of the following is shown on a statement of cash flows?
   a) A stock dividend
   b) An appropriation of retained earnings
   c) An acquisition of assets under capital lease
   d) None of these

169. The net cash provided by operating activities in Tan Company's statement of cash flows for 2012 was $77,000. For 2012, amortization on plant assets was $30,000, amortization of intangibles was $5,000, and cash dividends paid on common shares was $36,000. Based only on the information given above, Tan's net profit for 2012 was
   a) $77,000.
   b) $42,000.
   c) $6,000.
   d) $78,000.

170. Equipment that cost $92,000 and had accumulated amortization of $49,000 was sold for $48,000. This transaction should be shown on the statement of cash flows (indirect method) as a(n)
   a) addition to net profit of $5,000 and a $48,000 cash inflow from financing activities.
   b) deduction from net profit of $5,000 and a $43,000 cash inflow from investing activities.
   c) deduction from net profit of $5,000 and a $48,000 cash inflow from investing activities.
   d) addition to net profit of $5,000 and a $43,000 cash inflow from financing activities.

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Equipment that cost $100,000 and had a book value of $52,000 was sold for $60,000. Data from the comparative balance sheets are:

	12/31/11	12/31/10
Equipment	$720,000	$650,000
Accumulated Amortization	220,000	190,000

171. Amortization expense for 2012 was
   a) $86,000.
   b) $78,000.
   c) $18,000.
   d) $12,000.

172. Equipment purchased during 2012 was
   a) $170,000.
   b) $100,000.
   c) $70,000.
   d) $30,000.

173. The Farell Co. Ltd. had a net loss of $60,000 last year. The following data for last year are available:

Dividends paid	$40,000
Amortization expense	$30,000
Proceeds from issuing shares	$100,000
Increase in accounts payable	$15,000
Retirement of debt	$50,000

What was the amount of net cash provided (or used) from operations last year?
   a) $85,000
   b) $(30,000)
   c) $(15,000)
   d) $(5,000)

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Use this information for the following questions:

Financial statements for Yenta Company are given below:

Yenta Company
Balance Sheet
January 1, 2012

Assets		Equities	
Cash	$160,000	Accounts payable	$ 76,000
Accounts receivable	144,000		
Buildings and equipment	600,000		
Accumulated amortization——buildings and equipment	(200,000)	Capital shares	460,000
Patents	72,000	Retained earnings	240,000
	$776,000		$776,000

Yenta Company
Statement of Cash Flows
Year Ended December 31, 2012
Increase (Decrease) in Cash

Cash flows from operating activities		
Net profit		$200,000
Adjustments to reconcile net profit to net cash provided by operating activities:		
Accounts receivable	$ (64,000)	
Accounts payable	32,000	
Amortization——buildings and equipment	60,000	
Gain on sale of equipment	(24,000)	
Amortization of patents	8,000	12,000
Net cash provided by operating activities		212,000
Cash flows from investing activities		
Sale of equipment		48,000
Purchase of land		(100,000)
Purchase of buildings and equipment		(192,000)
Net cash used by investing activities		(244,000)
Cash flows from financing activities		
Payment of cash dividend		(60,000)
Issuance of common shares		160,000
Net cash provided by financing activities		100,000
Net increase in cash		68,000
Cash, January 1, 2012		160,000
Cash, December 31, 2012		$228,000

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Total assets on the balance sheet at December 31, 2012, are $1,108,000. Accumulated amortization on the equipment sold was $56,000.

174. When the equipment was sold, the Buildings and Equipment account received a credit of
   a) $48,000.
   b) $104,000.
   c) $80,000.
   d) $56,000.

175. The net book value of the buildings and equipment at December 31, 2012 was
   a) $508,000.
   b) $520,000.
   c) $712,000.
   d) $588,000.

176. The accounts payable at December 31, 2012 were
   a) $44,000.
   b) $108,000.
   c) $32,000.
   d) $148,000.

177. The balance in the Retained Earnings account at December 31, 2012 was
   a) $180,000.
   b) $440,000.
   c) $380,000.
   d) $500,000.

