

UW Cover Page

AFM 291
Intermediate Financial Accounting I

Instructions:

1. This is a closed note, closed book examination. You may use pen/pencil and a calculator during the examination.
2. The examination includes 21 pages (including the cover page) - please ensure that all the pages have been included. If any pages are detached, they must be re-attached to the examination before the exam is handed in, to receive marks for work shown on these pages.
3. Show all your work and calculations. We cannot give partial credit if we cannot see the work you have done. No partial credit is given for multiple choice questions.
4. Unless otherwise stated, assume that the fiscal year end is December 31.
5. For parts C thru H of the examination, round your final answers to the nearest dollar.
6. Good Luck!

Grading

Examination Breakdown:

Part		Your Points	Total Points
A	Multiple Choice		/ 10
B	Multiple Choice		/ 20
C	Inventory		/ 10
D	Revenue Recognition After Delivery		/ 10
E	Investments		/ 12
F	Natural Resources		/ 18
G	Intangible Assets		/ 20
H	Tangible Assets		/ 10
Total			/110

Part A: Multiple Choice (1 Point Each – No Partial Credit Will be Awarded)

1. Free cash flow is calculated as net cash provided by operating activities less
 - a. capital expenditures.
 - b. dividends.
 - c. capital expenditures and dividends.
 - d. capital expenditures and amortization.

2. In preparing a statement of cash flows, which of the following transactions would be considered an investing activity?
 - a. Sale of equipment at book value
 - b. Sale of merchandise on credit
 - c. Declaration of a cash dividend
 - d. Issuance of bonds payable at a discount

3. A generally accepted method of valuation is
 1. trading securities at fair value.
 2. accounts receivable at estimated amount collectible.
 3. inventories at current cost.
 - a. 1
 - b. 2
 - c. 1 and 3
 - d. 1 and 2

4. To produce an inventory valuation which approximates the lower of average cost and market using the conventional retail inventory method, the calculation of the ratio of cost to retail should
 - a. include markups but not markdowns.
 - b. include markups and markdowns.
 - c. ignore both markups and markdowns.
 - d. include markdowns but not markups.

5. Quayle Company acquired machinery on January 1, 2001, which it amortized under the straight-line method with an estimated life of fifteen years and no residual value. On January 1, 2006, Quayle estimated that the remaining life of this machinery was six years with no residual value. How should this change be accounted for by Quayle?
 - a. As a prior period adjustment
 - b. As the cumulative effect of a change in accounting principle in 2006
 - c. By setting future annual amortization equal to one-sixth of the book value on January 1, 2006
 - d. By continuing to amortize the machinery over the original fifteen year life

6. The most common method of recording depletion for accounting purposes is the
 - a. units-of-production method.
 - b. decreasing charge method.
 - c. straight-line method.
 - d. percentage depletion method.

7. Which of the following methods should be used to account for the exploration costs of an oil and gas resource company for financial reporting purposes?
 - a. Successful efforts method
 - b. Full-cost method
 - c. Reserve recognition accounting method
 - d. Either the successful efforts or the full-cost method

8. Which of the following is the impairment test for indefinite-life intangibles?
 - a. Recoverability test and then fair value test
 - b. Fair value test and then recoverability test
 - c. Recoverability test
 - d. Fair value test

9. Goodwill represents the excess of the purchase price of an acquired company over the:
 - a. sum of the fair values assigned to tangible assets acquired less liabilities assumed
 - b. sum of the fair values assigned to identifiable assets acquired less liabilities assumed
 - c. sum of the fair values assigned to intangible assets acquired less liabilities assumed
 - d. book value of an acquired company

10. Which of the following intangible assets should not be amortized?
 - a. Goodwill
 - b. Organization costs with limited life
 - c. Copyrights
 - d. All of these intangible assets should be amortized.

Part B: Multiple Choice (2 Points Each – No Partial Credit Will be Awarded)

11. Stine, Ltd. decided on January 1, 2006 to discontinue its plastic making division. The division, considered a reportable segment, was sold on June 1, 2006. Division assets with a carrying value of \$650,000 were sold for \$500,000. Operating income from January 1, to May 30, 2006 for the division amounted to \$80,000. Ignoring taxes, what amount should be reported on Stine's income statement for the year ended December 31, 2006, under the caption "discontinued operations"?

