

Jensen Wholesalers Corp.

A Comprehensive Case to Accompany

Introduction to Financial Accounting

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Published by Valley Educational Services Ltd.

4910C – 58 St., Athabasca AB T9S 1L5

ISBN: 978-0-9953266-6-8

Library and Archives Canada Cataloguing in Publication

Annand, David, 1954–

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31-Aug-18



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Overview of Jensen Wholesalers Corp.

Jensen Wholesalers Corp. (Jensen) was established in 1995. Its shares were listed on the Toronto Stock Exchange starting in 2016. The corporation's headquarters are located in Edmonton, Alberta. It has regional distribution warehouses in Edmonton and four other western Canadian locations. The corporation buys Canadian-made appliances and distributes these to regional retail stores that specialize in providing high-quality appliances to customers with higher-than-average disposable incomes. Jensen has a reputation for purchasing appliances that are innovative and reliable, and backing what it sells through a generous warranty and refund policy.

Jensen is recovering from a regional economic downturn due to a decline in world oil prices. Demand for its type of appliances has fluctuated over the past few years. The company has two main competitors, both headquartered in the United States. These both focus on lower-cost appliances. Though still ranked as the number one appliance wholesaler in western Canada in terms of total sales dollars, its competitors are gaining ground.

Jensen has maintained very good relations with manufacturers and retailers. Retailers actively promote Jensen products as good value for money, and provide valuable feedback to Jensen about retail customer purchasing trends and requests for new products. Unlike its competitors, the Jensen sales force is well-trained. They monitor changing customer preferences for appliances and communicate these back to Jensen management for consideration.

The company recognizes that long-term success largely depends on continued promotion of Jensen products by its retail store customers, which means that the chains must be able to continue to earn high gross profit on sales of these same products. However, increased competition from lower-priced appliances by Jensen's US competitors has begun to cut into sales and profit margins.

Jensen's warehouse distribution facilities and processes are state-of-the-art. Once products have been purchased, they are able to be transported from manufacturing plants and to retailers very quickly. Jensen's distribution costs are usually lower than competitors because its warehouses are closer to customers, and its logistics are efficient. Company management believes costs can also be reduced by renting rather than owning delivery trucks.

The trial balance of Jensen Wholesalers Corp. at December 31, 2018 is shown on pages 9 and 11. Remove these pages. Cut and join them where indicated.

Required:

- 1 Refer to the additional information for the company at December 31, 2018, shown on pages 3 to 8. Using the blank general journal pages on pages 15 to 20, prepare year-end adjusting entries. General ledger account numbers are not necessary. Show your calculations below each adjusting entry.
- 2 Refer to the partially-prepared bank reconciliation on page 13. Prepare a bank reconciliation at December 31, 2018 based on item 'b' shown in the additional information on pages 3 and 4.
- 3 Post the adjusting entries to the trial balance and prepare an adjusted trial balance.
- 4 Refer to the partially-completed income statement and statement of changes in equity on page 21, and the statement of financial position on page 23. Using the adjusted trial balance information, complete these statements for the year ended December 31, 2018.
- 5 Refer to the partially-completed statement of cash flows on page 25. Prepare a statement of cash flows for the year ended December 31, 2018.
- 6 Refer to the partially-completed selected financial ratios on page 27. Calculate ratios for the year ended December 31, 2018. Show your work. Analyze your results. Assume:
 - a. All sales are on credit.
 - b. Market price per common share at December 31, 2018 was: \$15

Jensen Wholesalers Corp.
 Adjusting Entries
 For the Year Ended December 31, 2018

The following additional information is available at the corporation's year-end. GST of 5% only applies when indicated.

- a. The actual amount in petty cash at the end of the year is: \$485
 Unrecorded receipts in petty cash at the end of the year consist of the following:
- | | |
|---|--------------------|
| Delivery expense (including GST of 5%) | <u><u>\$53</u></u> |
| Office supplies expense (including GST of 5%) | <u><u>\$63</u></u> |
- b. The general ledger account for Cash in Bank showed the following at December 31, 2018:

Cash in Bank					Acct. No. 101
Date	Description	Folio	Debit	Credit	Balance DR (CR)
Nov. 30	Balance (overdraft)				97,000
Dec. 1-31	Cash receipts	CRJ10	810,000		907,000
Dec. 1-31	Cash Payments	CDJ21		840,000	67,000

December deposits made and cheques issued were as follows:

Deposits		Cheques	
Date	Amount	No.	Amount
Dec. 3	\$26,000	231	\$16,000
5	27,000	232	220,000
7	240,000	233	68,000
9	72,000	234	22,000
12	32,000	235	52,000
15	16,000	236	343,000
21	361,000	237	39,000
24	16,000	238	38,000
26	64,000	239	81,000
28	25,000		
31	27,000		
	<u>\$810,000</u>		<u>\$840,000</u>

