Intermediate Accounting (Canadian) 14th edition Kieso Test Bank

SKU: 9781394277261-TEST-BANK

COMPREHENSIVE EXAMINATION A

PART 1

(CHAPTERS 1–6)

Problem	CPA	Topics	Blooms	Approximate Time
A-1	cpa-t001	Multiple Choice (Various Topics)	1, 3, 6, 8, 10—blooms001 2, 4, 5, 7, 9—blooms002	15 min.
A-2	cpa-t001	Adjusting and Reversing* Entries	blooms003	30 min.
A-3	cpa-t001 cpa-e003	Definitions and Key Concepts	blooms002	10 min.
A-4	cpa-t001	Discontinued Operations	blooms003	10 min.
A-5	cpa-t001	Financial Statement Classifications	blooms002	10 min.
A-6	cpa-t001	Income and Retained Earnings Statement	blooms003	35 min.
A-7	cpa-t001	Percentage-of-Completion Method	blooms003	10 min.
				120 min.

All questions are AACSB: Analytic and Question A-3 is AACSB: Communication and Analytic

Copyright © 2025 John Wiley & Sons Canada, Ltd. Unauthorized copying, distribution, or transmission of this page is prohibited.

Intermediate Accounting (Canadian) 14th edition Kieso Test Bank

Problem A-1 Multiple Choice (Various Topics)
Choose the *best* answer for each of the following questions and enter the identifying letter in the space provided.

___1. Which of the following entities is *least likely* to be a major player in developing financial reporting standards in Canada?
a. International Accounting Standards Board
b. (Canadian) Accounting Standards Board
c. The Federal government
d. Financial Accounting Standards Board

___2. Financial statements are prepared for the end user. Who is responsible for the preparation of financial statements?
a. management
b. external auditors
c. shareholders
d. standard setters

___3. Which of the following is *not* an objective of financial reporting?
a. to provide information about an entity's economic resources, obligations, and equity/net assets
b. to provide information that is helpful to investors and creditors and other users in making resource allocation decisions and/or assessing management stewardship
c. to provide information that is useful in assessing the economic performance of the entity
d. to promote information asymmetry

___4. A local businessman owns several different companies. His accountant prepares separate annual financial statements for each of these businesses. This is an application of which of the following principle or assumption?
a. full disclosure
b. periodicity
c. economic entity
d. matching

___5. When knowledgeable, independent users achieve similar results or reach consensus regarding the accounting for a particular transaction, which enhancing qualitative characteristic is said to exist?
a. comparability
b. verifiability
c. relevance
d. understandability

___6. A trial balance
a. is a list of general ledger account names.
b. proves that all transactions have been recorded.
c. can be used for the preparation of financial statements.
d. can never be used for the preparation of financial statements.

Copyright © 2025 John Wiley & Sons Canada, Ltd. Unauthorized copying, distribution, or transmission of this page is prohibited.

Intermediate Accounting (Canadian) 14th edition Kieso Test Bank

___7. Which of the following is correct regarding income statement presentation?
a. Income from continuing operations is the last line shown on the income statement.
b. IFRS does not allow the use of a single-step income statement.
c. Unusual gains or losses must be presented in a separate section after income from continuing operations.
d. IFRS requires that both basic and diluted earnings per share be presented, whereas ASPE does not.

___8. IFRS requires that expenses are presented in the income statement
a. by nature or by function.
b. by amount or in alphabetical order.
c. by geographical area or by the single-step method.
d. by current or non-current.

___9. Which of the following should *not* be considered as a current asset on the statement of financial position?
a. instalment notes receivable due over 18 months in accordance with normal trade practice
b. prepaid taxes that cover assessments of the following operating cycle of the business
c. equity or debt securities held to finance future construction of additional facilities
d. spare parts and supplies inventories

___10. The discrete earnings process is one that
a. takes place over several accounting periods.
b. has a critical event.
c. where substantial completion can be deferred.
d. must be accounted for by the completed-contract method.

