

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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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%) | <u><u>\$53</u></u> |
| Office supplies expense (including GST of 5%) | <u><u>\$84</u></u> |
- 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>\$830,000</u>		<u>\$860,000</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>
On December 31, the company declared a dividend of:	<u>\$700,000</u>

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>
At December 31 2019, preferred share dividends in arrears totalled:	<u>\$10,000</u>

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

	<u>\$70,000</u>
Original cost of the land was:	<u>\$40,000</u>

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>
The new residual value of the building is estimated at:	<u>\$356,000</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, 2020, fair value of goodwill is estimated by management at:

<u>\$39,000</u>

- 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:
 (January = 1; December =12) 8
 The bonds were issued on January 1, 2014 at: 102%
 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: 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	_____ =====

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Dec. 2020	Adjusting entries	Debit	Credit

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Dec. 2020	Adjusting entries	Debit	Credit

Jensen Wholesalers Corp.

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Dec. 2020	Adjusting entries	Debit	Credit

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

	<i>2020</i>	<i>2019</i>
Sales, net		\$14,592,600
Less: Cost of goods sold		7,842,615
Gross profit		6,749,985
<i>Operating expenses</i>		
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

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

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)
<hr/>		
Cash flow from (used by) operating activities		<u>1,279,314</u>
<i>Investing activities</i>		
<hr/>		
Cash flow from (used by) investing activities		<u>0</u>
<i>Financing activities</i>		
Repayment of mortgage		(466,830)
Increase (decrease) in GST payable**		700
<hr/>		
Payment of dividends		(813,904)
Cash flow from (used by) financing activities		<u>(1,280,034)</u>
Net increase (decrease) in cash		(720)
Cash (deficiency) at beginning of year		11,000
Cash at end of year		<u>\$10,280</u>
*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		<u>(\$577,607)</u>

**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

	<i>2020</i>	<i>Jensen's ratios</i>		
	<i>industry</i>	<i>2020</i>	<i>2019</i>	<i>2018</i>
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%

SOLUTIONS
Jensen Wholesalers Corp.
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Dec. 2020	Adjusting entries	Debit	Credit
a.	Delivery Expense	50	
	Office Supplies Expense	80	
	GST Payable	7	
	Petty Cash		137
	To adjust petty cash to actual at year-end.		
b.	Interest and bank charges expense (see bank rec.)	1,520	
	Cash in Bank		1,520
	To record December service charges and interest.		
c.	Parts Inventory	9,000	
	GST Payable	450	
	Trade Accounts Payable		9,450
	To record parts inventory purchase at year-end.		
d.	Warranty Expense	667,000	
	Estimated Warranty Liability		667,000
	To adjust estimated warranty liability at year-end as follows:		
	Warranty expense should be	\$670,000	
	Warranty expense is	<u>(3,000)</u>	
	Adjustment needed	<u><u>\$667,000</u></u>	
e.(i)	Salaries Expense	50,000	
	Employee Income Taxes Payable		5,000
	Employment Insurance Payable		2,000
	Government Pension Plan Payable		1,500
	Company Health Insurance Payable		1,000
	Salaries Payable		40,500
	To record salaries payable at year-end.		
e.(ii)	Gov't Employment Insurance Expense	2,000	
	Gov't Pension Plan Expense	3,000	
	Company Health Insurance Expense	1,000	
	Employment Insurance Payable		2,000
	Government Pension Plan Payable		3,000
	Company Health Insurance Payable		1,000
	To record benefits payable at year-end.		

f. Professional Fees	80,000	
Estimated Current Liabilities		80,000
To record estimated audit fees at year-end.		
g. Rent Revenue	20,000	
Unearned Rent Revenue		20,000
To adjust rent revenue at year-end.		
h. Bad Debts Expense	557,940	
Allowance for Doubtful Accounts		557,940
To adjust allowance for doubtful accounts at year-end as follows:		

