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Study Guide Solutions

Chapters 16-27

College Accounting

Twenty-first Edition

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Table of Contents

Chapter 16	Accounting for Accounts Receivable	165
Chapter 17	Accounting for Notes and Interest.....	173
Chapter 18	Accounting for Long-Term Assets	181
Chapter 19	Accounting for Partnerships	187
Chapter 20	Corporations: Organizations and Capital Stock.....	197
Chapter 21	Corporations: Taxes, Earnings, Distributions, and the Statement of Retained Earnings.....	205
Chapter 22	Corporations: Bonds	211
Chapter 23	Statement of Cash Flows	221
Chapter 24	Analysis of Financial Statements.....	239
Chapter 25	Departmental Accounting.....	247
Chapter 26	Manufacturing Accounting: The Job Order Cost System.....	253
Chapter 27	Manufacturing Accounting: The Work Sheet and Financial Statements.....	261

CHAPTER 16

REVIEW QUESTIONS

- | | |
|---|---|
| <ol style="list-style-type: none"> 1. allowance method
 direct write-off method 2. allowance 3. matching 4. allowance 5. Bad Debt Expense
 Allowance for Doubtful Accounts 6. contra asset 7. net realizable value or net receivables 8. percentage of sales method
 percentage of receivables method 9. percentage of sales 10. Allowance for Doubtful Accounts
 Accounts Receivable | <ol style="list-style-type: none"> 11. percentage of receivables 12. aging the receivables 13. percentage of sales 14. percentage of receivables 15. Accounts Receivable
 Allowance for Doubtful Accounts 16. Cash
 Accounts Receivable 17. direct write-off 18. Bad Debt Expense 19. Uncollectible Accounts Recovered 20. Bad Debt Expense |
|---|---|

EXERCISES

Exercise 1

GENERAL JOURNAL						PAGE
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20-9 Dec. 31	Bad Debt Expense		3 5 0 0 00		1
2		Allowance for Doubtful Accounts			3 5 0 0 00	2
3						3

Net realizable value:

Accounts receivable	\$ 28,000
Less allowance for doubtful accounts	<u>3,800</u>
Net realizable value	<u>\$ 24,200</u>

Exercise 2

GENERAL JOURNAL						PAGE
	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20-6 Dec. 31	Bad Debt Expense		2 8 0 0 00		1
2		Allowance for Doubtful Accounts			2 8 0 0 00	2
3						3

Net realizable value:

Accounts receivable	\$ 32,000
Less allowance for doubtful accounts	<u>3,200</u>
Net realizable value	<u>\$ 28,800</u>

Exercise 3

GENERAL JOURNAL

PAGE

1	DATE		DESCRIPTION	POST. REF.	DEBIT				CREDIT				
1	20-7 Nov.	15	Allowance for Doubtful Accounts		3	5	0	00					1
2			Accounts Receivable/B. Fountain						3	5	0	00	2
3			Wrote off uncollectible account										3
4													4
5	20-8 Jan.	21	Accounts Receivable/B. Fountain		3	5	0	00					5
6			Allowance for Doubtful Accounts						3	5	0	00	6
7			Reinstated account receivable										7
8													8
9		21	Cash		3	5	0	00					9
10			Accounts Receivable/B. Fountain						3	5	0	00	10
11			Collection on account										11
12													12

Exercise 4

GENERAL JOURNAL

PAGE

1	DATE		DESCRIPTION	POST. REF.	DEBIT				CREDIT				
1	20-8 Mar.	15	Bad Debt Expense		2	5	0	00					1
2			Accounts Receivable/B. Karst						2	5	0	00	2
3													3

Exercise 5

GENERAL JOURNAL

PAGE

DATE		DESCRIPTION	POST. REF.	DEBIT				CREDIT				
1	20-4 Nov. 15	Bad Debt Expense		4	0	0	00					1
2		Accounts Receivable/B. Farlow						4	0	0	00	2
3		Wrote off uncollectible account										3
4												4
5	15	Bad Debt Expense		5	0	0	00					5
6		Accounts Receivable/C. Turner						5	0	0	00	6
7		Wrote off uncollectible account										7
8												8
9	Dec. 21	Accounts Receivable/B. Farlow		4	0	0	00					9
10		Bad Debt Expense						4	0	0	00	10
11		Reinstated account receivable										11
12												12
13	21	Cash		4	0	0	00					13
14		Accounts Receivable/B. Farlow						4	0	0	00	14
15		Collection on account										15
16												16
17	20-5 Jan. 15	Accounts Receivable/C. Turner		5	0	0	00					17
18		Uncollectible Accounts Recovered						5	0	0	00	18
19		Reinstated account receivable										19
20												20
21	15	Cash		5	0	0	00					21
22		Accounts Receivable/C. Turner						5	0	0	00	22
23		Collection on account										23
24												24
25												25
26												26

PROBLEMS

Problem 6

(a) (1) Amount of adjusting entry: $\$450,800 \times 0.01 = \$4,508$	
Accounts receivable.....	\$32,000
Allowance for doubtful accounts.....	<u>4,908</u>
Net realizable value	<u>\$27,092</u>
(2) Amount of adjusting entry: $\$4,250 - \$400 = \$3,850$	
Accounts receivable.....	\$32,000
Allowance for doubtful accounts.....	<u>4,250</u>
Net realizable value	<u>\$27,750</u>
(b) (1) Amount of adjusting entry: $\$450,800 \times 0.015 = \$6,762$	
Accounts receivable.....	\$32,000
Allowance for doubtful accounts.....	<u>6,162</u>
Net realizable value	<u>\$25,838</u>
(2) Amount of adjusting entry: $\$6,200 + \$600 = \$6,800$	
Accounts receivable.....	\$32,000
Allowance for doubtful accounts.....	<u>6,200</u>
Net realizable value	<u>\$25,800</u>

Problem 7

GENERAL JOURNAL

PAGE

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	PAGE
1	Adjusting Entry				1
20-6 Dec. 31	Bad Debt Expense		17 0 0 0 00		2
3	Allowance for Doubtful Accounts			17 0 0 0 00	3
4					4
20-7 Mar. 1	Allowance for Doubtful Accounts		3 8 0 0 00		5
6	Accounts Receivable/J. Dullard			3 8 0 0 00	6
7	Wrote off uncollectible account				7
8					8
9 May 30	Accounts Receivable/J. Dullard		3 8 0 0 00		9
10	Allowance for Doubtful Accounts			3 8 0 0 00	10
11	Reinstated account receivable				11
12					12
13 30	Cash		3 8 0 0 00		13
14	Accounts Receivable/J. Dullard			3 8 0 0 00	14
15	Collection on account				15
16					16

Problem 8

1. and 2.

**TALLAHASSEE SEMINOLE SHOP
AGING SCHEDULE OF ACCOUNTS RECEIVABLE**

	A	B	C	D	E	F	G
1	Customer	Total	Not Yet Due	Number of Days Past Due			
2				1-30	31-60	61-90	Over 90
3	Borthick, A.	\$ 6,500	\$ 3,000	\$1,200	\$2,300		
4	Clark, R.	3,700					\$3,700
5	Copley, P.	9,600	2,800		2,300	\$4,500	
6	Davis, H.	1,500	1,500				
7	Heagy, C.	200				200	
8	O'Keefe, S.	4,700	1,400	3,300			
9	Pasewark, W.	5,500	5,500				
10	Schroeder, M.	2,300	2,300				
11	Shockley, W.	3,800	3,000	800			
12	Wilkerson, J.	3,100	1,700	1,100			300
13	Total	\$40,900	\$21,200	\$6,400	\$4,600	\$4,700	\$4,000
14	Estimated percent uncollectible		2%	4%	8%	16%	32%
15	Total est. uncollectible accounts	\$3,080	\$424	\$256	\$368	\$752	\$1,280
16							
17							
18							
19							
20							

3.

GENERAL JOURNAL

PAGE

	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20-9 Dec. 31	Bad Debt Expense		3 5 8 0 00		1
2		Allowance for Doubtful Accounts			3 5 8 0 00	2
3						3

Problem 9

GENERAL JOURNAL

PAGE

	DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT						
1	20-6 Mar.	20	Accounts Receivable/Ready Merchants		19	4	0	0	00							1
2			Sales							19	4	0	0	00		2
3			Made sale on account													3
4																4
5	May	12	Accounts Receivable/Neighborhood Watchers		13	8	0	0	00							5
6			Sales							13	8	0	0	00		6
7			Made sale on account													7
8																8
9	July	9	Cash		12	0	0	0	00							9
10			Accounts Receivable/Ready Merchants							12	0	0	0	00		10
11			Collection on account													11
12																12
13		9	Bad Debt Expense		7	4	0	0	00							13
14			Accounts Receivable/Ready Merchants							7	4	0	0	00		14
15			Wrote off uncollectible account													15
16																16
17	Oct.	15	Cash		6	0	0	0	00							17
18			Accounts Receivable/Neighborhood Watchers							6	0	0	0	00		18
19			Collection on account													19
20																20
21		15	Bad Debt Expense		7	8	0	0	00							21
22			Accounts Receivable/Neighborhood Watchers							7	8	0	0	00		22
23			Wrote off uncollectible account													23
24																24
25	Dec.	5	Accounts Receivable/Ready Merchants		7	4	0	0	00							25
26			Bad Debt Expense							7	4	0	0	00		26
27			Reinstated account receivable													27
28																28
29		5	Cash		7	4	0	0	00							29
30			Accounts Receivable/Ready Merchants							7	4	0	0	00		30
31			Collection on account													31
32																32
33																33
34																34

Problem 9 (Concluded)

GENERAL JOURNAL

PAGE

1	DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT					1	
1	20-7	26	Accounts Receivable/Neighborhood Watchers		7	8	0	0	00							1
2			Uncollectible Accounts Recovered							7	8	0	0	00		2
3			Reinstated account receivable													3
4																4
5	26		Cash		7	8	0	0	00							5
6			Accounts Receivable/Neighborhood Watchers							7	8	0	0	00		6
7			Collection on account													7
8																8
9																9
10																10
11																11
12																12
13																13
14																14
15																15
16																16
17																17
18																18
19																19
20																20
21																21
22																22

CHAPTER 17**REVIEW QUESTIONS**

- | | |
|------------------------|-------------------------|
| 1. promissory note | 13. proceeds |
| 2. maker | 14. contingent |
| 3. payee | 15. dishonored |
| 4. principal | 16. Accounts Receivable |
| 5. interest | 17. notes receivable |
| 6. term | 18. notes |
| 7. Time | 19. accrued |
| 8. Maturity value | 20. discounting |
| 9. Accounts Receivable | 21. contra-liability |
| 10. credit advice | 22. Accrued interest |
| 11. discounting | 23. current liability |
| 12. bank discount | |

For ease of presentation, the exercise and problem journal entries do not include explanations. Students should include explanations similar to those illustrated in the chapter.

EXERCISES**Exercise 1**

68
58
65
94
48
91

Exercise 2

March 18
July 10
June 16
July 1
February 8
February 28

Exercise 3

\$ 9.38
30.00
131.25
20.53
56.47
52.40

Exercise 4

GENERAL JOURNAL

PAGE

DATE		DESCRIPTION	POST. REF.	DEBIT				CREDIT					
1	20-- Jan.	2 Notes Receivable		3	0	0	0	00					1
2		Sales							3	0	0	00	2
3													3
4		15 Notes Receivable		2	5	0	0	00					4
5		Accounts Receivable/K. Jones							2	5	0	00	5
6													6
7	Feb.	1 Cash				1	5	00					7
8		Notes Receivable (new note)		3	0	0	0	00					8
9		Notes Receivable (old note)							3	0	0	00	9
10		Interest Revenue								1	5	00	10
11													11
12		14 Cash			5	1	0	42					12
13		Notes Receivable (new note)		2	0	0	0	00					13
14		Notes Receivable (old note)							2	5	0	00	14
15		Interest Revenue								1	0	42	15
16													16
17	Mar.	3 Cash		3	0	1	6	25					17
18		Notes Receivable							3	0	0	00	18
19		Interest Revenue								1	6	25	19
20													20
21		16 Cash		2	0	1	0	00					21
22		Notes Receivable							2	0	0	00	22
23		Interest Revenue								1	0	00	23
24													24
25													25

Exercise 5

GENERAL JOURNAL

PAGE

1	DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT					1	
1	20--	1	Notes Receivable		5	0	0	0	00							1
2			Accounts Receivable							5	0	0	0	00		2
3																3
4		20	Cash		5	0	1	1	10							4
5			Notes Receivable							5	0	0	0	00		5
6			Interest Revenue								1	1	10			6
7			(\$5,000 × 0.065 × 90/360 = \$81.25 interest)													7
8			(\$5,000 + \$81.25 = \$5,081.25 maturity value)													8
9			(\$5,081.25 × 0.07 × 71/360 = \$70.15 discount)													9
10			(\$5,081.25 - \$70.15 = \$5,011.10 net proceeds)													10
11																11
12	May	2	Notes Receivable		3	5	0	0	00							12
13			Accounts Receivable							3	5	0	0	00		13
14																14
15	July	1	Accounts Receivable		3	5	3	5	00							15
16			Notes Receivable							3	5	0	0	00		16
17			Interest Revenue								3	5	00			17
18			(\$3,500 × 0.06 × 60/360 = \$35 interest)													18
19			(\$3,500 + \$35 = \$3,535 maturity value)													19
20																20
21	Aug.	15	Cash		3	5	6	1	51							21
22			Accounts Receivable							3	5	3	5	00		22
23			Interest Revenue								2	6	51			23
24			(\$3,535 × 0.06 × 45/360 = \$26.51 interest)													24
25																25
26																26
27																27
28																28

Exercise 6

GENERAL JOURNAL

PAGE

DATE		DESCRIPTION	POST. REF.	DEBIT				CREDIT						
1	20-- Jan. 11	Accounts Payable/G. Adams		5	0	0	0	00					1	
2		Notes Payable							5	0	0	0	00	2
3													3	
4	20	Purchases		3	0	0	0	00					4	
5		Notes Payable							3	0	0	0	00	5
6													6	
7	Feb. 10	Notes Payable (old note)		5	0	0	0	00					7	
8		Interest Expense				2	5	00					8	
9		Notes Payable (new note)							4	5	0	0	00	9
10		Cash							5	2	5	00	10	
11		(\$5,000 × 0.06 × 30/360 = \$25 interest)											11	
12													12	
13	Mar. 12	Notes Payable		4	5	0	0	00					13	
14		Interest Expense				2	2	50					14	
15		Cash							4	5	2	2	50	15
16		(\$4,500 × 0.06 × 30/360 = \$22.50 interest)											16	
17													17	
18	21	Notes Payable		3	0	0	0	00					18	
19		Interest Expense				3	0	00					19	
20		Cash							3	0	3	0	00	20
21		(\$3,000 × 0.06 × 60/360 = \$30 interest)											21	
22													22	
23													23	
24													24	
25													25	
26													26	
27													27	
28													28	

Exercise 7

GENERAL JOURNAL

PAGE

1	DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT					
1	20--	1	Cash		5	0	0	0	00						1
2			Notes Payable							5	0	0	00		2
3															3
4	May	1	Cash		5	8	9	5	00						4
5			Discount on Notes Payable			1	0	5	00						5
6			Notes Payable							6	0	0	00		6
7			(\$6,000 × 0.07 × 90/360 = \$105 interest)												7
8															8
9	May	31	Notes Payable		5	0	0	0	00						9
10			Interest Expense				5	0	00						10
11			Cash							5	0	5	00		11
12			(\$5,000 × 0.06 × 60/360 = \$50 interest)												12
13															13
14	July	30	Notes Payable		6	0	0	0	00						14
15			Interest Expense				1	0	5	00					15
16			Discount on Notes Payable								1	0	5	00	16
17			Cash							6	0	0	00		17
18															18