178. Common shares at December 31, 2012 was
   a) $400,000.
   b) $460,000.
   c) $260,000.
   d) $620,000.

The balance in retained earnings at December 31, 2011 was $540,000 and at December 31, 2012 was $436,000. Net profit for 2012 was $375,000. A stock dividend was declared and distributed which increased common shares $233,000. A cash dividend was declared and paid.

179. The amount of the cash dividend was
   a) $186,000.
   b) $246,000.
   c) $329,000.
   d) $479,000.

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180. The stock dividend should be reported on the statement of cash flows (indirect method) as
a) an outflow from financing activities of $233,000.
b) an outflow from financing activities of $233,000.
c) an outflow from investing activities of $233,000.
d) Stock dividends are not shown on a statement of cash flows.

181. Revenue of a segment includes
a) only sales to unaffiliated customers.
b) sales to unaffiliated customers and inter-segment sales.
c) sales to unaffiliated customers and interest revenue.
d) sales to unaffiliated customers and other revenue and gains.

182. An operating segment is a reportable segment if
a) its operating profit is 10% or more of the combined operating profit of profitable segments.
b) its operating loss is 10% or more of the combined operating losses of segments that incurred an operating loss.
c) the absolute amount of its operating profit or loss is 10% or more of the company's combined operating profit or loss.
d) none of these.

183. A segment of a business enterprise is to be reported separately when the revenues of the segment exceed 10 percent of the
a) total combined revenues of all segments reporting profits.
b) total revenues of all the enterprise's operating segments.
c) total export and foreign sales.
d) combined net profit of all segments reporting profits.

184. All of the following information about each operating segment must be reported *except*
a) unusual items.
b) interest revenue.
c) cost of goods sold.
d) amortization and amortization expense.

185. The profession requires disaggregated information in the following ways:
a) products or services.
b) geographic areas.
c) major customers.
d) all of these.

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186. In considering interim financial reporting, how does the profession conclude that such reporting should be viewed?

a) As a "special" type of reporting that need not follow generally accepted accounting principles.
b) As useful only if activity is evenly spread throughout the year so that estimates are unnecessary.
c) As reporting for a separate discrete accounting period.
d) As reporting for an integral part of an annual period

187. Which of the following is the **LEAST DIFFICULT** to determine for interim reporting?

a) Accounting estimates that are as accurate as those used in the preparation of annual financial statements.
b) Income tax expense, where earnings fluctuate from one interim period to another.
c) Amortization expense, where the annual charge is based on month-end balances.
d) Inventory values, where a complete physical count and examination for obsolescence has not occurred.

188. The required approach for handling extraordinary items in interim reports is to

a) prorate them over all four quarters.
b) prorate them over the current and remaining quarters.
c) charge or credit the loss or gain in the quarter that it occurs.
d) disclose them only in the notes.

189. A company may use differential reporting if it

a) is a non-publicly accountable enterprise and it has unanimous shareholder consent.
b) is a publicly accountable enterprise and it has unanimous shareholder consent.
c) has unanimous shareholder consent.
d) is a non-publicly accountable enterprise.

190. Presented below are four segments that have been identified by Gregg Productions:

Segments	Total Revenue(Unaffiliated)	Operating Profit (Loss)	Identifiable Assets
A	$150,000	$20,000	$600,000
B	400,000	(35,000)	600,000
C	150,000	3,000	300,000
D	60,000	4,000	150,000

For which of the segments would information have to be disclosed in accordance with professional pronouncements?

a) Segments A, B, and C
b) Segments A, B, C, and D
c) Segments A and B
d) Segments A and D

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191. Presented below are five segments that have been identified by Green Leaf Enterprises:

Segments	Total Revenue(Unaffiliated)	Operating Profit (Loss)	Identifiable Assets
A	$100,000	$ 9,000	$ 380,000
B	600,000	25,000	1,200,000
C	180,000	35,000	700,000
D	400,000	25,000	1,000,000
E	300,000	(6,000)	900,000