<i>Age (days)</i>	<i>Accounts receivable</i>	<i>Estimated bad debt percentage</i>	<i>Estimated uncollectible amount</i>
1– 30	\$4,500,000	9%	\$405,000
31– 60	770,000	17%	130,900
61– 90	350,000	20%	70,000
91– 120	73,000	50%	36,500
Over 120	30,000	100%	30,000
Totals	<u>\$5,723,000</u>		<u>\$672,400</u>

Allowance for doubtful accounts should be	\$672,400
Allowance for doubtful accounts is	<u>(114,460)</u>
Adjustment needed	<u>\$557,940</u>

i. Cost of Goods Sold	21,000	
merchandise Inventory		21,000
To write-down inventory at year-end to LCNRV as follows:		

<i>Item</i>	<i>Total cost</i>	<i>Total NRV</i>	<i>LCNRV Unit basis</i>
A	\$1,000,000	\$1,020,000	\$1,000,000
B	700,000	679,000	679,000
C	500,000	510,000	500,000
D	900,000	945,000	900,000
E	700,000	707,000	700,000
	<u>\$3,800,000</u>	<u>\$3,861,000</u>	<u>\$3,779,000</u>

merchandise inventory should be	\$3,779,000
merchandise inventory is	<u>(3,800,000)</u>
Adjustment needed	<u>(\$21,000)</u>

j. Trade Accounts Payable		20,000	
Notes Payable			20,000
Interest and Bank Charges Expense		917	
Interest Payable			917
To record notes payable and accrued interest at year-end as follows:			
Amount of note payable (a)		<u>\$20,000</u>	
Interest rate (b)		<u>5%</u>	
Number of months to year end (c)		<u>11</u>	
Divided by months in year (d)		<u>12</u>	
Interest expense (a x b x c/d)		<u>\$917</u>	
k. Cash Dividends Declared on Preferred Shares		16,000	
Cash Dividends Declared on Common Shares		684,000	
Dividends Payable			700,000
To record dividends declared at year-end as follows:			
Total dividends declared		\$700,000	
Less preferred share dividends in arrears		(10,000)	
Less 2020 preferred share dividends		<u>(6,000)</u>	
Common share dividends		<u>\$684,000</u>	
There is no adjustment needed re. shares issued during the year. The transaction has already been recorded in the general ledger accounts.			
l. Land		30,000	0
Loss (Gain) on Sale of Land		0	30,000
To adjust for sale of land as follows:			
Original cost		\$40,000	
Proceeds		<u>(70,000)</u>	
Loss (gain)		<u>(\$30,000)</u>	
m. Depreciation Expense - Building		237,333	
Accumulated Depreciation - Building			237,333
To record building depreciation as follows:			
Remaining carrying amount		\$1,780,000	
Less new residual value		<u>(356,000)</u>	
Net (a)		<u>\$1,424,000</u>	
Remaining useful life (b)		<u>6</u>	
Annual revised depreciation (a/b)		<u>\$237,333</u>	

n. Amortization Expense - Patents 1,450
 Accumulated Amortization - Patents 1,450
 To record patent amortization at year-end.

o. Write-down of Goodwill to Fair Value 0
 Goodwill 0
 No adjustment is made if FV exceeds cost.
 Fair value of goodwill \$39,000
 Goodwill per trial balance (36,000)
 Excess (deficiency) of fair value over cost \$3,000

p. Lawsuit Damages Expense
 Estimated Current Liabilities
 No entry is recorded since the likelihood of success is not probable.

q. Mortgage Payable (see bolded amount below) 132,000
 Interest on Long-term Debt Expense 132,000
 To adjust mortgage payable at year-end as follows:

Year	Beginning bal.	Interest	Reduction of principal	Ending bal.
2020	\$6,600,000	\$528,000	\$132,000	\$6,468,000
2021	6,468,000	517,440	142,560	6,325,440

The current portion of the mortgage at Dec. 31, 2020 is shown in the outlined box above.