***Problem A-2** Adjusting and Reversing Entries

At December 31, 2023, Hazelnut Corp.'s *unadjusted* trial balance was as follows:

Cash	$ 39,590	
Accounts Receivable	69,000	
Allowance for Expected Credit Losses		$ 500
Merchandise Inventory	54,720	
Prepaid Rent	24,000	
Investment in Pecan Corp. Bonds	70,000	
Plant and Equipment	156,000	
Accumulated Depreciation		14,740
Accounts Payable		11,370
Bonds Payable		90,000
Common Shares		170,000
Retained Earnings		97,180
Sales Revenue		222,000
Cost of Goods Sold	154,400	
Transportation-Out	11,000	
Salaries and Wages Expense	32,000	
Interest Expense	2,040	
Rent Revenue		14,400

Copyright © 2025 John Wiley & Sons Canada, Ltd. Unauthorized copying, distribution, or transmission of this page is prohibited.

Intermediate Accounting (Canadian) 14th edition Kieso Test Bank

Miscellaneous Expense.....	890	
Insurance Expense	6,550	
	$620,190	$620,190

Additional data:

1. The balance in the *Insurance Expense account* contains the premium costs of three policies:
   Policy 1, remaining cost of $2,550, 1-yr. term, effective May 1, 2022;
   Policy 2, original cost of $2,700, 3-yr. term, effective Oct. 1, 2023;
   Policy 3, original cost of $1,300, 1-yr. term, effective Jan. 1, 2023.
2. On September 30, 2023, Hazelnut received $14,400 rent from a lessee for an 18-month lease beginning on that date, which was credited to the Rent Revenue account.
3. All depreciable assets are depreciated at 10% per year. However, any acquisitions and disposals during the year are depreciated at half this rate. There were no acquisitions of PPE during 2023. On December 31, 2022, the balance in the Plant and Equipment account was $230,000.
4. On December 28, 2023, the bookkeeper incorrectly credited Sales Revenue for a receipt on account from a regular customer of $10,000.
5. At December 31, 2023, salaries accrued but unpaid were $4,200.
6. Based upon an aging of the accounts, Hazelnut estimates that 5% of the Accounts Receivable balance on December 31, 2023 will become uncollectible.
7. On August 1, 2023, Hazelnut purchased, as a temporary investment, $70,000, 6% bonds of Pecan Corp. at par. The bonds mature on August 1, 2026. Interest payment dates are July 31 and January 31.
8. On April 30, 2023, Hazelnut rented a warehouse for $2,000 per month, paying $24,000 in advance.

Instructions

a. Record the necessary correcting and adjusting entries.
b. Indicate which of the adjusting entries may be reversed at the beginning of 2024.

Problem A-3 Definitions and Key Concepts

Provide clear, concise answers for the following:

1. Explain the difference between permanent accounts and temporary accounts.
2. Identify the 5-step process that companies should use to ensure that revenue is measured and reported correctly under the asset-liability approach.
3. Explain the difference between the traditional and expected cash flow approaches within the discounted cash flow model.
4. Explain the merits of classified financial statements.
5. Explain the concept of free cash flow.
6. Explain the conceptual difference between the earnings and asset-liability (contract-based) approaches to accounting for revenues

Problem A-4 Discontinued Operations

During calendar 2023, Macadamia Ltd. entered into an agreement to sell its Trucking Division to Poodle Ltd., in order to focus its efforts on expansion of its other divisions. For purposes of income statement reporting, the Trucking Division qualifies as a separate component of the business. The Trucking Division incurred a net loss of $250,000 from the beginning of the year to the date of

Copyright © 2025 John Wiley & Sons Canada, Ltd. Unauthorized copying, distribution, or transmission of this page is prohibited.

Intermediate Accounting (Canadian) 14th edition Kieso Test Bank

sale, December 15, 2023. The combined assets of the Trucking Division had a book value of $7,340,000 and were sold for $9,000,000 on December 15, 2023. Assume Macadamia has an income tax rate of 40%.

