

STUDENT HANDOUT

CHAPTER 2 THE RECORDING PROCESS**▶ Financial Reporting and Analysis****Financial Reporting Problem**

BYP2–5The financial statements of **Reitmans (Canada) Limited** for 2012 are shown in Appendix A at the back of this textbook. They contain the following selected accounts:

Administrative expenses	Long-term debt
Cash and cash equivalents	Prepaid expenses
Finance costs	Sales
Inventories	Trade and other payables

Instructions

(a) Answer the following questions:

1. In which financial statement is the account included?
2. Is it an asset, liability, revenue, or expense?
3. What is the normal balance (debit or credit) for each of these accounts?
4. What are the increase side and decrease side (debit or credit) for each of these accounts?

(b) Identify the probable other account(s) in the transaction, and the effect on that account(s), when:

1. Trade and other payables are decreased.
2. Long-term debt is increased.
3. Sales are increased.
4. Inventory is increased.
5. Prepaid expenses are increased.

STUDENT HANDOUT **Interpreting Financial Statements**

BYP2–6 WestJet Airlines Ltd. is one of the most profitable airlines in North America. The following list of accounts and amounts was taken from its December 31, 2011, financial statements (in thousands):

Accounts payable and accrued liabilities	\$ 307,279
Accounts receivable	34,122
Advance ticket sale liability	432,186
Aircraft fuel, leasing, and maintenance expense	1,227,709
Airport operations expense	421,561
Cash	1,291,946
Deferred income tax liability	326,456
Depreciation and amortization expense	174,751
Employee profit share expense	23,804
Flight operations and navigational charges	483,920
Guest revenues	2,790,299
Income tax expense	59,304
Intangible and other assets	137,752
Inventory	31,695
Long-term debt	828,712
Maintenance provisions liability	151,645
Marketing, general, and administration expense	209,880
Non-operating expenses	48,545
Non-refundable guest credits liability	43,485
Other liabilities	13,698
Other revenues	281,241
Prepaid expenses and deposits	66,936
Property and equipment	1,911,227
Sales and distribution expense	273,364
Shareholders' (owners) "drawings"	82,718
Shareholders' (owners) equity, January 1, 2011	1,304,233

Instructions

- (a) WestJet Airlines Ltd. is a corporation. Which of the items listed above are used only in corporations?
- (b) Prepare a trial balance for WestJet with the accounts in financial statement order.

... (continued)

BYP2–6 Student Handout (continued)

- (c) WestJet has grouped several items together in its financial statements. For example, marketing, general, and administration expenses are shown as one amount. What are some possible reasons for doing this?
- (d) In Chapter 2, you learned about unearned revenue. Would you expect a company like WestJet to have unearned revenue? If so, what account name has WestJet used for its unearned revenue?

SOLUTION

BYP 2-5 FINANCIAL REPORTING PROBLEM
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(a) Account	(1) Financial Statement	(2) Account	(3) Normal Balance	(3) Increase Side	(4) Decrease Side
Administrative expenses	Income Statement	Expense	Debit	Debit	Credit
Cash and cash equivalents	Balance Sheet	Asset	Debit	Debit	Credit
Finance costs	Income Statement	Expense	Debit	Debit	Credit
Inventories	Balance Sheet	Asset	Debit	Debit	Credit
Long-term debt	Balance Sheet	Liability	Credit	Credit	Debit
Prepaid expenses	Balance Sheet	Asset	Debit	Debit	Credit
Sales	Income Statement	Revenue	Credit	Credit	Debit
Trade and other payables	Balance Sheet	Liability	Credit	Credit	Debit

... (continued)

SOLUTION

BYP 2-5 (Continued)

- (b)
1. **Cash is decreased.**
 2. **Cash is increased.**
 3. **Cash and/or Accounts Receivable are increased.**
 4. **Accounts Payable is increased or Cash is decreased.**
 5. **Cash is decreased.**

SOLUTION

BYP 2-6 INTERPRETING FINANCIAL STATEMENTS

(a)

- 1. Deferred income tax liability.**
- 2. Income tax expense.**
- 3. Also in a corporation the owners are called shareholders. So the final two amounts listed would only exist in a corporation and not in a proprietorship.**

... (continued)

SOLUTION

BYP 2-6 (Continued)
(b)

WEST AIRLINES LTD.
Trial Balance
December 31, 2011

Cash	\$1,291,946	
Accounts receivable	34,122	
Inventory	31,695	
Prepaid expenses and deposits	66,936	
Property and equipment	1,911,227	
Intangible and other assets	137,752	
Accounts payable and accrued liabilities		\$ 307,279
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Long-term debt		828,712
Shareholders' (owners) equity, January 1, 2011		1,304,233
Shareholders' (owners) "drawings"	82,718	
Guest revenues		2,790,299
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Depreciation and amortization expense	174,751	
Employee profit share expense	23,804	
Non-operating expenses	48,545	
Income tax expense	59,304	
	<u>\$6,479,234</u>	<u>\$6,479,234</u>

SOLUTION

BYP 2-6 (Continued)

- (c) Items have been grouped on the WestJet income statement based on the nature of the expenses such as expenses related to marketing, general, and administrative. Preparing a more condensed statement of income is preferable for large organizations such as WestJet as the users of the financial statements are generally investors who are not interested in any greater detail concerning expenses than what has been presented by management.**
- (d) Most customers using WestJet services book their flights well in advance of their trip. The customers also pay for their tickets before the flight. The cash obtained by WestJet represents unearned revenue until the service of the flight has been delivered to the customer.**

WestJet has used two main accounts for unearned revenue: Advance Ticket Sales Liability and Non-refundable Guest Credits Liability.

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