

1 CLAUDE CHABOT BICYCLE CASE

Claude Chabot Bicycle, a small bicycle retailer located in Cookshire, was created 25 years ago by Mr. Chabot, a keen cyclist who wanted to offer both high-grade and low-grade bicycles in his home town. Mr. Chabot has a bachelor degree in sport studies. He does the bookkeeping himself.

It's May 15, 2015 and you have just been hired by Mr. Chabot to help him preparing the company's annual financial statements for the year ended December 31, 2014. In the following months, he is going to ask for a loan from the bank in order to expand the company. He asked your help because he wants your advice to make the company's financial statement as profitable as possible (highest profit). Here is some information about the company's accounting policies:

- Since the merchandise sold has serial numbers, the company records sales of inventory with the specific identification method. Once a year, on December 31, Mr. Chabot does a physical count of inventory.

Physical count of Inventory done on December 31, 2014

Model	Serial Number	Cost	Selling Price
GARNEAU MEN AXIS SL-3	5445028448	\$700	\$1,000
VENTURA RACE ROAD BIKE 54CM	134398NNS9	\$800	\$600
GARNEAU XS 38CM	340NF7S92-4F	\$300	\$350
GARNEAU SL2 WOMENS ROAD BIKE 51CM	999DNHAF93	\$900	\$1,500
GARNEAU MOTION CITY 2.0 URBAN 54CM	4498F0DFNH20	\$400	\$600
GIANT ESCAPE 3 18	399283FJJ	\$400	\$300
FOCUS IXALCO PRO XXL 69 CM	00383JJ3	\$2,200	\$1,600
		\$5,700	\$5,950

Actually, the number reported in the financial statements is \$6,000. Mr. Chabot is concerned by the fact that the physical count is different that the amount actually recorded. He knows that he must adjust the inventory account according to the physical inventory. However he wants to know if he shall report the inventory account at the cost value or at the selling price in the company's balance sheet. He thinks the selling price of \$5,950 would be better because higher assets would make his financial statements look better.

- In December 2014, Mr Chabot decided to start selling sport shirt explicitly designed for cycling. Here are the transactions related to shirts for the month of December. Mr Chabot did not record any transaction related to the purchase and the sales of shirts because he doesn't know how to do it. He is confused because shirts don't have distinct serial number. He asked you to provide the journal entries to record the purchases and the sales of shirts.

Purchases:

Date	Qty	Unit cost	Total Cost
December 1	6	\$30	\$180
December 15	8	\$35	\$280

Sales:

Date	Qty	Selling Price	Total price
December 5	1	\$40	\$40
December 8	2	\$40	\$80
December 10	1	\$40	\$40
December 17	2	\$40	\$80
December 22	1	\$40	\$40

REQUIREMENT:

Write a memo to Mr Chabot discussing the relevant accounting problems.

CLAUDE CHABOT CASE / MARKING GRID

SECTION	DESCRIPTION	MARKS
INTRODUCTION	<p>To Whom From Whom Date</p> <p>Brief planning of the mandate including:</p> <ul style="list-style-type: none"> Any bias (trend) of the financial statement preparer Expected errors (few or many) + justification 	____ / 2
ACCOUNTING PROBLEMS	<p>For each accounting problem:</p> <ul style="list-style-type: none"> Identification of the problem Solution according to accounting standards + Justification The journal entry to correct the mistake with detailed calculation 	____ / 7
CONCLUSION	Conclusion (step-back and general comments)	____ / 1
	TOTAL	____ / 10

ADDITIONNAL INSTRUCTIONS:

Print your solution in 2 copies. The first copy has to be given to the teacher at the beginning of the course. The other will be used for discussion in class.