- a. \$230,000 gain
- b. \$80,000 gain
- c. \$150,000 loss
- d. \$70,000 loss

12. Keffer Construction Corporation contracted to construct a building for \$1,500,000. Construction began in 2006 and was completed in 2007. Data relating to the contract are summarized below:

	<u>Year ended December 31,</u>	
	<u>2006</u>	<u>2007</u>
Costs incurred	\$600,000	\$460,000
Estimated costs to complete	400,000	—

Keffer uses the percentage-of-completion method as the basis for income recognition. For the years ended December 31, 2006, and 2007, respectively, Keffer should report gross profit of

- a. \$0 and \$440,000.
- b. \$900,000 and \$600,000.
- c. \$300,000 and \$140,000.
- d. \$264,000 and \$176,000.

13. For the year ended December 31, 2006, Colt Co. estimated its allowance for doubtful accounts using the year-end aging of accounts receivable. The following data are available:

Allowance for doubtful accounts, 1/1/06 (credit balance)	\$51,000
Uncollectible accounts written off, 11/30/06	46,000
Estimated uncollectible accounts per aging, 12/31/06	69,000
Estimated uncollectible accounts during 2006 (based on 2% on credit sales of \$2,000,000)	40,000

After year-end adjustment, the bad debt expense for 2006 should be

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

14. For the year 2006, 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 2006 must have been

- a. \$810,000.
- b. \$1,130,000.
- c. \$1,154,000.
- d. \$1,114,000.

15. Vitale Corp. began operations in 2006. An analysis of Vitale's equity securities portfolio acquired in 2006 shows the following totals at December 31, 2006 for trading and available-for-sale securities (no significant influence):

	<u>Trading</u>	<u>Available-for-Sale</u>
Aggregate cost	\$49,000	\$65,000
Aggregate fair value	39,000	57,000

What amount should Vitale report in its 2006 income statement for loss on investment?

- a. \$10,000.
- b. \$15,000.
- c. \$ 8,000.
- d. \$18,000.

16. On January 1, 2006, Eller Corporation purchased a machine for the following terms:

\$10,000 down payment
\$60,000 payable on December 31, 2007

The agreement of sale made no mention of interest; however, nine percent would be a fair rate for this type of transaction. The acquisition cost of the machine is:

- a. \$58,918
- b. \$60,000
- c. \$60,501
- d. \$65,046

17. McCray Company traded in an old machine having a carrying amount of \$8,700 and paid a cash difference of \$2,500 for a newer model having a fair value of \$12,200. What amount of gain should McCray recognize on this exchange?
- a) \$0
 - b) \$223
 - c) \$1,000
 - d) \$3,500
18. On April 5, 2006, 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 2007 on this machinery of:
- a. \$41,600.
 - b. \$40,800.
 - c. \$41,100.
 - d. \$41,866.
19. Hermitage Inc. purchased a building for \$800,000 on January 1, 1996. 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, 2006, it is decided to put the building up for sale at the price of \$1,200,000 and discontinued its use of the asset for operations at that time. At December 31, 2006, the building is still for sale. The correct amortization to record for 2006 is:
- a. \$25,000.
 - b. nil.
 - c. \$40,000.
 - d. \$60,000.
20. On January 1, 2002, Vick Company purchased a trademark for \$400,000, having an estimated useful life of 16 years. In January 2006, Vick paid \$60,000 for legal fees in a successful defence of the trademark. Trademark amortization expense for the year ended December 31, 2006, should be:
- a. \$30,000.
 - b. \$28,750.
 - c. \$25,000.
 - d. \$ 0.

Part C – Inventory (10 points)

The following information was available from the inventory records of Taylor Company for January 2005:

<u>Date</u>	<u>Units</u>	<u>Unit Cost</u>	<u>Total Cost</u>
Balance at January 1, 2005	2,000	\$10.00	\$20,000
Purchases:			
January 6, 2005	1,600	\$10.30	\$16,480
January 26, 2005	3,400	\$10.72	\$36,448
Sales:			
January 7, 2005	(1,800)		
January 31, 2005	(3,200)		
Balance at January 31, 2005	<u>2,000</u>		

The selling price was \$15.00 / unit for the entire month.

