Intermediate Financial Accounting 1

(Version 1.1)

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Intermediate Financial Accounting 2 is available at https://tonybell.com

Topics

- **Current liabilities and Contingencies**
- **Long-term liabilities**
- **Shareholders' Equity**
- **Convertibles, Derivatives and Warrants (Complex Financial Instruments)**
- **Earnings per share**
- **Income taxes and deferred taxes**
- **Leases**
- **Pensions**
- **Accounting changes and error correction**
- **Statement of cash flows**

Module 1: The Conceptual Framework

Module Introduction Video Links

Free Intro Video: https://youtu.be/tUliASWi__w

Members Intro Video (Ad Free): https://youtu.be/Yjevsb3dKmY

1-1A – Conceptual Framework Terminology

Below are some of the terms introduced in the Conceptual Framework:

Terms:

a. Relevance	e. Faithful representation
b. Predictive value	f. Completeness
c. Feedback value	g. Neutrality
d. Materiality	h. Freedom from error

Required:

Match the term above with the definition below.

Definitions:

	ANSWER:
1. The magnitude/nature of financial information such that omitting or misstating it could influence decisions.	
2. Information provided in financial reports reflect what actually happened.	
3. Information that is helpful to financial statement users in making decisions.	
4. Information that is unbiased.	
5. Information that helps users assess/reconsider their prior evaluations of an entity.	
6. Information that doesn't contains any miscalculations.	
7. Information that contains all necessary details to inform a user's decisions.	
8. Information that helps users form their expectations about future results.	

Free Video Walkthrough: https://youtu.be/_hGZWYAdstM

Members Video (Ad Free): https://youtu.be/F2CcuVVnLMU

1-1B – Conceptual Framework Terminology

Below are some of the terms introduced in the Conceptual Framework:

Terms:

a. Comparability	e. Economic entity
b. Verifiability	f. Going concern
c. Timeliness	g. Monetary unit
d. Understandability	h. Periodicity

Required:

Match the term above with the definition below.

Definitions:

	ANSWER:
1. Information is available early enough to be useful to users.	
2. It is appropriate to divide the indefinite useful life of a business into shorter chunks of time.	
3. Users are able to identify similarities and differences between companies and time periods.	
4. Independent outsiders could view the same financial transactions and reach the same conclusions as those disclosed in the financial reports.	
5. There is a clearly defined reporting boundary between personal and company, and the company and other companies.	
6. It is appropriate to use a common currency as a unit of measure without needing to adjust for inflation.	
7. Information is classified and presented clearly and concisely for users with reasonable financial knowledge.	
8. The company is expected to continue operating for the foreseeable future.	

Members Video (Ad Free): https://youtu.be/RPw28nktlGs

1-2A – Conceptual Framework Terminology

In order to be considered “relevant”, financial information requires 3 key ingredients.

Required:

a.) When it comes to financial information, what does the term “relevance” mean?
b.) List and describe the 3 key ingredients of “relevant” financial information.

Members Video (Ad Free): https://youtu.be/IXvQKCKo-P4

1-2B – Conceptual Framework Terminology

In order to have “faithful representation”, financial information requires 3 key ingredients.

Required:

Required:

a.) When it comes to financial information, what does the term “faithful representation” mean?
b.) List and describe the 3 key ingredients of “faithful representation” of financial information.

Members Video (Ad Free): https://youtu.be/k1_6Gu0ee30

1-3A – Conceptual Framework Terminology

Below are some of the terms introduced in the Conceptual Framework:

Terms:

a. Comparability	e. Economic entity
b. Verifiability	f. Going concern
c. Timeliness	g. Monetary unit
d. Understandability	h. Periodicity

Required:

Match the term above with the situation below.

Situation:

	ANSWER:
1. A manufacturer with slight cash-flow strain continues to prepare financials assuming it will meet obligations and operate.	
2. A quarterly report is filed 12 days after quarter-end, allowing investors to react while the information is still decision-useful.	
3. A subscription company reports results for Q1, Q2, Q3, and Q4, even though operations are continuous, and discloses cut-off policies so each period stands on its own.	
4. A retailer shows "gross margin" this year and last using the same definition.	
5. Nintendo presents its statements in Japanese Yen and does not restate for general inflation; foreign transactions are translated to Yen under the relevant standard.	
6. An auditor recalculates warranty expense from the company's inputs and obtains the same result as management; another partner using the same method gets the same answer.	
7. The owner's personal vacation costs are charged to his own personal credit card and not the corporate card.	
8. A bank improves its disclosure, replacing a dense narrative with a labeled table and a brief plain-English explanation of what changed and why.	

Members Video (Ad Free): https://youtu.be/VxYQ5baSl-4

1-3B – Conceptual Framework Terminology

Below are some of the terms introduced in the Conceptual Framework:

Terms:

a. Predictive value	d. Completeness
b. Feedback value	e. Neutrality
c. Materiality	f. Freedom from error

Required:

Identify the term above that is being violated or mis-applied by each situation below. If multiple terms apply, choose the term that fits "best".

Situations:

	ANSWER:
1. Sales grew by 20% two years ago, and by 40% last year. Peter, an analyst, states that the growth rate is doubling each year, so he believes it will surely be 80% this year.	
2. Brian, the head accountant of a multinational company steals $1,000 cash, reasoning, "A $1,000 theft isn't going to matter to the shareholders of this multi-billion-dollar company".	
3. Steven, the Junior accountant does not double check the calculations in bank reconciliations as he is supposed to – he just signs them off without looking to save time.	
4. Marie, the company's head of sales argues for backdating a large January sale into December as it will significantly boost her bonus.	
5. A food company who is involved in a major (potentially bankrupting) food-poisoning lawsuit chooses not to disclose any details of the case as it might scare off shareholders.	
6. Linda, the company president, had a profitability target of $1,000,000. Due to an earthquake shutting down the company's factory for three months, her company only showed a profit of $975,000 and she did not receive a bonus.	

Members Video (Ad Free): https://youtu.be/iFAG3qiQsCQ

1-4 – Conceptual Framework Terminology Short Answer Lightning Round

1.) What is the **Objective** of financial accounting?
2.) Explain the **Entity** concept in financial accounting?
3.) What are the two fundamental **qualitative characteristics** of useful financial information?
4.) List the **TEN Elements** of the financial statements.
5.) What does **recognition/derecognition** mean in financial accounting?
6.) What does **measurement** mean in financial accounting?
7.) Give an example of a **presentation** choice a company will need to make when presenting their financial statements?
8.) What is the purpose of the **notes** to the financial statements?

Free Video Walkthrough: https://youtu.be/eX49_fQDgJ0

Members Video (Ad Free): https://youtu.be/YLxHvz8BBA0

Module 2: The Accounting Cycle

Module Introduction Video Links

Free Intro Video: https://youtu.be/PihFIQpiz2E

Members Intro Video (Ad Free): https://youtu.be/HkykHiBji24

2-1A*–Journal Entries, T-Accounts, Trial Balance – Existing Company

Teacher's Pet Tutoring Service provides extra help for students. The company has been operating successfully for several years and has the following account balances entering April: Cash $8,000; Accounts Receivable $1,500; Supplies $5,000; Computers (net) $15,000; Accounts Payable $300; Bank Loan Payable $3,500; Common Shares $50; Retained Earnings $25,650.

The following transactions occurred in April:

April 1 Paid off account payable owing from March.

April 3 Paid $3,000 for advertising for the month of April.

April 4 Purchased supplies on account: $1,000.

April 6 Collected the $1,500 receivable from March.

April 8 Received, but did not pay a $250 electricity bill.

April 12 An employee who was short of money borrowed $500. He signed a note and promised to repay the company after payday. He is a good employee and the company chose not to charge him any interest or fees.

April 15 Paid employees' salaries of $4,000.

April 18 Employee repaid the $500 loan.

April 20 Borrowed $10,000 from the bank with the intention of purchasing new computers.

April 21 Purchased new computers $8,500.

April 24 Received and paid telephone bill $150.

April 26 Paid employees' salaries of $4,000.

April 29 Paid electricity bill received on April 8.

April 30 Billed $18,000 for the month of tutoring service. Collected $16,000 in cash, awaiting payment for the remainder.

Required:

a.) Record all necessary journal entries based on the transactions above.
b.) Post the transactions to T-Accounts.
c.) Prepare a trial balance dated April 30.

*Note: This problem was adapted from problem 2-4A from my intro accounting course. If you need more journal entry practice, I highly recommend reviewing chapter 2 from that course.

Members Video (Ad Free): https://youtu.be/Ti--8pinKtQ

2-1B* –Journal Entries, T-Accounts, Trial Balance – Existing Company

ABC Carpet Cleaners had been operating for several years. On March 1, the company had the following account balances: Cash $5,000; Accounts Receivable $300; Equipment (net) $3,000; Accounts Payable $500; Bank Loan $2,000; Common Shares $100; and Retained Earnings $5,700.

The following transactions occurred during the month of March.

March 1 Purchased cleaning supplies for cash: $600.

March 2 Paid off the $500 that was owed from February.

March 4 Completed a major cleaning job. Billed $3,000 but did not collect.

March 9 Purchased a new Super Sucker brand vacuum for $6,000 on account. Payment is due in 30 days.

March 11 Collected amount owed to us from February.

March 15 Completed a cleaning job. Billed $1,000, collected half.

March 16 Paid employees' salaries of $2,500.

March 19 Paid $500 to repair a broken vacuum.

March 22 Received and paid a heating bill: $100.

March 24 Received a telephone bill: $50, did not pay.

March 28 Collected money from the March 4 cleaning job.

March 29 Completed major cleaning job. Billed $7,000, payment is due on April 29.

March 31 Paid employees' salaries of $2,500.

March 31 Shareholders took a cash dividend totaling $700.

Required:

a.) Record all necessary journal entries based on the transactions above.
b.) Post the transactions to T-Accounts.
c.) Prepare a trial balance dated March 31.

*Note: This problem was adapted from problem 2-4B from my intro accounting course. If you need more journal entry practice, I highly recommend reviewing chapter 2 from that course.

Members Video (Ad Free): https://youtu.be/54blzfAsa04

2-2A* – Adjusting Entries, the Adjusted Trial Balance Worksheet, Financial Statements and Closing Entries

Below is the June 30, 2029 unadjusted trial balance of Netlock Security, a firm that offers hacking prevention services to large companies.

	Unadjusted TB		Adjustments		Adjusted TB	
	DR	CR	DR	CR	DR	CR
Cash	$56,000					
Accounts receivable	12,000					
Supplies	5,000					
Prepaid insurance	24,000					
Computers	200,000					
A.D. – Computers		$40,000				
Accounts payable		14,000				
Salaries payable						
Interest payable						
Unearned security revenue		15,000				
Note payable		30,000				
Common shares		40,000				
Retained earnings		87,000				
Dividends	10,000					
Security revenue		485,000				
Salaries expense	320,000					
Interest expense						
Depreciation expense						
Supplies expense						
Repairs expense	17,000					
Insurance expense						
Rent expense	60,000					
Income tax expense	7,000					
Total	$711,000	$711,000				

The company's fiscal year end is June 30, and the following items require adjustment:

a.) A count of supplies reveals $300 were on hand on June 30.
b.) The $24,000 insurance policy was purchased on March 1, 2029.
c.) The computers were purchased on July 1, 2027 for 200,000. At the time of purchase, the estimated life of the computers was 5 years with no estimated residual value. Depreciation had been properly recorded up to June 30, 2028. No depreciation entries have been made in the fiscal year ended June 30, 2029.
d.) The $30,000 note payable was issued on February 1, 2029 and accrues interest at a 10% annual rate. The note is expected to be repaid in late-2029.
e.) On May 1, 2029 the company entered into a 3-month contract to provide security for a major corporation, the corporation paid $15,000 for their 3-month contract on May 1, and that amount was correctly recorded as unearned revenue. On June 30, Netlock had fulfilled the first 2 months of the contract.
f.) The company had three employees who were owed for two days of salaries at year end. Each employee earns $250 per day.
g.) On June 1, 2029, the company entered into an agreement to provide service for a new client at a rate of $4,000 per month. At the end of June, the Netlock Security had provided the first month of service, but had not yet been paid.

Required:

a.) As necessary, record adjusting journal entries based on the items above.
b.) Using your adjusting journal entries, complete the adjusted trial balance.
c.) Based on the adjusted trial balance, prepare an income statement, statement of retained earnings and a balance sheet. Assume no common shares were issued during the year.
d.) Prepare closing entries for the company.

*Note: This problem was adapted from problem 3-3A from my intro accounting course. If you need more adjusting journal entry practice, I highly recommend reviewing chapter 3 from that course.

Members Video (Ad Free): https://youtu.be/4OTvawhMCno

2-2B – Adjusting Entries, the Adjusted Trial Balance Worksheet, Financial Statements, Closing Entries

Below is the September 30, 2029 unadjusted trial balance of CleanPanes Window Washers:

	Unadjusted TB		Adjustments		Adjusted TB	
	DR	CR	DR	CR	DR	CR
Cash	$1,600					
Accounts receivable	750					
Supplies	400					
Prepaid insurance	1,600					
Prepaid rent	800					
Equipment	20,000					
A.D. – Equipment		$3,000				
Accounts payable		900				
Wages payable						
Interest payable						
Unearned washing revenue		600				
Note payable		4,000				
Common shares		1,000				
Retained earnings		1,550				
Dividends	1,000					
Washing revenue		38,000				
Wages expense	12,000					
Interest expense						
Depreciation expense						
Supplies expense						
Maintenance expense	100					
Insurance expense						
Rent expense	8,800					
Income tax expense	2,000					
Total	$49,050	$49,050				

The company's fiscal year end is September 30, and the following items require adjustment:

a.) A count of supplies reveals $50 were on hand on September 30.
b.) The $1,600 insurance policy was purchased on February 1, 2029.
c.) The prepaid rent was for the month of September. It has all expired.
d.) The equipment was purchased on April 1, 2027. At the time of purchase, the estimated life of the equipment was 10 years with no estimated residual value. Depreciation has been recorded up to September 30, 2028. A full year of depreciation is needed.
e.) The $4,000 note payable was issued on July 1, 2029 and accrues interest at a 7% annual rate. The note is expected to be repaid in January of 2030.
f.) On September 1, 2029 the company entered into a 6-month contract to provide window washing for a local restaurant. The restaurant paid $600 in advance for the service. CleanPanes has washed the restaurant's windows properly up to September 30.
g.) The company had an employee who had unpaid wages of $100 on September 30.
h.) As of September 30, the company had completed, but had not yet been paid for, $250 worth of work.

Required:

a.) As necessary, record adjusting journal entries based on the items above.
b.) Using your adjusting journal entries, complete the adjusted trial balance.
c.) Based on the adjusted trial balance, prepare an income statement, statement of retained earnings and a balance sheet. Assume no common shares were issued during the year.
d.) Prepare closing entries for the company.

*Note: This problem was adapted from problem 3-3B from my intro accounting course. If you need more adjusting journal entry practice, I highly recommend reviewing chapter 3 from that course.

Members Video (Ad Free): https://youtu.be/0_zcP_x__JU

2-3A

Accounting Cycle MEGA Case – Page 1 of 2

On January 1, 2030 William Salazar decided to start a new consulting company, he named it "Bill's Consulting". During the year, the following transactions occur:

January 1	William deposited $10,000 cash and provided a $5,000 computer to the business in exchange for common shares.
January 31	The company purchased a 12-month insurance policy for $3,600 cash (DR Prepaid Insurance).
March 10	The company provided consulting work on account. Billed $21,000, but did not receive payment yet.
April 8	Received payment from the March 10 consulting job.
May 1	Received and paid the utilities bill, $500.
June 1	Borrowed $25,000 cash from the bank. (No payments will be made in 2030, interest-only payments will begin in 2031).
July 31	Purchased new office furniture, $15,000. The furniture was purchased on account.
August 15	Purchased office supplies for cash - $1,000
November 30	Received advance payment of $10,000 from a new client to provide consulting work over the next 10 months. As of November 30, no work had been provided.
December 11	Received but did not pay the telephone bill, $200.
December 20	Billed $8,000 for a consulting job (a new client). Have not yet been paid.
December 30	Paid a salary - $15,000 cash. (William is the only employee, and he hadn't been paid until Dec 30).
December 31	The company declared and paid a cash dividend - $5,000.

Part 1 Required:

a.) Prepare journal entries based on the items above.
b.) Transfer your journal entries to T-Accounts.
c.) Using the Trial Balance Template on the next page, complete the "Unadjusted TB" section (note, you don't need to do the "Adjustments" or "Adjusted TB" or "Post-Closing TB" columns…yet!

That's it for Part 1, the template you'll need for part c.), and Part 2 of the problem can be found on the next page

Free Video Walkthrough: https://youtu.be/CEObr5QtreE

Members Video (Ad Free): https://youtu.be/z56k3yIP8l4

Bill's Consulting								
Trial Balance								
December 31, 2030								
	Unadjusted TB		Adjustments		Adjusted TB		Post-Closing TB	
	DR	CR	DR	CR	DR	CR	DR	CR
Cash								
Accounts receivable								
Supplies								
Prepaid insurance								
Computer								
Accumulated depreciation – computer								
Office furniture								
Accumulated depreciation – office furn.								
Accounts payable								
Income taxes payable								
Interest payable								
Unearned consulting revenue								
Bank loan payable								
Common shares								
Retained earnings								
Dividends								
Consulting revenue								
Salaries expense								
Insurance expense								
Telephone expense								
Depreciation expense								
Utilities expense								
Supplies expense								
Interest expense								
Income tax expense								
Totals								

Part 2 Starts Here:

The Following items require adjusting entries (all dated December 31):

a.) A portion of the 12-month insurance policy (purchased January 31 for $3,600) has expired.
b.) A supply count reveals $400 of supplies (from the August 15 $1,000 purchase) are still remaining.
c.) The $25,000 bank loan (taken on June 1) accrues interest at a rate of 6% (annually).
d.) The $5,000 computer (from Jan 1) has an expected useful life of 4 years and no expected residual value.
e.) The furniture purchased for $15,000 on July 31 has an expected useful life of 10 years and no expected residual value.
f.) The November 30 client (who paid us $10,000 for 10 months of service) received their first month of service in December.
g.) The accountant completed the corporate taxes for the year – the amount owing is $2,000 – an accrual is needed.

Part 2 Required:

a.) Prepare adjusting entries based on the items above.
b.) Complete the adjustments, and the adjusted trial balance sections of the worksheet template (above).
c.) Prepare an income statement, statement of retained earnings and balance sheet.
d.) Prepare closing entries.
e.) Complete the post-closing trial balance section of the template above.

Video Links are on the previous page

2-3B

Accounting Cycle MEGA Case – Page 1 of 2

On January 1, 2030 Gabriela Letcher decided to start a new consulting company, she named it "Gaby's Consulting". During the year, the following transactions occur:

January 1	Gabriela deposited $25,000 cash and provided equipment worth $4,000 to the business in exchange for common shares.
February 1	The company purchased a new computer for $6,000 cash.
April 3	Received and paid a telephone bill - $100.
April 8	Did consulting work – billed $10,000. Received $1,000 payment with the rest due in 30 days.
May 1	Received and paid the utilities bill, $500.
May 10	Received $9,000 payment in connection to the April 8 consulting work.
July 1	Borrowed $10,000 cash from the bank. (No payments will be made in 2030, interest-only payments will begin in 2031).
August 31	Purchased a 12-month insurance policy. $6,000 cash. (Note: DR Prepaid insurance).
October 12	Purchased office supplies for cash - $2,000
November 1	Received advance payment of $15,000 from a new client to provide consulting work over the next 5 months. As of November 1, no work had been provided.
December 10	Billed $40,000 for a consulting job (a new client). Have not yet been paid.
December 21	A piece of our equipment broke. We had it repaired and were billed $1,600 – have not paid yet.
December 30	Paid a salary - $32,000 cash. (Gabriela is the only employee, and she hadn't been paid until Dec 30).
December 31	The company declared and paid a cash dividend - $2,000.

Part 1 Required:

a.) Prepare journal entries based on the items above.
b.) Transfer your journal entries to T-Accounts.
c.) Using the Trial Balance Template on the next page, complete the "Unadjusted TB" section (note, you don't need to do the "Adjustments" or "Adjusted TB" or "Post-Closing TB" columns…yet!

That's it for Part 1, the template you'll need for part c.), and Part 2 of the problem can be found on the next page.

Members Video (Ad Free): https://youtu.be/eiYBcRu1ze0

2-3B – Accounting Cycle Comprehensive Review Case – Trial Balance Template

Gaby's Consulting								
Trial Balance								
December 31, 2030								
	Unadjusted TB		Adjustments		Adjusted TB		Post-Closing TB	
	DR	CR	DR	CR	DR	CR	DR	CR
Cash								
Accounts receivable								
Supplies								
Prepaid insurance								
Computer								
Accumulated depreciation – computer								
Equipment								
Accumulated depreciation – equip.								
Accounts payable								
Income taxes payable								
Interest payable								
Unearned consulting revenue								
Bank loan payable								
Common shares								
Retained earnings								
Dividends								
Consulting revenue								
Salaries expense								
Insurance expense								
Telephone expense								
Depreciation expense								
Utilities expense								
Repairs expense								
Supplies expense								
Interest expense								
Income tax expense								
Totals								

Part 2 Starts Here:

The Following items require adjusting entries (all dated December 31):

a.) A portion of the 12-month insurance policy (purchased August 31) has expired.
b.) A supply count reveals $500 of supplies (from the August 15 purchase) are still remaining.
c.) The bank loan accrues interest at a rate of 9% (annually).
d.) The equipment (from Jan 1) has an expected useful life of 8 years and no expected residual value.
e.) The computer purchased on February 1 has an expected useful life of 5 years and no expected residual value.
f.) The November 1 client received their first two months of service in November and December. So far so good!
g.) The accountant completed the corporate taxes for the year – the amount owing is $4,000 – an accrual is needed.

Part 2 Required:

a.) Prepare adjusting entries based on the items above.
b.) Complete the adjustments, and the adjusted trial balance sections of the worksheet template (above).
c.) Prepare an income statement, statement of retained earnings and balance sheet.
d.) Prepare closing entries.
e.) Complete the post-closing trial balance section of the template above.

Video Links are on the Previous Page

Module 3: Time Value of Money

Module Introduction Video Links

Free Intro Video: https://youtu.be/HEl0PNGbfnk

Members Intro Video (Ad Free): https://youtu.be/qNkusGdwvFk

3-1A – Future Value of a Lump Sum

You deposit $5,000 into a high-yield savings account that pays 4% interest.

Required:

a.) How much money will you have after 1 year?

b.) How much money will you have if you leave the money in the account for 5 years?

Members Video (Ad Free): https://youtu.be/Eqd6n2V5WJ4

3-1B – Future Value of a Lump Sum

You deposit $1,000 in an investment account that that pays 10% interest.

Required:

a.) How much money will you have after 1 year?

b.) How much money will you have if you leave the money in the account for 10 years?

Members Video (Ad Free): https://youtu.be/McWjBIypkZI

3-2A – Present Value of a Lump Sum

Your grandfather makes you an offer: "I'll give you $100,000 today, or $200,000 in 10 years." Assume you wish to use a discount rate of 8%.

Required:

Are you better or worse off if you take the money today? By how much (in today's dollars)?

Free Video Walkthrough: https://youtu.be/BRfvY8miTqc

Members Video (Ad Free): https://youtu.be/fEJZBCbHjFY

3-2B – Present Value of a Lump Sum

Your grandmother makes you an offer: "I'll give you $1,000,000 today, or $1,500,000 in 4 years." Assume you wish to use a discount rate of 10%.

Required:

Are you better or worse off if you take the money today? By how much (in today's dollars)?

Members Video (Ad Free): https://youtu.be/C4BRaZ3RzGI

3-3A – Calculating the rate of return (interest rate)

You lend your friend $400 today and they promise to pay you back $500 in one year from today.

Required:

a.) If they pay you back as agreed, what is the rate of return?

b.) Assume you lend them $400 today and they pay back $500 in four years from today, what is the rate of return?

Free Video Walkthrough: https://youtu.be/nOt-FZVJhTI

Members Video (Ad Free): https://youtu.be/MGBve7KRkVg

3-3B – Calculating the rate of return (interest rate)

You lend a friend $800 and they promise to pay you back $840 after one year.