Instructions
Calculate the amounts Macadamia should report for the following items in the Discontinued Operations section of the December 31, 2023 income statement:

a. Loss on Operation of Trucking Division.
b. Gain/Loss on Disposal of Trucking Division.

Problem A-5 Financial Statement Classifications
Financial statement classifications used by Cashew Corp. follow:

Statement of Financial Position	Income or Retained Earnings Statement
a. Current Assets	j. Sales Revenue
b. Investments	k. Cost of Goods Sold
c. Property, Plant, and Equipment	l. Operating Expenses
d. Intangible Assets	m. Other Revenues and Gains
e. Other Assets	n. Other Expenses and Losses
f. Current Liabilities	o. Retained Earnings
g. Long-term Debt	p. Not on the statements
h. Capital Shares	
i. Retained Earnings	

Instructions
Specify, to the left of each account or item below, the letter of the financial statement classification the account would appear in. Use only the classifications shown.

____ 1. Preferred Shares	___ 16. Merchandise Inventory
____ 2. Loss on Disposal of Equipment	___ 17. Salaries and Wages Expense
____ 3. Buildings	___ 18. Merchandise on order with supplier
____ 4. Office Supplies Expense	___ 19. Interest Revenue
____ 5. Allowance for Expected Credit Losses	___ 20. Selling Expense
____ 6. Notes Payable—Short Term	___ 21. Interest Expense
____ 7. Accumulated Depreciation—Buildings	___ 22. Taxes Payable
____ 8. Mortgage Payable due 2030	___ 23. Insurance Expense
____ 9. Depletion Expense	___ 24. Advertising Expense
____ 10. Freight-Out	___ 25. Long-Term Investments
____ 11. Sales	___ 26. Accounts Receivable

Copyright © 2025 John Wiley & Sons Canada, Ltd. Unauthorized copying, distribution, or transmission of this page is prohibited.

Intermediate Accounting (Canadian) 14th edition Kieso Test Bank

____ 12. Dividends Declared

____ 13. Retained Earnings

____ 14. Cash

____ 15. Sales Discounts

_____ 27. Land

_____ 28. Accounts Payable

_____ 29. Error made in calculating prior year's depreciation expense

_____ 30. Gain from early retirement of debt

Problem A-6 Income and Retained Earnings Statements

Peanut Corporation is a private corporation using ASPE. At December 31, 2023, an analysis of the accounts and discussions with company officials included the following account balances and other information:

Accounts receivable	$ 102,000
Accrued interest payable	1,000
Dividend revenue	9,000
Sales	600,000
Purchase discounts	9,000
Purchases	360,000
Accounts payable	30,000
Loss from fire (net of $7,000 tax)	21,000
Selling expenses	64,000
Common shares (20,000 issued; no change during 2023)	200,000
Accumulated depreciation	90,000
Long-term note payable (due Oct 1, 2027)	100,000
Inventory, Jan 1, 2023	76,000
Inventory, Dec 31, 2023	62,500
Supplies inventory	40,000
Unearned service revenue	3,000
Land	370,000
Cash	60,000
Franchise	100,000
Retained earnings, Jan 1, 2023	135,000
Interest expense	8,500
Cumulative effect of change from straight-line to accelerated depreciation (net of $6,000 tax)	(18,000)
General and administrative expenses	80,000
Dividends declared and paid	15,000
Allowance for Expected Credit Losses	5,000
Machinery and equipment	225,000

Unless indicated otherwise, you may assume a 25% income tax rate.
General and administrative expenses include depreciation.
There are no preferred shares issued.

Instructions

a. Prepare, in good form, a multiple-step income statement.
b. Prepare, in good form, a retained earnings statement.

Copyright © 2025 John Wiley & Sons Canada, Ltd. Unauthorized copying, distribution, or transmission of this page is prohibited.