For which of the segments would information have to be disclosed in accordance with professional pronouncements?

a) Segments B, C, and D
b) Segments A, B, C, D, and E
c) Segments B, D, and E
d) Segments B, C, D, and E

192. According to generally accepted accounting principles, an industry segment must be disclosed separately if the

a) industry segment is completely unrelated to the major revenue producing activity of the organization.
b) industry segment is operating in a foreign country.
c) industry segment's revenue is at least ten percent of the total segment revenue of the organization.
d) industry segment's operating profit is identifiable.

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Not For Profit Organizations

193. The CC Association is a not-for-profit organization that provides counselling services to children. It is a small community organization with annual revenues of $200,000. Which of the following accounting practices followed by CC Association is **NOT** in accordance with generally accepted accounting principles?
   a) Transfers between funds are reported in the statement of changes in net assets, but not in the statement of operations.
   b) Pledges and bequests are recorded as receivables in the statement of financial position when they are made and are written off only after they have been proven to be uncollectible.
   c) Restricted contributions to the general fund are accounted for in accordance with the deferral method.
   d) Furniture and equipment are expensed when acquired; this policy is disclosed in the notes.

194. The XYZ Society (XYZ) has been growing and now has annual net revenues in excess of $800,000. During the past year, XYZ moved to larger offices and one of its members donated some of his own business office furniture which had a market value of $3,000 and a book value of $5,000. To expand the useful life of the furniture, XYZ had it refurbished at a cost of $1,000. According to generally accepted accounting principles, how should XYZ report the furniture on its financial statements?
   a) It should be recorded as a capital asset on the statement of financial position at a value of $1,000.
   b) It should be recorded as a capital asset on the statement of financial position at a value of $4,000.
   c) Because the furniture was donated, it should not be recorded as an asset and the $1,000 refurbishment cost should be expensed.
   d) It should be recorded as a capital asset on the statement of financial position at a value of $6,000.

195. CLC is a not-for-profit organization that helps children improve their literacy and uses fund accounting to report its activities. Mr. Donovan donated $250,000 to CLC to be used to finance a specific event to promote children's literacy. In which of the following funds would CLC record the donation?
   a) General fund.
   b) Special (reserve) fund.
   c) Capital fund.
   d) Endowment fund.

196. Which of the following best describes the purpose of encumbrance accounting?
   a) Keep track of restricted resources.
   b) Highlight variances from the planned use of unrestricted funds.
   c) Prevent the issuing of purchase orders when there are no uncommitted budgeted amounts.
   d) Match revenues with related expenses.

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197. Which of the following describes a difference between accounting for not-for-profit organizations (NPOs) and governments?

a) NPOs should comply with the accounting recommendations specified for NPOs in the *CICA Handbook*, whereas governments should comply with those issued by the Public Sector Accounting Board.
b) NPOs use fund accounting, whereas governments use program accounting.
c) NPOs may have funds that are restricted for specific purposes, but governments do not have specific restricted funds.
d) NPOs may use different accounting policies for different funds, but governments must use the same accounting policies.

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International Accounting

198. Which of the following is **NOT** a valid reason for harmonizing global accounting standards?
   a) To increase comparability of financial statements.
   b) To increase the ability to reflect an entity's unique circumstances.
   c) To increase the understandability of financial statements.
   d) To reduce the number of alternative accounting treatments.