Required:

a.) What is the rate of return?

b.) Assuming after you lend them $800, they take two years to pay you back the $840 (and you don't charge them any extra interest or penalties), what is the rate of return.

Members Video (Ad Free): https://youtu.be/_4eNKK7PujA

3-4A – Calculating the Number of Periods

You invest $50,000 at an annual interest rate of 8%.

Required:

How long will it take for this investment to grow to $75,000?

Free Video Walkthrough: https://youtu.be/-urN2OR1_4s

Members Video (Ad Free): https://youtu.be/NMppBz-UuKQ

3-4B – Calculating the Number of Periods

You invest $150,000 at an interest rate of 4%.

Required:

How long will it take for this investment to grow to $200,000?

Members Video (Ad Free): https://youtu.be/xCfn6CS9Gac

3-5A – FV of an Annuity and FV of an Annuity Due

Starting at the end of this year, you intend to make yearly contributions of $3,000 to your retirement savings. The account earns 10% interest compounded annually.

Required:

a.) Calculate the value of your retirement account in 25 years.
b.) If you made the first deposit today (rather than at the end of the year) how valuable would your retirement account be in 25 years? (Annuity Due)

Members Video (Ad Free): https://youtu.be/ewnovR-V6Mc

3-5B – FV of an Annuity and FV pf an Annuity Due

Starting at the end of this year, you will make annual deposits of $5,000 into a retirement account. The account earns 8% interest compounded annually.

Required:

a.) Calculate the value of your retirement account in 35 years.
b.) If you made the first deposit today (rather than at the end of the year) how valuable would your retirement account be in 35 years? (Annuity Due)

Members Video (Ad Free): https://youtu.be/TncAaR8d-RQ

3-6A – PV of an Annuity and PV of an Annuity Due

You won a "$5 million" lottery prize. The lottery company will pay $100,000 per year for the next 50 years (starting in one year from now). The current interest rate is 8% annually.

Required:

a.) How much is this lottery prize "really worth" in today's dollars?
b.) What if the $100,000 payments started today rather than one year from now? (Annuity Due)

Free Video Walkthrough: https://youtu.be/eBOsQ2VCWxg

Members Video (Ad Free): https://youtu.be/js-GqTZ6RXc

3-6B – PV of an Annuity and PV of an Annuity Due

You won a "$10 million" lottery prize. The lottery company will pay $1,000,000 per year for the next 10 years (starting in one year from now). The current interest rate is 6% annually.

Required:

a.) How much is this lottery prize "really worth" in today's dollars?
b.) What if the $1,000,000 payments started today rather than one year from now? (Annuity Due)

Members Video (Ad Free): https://youtu.be/FxtSzjTR-1Q

3-7A – Present Value of an Annuity

You run a taxi company and are thinking of investing in all-electric vehicles. To change your fleet from gas-powered to electric would cost (net) $1,000,000 today, but would produce annual savings of $150,000 over the 10-year life of the cars. The company uses a discount rate of 6%.

Required:

Compute the present value of the annual savings to determine if this is a worthwhile investment.

Free Video Walkthrough: https://youtu.be/aojN6I7gO8E

Members Video (Ad Free): https://youtu.be/sdRONCXZWJg

3-7B – Present Value of an Annuity

You have an investment opportunity that will cost $500,000 today and will generate cash flows of $80,000 annually for the next 7 years. The company uses 9% as its discount rate.

Required:

Compute the present value of the future cash flows to determine if this is a worthwhile investment.

Members Video (Ad Free): https://youtu.be/K1mwPm4Y8zM

3-8A – Bond Price and Carrying Value over Time

Your company issues a 10-year $1,000,000 bond with a coupon rate of 9 percent and semi-annual coupons. The market rate of interest (AKA yield to maturity) is 8 percent.

Required:

a) Calculate price of the bond today.
b) Assuming no major changes, calculate the bond carrying value in 5 years.
c) Assuming no major changes, calculate the bond carrying value in 9 years.
d) Explain the movement in the bond carrying amount.

Free Video Walkthrough: https://youtu.be/XSCClCzSbXM

Members Video (Ad Free): https://youtu.be/otxtcxueemA

3-8B – Bond Price and Carrying Value over Time

Your company issues a 5-year $10,000,000 bond with a coupon rate of 10 percent and semi-annual coupons. The market rate of interest (AKA yield to maturity) is 12 percent.

Required:

a) Calculate price of the bond today.
b) Assuming no major changes, calculate the bond carrying value in 2 years.
c) Assuming no major changes, calculate the bond carrying value in 4 years.
d) Explain the movement in the bond carrying amount.

Members Video (Ad Free): https://youtu.be/a-gNGfinnww

Module 4: Reporting Financial Performance (Income Statement)

Module Introduction Video Links

Free Intro Video: https://youtu.be/B0tvaVLhYn4

Members Intro Video (Ad Free): https://youtu.be/Bd0okJALI0c

4-1A – Single Step vs Multi-Step Income Statements

The following information relates to Salazar Company's December 31, 2031 fiscal year end:

Cost of goods sold	221,000
Sales discounts	15,000
Administrative expense	100,000
Cash	40,000
Loss related to flood damage	125,000
Accounts payable	30,000
Sales revenue	600,000
Retained earnings	45,000
Selling expense	20,000
Income taxes payable	32,000
Accounts receivable	14,000
Interest expense	20,000
Interest revenue	5,000
Sales returns and allowances	4,000
Increase in value of company's reputation	9,000
Gain on sale of equipment	10,000

Additional information:

- Tax rate: 20%
- Weighted average number of common shares outstanding: 20,000

Required:

a.) Prepare a single step income statement. Include earnings per share.
b.) Prepare a multi-step income statement. Include earnings per share.

Free Video Walkthrough
Part 1: https://youtu.be/J1iGuu1Bmvk
Part 2: https://youtu.be/ABRLUG_Mswg

Members Video (Ad Free)
Part 1: https://youtu.be/S4WldlZzcOY
Part 2: https://youtu.be/PYcvowznRlQ

4-1B – Single Step vs Multi-Step Income Statements

The following information relates to Devries Company's December 31, 2031 fiscal year end:

Sales discounts	30,000
Selling expense	150,000
Accounts payable	30,000
Loss related to storm damage	35,000
Income taxes payable	32,000
Accounts receivable	14,000
Interest expense	15,000
Interest revenue	10,000
Sales returns and allowances	5,000
Retained earnings	45,000
Gain on sale of equipment	30,000
Cash	40,000
Administrative expense	125,000
Sales revenue	900,000
Increase in value of company's reputation	9,000
Cost of goods sold	250,000

Additional information:

- Tax rate: 30%
- Weighted average number of common shares outstanding: 1,000

Required:

a.) Prepare a single step income statement. Include earnings per share.
b.) Prepare a multi-step income statement. Include earnings per share.

Members Video (Ad Free): https://youtu.be/3NVGAOkI4AE

4-2A – Statement of Retained Earnings and Statement of Changes in Equity

Smith Company has the following equity account balances on January 1, 2031:

Common shares (no par value)	$20,000
Retained earnings	1,000,000
Accumulated other comprehensive income	150,000
Total shareholders' equity	$1,170,000

The company experienced the following equity-related activities during 2031:

Net income	$125,000
Cash dividends declared and paid	20,000
Stock dividends declared and issued	10,000
Common shares issued (1,000 shares @ $50/ea)	50,000
Unrealized gain on debt investments (OCI)	5,000

Required:

a.) Prepare a statement of retained earnings for the year ended December 31, 2031.
b.) Prepare a statement of changes in equity for the year ended December 31, 2031.

Members Video (Ad Free): https://youtu.be/p4knK09r1BQ

4-2B – Statement of Retained Earnings and Statement of Changes in Equity

Jones Company has the following equity account balances on January 1, 2031:

Common shares (no par value)	$120,000
Retained earnings	500,000
Accumulated other comprehensive income	200,000
Total shareholders' equity	$820,000

The company experienced the following equity-related activities during 2031:

Net income	$85,000
Cash dividends declared and paid	20,000
Stock dividends declared and issued	15,000
Common shares issued (100 shares @ $20/ea)	2,000
Unrealized gain on debt investments (OCI)	15,000

Required:

a.) Prepare a statement of retained earnings for the year ended December 31, 2031.
b.) Prepare a statement of changes in equity for the year ended December 31, 2031.

Members Video (Ad Free): https://youtu.be/7OEouEfes7I

4-3A – Income Statement, Comprehensive Income – Two Statement Approach

The following information relates to Solar Company's December 31, 2031 fiscal year end:

Loss on disposal of discontinued operation (pre-tax)	15,000
Operating expenses	50,000
Other revenues and gains	30,000
Cost of goods sold	75,000
Unrealized gain on debt investment securities (OCI) (pre-tax)	7,500
Sales revenue, net	200,000
Other expenses and losses	15,000
Loss on operations of discontinued operation (pre-tax)	10,000

Additional information:

- Tax rate: 30%
- Weighted average number of common shares outstanding: 20,000

Required:

a.) Prepare a multi-step income statement. (Include earnings per share).
b.) Prepare a separate statement of comprehensive income (Two statement approach).

Free Video Walkthrough: https://youtu.be/JlBfl7Z9fDE

Members Video (Ad Free): https://youtu.be/XKXg8-yPo1Y

4-3B – Income Statement, Comprehensive Income – Two Statement Approach

The following information relates to Lunar Company's December 31, 2031 fiscal year end:

Loss on operations of discontinued operation (pre-tax)	80,000
Other revenues and gains	20,000
Other expenses and losses	10,000
Operating expenses	150,000
Cost of goods sold	350,000
Sales revenue, net	750,000
Loss on disposal of discontinued operation (pre-tax)	32,000
Unrealized gain on debt investment securities (OCI) (pre-tax)	4,000

Additional information:

- Tax rate: 25%
- Weighted average number of common shares outstanding: 1,000

Required:

a.) Prepare a multi-step income statement. (Include earnings per share).
b.) Prepare a separate statement of comprehensive income (Two Statement Approach).

Members Video (Ad Free): https://youtu.be/9sAnJiWCPnI

4-4A – Income Statement, Comprehensive Income – One Statement Approach

The following information relates to Lovett Company's December 31, 2031 fiscal year end:

Gain on disposal of equipment	2,000
Goodwill impairment loss	10,000
Dividends declared on common shares	15,000
Dividends declared on preferred shares	5,000
Loss on disposal of discontinued division (pre-tax)	12,000
Loss from operation of discontinued division (pre-tax)	40,000
Selling and administrative expenses	120,000
Loss from flood damage	17,000
Cost of goods sold	200,000
Unrealized gain on FV-OCI investments (pre-tax)	32,000
Income tax expense	40,000
Interest revenue	5,000
Sales revenue, net	500,000

Additional information:

- Tax rate: 25%
- Weighted average number of common shares outstanding: 1,000

Required:

Prepare a multi-step statement of comprehensive income (one statement approach). Include earnings per share.

Members Video (Ad Free): https://youtu.be/n8EjsdDdX-I

4-4B – Income Statement, Comprehensive Income – One Statement Approach

The following information relates to Leavitt Company's December 31, 2031 fiscal year end:

Income tax expense	51,000
Loss on disposal of discontinued division (pre-tax)	50,000
Sales revenue, net	400,000
Dividends declared on common shares	60,000
Unrealized gain on FV-OCI investments (pre-tax)	30,000
Dividends declared on preferred shares	10,000
Gain on disposal of equipment	4,000
Selling and administrative expenses	100,000
Loss from storm damage	9,000
Cost of goods sold	120,000
Goodwill impairment loss	20,000
Interest revenue	15,000
Loss from operation of discontinued division (pre-tax)	10,000

Additional information:

- Tax rate: 30%
- Weighted average number of common shares outstanding: 10,000

Required:

Prepare a multi-step statement of comprehensive income (one statement approach). Include earnings per share.

Members Video (Ad Free): https://youtu.be/NPVCKzZ2PP0

Mod 4 Appendix

Statement of Financial Performance (IFRS 18)

4-5A – IFRS - Statement of Financial Performance

The following information relates to Lovett Company's December 31, 2031 fiscal year end:

Gain on disposal of equipment	2,000
Goodwill impairment loss	10,000
Dividends declared on common shares	15,000
Dividends declared on preferred shares	5,000
Loss on disposal of discontinued division (pre-tax)	12,000
Loss from operation of discontinued division (pre-tax)	40,000
Selling and administrative expenses	120,000
Loss from flood damage	11,000
Interest expense	6,000
Cost of goods sold	200,000
Unrealized gain on FV-OCI investments (pre-tax)	32,000
Income tax expense	40,000
Interest revenue	5,000
Sales revenue, net	500,000

Additional information:

- Tax rate: 25%
- Weighted average number of common shares outstanding: 1,000

Required:

Assume the company in the problem above wishes to present the information in a "Statement of Financial Performance" under IFRS 18. Prepare that statement.

Members Video (Ad Free): https://youtu.be/KhmEIZgHBS8

4-5B – IFRS - Statement of Financial Performance

The following information relates to Leavitt Company's December 31, 2031 fiscal year end:

Income tax expense	51,000
Loss on disposal of discontinued division (pre-tax)	50,000
Sales revenue, net	400,000
Dividends declared on common shares	60,000
Unrealized gain on FV-OCI investments (pre-tax)	30,000
Dividends declared on preferred shares	10,000
Gain on disposal of equipment	4,000
Selling and administrative expenses	100,000
Loss from storm damage	9,000
Cost of goods sold	120,000
Goodwill impairment loss	20,000
Interest revenue	15,000
Loss from operation of discontinued division (pre-tax)	10,000

Additional information:

- Tax rate: 30%
- Weighted average number of common shares outstanding: 10,000

Required:

Assume the company in the problem above wishes to present the information in a "Statement of Financial Performance" under IFRS 18. Prepare that statement.

Members Video (Ad Free): https://youtu.be/sZnu2Azr5CE

Module 5: Balance Sheet and Introductory Cash Flows

Module Introduction Video Links

Free Intro Video: https://youtu.be/aOtxFzbmB98

Members Intro Video (Ad Free): https://youtu.be/Sc2hGJogyik

5-1A – Balance Sheet (Statement of Financial Position)

Below is balance sheet information of Sam Company dated December 31, 2031 (presented in RANDOM order):

Account	Debit	Credit
Cash	$9,000	
Bonds Payable		$50,000
Wages payable		5,000
Machinery, net	60,000	
Retained earnings (ending)		155,000
Unearned revenues		4,000
Inventory	22,000	
Buildings, net	90,000	
Accounts receivable, net	12,000	
Notes Payable (long-term)		30,000
Common shares (no par value, 2,000 issued, 50,000 authorized)		10,000
Patents, net	26,000	
Interest payable		1,000
Accumulated other comprehensive income (ending)		21,000
Short-term trading investments (FV-NI)	6,000	
Trademarks, net	13,000	
Debt investments (FV-OCI - Long Term)	40,000	
Accounts payable		2,000

Required:

Based on the information above, prepare a classified balance sheet in good form.

Members Video (Ad Free): https://youtu.be/LrqWjjLn_8w

5-1B – Balance Sheet (Statement of Financial Position)

Below is balance sheet information of Tyler Company dated December 31, 2031 (presented in RANDOM order):

Account	Debit	Credit
Wages payable		$8,000
Debt investments (FV-OCI - Long Term)	$25,000	
Patents, net	15,000	
Retained earnings (ending)		282,000
Accumulated other comprehensive income (ending)		10,000
Cash	20,000	
Short-term trading investments (FV-NI)	5,000	
Buildings, net	225,000	
Franchises, net	10,000	
Notes Payable (long-term)		75,000
Unearned revenues		3,000
Inventory	54,000	
Equipment, net	150,000	
Income taxes payable		1,000
Common shares (no par value, 1,000 issued, 20,000 authorized)		6,000
Accounts receivable, net	7,000	
Bonds Payable		120,000
Accounts payable		6,000

Required:

Based on the information above, prepare a classified balance sheet in good form.

Members Video (Ad Free): https://youtu.be/REshegvKOrQ

5-2A – Balance Sheet (Statement of Financial Position)

Below is trial balance information of Linus Company dated December 31, 2031 (presented in RANDOM order):

Account	Debit	Credit
Accounts payable		$52,000
Accumulated depreciation—buildings		185,000
Unearned revenues		11,000
Gain on sale of equipment		30,000
Interest expense	$ 10,000	
Allowance for doubtful accounts		4,000
Unrealized gain on investment - OCI		7,000
Franchises, net	22,000	
Administrative expenses	120,000	
Accumulated depreciation—equipment		28,000
Selling expenses	100,000	
Land	132,000	
Sales revenue, net		500,000
Accounts receivable	37,000	
Notes Payable (long-term)		84,000
Equipment	189,000	
Buildings	455,000	
Inventory	62,000	
Retained earnings (beginning)		324,000
Wages payable		14,000
Dividends payable		1,000
Additional paid-in capital (USA) / Contributed surplus (CAN)		50,000
Debt investments (FV-OCI - Long Term)	40,000	
Patents, net	51,000	
Prepaid insurance	6,000	
Short-term trading investments (FV-NI)	106,000	
Cash	74,000	
Bonds Payable		250,000
Dividends	17,000	
Income tax expense	30,000	
Accumulated other comprehensive income (beginning)		25,000
Investment income		50,000
Common shares- $5 par value, 1,000 issued, 10,000 authorized		5,000
Income taxes payable		2,000
Cost of goods sold	200,000	
Notes payable (short-term)		29,000
Total	$1,651,000	$1,651,000

Required:

Based on the information above, prepare a classified balance sheet in good form.

Free Video Walkthrough: https://youtu.be/EqDwYAtra4Y
Members Video (Ad Free): https://youtu.be/4X5LXbK22ZA

5-2B – Balance Sheet (Statement of Financial Position)

Below is trial balance information of Luke Company dated December 31, 2031 (presented in RANDOM order):

Account	Debit	Credit
Accounts receivable	$22,000	
Cost of goods sold	300,000	
Investment income		$30,000
Administrative expenses	85,000	
Allowance for doubtful accounts		3,000
Inventory	79,000	
Dividends payable		7,000
Additional paid-in capital (USA) / Contributed surplus (CAN)		15,000
Mortgage payable		82,000
Prepaid rent	11,000	
Cash	111,000	
Common shares- $1 par value, 1,000 issued, 100,000 authorized		1,000
Unrealized gain on investment – OCI		4,000
Impairment loss	22,000	
Selling expenses	140,000	
Retained earnings (beginning)		475,000
Land	426,000	
Bank loan payable (long-term)		45,000
Accumulated depreciation—buildings		170,000
Gain on sale of machinery		17,000
Trademarks, net	16,000	
Notes payable (short-term)		12,000
Short-term trading investments (FV-NI)	120,000	
Accumulated depreciation—machinery		29,000
Sales revenue, net		800,000
Buildings	310,000	
Machinery	83,000	
Dividends	25,000	
Patents, net	65,000	
Income taxes payable		2,000
Accumulated other comprehensive income (beginning)		54,000
Debt investments (FV-OCI - Long Term)	18,000	
Accounts payable		41,000
Income tax expense	60,000	
Unearned revenues		6,000
Bonds Payable		100,000
Total	$1,893,000	$1,893,000

Required:

Based on the information above, prepare a classified balance sheet in good form.

Members Video (Ad Free): https://youtu.be/VE5XkbHHb0M

5-3A – Statement of Cash Flows (Indirect Method – for beginners)

The December 31 comparative balance sheet and income statement of Scott Company are below:

Balance Sheet

	2031	2030
ASSETS		
Cash	$53,000	$26,000
Accounts receivable	19,000	25,000
Inventory	28,000	32,000
Equipment	120,000	100,000
Accumulated depreciation	(45,000)	(40,000)
Total	$175,000	$143,000
LIABILITIES and EQUITY		
Accounts payable	$22,000	$30,000
Salaries payable	7,000	5,000
Income taxes payable	1,000	2,000
Notes payable	70,000	50,000
Common shares	15,000	10,000
Retained earnings	60,000	46,000
Total	$175,000	$143,000

Income Statement

	2031
Sales revenue, net	$300,000
Cost of goods sold	120,000
Gross profit	180,000
Operating expenses (excluding depreciation)	140,000
Depreciation expense	5,000
Operating income	35,000
Interest expense	8,000
Income before tax	27,000
Income tax expense	4,000
Net income	$23,000

Required:

a.) Based on the information above, using the indirect method, prepare a statement of cash flows for the year ended December 31, 2031.

b.) New information has come to light. In our answer to a.) above we assumed that equipment was purchased for cash, and while that was mostly true, we learn that the company purchased one piece of equipment signing an $8,000 note payable. Which line item(s) in your statement of cash flow need to be changed? What will they be changed to?

c)

Free Video Walkthrough: https://youtu.be/YnzNdL1duvM

Members Video (Ad Free): https://youtu.be/Mp5gZkuoBm4

5-3B – Statement of Cash Flows (Indirect Method – for beginners)

The December 31 comparative balance sheet and income statement of Tom Company are below:

Balance Sheet

	2031	2030
ASSETS		
Cash	$145,000	$90,000
Accounts receivable	86,000	70,000
Inventory	165,000	150,000
Equipment	215,000	190,000
Accumulated depreciation	(45,000)	(30,000)
Total	$566,000	$470,000
LIABILITIES and EQUITY		
Accounts payable	$162,000	$150,000
Salaries payable	9,000	12,000
Income taxes payable	3,000	4,000
Notes payable	160,000	140,000
Common shares	23,000	20,000
Retained earnings	209,000	144,000
Total	$566,000	$470,000

Income Statement

	2031
Sales revenue, net	$400,000
Cost of goods sold	150,000
Gross profit	250,000
Operating expenses (excluding depreciation)	135,000
Depreciation expense	15,000
Operating income	100,000
Interest expense	9,000
Income before tax	91,000
Income tax expense	20,000
Net income	$ 71,000

Required:

a.) Based on the information above, using the indirect method, prepare a statement of cash flows for the year ended December 31, 2031.

b.) New information has come to light. In our answer to a.) above we assumed that equipment was purchased for cash, and while that was mostly true, we learn that the company purchased one piece of equipment signing a $5,000 note payable. Which line item(s) in your statement of cash flow need to be changed? What will they be changed to?

c)

Members Video (Ad Free): https://youtu.be/R83rEkbhEyk

5-4A – Statement of Cash Flows (Indirect Method – Intermediate)

The December 31 comparative balance sheet and statement of comprehensive income of Chip Company are below:

Balance Sheet

	2031	2030
ASSETS		
Cash	$196,000	$ 90,000
Accounts receivable	17,000	23,000
Inventory	122,000	110,000
Prepaid insurance	7,000	3,000
Investments - (FV-OCI)	35,000	30,000
Equipment	215,000	190,000
Accumulated depreciation	(52,000)	(30,000)
Total	$540,000	$ 416,000
LIABILITIES and SE		
Accounts payable	$ 53,000	$ 42,000
Salaries payable	2,000	5,000
Income taxes payable	18,000	10,000
Dividends payable	11,000	4,000
Notes payable	165,000	150,000
Common shares	23,000	20,000
Retained earnings	255,000	177,000
AOCI	13,000	8,000
Total	$ 540,000	$ 416,000

Statement of Comprehensive Income

	2031
Sales revenue, net	$650,000
Cost of goods sold	300,000
Gross profit	350,000
Operating expenses (excluding depreciation)	170,000
Depreciation expense	25,000
Operating income	155,000
Interest expense	20,000
Loss on sale of equipment	10,000
Income before tax	125,000
Income tax expense	30,000
Net income	95,000
Other comprehensive income	
Unrealized gain -OCI	5,000
Comprehensive income	$ 100,000

Additional info:

- The company sold equipment with cost of 20,000 and accumulated depreciation of 3,000 during the year.

Required:

Using the indirect method, prepare a statement of cash flows for the year ended December 31, 2031.