r. Interest on Long-term Debt 10,667
 Interest Payable 10,667
 To record interest accrued on bonds as follows:
 Amount of bonds payable (a) \$400,000
 Interest rate (b) 8%
 Number of months to year end (c) 4
 Divided by months in year (d) 12
 Interest expense (a x b x c/d) \$10,667

s. Amortization of bond premium (discount)		0	133
Premium on Bonds Payable		133	0
To amortize bonds payable as follows:			
Unamortized bond premium or discount (a)	<u>\$2,000</u>		
Years remaining (outstanding 5 years at Dec. 31, 2020) (b)	<u>15</u>		
Amortization expense (a/b)	<u>\$133</u>		
t. Corporate Income Tax Expense		0	270,262
Corporate Income Taxes Payable		270,262	0
To adjust corporate income taxes at year-end as follows:			
Income (loss) before income taxes per income statement (a)	<u>\$2,523,377</u>		
Corporate tax rate (b)	<u>10%</u>		
Corporate income tax expense (recovery) should be (a x b)	\$252,338		
Corporate income tax balance is currently	(522,600)		
Additional income tax expense (reduction)	<u>(\$270,262)</u>		

Jensen Wholesalers Corp.
Bank Reconciliation
At December 31, 2020

Unreconciled general ledger		Unreconciled bank statement	
Cash balance at Dec. 31	\$62,000	balance at Dec. 31	\$34,480
		Add: Outstanding deposits	
		Dec. 9	63,000
		Dec. 31	15,000
			78,000
		Add: Cheque drawn in error	83,000
Less:		Less: Outstanding cheques	
Overdraft Interest	1,470	<i>Cheque No.</i>	<i>Amount</i>
Bank charges	50	233	70,000
	(1,520)	239	65,000
			(135,000)
Adjusted general ledger Cash		Adjusted bank balance at Dec.	
balance at Dec. 31	\$60,480	31	\$60,480

Adjusted Trial Balance At December 31, 2020

Account	Unadjusted TB		Adjustments		Adjusted TB	
	Debit	Credit	Debit	Credit	Debit	Credit
Petty cash	500			137	a. 364	0
Cash in bank	62,000			1,520	b. 60,480	0
Accounts receivable	5,723,000				5,723,000	
Allow. for doubt. accounts		114,460		557,940	h.	672,400
merchandise inventory	3,800,000			21,000	i. 3,779,000	
Parts inventory	310,000		c. 9,000		319,000	
Land	7,600,000		l. 30,000	0	l. 7,630,000	
Building	8,900,000				8,900,000	
Accumulated dep'n - bldg.		7,120,000		237,333	m.	7,357,333
Patents	29,000				29,000	
Accum. amort. - patents		17,400		1,450	n.	18,850
Goodwill	36,000			0	36,000	
Trade accounts payable		80,000	j. 20,000	9,450	c.	69,450
Interest payable				917	j.	11,583
				10,667	r.	
Estimated current liabilities				80,000	f.	80,000
				0	p.	
Estimated warranty liability	536,000			667,000	d.	131,000
Dividends payable				700,000	k.	700,000
Salaries payable				40,500	e.(i)	40,500
Employee inc. taxes pay.				5,000	e.(i)	5,000
Employment ins. pay.				2,000	e.(i)	4,000
				2,000	e.(ii)	
Gov't pension plan payable				1,500	e.(i)	4,500
				3,000	e.(ii)	
Co. health insurance payable				1,000	e.(i)	2,000
				1,000	e.(ii)	
Corp. income tax pay. (rec.)			t. 270,262	0	270,262	0
GST payable		8,000	a. 7		0	7,544
			c. 450			
Note payable				20,000	j.	20,000
Unearned rent revenue				20,000	g.	20,000