This information pertains to the following questions.
FRC Ltd. is a foreign company and is a subsidiary of a Canadian company. At the end of the first fiscal year (December 31), the following balances appeared on FRC Ltd.'s financial statements denominated in the host country's foreign currency (FC):

Accounts receivable (A/R)	85,000 FC
Inventory (FIFO basis)	55,000 FC
Capital assets	500,000 FC
Bonds payable	250,000 FC
Sales	960,000 FC
Purchases	625,000 FC
Amortization expense	45,000 FC

Other Information:

- Accounts receivable (A/R) relates to sales that occurred evenly over the 4th quarter.
- The goods in inventory at year end were purchased evenly over the 4th quarter.
- Capital assets were purchased and bonds were issued on January 1.
- Sales, purchases and expenses occurred evenly throughout the year.
- Exchange rates were as follows:

1 FC =	**$ CDN**
January 1	0.85
December 31	0.70
Average for the year	0.82
Average for the 4th quarter	0.73

199. (+) If FRC Ltd. is financially and operationally dependent on its Canadian parent, the amounts that should appear on the translated year-end financial statements of FRC Ltd. (in Canadian dollars) are
   a) inventory $40,150, capital assets $425,000, sales $787,200.
   b) inventory $38,500, capital assets $350,000, sales $672,000.
   c) inventory $45,100, capital assets $410,000, sales $787,200.
   d) inventory $40,150, capital assets $350,000, sales $700,800.

200. (+) If FRC Ltd. is financially and operationally independent of its Canadian parent, the amounts that should appear on the current year's translated financial statements of FRC Ltd. (in Canadian dollars) are
   a) A/R $59,500, cost of goods sold $472,350, amortization expense $38,250.
   b) A/R $69,700, cost of goods sold $467,400, amortization expense $36,900.
   c) A/R $62,050, cost of goods sold $416,100, amortization expense $32,850.
   d) A/R $59,500, cost of goods sold $467,400, amortization expense $36,900.

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This information pertains to the following questions.
Another World Inc. (AWI) is a foreign subsidiary of a Canadian company in its second year of operation. The following December 31 year-end balances, denominated in the host country's foreign currency (FC), appeared in the records of AWI:

	Year 1	Year 2
Cash	30,000 FC	150,000 FC
Accounts receivable	45,000 FC	90,000 FC
Inventory (FIFO basis)	40,000 FC	75,000 FC
Capital assets	190,000 FC	180,000 FC
Accounts payable	55,000 FC	25,000 FC
Capital stock	10,000 FC	10,000 FC
Retained earnings, January 1	0 FC	240,000 FC
Sales	550,000 FC	600,000 FC
Cost of sales	200,000 FC	250,000 FC
Amortization expense	10,000 FC	10,000 FC
Other operating expenses	100,000 FC	120,000 FC

Other Information:

- The inventory was purchased evenly over the fourth quarter of each respective year.
- Capital assets were purchased on January 1, Year 1.
- Capital stock was issued on January 1, Year 1.
- Sales, purchases and expenses occurred evenly throughout each year.
- Exchange rates were as follows:

	1 FC = CDN$	
	Year 1	Year 2
January 1	0.36	0.30
December 31	0.30	0.34
Average for the year	0.33	0.32
Average for the fourth quarter	0.31	0.35

201. If AWI is financially and operationally independent of its Canadian parent, the amounts that should appear on the Year 2 translated year-end financial statements of AWI (in Canadian dollars) are
   a) inventory $24,000, sales $192,000, amortization expense $3,200
   b) inventory $25,500, sales $204,000, amortization expense $3,400
   c) inventory $25,500, sales $192,000, amortization expense $3,200
   d) inventory $26,250, sales $192,000, amortization expense $3,400

202. If AWI is financially and operationally dependent of its Canadian parent, the amounts that should appear on the Year 2 translated year-end financial statements of AWI (in Canadian dollars) are
   a) inventory $25,500, sales $204,000, amortization expense $3,400
   b) inventory $26,250, sales $192,000, amortization expense $3,200
   c) inventory $26,250, sales $192,000, amortization expense $3,400
   d) inventory $26,250, sales $192,000, amortization expense $3,600

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Ratio Analysis

This information pertains to the following questions.