Exercise 8

GENERAL JOURNAL

PAGE

1	DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT					
1	20--	31	(a) Accrued Interest Receivable				3	7	50						1
2			Interest Revenue								3	7	50		2
3															3
4		31	(b) Interest Expense				7	1	10						4
5			Accrued Interest Payable								7	1	10		5
6															6
7															7

PROBLEMS

Problem 9

GENERAL JOURNAL

PAGE

DATE		DESCRIPTION	POST. REF.	DEBIT				CREDIT						
1	20-- Mar. 1	Notes Receivable		1	4	0	0	0	0		1			
2		Sales						1	4	0	0	0	0	2
3														3
4	13	Notes Receivable		2	0	0	0	0	0					4
5		Accounts Receivable						2	0	0	0	0	0	5
6														6
7	29	Cash		1	4	0	2	8	5					7
8		Notes Receivable						1	4	0	0	0	0	8
9		Interest Revenue								2	8	5		9
10		(\$1,400 × 0.05 × 90/360 = \$17.50 interest)												10
11		(\$1,400 + \$17.50 = \$1,417.50 maturity value)												11
12		(\$1,417.50 × 0.06 × 62/360 = \$14.65 discount)												12
13		(\$1,417.50 - \$14.65 = \$1,402.85 proceeds)												13
14														14
15	Apr. 12	Cash			4	0	9	1	7					15
16		Notes Receivable (new note)		1	6	0	0	0	0					16
17		Notes Receivable (old note)						2	0	0	0	0	0	17
18		Interest Revenue								9	1	7		18
19		(\$2,000 × 0.055 × 30/360 = \$9.17)												19
20														20
21	May 12	Cash		1	6	0	8	0	0					21
22		Notes Receivable						1	6	0	0	0	0	22
23		Interest Revenue								8	0	0		23
24		(1,600 × 0.06 × 30/360 = \$8 interest)												24
25														25
26	30	Accounts Receivable		1	4	4	7	5	0					26
27		Cash						1	4	4	7	5	0	27
28														28
29	June 29	Cash		1	4	7	2	2	4					29
30		Accounts Receivable						1	4	6	5	0	0	30
31		Interest Revenue								7	2	4		31
32		(\$1,447.50 × 0.06 × 30/360 = \$7.24)												32
33														33

Problem 10

GENERAL JOURNAL

PAGE

DATE		DESCRIPTION	POST. REF.	DEBIT				CREDIT				
1	20-- May 1	Purchases		4	0	0	0	0	0			1
2		Notes Payable						4	0	0	0	2
3												3
4	20	Accounts Payable		1	5	0	0					4
5		Notes Payable						1	5	0	0	5
6												6
7	31	Cash		4	9	5	0					7
8		Discount on Notes Payable				5	0					8
9		Notes Payable						5	0	0	0	9
10		(\$5,000 × 0.06 × 60/360 = \$50 discount)										10
11												11
12	June 19	Notes Payable		1	5	0	0					12
13		Interest Expense				8	75					13
14		Cash						1	5	0	8	14
15		(\$1,500 × 0.07 × 30/360 = \$8.75 interest)										15
16												16
17	30	Notes Payable (old note)		4	0	0	0					17
18		Interest Expense				4	6	67				18
19		Cash						1	0	4	6	19
20		Notes Payable (new note)						3	0	0	0	20
21		(\$4,000 × 0.07 × 60/360 = \$46.67 interest)										21
22												22
23	July 15	Cash		3	0	0	0					23
24		Notes Payable						3	0	0	0	24
25												25
26	30	Notes Payable		5	0	0	0					26
27		Interest Expense				5	0					27
28		Cash						5	0	0	0	28
29		Discount on Notes Payable							5	0	0	29
30												30
31												31

Problem 11

(a)

\$ 7.50
8.75
<u>9.47</u>
<u>\$25.72</u>

(b)

\$10.69
7.00
<u>15.00</u>
<u>\$32.69</u>

GENERAL JOURNAL

PAGE

	DATE	DESCRIPTION	POST. REF.	DEBIT			CREDIT				
1	20-- Dec. 31	(a) Accrued Interest Receivable			2	5	72			1	
2		Interest Revenue						2	5	72	2
3											3
4	31	(b) Interest Expense			3	2	69				4
5		Accrued Interest Payable						3	2	69	5
6											6
7											7
8											8

CHAPTER 18**REVIEW QUESTIONS**

- | | | |
|--------------------------------------|------------------------------|--|
| 1. long-term | 9. depreciation | 18. equipment |
| 2. tangible | 10. useful life | 19. Accumulated Depreciation—
Equipment |
| 3. land | 11. salvage | 20. depletion |
| 4. property, plant, and
equipment | 12. Depreciable cost | 21. wasting |
| 5. equivalent price | 13. undepreciated cost | 22. patent |
| 6. allocation | 14. straight-line | 23. copyright |
| 7. physical | 15. declining-balance | 24. trademark |
| 8. functional | 16. sum-of-the-years'-digits | |
| | 17. units-of-production | |

EXERCISES**Exercise 1**

Purchase price.....	\$30,000
Legal fees related to purchase.....	1,000
Removal of old warehouse.....	8,000
Realtor fee.....	<u>1,200</u>
	<u>\$40,200</u>

Exercise 2

$$\frac{\$5,000 - \$500}{5 \text{ years}} = \$900/\text{year}$$

Year 1:	\$900
Year 2:	\$900
Year 3:	\$900
Year 4:	\$900
Year 5:	\$900

Exercise 3

Straight-line rate: 100% divided by 5 = 20%

Double-declining rate: 40%

Year 1:	\$11,000.00	×	0.40	=	\$4,400.00	depreciation expense
Year 2:	6,600.00	×	0.40	=	2,640.00	depreciation expense
Year 3:	3,960.00	×	0.40	=	1,584.00	depreciation expense
Year 4:	2,376.00	×	0.40	=	950.40	depreciation expense
Year 5:	1,425.60	×	0.40	=	425.60	depreciation expense*

*(maximum deduction is \$425.60 because of \$1,000 salvage value)

Exercise 4

$5 + 4 + 3 + 2 + 1 = 15$

20-1:	$\$7,500 \times 5/15 = \$2,500 \times 3/12 =$	$\$ 625$	
20-2:	$\$7,500 \times 5/15 = \$2,500 \times 9/12 =$	$\$1,875$	
	$\$7,500 \times 4/15 = \$2,000 \times 3/12 =$	<u>500</u>	\$2,375
20-3:	$\$7,500 \times 4/15 = \$2,000 \times 9/12 =$	$\$1,500$	
	$\$7,500 \times 3/15 = \$1,500 \times 3/12 =$	<u>375</u>	1,875
20-4:	$\$7,500 \times 3/15 = \$1,500 \times 9/12 =$	$\$1,125$	
	$\$7,500 \times 2/15 = \$1,000 \times 3/12 =$	<u>250</u>	1,375
20-5:	$\$7,500 \times 2/15 = \$1,000 \times 9/12 =$	$\$ 750$	
	$\$7,500 \times 1/15 = \$ 500 \times 3/12 =$	<u>125</u>	875
20-6:	$\$7,500 \times 1/15 = \$ 500 \times 9/12 =$	$\$ 375$	

Exercise 5

$$\frac{\$9,000 - \$500}{34,000} = \$0.25 \text{ per unit}$$

Year 1: $12,000 \times \$0.25 = \$3,000$
 Year 2: $8,000 \times \$0.25 = 2,000$
 Year 3: $14,000 \times \$0.25 = 3,500$

Exercise 6

GENERAL JOURNAL

PAGE

DATE	DESCRIPTION	POST. REF.	DEBIT				CREDIT							
1											1			
2	1.	Repairs Expense			5	0	00					2		
3		Cash							5	0	00	3		
4												4		
5	2.	Accumulated Depreciation—Hydraulic Lift #2			6	0	0	00					5	
6		Cash							6	0	0	00	6	
7												7		
8	3.	Hydraulic Lift #2			1	0	0	0	00					8
9		Cash							1	0	0	0	00	9
10													10	

Exercise 7

$\$400,000,000 / 16,000 \text{ tons} = \$25,000/\text{ton}$

Year 1: $800 \times \$25,000 = \$20,000,000$

Year 2: $1,200 \times \$25,000 = 30,000,000$

Year 3: $750 \times \$25,000 = 18,750,000$

PROBLEMS**Problem 8**

1. (a) <u>Year</u>		<u>Depreciation</u> <u>Expense</u>	<u>Book</u> <u>Value</u>
1	$\$15,000 \times 0.20 =$	\$3,000	\$15,000
2	$15,000 \times 0.20 =$	3,000	12,000
3	$15,000 \times 0.20 =$	3,000	9,000
4	$15,000 \times 0.20 =$	3,000	6,000
5	$15,000 \times 0.20 =$	3,000	3,000
1. (b) 1	$\$15,000 \times 5/15 =$	\$5,000	\$13,000
2	$15,000 \times 4/15 =$	4,000	9,000
3	$15,000 \times 3/15 =$	3,000	6,000
4	$15,000 \times 2/15 =$	2,000	4,000
5	$15,000 \times 1/15 =$	1,000	3,000
1. (c) 1	$\$18,000 \times 0.40 =$	\$7,200	\$10,800
2	$10,800 \times 0.40 =$	4,320	6,480
3	$6,480 \times 0.40 =$	2,592	3,888
4	$3,888 =$	888*	3,000

*Cannot be depreciated below \$3,000 salvage value.

2.	1	$\$18,000 \times 0.20 =$	\$ 3,600.00
	2	$18,000 \times 0.32 =$	5,760.00
	3	$18,000 \times 0.192 =$	3,456.00
	4	$18,000 \times 0.1152 =$	2,073.60
	5	$18,000 \times 0.1152 =$	2,073.60
	6	$18,000 \times 0.576 =$	<u>1,036.80</u>
	Total		<u>\$18,000.00</u>

Problem 9

1. GENERAL JOURNAL PAGE

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
	Adjusting Entries			
20-1 Dec. 31	Depreciation Expense—Sonar System #1		60000	
	Accumulated Depreciation—Sonar System #1			60000
	31 Depreciation Expense—Sonar System #2		60000	
	Accumulated Depreciation—Sonar System #2			60000

2. GENERAL JOURNAL PAGE

DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT
20-2 Jan. 1	Accumulated Depreciation—Sonar System #1		20000	
	Cash			20000
	1 Sonar System #2		100000	
	Cash			100000

3. Depreciation expense for each sonar system for 20-2 through 20-6.

	Sonar System #1	Sonar System #2
Cost of sonar system.....	\$4,000	\$5,000
Accumulated depreciation.....	(400)	(600)
Book value.....	\$3,600	\$4,400
Salvage value.....	(400)	(400)
New depreciable base.....	<u>\$3,200</u>	<u>\$4,000</u>
<p>\$3,200/8 years = \$400 depreciation per year for Sonar System #1 \$4,000/5 years = \$800 depreciation per year for Sonar System #2</p>		

Problem 10

GENERAL JOURNAL

PAGE

DATE		DESCRIPTION	POST. REF.	DEBIT				CREDIT						
1	20-- Jan. 5	Accumulated Depreciation—Backhoe		85	0	0	0	00					1	
2		Backhoe							85	0	0	0	00	2
3														3
4	28	Cash		1	0	0	0	00						4
5		Accumulated Depreciation—Truck		27	2	0	0	00						5
6		Truck							28	0	0	0	00	6
7		Gain on Sale of Truck								2	0	0	00	7
8														8
9	Feb. 10	Cash			1	5	0	00						9
10		Accumulated Depreciation—Handtruck		2	2	0	0	00						10
11		Loss on Sale of Handtruck			1	5	0	00						11
12		Handtruck							2	5	0	0	00	12
13														13
14	Mar. 11	Forklift (new)		60	0	0	0	00						14
15		Accumulated Depreciation—Forklift		45	0	0	0	00						15
16		Forklift (old)							50	0	0	0	00	16
17		Cash							55	0	0	0	00	17
18														18
19	May 16	Caterpillar (new)		120	0	0	0	00						19
20		Accumulated Depreciation—Caterpillar		90	0	0	0	00						20
21		Loss on Exchange of Caterpillar			5	0	0	00						21
22		Caterpillar (old)							105	0	0	0	00	22
23		Cash							110	0	0	0	00	23
24														24
25	June 10	Dump Truck (new)		90	0	0	0	00						25
26		Accumulated Depreciation—Dump Truck		78	0	0	0	00						26
27		Dump Truck (old)							80	0	0	0	00	27
28		Cash							87	0	0	0	00	28
29		Gain on Exchange of Dump Truck								1	0	0	00	29

Problem 11

1.

$$\frac{\$105,000,000 - \$5,000,000}{10,000,000} = \$10/\text{karat mined}$$

20-1: 4,000,000 × \$10 = \$40 million

20-2: 3,500,000 × \$10 = \$35 million

20-3: 2,000,000 × \$10 = \$20 million

2.

GENERAL JOURNAL

PAGE

DATE		DESCRIPTION	POST. REF.	DEBIT				CREDIT						
1	20-1 Dec. 31	Depletion Expense—Diamond Mine		40,000	0	0	0	00					1	
2		Accum. Depletion—Diamond Mine							40,000	0	0	0	00	2
3													3	
4	20-2 Dec. 31	Depletion Expense—Diamond Mine		35,000	0	0	0	00					4	
5		Accum. Depletion—Diamond Mine							35,000	0	0	0	00	5
6													6	
7	20-3 Dec. 31	Depletion Expense—Diamond Mine		20,000	0	0	0	00					7	
8		Accum. Depletion—Diamond Mine							20,000	0	0	0	00	8
9													9	

Problem 12**GENERAL JOURNAL**

PAGE

DATE		DESCRIPTION	POST. REF.	DEBIT				CREDIT						
1	20-- Dec. 31	Patent Amortization		1	5	0	0	00					1	
2		Patent #1							1	5	0	0	00	2
3		(\$12,000/8 yrs. = \$1,500)											3	
4		Patent Amortization		2	2	5	0	00					4	
5		Patent #2							2	2	5	0	00	5
6		(\$15,000/5 yrs. = \$3,000 × 9/12 = \$2,250)											6	
7		Copyright Amortization		1	8	3	3	33					7	
8		Copyright							1	8	3	3	33	8
9		(\$22,000/8 yrs. = \$2,750 × 8/12 = \$1,833.33)											9	
10		Trademark Amortization		6	6	6	6	67					10	
11		Trademark							6	6	6	6	67	11
12		(\$100,000/5 yrs. = \$20,000 × 4/12 = \$6,666.67)											12	

CHAPTER 19

REVIEW QUESTIONS

- | | | |
|--------------------------|--------------------------|-----------------------------|
| 1. partnership | 10. investment ratio | 19. limited lives |
| 2. partnership agreement | 11. capital account | 20. equal to |
| 3. mutual agency | drawing account | greater than |
| 4. unlimited liability | 12. equally | less |
| 5. dissolves | 13. \$4,800 | 21. credit balance |
| 6. journal entry | 14. financial statements | 22. increase |
| 7. assets | 15. income statement | 23. Liquidation |
| liabilities | 16. partners' equity | 24. partnership liquidation |
| 8. balance sheets | 17. Dissolution | |
| 9. fair market values | 18. business operations | |

