

# **Jensen Wholesalers Corp.**

*A Comprehensive Case to Accompany*

## **Introduction to Financial Accounting**

*Third Edition* (v. 3.1)

**Based on International Financial  
Reporting Standards**

Prepared by David Annand

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## Table of Contents

Overview	1
Required	2
Adjusting entries	3
Unadjusted trial balance	9
Bank reconciliation	13
General journal	15
Income statement and statement of changes in equity	21
Statement of financial position	23
Statement of cash flows	25
Selected financial ratios	27

## 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 Jensen is 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, 2020 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, 2020, 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, 2020 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, 2020.
- 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, 2020.
- 6 Refer to the partially-completed selected financial ratios on page 27. Calculate ratios for the year ended December 31, 2020. Show your work. Analyze your results. Assume all sales are on credit.

Jensen Wholesalers Corp.  
Adjusting Entries  
For the Year Ended December 31, 2020

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: \$364  
 Unrecorded receipts in petty cash at the end of the year consist of the following:  
     Delivery expense (including GST of 5%) \$53  
     Office supplies expense (including GST of 5%) \$84
- b. The general ledger account for Cash in Bank showed the following at December 31, 2020:

Cash in Bank					Acct. No. 101
Date	Description	PR	Debit	Credit	Balance DR (CR)
Nov. 30	Balance (overdraft)				92,000
Dec. 1-31	Cash receipts	CRJ10	830,000		922,000
Dec. 1-31	Cash Payments	CDJ21		860,000	62,000

December deposits made and cheques issued were as follows:

Deposits		Cheques	
Date	Amount	No.	Amount
Dec. 3	\$38,000	231	\$33,000
5	13,000	232	300,000
7	180,000	233	70,000
9	63,000	234	12,000
12	25,000	235	54,000
15	34,000	236	299,000
21	459,000	237	20,000
24	39,000	238	27,000
26	53,000	239	65,000
28	37,000		
31	15,000		
	<u><u>\$830,000</u></u>		<u><u>\$860,000</u></u>

The December bank statement showed:

First Chartered Bank Jensen Wholesalers Corp. Bank Statement Month Ended December 31, 2020				
<i>Date</i>	<i>Type</i>	<i>Out</i>	<i>In</i>	<i>Balance</i>
Dec. 3	Deposit		38,000	24,000
5	Ck. 232	300,000		(276,000)
6	Ck. 231	33,000		(309,000)
6	Deposit		13,000	(296,000)
7	Deposit		180,000	(116,000)
10	Ck. 234	12,000		(128,000)
12	Ck. 236	299,000		(427,000)
13	Deposit		25,000	(402,000)
14	Ck. 52094*	83,000		(485,000)
15	Deposit		34,000	(451,000)
16	Ck. 238	27,000		(478,000)
17	Deposit		459,000	(19,000)
18	Ck. 235	54,000		(73,000)
20	Ck. 237	20,000		(93,000)
24	Deposit		39,000	(54,000)
26	Deposit		53,000	(1,000)
28	Deposit		37,000	36,000
31	OD int	1,470		34,530
31	SC	50		34,480

\*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, 2020.

- c. A purchase of parts inventory on account has not been recorded. GST of 5% applies in addition to the amount shown.

\$9,000

- d. Warranty expense for the year as a percentage of sales should be:

5%

e. Unpaid gross salaries at year-end amount to: \$50,000

Deductions from unpaid salaries are as follows:	Employee Portion	Company Portion
Employee income taxes	10%	0%
Government employment insurance	4%	4%
Government pension	3%	6%
Company health insurance	2%	2%

f. The estimated year-end audit fees are, excluding GST: \$80,000

g. Rent revenue consists of 13 equal monthly payments, including one paid in advance for January 2021.

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	4,500,000	9%
31– 60	770,000	17%
61– 90	350,000	20%
91– 120	73,000	50%
Over 120	30,000	100%
Totals	<u><u>\$5,723,000</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, merchandise inventory amounts were:

<i>Item</i>	<i>Total cost</i>	<i>Total NRV</i>
A	\$1,000,000	\$1,020,000
B	700,000	679,000
C	500,000	510,000
D	900,000	945,000
E	700,000	707,000
	<u><u>\$3,800,000</u></u>	<u><u>\$3,861,000</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 2021.

The amount of the note payable is:	<u>\$20,000</u>
The annual interest rate on the note payable is:	<u>5%</u>
The note payable was created at the end of this month: (January = 1; December = 12)	<u>1</u>

- k. The number of common shares issued on July 1, 2020 for \$1 cash per share were:

<u>100,000</u>
<u>\$700,000</u>

On December 31, the company declared a dividend of:

The dividend is payable as of December 31. It will be paid on January 15, 2021.