Members Video (Ad Free): https://youtu.be/vfhy3E_oY3A

5-4B – Statement of Cash Flows (Indirect Method – Intermediate)

The December 31 comparative balance sheet and statement of comprehensive income of Dale Company are below:

Balance Sheet

	2031	2030
ASSETS		
Cash	$ 66,000	$ 50,000
Accounts receivable	57,000	41,000
Inventory	108,000	82,000
Prepaid insurance	7,000	12,000
Investments - (FV-OCI)	53,000	50,000
Equipment	310,000	220,000
Accumulated depreciation	(69,000)	(50,000)
Total	$ 532,000	$ 405,000
LIABILITIES and SE		
Accounts payable	$ 35,000	$ 7,000
Salaries payable	9,000	6,000
Income taxes payable	3,000	16,000
Dividends payable	13,000	4,000
Notes payable	165,000	180,000
Common shares	14,000	10,000
Retained earnings	285,000	177,000
AOCI	8,000	5,000
Total	$ 532,000	$ 405,000

Statement of Comprehensive Income

	2031
Sales revenue, net	$ 800,000
Cost of goods sold	450,000
Gross profit	350,000
Operating expenses (excluding depreciation)	120,000
Depreciation expense	40,000
Operating income	190,000
Interest expense	15,000
Loss on sale of equipment	3,000
Income before tax	172,000
Income tax expense	45,000
Net income	127,000
Other comprehensive income	
Unrealized gain -OCI	3,000
Comprehensive income	$ 130,000

Additional info:

- The company sold equipment with cost of 40,000 and accumulated depreciation of 21,000 during the year.

Required:

Using the indirect method, prepare a statement of cash flows for the year ended December 31, 2031.

Members Video (Ad Free): https://youtu.be/Mb5oQywlUlA

Module 5 Appendix

Statement of Cash Flows – IFRS 18

5-5A – Statement of Cash Flows (Indirect Method – IFRS 18)

The December 31 comparative balance sheet and statement of comprehensive income of Chip Company are below:

Balance Sheet

	2031	2030
ASSETS		
Cash	$196,000	$ 90,000
Accounts receivable	17,000	23,000
Inventory	122,000	110,000
Prepaid insurance	7,000	3,000
Investments - (FV-OCI)	35,000	30,000
Equipment	215,000	190,000
Accumulated depreciation	(52,000)	(30,000)
Total	$540,000	$ 416,000
LIABILITIES and SE		
Accounts payable	$ 53,000	$ 42,000
Salaries payable	2,000	5,000
Income taxes payable	18,000	10,000
Dividends payable	11,000	4,000
Notes payable	165,000	150,000
Common shares	23,000	20,000
Retained earnings	255,000	177,000
AOCI	13,000	8,000
Total	$ 540,000	$ 416,000

Statement of Comprehensive Income

	2031
Sales revenue, net	$650,000
Cost of goods sold	300,000
Gross profit	350,000
Operating expenses (excluding depreciation)	170,000
Depreciation expense	25,000
Operating income	155,000
interest expense	20,000
Loss on sale of equipment	10,000
Income before tax	125,000
Income tax expense	30,000
Net income	95,000
Other comprehensive income	
Unrealized gain -OCI	5,000
Comprehensive income	$ 100,000

Additional info:

- The company sold equipment with cost of 20,000 and accumulated depreciation of 3,000 during the year.
- The company adopts IFRS 18 for cash flow presentation.

Required:

Using the indirect method, prepare a statement of cash flows for the year ended December 31, 2031.

Members Video (Ad Free): https://youtu.be/9j46-tpmxnU

5-5B – Statement of Cash Flows (Indirect Method – IFRS 18)

The December 31 comparative balance sheet and income statement of Dale Company are below:

Balance Sheet

	2031	2030
ASSETS		
Cash	$ 66,000	$ 50,000
Accounts receivable	57,000	41,000
Inventory	108,000	82,000
Prepaid insurance	7,000	12,000
Investments - (FV-OCI)	53,000	50,000
Equipment	310,000	220,000
Accumulated depreciation	(69,000)	(50,000)
Total	$ 532,000	$ 405,000
LIABILITIES and SE		
Accounts payable	$ 35,000	$ 7,000
Salaries payable	9,000	6,000
Income taxes payable	3,000	16,000
Dividends payable	13,000	4,000
Notes payable	165,000	180,000
Common shares	14,000	10,000
Retained earnings	285,000	177,000
AOCI	8,000	5,000
Total	$ 532,000	$ 405,000

Statement of Comprehensive Income

	2031
Sales revenue, net	$ 800,000
Cost of goods sold	450,000
Gross profit	350,000
Operating expenses (excluding depreciation)	120,000
Depreciation expense	40,000
Operating income	190,000
interest expense	15,000
Loss on sale of equipment	3,000
Income before tax	172,000
Income tax expense	45,000
Net income	127,000
Other comprehensive income	
Unrealized gain -OCI	3,000
Comprehensive income	$ 130,000

Additional info:

- The company sold equipment with cost of 40,000 and accumulated depreciation of 21,000 during the year.
- The company adopts IFRS 18 for cash flow presentation.

Required:

Using the indirect method, prepare a statement of cash flows for the year ended December 31, 2031.

Members Video (Ad Free): https://youtu.be/JahjA8uH0UQ

Module 6: Revenue Recognition

Module Introduction Video Links

Free Intro Video: https://youtu.be/B0ge3vMd_cM

Members Intro Video (Ad Free): https://youtu.be/2MCLQ67Mt_k

6-1A – Identifying the Contract

The steps to revenue recognition are:

1.) Identify the Contract
2.) Identify the Performance Obligations
3.) Determine the Price
4.) Allocate the Price to the Performance Obligations
5.) Recognize Revenue as the Performance Obligations are Satisfied

Joe goes to Tim's Donuts and orders a glazed donut ($2).

Joe pays cash, and receives his donut 1 minute later.

Required:

a.) From the perspective of Tim's Donuts, is there a contract? Why or why not?
b.) Go through each of the steps above to determine whether or not revenue should be recognized.
c.) Assume coffee sells for $3 each and the donuts sell for $2 each. Assume Tim's Donuts offers a combo, Coffee + Donut = $4 (a $1 discount). If Joe buys this combo, how much revenue should be applied to the coffee, and how much should be applied to the donut?

Free Video Walkthrough: https://youtu.be/0OZGZunBVKs

Members Video (Ad Free): https://youtu.be/JH6NTJCeUcc

6-1B – Identifying the Contract

Jane goes to Burger Joint and buys a "Mega" hamburger for $7.

Jane pays cash, and receives her burger 3 minutes later.

Required:

a.) From the perspective of Burger Joint, is there a contract here? Why or why not?
b.) Go through each of the steps (at the top of this page) to determine whether or not revenue should be recognized.
c.) Assume the company sells a combo for $9 of items that can be purchased individually as follows:

"Mega" Hamburger: $7, Drink: $2, Fries: $3

Assume Jane buys the combo. How much revenue should be applied to each item in the combo?

Members Video (Ad Free): https://youtu.be/k3qDmydUIKg

6-2A – Identifying Performance Obligations

Mike's Bikes sells and performs maintenance on high-end mountain bikes. With any new bike purchase, the company includes free tune-ups for one year.

Required:

When the company sells a bike is it selling one or two products?

Members Video (Ad Free): https://youtu.be/Uo_6nPvmIfQ

6-2B – Identifying Performance Obligations

Apex Construction enters into a contract with St. Mary's Hospital to design and construct a new hospital wing for a total price of $15,000,000. The contract specifies that Apex is responsible for the overall management of the project.

The contract includes details about architectural design services, site preparation, procurement of materials (steel, concrete, glass), wiring, and construction labor. Apex frequently sells architectural design services and site preparation services separately.

Required:

How many performance obligations does Apex Construction have in this contract?

Members Video (Ad Free): https://youtu.be/JSWTx61PGuo

6-3A – Warranties (Performance Obligations)

On December 31, 2031, TechNova sells 200 high-end computers at a price of $5,000 each – their cost of goods is $3,000 per computer. The company provides a standard 1-year warranty on all computers sold. The estimated cost of service on these 200 computers is estimated to be $15,000 in the coming year. Some customers get the extended warranty plan (at an additional cost). This adds 3 extra years of warranty coverage. 20 customers purchased the extended warranty for $500 each.

Required:

Prepare the December 31, 2031 Journal Entries.

Part 2:

On February 14, 2032, a customer brings in a defective computer covered by the assurance warranty. TechNova replaces the screen. The part cost $50 and the technician's labor cost $30.

Required:

Prepare the February 14, 2032 Journal Entry.

Free Video Walkthrough: https://youtu.be/UBoiTUIgfTs

Members Video (Ad Free): https://youtu.be/JbBbPpJuKjk

6-3B – Warranties (Performance Obligations)

On December 31, 2031, Volta Ebikes sells 150 electric mountain bikes at a price of $2,000 each. The cost of goods sold is $1,400 per bike.

Volta provides a standard 1-year warranty on all bikes sold to cover battery or motor defects. Based on historical data, the total cost of service for these 150 bikes is estimated to be $8,000 in the coming year.

Separately, customers have the option to purchase a "Pro-Ride" extended warranty plan (adding 2 extra years of coverage). 20 customers purchased this extended warranty for $300 each.

Required:

Prepare the December 31, 2031 Journal Entries.

Part 2:

On February 28, 2032, a customer brings in a bike covered by the standard assurance warranty because of a faulty wire. Volta fixes the bike. The wire cost $25 and the technician's labor cost $60.

Required:

Prepare the Journal Entry.

Members Video (Ad Free): https://youtu.be/0lWg4xyD4Ns

6-4A – Variable Consideration

Build-It-Right Construction enters into a contract with a client to build a specialized warehouse for a base price of $800,000. The contract includes a performance bonus of $50,000 if the construction is completed by December 31, 2031.

- Based on their prior experience with similar projects and the current weather forecast, Build-It-Right estimates there is a 90% chance they will finish on time and receive the bonus, and a 10% chance they will be delayed and receive nothing.

Required:

a.) Assume the company uses the "Most Likely Amount" method. What is the transaction price?
b.) Assume the company uses the "Expected Value" method. What is the transaction price?

Free Video Walkthrough: https://youtu.be/6Tk2B0VulTQ

Members Video (Ad Free): https://youtu.be/pgLzZmYFuFE

6-4B – Variable Consideration

Chem-Pro supplies industrial cleaning solvents to large factories. On January 1, 2031, they enter into a contract with a new customer, AutoMaker Inc.

- The standard price per barrel is $100.
- The contract states that if AutoMaker purchases more than 1,000 barrels during the year, the price per barrel will be retroactively reduced to $90 for *all* barrels purchased in 2031.
- Based on AutoMaker's projected production, Chem-Pro estimates there is a 65% chance AutoMaker will exceed the 1,000-barrel threshold, and a 35% chance they will purchase fewer than 1,000 barrels.

Required:

a.) Assume the company uses the "Most Likely Amount" method. What is the transaction price per barrel?
b.) Assume the company uses the "Expected Value" method. What is the transaction price per barrel?

Members Video (Ad Free): https://youtu.be/HMiuE63j-Vc

6-5A – Right of Return

On December 10, 2031, Textbook Publishers Inc. sells 1,000 textbooks to the University Bookstore.

- Selling Price: $100 per book.
- Cost of Goods Sold: $60 per book.
- Payment terms: The Bookstore pays cash immediately.
- Return Policy: The Bookstore has the right to return unsold books within 90 days for a full refund.
- Based on historical data, Textbook Publishers estimates that 5% of the books will be returned.

Required:

Prepare the journal entries to record the sale and the cost of goods sold on December 10. (Hint: You will need to record a "Refund Liability" and an "Estimated Inventory Return Asset").

Free Video Walkthrough: https://youtu.be/jvwuyPvMzqE

Members Video (Ad Free): https://youtu.be/mlShIJHz-6k

6-5B – Right of Return

On November 1, 2031, Pro-Golf Inc. sells 500 sets of golf clubs to a sporting goods retailer.

- Selling Price: $400 per set.
- Cost of Goods Sold: $250 per set.
- Payment terms: Account receivable (Net 30).
- Return Policy: The retailer can return unsold sets for a full credit.
- Based on historical data, Pro-Golf Inc. estimates that 3% of the sets will be returned.

Required:

a.) Determine the transaction price (Revenue) that should be recorded on November 1.

b.) Prepare the journal entries to record the sale and the cost of goods sold on November 1.

Members Video (Ad Free): https://youtu.be/-EroH2KYSM0

6-6A – Upfront Fees (Performance Obligations)

On January 1, 2031, Bryan Jones joins Shaughnessy Golf Club. He pays a $10,000 initiation fee, and $2,000 for his annual membership. The average member joins the club for 10 years.

Required:

a.) Record the journal entry on January 1, 2031 (From the perspective of the Golf Club).
b.) Assuming a fiscal year end of December 31, record the December 31, 2031 adjusting entry. (Assume no other adjustments had been made between Jan 1 and Dec 31).

Part B

Bryan remains a member for three full years (2031, 2032, and 2033). On January 1, 2034, Bryan cancels his membership. The initiation fee is strictly non-refundable.

Required:

Prepare the journal entry to record the termination of the membership.

Members Video (Ad Free): https://youtu.be/bVMoCmyhnl4

6-6B – Upfront Fees (Performance Obligations)

On January 1, 2031, Sarah Miller joins the exclusive Olympus Health Club. She pays a $4,000 initiation fee and $1,200 for her annual membership. The average member stays with the club for 5 years.

Required:

1. Record the journal entry on January 1, 2031 (From the perspective of Olympus Health Club).
2. Assuming a fiscal year end of December 31, record the December 31, 2031 adjusting entry. (Assume no other adjustments had been made between Jan 1 and Dec 31).

Part B

Sarah remains a member for two full years (2031 and 2032). On January 1, 2033, Sarah cancels her membership. The initiation fee is strictly non-refundable.

Required:

Prepare the journal entry to record the termination of the membership.

Members Video (Ad Free): https://youtu.be/CkDUQDrnM3A

6-7A – Price Allocation

Apex Medical creates high-end medical imaging equipment. On January 1, 2031, they enter into a $450,000 contract with City Hospital to provide:

1. The "Scanner X1" (A Medical Device)
2. A 3-year Maintenance Plan

Additional information

- Apex sells the Scanner X1 separately to other customers for $380,000.
- Apex does not normally provide a standalone maintenance plan, but competitors provide similar 3-year maintenance plans at a market price of $100,000.

Required:

a.) Allocate the transaction price ($450,000) to the two performance obligations.

b.) Prepare the journal entry on January 1, 2031, to record the sale (assuming the Scanner is delivered immediately and the transaction is “on account”).

Free Video Walkthrough: https://youtu.be/C0Ygz3bcF6g

Members Video (Ad Free): https://youtu.be/Z95hH4KsQog

6-7B – Price Allocation

CyberCore Systems sells high-performance computer servers. On January 1, 2031, they enter into a $90,000 contract with a startup, TechStart, to provide:

1. The "DataVault Server" (Hardware)
2. A 2-Year Tech Support Plan

Additional information:

- CyberCore sells the DataVault Server without a support package for $75,000.
- CyberCore does not sell the support plan separately, but competitors sell similar 2-year support plans for a market price of $25,000. (CyberCore uses this market price as their estimate).

Required:

a.) Allocate the transaction price ($90,000) to the two performance obligations.

b.) Prepare the journal entry on January 1, 2031, to record the sale (assuming the Server is delivered immediately and the transaction is "on account").

Members Video (Ad Free): https://youtu.be/0-dUfPjKU-c

6-8A – Price Allocation

AeroTech Dynamics manufactures specialized drones for agricultural use. On January 1, 2031, they sign a contract with a large farming co-op to provide two items for a total contract price of $225,000:

1. The "Agri-Scout" Drone (Hardware)
2. Customized Pilot Training (A 2-week on-site course)

Additional Information

- The Agri-Scout Drone: AeroTech sells this drone separately to other customers for $200,000.
- Customized Pilot Training: This is a specific curriculum designed for this customer. AeroTech does not sell this separately and there is no comparable market price. Therefore, AeroTech estimates the price using the Expected Cost Plus a Margin approach.
    - Forecasted internal costs to provide the training (labor and travel): $40,000.
    - AeroTech typically adds a 25% margin to its costs for service contracts.

Required:

1. Calculate the Estimated Standalone Selling Price for the Customized Pilot Training.
2. Allocate the transaction price ($225,000) to the two performance obligations.
3. Prepare the journal entry on January 1, 2031, to record the transaction (assuming the Drone is delivered immediately, but the Training will occur later. The customer pays cash).

Free Video Walkthrough: https://youtu.be/-SJNmA8J8Ks

Members Video (Ad Free): https://youtu.be/gyeR3oJk5VQ

6-8B – Price Allocation

Solara Energy Solutions manufactures commercial solar power systems. On January 1, 2031, they sign a contract with a manufacturing plant to provide two items for a total contract price of $135,000:

1. The "SunGrid" Panel System (Hardware)
2. Site Efficiency Consultation (A specialized energy analysis service)

Additional Information

- The SunGrid Panel System: Solara sells this system separately to other customers for $120,000.
- Site Efficiency Consultation: This is a custom analysis designed for the specific location. Solara does not sell this separately and there is no comparable market price. Therefore, Solara estimates the price using the Expected Cost Plus a Margin approach.
    - Forecasted internal costs to provide the consultation (labor and software): $24,000.
    - Solara typically adds a 25% margin to its costs for service contracts.

Required:

1. Calculate the Estimated Standalone Selling Price for the Site Efficiency Consultation.
2. Allocate the transaction price ($135,000) to the two performance obligations.
3. Prepare the journal entry on January 1, 2031, to record the transaction (assuming the Panel System is delivered immediately, but the Consultation will occur later. The customer pays cash).

Members Video (Ad Free): https://youtu.be/up5kYeSaarw

6-9A – Price Allocation

Quantum Robotics creates industrial automation software. On January 1, 2031, they sign a contract with a manufacturing firm to provide two products for a total contract price of $250,000:

1. The "BaseOS" License (Standard software)
2. Experimental Integration Service (Custom coding to make the robots talk to the software)

Additional Information

- The BaseOS License: Quantum sells this software separately to many customers for $210,000.
- The Integration Service: This is a completely new service involving experimental code. Quantum has never sold it before, and because the hours required are unknown, the price is considered highly variable and uncertain. Consequently, Quantum decides to use the Residual Approach to price allocation.

Required:

Determine the revenue to be allocated to the Integration Service using the Residual Approach.

Members Video (Ad Free): https://youtu.be/Ds13TgZbOGk

6-9B – Price Allocation

Helix Biosystems manufactures advanced genetic sequencing equipment. On January 1, 2031, they sign a contract with a university research lab to provide two products for a total contract price of $150,000:

1. The "GeneMap" Analyzer (Standard Hardware)
2. Beta-Test Data Analysis (Experimental service to interpret the new data format)

Additional Information

- The GeneMap Analyzer: Helix sells this machine separately to many other hospitals and labs for $120,000.
- The Beta-Test Data Analysis: This is a completely new service involving unproven algorithms. Helix has never sold it before, and because the complexity is unknown, the price is considered highly variable and uncertain. Consequently, Helix decides to use the Residual Approach to price allocation.

Required:

Determine the revenue to be allocated to the Beta-Test Data Analysis service using the Residual Approach.

Members Video (Ad Free): https://youtu.be/DVTCGg1Id2Y

6-10A – Price Allocation

ChefPro sells commercial kitchen packages. On June 1, 2031 they sign a contract with a new restaurant to provide three items for a total bundled price of $120,000.

- Industrial Ovens (Equipment) – ChefPro sells these ovens separately for $100,000.
- Professional Installation – ChefPro offers this service for $30,000. The installation is standard, and the customer could hire a third-party contractor to perform it instead.
- 2-Year Maintenance Plan – ChefPro sells this plan separately to other customers for $20,000.

The equipment is delivered June 1. The installation happens on June 30, 2031, and the maintenance plan starts on that date.

Required

a.) Record the June 1, 2031 Journal Entry.
b.) Record the June 30 adjustment.
c.) Record any December 31, 2031 (Fiscal Year End) adjusting entries.

Members Video (Ad Free): https://youtu.be/RW2oZKLWpVE

6-10B – Price Allocation

NetWorks Solutions sells advanced server packages. On March 1, 2031, they sign a contract with a large law firm to provide three items for a total bundled price of $240,000.

1. Titan Server (Hardware) – NetWorks sells this server separately for $200,000.
2. Custom Network Setup – NetWorks offers this setup service for $40,000. It is a distinct service that other IT firms could perform.
3. 3-Year Cyber-Security Plan – NetWorks sells this subscription separately for $60,000.

The server is delivered on March 1, 2031. The Custom Network Setup is completed on April 1, 2031, and the Cyber-Security Plan begins on that same date.

Required

a.) Record the March 1, 2031 Journal Entry.

b.) Record the April 1 adjustment (for the completed setup).

c.) Record any December 31, 2031 (Fiscal Year End) adjusting entries.

Members Video (Ad Free): https://youtu.be/H1Mef2ux1q0

6-11A – Revenue Recognition over Time

On January 1, 2031, Omni-Tech Services enters into a 2-year IT maintenance contract with a new client. The terms of the contract are as follows:

- Upfront Fee: The client pays a one-time "Activation Fee" of $12,000 on January 1.
- Monthly Fees: The client must pay $1,000 at the end of each month for the duration of the 2-year contract.

Omni-Tech determines that the customer benefits from the service evenly throughout the contract term.

Required:

a) Determine the amount of revenue to be recognized each month.

b) Record the journal entry on January 1, 2031 (Receipt of the upfront fee).

c) Record the journal entry on January 31, 2031 (Receipt of the first monthly payment and revenue recognition for the month).

d) Calculate the balance in the "Unearned Revenue" account as of December 31, 2031.

Members Video (Ad Free): https://youtu.be/Ey8hPO57nQw

6-11B – Revenue Recognition over Time

On January 1, 2031, Guardian Security Systems enters into a 3-year security monitoring contract with a new warehouse client. The terms of the contract are as follows:

Upfront Fee: The client pays a one-time "System Connection Fee" of $9,000 on January 1.

Monthly Fees: The client must pay $500 at the end of each month for the duration of the 3-year contract.

Guardian determines that the customer benefits from the service evenly throughout the contract term.

Required:

a) Determine the amount of revenue to be recognized each month.

b) Record the journal entry on January 1, 2031 (Receipt of the upfront fee).

c) Record the journal entry on January 31, 2031 (Receipt of the first monthly payment and revenue recognition for the month).

d) Calculate the balance in the "Unearned Revenue" account as of December 31, 2031.

Members Video (Ad Free): https://youtu.be/czKUPe6mVR0

6-12A – Percentage of Completion

On January 1, 2031, Tower Construction signs a contract to build a bridge for the City of Kamloops. The total fixed contract price is $12,000,000. The project is expected to take 3 years. The following cost information is available for the first year (2031):

i.) Costs incurred during 2031: $3,000,000

ii.) Billings sent to the City during 2031: $3,500,000

iii.) Cash collected from the City during 2031: $3,050,000

Required:

a.) Record journal entries for the items above.
b.) Assuming that the estimated costs remaining to complete the project are: $5,000,000. Calculate the percentage of completion for 2031.
c.) Calculate the Gross Profit to be recognized in 2031.
d.) Prepare the journal entry to record the Revenue and Construction Expense for 2031.
e.) On December 31, 2031, what are the following account balances:
    1. Accounts Receivable
    2. Construction in process
    3. Billings on Construction
    4. Net Contract Position (Asset or Liability)

Free Video Walkthrough: https://youtu.be/Y4aMc0H2p9s

Members Video (Ad Free): https://youtu.be/N0U0I_6Tgbg

6-12B – Percentage of Completion

On January 1, 2031, Stellar Systems signs a contract to build a custom satellite network for a telecom company. The total contract price is $5,000,000. The following cost information is available for the first year (2031):

- Costs incurred during 2031: $1,500,000
- Billings sent to the customer during 2031: $2,100,000
- Cash collected from the customer during 2031: $1,800,000

Required:

a.) Record journal entries for the items above.
b.) Assuming that the estimated costs remaining to complete the project are: $2,250,000. Calculate the percentage of completion for 2031.
c.) Calculate the Gross Profit to be recognized in 2031.
d.) Prepare the journal entry to record the Revenue and Construction Expense for 2031.
e.) On December 31, 2031, what are the following account balances:
    1. Accounts Receivable
    2. Construction in process
    3. Billings on Construction
    4. Net Contract Position (Asset or Liability)

Members Video (Ad Free): https://youtu.be/BayECInNQVk

6-13A – Revenue Recognition – 5 steps

Smith Computers sells and installs computer systems for large organizations. A local university is looking for 50 high-performance systems for a computer lab.