Intermediate Accounting (Canadian) 14th edition Kieso Test Bank

Problem A-7 Journal Entries—Percentage-of-Completion
Walnut Corp. was awarded a contract to build a bridge in a suburb of Vancouver at a total contract price of $10,000,000. The estimated total costs to complete the project were $8,000,000. Walnut uses the percentage-of-completion method for all such contracts.

Instructions

a. Prepare the entry to record construction costs of $4,800,000.
b. Prepare the entry to record progress billings of $2,200,000.
c. Prepare the entry to recognize the profit that can be recognized to date.

Copyright © 2025 John Wiley & Sons Canada, Ltd. Unauthorized copying, distribution, or transmission of this page is prohibited.

Intermediate Accounting (Canadian) 14th edition Kieso Test Bank

Solutions—Comprehensive Examination A

Problem A-1 Solution

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

Problem A-2 Solution

a.

1. Prepaid Insurance 2,475
   Insurance Expense 2,475

Explanation: Both Policies 1 and 3 have expired, so their costs stay in Insurance Expense. The monthly premium for Policy 2 is $2,700 ÷ 36 = $75. At Dec 31/20, the unexpired portion is 33 months x $75 = $2,475 and needs to be transferred to the asset account.

2. Rent Revenue 12,000
   Unearned Rent 12,000

Explanation: Monthly rent is $14,400 ÷ 18 = $800. At Dec 31/23, 15 months x $800 = $12,000 remains unearned, and needs to be transferred to the liability account.

3. Depreciation Expense 19,300
   Accumulated Depreciation 19,300

Explanation: Equipment retired during 2023 = $230,000 – $156,000 = $74,000.

10% of $156,000 =	$15,600
5% of $74,000 =	3,700
Total depreciation =	$19,300

4. Sales Revenue 10,000
   Accounts Receivable 10,000

5. Salaries and Wages Expense 4,200
   Salaries and Wages Payable 4,200

6. Loss on Impairment 2,450

Copyright © 2025 John Wiley & Sons Canada, Ltd. Unauthorized copying, distribution, or transmission of this page is prohibited.

Intermediate Accounting (Canadian) 14th edition Kieso Test Bank

Allowance for Expected Credit Losses		2,450

Explanation: Corrected ending A/R balance: $69,000 – $10,000 = $59,000.
5% x $59,000 = $2,950. Since the unadjusted Allowance is $500 Cr, the adjustment is $2,950 – $500 = $2,450

7. Interest Receivable	1,750	
Interest Revenue		1,750

Explanation: $70,000 × .06 × 5 ÷ 12 = $1,750

8. Rent Expense	16,000	
Prepaid Rent		16,000

Explanation: 8 months expired at $2,000 per month = $16,000

b. Items 1, 2, 5, and 7:
Items No. 1 and No. 2 represent prepaid items that were initially recorded in temporary accounts. Items No. 5 and No. 7 represent accrued items.

Problem A-3 Solution

1. Permanent accounts (also called real accounts) are assets, liability, and equity accounts. Temporary accounts include revenue, expense, and dividend accounts. Permanent accounts are not closed, while temporary accounts are closed at the fiscal year end.

2. The 5-step process under the asset-liability approach includes the following:
    1. Identify the contract with customers.
    2. Identify the separate performance obligations in the contract.
    3. Determine the transaction price.
    4. Allocate the transaction price to the separate performance obligations.
    5. Recognize revenue when each performance obligation is satisfied.

3. Traditional approach: The discount rate reflects all risks in the cash flows, but the cash flows are assumed to be certain. This is sometimes referred to as the “discount rate adjustment technique.”

   Expected cash flow approach: A risk-free discount rate is used to discount cash flows that have been adjusted for uncertainty. This is sometimes referred to as the “expected present value technique.”

4. Classification in financial statements increases their information content and aids in the ease of analysis. This is accomplished through the grouping of items with similar characteristics and separating items with different characteristics.