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

<u>\$6</u>
<u>\$10,000</u>

At December 31 2019, preferred share dividends in arrears totalled:

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

<u>\$70,000</u>
<u>\$40,000</u>

Original cost of the land was:

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

Dr. Cash in Bank	\$70,000	
Cr. Land		\$70,000

- 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>6</u>
<u>\$356,000</u>

The new residual value of the building is estimated at:

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, 2020, fair value of goodwill is estimated by management at:

<u>\$39,000</u>
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- p. A lawsuit was commenced against the company in 2020. Damages claimed are: \$40,000  
 Lawyers for the company consider the likelihood of success to be: Possible
- q. The interest rate on the mortgage is: 8%  
 Annual payments (blended principal and interest) are made on Dec. 31 and total: \$660,000  
 The 2020 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: 8  
 (January = 1; December =12) 102%  
 The bonds were issued on January 1, 2014 at: 20  
 The bonds were issued for this number of years:
- 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: 10%  
 Corporate income tax installments during the year have been recorded as income tax expense in the records. Assume any 2020 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, 2020

Account	Unadjusted Trial Balance		Adj. #	Adjustments		Adj. #	Adjusted Trial Balance	
	Debit	Credit		Debit	Credit		Debit	Credit
Petty cash	500	0						
Cash in bank	62,000	0						
Accounts receivable	5,723,000	0						
Allow. for doubt. accounts	0	114,460						
merchandise inventory	3,800,000	0						
Parts inventory	310,000	0						
Land	7,600,000	0						
Building	8,900,000	0						
Accumulated dep'n - bldg.	0	7,120,000						
Patents	29,000	0						
Accum. amort. - patents	0	17,400						
Goodwill	36,000	0						
Trade accounts payable	0	80,000						
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	8,000						
Note payable	0	0						
Unearned rent revenue	0	0						

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Mortgage payable	0	6,600,000						
Bonds payable	0	400,000						
Discount bonds payable	0	0						
Premium bonds payable	0	2,000						
Common shares, \$1 per share	0	700,000						
Preferred shares, \$100 per sh.	0	100,000						
Retained earnings (deficit)	0	8,362,040						
Cash div. common shares	0	0						
Cash div. preferred shares	0	0						
Rent revenue	0	260,000						
Sales, net	0	13,400,000						
Cost of goods sold	8,174,000	0						
Amort. bond prem. (discount)	0	0						
Amortization exp. - patents	0	0						
Bad debts expense	0	0						
Co. health ins. expense exp.	9,800	0						
Delivery expense	100,000	0						
Dep'n. expense - building	0	0						
Gov't employment ins. exp.	19,600	0						
Gov't pens. plan exp.	29,400	0						
Interest and bank charges	60,000	0						
	0	0						
Interest on long-term debt	660,000	0						
Lawsuit damages expense	0	0						
Loss (gain) on sale of land	0	0						
Office supplies expense	69,000	0						
Professional fees	30,000	0						
Salaries expense	490,000	0						
Warranty expense	3,000	0						
Write-down of goodwill	0	0						
Corp. income tax exp. (recov.)	522,600	0						
	37,163,900	37,163,900						

Jensen Wholesalers Corp.

Bank Reconciliation

At December 31, 2020

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

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Jensen Wholesalers Corp.

## GENERAL JOURNAL

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Jensen Wholesalers Corp.

## GENERAL JOURNAL

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Jensen Wholesalers Corp.

## GENERAL JOURNAL

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Jensen Wholesalers Corp.

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Jensen Wholesalers Corp.

## GENERAL JOURNAL

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Jensen Wholesalers Corp.  
Income Statement  
For the Year Ended December 31, 2020

	2020	2019
Sales, net		\$14,592,600
Less: Cost of goods sold		7,842,615
Gross profit		6,749,985
Operating expenses		
Selling		
Salaries and benefits		550,368
Delivery		110,055
Office supplies		74,606
Warranty		690,100
Total selling		1,425,129
General and administrative		
Bad debts		591,416
Depreciation and amortization		250,723
Lawsuit damages		
Professional fees		102,300
Total general and administrative		944,439
Total operating expenses		2,369,568
Income (loss) from operations		4,380,417
Other income (expenses)		
Rent revenue		259,200
Gain (loss) on sale of land		
Write-down of goodwill to fair value		
		259,200
Income (loss) before interest and income taxes		4,639,617
Interest expense		558,902
Income (loss) before income taxes		4,080,715
Income taxes (recovered)		408,071
Net income (loss)		\$3,672,643

Jensen Wholesalers Corp.  
Statement of Changes in Equity  
For the Year Ended December 31, 2020