Smith Computers usually sells these systems for $2,000 each (the cost to Smith is $1,400 per computer). Smith normally charges $200 per computer for installation (the cost of installation to Smith is $30 per computer – just employee time.) Installation is routine and could be performed by other vendors.

Because the job is high volume, Smith prices the bundled package (50 computers + Installation) at a discount for a total contract price of $99,000.

On January 1, 2031, the two parties sign a contract. On January 15, 2031, the computers are delivered, and the university pays the full $99,000 cash. On February 10, 2031, the installation work is completed.

Required:

a.) Evaluate the transaction using the 5 steps of revenue recognition.

b.) Prepare any necessary journal entries based on the information above.

Members Video (Ad Free): https://youtu.be/AUlrrMHN-FA

6-13B – Revenue Recognition – 5 steps

Apex Fitness Solutions manufactures and sells commercial-grade treadmills to gyms and rehabilitation centers. A regional gym chain, PowerHouse, wishes to upgrade its cardio section and orders 20 commercial treadmills.

Apex normally sells these treadmills for $2,500 each (the cost to Apex is $1,500 per unit). Apex also offers a 'White Glove' setup and calibration service for $150 per treadmill (the cost to Apex for the labor is $50 per unit). This service is not proprietary; PowerHouse could easily hire a third-party technician to install and calibrate the machines.

To secure the bulk order, Apex offers a bundled contract price for the 20 treadmills and the setup service for a total of $42,400.

- On June 1, 2031, the contract is signed.
- On June 15, 2031, the treadmills are delivered to the gym, and PowerHouse pays the full $42,400 cash.
- On July 5, 2031, the setup and calibration work is completed by Apex technicians.

Required:

a.) Evaluate the transaction using the 5 steps of revenue recognition.

b.) Prepare any necessary journal entries based on the information above.

Members Video (Ad Free): https://youtu.be/9ZFbSy28F-Q

6-14A – Repurchase Agreements

Titan Heavy Machinery is a dealership that sells large industrial excavators. They currently have a surplus of inventory and need short-term cash to pay their suppliers.

On January 1, 2030, Titan enters into a contract with Reliant Capital Partners. The terms are as follows:

1. Titan transfers legal title of 10 excavators to Reliant Capital.
2. Reliant Capital pays Titan $2,000,000 cash (which equals the current standalone selling price of the excavators).
3. The excavators are moved to a third-party bonded warehouse.
4. Titan has an unconditional obligation to repurchase the 10 excavators on December 31, 2030, for $2,160,000.

Required:

a.) Determine if Titan Heavy Machinery should recognize revenue on January 1, 2030. Explain why or why not using the 5-step revenue recognition model.

b.) Prepare the journal entries for Titan on January 1, 2030, and December 31, 2030.

Members Video (Ad Free): https://youtu.be/C6APFFBOPKI

6-14B – Repurchase Agreements

Prestige Auto Group is a dealership specializing in imported luxury vehicles. On July 1, 2031, to raise capital for a new showroom renovation, Prestige enters into an agreement with City National Bank.

The terms of the agreement are:

1. Prestige transfers legal title of 5 limited-edition sports cars to City National Bank.
2. The bank pays Prestige $500,000 cash (which represents the fair market value of the cars).
3. Prestige keeps the cars on their lot but moves them to a restricted "Sold" section; the cars cannot be test-driven or sold to other customers.
4. Prestige is contractually required to repurchase the 5 cars on June 30, 2032 (exactly one year later), for a total price of $550,000.

Required:

a.) Evaluate the transaction. Should Prestige Auto Group recognize revenue on July 1, 2031? Why or why not?

b.) Prepare the journal entries for Prestige on July 1, 2031 (inception) and December 31, 2031 (Prestige's fiscal year-end).

Members Video (Ad Free): https://youtu.be/uAeUiU3cqSQ

6-15A – Bill and Hold Arrangements

Read the following two independent scenarios for Weston Industrial Supply, a company that sells heavy-duty shelving units. For each scenario, determine if Weston can recognize revenue on December 31, 2031.

Scenario A: The Construction Delay

On December 28, 2031, a customer (Logistics Corp) orders 500 custom shelving units for $50,000. The units are manufactured and ready for shipment on December 30. However, Logistics Corp contacts Weston and requests that the units be held at Weston's warehouse for two weeks because the Logistics Corp warehouse floor is currently being repainted and cannot hold the weight yet.

Weston agrees. On December 31, Weston segregates the 500 units in a specific corner of the loading dock, tags them "Property of Logistics Corp," and invoices the customer. Logistics Corp pays the bill on December 31.

Scenario B: The Sales Target

On December 28, 2031, a sales manager at Weston calls a loyal customer (Retail Inc.) and offers a 10% discount if they place their Q1 order immediately so Weston can hit its year-end sales targets. Retail Inc. agrees to buy standard shelving units for $50,000 but states they don't have room for them until February.

Weston agrees to hold the goods. On December 31, the goods are fully manufactured and sitting in Weston's general inventory area, mixed with identical shelving units available for other customers. Weston invoices Retail Inc. on December 31.

Required:

1. Does Scenario A qualify for revenue recognition on December 31? Explain why or why not.
2. Does Scenario B qualify for revenue recognition on December 31? Explain why or why not.
3. Prepare the Journal Entry for Scenario A on December 31. (Assume Cost of Goods Sold is $34,000)

Members Video (Ad Free): https://youtu.be/JB9lvZ9LwIg

6-15B – Bill and Hold Arrangements

Read the following two independent scenarios for Zenith Heavy Machinery, a manufacturer of industrial generators. For each scenario, determine if Zenith can recognize revenue on its fiscal year-end, December 31, 2031.

Scenario A: The Early Bird Discount

On December 27, 2031, Zenith's Vice President of Sales notices the company is 5% short of its annual revenue quota. She contacts a distributor, Alpha Tools, and offers a 15% discount if they purchase 20 standard Model-X generators immediately ($300,000 value) rather than waiting until their usual purchase date in March.

Alpha Tools agrees to the price but states they do not have space to store the generators until March. Zenith agrees to hold the inventory. On December 31, the 20 generators are fully manufactured and sitting in Zenith's main warehouse. Because the Model-X is a standard unit, these 20 generators are mixed in with 50 other identical units available for sale to any customer. Zenith invoices Alpha Tools on December 31.

Scenario B: The Warehouse Renovation

On December 20, 2031, a client (Omega Manufacturing) places a custom order for 10 industrial generators for a total price of $200,000. The generators are completed and ready for shipment on December 29. However, Omega contacts Zenith and explains that a fire sprinkler malfunctioned in their receiving bay, causing water damage that will take three weeks to repair. Omega requests that Zenith hold the goods until January 20.

Zenith agrees to the request. On December 31, Zenith moves the 10 finished generators to a secured, separate cage in the warehouse, shrink-wraps them, and applies a label reading "Property of Omega Mfg - Do Not Sell." Zenith sends the invoice to Omega on December 31, and Omega agrees to the payment terms.

Required:

1. Does Scenario A qualify for revenue recognition on December 31? Explain why or why not.
2. Does Scenario B qualify for revenue recognition on December 31? Explain why or why not.
3. Prepare the Journal Entry for Scenario B on December 31 (Assume Cost of Goods Sold is $120,000).

Members Video (Ad Free): https://youtu.be/OEYvWIxD47c

6-16A – Consignment Sales

Vintage Audio makes high-end vintage-style speakers. They have a consignment arrangement with a popular downtown store called Metro Music.

On October 1, 2031, Vintage Audio ships 10 sets of speakers to Metro Music to be sold on consignment. Details are below:

> Cost: The speakers cost Vintage Audio $600 per set.
>
> Shipping: Vintage Audio pays $200 total cash to ship the 10 sets to Metro Music.
>
> Pricing: Metro Music agrees to sell the speakers for $1,500 per set.
>
> Terms: Metro Music will keep a 20% commission on any sales and remit the remaining cash to Vintage Audio at the end of the month.

On October 31, 2031, Metro Music reports that they have sold 4 sets of speakers to customers for cash. They immediately remit the cash owed to Vintage Audio.

Required:

a.) Prepare the journal entries for Vintage Audio

b.) Prepare the journal entries for Metro Music

Free Video Walkthrough: https://youtu.be/71nCeu_4coQ

Members Video (Ad Free): https://youtu.be/stfxI6QiUNQ

6-16B – Consignment Sales

Rustic Oak Manufacturers builds handcrafted dining tables. They want to expand into a new city and agree to place their inventory in a high-end showroom called Urban Design.

On May 1, 2030, Rustic Oak ships 20 dining tables to Urban Design on consignment.

- Cost: The tables cost Rustic Oak $400 each to manufacture.
- Shipping: Rustic Oak pays $500 total cash to a trucking company to transport the 20 tables to the showroom.
- Pricing: Urban Design will list the tables for sale at $1,200 each.
- Terms: Urban Design will keep a 25% commission on any sales and remit the remaining cash to Rustic Oak at the end of the month.

On May 31, 2030, Urban Design reports that they have sold 5 tables to customers. They collect the full cash amount from customers and remit the net amount owed to Rustic Oak.

Required:

a.) Prepare the journal entries for Rustic Oak Manufacturers
b.) Prepare the journal entries Urban Design

Members Video (Ad Free): https://youtu.be/kcTNDHw5tXA

Module 7: Cash and Receivables

Module Introduction Video Links

Free Intro Video: https://youtu.be/vP5vuLhC6fU

Members Intro Video (Ad Free): https://youtu.be/sJwhh82zSbE

7-1A – Classifying cash

How should each item below be classified? Mark the correct column with an X. If you think it's "Other", write in the account it should be classified as.

Item:	Cash?	Cash Equivalent?	Restricted Cash?	Other? (Write your answer)
Cash in savings account				
Cash in payroll account				
Cash in payroll account required under union contract				
Unused postage stamps				
100-day certificate of deposit (AKA term deposit)				
Petty cash				
Post-dated cheque received from client				
Gold				

Free Video Walkthrough: https://youtu.be/hCGw8_Ef1zk

Members Video (Ad Free): https://youtu.be/7chX1fW3u-E

7-1B – Classifying cash

How should each item below be classified? Mark the correct column with an X. If you think it's "Other", write in the account it should be classified as.

Item:	Cash?	Cash Equivalent?	Restricted Cash?	Other? (Write your answer)
Cash in chequing account				
60-day treasury bill				
NSF cheque returned by the bank				
Coins				
Minimum compensating balance for loan				
Bank overdraft				
Bank account frozen by court order				
Bitcoin				

Members Video (Ad Free): https://youtu.be/zH0bqYjCB14

7-2A – Trade Discounts

On January 1, 2031, Fire Strike Computers sells 10 computers to Goodey Electronics Shop on account. The computers have a list price of $1,000 each. Fire Strike grants retailers a 40% trade discount off the list price, so the invoice is issued at the net amount. Fire Strike's unit cost is $450.

Required:

Prepare the January 1 journal entry for Fire Strike.

Members Video (Ad Free): https://youtu.be/yylQSs8_P4A

7-2B – Trade Discounts

On March 15, 2031, Annex Office Furniture sells 20 executive desks to Legal Eagles on account. The desks have a list price of $2,000 each. Annex grants commercial customers a 25% trade discount off the list price, so the invoice is issued at the net amount. Annex's unit cost is $900.

Required:

Prepare the March 15 journal entry for Annex Office Furniture.

Members Video (Ad Free): https://youtu.be/TFjLppmWbes

7-3A – Sales Discounts (Discount Taken)

On February 1, 2031, James Company sells 12 units of inventory to a customer on account. The inventory has a list price of $1,000 per unit. Commercial customers receive a 40% trade discount off the list price, so the invoice is issued at the net amount.

Credit terms are 2/10, n/30. James Company's cost is $400 per unit.
The customer pays on February 8, 2031.

Required:

a.) Assuming the company uses the gross method prepare journal entries for sale and payment.
b.) Assuming the company uses the net method prepare journal entries for sale and payment.

Free Video Walkthrough: https://youtu.be/C28_odm4wZg

Members Video (Ad Free): https://youtu.be/Ka_zB-Obe0g

7-3B – Sales Discounts (Discount Taken)

On May 5, 2031, Roberts Corp sells 50 units of inventory to a wholesaler on account. The inventory has a list price of $200 per unit. The wholesaler receives a 30% trade discount off the list price, so the invoice is issued at the net amount.

Credit terms are 3/10, n/30. Roberts Corp's cost is $80 per unit. The customer pays on May 14, 2031.

Required:

a.) Assuming the company uses the gross method prepare journal entries for sale and payment.
b.) Assuming the company uses the net method prepare journal entries for sale and payment.

Members Video (Ad Free): https://youtu.be/WYK___jgsQ0

7-4A – Sales Discounts (Discount Missed)

On June 1, 2031, Wilson Manufacturing sells 200 units of inventory to a retailer on account. The inventory has a list price of $1,000 per unit. The retailer receives a 20% trade discount off the list price, so the invoice is issued at the net amount.

Credit terms are 2/10, n/30. Wilson Manufacturing's cost is $500 per unit. The customer pays the full amount due on June 20, 2031.

Required:

a.) Assuming the company uses the gross method prepare journal entries for sale and payment.
b.) Assuming the company uses the net method prepare journal entries for sale and payment.

Members Video (Ad Free): https://youtu.be/TnIWmZ22OaU

7-4B – Sales Discounts (Discount Missed)

On August 12, 2031, Miller Corp sells 40 units of inventory to a customer on account. The inventory has a list price of $250 per unit. The customer receives a 20% trade discount off the list price, so the invoice is issued at the net amount.

Credit terms are 1/15, n/30. Miller Corp's cost is $100 per unit. The customer pays the full amount due on September 2, 2031.

Required:

a.) Assuming the company uses the gross method prepare journal entries for sale and payment.
b.) Assuming the company uses the net method prepare journal entries for sale and payment.

Members Video (Ad Free): https://youtu.be/EHbDWP_37H8

7-5A – Sales Returns

On December 15, 2031, Jones Company sells 50 network switches on account for $100 each (their cost is $60 per unit). The company expects 10% of purchased switches will be returned. The company records sales and accounts receivable at their gross amounts and makes any adjustments at year end.

On December 23, 2031, one switch is returned and the customer's account is credited. All returned switches are placed in a holding area (to be inspected later).

December 31, 2031 is the company's year-end. On this date, 4 more switches are still expected to be returned.

January 5, 2032, another 2 network switches are returned and the customers' accounts are credited. All returned switches are placed in a holding area (to be inspected later).

Required:

Prepare the journal entries and adjustments from the perspective of Jones Company.

Free Video Walkthrough: https://youtu.be/O3YeNcPHSm8

Members Video (Ad Free): https://youtu.be/0yIdQ4Z3AO4

7-5B – Sales Returns

On December 10, 2031, Miller Corp sells 125 industrial drills to a construction firm on account for $240 each (their cost is $140 per unit). The company expects 8% of purchased drills will be returned. Miller Corp records sales and accounts receivable at their gross amounts and makes any adjustments at year-end.

On December 24, 2031, 2 drills are returned and the customer's account is credited. The drills are placed in a holding area to be inspected.

December 31, 2031 is the company's year-end. On this date, based on the 8% estimate, the remaining expected returns are accrued.

On January 6, 2032, another 4 drills are returned and the customer's account is credited. These drills are placed in a holding area to be inspected.

Required:

Prepare the journal entries and adjustments from the perspective of Miller Corp.

Members Video (Ad Free): https://youtu.be/njeNH0iQvKE

7-6A – Accounts Receivable Allowances

Highland Company shows the following information on December 31, 2031, the company's fiscal year-end:

Account	Debit	Credit
Accounts receivable	$130,000	
Allowance for credit losses	500	

The company's accountant generated the following aging schedule of accounts receivable:

Number of Days Outstanding	Amount Receivable	Estimated Credit Losses
0-30 days	$80,000	2%
31-60 days	30,000	5%
61-90 days	12,000	15%
Over 90 days	8,000	40%

Required:

a.) Prepare the adjustment to allowance for credit losses based on the information above.
b.) Show how accounts receivable, net would be disclosed on the balance sheet.
c.) On February 10, 2032, the company writes off a $1,200 receivable from a customer. Record the entry.

Free Video Walkthrough: https://youtu.be/_-eTH5BTkxI

Members Video (Ad Free): https://youtu.be/jzQFOQmI2Xs

7-6B – Accounts Receivable Allowances

Thistle Company shows the following information on December 31, 2031, the company's fiscal year-end:

Account	Debit	Credit
Accounts receivable	$250,000	
Allowance for credit losses		$2,100

The company's accountant generated the following aging schedule of accounts receivable:

Number of Days Outstanding	Amount Receivable	Estimated Credit Losses
0-30 days	$160,000	1%
31-60 days	60,000	4%
61-90 days	20,000	10%
Over 90 days	10,000	45%

Required:

a.) Prepare the adjustment to allowance for credit losses based on the information above.
b.) Show how accounts receivable, net would be disclosed on the balance sheet.
c.) On January 10, 2032, the company writes off a $1,500 receivable from a customer. Record the entry.
d.) On March 20, 2032, the customer from Jan 10 SURPRISINGLY pays the amount that had previously been written off. Record the transaction.

Members Video (Ad Free): https://youtu.be/wN4jdB-hQPM

7-7A – Basic Notes Receivable

On September 30, 2031, Ranch Company completed a design job. In exchange for the services, the client immediately signed a 9-month note for $15,000 with an annual interest rate of 10%. The principal and interest are due on July 1, 2032.

Ranch Company has a fiscal year end of December 31.

The note is repaid in full on the maturity date.

Required:

From the perspective of Ranch Company, prepare all relevant journal entries.

Members Video (Ad Free): https://youtu.be/ba6C5Ggq6gY

7-7B – Basic Notes Receivable

On November 1, 2031, Summit Company completed a consulting project for a client. In exchange for the services, the client immediately signed a 6-month note for $30,000 with an annual interest rate of 8%. The principal and interest are due on May 1, 2032.

Summit Company has a fiscal year end of December 31.

The note is repaid in full on the maturity date.

Required:

From the perspective of Summit Company, prepare all relevant journal entries.

Members Video (Ad Free): https://youtu.be/ZnWRENKGUUA

7-8A – More Complex Notes Receivable Entries (Zero Interest Note)

On January 1, 2031, Horse Company sells a piece of land in exchange for a 4-year note receivable with no stated interest rate. The note calls for Horse Company to receive a single payment of $50,000 on January 1, 2035.

The land had an original cost of $35,000 and a fair value of $38,144 at the time of the sale. There is no established market for the note, so the fair value of the land is used to determine the present value of the transaction.

Required:

a.) Record the January 1, 2031 journal entry.
b.) Calculate the implied effective interest rate.
c.) Record the December 31, 2031 adjusting entry.

Members Video (Ad Free): https://youtu.be/_8pNnNt9YI4

7-8B – More Complex Notes Receivable Entries (Zero Interest Note)

On January 1, 2031, Zebra Company sells a tract of land in exchange for a 3-year note receivable with no stated interest rate. The note calls for Zebra Company to receive a single payment of $100,000 on January 1, 2034.

The land had an original cost of $60,000 and a fair value of $75,131 at the time of the sale. There is no established market for the note, so the fair value of the land is used to determine the present value of the transaction.

Required:

a.) Record the January 1, 2031 journal entry.
b.) Calculate the implied effective interest rate.
c.) Record the December 31, 2031 adjusting entry.

Members Video (Ad Free): https://youtu.be/D0rQtkyxbv8

7-9A – More Complex Notes Receivable Entries (Unrealistic Interest Rate)

On January 1, 2031, Moose Company provided consulting services to a customer in exchange for a $50,000, 10-year note bearing 2% interest. Interest is payable annually on January 1, with the first payment due on January 1, 2032.

At the time of the transaction, Moose Company's borrowing rate was 5%, and the customer's market borrowing rate was 10%.

Moose Company has a December 31 fiscal year-end.

Required:

a.) Which borrowing rate should be used in calculations? Why?
b.) Prepare the January 1, 2031 journal entry.
c.) Prepare the December 31, 2031 adjusting journal entry.

Members Video (Ad Free): https://youtu.be/jwoSqJLSq_c

7-9B – More Complex Notes Receivable Entries (Unrealistic Interest Rate)

On July 1, 2031, Buffalo Inc. provided engineering services to a client in exchange for an $80,000, 5-year note bearing 4% interest. Interest is payable annually on July 1, with the first payment due on July 1, 2032.

At the time of the transaction, Buffalo Inc.'s borrowing rate was 6%, and the client's market borrowing rate was 9%.

Buffalo Inc. has a December 31 fiscal year-end.

Required:

a.) Which borrowing rate should be used in calculations? Why?
b.) Prepare the July 1, 2031 journal entry.
c.) Prepare the December 31, 2031 adjusting journal entry.

Members Video (Ad Free): https://youtu.be/6J-vgmivNgs

7-10A – Selling receivables, with and without recourse

On July 1, 2031 Lamda Logistics sells $400,000 of its accounts receivable to YKA Finance Group on a **"<u>without recourse</u>"** basis. The terms are below:

1. YKA Finance assesses a finance charge of 4% of the receivables sold.
2. YKA Finance holds back 6% of the receivables sold to cover potential sales returns.

Required:

a.) Prepare the journal entry for Lamda Logistics to record the transaction.
b.) Prepare the journal entry for YKA Finance Group to record the transaction.

Part 2

Assume the same information as above, EXCEPT, the sale of receivables is on a **"<u>with recourse</u>"** basis. Additional terms follow:

1. Lamda will guarantee payment if any of the accounts receivable become uncollectible.
2. This recourse obligation has an estimated fair value of $3,000.

Required:

c.) Prepare the journal entry for Lamda Logistics to record the transaction.
d.) Prepare the journal entry for YKA Finance Group to record the transaction.

Free Video Walkthrough: https://youtu.be/qBRWlbszZ_U

Members Video (Ad Free): https://youtu.be/7kZ6weyKrao

7-10B – Selling receivables, with and without recourse

On October 1, 2031, Onion Electronics sells $600,000 of its accounts receivable to YUL Capital on a **"<u>without recourse</u>"** basis. The terms are below:

1. YUL Capital assesses a finance charge of 5% of the receivables sold.
2. YUL Capital holds back 8% of the receivables sold to cover potential sales returns.

Required:

a.) Prepare the journal entry for Onion Electronics to record the transaction.
b.) Prepare the journal entry for YUL Capital to record the transaction.

Part 2

Assume the same information as above, EXCEPT, the sale of receivables is on a **"<u>with recourse</u>"** basis. Additional terms follow:

1. Onion will guarantee payment if any of the accounts receivable become uncollectible.
2. This recourse obligation has an estimated fair value of $5,500.

Required:

a.) Prepare the journal entry for Onion Electronics to record the transaction.
b.) Prepare the journal entry for YUL Capital to record the transaction.

Members Video (Ad Free): https://youtu.be/gGFH_LYqpsk

Module 8: Inventory

Module Introduction Video Links

Free Intro Video: https://youtu.be/V-w5y7TkxOw

Members Intro Video (Ad Free):

8-1A – Inventoriable Costs

Sweet Tooth Confectionery manufactures premium chocolates and candies. Sweet Tooth uses a perpetual inventory system and prepares financial statements on December 31.

During the year, the following costs were incurred. For each item, indicate whether it would normally be included as part of the ending inventory cost or recorded elsewhere.

Required:

Complete the table below:

Cost description	Inventory Cost	Other (State which Account)
Purchase price of cocoa beans and sugar		
Volume rebates received from sugar supplier		
Freight costs to transport cocoa beans to the factory (FOB Shipping Point)		
Courier costs to deliver finished chocolates to customers		
Import duties on cocoa beans sourced internationally		
Recoverable GST/VAT paid on raw ingredients		
Wages of line workers molding the chocolate		
Wages of factory equipment maintenance staff		
Salary of the VP of Sales		
Insurance on the factory building		
Box and foil wrapper for each chocolate bar		
Marketing costs for the Valentine's Day campaign		
Costs to refrigerate raw milk and cream (before production)		
Costs to refrigerate finished chocolates in the warehouse		
Normal scrap from trimming chocolate edges		
Spoilage due to a burnt batch caused by oven malfunction		
Cost of re-designing the company logo		
Factory manager's annual bonus		
Depreciation of chocolate mixing machines		
Depreciation of delivery trucks		
Interest expense on the mortgage for the factory building		
Goods shipped to a retailer on consignment (unsold at year-end)		
Cleaning supplies used in the factory		
Cleaning supplies used in the corporate head office		

Members Video (Ad Free): https://youtu.be/E0nWvxbQ8jA

8-1B – Inventoriable Costs

Franko Equipment manufactures tools and parts used in heavy equipment. Franko uses a perpetual inventory system and prepares financial statements on December 31.