Required:

- 1) Assuming that Taylor maintains perpetual inventory records, what should the **value of inventory be at January 31, 2005, using the moving average cost formula.** (Please calculate unit costs to three digits, and round inventory values to the nearest dollar.)

Part C – Inventory (continued)

- 2) Assuming that Taylor maintains periodic inventory records, what should the **value of inventory be at January 31, 2005, using the weighted average cost formula.** (Please calculate unit costs to three digits, and round inventory values to the nearest dollar.)

- 3) Assuming that Taylor maintains periodic inventory records, what amount should the company report for **gross profit for the month of January 2005?**

Part D – Revenue Recognition after Delivery (10 points)

MGH Corp., which began business on January 1, 2007, uses the installment sales method of accounting. The following data were obtained for the years 2007 and 2008:

	<u>2007</u>	<u>2008</u>
Installment sales	\$2,100,000	\$1,000,000
Cost of installment sales	\$1,575,000	\$770,000
General and administrative expenses	\$170,000	\$84,000
Cash collections on sales of 2007	\$1,010,000	\$840,000
Cash collections on sales of 2008	\$0	\$400,000

Required:

- a) Calculate the total amount of deferred gross profit on the balance sheet on December 31, 2008.

Part D – Revenue Recognition after Delivery (continued)

- b) A 2007 sale resulted in a default in 2008. At the date of default, the balance on the installment receivable was \$112,000, and the repossessed merchandise had a fair value of \$80,000. Prepare the journal entry to record the repossession.

Account Name	Debit	Credit

Part F – Natural Resources (18 Points)

Dingman Resources Inc. is engaged in the exploration and production of natural resources. At the beginning of 2005, Dingman purchased a tract of land in Arizona for \$3.1 million. In addition, Dingman constructed a building on the property, which could be used only in the mining operation, at a cost of \$200,000 with no anticipated residual value.

The company estimates that the site reclamation and restoration costs that the company is responsible for by contract when the property is depleted have a present value of \$80,000. Early in 2005, Dingman also incurred \$700,000 in development costs.

Dingman estimated that 900,000 tonnes of the natural resource could be extracted economically from the property over a period of approximately 15 years. The company also anticipated that the property could be sold after production was completed at the end of 15 years for \$400,000.

In 2005, Dingman extracted 40,000 tonnes, of which 10,000 tonnes were unsold at the end of the year.

Required:

a) Calculate depletion / amortization of the mine and the mining facilities for 2005. (Please calculate unit costs to three digits, and round depletion / amortization values to the nearest dollar.)

Part G – Intangible Assets (20 Points)

The following transactions involve intangible assets of Vinci Corporation. Prepare the journal entries to record the transaction on the transaction date, and record any additional entries for 2007 to record amortization or impairments, if needed. Assume all payments are made in cash.

1. On January 1, 2007, Vinci paid Grand Company \$200,000 for a franchise giving Vinci the exclusive right to market a particular product, Product A, using the Grand name and logo in promotional material. The franchise is expected to have a useful life of 25 years.

Date	Account Name	Debit	Credit

2. On January 2, 2007, Vinci was granted a patent for Product B. Legal and registration costs incurred were \$35,000. The patent has a legal life of 15 years from the grant date and an estimated useful life of 10 years.

Date	Account Name	Debit	Credit

Part G – Intangible Assets (continued)

4. Late in December 2007, Vinci incurred \$200,000 in an unsuccessful patent defence related to another product, Product C. As a result of the adverse verdict, Vinci estimated that the future undiscounted cash flows expected from using the patent are \$20,000 and that the patent has a fair value of \$12,000. The patent has a carrying value of \$99,000 (original cost of \$200,000 less accumulated amortization of \$101,000.) Assume that amortization expense for this asset has already been correctly recorded for this asset for the year.