	2020				2019
	Common shares	Preferred shares	Ret. earn. (deficit)	Total equity	Total equity
Balance (deficit) at Jan. 1					\$6,061,717
Shares issued					
Net income (loss)					3,672,643
Cash dividends declared					
Preferred					(15,680)
Common					(656,640)
Balance (deficit) at Dec. 31					\$9,062,040

Jensen Wholesalers Corp.  
Statement of Financial Position  
At December 31, 2020

<i>Assets</i>			
		<i>2020</i>	<i>2019</i>
<i>Current</i>			
Cash			\$26,660
Accounts receivable, net			5,404,142
Inventories			1,902,434
Corporate income taxes receivable			283,775
			<u>7,617,011</u>
<i>Non-current</i>			
Land			7,670,000
Building, net			1,780,000
Patents, net			11,600
Goodwill			36,000
			<u>9,497,600</u>
			<u>\$17,114,611</u>
<i>Liabilities</i>			
<i>Current</i>			
Trade accounts payable			\$68,061
Estimated current liabilities			73,600
Estimated warranty liabilities			136,240
Note payable			0
Dividends payable			672,320
Interest payable			10,425
Salaries and benefits payable			60,480
GST payable			7,845
Unearned rent			21,600
Current portion of mortgage payable			132,000
Corporate income taxes payable			0
			<u>1,182,571</u>
<i>Non-current</i>			
Mortgage payable			6,600,000
Less: Current portion			(132,000)
			6,468,000
Bonds payable, net			402,000
			<u>6,870,000</u>
Total liabilities			<u>8,052,571</u>
<i>Shareholders' Equity</i>			
Common shares, \$1 per share			600,000
Preferred shares, \$100 per share			100,000
Retained earnings (deficit)			8,362,040
			<u>9,062,040</u>
Total liabilities and shareholders' equity			<u>\$17,114,611</u>

Jensen Wholesalers Corp.  
Statement of Cash Flows  
For the Year Ended December 31, 2020

	2020	2019
<i>Operating activities</i>		
Net income (loss)		\$1,434,408
Items not affecting cash flow		
Depreciation and amortization expense		422,433
Amortization of bond discount (premium)		80
Net increase (decrease) in non-cash working capital*		(577,607)
Cash flow from (used by) operating activities		1,279,314
<i>Investing activities</i>		
Cash flow from (used by) investing activities		0
<i>Financing activities</i>		
Repayment of mortgage		(466,830)
Increase (decrease) in GST payable**		700
Payment of dividends		(813,904)
Cash flow from (used by) financing activities		(1,280,034)
Net increase (decrease) in cash		(720)
Cash (deficiency) at beginning of year		11,000
Cash at end of year		\$10,280
*Net increase (decrease) in non-cash working capital:		
Decrease (increase) in accounts receivable		\$20,455
Decrease (increase) in inventories		(584,145)
Increase (decrease) in trade accounts payable		(9,939)
Increase (decrease) in estimated liabilities		(7,290)
Increase (decrease) in estimated warranty liabilities		(3,990)
Increase (decrease) in interest payable		(267)
Increase (decrease) in salaries and benefits payable		(131)
Increase (decrease) in unearned rent		(300)
Increase (decrease) in corp. inc. tax payable/receivable		8,000
Net increase (decrease) in non-cash working capital		(\$577,607)

\*\*GST collections and remittances do not affect the income statement. As a result, changes to the GST Payable account are considered a financing activity - credit extended

Jensen Wholesalers Corp.  
Selected Financial Ratios

	2020	<i>Jensen's ratios</i>		
	<i>industry</i>			
	<i>average</i>	2020	2019	2018
a. Current ratio	8.0		6.4	5.2
b. Acid-test ratio	4.4		4.8	5.7
c. Accounts rec. collection (days)	128		138	123
d. Days of sales in inventory	120		10	8
e. Revenue operating cycle (days)	248		149	125
f. Gross profit ratio	41.6%		46.3%	50.9%
g. Operating profit ratio	22.6%		30.0%	35.4%
h. Net profit ratio	17.1%		25.2%	28.7%
i. Sales to total assets ratio	0.82		0.93	1.03
j. Return on total assets ratio	17.2%		27.9%	32.1%
k. Return on s/h equity ratio	25.0%		48.6%	57.3%
l. Debt to s/h equity ratio	1.45		0.89	1.01
m. Times interest earned	5.2		7.8	9.1
n. Earnings (loss) per common share	\$4.50		\$6.09	\$7.25
o. Price-earnings ratio (given)	20	15	24	28
p. Dividend yield per common share (given)	5%	7%	7%	8%

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