During the year, the following costs were incurred. For each item, indicate whether it would normally be included as part of the ending inventory cost or recorded elsewhere.

Required:

Complete the table below:

Cost description	Inventory Cost	Other (State which Account)
Purchase price of raw materials		
Supplier discount taken (2/10, n/30)		
Freight-in on raw materials (FOB shipping point)		
Freight-out shipping goods to customers (FOB Destination)		
Tariffs paid on raw materials		
Recoverable taxes paid on raw materials		
Wages of employees unloading and inspecting materials		
Office supplies		
Insurance on materials being shipped to us (FOB shipping point)		
Product packaging		
Sales commissions		
Storage costs		
Freight costs to move materials between two of our factories		
Normal waste/spoilage		
Abnormal waste/spoilage		
CEO's salary		
Factory supervisor's salary		
Factory worker's salary		
Severance payment to laid off factory worker		
Advertising costs for a specific product		
Interest paid on loan used to fund the purchase of raw materials		
Our goods held on consignment at a third-party location		
Goods we are holding on consignment for a third-party		
Cost of designing a customer ordered tool		
Costs of researching a new product line that is now in use		
Depreciation of factory equipment		
Depreciation of office equipment		

Members Video (Ad Free): https://youtu.be/j67UwdjaH64

8-2A – FIFO Inventory – Periodic and Perpetual

ABC Company uses the **FIFO** method to account for its inventory.

Date	Explanation	Units	Cost per unit	Sales Price per unit
Jan 1	Beginning Balance	200	$40.00	
Jan 8	Purchase	300	48.00	
Jan 15	Sale	225		$100.00
Jan 21	Purchase	175	52.00	
Jan 30	Sale	160		100.00

- *On Jan 31, a physical count of inventory is performed. The Ending inventory amount is 290 units.*

Required:

Part A – Perpetual Inventory System

a.) Prepare a perpetual inventory schedule showing the cost of goods sold and ending inventory
b.) Calculate Ending Inventory, Sales Revenue, COGS and Gross Profit.
c.) Prepare journal entries for all transactions above. Assume all purchases and sales are made on credit.

PART A – ***BONUS***

Assume that the Jan 31 physical count revealed 288 units (not 290) – Prepare an adjustment to reflect this count.

Part B – Periodic Inventory System

a.) Calculate Ending Inventory, Sales Revenue, COGS and Gross Profit.
b.) Prepare journal entries for all transactions above. Assume all purchases and sales are made on credit.
c.) Prepare the month-end adjusting entry required on January 31 to update the Inventory account and record the Cost of Goods Sold.

PART B – ***BONUS***

Assume that the Jan 31 physical count reveled 288 units (not 290). Redo the month end adjusting entry.

Free Video Walkthroughs:
Part 1: https://youtu.be/8lFKxtvgCTA
Part 2: https://youtu.be/H0nogxSjXaA

Members Video (Ad Free):
Part 1: https://youtu.be/ZUS8qh1hM6I
Part 2: https://youtu.be/ny-tcfGMYu4

Templates for inventory records can be found at https://www.tonybell.com/templates.html

8-2B – FIFO Inventory – Periodic and Perpetual

DEF Company uses the **FIFO** method to account for its inventory.

Date	Explanation	Units	Cost per unit	Sales Price per unit
July 1	Beginning Balance	150	$80.00	
July 6	Purchase	250	86.00	
July 16	Sale	300		$160.00
July 21	Purchase	200	92.00	
July 30	Sale	60		180.00

- *On July 31, a physical count of inventory is performed. The Ending inventory amount is 240 units.*

Required:

Part A – Perpetual Inventory System

a.) Prepare a perpetual inventory schedule showing the cost of goods sold and ending inventory
b.) Calculate Ending Inventory, Sales Revenue, COGS and Gross Profit.
c.) Prepare journal entries for all transactions above. Assume all purchases and sales are made on credit.

PART A – ***BONUS***

Assume that the July 31 physical count revealed 237 units (not 240) - Prepare an adjustment to reflect this count.

Part B – Periodic Inventory System

a.) Calculate Ending Inventory, Sales Revenue, COGS and Gross Profit.
b.) Prepare journal entries for all transactions above. Assume all purchases and sales are made on credit.
c.) Prepare the month-end adjusting entry required on July 31 to update the Inventory account and record the Cost of Goods Sold.

PART B – ***BONUS***

Assume that the July 31 physical count reveled 237 units (not 240). Redo the month end adjusting entry.

Members Video (Ad Free):
Part 1: https://youtu.be/BdY5mZLoVdw
Part 2: https://youtu.be/b0_WdahnKDE

8-3A – LIFO Inventory – Periodic and Perpetual

ABC Company uses the **LIFO** method to account for its inventory.

Date	Explanation	Units	Cost per unit	Sales Price per unit
Jan 1	Beginning Balance	200	$40.00	
Jan 8	Purchase	300	48.00	
Jan 15	Sale	225		$100.00
Jan 21	Purchase	175	52.00	
Jan 30	Sale	160		100.00

- *On Jan 31, a physical count of inventory is performed. The Ending inventory amount is 290 units.*

Required:

Part A – Perpetual Inventory System

a.) Prepare a perpetual inventory schedule showing the cost of goods sold and ending inventory
b.) Calculate Ending Inventory, Sales Revenue, COGS and Gross Profit.
c.) Prepare journal entries for all transactions above. Assume all purchases and sales are made on credit.

PART A – ***BONUS***

Assume that the Jan 31 physical count revealed 288 units (not 290) – Prepare an adjustment to reflect this count.

Part B – Periodic Inventory System

a.) Calculate Ending Inventory, Sales Revenue, COGS and Gross Profit.
b.) Prepare journal entries for all transactions above. Assume all purchases and sales are made on credit.
c.) Prepare the month-end adjusting entry required on January 31 to update the Inventory account and record the Cost of Goods Sold.

PART B – ***BONUS***

Assume that the Jan 31 physical count revealed 288 units (not 290). Redo the month end adjusting entry.

Free Video Walkthroughs:
Part 1: https://youtu.be/U5XOqYljSmg
Part 2: https://youtu.be/oxQWZZeuAYk

Members Video (Ad Free):
Part 1: https://youtu.be/zWNzi1cHG5Q
Part 2: https://youtu.be/Ds9Om5XEyAo

8-3B – LIFO Inventory – Periodic and Perpetual

DEF Company uses the **LIFO** method to account for its inventory.

Date	Explanation	Units	Cost per unit	Sales Price per unit
July 1	Beginning Balance	150	$80.00	
July 6	Purchase	250	86.00	
July 16	Sale	300		$160.00
July 21	Purchase	200	92.00	
July 30	Sale	60		180.00

- *On July 31, a physical count of inventory is performed. The Ending inventory amount is 240 units.*

Required:

Part A – Perpetual Inventory System

a.) Prepare a perpetual inventory schedule showing the cost of goods sold and ending inventory
b.) Calculate Ending Inventory, Sales Revenue, COGS and Gross Profit.
c.) Prepare journal entries for all transactions above. Assume all purchases and sales are made on credit.

PART A – ***BONUS***

Assume that the July 31 physical count revealed 237 units (not 240) - Prepare an adjustment to reflect this count.

Part B – Periodic Inventory System

a.) Calculate Ending Inventory, Sales Revenue, COGS and Gross Profit.
b.) Prepare journal entries for all transactions above. Assume all purchases and sales are made on credit.
c.) Prepare the month-end adjusting entry required on July 31 to update the Inventory account and record the Cost of Goods Sold.

PART B – ***BONUS***

Assume that the July 31 physical count revealed 237 units (not 240). Redo the month end adjusting entry.

Members Video (Ad Free):
Part 1: https://youtu.be/9S0B2rlL5FM
Part 2: https://youtu.be/HcYu5fthSW0

8-4A – Weighted Average Inventory – Periodic and Perpetual

ABC Company uses the **Weighted Average** method to account for its inventory.

Date	Explanation	Units	Cost per unit	Sales Price per unit
Jan 1	Beginning Balance	200	$40.00	
Jan 8	Purchase	300	48.00	
Jan 15	Sale	225		$100.00
Jan 21	Purchase	175	52.00	
Jan 30	Sale	160		100.00

- *On Jan 31, a physical count of inventory is performed. The Ending inventory amount is 290 units.*

Required:

Part A – Perpetual Inventory System

a.) Prepare a perpetual inventory schedule showing the cost of goods sold and ending inventory
b.) Calculate Ending Inventory, Sales Revenue, COGS and Gross Profit.
c.) Prepare journal entries for all transactions above. Assume all purchases and sales are made on credit.

PART A – ***BONUS***

Assume that the Jan 31 physical count revealed 288 units (not 290) – Prepare an adjustment to reflect this count.

Part B – Periodic Inventory System

a.) Calculate Ending Inventory, Sales Revenue, COGS and Gross Profit.
b.) Prepare journal entries for all transactions above. Assume all purchases and sales are made on credit.
c.) Prepare the month-end adjusting entry required on January 31 to update the Inventory account and record the Cost of Goods Sold.

PART B – ***BONUS***

Assume that the Jan 31 physical count revealed 288 units (not 290). Redo the month end adjusting entry.

PART C

Compare your Gross Profit results from Problems 8-2A (FIFO), 8-3A (LIFO), and 8-4A (Weighted Average). Complete the table below:

Problem	Gross Profit (Perpetual)	Gross Profit (Periodic)
8-2A		
8-3A		
8-4A		

Why did FIFO produce the highest gross profit while LIFO produced the lowest? Why do many (American) companies wish do adopt LIFO if it (usually) produces the lowest profits?

Free Video Walkthroughs:

Part 1: https://youtu.be/b8mj9mOjEqE
Part 2: https://youtu.be/iEbM5Jsspoo

Members Video (Ad Free):

Part 1: https://youtu.be/hwamzTNOeoc
Part 2: https://youtu.be/-mh7bn3YVjI

8-4B – Weighted Average Inventory – Periodic and Perpetual

DEF Company uses the **Weighted Average** method to account for its inventory.

Date	Explanation	Units	Cost per unit	Sales Price per unit
July 1	Beginning Balance	150	$80.00	
July 6	Purchase	250	86.00	
July 16	Sale	300		$160.00
July 21	Purchase	200	92.00	
July 30	Sale	60		180.00

- *On July 31, a physical count of inventory is performed. The Ending inventory amount is 240 units.*

Required:

Part A – Perpetual Inventory System

a.) Prepare a perpetual inventory schedule showing the cost of goods sold and ending inventory
b.) Calculate Ending Inventory, Sales Revenue, COGS and Gross Profit.
c.) Prepare journal entries for all transactions above. Assume all purchases and sales are made on credit.

PART A – ***BONUS***

Assume that the July 31 physical count revealed 237 units (not 240) - Prepare an adjustment to reflect this count.

Part B – Periodic Inventory System

a.) Calculate Ending Inventory, Sales Revenue, COGS and Gross Profit.
b.) Prepare journal entries for all transactions above. Assume all purchases and sales are made on credit.
c.) Prepare the month-end adjusting entry required on July 31 to update the Inventory account and record the Cost of Goods Sold.

PART B – ***BONUS***

Assume that the July 31 physical count revealed 237 units (not 240). Redo the month end adjusting entry.

PART C

Compare your Gross Profit results from Problems 8-2B (FIFO), 8-3B (LIFO), and 8-4B (Weighted Average). Complete the table below:

Problem	Gross Profit (Perpetual)	Gross Profit (Periodic)
8-2B		
8-3B		
8-4B		

Why did FIFO produce the highest gross profit while LIFO produced the lowest? Why do many (American) companies wish do adopt LIFO if it (usually) produces the lowest profits?

Members Video (Ad Free):

Part 1: https://youtu.be/UEecJaCuBeI
Part 2: https://youtu.be/cpv4eEF_LbE

8-5A – Specific Unit Identification Inventory – Periodic and Perpetual

ABC Company uses the **Specific Unit Identification** method to account for its inventory.

Date	Explanation	Units	Cost per unit	Sales Price per unit
Jan 1	Beginning Balance	200	$40.00	
Jan 8	Purchase	300	48.00	
Jan 15	Sale	225*		$100.00
Jan 21	Purchase	175	52.00	
Jan 30	Sale	160**		100.00

* - On Jan 15, they sold 100 of the units from beginning inventory and 125 from the Jan 8 purchase.
** - On Jan 30, they sold 50 units from beginning inventory, 50 units from Jan 8, and 60 from Jan 21.

- *On Jan 31, a physical count of inventory is performed. The Ending inventory amount is 290 units.*

Required:

Part A – Perpetual Inventory System

a.) Prepare a perpetual inventory schedule showing the cost of goods sold and ending inventory
b.) Calculate Ending Inventory, Sales Revenue, COGS and Gross Profit.
c.) Prepare journal entries for all transactions above. Assume all purchases and sales are made on credit.

Part B – Periodic Inventory System

a.) Calculate Ending Inventory, Sales Revenue, COGS and Gross Profit.
b.) Prepare journal entries for all transactions above. Assume all purchases and sales are made on credit.
c.) Prepare the month-end adjusting entry required on January 31 to update the Inventory account and record the Cost of Goods Sold.

Members Video (Ad Free):
Part 1: https://youtu.be/Ac7ArzXbzP0
Part 2: https://youtu.be/DDz0Gf5YqTI

8-5B – Specific Unit Identification Inventory – Periodic and Perpetual

DEF Company uses the **Specific Unit Identification** method to account for its inventory.

Date	Explanation	Units	Cost per unit	Sales Price per unit
July 1	Beginning Balance	150	$80.00	
July 6	Purchase	250	86.00	
July 16	Sale	300*		$160.00
July 21	Purchase	200	92.00	
July 30	Sale	60**		180.00

* - On July 16, they sold 100 of the units from beginning inventory and 200 from the July 6 purchase.
** - On July 30, they sold 30 units from beginning inventory, 5 units from July 6, and 25 from July 21.

- *On July 31, a physical count of inventory is performed. The Ending inventory amount is 240 units.*

Required:

Part A – Perpetual Inventory System

a.) Prepare a perpetual inventory schedule showing the cost of goods sold and ending inventory
b.) Calculate Ending Inventory, Sales Revenue, COGS and Gross Profit.
c.) Prepare journal entries for all transactions above. Assume all purchases and sales are made on credit.

Part B – Periodic Inventory System

a.) Calculate Ending Inventory, Sales Revenue, COGS and Gross Profit.
b.) Prepare journal entries for all transactions above. Assume all purchases and sales are made on credit.
c.) Prepare the month-end adjusting entry required on July 31 to update the Inventory account and record the Cost of Goods Sold.

Members Video (Ad Free):
Part 1: https://youtu.be/DWCfoi92iaw
Part 2: https://youtu.be/ZAE_gtDnxtI

8-6A – Inventory Error Corrections

You are a financial statement auditor nearing completion of an audit engagement. Selected information has been taken from the company's financial reports related to its December 31, 2031 fiscal year end:

Current Assets	160,000
Total Assets	600,000
Current Liabilities	100,000
Total Liabilities	400,000
Total Shareholders' Equity	200,000
Revenues	1,000,000
Net income	100,000

The company accounts for inventory using the periodic method. The following items are cause for concern (and might need to be corrected):

i.) On December 27, 2031, $10,000 in inventory was received and was included in the year-end inventory count and on the balance sheet. Due to a mix-up at the supplier the invoice was not received until February 18, 2032 – the journal entry for this purchase was recorded when the invoice was received – February 18, 2032.

ii.) Inventory was shipped to a customer FOB destination. The company shipped inventory with a cost of $6,000 out of their warehouse on December 30, 2031. The shipment was received by the customer on January 8, 2032. On December 30, 2031 (when the goods were shipped), the company recorded the following journal entry for the transaction:

DR Accounts Receivable	10,000	
CR Sales Revenue		10,000

iii.) Goods on consignment from a third party (the company is the consignee) costing $15,000 were included in the year-end inventory count.

Required:

a.) Assume no adjustments are made. Compute the company's current ratio and net profit margin (net income/sales).
b.) Based on the potential errors above, prepare adjusting entries to fix them. If no correction is required, write "No Entry Needed".
c.) After having made the corrections (if any) compute the current ratio and net profit margin (Ignore income taxes. Assume no tax effects from any adjustments).

Members Video (Ad Free): https://youtu.be/hZvjxi_jGsk

8-6B – Inventory Error Corrections

You are a financial statement auditor nearing completion of an audit engagement. Selected information has been taken from the company's financial reports related to its December 31, 2031 fiscal year end:

Current Assets	90,000
Total Assets	200,000
Current Liabilities	50,000
Total Liabilities	120,000
Total Shareholders' Equity	80,000
Revenues	200,000
Net income	40,000

The company accounts for inventory using the periodic method. The following items are cause for concern (and might need to be corrected):

i.) On December 30, a customer returned goods costing $2,000 (selling price $3,500) to the warehouse. The goods were inspected, returned to the shelf, and included in the December 31 inventory count. However, the credit memo to reverse the Accounts Receivable and Sales Revenue was not processed until January 3, 2032.

ii.) On December 28, the company ordered $20,000 of inventory from a local vendor, terms FOB Destination. The supplier shipped the goods on December 30, and they arrived at the company's receiving dock on January 2, 2032. The goods were excluded from the year-end inventory count and the invoice was recorded in January.

iii.) The company ordered raw materials costing $15,000 from a supplier in Japan, terms FOB Shipping Point. The goods were shipped on December 26 and were on a container ship in the middle of the ocean on December 31. They were not received (or recorded) until January 15.

Required:

a.) Assume no adjustments are made. Compute the company's current ratio and net profit margin (net income/sales).
b.) Based on the potential errors above, prepare adjusting entries to fix them. If no correction is required, write "No Entry Needed".
c.) After having made the corrections (if any) compute the current ratio and net profit margin (Ignore income taxes. Assume no tax effects from any adjustments).

Members Video (Ad Free): https://youtu.be/k2PCgb1Wyyo

Chapter 8 Appendix

LIFO

LIFO Rant/Introduction: https://youtu.be/5t9FM2KVs2g

8-7A – LIFO Reserves

Smith Company uses FIFO for internal reporting and LIFO for external reporting.

The following information is known:

	December 31, 2030	December 31, 2031
Inventory Balance (FIFO)	$150,000	$190,000
Inventory Balance (LIFO)	120,000	142,000

The LIFO Reserve balance was $30,000 on December 31, 2030 and has not yet been adjusted as of December 31, 2031.

Required:

a.) Calculate the LIFO Reserve on December 31, 2031.
b.) Record the needed December 31, 2031 adjustment to the LIFO Reserve.

Part 2

Assume the same information as above, but the December 31, 2031 information is different:

	December 31, 2030	December 31, 2031
Inventory Balance (FIFO)	$150,000	$100,000
Inventory Balance (LIFO)	120,000	81,000

The LIFO Reserve balance was $30,000 on December 31, 2030 and has not yet been adjusted as of December 31, 2031.

Required:

c.) Calculate the LIFO Reserve on December 31, 2031.
d.) Record the needed December 31, 2031 adjustment to the LIFO Reserve.

Members Video (Ad Free): https://youtu.be/2AaEtWqduow

8-7B – LIFO Reserves

Jones Company uses FIFO for internal reporting and LIFO for external reporting.

The following information is known:

	December 31, 2030	December 31, 2031
Inventory Balance (FIFO)	$1,250,000	$1,800,000
Inventory Balance (LIFO)	970,000	1,475,000

The LIFO Reserve balance was $280,000 on December 31, 2030 and has not yet been adjusted as of December 31, 2031.

Required:

a.) Calculate the LIFO Reserve on December 31, 2031.
b.) Record the needed December 31, 2031 adjustment to the LIFO Reserve.

Part 2

Assume the same information as above, but the December 31, 2031 information is different:

	December 31, 2030	December 31, 2031
Inventory Balance (FIFO)	$1,250,000	$1,000,000
Inventory Balance (LIFO)	970,000	750,000

The LIFO Reserve balance was $280,000 on December 31, 2030 and has not yet been adjusted as of December 31, 2031.

Required:

c.) Calculate the LIFO Reserve on December 31, 2031.
d.) Record the needed December 31, 2031 adjustment to the LIFO Reserve.

Members Video (Ad Free): https://youtu.be/lojGNRHT2i4

8-8A – Current Ratio and LIFO

Salazar Company uses FIFO for internal reporting and LIFO for external reporting.

The following items come from the company's balance sheet.

	December 31, 2030
Total Current Assets	1,400,000
Total Current Liabilities	1,000,000

The company's inventory note disclosure reveals the following information:

	December 31, 2030
Inventory Balance (LIFO)	500,000
LIFO Reserve (Reported in the notes)	120,000

Required:

a.) Calculate the current ratio without adjusting for the LIFO Reserve.
b.) Calculate the current ratio after adjusting for the LIFO Reserve.

Members Video (Ad Free): https://youtu.be/51C5GffhXh4

8-8B – Current Ratio and LIFO

Chen Company uses FIFO for internal reporting and LIFO for external reporting.

The following items come from the company's balance sheet.

	December 31, 2030
Total Current Assets	2,400,000
Total Current Liabilities	1,200,000

The company's inventory note disclosure reveals the following information:

	December 31, 2030
Inventory Balance (LIFO)	800,000
LIFO Reserve (Reported in the notes)	300,000

Required:

a.) Calculate the current ratio without adjusting for the LIFO Reserve.
b.) Calculate the current ratio after adjusting for the LIFO Reserve.

Members Video (Ad Free): https://youtu.be/QwmKCmgd0UI

8-9A – Dollar-Value LIFO

Chang Company uses FIFO (perpetual method) for internal reporting and the Dollar-Value LIFO method for external reporting. The company is a new company starting January 1, 2031 (and therefore has zero inventory balance).

The following is the information related to its inventory in 2031:

Date	Explanation	Units	Cost per unit	Sales Price per unit
Jan 1	Beginning Balance	0		
May 1	Purchase	100	$48.00	
Oct 21	Purchase	250	52.00	
Dec 31	Sale	150		$100.00

- 2031 is the base year, so the Cumulative Price Index is 1.00 for 2031.

Required:

a.) Prepare a FIFO inventory schedule.
b.) Prepare the adjustment to the LIFO reserve.

Part 2

The following information relates to the same inventory pool in the company's 2032 year:

Date	Explanation	Units	Cost per unit	Sales Price per unit
June 1	Purchase	500	$55.00	
July 15	Sale	300		$100.00

- The Cumulative Price Index is 1.10 for 2032.

Required:

a.) Prepare a FIFO inventory schedule for 2032.
b.) Prepare the adjustment to the LIFO reserve.

Part 3

The following information relates to the same inventory pool in the company's 2033 year:

Date	Explanation	Units	Cost per unit	Sales Price per unit
Oct 1	Purchase	600	$60.00	
Dec 15	Sale	500		$110.00

- The Cumulative Price Index is 1.15 for 2033.

Required:

a.) Prepare a FIFO inventory schedule for 2033.
b.) Prepare the adjustment to the LIFO reserve.

Members Video (Ad Free): https://youtu.be/KVtFtrtOh_U

8-9B – Dollar-Value LIFO

Patterson Corp. uses FIFO (perpetual method) for internal reporting and the Dollar-Value LIFO method for external reporting. The company is a new entity starting January 1, 2031 (and therefore has zero inventory balance).

The following is the information related to its inventory in 2031:

Date	Explanation	Units	Cost per unit	Sales Price per unit
Jan 1	Beginning Balance	0		
May 15	Purchase	150	$60.00	
Oct 20	Purchase	300	65.00	
Dec 31	Sale	200		$120.00

- 2031 is the base year, so the Cumulative Price Index is 1.00 for 2031.

Required:

a.) Prepare a FIFO inventory schedule.
b.) Prepare the adjustment to the LIFO reserve.

Part 2

The following information relates to the same inventory pool in the company's 2032 year:

Date	Explanation	Units	Cost per unit	Sales Price per unit
April 1	Purchase	600	$72.00	
August 12	Sale	450		$130.00

- The Cumulative Price Index is 1.12 for 2032.