The December bank statement showed:

First Chartered Bank Jensen Wholesalers Corp. Bank Statement Month Ended December 31, 2018				
<i>Date</i>	<i>Type</i>	<i>Out</i>	<i>In</i>	<i>Balance</i>
Dec. 3	Deposit		26,000	66,000
5	Ck. 232	220,000		(154,000)
6	Ck. 231	16,000		(170,000)
6	Deposit		27,000	(143,000)
7	Deposit		240,000	97,000
10	Ck. 234	22,000		75,000
12	Ck. 236	343,000		(268,000)
13	Deposit		32,000	(236,000)
14	Ck. 52094*	67,000		(303,000)
15	Deposit		16,000	(287,000)
16	Ck. 238	38,000		(325,000)
17	Deposit		361,000	36,000
18	Ck. 235	52,000		(16,000)
20	Ck. 237	39,000		(55,000)
24	Deposit		16,000	(39,000)
26	Deposit		64,000	25,000
28	Deposit		25,000	50,000
31	OD int	1,740		48,260
31	SC	90		48,170

*drawn in error on Jensen's bank account

SC = service charge

OD int = overdraft interest expense

There were no outstanding deposits or cheques at November 30, 2018.

- c. A purchase of parts inventory on account has not been recorded. GST of 5% applies in addition to the amount shown. \$7,000
- d. Warranty expense for the year as a percentage of sales should be: 5%

e. Unpaid gross salaries at year-end amount to: \$90,000

Deductions from unpaid salaries are as follows:	Employee Portion	Company Portion
Employee income taxes	13%	0%
Government employment insurance	1%	1%
Government pension	2%	4%
Company health insurance	4%	4%

f. The estimated year-end audit fees are: \$60,000

g. Rent revenue consists of 13 equal monthly payments, including the one for January 2019.

h. The company uses the statement of financial position method for estimating the Allowance for Doubtful Accounts balance at the end of each year. An aging of accounts receivable and estimated bad debt percentages is as follows:

<i>Age (days)</i>	<i>Accounts receivable</i>	<i>Estimated bad debt percentage</i>
1– 30	3,600,000	7%
31– 60	670,000	20%
61– 90	200,000	22%
91– 120	82,000	50%
Over 120	10,000	100%
Totals	<u><u>\$4,562,000</u></u>	

i. The company values merchandise inventory at LCNRV (unit basis). Any adjustments are made to Cost of Goods Sold expense. At year end, merchandize inventory amounts were:

<i>Item</i>	<i>Total cost</i>	<i>Total NRV</i>
A	\$3,000,000	\$3,120,000
B	800,000	768,000
C	500,000	475,000
D	900,000	900,000
E	700,000	686,000
	<u><u>\$5,900,000</u></u>	<u><u>\$5,949,000</u></u>

- j. A trade account payable was converted to a note payable during the year. No entry has been made to record this. The note payable is due at the end of 2019.

The amount of the note payable is:	<u>\$10,000</u>
The annual interest rate on the note payable is:	<u>7%</u>
The note payable was created at the end of this month: (January = 1; December = 12)	<u>5</u>

- k. The number of common shares issued on July 1, 2018 for \$1 cash per share were:

	<u>92,000</u>
On December 31, the company declared a dividend of:	<u>\$840,000</u>

The dividend is payable as of December 31. It will be paid on January 15, 2019.

Preferred shares dividends are cumulative, at this amount per \$100 preferred share:

	<u>\$4</u>
At December 31 2017, preferred share dividends in arrears totalled:	<u>\$60,000</u>

- l. Some land was sold during the year for cash of:

	<u>\$10,000</u>
Original cost of the land was:	<u>\$70,000</u>

The bookkeeper recorded the following entry in the general ledger at the time of sale:

Dr. Cash in Bank	\$10,000		
Cr. Land		\$10,000	

- m. The building was purchased several years ago. It originally had an estimated useful life of 20 years and residual value of \$2 million. Estimates of the building's useful life and residual value have been revised during the year.

The remaining estimated useful life of the building in years is now:	<u>10</u>
The new residual value of the building is estimated at:	<u>\$720,000</u>

The building is depreciated on the straight-line basis.

- n. Patents are amortized over 20 years on the straight-line basis, and have no residual value. No patents have been acquired during the year.