Date	Account Name	Debit	Credit

Part H – Tangible Assets (10 points)

A truck was acquired on July 1, 2003, at a cost of \$162,000. The truck had a six-year useful life and an estimated residual value of \$24,000. The straight-line method of amortization was used. On January 1, 2006, the truck was overhauled at a cost of \$15,000, which extended the useful life of the truck for an additional two years beyond that originally estimated (residual value is still estimated at \$24,000). In calculating amortization for annual adjustment purposes, expense is calculated for each month the asset is owned.

Required

- a) Compute the net book value of the truck as at December 31, 2005.
- b) Compute the amount of amortization expense that should be recorded for the year ended December 31, 2006.

Present Value of \$1 (Present Value of a Single Sum)

$$PV = FV / (1+r)^n$$

(n) Periods	2%	2.5%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	15%
0.25	0.99506	0.99385	0.99264	0.99024	0.98788	0.98554	0.98323	0.98094	0.97869	0.97645	0.97425	0.97207	0.96566
0.5	0.99015	0.98773	0.98533	0.98058	0.97590	0.97129	0.96674	0.96225	0.95783	0.95346	0.94916	0.94491	0.93250
0.75	0.98526	0.98165	0.97807	0.97101	0.96407	0.95724	0.95052	0.94391	0.93741	0.93101	0.92471	0.91852	0.90049
1	0.98039	0.97561	0.97087	0.96154	0.95238	0.94340	0.93458	0.92593	0.91743	0.90909	0.90090	0.89286	0.86957
2	0.96117	0.95181	0.94260	0.92456	0.90703	0.89000	0.87344	0.85734	0.84168	0.82645	0.81162	0.79719	0.75614
3	0.94232	0.92860	0.91514	0.88900	0.86384	0.83962	0.81630	0.79383	0.77218	0.75131	0.73119	0.71178	0.65752
4	0.92385	0.90595	0.88849	0.85480	0.82270	0.79209	0.76290	0.73503	0.70843	0.68301	0.65873	0.63552	0.57175
5	0.90573	0.88385	0.86261	0.82193	0.78353	0.74726	0.71299	0.68058	0.64993	0.62092	0.59345	0.56743	0.49718
6	0.88797	0.86230	0.83748	0.79031	0.74622	0.70496	0.66634	0.63017	0.59627	0.56447	0.53464	0.50663	0.43233
7	0.87056	0.84127	0.81309	0.75992	0.71068	0.66506	0.62275	0.58349	0.54703	0.51316	0.48166	0.45235	0.37594
8	0.85349	0.82075	0.78941	0.73069	0.67684	0.62741	0.58201	0.54027	0.50187	0.46651	0.43393	0.40388	0.32690
9	0.83676	0.80073	0.76642	0.70259	0.64461	0.59190	0.54393	0.50025	0.46043	0.42410	0.39092	0.36061	0.28426
10	0.82035	0.78120	0.74409	0.67556	0.61391	0.55839	0.50835	0.46319	0.42241	0.38554	0.35218	0.32197	0.24718
11	0.80426	0.76214	0.72242	0.64958	0.58468	0.52679	0.47509	0.42888	0.38753	0.35049	0.31728	0.28748	0.21494
12	0.78849	0.74356	0.70138	0.62460	0.55684	0.49697	0.44401	0.39711	0.35553	0.31863	0.28584	0.25668	0.18691
13	0.77303	0.72542	0.68095	0.60057	0.53032	0.46884	0.41496	0.36770	0.32618	0.28966	0.25751	0.22917	0.16253
14	0.75788	0.70773	0.66112	0.57748	0.50507	0.44230	0.38782	0.34046	0.29925	0.26333	0.23199	0.20462	0.14133
15	0.74301	0.69047	0.64186	0.55526	0.48102	0.41727	0.36245	0.31524	0.27454	0.23939	0.20900	0.18270	0.12289
16	0.72845	0.67362	0.62317	0.53391	0.45811	0.39365	0.33873	0.29189	0.25187	0.21763	0.18829	0.16312	0.10686
17	0.71416	0.65720	0.60502	0.51337	0.43630	0.37136	0.31657	0.27027	0.23107	0.19784	0.16963	0.14564	0.09293
18	0.70016	0.64117	0.58739	0.49363	0.41552	0.35034	0.29586	0.25025	0.21199	0.17986	0.15282	0.13004	0.08081
19	0.68643	0.62553	0.57029	0.47464	0.39573	0.33051	0.27651	0.23171	0.19449	0.16351	0.13768	0.11611	0.07027
20	0.67297	0.61027	0.55368	0.45639	0.37689	0.31180	0.25842	0.21455	0.17843	0.14864	0.12403	0.10367	0.06110