EXERCISES

Exercise 1

GENERAL JOURNAL

PAGE

1	DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT					1	
	20--															
1	June	1	Cash		20	0	0	0	00							
2			Mary Campbell, Capital							20	0	0	0	00		
3			Mary Campbell's investment in partnership													
4																
5		1	Cash		25	0	0	0	00							
6			Barb Stanley, Capital							25	0	0	0	00		
7			Barb Stanley's investment in partnership													
8																
9																
10																
11																
12																
13																
14																
15																

Exercise 2

GENERAL JOURNAL

PAGE

1	DATE		DESCRIPTION	POST. REF.	DEBIT				CREDIT					
	20-2													
1	Jan.	1	Cash		3	3	0	0	00					1
2			Merchandise Inventory		38	0	0	0	00					2
3			Store Equipment		25	0	0	0	00					3
4			Notes Payable							20	0	0	0	00
5			Accounts Payable							15	0	0	0	00
6			Jim Hassel, Capital							31	3	0	0	00
7			Jim Hassel's investment in partnership											7
8														8
9		1	Cash		12	1	0	0	00					9
10			Merchandise Inventory		24	0	0	0	00					10
11			Notes Payable							5	0	0	0	00
12			Accounts Payable							8	0	0	0	00
13			Mark Back, Capital							23	1	0	0	00
14			Mark Back's investment in partnership											14
15														15

Exercise 3

Fisher and Worth

Statement of Partners' Equity

For Year Ended December 31, 20--

	Fisher	Worth	Total
Capital, January 1, 20--	\$ 85,000	\$64,000	\$149,000
Net income for the year	46,800	31,200	78,000
	\$131,800	\$95,200	\$227,000
Withdrawals	35,000	28,000	63,000
Capital, December 31, 20--	\$ 96,800	\$67,200	\$164,000

Exercise 3 (Concluded)

Fisher and Worth
Balance Sheet (Partial)
December 31, 20--

Partners' Equity		
Fisher, capital	\$96,800	
Worth, capital	67,200	
Total partners' equity		\$164,000

Exercise 4

GENERAL JOURNAL

PAGE

	DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT					
1	20-4	July 30	Cash		60	0	0	0	00						1
2			Susan Blue, Capital							60	0	0	0	00	2
3			Susan Blue admitted to partnership												3
4															4
5															5

Exercise 5

GENERAL JOURNAL

PAGE

	DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT					
1	20-3	May 16	Cash		8	3	0	0	00						1
2			Accounts Receivable		12	0	0	0	00						2
3			Construction Equipment		35	0	0	0	00						3
4			Allowance for Bad Debts							2	0	0	0	00	4
5			Notes Payable							15	0	0	0	00	5
6			Accounts Payable							5	0	0	0	00	6
7			Linda Philipich, Capital							33	3	0	0	00	7
8			Linda Philipich admitted to partnership												8
9															9

Exercise 6

GENERAL JOURNAL

PAGE

1	DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT					1	
	20-															
1	20-6	31	R. W. Campbell, Capital		78	0	0	0	00							1
2			Cash							78	0	0	0	00		2
3			R. W. Campbell retired, withdrawing \$78,000 in													3
4			equity settlement													4
5																5

Exercise 7

GENERAL JOURNAL

PAGE

1	DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT					1	
	20-															
1	20--	1	Cash		101	0	0	0	00							1
2			Inventory							92	0	0	0	00		2
3			Gain on Sale of Inventory							9	0	0	0	00		3
4			Sale of inventory													4
5																5
6		1	Gain on Sale of Inventory		9	0	0	0	00							6
7			L. Ling, Capital							4	5	0	0	00		7
8			S. Salk, Capital							4	5	0	0	00		8
9			Allocation of gain													9
10																10
11																11
12																12
13																13
14																14
15																15

PROBLEMS**Problem 8****GENERAL JOURNAL**

PAGE

1	DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT					1		
1	20-4 Jan.	1	Cash		3	2	0	0	00								1
2			Accounts Receivable		2	5	2	4	00								2
3			Merchandise Inventory		4	8	0	0	00								3
4			Projection Equipment		7	5	0	0	00								4
5			Snack Bar and Facilities		18	5	0	0	00								5
6			Notes Payable							13	5	0	0	00			6
7			Accounts Payable							5	4	8	0	00			7
8			Allowance for Bad Debts								4	3	0	00			8
9			Fred Dusk, Capital							17	1	1	4	00			9
10			Fred Dusk's investment in partnership														10
11																	11
12		1	Cash		1	5	3	3	00								12
13			Accounts Receivable		2	1	6	0	00								13
14			Merchandise Inventory		11	4	0	0	00								14
15			Supplies			3	5	6	00								15
16			Office Equipment		4	8	0	0	00								16
17			Projection Equipment		11	2	0	0	00								17
18			Snack Bar and Facilities		48	0	0	0	00								18
19			Notes Payable							26	0	0	0	00			19
20			Accounts Payable							16	3	0	0	00			20
21			Allowance for Bad Debts								3	2	0	00			21
22			Nancy Dawn, Capital							36	8	2	9	00			22
23			Nancy Dawn's investment in partnership														23
24																	24

Problem 9

1.

Dusk to Dawn Drive-In Theaters
Income Statement (Partial)
For Year Ended December 31, 20-4

	F. Dusk	N. Dawn	Total
Net income			\$176,500
Allocation of net income:			
Salary allowance	\$35,000	\$ 45,000	\$ 80,000
Interest allowance	2,054	4,419	6,473
Remaining income	36,011	54,016	90,027
	\$73,065	\$103,435	\$176,500

2.

Dusk to Dawn Drive-In Theaters
Statement of Partners' Equity
For Year Ended December 31, 20-4

	F. Dusk	N. Dawn	Total
Capital, January 1, 20-4	\$ 17,114	\$ 36,829	\$ 53,943
Additional investments during the year	10,000	0	10,000
	\$ 27,114	\$ 36,829	\$ 63,943
Net income for the year	73,065	103,435	176,500
	\$100,179	\$140,264	\$240,443
Withdrawals (salary allowance)	35,000	45,000	80,000
Capital, December 31, 20-4	\$ 65,179	\$ 95,264	\$160,443

3.

Dusk to Dawn Drive-In Theaters
Balance Sheet (Partial)
December 31, 20-4

Partners' Equity		
F. Dusk, capital	\$65,179	
N. Dawn, capital	95,264	
Total partners' equity		\$160,443

Problem 9 (Concluded)

4.

GENERAL JOURNAL

PAGE

1	DATE		DESCRIPTION	POST. REF.	DEBIT				CREDIT				1
			Closing Entries										
2	20-4 Dec.	31	Income Summary		176	5	0	0	00				
3			F. Dusk, Capital							73	0	6	5
4			N. Dawn, Capital							103	4	3	5
5													
6		31	F. Dusk, Capital		35	0	0	0	00				
7			F. Dusk, Drawing							35	0	0	0
8													
9		31	N. Dawn, Capital		45	0	0	0	00				
10			N. Dawn, Drawing							45	0	0	0
11													

Problem 10

GENERAL JOURNAL

PAGE

1	DATE		DESCRIPTION	POST. REF.	DEBIT				CREDIT				1
	20-1 June	1	Cash		3	2	0	0	00				
2			Accounts Receivable		22	5	2	4	00				
3			Merchandise Inventory		84	8	0	0	00				
4			Office Equipment		5	0	0	0	00				
5			Notes Payable							12	2	0	0
6			Accounts Payable							25	4	8	0
7			Allowance for Bad Debts							1	2	0	0
8			B. Murry, Capital							76	6	4	4
9			B. Murry admitted to partnership										
10													

Problem 11

1.

GENERAL JOURNAL

PAGE

DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT					
1	20-5 May 1	J. D. Courtney, Capital		30	0	0	0	00						1
2		Cash							26	0	0	0	00	2
3		S. S. Casler, Capital							3	0	0	0	00	3
4		E. R. Snavelly, Capital							1	0	0	0	00	4
5		Dissolution of partnership, payment to J. D. Courtney												5
6														6
7														7

2.

GENERAL JOURNAL

PAGE

DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT					
1	20-5 May 1	J. D. Courtney, Capital		30	0	0	0	00						1
2		S. S. Casler, Capital		6	0	0	0	00						2
3		E. R. Snavelly, Capital		2	0	0	0	00						3
4		Cash							38	0	0	0	00	4
5		Dissolution of partnership, payment to J. D. Courtney												5
6														6
7														7

3.

GENERAL JOURNAL

PAGE

DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT					
1	20-5 May 1	J. D. Courtney, Capital		30	0	0	0	00						1
2		E. R. Snavelly, Capital							30	0	0	0	00	2
3		Dissolution of partnership, purchase of												3
4		J. D. Courtney's interest by E. R. Snavelly												4
5														5
6														6
7														7

Problem 12

1.

Thay, Walter, and Carpenter
Statement of Partnership Liquidation
For Period July 1–7, 20--

	Cash	Inventory	Other Assets	Liabilities	Capital		
					Thay	Walter	Carpenter
Balance before sale of assets	\$ 18,300	\$ 28,000	\$ 75,000	\$ 13,000	\$ 35,200	\$ 39,900	\$ 33,200
Sale of noncash assets and alloc. of loss	<u>94,000</u>	<u>(28,000)</u>	<u>(75,000)</u>		<u>(3,000)</u>	<u>(3,000)</u>	<u>(3,000)</u>
Balance after sale	\$112,300	0	0	\$ 13,000	\$ 32,200	\$ 36,900	\$ 30,200
Payment of liabilities	<u>(13,000)</u>			<u>(13,000)</u>			
Balance after payment of liabilities	\$ 99,300	0	0	0	\$ 32,200	\$ 36,900	\$ 30,200
Distribution of cash to partners	<u>(99,300)</u>				<u>(32,200)</u>	<u>(36,900)</u>	<u>(30,200)</u>
Final balances	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

2.

GENERAL JOURNAL

PAGE

DATE		DESCRIPTION	POST. REF.	DEBIT				CREDIT						
1	20-- July 1	Cash		94	0	0	0	00					1	
2		Loss on Sale of Assets		9	0	0	0	00					2	
3		Inventory							28	0	0	0	00	3
4		Other Assets							75	0	0	0	00	4
5		Loss on sale of assets											5	
6													6	
7	1	G. B. Thay, Capital		3	0	0	0	00					7	
8		E. F. Walter, Capital		3	0	0	0	00					8	
9		Q. E. Carpenter, Capital		3	0	0	0	00					9	
10		Loss on Sale of Assets							9	0	0	0	00	10
11		Distribution of loss											11	
12													12	
13	3	Liabilities		13	0	0	0	00					13	
14		Cash							13	0	0	0	00	14
15		Payment of liabilities											15	
16													16	
17	7	G. B. Thay, Capital		32	2	0	0	00					17	
18		E. F. Walter, Capital		36	9	0	0	00					18	
19		Q. E. Carpenter, Capital		30	2	0	0	00					19	
20		Cash							99	3	0	0	00	20
21		Distribution of cash to partners											21	
22													22	

CHAPTER 20

REVIEW QUESTIONS

- | | | |
|-------------------------|------------------------|--------------------------|
| 1. liability | 11. organization costs | 20. no-par |
| 2. stockholders' equity | 12. paid-in capital | 21. stated value |
| 3. shares | 13. Retained earnings | 22. common |
| 4. Mutual agency | 14. authorized | 23. Preferred |
| 5. income | 15. issued | 24. cumulative preferred |
| 6. dividends | 16. treasury | 25. premium |
| 7. charter | 17. outstanding | 26. discount |
| 8. bylaws | 18. par value | 27. subscription |
| 9. stockholders | 19. Market | 28. preferred |
| 10. board of directors | | |

EXERCISES

Exercise 1

GENERAL JOURNAL

PAGE

DATE	DESCRIPTION	POST. REF.	DEBIT					CREDIT					
1 20--	Organization Expenses		9	0	0	0	00						1
2	Cash							9	0	0	0	00	2
3													3
4													4
5													5
6													6
7													7
8													8

Exercise 2

Total amount available for dividends.....	\$50,000
Dividend to preferred stock (5,000 × \$8)	<u>40,000</u>
Amount available for common stock	<u>\$10,000</u>
Dividends per share:	
Preferred stock	\$8
Common stock (\$10,000/10,000 shares)	\$1

PROBLEMS

Problem 5

GENERAL JOURNAL

PAGE

	DATE	DESCRIPTION	POST. REF.	DEBIT					CREDIT					
1	(a)	Cash		40	0	0	0	00						1
2		Common Stock							40	0	0	0	00	2
3														3
4	(b)	Cash		19	0	0	0	00						4
5		Discount on Common Stock		1	0	0	0	00						5
6		Common Stock							20	0	0	0	00	6
7														7
8	(c)	Cash		17	2	0	0	00						8
9		Common Stock							16	0	0	0	00	9
10		Paid-In Capital in Excess of Par—Common Stock							1	2	0	0	00	10
11														11
12	(d)	Cash		32	0	0	0	00						12
13		Preferred Stock							30	0	0	0	00	13
14		Paid-In Capital in Excess of Par—Preferred Stock							2	0	0	0	00	14
15														15
16	(e)	Cash		53	5	0	0	00						16
17		Discount on Preferred Stock		1	5	0	0	00						17
18		Preferred Stock							55	0	0	0	00	18
19														19
20	(f)	Cash		15	0	0	0	00						20
21		Common Stock							15	0	0	0	00	21
22														22
23	(g)	Cash		30	0	0	0	00						23
24		Common Stock							30	0	0	0	00	24
25														25
26	(h)	Cash		25	5	0	0	00						26
27		Common Stock							24	0	0	0	00	27
28		Paid-In Cap. in Excess of Stated Value—Com. Stock							1	5	0	0	00	28
29														29
30	(i)	Cash		51	5	0	0	00						30
31		Discount on Preferred Stock			5	0	0	00						31
32		Preferred Stock							52	0	0	0	00	32
33														33

Problem 5 (Concluded)

GENERAL JOURNAL

PAGE

1	DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT					1	
		(j)														
1		(j)	Land		50	0	0	0	00							1
2			Common Stock							50	0	0	0	00		2
3																3
4		(k)	Truck		41	5	0	0	00							4
5			Common Stock							40	0	0	0	00		5
6			Paid-In Capital in Excess of Par—Common Stock							1	5	0	0	00		6
7																7
8																8
9																9

Problem 6

GENERAL JOURNAL

PAGE

	DATE	DESCRIPTION	POST. REF.	DEBIT				CREDIT						
1	(a)	Common Stock Subscriptions Receivable/J. Adams		32	0	0	0	00					1	
2		Common Stock Subscribed							32	0	0	0	00	2
3													3	
4	(b)	Common Stock Subscriptions Receivable/M. Heath		29	0	0	0	00					4	
5		Discount on Common Stock		1	0	0	0	00					5	
6		Common Stock Subscribed							30	0	0	0	00	6
7													7	
8	(c)	Common Stock Subscriptions Receivable/R. Jones		27	0	0	0	00					8	
9		Common Stock Subscribed							26	6	0	0	00	9
10		Paid-In Capital in Excess of Par—Common Stock							4	0	0	0	00	10
11													11	
12	(d)	Cash		16	0	0	0	00					12	
13		Common Stock Subscriptions Receivable/J. Adams							16	0	0	0	00	13
14													14	
15	(e)	Cash		15	0	0	0	00					15	
16		Common Stock Subscriptions Receivable/M. Heath							15	0	0	0	00	16
17													17	
18	(f)	Preferred Stock Subscriptions Receivable/T. Lyman		66	0	0	0	00					18	
19		Preferred Stock Subscribed							65	0	0	0	00	19
20		Paid-In Capital in Excess of Par—Preferred Stock							1	0	0	0	00	20
21													21	
22	(g)	Preferred Stock Subscriptions Receivable/P. Smith		67	0	0	0	00					22	
23		Discount on Preferred Stock		5	0	0	0	00					23	
24		Preferred Stock Subscribed							67	5	0	0	00	24
25													25	
26	(h)	Cash		13	5	0	0	00					26	
27		Common Stock Subscriptions Receivable/R. Jones							13	5	0	0	00	27
28													28	
29	(i)	Cash		33	0	0	0	00					29	
30		Preferred Stock Subscriptions Receivable/T. Lyman							33	0	0	0	00	30
31													31	
32													32	
33													33	