5. Free cash flow can be defined as a measure of a company's level of financial flexibility and is calculated as cash flow from operating activities less capital expenditures and dividends.

6. The earnings approach focuses on the earnings process itself and how value is added. The asset-liability (contract-based) approach focuses on the creation of contractual rights and obligations that are created by sales contracts.

Problem A-4 Solution

Copyright © 2025 John Wiley & Sons Canada, Ltd. Unauthorized copying, distribution, or transmission of this page is prohibited.

Intermediate Accounting (Canadian) 14th edition Kieso Test Bank

a. Amount reported for "Loss on Operation of Trucking Division" equals loss incurred from beginning of year to date of sale (Dec 15/20), net of tax.
Loss on Operation of Trucking Division $150,000
(net of tax of $100,000, ($250,000 × 40%))

b. Amount reported for "Gain/Loss on Disposal of Trucking Division" equals the gain or loss on the sale of the assets.
Gain on Disposal of Trucking Division $996,000
(net of tax of $664,000, ($1,660,000 × 40%))

Problem A-5 Solution

1. h
2. n
3. c
4. l
5. a
6. f
7. c
8. g
9. k or l
10. l
11. j
12. o
13. i and o
14. a
15. j
16. a
17. l
18. p
19. m
20. l

Copyright © 2025 John Wiley & Sons Canada, Ltd. Unauthorized copying, distribution, or transmission of this page is prohibited.

Intermediate Accounting (Canadian) 14th edition Kieso Test Bank

21. n

22. f

23. l

24. l

25. b

26. a

27. c

28. f

29. p

30. m

Problem A-6 Solution

a.

PEANUT CORPORATION
Income Statement
For the Year Ended December 31, 2023

Sales		$600,000
Cost of goods sold:		
Merchandise inventory, Jan. 1	$76,000	
Purchases	360,000	
Less purchase discounts	(9,000)	
Net purchases	351,000	
Merchandise available for sale	427,000	
Less merchandise inventory, Dec. 31	(62,500)	
Cost of goods sold		364,500
Gross profit on sales		235,500
Operating expenses:		
Selling expenses	64,000	
General and administrative expenses	80,000	
Total operating expenses		144,000
Income from operations		91,500
Other revenues and gains:		
Dividend revenue		9,000
Other expenses and losses		
Interest expense	(8,500)	
Loss from fire*	(28,000)	(36,500)
Income before income tax		64,000
Income tax**		(16,000)
Net income for the year		$ 48,000

Copyright © 2025 John Wiley & Sons Canada, Ltd. Unauthorized copying, distribution, or transmission of this page is prohibited.

Intermediate Accounting (Canadian) 14th edition Kieso Test Bank

Earnings per common share (optional)***	$2.40

* actual loss $21,000 + $7,000 = $28,000
** $64,000 x 25% = $16,000
*** $48,000 ÷ 20,000 = $2.40

b.

PEANUT CORPORATION
Retained Earnings Statement
For the Year Ended December 31, 2023

Retained earnings, January 1, as reported	$135,000
Cumulative effect of change in depreciation method, net of applicable taxes of $6,000	(18,000)
Retained earnings, January 1, as adjusted	117,000
Add: Net income	48,000
Subtotal	165,000
Deduct: Dividends declared and paid	(15,000)
Retained earnings, December 31, 2023	$150,000

Problem A-7 Solution

a.	Contract Asset/Liability	4,800,000	
	Materials, Cash, Payables, etc.		4,800,000
b.	Accounts Receivable	2,200,000	
	Contract Asset/Liability		2,200,000
c.	Contract Asset/Liability	6,000,000	
	Revenue from Long-term Contract		6,000,000
	Construction Expense	4,800,000	
	Contract Asset/Liability		4,800,000

Copyright © 2025 John Wiley & Sons Canada, Ltd. Unauthorized copying, distribution, or transmission of this page is prohibited.

Intermediate Accounting (Canadian) 14th edition Kieso Test Bank