Mortgage payable		6,600,000	q.	132,000			6,468,000
Bonds payable		400,000					400,000
Discount bonds payable	0				0	0	0
Premium bonds payable		2,000	s.	133		0	1,867
Common shares, \$1 per sh.		700,000					700,000
Preferred shares		100,000					100,000
Retained earnings (deficit)	0	8,362,040				0	8,362,040
Cash div. common shares			k.	684,000		684,000	
Cash div. preferred shares			k.	16,000		16,000	
Rent revenue		260,000	g.	20,000			240,000
Sales, net		13,400,000					13,400,000
Cost of goods sold	8,174,000		i.	21,000		8,195,000	
Amort. bond prem. (discount)				0	133	s. 0	133
Amortization exp. - patents			n.	1,450		1,450	0
Bad debts expense			h.	557,940		557,940	
Co. health ins. expense exp.	9,800		e.(ii)	1,000		10,800	
Delivery expense	100,000		a.	50		100,050	
Dep'n. expense - building			m.	237,333		237,333	
Gov't employment ins. exp.	19,600		e.(ii)	2,000		21,600	
Gov't pens. plan exp.	29,400		e.(ii)	3,000		32,400	
Interest and bank charges	60,000		b.	1,520		62,437	
			j.	917			
Interest on long-term debt	660,000		r.	10,667	132,000	q. 538,667	
Lawsuit damages expense			p.	0		0	
Loss (gain) on sale of land			l.	0	30,000	l. 0	30,000
Office supplies expense	69,000		a.	80		69,080	
Professional fees	30,000		f.	80,000		110,000	
Salaries expense	490,000		e.(i)	50,000		540,000	
Warranty expense	3,000		d.	667,000		670,000	
Write-down of goodwill			o.	0		0	
Corp. income tax exp. (recov.)	522,600			0	270,262	t. 252,338	0
	<u>37,163,900</u>	<u>37,163,900</u>		<u>2,815,809</u>	<u>2,815,809</u>	<u>38,846,200</u>	<u>38,846,200</u>

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

	<i>2020</i>	<i>2019</i>
Sales, net	\$13,400,000	\$14,592,600
<i>Less: Cost of goods sold</i>	<u>8,195,000</u>	<u>7,842,615</u>
Gross profit	<u>5,205,000</u>	<u>6,749,985</u>
<i>Operating expenses</i>		
<i>Selling</i>		
Salaries and benefits	604,800	550,368
Delivery	100,050	110,055
Office supplies	69,080	74,606
Warranty	<u>670,000</u>	<u>690,100</u>
Total selling	<u>1,443,930</u>	<u>1,425,129</u>
<i>General and administrative</i>		
Bad debts	557,940	591,416
Depreciation and amortization	238,783	250,723
Lawsuit damages	0	
Professional fees	<u>110,000</u>	<u>102,300</u>
Total general and administrative	<u>906,723</u>	<u>944,439</u>
Total operating expenses	<u>2,350,653</u>	<u>2,369,568</u>
Income (loss) from operations	<u>2,854,347</u>	<u>4,380,417</u>
<i>Other income (expenses)</i>		
Rent revenue	240,000	259,200
Gain (loss) on sale of land	30,000	
Write-down of goodwill to fair value	<u>0</u>	
	<u>270,000</u>	<u>259,200</u>
Income (loss) before interest and income taxes	3,124,347	4,639,617
Interest expense	<u>600,970</u>	<u>558,902</u>
Income (loss) before income taxes	<u>2,523,377</u>	<u>4,080,715</u>
Income taxes (recovered)	<u>252,338</u>	<u>408,071</u>
Net income (loss)	<u>\$2,271,039</u>	<u>\$3,672,643</u>

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

	<i>2020</i>			<i>2019</i>	
	<i>Common</i>	<i>Preferred</i>	<i>Retained</i>	<i>Total equity</i>	<i>Total equity</i>
	<i>shares</i>	<i>shares</i>	<i>earnings</i>		
			<i>(deficit)</i>		
Balance (deficit) at Jan. 1	\$600,000	\$100,000	\$8,362,040	\$9,062,040	\$6,061,717
Shares issued	100,000			100,000	
Net income (loss)			2,271,039	2,271,039	3,672,643
Cash dividends declared					
Preferred			(16,000)	(16,000)	(15,680)
Common			(684,000)	(684,000)	(656,640)
Balance (deficit) at Dec. 31	<u>\$700,000</u>	<u>\$100,000</u>	<u>\$9,933,079</u>	<u>\$10,733,079</u>	<u>\$9,062,040</u>