Selected data from RCL Inc.'s financial statements are presented below (in thousands):
December 31

	Year 10	**Year 9**
Cash	$ 87	$ 111
Marketable securities	40	50
Accounts receivable (net)	180	190
Merchandise inventory	432	366
Tangible fixed assets (net)	640	800
Total assets	1,379	1,517
Current liabilities	455	517
Total liabilities	695	837
Common shares	500	500
Retained earnings	184	180
Net sales (100% on account)	$1,800	$1,900
Cost of goods sold	1,080	1,045
Operating expenses excluding amortization	468	412
Amortization	160	200
Interest expense	19	26
Income tax	29	87
Net profit	44	130
Common dividends declared and paid	40	60

203. What is the quick ratio for Year 10?
   a) 3.03
   b) 1.62
   c) 1.98
   d) 0.67

204. What is the merchandise inventory turnover in days (using 365 days in a year) for RCL Inc. Corporation in Year 10?
   a) 74 days
   b) 135 days
   c) 81 days
   d) 124 days

205. What is the times interest earned for Year 10?
   a) 4.8 times
   b) 37.9 times
   c) 2.3 times
   d) 16.8 times

206. What is the total debt-to-equity ratio for Year 10?
   a) 1.39
   b) 1.02
   c) 0.35
   d) 0.50

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Hedges

Use the following information for questions 207 to 209

FORNCO Canada Ltd. is a heavy equipment manufacturer. It purchases used mining equipment from Canadian mining companies, refurbishes the equipment, and sells it to mining companies throughout the world. On January 1, 2012, FORNCO sold some refurbished mining equipment to a company in South Africa for 1,500,000 South African rand (R) with payment due in 90 days. On January 2, 2012, FORNCO entered into a forward contract to sell rand on March 30, 2012 at a forward contract rate of R1 = C$0.2320. The exchange rates were as follows:

January 1, 2012	R1 = C$0.2430
Average for quarter 1 for 2012	R1 = C$0.2350
March 30, 2012	R1 = C$0.2280

207. At what amount should the sale to the South African customer be reported on FORNCO's Canadian dollar profit and loss statement for the quarter ended March 31, 2012?
   a) $342,000
   b) $348,000
   c) $352,500
   d) $364,500

208. What amount will be reported in profit for foreign exchange gains/losses for the quarter ended March 31, 2012, assuming that the forward contract is designated as a fair value hedge of the rand-denominated receivable?
   a) $16,500 exchange gain
   b) $16,500 exchange loss
   c) $22,500 exchange gain
   d) $22,500 exchange loss

209. What amount will be reported in profit for foreign exchange gains/losses for the quarter ended March 31, 2012, assuming that FORNCO did not enter into the forward contract to hedge the rand-denominated receivable?
   a) $16,500 exchange gain
   b) $16,500 exchange loss
   c) $22,500 exchange gain
   d) $22,500 exchange loss

210. On March 1, 2012, Raven ordered equipment for 50,000 euros to be delivered on June 1, 2012. Which of the following forward contracts entered into on March 1, 2012 is an effective hedge of this order?
   a) Agreement with a bank that Raven would deliver 50,000 euros to the bank in exchange for C$90,000 on June 1, 2012
   b) Agreement with a bank that Raven would deliver C$90,000 to the bank in exchange for 50,000 euros on June 1, 2012
   c) Agreement with a bank that Raven would deliver 50,000 euros to the bank on June 1, 2012 in exchange for dollars at a rate to be determined in 1 month
   d) Agreement with a bank that Raven would receive 50,000 euros from the bank on June 1, 2012 in exchange for dollars at a rate to be determined in 1 month

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211. CUR Ltd. entered into a forward contract on December 1, 2012 to deliver US$100,000 and receive $115,000 at a future date. CUR designated the contract as a fair value hedge of an existing US$100,000 accounts receivable. At December 31, 2012, the forward rate for this contract was US$1 = C$1.14. How should CUR report the exchange adjustment on this forward contract?
   a) 1) As a $1,000 exchange gain in other comprehensive income
   b) 2) As a $1,000 exchange loss in other comprehensive income
   c) 3) As a $1,000 exchange gain in regular profit
   d) 4) As a $1,000 exchange loss in regular profit

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