- o. At December 31, 2018, fair value of goodwill is estimated by management at:

\$35,000

- p. A lawsuit was commenced against the company in 2018. Damages claimed are: \$30,000
 Lawyers for the company consider the likelihood of success to be: Possible
- q. The interest rate on the mortgage is: 4%
 Annual payments (blended principal and interest) are made on Dec. 31 and total: \$420,000
 The 2018 payment has been recorded as Interest on Long-term Debt expense.
- r. The annual interest rate on the bonds is: 8%
 Interest is paid once per year at the end of this month:
 (January = 1; December =12) 10
 The bonds were issued on January 1, 2013 at: 99%
 The bonds were issued for this number of years: 20
- s. Premium or discount on bonds is amortized on the straight-line basis over the term of the bonds.
- t. The corporate income tax rate as a percentage of income before income taxes is: 20%
 Corporate income tax instalments during the year have been recorded as Income Tax expense in the records. Assume any 2018 loss before income taxes will result in the refund of income taxes at the current year's income tax rate.

Adjusted Trial Balance at December 31, 2018

Account	Unadjusted Trial Balance		Adj. #	Adjustments		Adj. #	Adjusted Trial Balance	
	Debit	Credit		Debit	Credit		Debit	Credit
Petty cash	600	0						
Cash in bank	67,000	0						
Accounts receivable	4,562,000	0						
Allow. for doubt. accounts	0	91,240						
Merchandize inventory	5,900,000	0						
Parts inventory	370,000	0						
Land	8,000,000	0						
Building	6,000,000	0						
Accumulated dep'n - bldg.	0	3,600,000						
Patents	22,000	0						
Accum. amort. - patents	0	8,800						
Goodwill	38,000	0						
Trade accounts payable	0	200,000						
Interest payable	0	0						
	0	0						
Estimated current liabilities	0	0						
	0	0						
Estimated warranty liability	536,000	0						
Dividends payable	0	0						
Salaries payable	0	0						
Employee inc. taxes pay.	0	0						
Gov't employment ins. pay.	0	0						
	0	0						
Gov't pension plan payable	0	0						
	0	0						
Co. health insurance payable	0	0						
	0	0						
Corp. income tax pay. (receiv.)	0	0						
GST payable	0	9,000						
Note payable	0	0						
Unearned rent revenue	0	0						

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Mortgage payable	0	4,200,000					
Bonds payable	0	200,000					
Discount bonds payable	500	0					
Premium bonds payable	0	0					
Common shares, \$1 per share	0	700,000					
Preferred shares, \$100 per sh.	0	300,000					
Retained earnings (deficit)	0	12,263,360					
Cash div. common shares	0	0					
Cash div. preferred shares	0	0					
Rent revenue	0	650,000					
Sales, net	0	13,400,000					
Cost of goods sold	8,040,000	0					
Amort. bond prem. (discount)	0	0					
Amortization exp. - patents	0	0					
Bad debts expense	0	0					
Co. health ins. expense exp.	30,800	0					
Delivery expense	100,000	0					
Dep'n. expense - building	0	0					
Gov't employment ins. exp.	7,700	0					
Gov't pens. plan exp.	30,800	0					
Interest and bank charges	40,000	0					
	0	0					
Interest on long-term debt	420,000	0					
Lawsuit damages expense	0	0					
Loss (gain) on sale of land	0	0					
Office supplies expense	100,000	0					
Professional fees	50,000	0					
Salaries expense	770,000	0					
Warranty expense	1,000	0					
Write-down of goodwill	0	0					
Corp. income tax exp. (recov.)	536,000	0					
	<u>35,622,400</u>	<u>35,622,400</u>					

Jensen Wholesalers Corp.

Bank Reconciliation

At December 31, 2018

Unreconciled general ledger Cash balance at December 31 _____	Unreconciled bank statement balance at December 31 _____
Add: _____ _____ _____ _____ _____	Add: _____ _____ _____ _____ _____
Less: _____ _____ _____ _____ _____	Less: _____ _____ _____ _____ _____
Adjusted general ledger Cash balance at Dec. 31 _____ =====	Adjusted bank balance at December 31 _____ =====

Jensen Wholesalers Corp.

GENERAL JOURNAL

Dec. 2018	Adjusting entries	Debit	Credit

Jensen Wholesalers Corp.

GENERAL JOURNAL

Dec. 2018	Adjusting entries	Debit	Credit

Jensen Wholesalers Corp.

GENERAL JOURNAL

Dec. 2018	Adjusting entries	Debit	Credit

Jensen Wholesalers Corp.
Income Statement
For the Year Ended December 31, 2018

	<i>2018</i>	<i>2017</i>
Sales, net		\$12,542,400
Less: Cost of goods sold		7,462,120
Gross profit		5,080,280
<i>Operating expenses</i>		
Selling		
Salaries and benefits		974,896
Delivery		92,046
Office supplies		109,065
Warranty		656,600
Total selling		1,832,607
General and administrative		
Bad debts		366,374
Depreciation and amortization		152,190
Lawsuit damages		0
Professional fees		111,100
Total general and administrative		629,664
Total operating expenses		2,462,272
Income (loss) from operations		2,618,008
Other income (expenses)		
Rent revenue		576,000
Gain (loss) on sale of land		0
Write-down of goodwill to fair value		0
		576,000
Income (loss) before interest and income taxes		3,194,008
Interest expense		200,162
Income (loss) before income taxes		2,993,846
Income taxes (recovered)		598,769
Net income (loss)		\$2,395,077