Present Value of an Ordinary Annuity of 1

$$PV_A = [1 - 1/(1+r)^n]/r$$

(n) Periods	2%	2.5%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	15%
0.25	0.24692	0.24617	0.24542	0.24393	0.24247	0.24103	0.23961	0.23820	0.23682	0.23546	0.23411	0.23279	0.22891
0.5	0.49262	0.49082	0.48902	0.48548	0.48200	0.47857	0.47519	0.47187	0.46860	0.46537	0.46220	0.45907	0.44997
0.75	0.73711	0.73396	0.73084	0.72468	0.71862	0.71268	0.70683	0.70108	0.69543	0.68988	0.68441	0.67904	0.66343
1	0.98039	0.97561	0.97087	0.96154	0.95238	0.94340	0.93458	0.92593	0.91743	0.90909	0.90090	0.89286	0.86957
2	1.94156	1.92742	1.91347	1.88609	1.85941	1.83339	1.80802	1.78326	1.75911	1.73554	1.71252	1.69005	1.62571
3	2.88388	2.85602	2.82861	2.77509	2.72325	2.67301	2.62432	2.57710	2.53129	2.48685	2.44371	2.40183	2.28323
4	3.80773	3.76197	3.71710	3.62990	3.54595	3.46511	3.38721	3.31213	3.23972	3.16987	3.10245	3.03735	2.85498
5	4.71346	4.64583	4.57971	4.45182	4.32948	4.21236	4.10020	3.99271	3.88965	3.79079	3.69590	3.60478	3.35216
6	5.60143	5.50813	5.41719	5.24214	5.07569	4.91732	4.76654	4.62288	4.48592	4.35526	4.23054	4.11141	3.78448
7	6.47199	6.34939	6.23028	6.00205	5.78637	5.58238	5.38929	5.20637	5.03295	4.86842	4.71220	4.56376	4.16042
8	7.32548	7.17014	7.01969	6.73274	6.46321	6.20979	5.97130	5.74664	5.53482	5.33493	5.14612	4.96764	4.48732
9	8.16224	7.97087	7.78611	7.43533	7.10782	6.80169	6.51523	6.24689	5.99525	5.75902	5.53705	5.32825	4.77158
10	8.98259	8.75206	8.53020	8.11090	7.72173	7.36009	7.02358	6.71008	6.41766	6.14457	5.88923	5.65022	5.01877
11	9.78685	9.51421	9.25262	8.76048	8.30641	7.88687	7.49867	7.13896	6.80519	6.49506	6.20652	5.93770	5.23371
12	10.57534	10.25776	9.95400	9.38507	8.86325	8.38384	7.94269	7.53608	7.16073	6.81369	6.49236	6.19437	5.42062
13	11.34837	10.98318	10.63496	9.98565	9.39357	8.85268	8.35765	7.90378	7.48690	7.10336	6.74987	6.42355	5.58315
14	12.10625	11.69091	11.29607	10.56312	9.89864	9.29498	8.74547	8.24424	7.78615	7.36669	6.98187	6.62817	5.72448
15	12.84926	12.38138	11.93794	11.11839	10.37966	9.71225	9.10791	8.55948	8.06069	7.60608	7.19087	6.81086	5.84737
16	13.57771	13.05500	12.56110	11.65230	10.83777	10.10590	9.44665	8.85137	8.31256	7.82371	7.37916	6.97399	5.95423
17	14.29187	13.71220	13.16612	12.16567	11.27407	10.47726	9.76322	9.12164	8.54363	8.02155	7.54879	7.11963	6.04716
18	14.99203	14.35336	13.75351	12.65930	11.68959	10.82760	10.05909	9.37189	8.75563	8.20141	7.70162	7.24967	6.12797
19	15.67846	14.97889	14.32380	13.13394	12.08532	11.15812	10.33560	9.60360	8.95011	8.36492	7.83929	7.36578	6.19823
20	16.35143	15.58916	14.87747	13.59033	12.46221	11.46992	10.59401	9.81815	9.12855	8.51356	7.96333	7.46944	6.25933