Problem 6 (Concluded)

GENERAL JOURNAL

PAGE

DATE	DESCRIPTION	POST. REF.	DEBIT				CREDIT					
1	(j) Cash		16	0	0	0	0			1		
2	Common Stock Subscriptions Receivable/J. Adams							16	0	0	0	2
3	Common Stock Subscribed		32	0	0	0	0					3
4	Common Stock							32	0	0	0	4
5												5
6	(k) Cash		14	0	0	0	0					6
7	Common Stock Subscriptions Receivable/M. Heath							14	0	0	0	7
8	Common Stock Subscribed		30	0	0	0	0					8
9	Common Stock							30	0	0	0	9
10												10
11	(l) Cash		34	0	0	0	0					11
12	Preferred Stock Subscriptions Receivable/P. Smith							34	0	0	0	12
13												13
14	(m) Cash		13	5	0	0	0					14
15	Common Stock Subscriptions Receivable/R. Jones							13	5	0	0	15
16	Common Stock Subscribed		26	6	0	0	0					16
17	Common Stock							26	6	0	0	17
18												18
19	(n) Cash		33	0	0	0	0					19
20	Preferred Stock Subscriptions Receivable/T. Lyman							33	0	0	0	20
21	Preferred Stock Subscribed		65	0	0	0	0					21
22	Preferred Stock							65	0	0	0	22
23												23
24	(o) Cash		33	0	0	0	0					24
25	Preferred Stock Subscriptions Receivable/P. Smith							33	0	0	0	25
26	Preferred Stock Subscribed		67	5	0	0	0					26
27	Preferred Stock							67	5	0	0	27
28												28
29												29
30												30
31												31
32												32
33												33

Problem 7

GENERAL JOURNAL

PAGE

1	DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT						
1	20--	28	Organization Expenses		12	6	0	0	00							1
2			Cash							12	6	0	0	00		2
3																3
4	Apr.	12	Cash		81	2	0	0	00							4
5			Common Stock							80	0	0	0	00		5
6			Paid-In Capital in Excess of Par—Common Stock							1	2	0	0	00		6
7																7
8		25	Cash		44	6	0	0	00							8
9			Discount on Preferred Stock			4	0	0	00							9
10			Preferred Stock							45	0	0	0	00		10
11																11
12	May	1	Common Stock Subscriptions Receivable		32	5	0	0	00							12
13			Common Stock Subscribed							32	0	0	0	00		13
14			Paid-In Capital in Excess of Par—Common Stock								5	0	0	00		14
15																15
16	June	21	Cash		16	5	0	0	00							16
17			Common Stock Subscriptions Receivable							16	5	0	0	00		17
18																18
19	July	5	Common Treasury Stock		9	0	0	0	00							19
20			Cash							9	0	0	0	00		20
21																21
22		12	Cash		28	2	0	0	00							22
23			Common Stock							28	0	0	0	00		23
24			Paid-In Cap. in Excess of Stated Value—Com. Stock								2	0	0	00		24
25																25
26	Aug.	21	Cash		16	0	0	0	00							26
27			Common Stock Subscriptions Receivable							16	0	0	0	00		27
28			Common Stock Subscribed		32	0	0	0	00							28
29			Common Stock							32	0	0	0	00		29
30																30
31																31
32																32

Problem 7 (Concluded)

GENERAL JOURNAL

PAGE

1	DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT						
	20--															
1	Sept.	28	Cash		4	7	5	0	00							1
2			Common Treasury Stock							4	5	0	0	00		2
3			Paid-In Capital from Sale of Treasury Stock							2	5	0	00			3
4																4
5	Nov.	9	Land		75	6	0	0	00							5
6			Preferred Stock							75	0	0	0	00		6
7			Paid-In Capital in Excess of Par—Preferred Stock							6	0	0	00			7
8																8
9	Dec.	20	Cash		4	3	7	5	00							9
10			Paid-In Capital from Sale of Treasury Stock							1	2	5	00			10
11			Common Treasury Stock							4	5	0	0	00		11
12																12

Problem 8

Stockholders' Equity			
Paid-in capital:			
Preferred stock, 8%, \$10 par, 10,000 shares		\$100,000	
Preferred stock subscribed, 5,000 shares		50,000	\$150,000
Common stock, \$5 par, 50,000 shares		\$250,000	
Common stock subscribed, 20,000 shares		100,000	350,000
Paid-in capital in excess of par—preferred stock		\$ 18,000	
Paid-in capital from sale of treasury stock		9,000	27,000
Total paid-in capital			\$527,000
Retained earnings			62,000
			\$589,000
Less:			
Preferred stock subscriptions receivable		\$ 15,000	
Common stock subscriptions receivable		25,000	
Common treasury stock		20,000	60,000
Total stockholders' equity			\$529,000

CHAPTER 21

REVIEW QUESTIONS

- | | | |
|--|-----------------------------------|-------------------------------------|
| 1. Income Tax Expense | 9. Unrestricted retained earnings | 18. Stock Dividends Distributable |
| 2. Investment by the owners | Adequate cash balance | Common Stock |
| Earnings retained in the business | Declaration of dividend | 19. retained earnings |
| 3. net income | 10. date of declaration | paid-in capital |
| 4. net loss, closing the dividends account, and appropriation of retained earnings | 11. date of record | 20. stock split |
| 5. net income | 12. date of payment | 21. memorandum notation |
| 6. Retained Earnings | 13. cash dividends | 22. retained earnings appropriation |
| Income Summary | 14. common dividends payable | 23. statement of retained earnings |
| 7. dividend | 15. current liability | 24. unappropriated appropriated |
| 8. cash | 16. stock dividend | |
| stock | 17. Stock Dividends Distributable | |

EXERCISES

Exercise 1 1. and 2.

GENERAL JOURNAL

PAGE

1	DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT					
1	20-1	15	Income Tax Expense		25	0	0	0	00						1
2			Cash							25	0	0	0	00	2
3			First quarterly income tax payment												3
4															4
5	Dec.	31	Income Tax Expense		7	0	0	0	00						5
6			Income Tax Payable							7	0	0	0	00	6
7			Additional income tax expense												7
8															8
9															9
10															10
11															11
12															12
13															13
14															14
15															15

Exercise 2

GENERAL JOURNAL

PAGE

DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT						
1	20-- Dec.	31		Income Summary											1
2				Retained Earnings					72	1	0	0	00		2
3															3
4		31		Retained Earnings					23	0	0	0	00		4
5				Cash Dividends					23	0	0	0	00		5
6															6
7		31		Retained Earnings					38	0	0	0	00		7
8				Income Summary					38	0	0	0	00		8
9															9
10		31		Retained Earnings					15	0	0	0	00		10
11				Stock Dividends					15	0	0	0	00		11
12															12
13		31		Retained Earnings					20	0	0	0	00		13
14				Retained Earnings Appropriated for Bond Interest					20	0	0	0	00		14
15															15

1. The Income Summary credit balance represented net income for the year.
2. The Cash Dividends debit balance represented cash dividends for the year.
3. The Income Summary debit balance represented a net loss for the year.
4. The Stock Dividends debit balance represented stock dividends for the year.

Exercise 3

GENERAL JOURNAL

PAGE

DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT						
1	20-- Sept.	3		Cash Dividends					100	0	0	0	00		1
2				Common Dividends Payable					100	0	0	0	00		2
3															3
4	Oct.	5		Common Dividends Payable					100	0	0	0	00		4
5				Cash					100	0	0	0	00		5
6															6
7															7
8															8
9															9

Exercise 4

GENERAL JOURNAL										PAGE						
1	DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT						
	20--															
1	20--	1	Cash Dividends		16	0	0	0	00							1
2			Preferred Dividends Payable							16	0	0	0	00		2
3																3
4		20	Preferred Dividends Payable		16	0	0	0	00							4
5			Cash							16	0	0	0	00		5
6																6
7																7
8																8
9																9
10																10

Exercise 5

GENERAL JOURNAL										PAGE						
1	DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT						
	20--															
1	20--	3	Stock Dividends		168	0	0	0	00							1
2			Stock Dividends Distributable							120	0	0	0	00		2
3			Paid-In Capital in Excess of Par—Common Stock							48	0	0	0	00		3
4																4
5		24	Stock Dividends Distributable		120	0	0	0	00							5
6			Common Stock							120	0	0	0	00		6
7																7
8	July	1	Memo entry: Declared 2-for-1 stock split. Issued													8
9			184,000 shares of \$5 par common stock in exchange													9
10			for 92,000 shares of \$10 par common stock.													10
11																11

Exercise 6

Register Co.

Statement of Retained Earnings

For Year Ended December 31, 20-1

Retained earnings, January 1	\$ 80,000
Add income for the year	89,000
	\$169,000
Less cash dividends	50,000
Retained earnings, December 31	\$119,000

PROBLEMS

Problem 7

GENERAL JOURNAL

PAGE

1	DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT						
1	20-2	Mar. 20	Cash Dividends		15	9	0	0	00							1
2			Preferred Dividends Payable							2	4	0	0	00		2
3			Common Dividends Payable							13	5	0	0	00		3
4																4
5	Apr.	15	Preferred Dividends Payable		2	4	0	0	00							5
6			Common Dividends Payable		13	5	0	0	00							6
7			Cash							15	9	0	0	00		7
8																8
9	June	16	Retained Earnings		70	0	0	0	00							9
10			Retained Earnings Appropriated for Treatment Plant							70	0	0	0	00		10
11																11
12	Oct.	10	Cash Dividends		15	9	0	0	00							12
13			Preferred Dividends Payable							2	4	0	0	00		13
14			Common Dividends Payable							13	5	0	0	00		14
15																15
16	Nov.	10	Preferred Dividends Payable		2	4	0	0	00							16
17			Common Dividends Payable		13	5	0	0	00							17
18			Cash							15	9	0	0	00		18
19																19
20		17	Stock Dividends		108	0	0	0	00							20
21			Common Stock Dividends Distributable							45	0	0	0	00		21
22			Paid-In Capital in Excess of Par—Common Stock							63	0	0	0	00		22
23																23
24	Dec.	15	Common Stock Dividends Distributable		45	0	0	0	00							24
25			Common Stock							45	0	0	0	00		25
26																26
27		31	Income Summary		195	0	0	0	00							27
28			Retained Earnings							195	0	0	0	00		28
29																29
30		31	Retained Earnings		139	8	0	0	00							30
31			Cash Dividends							31	8	0	0	00		31
32			Stock Dividends							108	0	0	0	00		32
33																33

Problem 8

Lloyd Corporation
Statement of Retained Earnings
For Year Ended December 31, 20-2

Appropriated:			
Appropriated for plant expansion, January 1		\$ 60,000	
Current year appropriation (see below)		60,000	
Retained earnings appropriated, December 31			\$120,000
Unappropriated:			
Balance, January 1	\$700,000		
Add net income for year	300,000	\$1,000,000	
Less: Cash dividends, preferred stock	\$ 30,000		
Cash dividends, common stock	100,000		
Transfer to appropriated for plant expansion	60,000	190,000	
Retained earnings unappropriated, December 31			810,000
Total retained earnings, December 31			\$930,000

CHAPTER 22

REVIEW QUESTIONS

- | | | |
|------------------------|----------------|---------------------------|
| 1. bond | 7. Serial | 14. premium |
| 2. secured | 8. Convertible | 15. leverage |
| 3. mortgage | 9. Callable | 16. Bond Interest Payable |
| 4. unsecured debenture | 10. registered | 17. reversed |
| 5. principal | 11. coupon | 18. amortized |
| 6. Term | 12. market | 19. unamortized |
| | 13. discount | 20. bond sinking funds |

EXERCISES

Exercise 1

(a) Issuance of bonds

2	20-1 Apr.	1	Cash		400	0	0	0	00											2
3			Bonds Payable							400	0	0	0	00						3
4																				4
5																				5

(b) Interest payment

10	Sept.	30	Bond Interest Expense		18	0	0	0	00											10
11			Cash							18	0	0	0	00						11
12																				12
13																				13

(c) Year-end adjustment

18	Dec.	31	Bond Interest Expense		9	0	0	0	00											18
19			Bond Interest Payable							9	0	0	0	00						19
20																				20
21																				21

Exercise 2

1. (a) Issuance of bonds

1	20-1 Mar.	1	Cash		515	0	0	0	00							1
2			Bonds Payable							500	0	0	0	00		2
3			Premium on Bonds Payable							15	0	0	0	00		3
4																4

(b) Interest payment and premium amortization

9	Aug.	31	Bond Interest Expense		19	2	5	0	00							9
10			Premium on Bonds Payable			7	5	0	00							10
11			Cash							20	0	0	0	00		11
12			(\$15,000/20 periods = \$750/period)													12
13																13

(c) Year-end adjustment

25	Dec.	31	Bond Interest Expense		12	8	3	3	33							25
26			Premium on Bonds Payable			5	0	0	00							26
27			Bond Interest Payable							13	3	3	3	33		27
28																28

2. Bonds payable section of balance sheet

Long-term liabilities:		
Bonds payable	\$500,000	
Premium on bonds payable	13,750	\$513,750

Exercise 4

(a) Initial sinking fund deposit

1		Bond Sinking Fund		38	0	0	0	00					1
2		Cash							38	0	0	00	2
3													3
4													4
5													5

(b) First year's earnings

11		Bond Sinking Fund		3	0	5	0	00					11
12		Sinking Fund Earnings							3	0	5	00	12
13													13
14													14
15													15

(c) Redemption of bonds

21		Bonds Payable		400	0	0	0	00					21
22		Bond Sinking Fund							400	0	0	00	22
23													23
24													24
25													25

(d) Return of excess cash

31		Cash		10	5	0	0	00					31
32		Bond Sinking Fund							10	5	0	00	32
33													33
34													34
35													35

PROBLEMS**Problem 5****GENERAL JOURNAL**

PAGE

	DATE	DESCRIPTION	POST. REF.	DEBIT					CREDIT					
1	(a)	Cash		500	0	0	0	00						1
2		Bonds Payable							500	0	0	0	00	2
3														3
4	(b)	Bond Sinking Fund		35	0	0	0	00						4
5		Cash							35	0	0	0	00	5
6														6
7	(c)	Bond Sinking Fund		3	0	0	0	00						7
8		Sinking Fund Earnings							3	0	0	0	00	8
9														9
10	(d)	Bond Interest Expense		22	5	0	0	00						10
11		Cash							22	5	0	0	00	11
12														12
13	(e)	Adjusting Entry												13
14		Bond Interest Expense		11	2	5	0	00						14
15		Bond Interest Payable							11	2	5	0	00	15
16														16
17	(f)	Reversing Entry												17
18		Bond Interest Payable		11	2	5	0	00						18
19		Bond Interest Expense							11	2	5	0	00	19
20														20
21	(g)	Bond Interest Expense		22	5	0	0	00						21
22		Cash							22	5	0	0	00	22
23		(April 1)												23
24														24
25		Bond Interest Expense		22	5	0	0	00						25
26		Cash							22	5	0	0	00	26
27		(October 1)												27
28														28
29	(h)	Adjusting Entry												29
30		Bond Interest Expense		11	2	5	0	00						30
31		Bond Interest Payable							11	2	5	0	00	31
32														32
33	(i)	Bonds Payable		500	0	0	0	00						33
34		Bond Sinking Fund							500	0	0	0	00	34
35														35
36	(j)	Cash		1	8	5	0	00						36
37		Bond Sinking Fund							1	8	5	0	00	37
38														38