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

<i>Assets</i>		
<i>Current</i>	<i>2020</i>	<i>2019</i>
Cash	\$60,844	\$26,660
Accounts receivable, net	5,050,600	5,404,142
Inventories	4,098,000	1,902,434
Corporate income taxes receivable	270,262	283,775
	<u>9,479,706</u>	<u>7,617,011</u>
 <i>Non-current</i>		
Land	7,630,000	7,670,000
Building, net	1,542,667	1,780,000
Patents, net	10,150	11,600
Goodwill	36,000	36,000
	<u>9,218,817</u>	<u>9,497,600</u>
	<u>\$18,698,523</u>	<u>\$17,114,611</u>
 <i>Liabilities</i>		
<i>Current</i>		
Trade accounts payable	\$69,450	\$68,061
Estimated current liabilities	80,000	73,600
Estimated warranty liabilities	131,000	136,240
Note payable	20,000	0
Dividends payable	700,000	672,320
Interest payable	11,583	10,425
Salaries and benefits payable	56,000	60,480
GST payable	7,544	7,845
Unearned rent	20,000	21,600
Current portion of mortgage payable	142,560	132,000
Corporate income taxes payable	0	0
	<u>1,238,137</u>	<u>1,182,571</u>
 <i>Non-current</i>		
Mortgage payable	6,468,000	6,600,000
Less: Current portion	<u>(142,560)</u>	<u>(132,000)</u>
	6,325,440	6,468,000
Bonds payable, net	401,867	402,000
	<u>6,727,307</u>	<u>6,870,000</u>
Total liabilities	<u>7,965,444</u>	<u>8,052,571</u>
 <i>Shareholders' Equity</i>		
Common shares	700,000	600,000
Preferred shares, \$100	100,000	100,000
Retained earnings (deficit)	9,933,079	8,362,040
	<u>10,733,079</u>	<u>9,062,040</u>
Total liabilities and S/H equity	<u>\$18,698,523</u>	<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)	\$2,762,505	\$3,047,101
Items not affecting cash flow		
Depreciation and amortization expense	325,600	302,808
Amortization of bond discount (premium)	(1,200)	(1,200)
Write-down of goodwill to fair value	0	
Loss (gain) on disposal of land	30,000	
Net increase (decrease) in non-cash working capital*	<u>(2,333,704)</u>	<u>(2,465,399)</u>
Cash flow from (used by) operating activities	<u>783,201</u>	<u>883,310</u>
<i>Investing activities</i>		
Proceeds from sale of land	<u>10,000</u>	<u>0</u>
<i>Financing activities</i>		
Repayment of mortgage	(177,600)	(198,912)
Increase (decrease) in GST payable***	(607)	200
Issuance of common shares	95,000	
Payment of dividends****	<u>(679,000)</u>	<u>(685,790)</u>
Cash flow from (used by) financing activities	<u>(762,207)</u>	<u>(884,502)</u>
Net increase (decrease) in cash	30,994	(1,192)
Cash (deficiency) at beginning of year	<u>39,740</u>	<u>40,932</u>
Cash (deficiency) at end of year	<u><u>\$70,734</u></u>	<u><u>\$39,740</u></u>

*Net increase (decrease) in non-cash working capital:

Decrease (increase) in accounts receivable	\$350,450	\$287,369
Decrease (increase) in inventories	(2,713,587)	(2,757,263)
Increase (decrease) in trade accounts payable**	11,105	1,111
Increase (decrease) in estimated liabilities	(1,400)	420
Increase (decrease) in estimated warranty liabilities	6,300	(2,520)
Increase (decrease) in interest payable	(370)	185
Increase (decrease) in salaries and benefits payable	630	(441)
Increase (decrease) in unearned rent	(2,100)	(1,260)
Increase (decrease) in corp. inc. tax payable/receivable	15,268	7,000
Net increase (decrease) in non-cash working capital	<u><u>(\$2,333,704)</u></u>	<u><u>(\$2,465,399)</u></u>