Required:

a.) Prepare a FIFO inventory schedule for 2032.
b.) Prepare the adjustment to the LIFO reserve.

Part 3

The following information relates to the same inventory pool in the company's 2033 year:

Date	Explanation	Units	Cost per unit	Sales Price per unit
Feb 1	Purchase	800	$78.00	
Oct 15	Sale	700		$145.00

- The Cumulative Price Index is 1.20 for 2033.

Required:

a.) Prepare a FIFO inventory schedule for 2033.
b.) Prepare the adjustment to the LIFO reserve.

Members Video (Ad Free): https://youtu.be/WVpMrt__gRs

Module 9: Investments

Module Introduction Video Links

Free Intro Video: https://youtu.be/XKygXo7Xoro

Members Intro Video (Ad Free): https://youtu.be/-UqV0o5swYc

9-1A – Debt Investments (Held-to-Maturity)

On January 1, 2031, Kamloops Corp. purchases bonds issued by Global Inc. with the intention to hold them until they mature. Details are below:

Face Value	$100,000
Coupon Rate	5% (Paid Annually on December 31)
Maturity	3 years (December 31, 2033)
Market Rate (YTM)	6%

Because the coupon rate (5%) is lower than the market rate (6%), Kamloops Corp. pays less than face value for the bonds. The purchase price is calculated to be $97,327. The company has a December 31 fiscal year-end.

Required:

a.) Complete the investment amortization schedule below (use the effective interest method):

	Interest Payment	Interest Revenue	Discount / Premium Amortization	Bond Carrying Amount
Jan 1, 2031				
Dec 31, 2031				
Dec 31, 2032				
Dec 31, 2033				

b.) Prepare journal entries for:

- The purchase on Jan 1, 2031.
- The first interest payment on Dec 31, 2031.
- The second interest payment on Dec 31, 2032.
- The final interest payment on Dec 31, 2033.
- The redemption of the bonds at maturity on Dec 31, 2033.

Bonus Question:

Re-calculate the present value of the bond to verify the purchase price of $97,327.

Free Video Walkthrough: https://youtu.be/cBfOZu6FqDs

Members Video (Ad Free): https://youtu.be/W0t4mLO93pQ

9-1B – Debt Investments (Held-to-Maturity)

On January 1, 2031, Kelowna Corp. purchases bonds issued by Global Inc. with the intention to hold them until they mature. Details are below:

Face Value	$100,000
Coupon Rate	8% (Paid annually on December 31)
Maturity	3 years (December 31, 2033)
Market Rate (YTM)	6%

Because the coupon rate (8%) is higher than the market rate (6%), Kelowna Corp. pays more than face value for the bonds. The purchase price is calculated to be $105,346. The company has a December 31 fiscal year-end.

Required:

a.) Prepare an investment amortization schedule for the 3-year life of the bond (use the effective interest method).

	Interest Payment	Interest Revenue	Discount / Premium Amortization	Bond Carrying Amount
Jan 1, 2031				
Dec 31, 2031				
Dec 31, 2032				
Dec 31, 2033				

b.) Prepare journal entries for:

- The purchase on Jan 1, 2031.
- The first interest payment on Dec 31, 2031.
- The second interest payment on Dec 31, 2032.
- The final interest payment on Dec 31, 2033.
- The redemption of the bonds at maturity on Dec 31, 2033.

Bonus Question

Re-calculate the present value of the bond to verify the purchase price of $105,346.

Members Video (Ad Free): https://youtu.be/XrJM-w9j9MI

9-2A – Debt Investments (Trading)

On January 1, 2031, Merritt Corp. purchases bonds issued by Global Inc. with the intention of generating short-term profits from price fluctuations (classified as Trading).

Bond Details:

Face Value	$100,000
Coupon Rate	6% (Paid annually on December 31)
Maturity	10 years (December 31, 2040)
Market Rate (YTM)	6.275%

Additional details:

- The purchase price of the bond investment was $98,000 cash.
- The fair value of the investment was $96,000 on December 31, 2031.
- The investment was sold on March 1 2032 for $99,000 PLUS accrued interest.
- The company has a December 31 fiscal year-end.

Required:

Prepare the journal entries for:

a.) The purchase of the bonds on January 1, 2031
b.) The receipt of interest on December 31, 2031
c.) The year-end fair value adjustment on December 31, 2031
d.) The sale of the bonds on March 1, 2032

Free Video Walkthrough: https://youtu.be/V_3ym37JyME

Members Video (Ad Free): https://youtu.be/Y73hG-sefew

9-2B – Debt Investments (Trading)

On January 1, 2031, Vernon Corp. purchases bonds issued by Global Inc. with the intention of generating short-term profits from price fluctuations (classified as Trading).

Bond Details:

Face Value	$100,000
Coupon Rate	8% (Paid annually on December 31)
Maturity	10 years (December 31, 2040)
Market Rate (YTM)	7.279%

Additional details:

- The purchase price of the bond investment was $105,000 cash.
- The fair value of the investment was $102,000 on December 31, 2031.
- The investment was sold on April 1, 2032 for $102,800 PLUS accrued interest.
- The company has a December 31 fiscal year-end.

Required:

Prepare the journal entries for:

a.) The purchase of the bonds on January 1, 2031
b.) The receipt of interest on December 31, 2031
c.) The year-end fair value adjustment on December 31, 2031
d.) The sale of the bonds on April 1, 2032

Members Video (Ad Free): https://youtu.be/mue1aKYP5lM

9-3A – Debt Investments (Available for Sale / FVOCI)

On January 1, 2031, Falkland Corp. purchases bonds issued by Global Inc. The company generally holds bonds to collect interest but will sell them if cash is needed for other projects. As such, it classifies these bonds as Available for Sale (FVOCI).

Bond Details:

Face Value	$200,000
Coupon Rate	5% (Paid annually on December 31)
Maturity	5 years (December 31, 2035)
Market Rate (YTM)	6%

Additional details:

- The bonds were purchased for $191,575.
- On December 31, 2031, the bonds had a fair value of $195,000.
- On May 31, 2032, the company sold the bonds for $198,500 cash plus accrued interest.
- The company has a December 31 fiscal year-end.

Required:

a.) Prepare an investment amortization schedule for the first two years of the life of the bond (use the effective interest method). Although we know the bond was sold before December 31, 2032, prepare this schedule completely!

	Interest Payment	Interest Revenue	Discount / Premium Amortization	Bond Carrying Amount
Jan 1, 2031				
Dec 31, 2031				
Dec 31, 2032				

b.) Prepare the journal entry for the purchase of the bonds on January 1, 2031.
c.) Record the journal entry for the December 31, 2031 interest payment.
d.) Record the journal entry for the fair value adjustment on December 31, 2031.
e.) Record the journal entry to accrue interest revenue up to May 31, 2032.
f.) Record the fair value adjustment on May 31, 2032.
g.) Prepare the journal entry for the sale of the bonds on May 31, 2032 (include the "recycling" of OCI).

Free Video Walkthrough: https://youtu.be/5qa5DJtX0Ws

Members Video (Ad Free): https://youtu.be/_APc2o-o6gQ

9-3B – Debt Investments (Available for Sale / FVOCI)

On January 1, 2031, Chase Corp. purchases bonds issued by Global Inc. The company generally holds bonds to collect interest but will sell them if cash is needed for other projects. As such, it classifies these bonds as Available for Sale (FVOCI).

Bond Details:

Face Value	$500,000
Coupon Rate	6% (Paid annually on December 31)
Maturity	5 years (December 31, 2035)
Market Rate (YTM)	5%

Additional details:

- The bonds were purchased for $521,650.
- On December 31, 2031, the bonds had a fair value of $515,000.
- On July 1, 2032, the company sold the bonds for $522,500 cash plus accrued interest.
- The company has a December 31 fiscal year-end.

Required:

a.) Prepare an investment amortization schedule for the first two years of the life of the bond (use the effective interest method). Although we know the bond was sold before December 31, 2032, prepare this schedule completely!

	Interest Payment	Interest Revenue	Discount / Premium Amortization	Bond Carrying Amount
Jan 1, 2031				
Dec 31, 2031				
Dec 31, 2032				

b.) Prepare the journal entry for the purchase of the bonds on January 1, 2031.
c.) Record the journal entry for the December 31, 2031 interest payment.
d.) Record the journal entry for the fair value adjustment on December 31, 2031.
e.) Record the journal entry to accrue interest revenue up to July 1, 2032.
f.) Record the fair value adjustment on July 1, 2032.
g.) Prepare the journal entry for the sale of the bonds on July 1, 2032 (include the "recycling" of OCI).

Members Video (Ad Free): https://youtu.be/krbRn1itJQ8

9-4A – Equity Investments (Trading)

On November 1, 2031, Summerland Corp. purchased 5,000 common shares of TechGiant Inc. at a price of $40.00 per share. Summerland intended to trade the shares for short-term profit.

Subsequent Events:

- December 10, 2031: TechGiant declared and paid a cash dividend of $0.50 per share.
- December 31, 2031: At year-end, the market price of TechGiant shares was $45.00 per share.
- January 15, 2032: Summerland Corp. sold all 5,000 shares for $48.00 per share.

Required:

Prepare the journal entries for:

a.) The purchase of the shares on November 1, 2031.
b.) The receipt of dividends on December 10, 2031.
c.) The year-end fair value adjustment on December 31, 2031. (Use the Direct Adjustment Method)
d.) The sale of the shares on January 15, 2032.

Free Video Walkthrough: https://youtu.be/SWhGHVb8cZk

Members Video (Ad Free): https://youtu.be/yds0Pe83WyE

9-4B – Equity Investments (Trading)

On October 1, 2031, Peachland Corp. purchased 6,000 common shares of MegaCorp Inc. at a price of $25.00 per share. Peachland intended to trade the shares for short-term profit.

Subsequent Events:

- November 3, 2031: MegaCorp declared and paid a cash dividend of $0.60 per share.
- December 31, 2031: At year-end, the market price of MegaCorp shares was $22.00 per share.
- January 22, 2032: Peachland Corp. sold all 6,000 shares for $28.00 per share.

Required:

Prepare the journal entries for:

a.) The purchase of the shares on October 1, 2031.
b.) The receipt of dividends on November 3, 2031.
c.) The year-end fair value adjustment on December 31, 2031. (Use the Direct Adjustment Method)
d.) The sale of the shares on January 22, 2032.

Members Video (Ad Free): https://youtu.be/cHEhGehKRIQ

9-5A – Equity Investments (Trading)

On December 31, 2030, Riverside Corporation purchased the following stocks:

Stock	Number of Shares Purchased	Price per Share
Alpha Industries	2,000	$45
Beta Technologies	1,500	$62
Cathode Incorporated	1,000	$80

These were the only equity investments that the company owned, and it purchased them for trading purposes at the end of the trading day on Dec 31, 2030.

Part 1 - 2031:

- June 30, 2031: Received a cash dividend of $1.50 per share from Alpha Industries.
- December 31, 2031: Year-end fair values are as follows:
    - Alpha Industries: $48 per share
    - Beta Technologies: $56 per share
    - Cathode Incorporated: $85 per share

Required:

a.) Prepare all journal entries for the 2031 transactions, including the year-end adjusting entry.

b.) Show how the trading securities would be reported on Riverside's December 31, 2031 balance sheet and indicate where any unrealized gains or losses would appear on the 2031 income statement.

Part 2 - 2032:

- February 20, 2032: Sold all 2,000 shares of Alpha Industries stock for $50 per share, less brokerage fees of $750.
- May 3, 2032: Purchased 600 shares of Delta Inc. for $100 per share, plus brokerage fees of $400.
- December 31, 2032: Year-end fair values are as follows:
    - Beta Technologies: $75 per share
    - Cathode Incorporated: $92 per share
    - Delta Inc.: $112 per share

Required:

c.) Prepare all journal entries for the 2032 transactions, including the year-end adjusting entry.

d.) Show how the trading securities would be reported on Riverside's December 31, 2032 balance sheet and indicate where any unrealized gains or losses would appear on the 2032 income statement.

Members Video (Ad Free): https://youtu.be/3xE-mdbkeLY

9-5B – Equity Investments (Trading)

At the end of the day, on December 31, 2030, Summit Corporation purchased the following stocks (for trading):

Stock	Number of Shares Purchased	Price per Share
Apex Ltd.	4,000	$26
Basecamp Inc.	1,000	$100
Coders Inc.	2,000	$70

Part 1 - 2031:

- July 15, 2031: Received a cash dividend of $1.00 per share from Apex Ltd.
- December 31, 2031: Year-end fair values are as follows:
    - Apex Ltd.: $28 per share
    - Basecamp Inc.: $93 per share
    - Coders Inc.: $85 per share

Required:

a.) Prepare all journal entries for the 2031 transactions, including the year-end adjusting entry.

b.) Show how the trading securities would be reported on Summit's December 31, 2031 balance sheet and indicate where any unrealized gains or losses would appear on the 2031 income statement.

Part 2 - 2032:

- February 1, 2032: Sold all 4,000 shares of Apex Ltd. stock for $29 per share, less brokerage fees of $600.
- April 13, 2032: Purchased 200 shares of Darling Inc. for $600 per share, plus brokerage fees of $500.
- December 31, 2032: Year-end fair values are as follows:
    - Basecamp Inc.: $97 per share
    - Coders Inc.: $94 per share
    - Darling Inc.: $520 per share

Required:

c.) Prepare all journal entries for the 2032 transactions, including the year-end adjusting entry.

d.) Show how the trading securities would be reported on Summit's December 31, 2032 balance sheet and indicate where any unrealized gains or losses would appear on the 2032 income statement.

Members Video (Ad Free): https://youtu.be/AOasfqNHZf0

9-6A – Equity Method (Passive vs. Significant Influence)

On January 1, 2031, Investor Corp. purchased 25,000 common shares of Target Inc. for $250,000 cash. This represents a 25% ownership stake in Target Inc.

During the year ended December 31, 2031, Target Inc. reported the following:

- Net Income: $120,000
- Dividends Paid: $40,000 (paid on December 15, 2031)

At year-end (December 31, 2031), the market value of Target Inc. shares was $12 per share.

Part 1 - No Significant Influence:

Assume that despite the 25% stake, Investor Corp. does not have significant influence over Target Inc. (e.g., another shareholder holds the remaining 75%). The investment is classified as Trading / FVTNI.

Required:

a.) Prepare all journal entries for 2031.
b.) How would this investment be reported on the December 31, 2031 balance sheet?
c.) What is the impact of this investment on the company's 2031 net income?

Part 2 – Significant Influence

Assume instead that the 25% stake does confer significant influence and Investor Corp. accounts for the investment using the Equity Method.

Required:

d.) Prepare all journal entries for 2031.
e.) How would this investment be reported on the December 31, 2031 balance sheet?
f.) What is the impact of this investment on the company's 2031 net income?

Free Video Walkthrough – available for 9-6B

Members Video (Ad Free): https://youtu.be/vGHK0UtGjRE

9-6B – Equity Method (Passive vs. Significant Influence)

On January 1, 2031, Revelstoke Corp. purchased 40,000 common shares of Powder Inc. for $400,000 cash. This represents a 30% ownership stake in Powder Inc.

During the year ended December 31, 2031, Powder Inc. struggled with operational challenges and reported the following:

- Net Loss: $(80,000)
- Dividends Paid: $30,000 (paid on December 20, 2031)

At year-end (December 31, 2031), the market value of Powder Inc. shares had dropped to $9.00 per share.

Part 1 - No Significant Influence:

Assume that despite the 30% stake, Revelstoke Corp. does not have significant influence over Powder Inc. The investment is classified as Trading / FVTNI.

Required:

a.) Prepare all journal entries for 2031.
b.) How would this investment be reported on the December 31, 2031 balance sheet?
c.) What is the impact of this investment on the company's 2031 net income?

Part 2 – Significant Influence:

Assume instead that the 30% stake does confer significant influence and Revelstoke Corp. accounts for the investment using the Equity Method.

Required:

a.) Prepare all journal entries for 2031.
b.) How would this investment be reported on the December 31, 2031 balance sheet?
c.) What is the impact of this investment on the company's 2031 net income?

Free Video Walkthrough: https://youtu.be/EAL2K5582DM

Members Video (Ad Free): https://youtu.be/cPrIxJDkTKQ

9-7A – Long-Term Equity (US GAAP vs. IFRS)

On January 1, 2031, Langley Corp. purchased 10,000 common shares of NextGen Energy Inc. for $50.00 per share. This represents a 5% ownership stake in NextGen Energy. Langley Corp. paid a brokerage commission of $2,000 on the transaction.

Langley Corp. considers this a strategic long-term investment but does not have significant influence nor does it intend to trade the shares for short-term profit.

Subsequent Events:

- December 31, 2031: NextGen shares were trading at $55.00 per share.
- February 15, 2032: Langley Corp. sold all 10,000 shares for $58.00 per share.

Part 1: US GAAP

Assume Langley Corp. reports under US GAAP. Therefore, equity investments must generally be measured at Fair Value Through Net Income (FVTNI), regardless of long-term intent.

Required:

a.) Prepare all journal entries for 2031 and 2032.
b.) Calculate the total impact on Net Income over the two years combined.

Part 2: IFRS

Assume Langley Corp. reports under IFRS and elects to classify this investment as FVOCI (Equity).

Required:

c.) Prepare all journal entries for 2031 and 2032. (Note: Include the transfer of realized gains within equity upon sale).
d.) Calculate the total impact on Net Income over the two years combined.

Members Video (Ad Free): https://youtu.be/Z4xDG6Zq1qA

9-7B – Long-Term Equity (US GAAP vs. IFRS)

On January 1, 2031, Fernie Holdings purchased 20,000 common shares of Mountain Mining Corp. for $15.00 per share. This represents a 10% ownership stake in Mountain Mining. Fernie paid a brokerage commission of $3,000 on the transaction.

Fernie considers this a strategic long-term investment but Fernie does not have significant influence nor does it intend to trade the shares for short-term profit.

Subsequent Events:

- December 31, 2031: Mountain Mining shares were trading at $12.00 per share.
- March 10, 2032: Discouraged by the performance, Fernie sold all 20,000 shares for $10.00 per share.

Part 1: US GAAP

Assume Fernie Holdings reports under US GAAP. Therefore, equity investments must generally be measured at Fair Value Through Net Income (FVTNI), regardless of long-term intent.

Required:

a.) Prepare all journal entries for 2031 and 2032.
b.) Calculate the total impact on Net Income over the two years combined.

Part 2: IFRS

Assume Fernie Holdings reports under IFRS and elects to classify this investment as FVOCI (Equity).

Required:

c.) Prepare all journal entries for 2031 and 2032. (Note: Include the transfer of realized gains within equity upon sale).
d.) Calculate the total impact on Net Income over the two years combined.

Members Video (Ad Free): https://youtu.be/B7hHFVnU49A

Module 10: PPE Acquisitions

Module Introduction Video Links

Free Intro Video: https://youtu.be/2ChfWZB_3wY

Members Intro Video (Ad Free): https://youtu.be/N_HQL_8OeCo

10-1A - Distinguishing Land, Land Improvements, Buildings, and Equipment

Kootenay Enterprises acquired a plot of land to construct a new distribution center. The land contained an old abandoned warehouse that Kootenay intended to demolish immediately. The company incurred the following costs during the first year of the project (presented in random order):

1. Land was purchased for cash of: $450,000
2. Architect fees for the design of the new building: $40,000
3. Legal fees for the title search and transfer of the land: $4,200
4. Purchase of conveyor belt machinery (equipment): $120,000
5. Freight and transit insurance to transport the machinery to the site: $3,500
6. Demolition costs to remove the old warehouse: $30,000
7. Excavation costs specifically for the new building's foundation: $22,000
8. Proceeds from selling scrap materials from the demolished warehouse: $5,000
9. Construction costs (materials and labor) for the new building: $950,000
10. Delinquent property taxes owed by the previous owner (paid by Kootenay): $8,500
11. Installation of a paved parking lot and driveway: $55,000
12. Installation of outdoor lighting and perimeter fencing: $18,000
13. Grading and filling the land to permanently level it for the general site: $15,000
14. Installation and testing of the machinery: $6,000
15. Final calibration of machine to ensure proper operation: $1,500
16. Repair of damage to the machinery caused by a forklift accident during installation: $2,000

Required:

In the table below, allocate the costs listed above to the correct accounts. Calculate the total acquisition cost for the Land, Land Improvements, Building, and Equipment

	Land	Land Improvements	Buildings	Equipment	Other (Non-PPE)
1-Land					
2-Architect					
3-Legal					
4-Purchase					
5-Freight					
6-Demolition					
7-Excavation					
8-Scrap					
9-Construction					
10-Prop Taxes					
11-Parking					
12-Lighting					
13-Grading					
14-Installation					
15-Calibration					
16-Repair					
Total					

Free Video Walkthrough: https://youtu.be/dScqJjfar8U

Members Video (Ad Free): https://youtu.be/wOYamtzY2pM

10-1B - Distinguishing Land, Land Improvements, Buildings, and Equipment

Valley Manufacturing Ltd. purchased a piece of land on the edge of town to construct a new factory. The site was undeveloped and covered in dense brush and trees. During the first year, the company incurred the following costs related to the project (presented in random order):

1. Purchase price of the land: $320,000
2. Excavation costs for the factory foundation: $35,000
3. Construction costs (materials and labor) for the factory building: $1,250,000
4. Fine paid to the city for blocking a public street during construction: $1,500
5. Purchase price of assembly line robotics (Equipment): $450,000
6. Freight costs to deliver the robotics to the factory: $5,200
7. Real estate broker's commission on the land purchase: $15,000
8. Cost of special concrete reinforcement platform required to install the robotics: $9,000
9. Cost to clear trees and brush from the site: $8,500
10. Cost to install a sprinkler system for the landscaping: $12,000
11. Proceeds from selling timber cleared from the land: $2,000
12. Cost to construct a fence around the property perimeter: $24,000
13. Non-refundable sales tax paid on the robotics equipment: $31,500
14. Architectural fees and building permits: $28,000
15. Cost to calibrate and test the robotics before production began: $3,500
16. Staff training costs to teach employees how to operate the new robots: $7,500

Required:

In the table below, allocate the costs listed above to the correct accounts. Calculate the total acquisition cost for the Land, Land Improvements, Building, and Equipment.

	Land	Land Improvements	Buildings	Equipment	Other (Non-PPE)
1-Land					
2-Excavation					
3-Construction					
4-Fine					
5-Robot Line					
6-Freight					
7-Commission					
8-Concrete					
9-Clearing					
10-Sprinkler					
11-Selling					
12-Fence					
13-Sales tax					
14-Architect					
15-Callibration					
16-Training					
Total					

Members Video (Ad Free): https://youtu.be/8CeI_4OPBXc

10-2A – Component Depreciation

On January 1, 2031, Kamloops Mining Ltd. acquired a used Komatsu 930E haul truck for a total price of $1,000,000. The truck was purchased in "ready-to-work" condition with a brand-new set of tires. The company's accounting policy is to identify significant components of large assets and depreciate each component separately over its own useful life.

An independent appraisal was used to allocate the $1,000,000 purchase price to the following components and to estimate their useful lives:

1. Chassis & Frame: The main body and steel structure are valued at $500,000 (Estimated remaining life: 10 years).
2. Engine & Drive System: The engine and electric drive motors are valued at $200,000 (Estimated remaining life: 5 years).
3. Tires: A set of six 53/80R63 tires is valued at $300,000 (Estimated life: 2 years).

Assumptions:

- All components have a residual value of $0.
- The company uses the Straight-Line method for all depreciation.
- The company has a December 31, 2031 fiscal year end.

Required:

a.) Calculate the depreciation expense for each component and the total depreciation expense for the truck for the first year.

b.) Calculate what the first year's depreciation expense would be if the company had treated the entire truck as a single asset depreciated over a 10-year life.

c.) How much would Net Income be overstated or understated if the company failed to componentize the asset?

Members Video (Ad Free): https://youtu.be/wSQQz6i64xg

10-2B – Component Depreciation

On January 1, 2031, Craig Properties acquired a newly constructed office tower for a total price of $12,000,000. The company's accounting policy is to identify significant components of large assets and depreciate each component separately over its own useful life (componentization).