Problem 6

GENERAL JOURNAL

PAGE

DATE		DESCRIPTION	POST. REF.	DEBIT				CREDIT				
1	(a)	Cash		624	0	0	0					1
2		Premium on Bonds Payable						24	0	0	0	2
3		Bonds Payable						600	0	0	0	3
4												4
5	(b)	Bond Interest Expense		17	4	0	0					5
6		Premium on Bonds Payable		6	0	0	0					6
7		Cash						18	0	0	0	7
8												8
9	(c)	Adjusting Entry										9
10		Bond Interest Expense		11	6	0	0					10
11		Premium on Bonds Payable		4	0	0	0					11
12		Bond Interest Payable						12	0	0	0	12
13												13
14	(d)	Reversing Entry										14
15		Bond Interest Payable		12	0	0	0					15
16		Bond Interest Expense						11	6	0	0	16
17		Premium on Bonds Payable						4	0	0	0	17
18												18
19	(e)	Bond Interest Expense		17	4	0	0					19
20		Premium on Bonds Payable		6	0	0	0					20
21		Cash						18	0	0	0	21
22		(March 1)										22
23												23
24		Bond Interest Expense		17	4	0	0					24
25		Premium on Bonds Payable		6	0	0	0					25
26		Cash						18	0	0	0	26
27		(September 1)										27
28												28
29	(f)	Adjusting Entry										29
30		Bond Interest Expense		11	6	0	0					30
31		Premium on Bonds Payable		4	0	0	0					31
32		Bond Interest Payable						12	0	0	0	32
33												33
34	(g)	Reversing Entry										34
35		Bond Interest Payable		12	0	0	0					35
36		Bond Interest Expense						11	6	0	0	36
37		Premium on Bonds Payable						4	0	0	0	37

Problem 6 (Concluded)

GENERAL JOURNAL

PAGE

	DATE	DESCRIPTION	POST. REF.	DEBIT				CREDIT				
1	(h)	Bonds Payable		60	0	0	00					1
2		Premium on Bonds Payable		2	1	6	00					2
3		Loss on Bonds Redeemed		1	4	4	00					3
4		Cash						63	6	0	00	4
5												5

Problem 7

GENERAL JOURNAL

PAGE

	DATE	DESCRIPTION	POST. REF.	DEBIT				CREDIT				
1	(a)	Cash		396	0	0	00					1
2		Discount on Bonds Payable		4	0	0	00					2
3		Bonds Payable						400	0	0	00	3
4												4
5	(b)	Bond Interest Expense		16	2	0	00					5
6		Discount on Bonds Payable						2	0	0	00	6
7		Cash						16	0	0	00	7
8												8
9	(c)	Adjusting Entry										9
10		Bond Interest Expense		8	1	0	00					10
11		Discount on Bonds Payable						1	0	0	00	11
12		Bond Interest Payable						8	0	0	00	12
13												13
14	(d)	Reversing Entry										14
15		Bond Interest Payable		8	0	0	00					15
16		Discount on Bonds Payable		1	0	0	00					16
17		Bond Interest Expense						8	1	0	00	17
18												18
19	(e)	Bond Interest Expense		16	2	0	00					19
20		Discount on Bonds Payable						2	0	0	00	20
21		Cash						16	0	0	00	21
22		(April 1)										22
23												23
24		Bond Interest Expense		16	2	0	00					24
25		Discount on Bonds Payable						2	0	0	00	25
26		Cash						16	0	0	00	26
27		(October 1)										27

Problem 7 (Concluded)

GENERAL JOURNAL

PAGE

DATE		DESCRIPTION	POST. REF.	DEBIT				CREDIT				
1	(f)	Adjusting Entry										1
2		Bond Interest Expense		8	1	0	0					2
3		Discount on Bonds Payable							1	0	0	3
4		Bond Interest Payable							8	0	0	4
5												5
6	(g)	Reversing Entry										6
7		Bond Interest Payable		8	0	0	0					7
8		Discount on Bonds Payable			1	0	0					8
9		Bond Interest Expense							8	1	0	9
10												10
11	(h)	Bond Interest Expense		16	2	0	0					11
12		Discount on Bonds Payable							2	0	0	12
13		Cash							16	0	0	13
14		(April 1)										14
15												15
16		Bond Interest Expense		16	2	0	0					16
17		Discount on Bonds Payable							2	0	0	17
18		Cash							16	0	0	18
19		(October 1)										19
20												20
21	(i)	Adjusting Entry										21
22		Bond Interest Expense		8	1	0	0					22
23		Discount on Bonds Payable							1	0	0	23
24		Bond Interest Payable							8	0	0	24
25												25
26	(j)	Reversing Entry										26
27		Bond Interest Payable		8	0	0	0					27
28		Discount on Bonds Payable			1	0	0					28
29		Bond Interest Expense							8	1	0	29
30												30
31	(k)	Bonds Payable		80	0	0	0					31
32		Discount on Bonds Payable							5	6	0	32
33		Gain on Bonds Redeemed							1	8	4	33
34		Cash							77	6	0	34
35												35
36												36
37												37

CHAPTER 22 APPENDIX

Apx. Exercise 1

GENERAL JOURNAL

PAGE

	DATE	DESCRIPTION	POST. REF.	DEBIT				CREDIT						
1		Bond Interest Expense		4	2	7	2	00					1	
2		Premium on Bonds Payable		2	2	8	00						2	
3		Cash							4	5	0	0	00	3
4													4	

Apx. Exercise 2

GENERAL JOURNAL

PAGE

	DATE	DESCRIPTION	POST. REF.	DEBIT				CREDIT						
1		Bond Interest Expense		16	4	1	0	00					1	
2		Cash							15	7	5	0	00	2
3		Discount on Bonds Payable							6	6	0	00	3	
4													4	

Apx. Problem 3

GENERAL JOURNAL

PAGE

	DATE	DESCRIPTION	POST. REF.	DEBIT				CREDIT						
1	Sept. 1	Bond Interest Expense		28	7	5	6	00					1	
2		Premium on Bonds Payable		1	2	4	4	00					2	
3		Cash							30	0	0	0	00	3
4													4	
5		Adjusting Entry											5	
6	Dec. 31	Bond Interest Expense		19	1	3	3	00					6	
7		Premium on Bonds Payable		8	6	7	00						7	
8		Bond Interest Payable							20	0	0	0	00	8
9													9	
10		Reversing Entry											10	
11	Jan. 2	Bond Interest Payable		20	0	0	0	00					11	
12		Bond Interest Expense							19	1	3	3	00	12
13		Premium on Bonds Payable							8	6	7	00	13	
14													14	
15	Mar. 1	Bond Interest Expense		28	7	0	0	00					15	
16		Premium on Bonds Payable		1	3	0	0	00					16	
17		Cash							30	0	0	0	00	17
18													18	

Apx. Problem 4

GENERAL JOURNAL

PAGE

DATE		DESCRIPTION	POST. REF.	DEBIT				CREDIT					
1	Oct. 1	Bond Interest Expense		4	2	2	0	00					1
2		Discount on Bonds Payable							1	7	0	00	2
3		Cash							4	0	5	00	3
4													4
5		Adjusting Entry											5
6	Dec. 31	Bond Interest Expense		2	1	1	4	00					6
7		Discount on Bonds Payable								8	9	00	7
8		Bond Interest Payable							2	0	2	50	8
9													9
10		Reversing Entry											10
11	Jan. 2	Bond Interest Payable		2	0	2	5	00					11
12		Discount on Bonds Payable				8	9	00					12
13		Bond Interest Expense							2	1	1	40	13
14													14
15	Apr. 1	Bond Interest Expense		4	2	2	8	00					15
16		Discount on Bonds Payable								1	7	80	16
17		Cash							4	0	5	00	17
18													18

CHAPTER 23**REVIEW QUESTIONS**

1. net income
cash flows from operating activities
2. accrual
3. sources, uses
Or, where the cash came from and how it was used.
4. operating, investing, and financing
5. investing
6. financing
7. operating
8. operating
9. operating
10. cash and cash equivalents
11. income statement, statement of retained earnings, balance sheet for beginning and end of period, additional information on cash flows
12. direct, indirect
13. added to
14. added to
15. deducted from
16. deducted from
17. deducted from
18. added to
19. additions to net income, cash inflows from investing and financing activities
20. subtractions from net income, cash outflows from investing and financing activities
21. cash paid for interest, income taxes
22. noncash investing and financing activity
23. subtracted from net income to compute cash from operating activities
24. cash equivalents
25. operating

EXERCISES**Exercise 1**

1. financing activity
2. operating activity
3. financing activity
4. investing activity
5. operating activity
6. investing activity
7. investing activity
8. operating activity
9. financing activity
10. operating activity

Exercise 2

$\$87,500 - \$78,600 = \$8,900$ increase

Exercise 3

Accounts Receivable		Merchandise Inventory	
BB	164,500	BB	243,600
	9,800 (1)	(2)	7,200
EB	154,700	EB	250,800

Cash flows from operating activities:		Cash	
Cash flows from operating activities:		Operating Activities	
Net income	\$300,000	Net income	300,000
Decrease in accounts receivable	(1) 9,800	(1) 9,800	
Increase in merchandise inventory	(2) <u>(7,200)</u>	<u>7,200</u> (2)	
Net cash provided by operating activities	\$302,600	Cash from operating activities	302,600

BB: Beginning Balance

EB: Ending Balance

- (1) The decrease in accounts receivable increases cash from operating activities.
- (2) The increase in merchandise inventory decreases cash from operating activities.

Exercise 4

Accounts Receivable		Accounts Payable	
BB	164,500	145,000	BB
	9,800 (1)	11,000 (4)	
EB	154,700	156,000	EB

Merchandise Inventory		Income Tax Payable	
BB	243,600	15,000	BB
	16,800 (2)	(5) 5,000	
EB	226,800	10,000	EB

Prepaid Rent	
BB	24,000
(3)	2,000
EB	26,000

			Cash	
			Operating Activities	
Cash flows from operating activities:			Net income	200,000
Net income	\$200,000	←	Net income	200,000
Decrease in accounts receivable	(1) 9,800	←	(1) 9,800	
Decrease in merchandise inventory	(2) 16,800	←	(2) 16,800	
Increase in prepaid rent	(3) (2,000)	←		2,000 (3)
Increase in accounts payable	(4) 11,000	←	(4) 11,000	
Decrease in income tax payable	(5) (5,000)	←		5,000 (5)
Net cash provided by operating activities	\$230,600	←	Cash from operating activities	230,600

BB: Beginning Balance

EB: Ending Balance

Exercise 5

Cash flows from operating activities after adjusting for changes in current assets and current liabilities:	\$225,000	
Adjustments for noncash expenses:		
Depreciation expense	20,000	
Patent amortization	35,000	
Total cash provided by operating activities		\$280,000

Exercise 6

Cash flows from investing activities:		
Purchased land	\$(10,000)	
Total cash used for investing activities		\$(10,000)
Cash flows from financing activities:		
Issued note payable	\$ 50,000	
Paid mortgage	(5,000)	
Net cash provided by financing activities		45,000

Exercise 7

	<u>20-2</u>	<u>20-1</u>
Cash.....	\$87,500	\$78,600
Government notes	<u>10,000</u>	<u>12,000</u>
	<u>\$97,500</u>	<u>\$90,600</u>

Change in cash and cash equivalents = \$97,500 – \$90,600 = \$6,900 increase

Exercise 8

Kenlawn Nursery		
Statement of Cash Flows		
For Year Ended December 31, 20-2		
Cash flows from operating activities:		
Net income	\$18,000	
Add loss on sale of land	2,000	
Total cash provided by operating activities		\$20,000
Investing activities:		
Sold land		15,000
Net increase in cash		\$35,000
Cash, January 1, 20-2		10,000
Cash, December 31, 20-2		\$45,000

Exercise 9

Pinehurst Corporation		
Statement of Cash Flows (Partial)		
For Year Ended December 31, 20-2		
Cash flows from operating activities:		
Net income	\$46,300	
Adjustments for changes in current assets and liabilities related to operating activities:		
Increase in accounts receivable	(9,300)	
Increase in merchandise inventory	(9,600)	
Decrease in supplies	2,300	
Increase in prepaid insurance	(1,900)	
Decrease in accounts payable	(8,000)	
Decrease in accrued wages payable	(900)	
Increase in accrued payroll taxes	500	
Noncash expenses		
Depreciation expense	45,000	
Net cash provided by operating activities		\$64,400

Exercise 10

Schedule of Noncash Investing and Financing Activities:

Acquired furniture by issuing a five-year note payable..... \$20,000

Exercise 11

Interest expense in 20-2	\$8,200
Plus the decrease in accrued interest payable	<u>800</u>
Amount of cash paid for interest in 20-2	<u>\$9,000</u>

Cash		Accrued Interest Payable		Interest Expense	
			3,200	BB	
9,000*	(3)	(2)	800		(1) 8,200
			2,400	EB	

*Cash paid for interest in 20-2

Income tax expense in 20-2	\$30,300
Less the increase in income tax payable	<u>(4,200)</u>
Amount of cash paid for income taxes in 20-2	<u>\$26,100</u>

Cash		Income Tax Payable		Income Tax Expense	
			11,300	BB	
26,100*	(3)		4,200	(2)	(1) 30,300
			15,500	EB	

*Cash paid for income taxes in 20-2

BB: Beginning Balance

EE: Ending Balance

PROBLEMS**Problem 12****Roget's Bottling Company****Statement of Cash Flows (Partial)****For Year Ended December 31, 20-2**

Cash flows from operating activities:		
Net income	\$150,000	
Adjustments for changes in current assets and liabilities related to operating activities:		
Decrease in accounts receivable	5,000	
Decrease in merchandise inventory	20,000	
Increase in accounts payable	10,000	
Total cash provided by operating activities		\$185,000

Problem 13
1. and 2.

Moles Company
Statement of Cash Flows
For Year Ended December 31, 20-2

Cash flows from operating activities:		
Net income	\$ 80,000	
Adjustments for changes in current assets and liabilities related to operating activities:		
Decrease in accounts receivable	20,000	
Decrease in merchandise inventory	20,000	
Decrease in accounts payable	(60,000)	
Net cash provided by operating activities		\$ 60,000
Cash flows from investing activities:		
Sold land	\$ 10,000	
Purchased building	(140,000)	
Purchased equipment	(90,000)	
Net cash used by investing activities		(220,000)
Cash flows from financing activities:		
Issued common stock	\$ 60,000	
Paid cash dividends	(20,000)	
Net cash provided by financing activities		40,000
Net increase (decrease) in cash and cash equivalents		\$(120,000)
Cash and cash equivalents, January 1, 20-2		200,000
Cash and cash equivalents, December 31, 20-2		\$ 80,000
Schedule of Noncash Investing and Financing Activities:		
Acquired equipment by issuing a note payable		\$ 10,000
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for income taxes		\$ 43,000

Problem 14

1. and 2.

