

Chapter 2 Accounting and Financial Statements (Part B)

PROBLEM

At the end of December 31, 2012, Centennial Company's accounts are as follows.

Purchases	\$175,000
Salaries	80,000
Advertising	3,000
Travel	2,000
Revenue	350,000
Finance costs	10,000
Freight-in	2,000
Income tax expense	13,000
Sales commission	2,000
Depreciation	38,000

1. Cost of sales is _____ .

ANS:

Cost of sales is \$ 177,000.

PTS: 1 REF: 48

2. Gross profit is _____ .

ANS:

Gross profit is \$ 173,000.

PTS: 1 REF: 48

3. Total expenses are _____ .

ANS:

Total expenses are \$ 135,000.

PTS: 1 REF: 48

4. Profit before taxes is _____ .

ANS:

Profit before taxes is \$ 38,000.

PTS: 1 REF: 48

5. Profit for the year is _____ .

ANS:

Profit for the year is \$ 25,000.

PTS: 1 REF: 48

6. The cash flow is _____ .

ANS:

Cash flow is \$ 63,000

Centennial Company
Statement of Income
for the year ended December 31, 2012

Revenue		\$ 350,000
Cost of sales		
Purchases	\$(175,000)	
Freight in	<u>(2,000)</u>	
Total cost of sales	<u>(177,000)</u>	
Gross profit	173,000	
Expenses		
Salaries	(80,000)	
Advertising	(3,000)	
Travel		(2,000)
Sales commission	(2,000)	
Depreciation	(38,000)	
Finance costs	<u>(10,000)</u>	
Total expenses	<u>(135,000)</u>	
Profit before taxes	38,000	
Income tax expense	<u>(13,000)</u>	
Profit for the year	<u>\$ 25,000</u>	
Cash flow		
Add back depreciation		<u>38,000</u>
Cash flow		<u>\$ 63,000</u>

PTS: 1

REF: 45

At the end of December 31, 2012, Palm Manor Inc.'s accounts are as follows:

Trade receivables	\$ 35,000
Cash	10,000
Short-term borrowings	35,000
Share capital	100,000
Long-term borrowings	60,000
Marketable securities	5,000
Property, plant and equipment	170,000
Prepaid expenses	5,000
Retained earnings	25,000
Accumulated depreciation	38,000
Inventories	50,000
Trade and other payables	\$ 17,000

7. Total current assets are _____ .

ANS:

Total current assets are \$ 105,000.

PTS: 1

REF: 57

8. Total non-current assets are _____ .

ANS:

Total non-current assets are \$ 132,000.

PTS: 1

REF: 57

9. Total assets are _____ .

ANS:

Total assets are \$ 237,000.

PTS: 1

REF: 57

10. Total current liabilities are _____ .

ANS:

Total current liabilities are \$ 52,000.

PTS: 1

REF: 57

11. Long-term borrowings are _____ .

ANS:

Long-term borrowings are \$ 60,000.

PTS: 1

REF: 57

12. Total liabilities amount to _____ .

ANS:

Total liabilities amount to \$ 112,000.

PTS: 1

REF: 57

13. Total equity is _____ .

ANS:

Total equity is \$ 125,000.

PTS: 1

REF: 57

14. Total equity and liabilities is _____ .

ANS:

Total equity and liabilities is \$ 237,000.

Palm Manor Inc.
Statement of Changes in Financial Position
As at December 31, 2012

Property, plant and equipment	\$ 170,000	Equity	
Accumulated depreciation	<u>(38,000)</u>	Share capital	\$100,000
Total non-current assets	132,000	Retained earnings	<u>25,000</u>
		Equity	125,000
		Long-term borrowings	60,000
Current assets		Current liabilities	
Inventories	50,000	Trade and other payables	17,000
Trade receivables	35,000	Short-term borrowings	<u>35,000</u>
Marketable securities	5,000		
Prepaid expenses	5,000		
Cash	<u>10,000</u>		