Jensen Wholesalers Corp.
Statement of Changes in Equity
For the Year Ended December 31, 2018

	<i>2018</i>			<i>2017</i>
	<i>Common shares</i>	<i>Preferred shares</i>	<i>Ret. earn. (deficit)</i>	<i>Total equity</i>
Balance (deficit) at Jan. 1				
Shares issued				0
Net income (loss)				2,395,077
Cash dividends declared				
Preferred				(70,560)
Common				(744,960)
Balance (deficit) at Dec. 31				\$12,263,360

Jensen Wholesalers Corp.
Statement of Financial Position
At December 31, 2018

<i>Assets</i>		<i>2018</i>	<i>2017</i>
<i>Current</i>			
Cash		\$36,620	
Accounts receivable, net		4,489,100	
Inventories		3,354,724	
Corporate income taxes receivable		0	
		7,880,444	
<i>Non-current</i>			
Land		8,010,000	
Building, net		2,400,000	
Patents, net		13,200	
Goodwill		38,000	
		10,461,200	
		<u>\$18,341,644</u>	
<i>Liabilities</i>			
<i>Current</i>			
Trade accounts payable		\$189,456	
Estimated current liabilities		60,600	
Estimated warranty liabilities		136,990	
Note payable		0	
Dividends payable		815,520	
Interest payable		2,983	
Salaries and benefits payable		88,290	
GST payable		7,866	
Unearned rent		48,000	
Current portion of mortgage payable		494,308	
Corporate income taxes payable		86,771	
		1,930,784	
<i>Non-current</i>			
Mortgage payable		4,442,308	
<i>Less: Current portion</i>		(494,308)	
		3,948,000	
Bonds payable, net		199,500	
		4,147,500	
Total liabilities		6,078,284	
<i>Shareholders' Equity</i>			
Common shares, \$1 per share		608,000	
Preferred shares, \$100 per share		300,000	
Retained earnings (deficit)		11,355,360	
		12,263,360	
Total liabilities and shareholders' equity		<u>\$18,341,644</u>	

Jensen Wholesalers Corp.
Statement of Cash Flows
For the Year Ended December 31, 2018

	2018	2017
<i>Operating activities</i>		
Income (loss) before income taxes		\$2,993,846
Income taxes recovered (paid)		239,508
Items not affecting cash flow		
Net increase (decrease) in non-cash working capital*		(2,051,771)
Depreciation and amortization expense		152,190
Amortization of bond discount (premium)		33
Cash flow from (used by) operating activities		1,333,806
<i>Investing activities</i>		
Cash flow from (used by) investing activities		
<i>Financing activities</i>		
Repayment of mortgage		(559,062)
Payment of dividends		(774,744)
Cash flow from (used by) financing activities		(1,333,806)
Net increase (decrease) in cash		
Cash (deficiency) at beginning of year		
Cash at end of year		
 *Net increase (decrease) in non-cash working capital:		
Decrease (increase) in accounts receivable		\$363,209
Decrease (increase) in inventories		(2,398,434)
Increase (decrease) in trade accounts payable		(16,105)
Increase (decrease) in estimated liabilities		(540)
Increase (decrease) in estimated warranty liabilities		(2,793)
Increase (decrease) in interest payable		(65)
Increase (decrease) in salaries and benefits payable		(1,962)
Increase (decrease) in GST payable		622
Increase (decrease) in unearned rent		1,000
Net increase (decrease) in non-cash working capital		(\$2,051,771)

Jensen Wholesalers Corp.
Selected Financial Ratios

	<i>Jensen</i>		<i>2018 industry average</i>
	<i>2018</i>	<i>2017</i>	
a. Current ratio		4.1	6.1
b. Acid-test ratio		2.3	2.4
c. Accounts rec. collection (days)		136	106
d. Days of sales in inventory		105	202
e. Revenue operating cycle (days)		241	308
f. Gross profit ratio		40.5%	41.0%
g. Operating profit ratio		20.9%	22.5%
h. Net profit ratio		19.1%	20.6%
i. Sales to total assets ratio		0.72	0.73
j. Return on total assets ratio		0.15	0.15
k. Return on s/h equity ratio		0.21	0.20
l. Debt to s/h equity ratio		0.50	0.76
m. Times interest earned (to 1)		13.1	14.4
n. Earnings (loss) per common share		\$3.82	\$4.74
o. Price-earnings ratio		3.3	5.6
p. Dividend yield per common share		\$0.09	\$0.08