**T Accounts for Indirect Method Statement of Cash Flows
Eubanks Corporation**

Accrued Interest Receivable			
BB	175		
		100	(2)
EB	75		

Accounts Receivable			
BB	126,500		
(3)	13,723		
EB	140,223		

Merchandise Inventory			
BB	168,780		
		7,360	(4)
EB	161,420		

Supplies and Prepayments			
BB	6,840		
(5)	3,198		
EB	10,038		

Store Equipment			
BB	97,000		
(13)	23,000	50,000	(10)
EB	70,000		

Accumulated Depreciation— Store Equipment			
		35,000	BB
(10)	20,000	10,000	(11)
		25,000	EB

Delivery Equipment			
BB	80,000		
(14)	32,500		
EB	112,500		

Accumulated Depreciation— Delivery Equipment			
		20,000	BB
		11,250	(11)
		31,250	EB

Office Equipment			
BB	84,975		
(15)	10,025		
(18)	10,000		
EB	105,000		

Accumulated Depreciation— Office Equipment			
		15,250	BB
		4,750	(11)
		20,000	EB

Notes Payable			
		29,500	BB
(19)	4,300	10,000	(18)
		35,200	EB

(plug at end)

Accounts Payable			
		96,864	BB
(6)	31,576		
		65,288	EB

Income Tax Payable			
		20,000	BB
(7)	4,000		
		16,000	EB

Accrued and Withheld Payroll Taxes			
		3,800	BB
(8)	1,325		
		2,475	EB

Accrued Interest Payable			
		200	BB
		10	(9)
		210	EB

Bonds Payable			
		50,000	BB
(12)	50,000		
		—	EB

Common Stock			
		215,000	BB
		35,000	(17)
		250,000	EB

Paid-In Capital in Excess of Par— Common Stock			
		77,500	BB
		22,500	(17)
		100,000	EB

Retained Earnings			
		59,156	BB
(16)	32,000	118,124	(1)
		145,280	EB

Major entries of interest:

Cash	(10)	40,000	
Accumulated Depreciation—Store Equipment	(10)	20,000	
Gain on Sale of Store Equipment	(10)		10,000
Store Equipment	(10)		50,000
Depreciation Expense	(11)	26,000	
Accumulated Depreciation—Store Equipment	(11)		10,000
Accumulated Depreciation—Delivery Equipment	(11)		11,250
Accumulated Depreciation—Office Equipment	(11)		4,750
Bonds Payable	(12)	50,000	
Loss on Retirement of Bond	(12)	3,000	
Cash	(12)		53,000

Cash and cash equivalents	20-2	20-1
Cash	\$89,947	\$53,000
Government notes	<u>1,500</u>	<u>5,000</u>
Cash and cash equivalents	<u>\$91,447</u>	<u>\$58,000</u>
Net increase in cash and cash equivalents	\$33,447	(20)

BB: Beginning Balance

EB: Ending Balance

Problem 14 (Concluded)

Eubanks Corporation			
Statement of Cash Flows			
For Year Ended December 31, 20-2			
Cash flows from operating activities:			
Net income	\$118,124	(1)	
Adjustments for changes in current assets and liabilities related to operating activities:			
Decrease in accrued interest receivable	100	(2)	
Increase in accounts receivable	(13,723)	(3)	
Decrease in merchandise inventory	7,360	(4)	
Increase in supplies and prepayments	(3,198)	(5)	
Decrease in accounts payable	(31,576)	(6)	
Decrease in income tax payable	(4,000)	(7)	
Decrease in accrued and withheld payroll taxes	(1,325)	(8)	
Increase in accrued interest payable	10	(9)	
Noncash expenses and other adjustments:			
Gain on sale of store equipment	(10,000)	(10)	
Depreciation expense	26,000	(11)	
Loss on retirement of bonds payable	3,000	(12)	
Net cash provided by operating activities			\$ 90,772
Cash flows from investing activities:			
Sold store equipment	\$ 40,000	(10)	
Purchased store equipment	(23,000)	(13)	
Purchased delivery equipment	(32,500)	(14)	
Purchased office equipment	(10,025)	(15)	
Net cash used by investing activities			(25,525)
Cash flows from financing activities:			
Retired bonds payable	\$ (53,000)	(12)	
Paid cash dividends	(32,000)	(16)	
Issued common stock	57,500	(17)	
Payment on short-term note payable	(4,300)	(19)	
Net cash used by financing activities			(31,800)
Net increase (decrease) in cash and cash equivalents		(20)	\$ 33,447
Cash and cash equivalents, January 1, 20-2			58,000
Cash and cash equivalents, December 31, 20-2			\$ 91,447
Schedule of Noncash Investing and Financing Activities:			
Purchased office equipment by issuing long-term note payable		(18)	\$ 10,000
Supplemental Disclosures of Cash Flow Information:			
Cash paid during the year for:			
Interest		(21)	\$ 2,490
Income taxes		(21)	64,000

To compute cash paid for interest and taxes, prepare the following entries:

Interest Expense (see income statement)	2,500		
Accrued Interest Payable (increase in Accrued Interest Payable)			10
Cash (plug)		(21)	2,490
Income Tax Expense (see income statement)	60,000		
Income Tax Payable (decrease in Income Tax Payable)	4,000		
Cash (plug)		(21)	64,000

CHAPTER 23 APPENDIX

REVIEW QUESTIONS

1. deducted from
2. added to
3. added to
4. deducted from
5. added to
6. deducted from

EXERCISES

Apx. Exercise 1

Net sales	\$550,000
Add the decrease in accounts receivable	<u>9,800</u>
Cash received from customers.....	<u><u>\$559,800</u></u>

	Cash	Accounts Receivable	Sales				
		BB 164,500					
(2) 559,800		(1) 550,000	550,000 (1)				
		559,800 (2)					
		EB 154,700					
BB: Beginning Balance EB: Ending Balance							
(1)	Entry for sales assuming that all were made on account.	(1)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Accounts Receivable.....</td> <td style="width: 50%; text-align: right;">550,000</td> </tr> <tr> <td style="text-align: right;">Sales.....</td> <td style="text-align: right;">550,000</td> </tr> </table>	Accounts Receivable.....	550,000	Sales.....	550,000
Accounts Receivable.....	550,000						
Sales.....	550,000						
(2)	Credit that must be made to accounts receivable to balance the account. This represents the amount of cash collected from customers.	(2)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Cash.....</td> <td style="width: 50%; text-align: right;">559,800</td> </tr> <tr> <td style="text-align: right;">Accounts Receivable.....</td> <td style="text-align: right;">559,800</td> </tr> </table>	Cash.....	559,800	Accounts Receivable.....	559,800
Cash.....	559,800						
Accounts Receivable.....	559,800						

Apx. Exercise 2

Cost of goods sold	\$330,000
Less decrease in merchandise inventory	<u>16,800</u>
Cost of goods purchased.....	\$313,200
Less increase in accounts payable	<u>11,000</u>
Cash paid to suppliers for merchandise, 20-2.....	<u>\$302,200</u>

Cash		Merchandise Inventory		Accounts Payable		Cost of Goods Sold	
		BB 243,600			145,000 BB		
302,200 (3)	(2) 313,200	330,000 (1)	(3) 302,200	313,200 (2)	(1) 330,000		
	EB 226,800			156,000 EB			
BB: Beginning Balance EB: Ending Balance							
(1)	Entry to record cost of goods sold.	(1)	Cost of Goods Sold	330,000			
			Merchandise Inventory		330,000		
(2)	Debit required to balance the merchandise inventory account. This represents purchases for the period. Assume that all purchases were made on account.	(2)	Merchandise Inventory	313,200			
			Accounts Payable		313,200		
(3)	Debit required to balance accounts payable account. This represents the amount of cash paid for merchandise.	(3)	Accounts Payable	302,200			
			Cash		302,200		

Apx. Exercise 3

(a) Net sales	\$625,000
Less increase in accounts receivable	<u>(9,300)</u>
Cash received from customers.....	<u>\$615,700</u>
(b) Cost of goods sold	\$330,000
Add increase in merchandise inventory	<u>9,600</u>
Cost of goods purchased during 20-2	\$339,600
Add reduction in accounts payable.....	<u>8,000</u>
Cash paid to suppliers of merchandise	<u>\$347,600</u>
(c) Wages expense	\$125,500
Add reduction in accrued wages payable	<u>900</u>
Cash paid to employees	<u>\$126,400</u>
(d) No cash is paid for depreciation.	
(e) Insurance expense.....	\$22,500
Add increase in prepaid insurance.....	<u>1,900</u>
Cash paid for insurance	<u>\$24,400</u>
(f) Supplies expense	\$45,500
Less decrease in supplies.....	<u>(2,300)</u>
Cash paid for supplies	<u>\$43,200</u>
(g) Payroll tax expense.....	\$10,200
Less increase in accrued payroll taxes.....	<u>(500)</u>
Cash paid for payroll taxes	<u>\$ 9,700</u>

Apx. Exercise 4

Interest expense.....	\$18,200
Less increase in accrued interest payable	<u>(200)</u>
Cash paid for interest	<u>\$18,000</u>
Interest revenue.....	\$10,300
Plus decrease in accrued interest receivable	<u>800</u>
Cash received from interest	<u>\$11,100</u>

PROBLEMS**Apx. Problem 5**

1.

Roget's Bottling Company
Schedule for the Calculation of Cash Generated from Operating Activities
For Year Ended December 31, 20-2

Income Statement	Additions	Deductions	Cash Flows	
Net sales	\$800,000	(1) \$5,000	\$805,000	Cash received from customers
Cost of goods sold	<u>450,000</u>	(2) \$(20,000) (3) (10,000)	<u>420,000</u>	Cash paid for
Gross profit	\$350,000		\$385,000	
Operating expenses	<u>119,000</u>		<u>119,000</u>	Cash paid for operating expenses
Operating income	\$231,000		\$266,000	
Income tax expense	<u>81,000</u>		<u>81,000</u>	Cash paid for income
Net income	<u>\$150,000</u>		<u>\$185,000</u>	Cash generated from operating activities

- The decrease in accounts receivable increased the amount of cash received from sales. Add this \$5,000 increase to sales to compute cash received from customers.
- The \$20,000 decrease in merchandise inventory indicates that Roget's purchased less inventory than it sold. Subtract this decrease from cost of goods sold to compute the cost of goods purchased for the year (\$450,000 - \$20,000 = \$430,000).
- The \$10,000 increase in accounts payable means that Roget's did not pay for all of the purchases made in 20-2. Subtract the increase in the amount owed to suppliers from the cost of goods purchased to compute cash paid for merchandise (\$430,000 - \$10,000 = \$420,000).

2.

Roget's Bottling Company
Statement of Cash Flows (Partial)
For Year Ended December 31, 20-2

Cash flows from operating activities:		
Cash received from customers		\$ 805,000
Cash paid for merchandise	\$(420,000)	
Cash paid for operating expenses	(119,000)	
Income taxes paid	(81,000)	
Total cash disbursed for operating activities		(620,000)
Net cash provided by operating activities		<u>\$ 185,000</u>

Apx. Problem 6

1.

Moles Company
 Schedule for the Calculation of Cash Generated from Operating Activities
 For Year Ended December 31, 20-2

Income Statement	Additions	Deductions	Cash Flows	
Net sales \$1,000,000	(1) \$20,000		\$1,020,000	Cash received from customers
Cost of goods sold <u>700,000</u>	(3) 60,000	(2) \$(20,000)	<u>740,000</u>	Cash paid for
Gross profit \$ 300,000			\$ 280,000	
Operating expenses <u>177,000</u>			<u>177,000</u>	Cash paid for operating expenses
Operating income \$ 123,000			\$ 103,000	
Income tax expense <u>43,000</u>			<u>43,000</u>	Cash paid for income
Net income <u>\$ 80,000</u>			<u>\$ 60,000</u>	Cash generated from operating activities

1. Add the reduction in receivables to net sales to compute cash received from customers.
2. The \$20,000 reduction in merchandise inventory is subtracted from cost of goods sold to compute the cost of goods purchased ($\$700,000 - \$20,000 = \$680,000$).
3. Reducing the amount owed to suppliers (accounts payable) required the expenditure of additional cash. By adding the reduction in accounts payable to the cost of goods purchased, cash paid for merchandise is determined ($\$680,000 + \$60,000 = \$740,000$).

Apx. Problem 6 (Concluded)

2.

Moles Company
Statement of Cash Flows
For Year Ended December 31, 20-2

Cash flows from operating activities:		
Cash received from customers		\$1,020,000
Cash paid for merchandise	\$ (740,000)	
Cash paid for operating expenses	(177,000)	
Cash paid for income taxes	(43,000)	
Total cash disbursed for operating activities		(960,000)
Net cash provided by operating activities		\$ 60,000
Cash flows from investing activities:		
Sold land	\$ 10,000	
Purchased building	(140,000)	
Purchased equipment	(90,000)	
Net cash used by investing activities		(220,000)
Cash flows from financing activities:		
Issued common stock	\$ 60,000	
Paid cash dividends	(20,000)	
Net cash provided by financing activities		40,000
Net increase (decrease) in cash and cash equivalents		\$ (120,000)
Cash and cash equivalents, January 1, 20-2		200,000
Cash and cash equivalents, December 31, 20-2		\$ 80,000
Schedule of Noncash Investing and Financing Activities:		
Acquired equipment by issuing a note payable		\$ 10,000

Apx. Problem 7

1.

Eubanks Corporation
 Schedule for the Calculation of Cash Generated from Operating Activities
 For Year Ended December 31, 20-2

Income Statement		Additions	Deductions	Cash Flows	
Net sales	\$1,150,250		(1) \$(13,723)	\$1,136,527	Cash received from customers
Cost of goods sold	<u>675,250</u>	(3) \$31,576	(2) (7,360)	<u>699,466</u>	Cash paid for merchandise
Gross profit	\$ 475,000			\$ 437,061	
Operating expenses	<u>301,876</u>	(4) 3,198			Cash paid for operating expenses
		(6) 1,325	(5) (26,000)	<u>280,399</u>	
Operating income	\$ 173,124			\$ 156,662	
Interest revenue	500	(7) 100		600	Interest received
Interest expense	2,500		(8) (10)	2,490	Interest paid
Gain on sale of store equipment	10,000		(9) (10,000)		Gain not related to operating activities
Loss on the retirement of bond	(3,000)	(10) 3,000			Loss not from operating activities
Income tax expense	<u>60,000</u>	(11) 4,000		<u>64,000</u>	Cash paid for income taxes
Net income	<u>\$ 118,124</u>			<u>\$ 90,772</u>	Cash generated from operating activities

1. The increase in receivables reduced the amount of cash received from sales. This \$13,723 increase is subtracted from net sales to compute cash received from customers.
2. The \$7,360 decrease in merchandise inventory indicates that Eubanks purchased less inventory than it sold. This decrease must be subtracted from cost of goods sold to compute purchases for the year ($\$675,250 - \$7,360 = \$667,890$).
3. By accelerating payments to suppliers of merchandise inventory, the amount of cash paid to suppliers this period was increased. The \$31,576 decrease in the amount owed to suppliers is added to the cost of goods purchased to compute cash paid for merchandise ($\$667,890 + \$31,576 = \$699,466$).
4. The increase in supplies and prepayments indicates that Eubanks not only replenished these items for the amounts used during the period, but also increased the supplies on hand and prepayments. Thus, the cash paid for these items is greater than the expense recognized for the period. The increase of \$3,198 must be added in the calculation of cash paid for operating expenses.
5. Depreciation is an operating expense but requires no cash outflow. The \$26,000 in depreciation expense is subtracted from operating expenses to compute cash paid for operating expenses.
6. By making payments to the government and reducing accrued and withheld payroll taxes, the amount of cash paid to the government this period was increased. This increase of \$1,325 is added to operating expenses to compute cash paid for operating expenses.
7. The \$100 reduction in accrued interest receivable is added to interest revenue to determine the amount of interest received.
8. The \$10 increase in accrued interest payable is deducted from interest expense to compute the amount of interest paid.
9. The gain on the sale of store equipment is reduced to zero. It is not related to operating activities.
10. The loss on the retirement of the bond is reduced to zero. It is not related to operating activities.
11. The reduction in income tax payable is added to income tax expense to compute cash paid for income taxes.