AFM 291
FINAL EXAM SOLUTION SET
Fall 2007

Part A: Multiple Choice (1 point each)

1. c
2. a
3. d
4. a
5. c
6. a
7. d
8. d
9. b
10. a

Part B: Multiple Choice (2 points each – no partial credit)

11. d $\$150,000 - \$80,000 = \$70,000$ loss
12. c $[\$600,000 / (600,000 + 400,000) \times (1,500,000)] - \$600,000 = \$300,000$
 $[\$1,500,000 - 900,000] - \$460,000 = \$140,000$
13. d $\$69,000 - \$51,000 + \$46,000 = \$64,000.$
14. b $\$850,000 + \$95,000 - \$135,000 = 810,000$ (COGS)
 $\$810,000 + \$320,000 = \$1,130,000.$
15. a $\$49,000 - \$39,000 = \$10,000.$
16. c $10,000 + [60,000 / (1.09)^2]$
17. c Monetary exchange: $G/L = FV - CV = (12,200 - 2,500) - 8,700 = 1,000$
18. b $[\$240,000 - (\$240,000 \times 0.2 \times 0.75)] \times 0.2 = \$40,800.$
19. b nil (no amortization on property held for sale)
20. a $(\$400,000 - [(\$400,000 \div 16) \times 4]) = \$300,000$
 $(\$300,000 + \$60,000) \div 12 = \$30,000.$

Part C – Inventory (10 points)

(a) perpetual / moving average cost formula

<u>Date</u>	<u>Purchased</u> <u>/ Sold</u>	<u>Unit</u> <u>Cost</u>	<u>Balance</u>	<u>Points</u>
January 1, 2005 - Beg. Inventory	2,000	\$10.000	\$20,000	
January 6, 2005	1,600	\$10.300	\$16,480	
	<u>3,600</u>		<u>\$36,480</u>	

Moving average cost per unit	$\frac{\$36,480}{3,600} = \10.133	1
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January 7, 2005	(1,800)	\$10.133	(\$18,240)	
January 26, 2005	3,400	\$10.720	\$36,448	
	<u>5,200</u>		<u>\$54,688</u>	

Moving average cost per unit	$\frac{\$54,688}{5,200} = \10.517	2 (no additional deductions for c/f errors)
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January 31, 2005	(3,200)	\$10.517	(\$33,654)	
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Ending Inventory	2,000	\$10.517	\$21,034	2 (no additional deductions for c/f errors)
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(b) periodic – weighted average cost formula

<u>Date</u>	<u>Units</u>	<u>Unit Cost</u>	<u>Total Cost</u>	<u>Points</u>
Balance at January 1, 2005	2,000	\$10.000	\$20,000	
Purchases:				
January 6, 2005	1,600	\$10.300	\$16,480	
January 26, 2005	3,400	\$10.720	\$36,448	
Total good available	<u>7,000</u>		<u>\$72,928</u>	
Weighted average cost per unit	<u>\$72,928</u>	\$10.418		2 (no partial credit)
	7,000			
Sales for January	(5,000)			
Ending inventory	<u>2,000</u>	\$10.418	\$20,837	2 (no additional deductions for c/f errors)

c) Gross Profit:

Sales	5,000 X \$15.00	= \$75,000	
COGS	5,000 X \$10.418	= <u>\$52,091</u>	(no additional deductions for c/f errors on per unit cost)
Gross Profit		= <u>\$22,909</u>	1

Part D – Revenue Recognition after Delivery (10 points)

Gross Profit Ratio-2007: $(\$2,100,000 - \$1,575,000) \div \$2,100,000 = \underline{25\%}$

Gross Profit Ratio-2008: $(\$1,000,000 - \$770,000) \div \$1,000,000 = \underline{23\%}$

(a) Deferred GP Amount on Balance Sheet 12/31/08 (6 points)

Approach #1:

Uncollected sales * rate = Deferred GP

-1 for each component error up to 3

Deferred GP on 2007 sales not yet collected:		
(2,100,000 - \$1,010,000 - 840,000) * .25	62,500	3
Deferred GP on 2008 sales not yet collected:		
(1,000,000 - 400,000) * .23	<u>138,000</u>	2
Total Deferred GP (Balance Sheet) – Total balance at 12/31/08	<u>200,500</u>	

Approach #2 – balance reflects total activity

Deferred Gross Profit Account

2007 sales:

Gross profit on instalment sales—2007	\$525,000	
(\$2,100,000 - \$1,575,000)		
Less: Gross profit realized in 2007 (\$1,010,000 X 25%)	<u>(252,500)</u>	
	272,500	2

Less: Gross profit realized in 2008 on 2007 sales		
(\$840,000 X 25%)	<u>(210,000)</u>	1
o/s on 2007 sales	62,500	

Plus: amounts relating to 2008 sales		
Gross profit on instalment sales—2008	\$230,000	1
(\$1,000,000 - \$770,000)		

Less: Gross profit realized in 2008 on 2008 sales		
(\$400,000 X 23%)	<u>(92,000)</u>	1
o/s on 2008 sales	<u>138,000</u>	

Deferred GP (Balance Sheet) – Total Balance at 12/31/08	<u>\$200,500</u>
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b) journal entry to record repossession (5 points)

<u>Account Name</u>	<u>dr.</u>	<u>cr.</u>	Points calculation	Points a/c names
Repossessed Merchandise / Inventory	\$80,000		1	
Deferred Gross Profit (112,000 * 25%)	\$28,000		1	.5
Loss on Repossession	\$ 4,000		1	.5
Installment Accounts Receivable		\$112,000	1	

Part E – Investments (12 points)

Account Name	Dr	Cr	Points - calculation	Points - a/c names
<u>Entry #1</u>				
dr. Investment in Moose Co.	\$160,000		2	.5
cr. Cash		\$160,000		.5
<u>Entry #2</u>				
dr. Investment in Moose Co.	\$12,000		2	.5
cr. Investment Income		\$12,000		.5
[12,000 = 40,000 * .3]				
<u>Entry #3</u>				
dr. Cash	\$7,500		2	.5
cr. Investment in Moose Co.		\$7,500		.5
[\$7,500 = \$25,000 * .3]				
<u>Entry #4</u>				
dr. Investment Income	\$600		2	.5
cr. Investment in Moose Co.		\$600		.5
Amortization of the increased asset base:				
[(\$350,000 - \$320,000) * .3]/10 = \$600				
Goodwill of 61,000 = (160,000 – 99,000)*.3 is not amortized				

- OK to combine entries #2 and #4

Part F – Natural Resources (18 points)

(a) 12 points

Depletion of mining property:

<u>Depletion Base</u>	Points
Land cost	\$3,100,000
Development costs	\$700,000
Restoration costs	\$80,000
less: Residual Value	<u>(\$400,000)</u>
	<u>\$3,480,000</u>

Depletion rate	$\frac{\text{Depletion Base}}{\text{Estimated Yield}}$	<p>1 formula</p>
	$\frac{\$3,480,000}{900,000}$	<p>from above</p> <p>1 total tonnes</p>
	$= \boxed{\$3.867 \text{ / tonne}}$	

Depletion for 2005:	_____	
40,000 tonnes X \$3.867 =	<u><u>\$154,680</u></u>	<p>rate x 40K</p> <p>1 tonnes</p>

Amortization of building:

Amortization rate	$\frac{\text{Cost - RV}}{\text{Estimated Yield}}$	<p>1 formula</p>
	$\frac{\$200,000}{900,000}$	<p>1</p> <p>1</p>
	$= \boxed{\$0.222 \text{ / tonne}}$	

Amortization of building for 2005:	_____	
40,000 tonnes X \$0.222 =	<u><u>\$8,880</u></u>	<p>rate x 40K</p> <p>1 tonnes</p>

- 2 points if mine facility is included in depletion base for a combined rate of \$4.089 and a combined total depletion of \$163,560
- 2 of 4 points if building is amortized on a straight-line basis

Part F – Natural Resources (continued)