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Total current assets	<u>105,000</u>	Total current liabilities	<u>52,000</u>
		Total liabilities	<u>112,000</u>
Total assets	<u>\$ 237,000</u>	Total equity and liabilities	<u>\$ 237,000</u>

PTS: 1 REF: 57

Purchases	\$ 209,000
Marketable securities	5,000
Property, plant and equipment	210,000
Leasing	7,000
Retained earnings	58,000
Depreciation	40,000
Long-term borrowings	50,000
Revenue	420,000
Short-term borrowings	40,000
Distribution costs	66,000
Share capital	100,000
Trade receivables	45,000
Trade and other payables	20,000
Accumulated depreciation	78,000
Cash	16,000
Administrative expenses	38,000
Inventories	65,000
Other expenses	14,000
Prepaid expenses	5,000
Income tax expense	13,000

15. Purchases are _____ .

ANS:
Purchases are \$209,000.

PTS: 1 REF: 48

16. Total operating expenses are _____ .

ANS:
Total operating expenses are \$165,000.

PTS: 1 REF: 48

17. Profit before taxes is _____ .

ANS:
Profit before taxes is \$46,000.

PTS: 1 REF: 48

18. Profit for the year is _____ .

ANS:
Profit for the year is \$33,000.

PTS: 1 REF: 48

19. Total current assets are _____ .

ANS:
Total current assets are \$136,000.

PTS: 1 REF: 57

20. Total non-current assets are _____ .

ANS:
Total non-current assets are \$132,000

PTS: 1 REF: 57

21. Total assets are _____ .

ANS:
Total assets are \$268,000.

PTS: 1 REF: 57

22. Total current liabilities are _____ .

ANS:
Total current liabilities are \$60,000.

PTS: 1 REF: 57

23. Long-term borrowings are _____ .

ANS:
Long-term borrowings are \$50,000.

PTS: 1 REF: 57

24. Total liabilities are _____ .

ANS:
Total liabilities are \$110,000.

PTS: 1 REF: 57

25. Total equity is _____ .

ANS:
Total equity is \$158,000.

PTS: 1 REF: 57

26. Total cash flow is _____ .

ANS:
Total cash flow is \$73,000.

PTS: 1 REF: 46

Trade receivables	\$45,000
Cash	10,000
Short-term borrowings	40,000
Share capital	100,000
Long-term borrowings	100,000
Marketable securities	10,000
Property, plant, and equipment	300,000
Prepaid expenses	10,000
Retained earnings	100,000
Accumulated depreciation	70,000
Trade and other payables	35,000
Inventories	\$70,000

27. Total current assets are _____ .

ANS:
Total current assets are \$ 145,000.

PTS: 1 REF: 57

28. Total non-current assets are _____ .

ANS:
Total non-current assets are \$ 230,000.

PTS: 1 REF: 57

29. Total assets are _____ .

ANS:

Total assets are \$ 375,000.

PTS: 1

REF: 57

30. Total current liabilities are _____ .

ANS:

Total current liabilities are \$ 75,000.

PTS: 1

REF: 57

31. Total liabilities are _____ .

ANS:

Total liabilities are \$ 175,000.

PTS: 1

REF: 57

32. Total equity is _____ .

ANS:

Total equity is \$ 200,000.

PTS: 1

REF: 57

33. Total equity and liabilities is _____ .

ANS:

Total equity and liabilities is \$ 375,000.