An independent engineering appraisal was used to allocate the $12,000,000 purchase price to the following components and to estimate their useful lives:

1. Land: Estimated value of $3,000,000 (Indefinite life).
2. Building Structure: The main shell, foundation, and walls are valued at $6,000,000 (Estimated life: 50 years).
3. HVAC System: The heating, ventilation, and air conditioning systems are valued at $1,200,000 (Estimated life: 15 years).
4. Roof: The membrane and covering are valued at $800,000 (Estimated life: 20 years).
5. Elevators: The elevator banks and motors are valued at $1,000,000 (Estimated life: 25 years).

Assumptions:

- All components have a residual value of $0.
- The company uses the Straight-Line method for all depreciation.
- The company has a December 31, 2031 fiscal year end.

Required:

a.) Calculate the depreciation expense for each component and the total depreciation expense for the property for the first year.

b.) Calculate what the first year's depreciation expense if the company had treated the entire building as a single asset depreciated over 50 years.

c.) How much would Net Income be overstated or understated if the company failed to componentize the asset.

Members Video (Ad Free): https://youtu.be/WXQhi_rf2kE

10-3A – Lump Sum Purchase

On March 1, 2031, Red Pine Manufacturing purchased a defunct competitor's factory site. In a single transaction, Red Pine paid $1,800,000 cash for the land, factory building, and a fleet of forklifts (equipment).

Because the purchase price was negotiated as a "package deal," it was lower than the current market rates. To determine the cost of each asset for accounting purposes, Red Pine hired a professional appraiser. The appraiser provided the following fair values on the date of acquisition:

- Land: $800,000
- Factory Building: $1,200,000
- Equipment (Forklifts): $500,000

Required:

a.) Calculate the allocation percentage for each asset based on its relative fair value.

b.) Determine the capitalized cost that Red Pine should record for the Land, Building, and Equipment.

c.) Prepare the journal entry to record the acquisition on March 1.

Free Video Walkthrough: https://youtu.be/OfBqkAXR87Y

Members Video (Ad Free): https://youtu.be/5YML5CG7SwQ

10-3B – Lump Sum Purchase

On June 30, 2031, Alpine Adventures Ltd. purchased a small ski lodge operation from a retiring owner. The purchase included the mountain-base land, the main lodge building, and a paved parking lot (Land Improvements). Alpine Adventures paid a single lump sum of $2,400,000 cash for the entire property.

To ensure the assets were recorded at their proper historical costs, Alpine commissioned an independent appraisal. The appraisal report listed the separate fair market values as follows:

- Land: $900,000
- Lodge Building: $1,500,000
- Parking Lot (Land Improvements): $600,000

Required:

a.) Calculate the allocation percentage for each asset based on its relative fair market value.

b.) Determine the capitalized cost that Alpine Adventures should record for the Land, Lodge Building, and Parking Lot.

c.) Prepare the journal entry to record the acquisition on June 30.

Members Video (Ad Free): https://youtu.be/MbSsuZCjOrE

10-4A – Non-Monetary Exchange – Cash Paid

Highland Construction decided to upgrade its fleet by trading in an old excavator for a newer, more efficient model. The sticker price (and fair value) of the new excavator is $115,000.

On October 1, 2031, Highland traded its old excavator and **paid** $40,000 in cash to acquire the new machine.

Part 1:

The accounting records for the Old Excavator on the date of the trade showed:

- Original Cost: $150,000
- Accumulated Depreciation: $90,000 (depreciation had been recorded up to October 1)
- Fair Value: $75,000

Required (Part 1):

a.) Assume the transaction has commercial substance. Record the journal entry for the transaction.
b.) Assume the transaction lacks commercial substance. Record the journal entry for the transaction.

Part 2:

Now, assume the same details as above, but with one difference, the old excavator had been depreciated more slowly over its life. Details are below:

- Original Cost: $150,000
- ***Accumulated Depreciation: $55,000*** (depreciation had been recorded up to October 1)
- Fair Value: $75,000

The trade remained the same as above with Highland paying $40,000 cash plus the old excavator in exchange for the dealer's new $115,000 excavator.

Required (Part 2):

c.) Assume the transaction has commercial substance. Record the journal entry for the transaction.
d.) Assume the transaction lacks commercial substance. Record the journal entry for the transaction.

Free Video Walkthrough: https://youtu.be/iXWwTHFIeJk

Members Video (Ad Free): https://youtu.be/ZumMNhZndMU

10-4B – Non-Monetary Exchange – Cash Paid

City Courier Services needs to replace one of its older delivery vans with a larger model to handle increased parcel volume. The sticker price (and fair value) of the new, larger van is $37,000.

On July 1, 2031, the company traded in its old van and **paid** $25,000 cash to acquire the new van.

Part 1:

The accounting records for the Old Van on the date of the exchange showed the following:

- Original Cost: $48,000
- Accumulated Depreciation: $40,000 (depreciation had been recorded up to July 1)
- Fair value: $12,000

Required (Part 1):

a.) Assume the transaction has commercial substance. Record the journal entry for the transaction.
b.) Assume the transaction lacks commercial substance. Record the journal entry for the transaction.

Part 2:

Now, assume the same details as above, but with one difference, the old van had been depreciated more slowly over its life. Details are below:

- Original Cost: $48,000
- **Accumulated Depreciation: $20,000 (depreciation had been recorded up to July 1)**
- Fair value: $12,000

The trade remained the same as above with City Courier paying $25,000 cash plus the old van in exchange for the dealer's new $37,000 van.

Required (Part 2):

c.) Assume the transaction has commercial substance. Record the journal entry for the transaction.
d.) Assume the transaction lacks commercial substance. Record the journal entry for the transaction.

Members Video (Ad Free): https://youtu.be/JveHXwGp39I

10-5A – Non-Monetary Exchange with Cash Received

Blue Sky Logistics decided to "downsize" its operations. On November 1, 2031, the company traded in a large, heavy-duty transport truck for a smaller local delivery van. Because the transport truck was worth more than the van, Blue Sky received cash from the dealer to balance the trade.

The New Delivery Van has a list price (and fair value) of $30,000.

Part 1:

Assume the accounting records for the Old Transport Truck showed:

- Original Cost: $90,000
- Accumulated Depreciation: $45,000
- Fair Value: $38,000

To balance the trade, the dealer paid Blue Sky $8,000 cash ($38,000 FV Old - $30,000 FV New).

Required (Part 1):

a.) Record the entry assuming the exchange has commercial substance.
b.) Record the entry assuming the exchange lacks commercial substance.

Part 2:

Now, assume the same details as above, but with one difference, the old truck had been depreciated more aggressively over its life. Details are below:

- Original Cost: $90,000
- ***Accumulated Depreciation: $71,000***
- Fair Value: $38,000

The trade remained the same with the dealer paying $8,000 cash plus the $30,000 new van in exchange for Blue Sky's older (and more expensive) truck.

Required (Part 2):

a.) Record the entry assuming the exchange has commercial substance.
b.) Record the entry assuming the exchange lacks commercial substance under:
    i. IFRS
    ii. US GAAP

Members Video (Ad Free): https://youtu.be/Vmgl98studY

10-5B – Non-Monetary Exchange with Cash Received

Ironworks Manufacturing needs to retool its factory floor. On August 15, 2031, the company traded in a large, older industrial press for a smaller, modern 3D-printing station. Because the industrial press had a higher fair value than the new printer, Ironworks received cash from the equipment dealer to equalize the trade.

The New 3D-Printing Station has a list price and fair value of $48,000.

To balance the trade, the dealer paid Ironworks $12,000 in cash.

Part 1:

Assume the accounting records for the Old Industrial Press showed:

- Original Cost: $135,000
- Accumulated Depreciation: $70,000
- Fair Value: $60,000

Required (Part 1):

a.) Record the entry assuming the exchange has commercial substance.
b.) Record the entry assuming the exchange lacks commercial substance.

Part 2:

Now, assume the same transaction details occurred (same cash and fair values), but the old industrial press had been depreciated much more aggressively over its life. Details are below:

- Original Cost: $135,000
- ***Accumulated Depreciation: $95,000***
- Fair Value: $60,000

(Note: The Total Consideration paid by the dealer remains the same as above: $48,000 New Printing Station + $12,000 Cash = $60,000)

Required (Part 2):

a.) Record the entry assuming the exchange has commercial substance.
b.) Record the entry assuming the exchange lacks commercial substance under:
    i. IFRS
    ii. US GAAP

Bonus Question (US GAAP Only)
Assume that instead of the deal above, the dealer offers a slightly cheaper model of the 3D-Printing Station (Fair Value = $42,000) and increases the cash payment to $18,000 to balance the trade for the Old Industrial Press (fair value remains $60,000).

Required:
Assuming the transaction still lacks commercial substance, prepare the journal entry.

Members Video (Ad Free): https://youtu.be/rJm1mq4wBsU

10-6A – Deferred Payment Terms

On January 1, 2031, Zenith Machining Ltd. purchased a specialized robotic lathe. Instead of paying cash, Zenith signed a promissory note agreeing to pay the seller $80,000 in a single lump-sum payment on December 31, 2033 (3 years later).

The note is legally structured as a "zero-interest" note. However, Zenith's borrowing rate for similar debt obligations is 6%.

Required:

a.) Calculate the cost at which the robotic lathe should be recorded on January 1, 2031.

b.) Prepare the journal entry to record the purchase of the equipment on January 1, 2031.

c.) Prepare the adjusting journal entry to record the interest expense for the year ended December 31, 2031 (the company's fiscal year-end).

d.) What will be the carrying amount (book value) of the Note Payable on December 31, 2031, after the interest entry is recorded?

Members Video (Ad Free): https://youtu.be/Y5MzbCUJMKU

10-6B – Deferred Payment Terms

On January 1, 2031, Maple Grove Industries purchased a specialized cutting machine from a supplier. Because Maple Grove was short on cash, the supplier agreed to accept a non-interest-bearing note instead of immediate payment.

Under the agreement, Maple Grove will pay $150,000 in a single lump sum on December 31, 2033 (three years after purchase). The machine was delivered and placed in service on January 1, 2031.

There is no stated interest rate on the note, but similar borrowers pay 8% per year for this type of financing. Maple Grove's management believes this 8% rate reflects a reasonable market rate of interest for the note.

Required:

a.) Calculate the cost at which the cutting machine should be recorded on January 1, 2031.

b.) Prepare the journal entry to record the purchase of the equipment on January 1, 2031.

c.) Prepare the adjusting journal entry to record the interest expense for the year ended December 31, 2031 (the company's fiscal year end).

d.) What will be the carrying amount (book value) of the Note Payable on December 31, 2031, after the interest entry is recorded?

Members Video (Ad Free): https://youtu.be/02I7JBcaiEY

10-7A – Issuance of Shares for Assets

On May 1, 2031, Nova Tech acquired a patent from an independent inventor. Instead of paying cash, Nova Tech issued 20,000 common shares (no par value) to the inventor in exchange for the patent title.

Part 1 (Publicly Traded):

Nova Tech is a publicly traded company. On the date of the transaction, Nova Tech's stock was actively trading at $18.50 per share. On the same date, an independent appraiser valued the patent at $360,000.

Required (Part 1):

Prepare the journal entry to record the acquisition of the patent.

Part 2 (Private Company):

Assume instead that Nova Tech is a private company, and its stock is not publicly traded. The board of directors estimates the stock's value at $15.00 per share based on a recent internal round of funding. An independent appraiser valued the patent at $360,000.

Required (Part 2):

Prepare the journal entry to record the acquisition of the patent.

Members Video (Ad Free): https://youtu.be/w4WN9gusWAU

10-7B – Issuance of Shares for Assets

On July 1, 2031, Green Valley Estates acquired a plot of land for future development. Instead of paying cash, Green Valley issued 50,000 common shares (no par value) to the land developer in exchange for the property title.

Part 1 (Publicly Traded):

Green Valley is a publicly traded company. On the date of the transaction, Green Valley's stock was actively trading at $12.50 per share. On the same date, an independent appraiser valued the land at $600,000.

Required (Part 1):

Prepare the journal entry to record the acquisition of the land.

Part 2 (Private Company):

Assume instead that Green Valley is a private company, and its stock is not publicly traded. The board of directors estimates the stock's value at $14.00 per share based on their own internal valuation models. An independent appraiser valued the land at $600,000.

Required (Part 2):

Prepare the journal entry to record the acquisition of the land.

Members Video (Ad Free): https://youtu.be/aGb0Ev8Pxk0

10-8A – Asset Retirement Obligations

On January 1, 2031, Northern Chemicals constructed a specialized chemical processing reactor. The direct costs of materials and labor to construct the reactor totaled $400,000 (assume cash was paid to cover these costs). The reactor has an estimated useful life of 10 years with no residual value.

Legally, Northern is required to dismantle the reactor and remediate the soil at the end of its useful life. Environmental engineers estimate that the cost to dismantle the reactor will be $80,000, payable on December 31, 2040, at the end of the reactor's 10-year useful life.

The appropriate discount rate for this liability is 5%.

Required:

a.) Calculate the Present Value of the asset retirement obligation on January 1, 2031 (round to the nearest dollar).

b.) Prepare the journal entry to record the construction of the reactor and the recognition of the ARO on January 1, 2031.

c.) Prepare the journal entry to record Depreciation Expense for the year ended December 31, 2031 (Straight-Line method).

d.) Prepare the journal entry to record the Accretion Expense (Interest Expense) on the liability for the year ended December 31, 2031.

Free Video Walkthrough: https://youtu.be/gyLxq6vYFqA

Members Video (Ad Free): https://youtu.be/0JrnO1rhFG8

10-8B – Asset Retirement Obligations

On January 1, 2031, Western Mining Ltd. completed the development of a new underground mineshaft. The direct costs of excavation and reinforcement to construct the shaft totaled $1,200,000 (assume cash was paid to cover these costs). The mineshaft has an estimated useful life of 12 years with no residual value.

Legally, Western is required to backfill the shaft and restore the land surface at the end of its useful life. Environmental engineers estimate that the cost to restore the site will be $300,000, payable on December 31, 2042, at the end of the shaft's 12-year useful life.

The appropriate discount rate for this liability is 8%.

Required:

a.) Calculate the Present Value of the asset retirement obligation on January 1, 2031 (round to the nearest dollar).
b.) Prepare the journal entry to record the construction of the mineshaft and the recognition of the ARO on January 1, 2031.
c.) Prepare the journal entry to record Depreciation Expense for the year ended December 31, 2031 (Straight-Line method).
d.) Prepare the journal entry to record the Accretion Expense (Interest Expense) on the liability for the year ended December 31, 2031.

Members Video (Ad Free): https://youtu.be/vsfQ8yjHn9A

10-9A – Capitalization of Interest

On January 1, 2031, Summit Structures Ltd. began construction of a new manufacturing facility. The building was completed and ready for use on December 31, 2031.

The company already owned the land, and during the year, Summit made the following payments to its construction contractor:

- January 1: $1,000,000
- April 1: $1,200,000
- October 1: $1,800,000

Debt Information:

To finance the project, Summit took out a Specific Construction Loan on January 1, 2031. In addition to this specific loan, the company had two other general debt obligations outstanding throughout the entire year.

Specific Construction Loan:

- Principal: $2,000,000
- Interest Rate: 8%

General Debt:

- Bond Payable: $3,000,000 at 6% interest.
- Note Payable: $1,000,000 at 10% interest.

Assume:

- The new facility is a qualifying asset for capitalization of borrowing costs.
- The capitalization period covers the entire year.
- The company uses the weighted-average accumulated expenditures (WAAE) approach and capitalizes the avoidable interest.

Required:

a.) Calculate the Weighted Average Accumulated Expenditures for 2031.
b.) Calculate the Weighted Average Interest Rate on the general debt.
c.) Calculate the Avoidable Interest (the amount of interest to be capitalized).
d.) Determine the Interest Expense to be reported on the Income Statement for 2031.
e.) Prepare the journal entries to record the interest cost for the year, including the year-end entry to capitalize borrowing costs.

Members Video (Ad Free): https://youtu.be/LxPjKwNjetg

10-9B – Capitalization of Interest

On January 1, 2031, Ridgeway Manufacturing Ltd. began construction of a new production facility. Construction is expected to take one year, and the building qualifies for capitalization of borrowing costs.

The company already owned the land. Construction expenditures during 2031 were:

- January 1: $2,000,000
- April 1: $1,200,000
- July 1: $800,000
- October 1: $600,000

To help finance the project, Ridgeway had the following borrowings outstanding for all of 2031:

  - Specific Construction Loan – $2,500,000 at 8% interest, issued January 1, 2031, specifically to finance the new facility.
  - General Debt – $5,000,000 of other long-term debt at 6% interest.

Assume:

- The building is a qualifying asset for capitalization of borrowing costs.
- The capitalization period covers the entire year.
- The company uses the weighted-average accumulated expenditures (WAAE) approach and capitalizes the avoidable interest.

Required:

a.) Calculate the Weighted Average Accumulated Expenditures for 2031.
b.) Calculate the Weighted Average Interest Rate on the general debt.
c.) Calculate the Avoidable Interest (the amount of interest to be capitalized).
d.) Determine the Interest Expense to be reported on the Income Statement for 2031.
e.) Prepare the journal entries to record the interest cost for the year, including the year-end entry to capitalize borrowing costs.

Members Video (Ad Free): https://youtu.be/NbrxT4AhMoU

10-10A – Capitalize or Expense?

On January 1, 2031, Lamda Manufacturing purchased a used factory facility. During the first year of operations, the company incurred several expenditures related to its machinery and building.

Required:

For each of the independent transactions below, indicate if the item should be capitalized or expensed. Note with a "C" or an "E" as needed.

Transactions:

1. Paid $12,000 for routine painting and minor plumbing repairs to the factory administrative offices to get them ready for the year.
2. Paid $45,000 to install a new specialized air filtration system. This system was not part of the original building and will allow the factory to produce medical-grade plastics (a new product line).
3. Paid $2,500 for the annual lubrication and belt replacement on the conveyor belt system.
4. Paid $28,000 to overhaul the main generator's engine. This major service extended the generator's useful life by an additional 5 years.
5. A storm damaged a section of the roof. Paid $6,000 to replace the broken shingles and restore the roof to its previous condition.

Members Video (Ad Free): https://youtu.be/-IgkfxVoBFk

10-10B – Capitalize or Expense?

On January 1, 2031, Gamma Manufacturing had the following assets in use:

- A CNC milling machine purchased several years ago.
- A warehouse building used for storage and shipping.

During 2032, the company incurred the following expenditures related to these assets:

Required:

For each of the independent transactions below, indicate if the item should be capitalized or expensed. Note with a "C" or an "E" as needed.

Transactions:

1. Performed a routine oil change, lubrication, and minor adjustments on the CNC machine to keep it in normal working condition – cost $3,200.
2. Replaced worn cutting tools and small parts on the CNC machine with similar items; this did not change output capacity – cost $4,800.
3. Installed a new computerized control system on the CNC machine that improved precision and increased output by approximately 20% – cost $36,000.
4. Repainted the exterior of the warehouse building using similar-quality paint; this was done mainly for appearance and protection – cost $9,500.
5. Replaced the original lighting system in the warehouse with an energy-efficient LED system that is expected to reduce electricity costs significantly for the remaining life of the building – cost $24,000.

Members Video (Ad Free): https://youtu.be/YruIpZrysq0

Appendix

The Revaluation Model and Fair Value Model - IFRS

Problem 10-11A: The Revaluation Model (IFRS)

On January 1, 2031, Harbourview Properties purchased an office building for $1,000,000. The building is estimated to have a useful life of 10 years and no residual value. Harbourview uses the Straight-Line method of depreciation.

Initially, the company measures property, plant, and equipment using the Cost Model. However, on December 31, 2032 (after two full years of use), management decides to adopt the Revaluation Model under IFRS for this class of assets.

On that date, an independent appraiser estimates that the Fair Value of the building is $1,050,000. The remaining useful life of the building is unchanged.

Required:

a.) Under the Cost Model, compute:
i. The annual depreciation expense for 2031 and 2032.
ii. The carrying amount (Book Value) of the building at December 31, 2032.
(Do not prepare any journal entries for this part).

b.) Assuming Harbourview uses the Elimination Method for revaluation, prepare the elimination entry and the journal entry to record the revaluation on December 31, 2032.

c.) For the year ended December 31, 2033 (the year *after* revaluation), compute the depreciation expense and the carrying amount of the building.

d.) Assume on December 31, 2033 an independent appraiser estimates the Fair Value of the building is $900,000. Prepare the elimination entry and the journal entry to record the revaluation on December 31, 2033.

e.) Assume on January 3, 2034 the building is sold for $905,000 cash. Prepare any necessary journal entries.

Members Video (Ad Free): https://youtu.be/7Ohzg4K6TAI

Problem 10-11B: The Revaluation Model (IFRS)

On January 1, 2031, Mountain View Logistics purchased a warehouse for $600,000. The warehouse is estimated to have a useful life of 12 years and no residual value. Mountain View uses the Straight-Line method of depreciation.

Initially, the company measures property, plant, and equipment using the Cost Model. However, on December 31, 2032 (after two full years of use), management decides to adopt the Revaluation Model under IFRS for this class of assets.

On that date, an independent appraiser estimates that the Fair Value of the warehouse is $650,000. The remaining useful life of the warehouse is unchanged.

Required:

a.) Under the Cost Model, compute:
i. The annual depreciation expense for 2031 and 2032.
ii. The carrying amount (Book Value) of the building at December 31, 2032.
(Do not prepare any journal entries for this part).

b.) Assuming Mountain View uses the Elimination Method for revaluation, prepare the elimination entry and the journal entry to record the revaluation on December 31, 2032.

c.) For the year ended December 31, 2033 (the year *after* revaluation), compute the depreciation expense and the carrying amount of the building.

d.) Assume on December 31, 2033 an independent appraiser estimates the Fair Value of the building is $550,000. Prepare the elimination entry and the journal entry to record the revaluation on December 31, 2033.

e.) Assume on January 3, 2034 the building is sold for $560,000 cash. Prepare any necessary journal entries.

Members Video (Ad Free): https://youtu.be/AsjDUrgtwP8

Problem 10-12A: The Fair Value Model (IFRS)

On January 1, 2031, Metro Capital purchased a commercial building for $2,000,000 cash. Metro Capital classifies this building as an Investment Property because it is held to earn rental income and for capital appreciation, rather than for use in owner-occupied operations.

The company adopts the Fair Value Model to measure its investment properties.

- December 31, 2031: The independent appraised value is $2,150,000.
- December 31, 2032: The independent appraised value is $2,080,000.

Assume:

- The building is not depreciated under the Fair Value Model.
- Ignore income taxes and transaction costs.

Required:

Prepare all necessary journal entries for the dates below (ignore income tax implications):

a.) January 1, 2031 (Purchase).
b.) December 31, 2031 (Year-end adjustment).
c.) December 31, 2032 (Year-end adjustment).

Members Video (Ad Free): https://youtu.be/zNu_yKgBjJY

Problem 10-12B: The Fair Value Model (IFRS)

On January 1, 2031, Stonecrest Holdings purchased a commercial building for $1,000,000 cash as an investment property (held to earn rental income and for capital appreciation). Stonecrest applies IFRS and uses the Fair Value Model for all investment properties.

Independent appraisals reported the following fair values for the building:

- December 31, 2031: $1,060,000
- December 31, 2032: $995,000

Assume:

- The building is not depreciated under the Fair Value Model.
- Ignore income taxes and transaction costs.

Required:

Prepare all necessary journal entries for the dates below (ignore income tax implications):

a.) January 1, 2031 (Purchase).
b.) December 31, 2031 (Year-end adjustment).
c.) December 31, 2032 (Year-end adjustment).

Members Video (Ad Free): https://youtu.be/Y5-NypFHCGo

Module 11: Depreciation, Depletion and Impairment

Module Introduction Video Links

Free Intro Video: https://youtu.be/twjQoRAh-gU

Members Intro Video (Ad Free): https://youtu.be/ubGAkcUOQ4g

11-1A – Depreciation: Straight-line, Units-of-Production, Double-Declining-Balance, Sum-of-the-Years' Digits

On April 1, 2031, Martinez Construction purchased a specialized concrete mixer for use in its operations. The following information relates to this asset:

- Purchase price: $92,000
- Delivery and installation costs: $3,000
- Estimated useful life: 5 years
- Estimated residual value: $11,000
- Estimated total productive output: 120,000 operating hours

The company uses a December 31 fiscal year-end and calculates depreciation to the nearest month.