Apx. Problem 7 (Concluded)

2.

Eubanks Corporation
Statement of Cash Flows
For Year Ended December 31, 20-2

Cash flows from operating activities:		
Cash received from customers	\$1,136,527	
Interest received	600	
Cash provided by operating activities		\$1,137,127
Cash paid for merchandise	\$ (699,466)	
Cash paid for interest	(2,490)	
Cash paid for operating expenses	(280,399)	
Cash paid for income taxes	(64,000)	
Cash disbursed for operating activities		(1,046,355)
Net cash provided by operating activities		\$ 90,772
Cash flows from investing activities:		
Sold store equipment	\$ 40,000	
Purchased store equipment	(23,000)	
Purchased delivery equipment	(32,500)	
Purchased office equipment	(10,025)	
Net cash used by investing activities		(25,525)
Cash flows from financing activities:		
Retired bonds payable	\$ (53,000)	
Paid cash dividends	(32,000)	
Issued common stock	57,500	
Payment on short-term note payable	(4,300)	
Net cash used by financing activities		(31,800)
Net increase (decrease) in cash and cash equivalents		\$ 33,447
Cash and cash equivalents, January 1, 20-2		58,000
Cash and cash equivalents, December 31, 20-2		\$ 91,447
Schedule of Noncash Investing and Financing Activities:		
Purchased office equipment by issuing long-term note payable		\$ 10,000

CHAPTER 24

REVIEW QUESTIONS

- | | | |
|--------------------|-----------------------------|-----------------------------|
| 1. liquidity | 10. acid-test | 16. leverage |
| 2. activity | current liabilities | 17. interest expense |
| 3. profitability | 11. net sales | 18. book value per share of |
| 4. Leverage | 12. cost of goods sold | common stock |
| 5. Market | 13. net income | |
| 6. horizontal | 14. Return on common | |
| 7. Vertical | stockholders' equity | |
| 8. working capital | 15. number of common shares | |
| 9. current | | |

EXERCISES

Exercise 1

	Current	–	Current	=	Working
	Assets		Liabilities		Capital
20-2	\$260,718	–	\$116,750	=	\$143,968
20-1	\$240,775	–	\$127,900	=	\$112,875

Exercise 2

	Current	÷	Current	=	Current
	Assets		Liabilities		Ratio
20-2	\$260,718	÷	\$116,750	=	2.23 to 1
20-1	\$240,775	÷	\$127,900	=	1.88 to 1

Exercise 3

	Quick	÷	Current	=	Quick				
	Assets		Liabilities		Ratio		Quick assets:		
20-2	\$144,646	÷	\$116,750	=	1.24 to 1		Cash	\$ 49,646	\$ 41,904
20-1	\$121,404	÷	\$127,900	=	0.95 to 1		Government notes	20,000	15,000
							Accounts receivable (net)	<u>75,000</u>	<u>64,500</u>
							Total quick assets	<u>\$144,646</u>	<u>\$121,404</u>

Exercise 4

Accounts Receivable					20-2
Turnover	$\frac{\text{Net Sales on Account}}{\text{Average Accounts Receivable}}$	=			\$1,399,352
					\$69,750
					20.06
Average Accounts	$\frac{\text{Beginning Accounts Rec.} + \text{Ending Accounts Rec.}}{2}$	=			$\frac{\$64,500 + \$75,000}{2}$
Receivable					\$69,750
Average Collection					$\frac{365}{20.06}$
Period	$\frac{365}{\text{Accounts Receivable Turnover}}$	=			18.2 days

Exercise 5

Merchandise Inventory Turnover	$\frac{\text{Cost of Goods Sold}}{\text{Average Merchandise Inventory}}$	=	$\begin{array}{r} 20-2 \\ \hline \$757,667 \\ \hline \$106,400 \\ 7.12 \end{array}$
Average Merchandise Inventory	$\frac{\text{Beginning Merchandise Inv.} + \text{Ending Merchandise Inv.}}{2}$	=	$\frac{\$106,150 + \$106,650}{2}$
			\$106,400
Average Number of Days to Sell Inventory	$\frac{365}{\text{Merchandise Inventory Turnover}}$	=	$\frac{365}{7.12}$
			51.26 days

Exercise 6

Asset Turnover	$\frac{\text{Net Sales}}{\text{Average Assets}}$	=	$\begin{array}{r} 20-2 \\ \hline \$1,399,352 \\ \hline \$1,057,996.50 \\ 1.32 \text{ to } 1 \end{array}$
Average Assets	$\frac{\text{Beginning Assets} + \text{Ending Assets}}{2}$	=	$\frac{\$1,030,275 + \$1,085,718}{2}$
			\$1,057,996.50

Exercise 7

Profit Margin Ratio	$\frac{\text{Net Income}}{\text{Net Sales}}$	=	$\begin{array}{r} 20-2 \\ \hline \$131,093 \\ \hline \$1,399,352 \\ 9.37\% \end{array}$
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Exercise 8

Return on Assets	$\frac{\text{Net Income}}{\text{Average Assets}}$	=	$\frac{20-2}{\$1,057,996.50} = 12.39\%$
Average Assets	$\frac{\text{Beginning Assets} + \text{Ending Assets}}{2}$	=	$\frac{\$1,030,275 + \$1,085,718}{2} = \$1,057,996.50$

Exercise 9

Return on Common Stockholders' Equity	$\frac{\text{Net Income Available to Common Stockholders}}{\text{Average Common Stockholders' Equity}}$	=	$\frac{20-2}{\$723,171.50} = 18.13\%$
Average Common Stockholders' Equity	$\frac{\text{Beginning Stockholders' Equity} + \text{Ending Stockholders' Equity}}{2}$	=	$\frac{\$677,375 + \$768,968}{2} = \$723,171.50$

Exercise 10

Earnings per Share of Common Stock	$\frac{\text{Net Income Available to Common Stockholders}}{\text{Average Common Shares Outstanding}}$	=	$\frac{20-2}{22,500} = \$5.83 \text{ per share}$
Average Common Shares Outstanding	$\frac{\text{Beginning Shares of Common Stock} + \text{Ending Shares of Common Stock}}{2}$	=	$\frac{20,000 + 25,000}{2} = 22,500$

Exercise 11

Debt-to-Equity Ratio

20-2

Total Liabilities	÷	Total Stockholders' Equity	=	Ratio of Liabilities to Stockholders' Equity
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\$316,750	÷	\$768,968	=	0.41 to 1
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Exercise 12

Assets-to-Equity Ratio

20-2

Total Assets	÷	Total Stockholders' Equity	=	
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\$1,085,718	÷	\$768,968	=	1.41 to 1
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Exercise 13

Times Interest Earned

20-2

Net income		\$131,093		
Income tax		10,365		
Interest expense		<u>22,250</u>		
Income before taxes and interest		<u>\$163,708</u>		

$$\$163,708 \div \$22,250 = 7.36 \text{ times}$$
Exercise 14

Return on Assets with Two Components

Profit margin ratio	×	Asset turnover		
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Net income	×	Net sales		
Net sales		Avg. assets		

\$131,093	×	\$1,399,352		
\$1,399,352		\$1,057,996.50		
		(\$1,030,275 + \$1,085,718)/2		

9.37%	×	1.32	=	12.37%
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Exercise 15

Return on Equity with Three Components

Profit margin ratio	×	Asset turnover	×	Leverage	
$\frac{\text{Net income}}{\text{Net sales}}$	×	$\frac{\text{Net sales}}{\text{Avg. assets}}$	×	$\frac{\text{Avg. assets}}{\text{Avg. stockholders' equity}}$	
$\frac{\$131,093}{\$1,399,352}$	×	$\frac{\$1,399,352}{\$1,057,996.50}$ <small>$(\\$1,030,275 + \\$1,085,718)/2$</small>	×	$\frac{\$1,057,996.50}{\$723,171.50}$ <small>$(\\$677,375 + \\$768,968)/2$</small>	
9.37%	×	1.32	×	1.46	= 18.06%

Exercise 16

Price-Earnings Ratio (PE)

20-2

Market Price of Common Stock	÷	Earnings per Share of Common Stock	=	Price-Earnings Ratio
\$116/share	÷	\$5.83	=	19.90

Exercise 17

Book Value per Share of Common Stock

20-2

Total Common Stockholders' Equity	÷	Number of Common Shares Outstanding	=	Book Value per Share of Common Stock
\$768,968	÷	25,000	=	\$30.76

PROBLEMS**Problem 18****Ala Moana Company****Comparative Income Statement****For Years Ended December 31, 20-2 and 20-1**

	20-2	20-1	INCREASE (DECREASE)	PERCENT
Net sales	\$971,772	\$908,778	\$ 62,994	6.9
Cost of goods sold	547,690	517,968	29,722	5.7
Gross profit	\$424,082	\$390,810	\$ 33,272	8.5
Operating expenses	396,675	347,890	48,785	14.0
Operating income	\$ 27,407	\$ 42,920	\$(15,513)	-36.1
Other revenues and expenses	(1,000)	(2,000)	(1,000)	-50.0
Income before income tax	\$ 26,407	\$ 40,920	\$(14,513)	-35.5
Income tax expense	7,922	13,504	(5,582)	-41.3
Net income	\$ 18,485	\$ 27,416	\$ (8,931)	-32.6

Problem 19**Ala Moana Company****Comparative Income Statement****For Years Ended December 31, 20-2 and 20-1**

	20-2	PERCENT	20-1	PERCENT
Net sales	\$971,772	100.0	\$908,778	100.0
Cost of goods sold	547,690	56.4	517,968	57.0
Gross profit	\$424,082	43.6	\$390,810	43.0
Operating expenses	396,675	40.8	347,890	38.3
Operating income	\$ 27,407	2.8	\$ 42,920	4.7
Other revenue and expenses	(1,000)	0.1	(2,000)	0.2
Income before income tax	\$ 26,407	2.7	\$ 40,920	4.5
Income tax expense	7,922	0.8	13,504	1.5
Net income	\$ 18,485	1.9	\$ 27,416	3.0

Problem 20

Ala Moana Company

Comparative Balance Sheet

December 31, 20-2 and 20-1

	20-2	20-1	INCREASE (DECREASE)	PERCENT
Assets				
Current assets	\$179,318	\$167,204	\$ 12,114	7.2
Property, plant, and equipment:				
Land	\$130,000	\$130,000	\$ 0	0.0
Building (net)	400,000	450,000	(50,000)	-11.1
Delivery equipment (net)	30,000	39,000	(9,000)	-23.1
Office equipment (net)	47,800	51,600	(3,800)	-7.4
Patents	8,000	9,000	(1,000)	-11.1
Total property, plant, and equipment	\$615,800	\$679,600	\$(63,800)	-9.4
Total assets	\$795,118	\$846,804	\$(51,686)	-6.1
Liabilities				
Current liabilities	\$ 86,675	\$121,165	\$(34,490)	-28.5
Long-term liabilities:				
Bonds payable	300,000	350,000	(50,000)	-14.3
Total liabilities	\$386,675	\$471,165	\$(84,490)	-17.9
Stockholders' Equity				
Common stock	\$215,000	\$200,000	\$ 15,000	7.5
Paid-in capital in excess of par	125,000	120,000	5,000	4.2
Retained earnings	68,443	55,639	12,804	23.0
Total stockholders' equity	\$408,443	\$375,639	\$ 32,804	8.7
Total liabilities and stockholders' equity	\$795,118	\$846,804	\$(51,686)	-6.1

Problem 21

Ala Moana Company
Comparative Balance Sheet
December 31, 20-2 and 20-1

	20-2	PERCENT*	20-1	PERCENT*
Assets				
Current assets	\$179,318	22.6	\$167,204	19.7
Property, plant, and equipment:				
Land	\$130,000	16.3	\$130,000	15.4
Building (net)	400,000	50.3	450,000	53.1
Delivery equipment (net)	30,000	3.8	39,000	4.6
Office equipment (net)	47,800	6.0	51,600	6.1
Patents	8,000	1.0	9,000	1.1
Total property, plant, and equip.	\$615,800	77.4	\$679,600	80.3
Total assets	\$795,118	100.0	\$846,804	100.0
Liabilities				
Current liabilities	\$ 86,675	10.9	\$121,165	14.3
Long-term liabilities:				
Bonds payable	300,000	37.7	350,000	41.3
Total liabilities	\$386,675	48.6	\$471,165	55.6
Stockholders' Equity				
Common stock	\$215,000	27.0	\$200,000	23.6
Paid-in capital in excess of par	125,000	15.7	120,000	14.2
Retained earnings	68,443	8.6	55,639	6.6
Total stockholders' equity	\$408,443	51.4	\$375,639	44.4
Total liabilities and stockholders' equity	\$795,118	100.0	\$846,804	100.0

*Percentage may vary due to rounding.

CHAPTER 25

REVIEW QUESTIONS

1. planning control performance evaluation
2. departmental gross profit
3. gross profit percentage
4. gross profit
5. departmental operating income
6. indirect
7. direct expenses
8. indirect expenses
9. total net sales
10. relative square feet
11. experience with accounts written off
12. departmental direct operating margin

EXERCISES

Exercise 1

Pittsfield Plumbing and Hardware Supplies

Income Statement (Condensed)

For the Year Ended December 31, 20--

	Plumbing Supplies	Hardware	Total
Net sales	\$100,550	\$250,000	\$350,550
Cost of goods sold	70,480	155,870	226,350
Gross profit	\$ 30,070	\$ 94,130	\$124,200
Operating expenses			95,700
Operating income			\$ 28,500

Gross profit percentage:

$$\text{Plumbing supplies} = \$30,070 / \$100,550 = 30\%$$

$$\text{Hardware} = \$94,130 / \$250,000 = 38\%$$

Exercise 2

Allocation of Expenses to Departments

Expense	Department	Direct	Indirect	Total
1. Store clerk wages	Floor	\$54,788	\$26,733	\$81,521
	Wall	22,600	23,707	46,307
2. Installer wages	Floor	42,732	0	42,732
	Wall	52,020	0	52,020
3. Rent expense	Floor	0	6,138	6,138
	Wall	0	3,762	3,762

Calculations:

$$1. \quad \$485,000 + \$538,866 = \$1,023,866$$

$$\text{Percent of net sales—wall covering} = \$485,000 / \$1,023,866 = 47\%$$

$$\text{Percent of net sales—floor covering} = \$538,866 / \$1,023,866 = 53\%$$

Exercise 2 (Concluded)

Indirect expenses:

Employee No. 4	\$31,800
Employee No. 5	<u>18,640</u>
	<u>\$50,440</u>

$$\text{Wall covering} = \$50,440 \times 0.47 = \$23,707$$

$$\text{Floor covering} = \$50,440 \times 0.53 = \underline{26,733}$$

$$\underline{\underline{\$50,440}}$$

2.	Employee No.	Hours— Floor	Hours— Wall	Total Hours	Percentage— Floor	Percentage— Wall
	8	1,288	658	1,946	66%	34%
	9	1,180	850	2,030	58%	42%
	10	980	1,480	2,460	40%	60%
	11	300	1,725	2,025	15%	85%

Note: Due to differences in wage rates paid to each employee, it is better to allocate for each employee, rather than for all employees at once.