(b) 6 points

Journal entries for 2005

<u>Account Name</u>	<u>dr.</u>	<u>cr.</u>	Points calculation	Points a/c names
Inventory	\$163,560			1
Accumulated Depletion – mining property		\$154,680	c/f	0.5
Accumulated Amortization - building		\$8,880	c/f	0.5
(can be recorded as two separate entries)				
Cost of good sold	\$122,670		3	0.5
Inventory		\$122,670		0.5

(163,560 * 30,000 / 40,000)

or

(30,000 * (\$3.867 + \$0.222))

-1 of 3 points if only depletion is included in COGS

Part G – Intangible Assets (20 points)

Account Name	Dr	Cr	Points - calculation	Points - a/c names
<u>Q1. January 1, 1007</u>				
dr. Franchise	\$200,000		1	.5
cr. Cash		\$200,000		.5
<u>Q1. December 31, 2007</u>				
dr. Amortization expense - Franchise	\$8,000		1	.5
cr. Accumulated amortization – Franchise		\$8,000		.5
(OK to credit intangible directly)				
= 200,000 / 25 = 8,000				
<u>Q2. January 2, 2007</u>				
dr. Patent	\$35,000		1	.5
cr. Cash		\$35,000		.5
<u>Q2. December 31, 2007</u>				
dr. Amortization expense – Patent	\$3,500		2	.5
cr. Accumulated amortization – Patent		\$3,500		.5
(OK to credit intangible directly)				
Amortize over the lesser of legal life and expected useful life: 35,000 / 10 = 3,500				
(-1 point for using legal life)				
<u>Q3. January 1 – September 30, 2007</u>				
dr. Research expense	\$200,000		1	.5
Deferred development costs (DDC)*	\$300,000		1	.5
cr. Cash		\$500,000		
(*name must clearly indicate an asset)				
<u>Q3. December 31, 2007</u>				
dr. Amortization expense - DDC	\$12,273		2**	.5
cr. Accumulated amortization – DDC		\$12,273		.5
**Preferred method under Canadian GAAP is to amortize on a basis that relates to sale or use of underlying product:				
\$12,273 = \$300,000 x [90,000 / 2,200,000]				
- 1 point if amortized over 10 years				
\$30,000 = \$300,000 / 10				

Part G – Intangible Assets (continued)

Account Name	Dr	Cr	Points - calculation	Points - a/c names
<u>Q4. December 2007</u>				
dr. Legal fees expense	\$200,000		1	.5
cr. Cash		\$200,000		.5
<u>Q4. December 31, 2007</u>				
dr. Impairment loss	\$87,000		2	.5
cr. Accumulated amortization – Patent (OK to reduce intangible asset directly)		\$87,000		.5
Unsuccessful lawsuit suggests asset might be impaired.				
Step 1 - Recoverability Test: CV (\$99,000) < Recoverable amount (\$20,000) therefore asset is impaired				
Step 2: Impairment loss = FV – CV = 12,000 – 99,000				
-1 point if loss is calculated as recoverable amount – CV = 20,000 – 99,000 = 79,000				

Part H – Tangible Assets (10 points)

a) Net book value as of December 31, 2005 (5 points)

Amortization:

Cost	\$162,000	1
Less residual value	<u>(24,000)</u>	1
Depreciable base, July 1, 2003	138,000	

Net book value:

Cost	\$162,000	
Accumulated amortization		
[(Depreciable base \$138,000 ÷ 6 years useful life) * 2.5 years]	<u>57,500</u>	2
Net book value, December 31, 2005	<u>104,500</u>	1

b) Amortization expense for the year ended December 31, 2006 (5 points)

Updated Depreciable base:

Net book value, December 31, 2005	104,500	c/f
Plus overhaul	15,000	1
Less residual value	<u>(24,000)</u>	1
Updated depreciable base, Jan. 1, 2006 (adjusted)	<u>\$ 95,500</u>	1

Remaining useful life: 6 – 2.5 years + 2 years = 5.5 years 1

Amortization expense for 2006:

Updated depreciable based	= <u>\$95,500</u>	<u>\$17,364</u>	1
Remaining useful life	5.5 years		