**includes note payable, as the conversion from an account payable does not affect cash flow.

***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 by the government.

****the dividends payable at December 31, 2019 must have been paid in cash in 2020.

Jensen Wholesalers Corp.
Selected Financial Ratios

	2020			
	industry average	Jensen's ratios		
		2020	2019	2018
a. Current ratio	8.0	7.7	6.4	5.2
b. Acid-test ratio	4.4	4.3	4.8	5.7
c. Accounts rec. collection (days)	128	142	138	123
d. Days of sales in inventory	120	134	10	8
e. Revenue operating cycle (days)	248	276	149	125
f. Gross profit ratio	41.6%	38.8%	46.3%	50.9%
g. Operating profit ratio	22.6%	21.3%	30.0%	35.4%
h. Net profit ratio	17.1%	16.9%	25.2%	28.7%
i. Sales to total assets ratio	0.82	0.75	0.93	1.03
j. Return on total assets ratio	17.2%	15.9%	27.9%	32.1%
k. Return on s/h equity ratio	25.0%	22.9%	48.6%	57.3%
l. Debt to s/h equity ratio	1.45	0.74	0.89	1.0
m. Times interest earned	5.2	4.7	7.8	9.1
n. Earnings (loss) per common share	\$4.50	\$3.52	\$6.09	\$7.25
o. Price-earnings ratio (given)	20	15	24	28
p. Dividend yield per common share (given)	5%	7%	7%	8%

a. Ratios a-e are measures of liquidity.

The current ratio has increased compared to 2018 and 2019.

The acid-test ratio has decreased compared to 2018 and 2019.

Jensen's declining acid-test ratio indicates that the company is growing less liquid in terms of cash and accounts receivable available to satisfy current liabilities.

However, the industry seems to have unusually high current and acid-test ratios as a whole. Jensen is not significantly different than its competitors in this regard. There do not appear to be any future liquidity issues.

The accounts receivable collection period is increasing. Jensen should improve its A/R collection policies and procedures .

The level of inventories relative to annual sales is increasing. Jensen may be carrying too much merchandise inventory, and should consider reducing this.

Overall, the revenue operating cycle is increasing. This is worrisome. Jensen management should consider means to reduce both accounts receivable and inventory levels towards industry averages.

b. Ratios f-k are measures of profitability.

The gross profit ratio has decreased, indicating that the company was not able to sell items for the same average price as prior years.

The operating profit ratio has decreased, indicating that the company's operating expenses are relatively higher than prior years compared to sales.

The net profit ratio has decreased, indicating that the company has not been able to earn as much profit relative to sales compared to last year.

The sales to total assets ratio is decreasing, indicating that Jensen is not utilizing its assets as efficiently as in the past. In addition, the industry is doing better than Jensen in regards to this measure.

c. Ratios l and m are leverage ratios.

ROSE has decreased, indicating that less net income has been earned in 2020 relative to the amount of shareholders' equity.

A decrease in sales is the chief reason for this.

The D/E ratio is decreasing, indicating the Jensen is becoming less reliant on debt. While this may be acceptable, the industry D/E ratio is higher. Jensen should consider reducing number of shares outstanding, or taking on more debt.

The risk of Jensen not being able to meet its interest obligations has increased and this risk is greater than industry average.

d. Ratios n-p are market ratios.

EPS has decreased due to the company's deteriorating profit picture compared to prior years.

Jensen's P/E ratio has declined. The market does not consider that the company will be as profitable in the future as it was in prior years.

Jensen's P/E ratio is higher than the industry average. The market considers that Jensen will be more profitable in the future compared to its competitors.

Jensen's P/E ratio is steadily declining. The market is indicating that Jensen's prospects of profitability are declining from 2018 to 2020.

The amount of dividends paid compared to market value per common share has decreased.

The rate is the same as industry average now.

e. Overall analysis

On most measures, Jensen lags behind industry averages. This likely indicates the continuing effects of the economic downturn in western Canada (see overview). Its main competitors have a broader geographic base, being US-based. Jensen's greater dependence on the western Canadian economy seems to have delayed the company's recovery. All these possibilities should be considered as well as the company-specific suggestions noted above.

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