Apollo Inc.
Statement of Financial Position
As at December 31, 2012

Property, plant and equipment	\$300,000	Equity	
Accumulated depreciation	<u>(70,000)</u>	Share capital	\$ 100,000
Total non-current assets	230,000	Retained earnings	<u>100,000</u>
		Total equity	200,000
		Long-term borrowings	100,000
Current assets		Current liabilities	
Inventories		Trade and other payables	35,000
	70,000	Short-term borrowings	<u>40,000</u>
Trade receivables	45,000		
Prepaid expenses	10,000		
Marketable securities	10,000		
Cash	<u>10,000</u>		
Total current assets	<u>145,000</u>	Total current liabilities	<u>75,000</u>
		Total liabilities	<u>175,000</u>
Total assets	<u>\$ 375,000</u>	Total equity and liabilities	<u>\$ 375,000</u>

PTS: 1

Purchases	\$ 194,000
Salaries	90,000
Advertising	5,000
Travel	4,000
Revenue	400,000
Finance costs	15,000
Freight-in	4,000
Income tax expense	20,000
Sales commission	5,000
Depreciation	\$ 40,000

34. Cost of sales is _____ .

ANS:

Cost of sales is \$ 198,000.

PTS: 1

REF: 48

35. Gross profit is _____ .

ANS:

Gross profit is \$ 202,000.

PTS: 1

REF: 48

36. Total operating expenses is _____ .

ANS:

Total operating expenses is \$ 159,000.

PTS: 1

REF: 48

37. Profit before taxes is _____ .

ANS:

Profit before taxes is \$ 43,000.

PTS: 1

REF: 48

38. Profit for the year is _____ .

ANS:

Profit for the year is \$ 23,000.

PTS: 1

REF: 48

39. Cash flow from operations is _____ .

ANS:

Cash flow from operations is \$ 63,000.

Eastern Products Ltd.
Statement of Income
for the year ended December 31, 2012

Revenue		\$ 400,000
Cost of sales		
Purchases	\$ 194,000	
Freight in	<u>4,000</u>	
Total cost of sales		<u>198,000</u>
Gross profit		202,000
Operating expenses		
Salaries	90,000	
Advertising	5,000	
Travel	4,000	
Sales commission	5,000	
Depreciation	40,000	
Finance costs	<u>15,000</u>	
Total operating expenses		<u>159,000</u>
Profit before taxes		43,000
Income tax expense		<u>20,000</u>
Profit for the year		<u>\$ 23,000</u>
Add back depreciation		<u>40,000</u>
Cash flow from operations		<u>\$ 63,000</u>

PTS: 1

REF: 46

Use the following information, to prepare Aboni's 2012 financial statements:

Trade and other payable	\$ 80,000
Trade receivables	150,000
Accrued expenses	100,000
Accumulated depreciation	550,000
Administrative expenses	250,000
Plant, property. and equipment	2,350,000
Share capital	930,000
Cash	525,000
Cost of sales	3,000,000
Depreciation	55,000
Dividends	50,000
Income tax expense	170,000
Intangible assets	165,000
Inventories	450,000
Long-term borrowings	610,000
Marketable securities	60,000
Other expenses	55,000
Other income	40,000
Prepaid expenses	30,000
Revenue	4,000,000
Distribution costs	250,000
Retained earnings (beginning)	1,000,000
Short-term borrowings	\$ 250,000

40. The statement of income

ANS:

Aboni Electronics Ltd.
Statement of Income
for the year ended October 31, 2012

Revenue		\$4,000,000
Cost of sales		<u>(3,000,000)</u>
Gross profit		1,000,000
Other income	\$ 40,000	
Operating expenses		
Distribution costs	(250,000)	
Administrative expenses	(250,000)	
Depreciation	(55,000)	
Other expenses	<u>(55,000)</u>	
Total expenses and other		<u>(570,000)</u>

income

Profit before taxes	430,000
Income tax expense	<u>(170,000)</u>
Profit for the year	<u>\$ 260,000</u>

PTS: 1 REF: 48

41. The statement of retained earnings.

ANS:

Aboni Electronics Ltd.
Statement of Retained Earnings
for the year ended October 31, 2012

Retained earnings (beginning of year)		\$ 1,000,000
Earnings for the year	260,000	
Less: dividends	<u>50,000</u>	<u>210,000</u>
Retained earnings (end of year)		<u>\$ 1,210,000</u>

PTS: 1 REF: 56

42. The statement of financial position.

ANS:

Aboni Electronics Ltd.
Statement of Financial Position
as at October 31, 2012

Assets

Non-current assets	
Property, plant and equipment	\$2,350,000
Intangible assets	<u>165,000</u>
Total	2,515,000
Accumulated depreciation	<u>(550,000)</u>
Total non-current assets	1,965,000
Current assets	
Inventories	450,000
Trade receivables	150,000
Prepaid expenses	30,000
Marketable securities	60,000

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Cash	<u>525,000</u>
Total current assets	<u>1,215,000</u>
Total assets	<u>\$3,180,000</u>
Equity	
Share capital	930,000
Retained earnings	<u>1,210,000</u>
Total equity	<u>2,140,000</u>
Liabilities	
Long-term borrowings	610,000
Current liabilities	
Trade and other payables	80,000
Accrued expenses	100,000
Short-term borrowings	<u>250,000</u>
Total current liabilities	<u>430,000</u>
Total liabilities	<u>1,040,000</u>
Total equity and liabilities	<u>\$3,180,000</u>

PTS: 1 REF: 57

Cost of the asset \$100,000
 Life of the asset 5 years
 Depreciation rate 20%
 Capital cost allowance rate 50%
 Residual value of the asset nil
 Income tax rate 50%

43. Calculate the internal depreciation for the five-year period using the straight-line method.

ANS:

Calculate the internal depreciation for the five-year period using the straight-line method.

	Original value <u>\$100,000</u>	Depreciation rate <u>20%</u>	Depreciated value <u>End of year</u>
Year 1		\$ 20,000	\$80,000
Year 2		20,000	60,000
Year 3		20,000	40,000
Year 4		20,000	20,000
Year 5		<u>20,000</u>	---
Total depreciation			<u>\$100,000</u>

PTS: 1

REF: 60

44. Calculate the internal depreciation for the 5-year period using the sum-of-the digits method.

ANS:

Calculate the internal depreciation for the 5-year period using the sum-of-the digits method.

	<u>Original value</u>	<u>Fraction</u>	<u>Depreciation rate</u> %	<u>Depreciated value</u>
Year 1	\$100,000		33.7	\$33,333
		5/15		
Year 2	100,000		26.7	26,667
		4/15		
Year 3	100,000		20.0	20,000
		3/15		
Year 4	100,000		13.3	13,333
		2/15		
Year 5	100,000		6.7	<u>6,667</u>
		1/15		
Total depreciation				<u>\$100,000</u>

PTS: 1

REF: 60

45. Calculate the capital cost allowance for the 5-year period.

ANS:

Calculate the capital cost allowance for the 5-year period.

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	<u>Balance</u>	<u>CCA rate</u>	<u>CCA</u>
Year 1	\$100,000	50%	\$25,000
Year 2	75,000	50%	37,500
Year 3	37,500	50%	18,750
Year 4	18,750	50%	9,375
Year 5	9,375	50%	4,687

PTS: 1 REF: 60

46. Calculate the annual future income taxes payable.

ANS:

Calculate the annual future income taxes payable.

	<u>CCA</u>	<u>Depreciation</u>	<u>Difference</u>	<u>After 50% Tax</u>
Year 1	\$25,000	\$20,000	\$ 5,000	\$ 2,500
Year 2	37,500	20,000	17,500	8,750
Year 3	18,750	20,000	(1,250)	(625)
Year 4	9,375	20,000	(10,625)	(5,312)
Year 5	4,687	20,000	(15,313)	(7,656)

PTS: 1 REF: 63

47. Calculate the cumulate future income taxes payable.

ANS:

Calculate the cumulate future income taxes payable.

	<u>Annual Difference</u>	<u>After 50% Tax</u>	<u>Cumulative Difference</u>
Year 1	\$ 5,000	\$ 2,500	\$ 2,500
Year 2	17,500	8,750	11,250
Year 3	(1,250)	(625)	10,625
Year 4	(10,625)	(5,312)	5,313
Year 5	(15,313)	(7,656)	---

PTS: 1

REF: 63