Estimated operating hours by year:

- 2031: 18,000 hours
- 2032: 26,000 hours
- 2033: 28,000 hours
- 2034: 24,000 hours
- 2035: 16,000 hours
- 2036: 8,000 hours

Required:

Calculate depreciation expense for each year of the life of the asset under the following methods:

a.) Straight-line
b.) Units-of-production
c.) Double-declining-balance
d.) Sum-of-the-years'-digits

Summarize your results in the table below:

Year	Straight-Line	Units-of-Production	Double-Declining-Balance	Sum-of-the-years'-digits
2031				
2032				
2033				
2034				
2035				
2036				

Free Video Walkthrough:

Part 1 – https://youtu.be/piQTlWJmnl0
Part 2 – https://youtu.be/Ko1lgjjCJTs
Part 3 - https://youtu.be/IZ_FZqbwBOk
Part 4 - https://youtu.be/phG7Fcwe-UA

Members Video (Ad Free):

Part 1 – https://youtu.be/e84wN7SqQC0
Part 2 – https://youtu.be/mqilWHcModg
Part 3 - https://youtu.be/LgV_fPtNo8U
Part 4 - https://youtu.be/DHIC3XBLRo0

11-1B – Depreciation: Straight-line, Units-of-Production, Double-Declining-Balance, Sum-of-the-Years' Digits

On October 1, 2031, Westbrook Distribution purchased a heavy-duty delivery truck for use in its operations. The following information relates to this asset:

- Purchase price: $78,000
- Delivery and installation costs: $4,500
- Estimated useful life: 5 years
- Estimated residual value: $10,500
- Estimated total productive output: 180,000 miles

The company uses a December 31 fiscal year-end and calculates depreciation to the nearest month.

Estimated miles driven by year:

- 2031: 9,000 miles
- 2032: 42,000 miles
- 2033: 45,000 miles
- 2034: 39,000 miles
- 2035: 30,000 miles
- 2036: 15,000 miles

Required:
Calculate depreciation expense for each year of the life of the asset under the following methods:

a.) Straight-line
b.) Units-of-production
c.) Double-declining-balance
d.) Sum-of-the-years'-digits

Summarize your results in the table below:

Year	Straight-Line	Units-of-Production	Double-Declining-Balance	Sum-of-the-years'-digits
2031				
2032				
2033				
2034				
2035				
2036				

Members Video (Ad Free): https://youtu.be/2LwR4og4cxA

11-2A – Sale of a capital asset (Gain or Loss)

Speedy Couriers purchased a new delivery van on August 1, 2031 for $60,000 cash. The company expects to keep the van for 5 years, after which time it plans to sell the van for $6,000. The company's accountant wishes to use straight-line depreciation. Speedy Couriers has a fiscal year end of December 31. On June 30, 2032, Speedy sells the van for $52,000 cash.

Required:

a.) Record all relevant entries for the van.
b.) Assume that instead of $52,000, Speedy had received $45,000 for the van – re-record the sale journal entry given this new sale price.

Free Video Walkthrough: https://youtu.be/NfyAzi72-rw

Members Video (Ad Free): https://youtu.be/2XteZ-23auo

11-2B – Sale of a capital asset (Gain or Loss)

Okanagan Fruit Packers purchased a new packaging machine on May 1, 2031 for $45,000 cash. The company expects to keep the machine for 7 years, after which time it plans to sell it for $3,000. The company's accountant wishes to use straight-line depreciation. Okanagan Fruit Packers has a fiscal year end of December 31. On November 1, 2032, the company sells the machine for $38,000 cash.

Required:

a.) Record all relevant entries for the machine.
b.) Assume that instead of $38,000, the company had received $25,000 for the machine – re-record the sale journal entry given this new sale price.

Members Video (Ad Free): https://youtu.be/OUFrog3G7cY

11-3A – Disposing of Depreciable Assets at a Gain or Loss – various depreciation methods

On May 1, 2031, Oakwood Logistics purchased a warehouse forklift for $57,000 cash. The forklift had an estimated useful life of 5 years and an estimated residual value of $9,000. The company expected the forklift would operate for 20,000 hours over its useful life.

The company has a fiscal year end of December 31.

On September 30, 2033, the company sells the forklift for $30,000 cash.

The forklift actually operated for the following hours:

- 2031 – 3,200 hours
- 2032 – 5,400 hours
- 2033 – 3,000 hours

Required:

Prepare all journal entries and adjustments for the life of the asset under straight-line, units of production, double declining balance, and sum-of-the-years' digits depreciation methods.

Optionally, you can use the table below. I have partially completed the table as a guide.

Accounts	Straight Line		Units of Prod.		Double D. Balance		Sum of Years' Dig.	
May 1, 2031 DR FORKLIFT CR CASH	DR $57,000	CR $57,000	DR $57,000	CR $57,000	DR $57,000	CR $57,000	DR $57,000	CR $57,000
Dec 31, 2031 DR DEPRECIATION EXP CR A-D FORKLIFT								
Dec 31, 2032 DR DEPRECIATION EXP CR A-D FORKLIFT								
Sep 30, 2033 (depreciation) DR DEPRECIATION EXP CR A-D FORKLIFT								
Sep 30, 2033 (sale) YOUR TURN								

Members Video (Ad Free): https://youtu.be/Bq4A3F78s3I

11-3B – Disposing of Depreciable Assets at a Gain or Loss – various depreciation methods

On April 1, 2031, Riverdale Manufacturing purchased a specialized packaging machine for $135,000 cash. The machine had an estimated useful life of 5 years and an estimated residual value of $15,000.

The company expected the machine would produce 400,000 units over its useful life.

The company has a fiscal year end of December 31.

On August 31, 2033, the company sells the equipment for $78,000 cash.
The machine actually produced the following units:

- 2031 – 45,000 units
- 2032 – 72,000 units
- 2033 – 48,000 units

Required:
Prepare all journal entries and adjustments for the life of the asset under straight-line, units of production, double declining balance, and sum-of-the-years' digits depreciation methods.
Optionally, you can use the table below. I have partially completed the table as a guide.

Accounts	Straight Line	Units of Prod.	Double D. Balance	Sum of Years' Dig.
April 1, 2031 DR MACHINE CR CASH	DR 135,000 CR 135,000	DR 135,000 CR 135,000	DR 135,000 CR 135,000	DR 135,000 CR 135,000
Dec 31, 2031 DR DEPRECIATION EXP CR A-D MACHINE				
Dec 31, 2032 DR DEPRECIATION EXP CR A-D MACHINE				
Aug 31, 2033 (depreciation) DR DEPRECIATION EXP CR A-D MACHINE				
Aug 31, 2033 (sale) YOUR TURN ↴				

Members Video (Ad Free): https://youtu.be/DEeRdXe21gI

11-4A – Revision of Depreciation Rates (Change in Useful Life and Residual Value)

On January 1, 2031, West Coast Printing purchased a high-volume digital printing press for $160,000 cash. The estimated useful life was 10 years, and the estimated residual value was $10,000. The company uses straight-line depreciation and has a December 31 fiscal year-end.

The company followed these estimates and recorded depreciation correctly for 2031, 2032, and 2033.

Effective January 1, 2034, management revised its estimates due to rapid technological advancements in printing:

- Revised **Remaining** Useful Life: 4 years (as of January 1, 2034)
- Revised Residual Value: $5,000

Required:

a.) Determine the book value of the asset at December 31, 2033, prior to the change in estimate.
b.) Calculate the new annual depreciation expense to be used in 2034 and subsequent years.

Free Video Walkthrough: https://youtu.be/Y9vileYpTRY

Members Video (Ad Free): https://youtu.be/yagzigACt3g

11-4B – Revision of Depreciation Rates (Change in Useful Life and Residual Value)

On January 1, 2031, Northern Machine Works purchased a hydraulic press for $90,000 cash. The estimated useful life was 8 years, and the estimated residual value was $10,000. The company uses straight-line depreciation and has a December 31 fiscal year-end.

The company followed these estimates and recorded depreciation correctly for 2031, 2032, and 2033.

Effective January 1, 2034, management revised its estimates due to the asset being used less than expected:

- Revised **Remaining** Useful Life: 10 years (as of January 1, 2034)
- Revised Residual Value: $6,000

Required:

a.) Determine the book value of the asset at December 31, 2033, prior to the change in estimate.
b.) Calculate the new annual depreciation expense to be used in 2034 and subsequent years.

Members Video (Ad Free): https://youtu.be/ITeEsRjKmjs

11-5A – Depletion of Natural Resources

On January 1, 2031, Volt Resources acquired a tract of land suspected to contain significant lithium deposits. The company incurred the following costs to prepare the mine for production:

- Property Acquisition Cost: $12,000,000
- Exploration and Development Costs (Capitalized): $6,500,000
- Restoration Costs: The company has a legal obligation to restore the land at the end of the mine's life. The present value of these estimated future restoration costs is $1,500,000.

Geological surveys estimate the mine contains 3,000,000 tons of recoverable lithium ore. Volt Resources estimates that after the mine is exhausted and the land is restored, the property will have a residual value of $2,000,000.

Activity for 2031:

- Extracted: 400,000 tons of lithium ore
- Sold: 350,000 tons
- Sales price: $40 per ton

Required:

a.) Calculate the depletion rate per ton.
b.) Prepare the journal entry to record the depletion of the resource (extraction) for 2031.
c.) Prepare the journal entry to record the sale and cost of goods sold for 2031.
d.) Determine the Net Book Value (Carrying Amount) of the Lithium Mine on the Balance Sheet as of December 31, 2031.

Free Video Walkthrough: https://youtu.be/EY6cF_TlmoI

Members Video (Ad Free): https://youtu.be/DvTCxFYBWIo

11-5B – Depletion of Natural Resources (Copper)

On January 1, 2031, Highland Mining acquired a large tract of land believed to contain significant copper deposits. The company incurred the following costs to prepare the mine for production:

- Property Acquisition Cost: $25,000,000
- Exploration and Development Costs (Capitalized): $8,000,000
- Restoration Costs: The company has a legal obligation to restore the land at the end of the mine's life. The present value of these estimated future restoration costs is $2,000,000.

Geological surveys estimate the mine contains 10,000,000 tons of recoverable copper ore. Highland Mining estimates that after the mine is exhausted and the land is restored, the property will have a residual value of $3,000,000.

Activity for 2031:

- Extracted: 1,200,000 tons of copper ore
- Sold: 1,000,000 tons
- Sales price: $15 per ton

Required:

a.) Calculate the depletion rate per ton.
b.) Prepare the journal entry to record the depletion of the resource (extraction) for 2031.
c.) Prepare the journal entry to record the sale and cost of goods sold for 2031.
d.) Determine the Net Book Value (Carrying Amount) of the Copper Mine on the Balance Sheet as of December 31, 2031.

Members Video (Ad Free): https://youtu.be/MrBp6k837wc

11-6A – Impairment (US GAAP and IFRS compared)

Cascade Timber operates a specialized lumber mill. Due to strict new environmental regulations restricting logging in the area, the company believes its main saw-line machinery may be impaired.

As of December 31, 2031, the following data is available regarding the machinery:

- Original Cost: $1,200,000
- Accumulated Depreciation: $500,000
- Expected net resale value: $600,000

Management estimates the machine will generate the following net cash flows over its remaining 4-year useful life:

Year	Expected Net Cash Flow
2032	$220,000
2033	$200,000
2034	$180,000
2035	$140,000

Additional Information:

- The appropriate discount rate for this asset is 8%.

Required:

Part 1 – US GAAP

a.) Determine if the asset is impaired. If it is, calculate the impairment loss and prepare the journal entry. If it is not impaired, explain why.

b.) Assume that instead of $140,000, 2035 cash flows had been projected to be $40,000. Under this new assumption, determine if the asset is impaired. If it is, calculate the impairment loss and prepare the journal entry. If not, explain why.

Part 2 - IFRS

c.) Under IFRS, determine if the asset is impaired. If it is, calculate the impairment loss and prepare the journal entry. If not, explain why.

d.) Assume that instead of $140,000, 2035 cash flows had been projected to be $250,000. Under this new assumption, determine if the asset is impaired. If it is, calculate the impairment loss and prepare the journal entry. If not, explain why.

Free Video Walkthrough: https://youtu.be/JAl4vFD_T0E

Members Video (Ad Free): https://youtu.be/_6IOBO2X1XI

11-6B – Impairment (US GAAP and IFRS compared)

Vain Plastics owns a specialized large-scale extrusion machine. Due to a shift in consumer preference toward biodegradable materials, the company suspects the machine's value may be impaired.

As of December 31, 2031, the following data is available regarding the machine:

- Original Cost: $2,500,000
- Accumulated Depreciation: $900,000
- Expected net resale value: $1,300,000

Management estimates the machine will generate the following net cash flows over its remaining 4-year useful life:

Year	Expected Net Cash Flow
2032	$500,000
2033	$450,000
2034	$400,000
2035	$350,000

Additional Information:

- The appropriate discount rate for this asset is 10%.

Required:

Part 1 – US GAAP

a.) Determine if the asset is impaired. If it is, calculate the impairment loss and prepare the journal entry. If it is not impaired, explain why.

b.) Assume that instead of $350,000, 2035 cash flows had been projected to be $150,000. Under this new assumption, determine if the asset is impaired. If it is, calculate the impairment loss and prepare the journal entry. If not, explain why.

Part 2 - IFRS

c.) Under IFRS, determine if the asset is impaired. If it is, calculate the impairment loss and prepare the journal entry. If not, explain why.

d.) Assume that instead of $350,000, 2035 cash flows had been projected to be $800,000. Under this new assumption, determine if the asset is impaired. If it is, calculate the impairment loss and prepare the journal entry. If not, explain why.

Members Video (Ad Free): https://youtu.be/ncPVf3epDCQ

Module 12: Goodwill and Intangibles

Module Introduction Video Links

Free Intro Video: https://youtu.be/hZR8XPdGtbc

Members Intro Video (Ad Free): https://youtu.be/nM09qSXSYag

12-1A – Accounting for Intangible Assets

Riverwalk Company purchased several intangible assets during 2031. Riverwalk has a December 31 fiscal year-end and uses straight-line amortization for all of its intangible assets:

Copyright

On February 1, 2031, the company purchased a copyright for a series of educational manuals from an author for $36,000 cash. The copyright has a remaining legal life of 50 years. However, due to the rapid updating of educational materials, the company estimates the useful economic life of the manuals to be only 4 years.

Trademark

On April 1, 2031, the company purchased a trademark from another company for $180,000 cash. The trademark has a remaining legal life of 15 years, but the company estimates it will generate economic benefits for only 10 years.

Customer List

On July 1, 2031, the company acquired a proprietary customer list from a retiring competitor for $24,000 cash. Based on historical attrition rates, management estimates the customer list will generate revenue for 5 years, after which it will have no residual value.

Franchise

On November 1, 2031, the company entered into a franchise agreement. The company paid an initial franchise fee of $48,000 cash. The franchise agreement has a contractual life of 8 years. Separately, the agreement requires Riverwalk Company to pay an annual continuing royalty fee equal to 5% of gross sales.

Required:

For each of the items above record:

a.) Record the purchase journal entry.
b.) Record the year-end amortization entry. (Assume all intangible assets have a residual value of zero unless otherwise noted.)
c.) Calculate the carrying amount of the intangible asset at December 31, 2031.

Bonus questions:

Copyright: The copyright has a remaining legal life of 50 years, why is that number NOT used in our amortization calculation.

Trademark: How would the accounting differ if the trademark were determined to have an indefinite useful life?

Customer List: If the company had spent $24,000 on marketing salaries and had built an equivalent customer list internally, could they capitalize it? Why or why not?

Franchise: Assume the company had earned $600,000 in gross sales revenue (from the franchise) from November 1 to December 31. Record the entry for the royalty fee.

Free Video Walkthrough: https://youtu.be/GJyNvmuQeQc
Members Video (Ad Free): https://youtu.be/rxFYSQYT3OE

12-1B – Accounting for Intangible Assets

Westmount Company purchased several intangible assets during 2031. Westmount has a December 31 fiscal year-end and uses straight-line amortization for all of its intangible assets:

Patent

On March 1, 2031, Westmount purchased a patent from a competitor for $360,000 cash. The patent has a remaining legal life of 12 years, but the company estimates it will provide economic benefits for only 8 years, with no residual value.

Copyright

On July 1, 2031, the company purchased a copyright from an author for $150,000 cash. Although the copyright has a remaining legal life of 40 years, Westmount estimates the copyright will generate economic benefits for only 6 years due to the nature of the content.

Trademark

On Sept 1, 2031, Westmount purchased a trademark from an unrelated party for $60,000 cash. Management expects the trademark will provide benefits for 5 years and will have no residual value.

Customer List

On October 1, 2031, Westmount purchased a customer list from a competitor for $96,000 cash. Management estimates the customer list will provide economic benefits for 8 years, after which the customers are expected to have fully transitioned or become inactive.

Required:

For each of the items above record:

a.) Record the purchase journal entry.
b.) Record the year-end amortization entry. (Assume all intangible assets have a residual value of zero unless otherwise noted.)
c.) Calculate the carrying amount of the intangible asset at December 31, 2031.

Bonus questions:

Patent: The company paid $50,000 cash in legal expenses to successfully defend its patent on May 1, 2032. Record the journal entry.

Copyright: The copyright has a remaining legal life of 40 years, why is that number NOT used in our amortization calculation.

Trademark: How would the accounting differ if the trademark were determined to have an indefinite useful life?

Customer List: If the company had spent $96,000 on marketing salaries and had built an equivalent customer list internally, could they capitalize it? Why or why not?

Members Video (Ad Free): https://youtu.be/yo_PCNyfxmo

12-2A – Accounting for Crypto

On May 1, 2031, Tokens Company purchased 10 Bitcoin (BTC) as a long-term investment for $60,000 per BTC in cash. The company has a December 31 fiscal year-end. By December 31, 2031, the market price of Bitcoin has risen to $72,000 per BTC.

Required:

a.) Prepare the journal entry to record the purchase on May 1, 2031.

b.) Prepare the adjusting entry on December 31, 2031 assuming the company uses:

1. US GAAP
2. IFRS
    i. Assume the company elects to use the cost model.
    ii. Assume the company elects to use the Revaluation Model.

Members Video (Ad Free): https://youtu.be/BleV6jr0pt0

12-2B – Accounting for Crypto

On July 1, 2031, Threads Company purchased 20 Ether (ETH) as a long-term investment for $2,500 per ETH in cash. The company has a December 31 fiscal year-end. By December 31, 2031, the market price of Ether has fallen to $2,200 per ETH.

Required:

a.) Prepare the journal entry to record the purchase on July 1, 2031.

b.) Prepare the adjusting entry on December 31, 2031 assuming the company uses:

1. US GAAP
2. IFRS
    i. Assume the company elects to use the cost model.
    ii. Assume the company elects to use the Revaluation Model.

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12-3A – Research and Development

Novus Tech is working on a new biofuel engine project. The accountant needs your help with 4 tasks:

1 – Classify each of the costs in the table below as: R&D, PPE, or Other.

2 – Identify which specific account should be debited when the cost is incurred. (Assume all costs are paid in cash, so CR Cash for all is a given and not necessary for you to write).

3 – Explain the year-end accounting treatment (if applicable.)

4 – Novus Tech uses US GAAP, but the accountant is interested in IFRS. Assuming all 6 IAS development criteria have been met, identify items that likely have a different treatment under IFRS – for any items that have a different treatment, explain the difference.

Required:

Complete the table below:

Cost	Classification (R&D/PPE/Other)	Account Debited	Year-end Accounting Treatment	IFRS Dif? Y/N
Construction cost of a new research building.				
Laboratory research aimed at discovering new fuel mixtures.				
Purchase of a research patent portfolio from a competing lab.				
Design and construction of a pre-production prototype (after feasibility established).				
Purchase of supplies to be used in testing.				
Searching for applications of the new research findings.				
Testing the prototype for performance durability.				
Purchase of a specialized machine used only for this project (no alternative future use).				
Purchase of equipment that will be used on this project and has alternative future uses.				
Legal fees to successfully register the patent after development is complete.				
Training of the production team.				
Engineering costs to modify the design based on test results.				

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12-3B – Research and Development

Cyber Limb is developing a new AI-controlled prosthetic arm. The accountant needs help with 4 tasks:

1 – Classify each of the costs in the table below as: R&D, PPE, or Other.

2 – Identify which specific account should be debited when the cost is incurred. (Assume all costs are paid in cash, so CR Cash for all is a given and not necessary for you to write).

3 – Explain the year-end accounting treatment (if applicable.)

4 – Cyber Limb uses US GAAP, but the accountant is interested in IFRS. Assuming all 6 IAS development criteria have been met, identify items that likely have a different treatment under IFRS – for any items that have a different treatment, explain the difference.

Required:
Complete the table below:

Cost	Classification (R&D/PPE/Other)	Account Debited	Year-end Accounting Treatment	IFRS Dif? Y/N
Salaries of scientists conducting background research on neural networks.				
Acquisition of a building to be used as a dedicated research lab.				
Market research study to determine pricing for the new prosthetic.				
Construction of a pre-production model for functionality testing.				
Purchase of test tubes and chemicals consumed during the experimental phase of the project.				
Costs of evaluating alternative lightweight materials for the arm chassis.				
Purchase of a general-purpose 3D printer (has alternative future uses).				
Legal fees paid to register a patent				
Purchase of a custom mold for the arm casing (no alternative future use).				
Legal fees to defend the patent against infringement – the defense was unsuccessful.				
Engineering costs to refine the micro-chip design after initial tests.				
Troubleshooting costs during the first week of commercial production.				

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12-4A – Goodwill Calculations (Goodwill vs Negative goodwill/Gain on Bargain Purchase)

On January 1, 2031, Massive Company acquires Small Company for $1,200,000 cash. Details of Small's balance sheet are below:

	Book Value	Fair Value
Cash	$50,000	$50,000
Accounts receivable	80,000	80,000
Inventory	120,000	100,000
PPE (Net)	500,000	800,000
Total Assets	**$750,000**	**$1,030,000**
Accounts payable	$60,000	$60,000
Bank loans	240,000	250,000
Total liabilities	300,000	310,000
Common shares	10,000	
Retained earnings	440,000	
Total Shareholders' Equity	450,000	
Total Liabilities and Equity	**$750,000**	

In considering the purchase, Massive considers an internally developed patent of Small (not found on its balance sheet) to be significant. It attributes a fair value of $240,000 to the patent (which has 8-years of useful life remaining).

Notes:

- Ignore tax implications
- Massive acquired 100% of Small

Required:

a.) Calculate the amount of Goodwill to be recognized on the purchase.
b.) Assume Massive is a public company. Is goodwill amortized? If so, how would Big determine the useful life? If not, how should the goodwill be accounted for over time?
c.) Assume, instead of $1,200,000 cash that Massive paid $800,000 cash – how would the treatment of goodwill be different from your answer in part a.)?

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Members Video (Ad Free): https://youtu.be/4aiElMaQ770

12-4B – Goodwill Calculations (Goodwill vs Negative goodwill/Gain on Bargain Purchase)

On January 1, 2031, Big Company acquires Little Company for $1,400,000 cash. Details of the balance sheet of Little are below:

	Book Value	Fair Value
Cash	$20,000	$20,000
Accounts receivable	100,000	90,000
Inventory	180,000	140,000
PPE (Net)	700,000	1,100,000
Total Assets	**$1,000,000**	**$1,350,000**
Accounts payable	$80,000	$80,000
Bank loans	320,000	300,000
Total liabilities	400,000	380,000
Common shares	50,000	
Retained earnings	550,000	
Total Shareholders' Equity	600,000	
Total Liabilities and Equity	**$1,000,000**	

In considering the purchase, Big considers the logos and trademarks of Little (not found on its balance sheet) to be significant. It attributes a fair value of $300,000 to the trademarks (which are expected to have 5-years of useful life remaining).

Notes:

- Ignore tax implications
- Big acquired 100% of Little

Required:

a.) Calculate the amount of Goodwill to be recognized on the purchase.
b.) Assume Big is a public company. Is goodwill amortized? If so, how would Big determine the useful life? If not, how should the goodwill be accounted for over time?
c.) Assume, instead that of $1,400,000, Big purchased Little for $1,000,000 cash – how would the treatment of goodwill be different from your answer in part a.)?

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