Employee No.	Wage Expense	Floor		Wall	
		%	Amount	%	Amount
8	\$21,406	66%	\$14,128	34%	\$ 7,278
9	23,345	58%	13,540	42%	9,805
10	30,258	40%	12,103	60%	18,155
11	<u>19,743</u>	15%	<u>2,961</u>	85%	<u>16,782</u>
	<u>\$94,752</u>		<u>\$42,732</u>		<u>\$52,020</u>

3.	Square footage, floor covering	4,280
	Square footage, wall covering	<u>2,600</u>
		<u>6,880</u>

Percentage of square footage:

$$\text{Floor covering: } 4,280/6,880 = 62\%$$

$$\text{Wall covering: } 2,600/6,880 = 38\%$$

Allocation of rent expense:

$$\text{Floor covering: } \$9,900 \times 0.62 = \$6,138$$

$$\text{Wall covering: } 9,900 \times 0.38 = \underline{3,762}$$

$$\underline{\underline{\$9,900}}$$

Exercise 3

Miller & Hastey
 Departmental Operating Expense Summary
 For Year Ended December 31, 20--

Expense	Total	Floor Covering			Wall Covering		
		Direct	Indirect	Total	Direct	Indirect	Total
Store clerks' wages expense	\$127,828	\$54,788	\$26,733	\$ 81,521	\$22,600	\$23,707	\$ 46,307
Installer wages expense	94,752	42,732	0	42,732	52,020	0	52,020
Rent expense	9,900	0	6,138	6,138	0	3,762	3,762
Total expenses	<u>\$232,480</u>	<u>\$97,520</u>	<u>\$32,871</u>	<u>\$130,391</u>	<u>\$74,620</u>	<u>\$27,469</u>	<u>\$102,089</u>

PROBLEMS

Problem 4

Moss and Miller Bakery Shop
Income Statement (Condensed)
 For Year Ended December 31, 20--

	Cake Dept.	Bread Dept.	Total
Net sales	\$850,000	\$770,000	\$1,620,000
Cost of goods sold	488,500	526,800	1,015,300
Gross profit	\$361,500	\$243,200	\$ 604,700
Operating expenses:			
Bakery wages expense	\$ 45,600	\$ 82,800	\$ 128,400
Truck drivers' wages expense	23,800	38,800	62,600
Depreciation expense—delivery equipment	12,600	11,400	24,000
Bakery rent expense	10,700	15,800	26,500
Bad debt expense	2,300	1,800	4,100
Other operating expenses	128,200	95,600	223,800
Total operating expenses	\$223,200	\$246,200	\$ 469,400
Operating income (loss)	\$138,300	\$ (3,000)	\$ 135,300

Problem 5

1.

Wild West Wear
Income Statement
For Year Ended June 30, 20--

	Boots	Accessories	Total
Net sales	\$550,200	\$257,000	\$807,200
Cost of goods sold	247,600	141,400	389,000
Gross profit	\$302,600	\$115,600	\$418,200
Operating expenses:			
Wages expense	\$107,000	\$ 50,800	\$157,800
Advertising expense	43,200	15,700	58,900
Other operating expenses	49,000	26,000	75,000
Total operating expenses	\$199,200	\$ 92,500	\$291,700
Operating income	\$103,400	\$ 23,100	\$126,500

2.

Departmental operating expense percentages:

Boots operating expense percentage $\$199,200/\$550,200 = 36.2\%$
Accessories operating expense percentage $\$92,500/\$257,000 = 36.0\%$

Operating income percentages:

Boots operating income percentage $\$103,400/\$550,200 = 18.8\%$
Accessories operating income percentage $\$23,100/\$257,000 = 9.0\%$

Problem 6

1.

Games Unlimited			
Income Statement			
For Year Ended December 31, 20--			
	Home Market	Commercial Market	Total
Net sales	\$284,000	\$395,000	\$679,000
Cost of goods sold	146,250	175,000	321,250
Gross profit	\$137,750	\$220,000	\$357,750
Direct operating expenses:			
Advertising expense	\$ 26,000	\$ 38,000	\$ 64,000
Store clerks' wages expense	32,000	36,000	68,000
Truck drivers' wages expense	13,000	16,000	29,000
Bad debt expense	5,000	7,000	12,000
Depreciation expense—delivery equipment	8,000	6,000	14,000
Other operating expenses	24,000	18,000	42,000
Total direct operating expenses	\$108,000	\$121,000	\$229,000
Departmental direct operating margin	\$ 29,750	\$ 99,000	\$128,750
Indirect operating expenses:			
Store clerks' wages expense			\$ 12,000
Advertising expense			11,000
Store rent expense			22,000
Other operating expenses			15,000
Total indirect operating expenses			\$ 60,000
Operating income			\$ 68,750

2.

Departmental direct operating margin percentages:

Home market direct operating margin percentage $\$29,750/\$284,000 = 10.5\%$ Commercial market direct operating margin percentage $\$99,000/\$395,000 = 25.1\%$ **Problem 7**

Since department D has a negative direct operating margin, it should be eliminated, unless there is reason to believe that this is a temporary situation. Department A should be retained because of its positive direct operating margin, unless management believes that more than \$70,000 in indirect costs could be eliminated by discontinuing the department.

CHAPTER 26

REVIEW QUESTIONS

- | | | |
|---|---|--|
| 1. materials
labor
factory overhead | 8. materials
work in process
finished goods | 14. subsidiary
15. materials requisition
16. work in process |
| 2. direct | 9. direct materials
direct labor
factory overhead | 17. subsidiary
18. predetermined overhead
19. job cost |
| 3. indirect | 10. cost of goods
manufactured | 20. control
21. overapplied
22. underapplied |
| 4. direct | 11. Materials
Work in Process
Finished Goods | 23. process
24. process |
| 5. indirect | 12. job order | |
| 6. factory overhead | 13. Materials | |
| 7. indirect materials
indirect labor
other factory overhead | | |

EXERCISES

Exercise 1

Jonas Manufacturing Company
Schedule of Cost of Goods Manufactured
For Year Ended December 31, 20--

Work in process, January 1			\$22,000
Materials inventory, January 1	\$18,000		
Materials purchases	19,000		
Materials available for use	\$37,000		
Materials inventory, December 31	21,500		
Cost of materials used		\$15,500	
Direct labor		16,500	
Overhead		8,200	
Total manufacturing costs			40,200
Total work in process during the period			\$62,200
Work in process, December 31			24,000
Cost of goods manufactured			\$38,200

Exercise 2

Jonas Manufacturing Company

Cost of Goods Sold

For Year Ended December 31, 20--

Cost of goods sold:	
Finished goods inventory, January 1	\$28,000
Cost of goods manufactured	38,200
Goods available for sale	\$66,200
Finished goods inventory, December 31	26,000
Cost of goods sold	\$40,200

Exercise 3

Jonas Manufacturing Company

Balance Sheet (Partial)

December 31, 20--

Current assets:		
Cash		\$ 18,000
Accounts receivable		15,000
Inventories:		
Finished goods	\$26,000	
Work in process	24,000	
Materials	21,500	71,500
Supplies		8,000
Total current assets		\$112,500

Exercise 4

JOB COST SHEET				WATERTOWN Manufacturing Co.
Job No. <u>329</u>		Date Started <u>Jan. 24, 20--</u>		
Item <u>RC Boat</u>				
For <u>Lakeside Wholesalers</u>		Date Completed <u>Feb. 22, 20--</u>		
DIRECT MATERIALS		DIRECT LABOR		FACTORY OVERHEAD
Req. No.	Amount	Hours	Amount	
471	\$ 600	301	\$1,000	Direct Labor <u>\$1,095.00</u>
507	1,500	9	95	Overhead Rate <u>50%</u>
				Overhead Applied <u>\$547.50</u>
SUMMARY				
				Direct Materials <u>\$2,100.00</u>
				Direct Labor <u>1,095.00</u>
				Overhead <u>547.50</u>
				Total Cost <u>\$3,742.50</u>

Exercise 5

Direct labor hours rate: $\frac{\$600,000}{100,000} = \$6/\text{direct labor hour}$

Direct labor cost: $\frac{\$600,000}{\$400,000} = 150\% \text{ of direct labor costs}$

Machine hours rate: $\frac{\$600,000}{200,000} = \$3/\text{machine hour used}$

Exercise 6

1. Job 101
 - (a) 10 direct labor hours = $10 \times \$6 = \60 applied
 - (b) \$80 direct labor costs = $\$80 \times 1.5 = \120 applied
 - (c) 30 machine hours = $30 \times \$3 = \90 applied

2. Job 102
 - (a) 25 direct labor hours = $25 \times \$6 = \150 applied
 - (b) \$250 direct labor costs = $\$250 \times 1.5 = \375 applied
 - (c) 60 machine hours = $60 \times \$3 = \180 applied

3. Job 103
 - (a) 15 direct labor hours = $15 \times \$6 = \90 applied
 - (b) \$100 direct labor costs = $\$100 \times 1.5 = \150 applied
 - (c) 12 machine hours = $12 \times \$3 = \36 applied

PROBLEMS

Problem 7

GENERAL JOURNAL

PAGE

DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT					
1	a.	Materials		28	0	0	0	00						1
2		Accounts Payable							28	0	0	0	00	2
3														3
4	b.	Work in Process (Job No. 101)		12	0	0	0	00						4
5		Work in Process (Job No. 102)		10	0	0	0	00						5
6		Materials							22	0	0	0	00	6
7														7
8	c.	Factory Overhead		4	0	0	0	00						8
9		Materials							4	0	0	0	00	9
10														10
11	d.	Work in Process (Job No. 101)		13	0	0	0	00						11
12		Work in Process (Job No. 102)		11	0	0	0	00						12
13		Wages Payable							24	0	0	0	00	13
14														14
15	e.	Factory Overhead		2	5	0	0	00						15
16		Wages Payable							2	5	0	0	00	16
17														17
18	f.	Factory Overhead		5	0	0	0	00						18
19		Cash							5	0	0	0	00	19
20														20
21	g.	Work in Process (Job No. 101)		6	5	0	0	00						21
22		Work in Process (Job No. 102)		5	5	0	0	00						22
23		Factory Overhead							12	0	0	0	00	23
24														24
25	h.	Finished Goods Inventory (Product A)		31	5	0	0	00						25
26		Work in Process (Job No. 101)							31	5	0	0	00	26
27														27
28		Finished Goods Inventory (Product B)		26	5	0	0	00						28
29		Work in Process (Job No. 102)							26	5	0	0	00	29
30														30
31														31
32														32
33														33

Problem 7 (Concluded)

GENERAL JOURNAL

PAGE

DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT					
1	i.	Accounts Receivable		35	0	0	0	00						1
2		Sales							35	0	0	0	00	2
3														3
4		Cost of Goods Sold		31	5	0	0	00						4
5		Finished Goods Inventory (Product A)							31	5	0	0	00	5
6														6
7		Accounts Receivable		29	0	0	0	00						7
8		Sales							29	0	0	0	00	8
9														9
10		Cost of Goods Sold		26	5	0	0	00						10
11		Finished Goods Inventory (Product B)							26	5	0	0	00	11
12														12
13	j.	Factory Overhead			5	0	0	00						13
14		Cost of Goods Sold								5	0	0	00	14
15		(\$12,000 factory overhead was applied, \$11,500												15
16		actual factory overhead)												16
17														17
18														18
19														19
20														20
21														21
22														22
23														23
24														24
25														25
26														26
27														27
28														28
29														29
30														30
31														31
32														32
33														33
34														34

Problem 8

GENERAL JOURNAL

PAGE

	DATE	DESCRIPTION	POST. REF.	DEBIT					CREDIT					
1	a.	Materials		40	0	0	0	00						1
2		Accounts Payable							40	0	0	0	00	2
3														3
4	b.	Work in Process (Job No. 20)		10	0	0	0	00						4
5		Work in Process (Job No. 21)		8	0	0	0	00						5
6		Work in Process (Job No. 22)		7	0	0	0	00						6
7		Work in Process (Job No. 23)		9	0	0	0	00						7
8		Materials							34	0	0	0	00	8
9														9
10	c.	Factory Overhead		1	0	0	0	00						10
11		Materials							1	0	0	0	00	11
12														12
13	d.	Work in Process (Job No. 20)		1	5	0	0	00						13
14		Work in Process (Job No. 21)		3	2	0	0	00						14
15		Work in Process (Job No. 22)		2	0	0	0	00						15
16		Work in Process (Job No. 23)		3	0	0	0	00						16
17		Wages Payable							9	7	0	0	00	17
18														18
19	e.	Factory Overhead		5	0	0	0	00						19
20		Wages Payable							5	0	0	0	00	20
21														21
22	f.	Factory Overhead		3	0	0	0	00						22
23		Cash							3	0	0	0	00	23
24														24
25	g.	Work in Process (Job No. 20)		2	5	0	0	00						25
26		Work in Process (Job No. 21)		6	0	0	0	00						26
27		Work in Process (Job No. 22)		3	5	0	0	00						27
28		Work in Process (Job No. 23)		5	0	0	0	00						28
29		Factory Overhead							1	7	0	0	00	29
30														30
31	h.	Finished Goods (Product D)		11	7	5	0	00						31
32		Work in Process (Job No. 20)							11	7	5	0	00	32
33														33
34		Finished Goods (Product E)		11	8	0	0	00						34
35		Work in Process (Job No. 21)							11	8	0	0	00	35

Problem 8 (Continued)

GENERAL JOURNAL

PAGE

DATE	DESCRIPTION	POST. REF.	DEBIT				CREDIT						
1	Finished Goods (Product F)		9	3	5	0	00					1	
2	Work in Process (Job No. 22)							9	3	5	0	00	2
3													3
4	Finished Goods (Product G)		12	5	0	0	00						4
5	Work in Process (Job No. 23)							12	5	0	0	00	5
6													6
7	i. Accounts Receivable		13	0	0	0	00						7
8	Sales							13	0	0	0	00	8
9													9
10	Cost of Goods Sold		11	7	5	0	00						10
11	Finished Goods (Product D)							11	7	5	0	00	11
12													12
13	Accounts Receivable		12	8	0	0	00						13
14	Sales							12	8	0	0	00	14
15													15
16	Cost of Goods Sold		11	8	0	0	00						16
17	Finished Goods (Product E)							11	8	0	0	00	17
18													18
19	Accounts Receivable		10	7	0	0	00						19
20	Sales							10	7	0	0	00	20
21													21
22	Cost of Goods Sold		9	3	5	0	00						22
23	Finished Goods (Product F)							9	3	5	0	00	23
24													24
25	Accounts Receivable		14	3	0	0	00						25
26	Sales							14	3	0	0	00	26
27													27
28	Cost of Goods Sold		12	5	0	0	00						28
29	Finished Goods (Product G)							12	5	0	0	00	29
30													30
31	j. Cost of Goods Sold		1	0	0	0	00						31
32	Factory Overhead							1	0	0	0	00	32
33													33
34													34
35													35

Problem 8 (Concluded)

Materials			
(a)	40,000	(b)	34,000
		(c)	1,000

Work in Process: Job No. 20			
(b)	10,000	(h)	11,750
(d)	1,500		
(g)	250		

Work in Process: Job No. 21			
(b)	8,000	(h)	11,800
(d)	3,200		
(g)	600		

Work in Process: Job No. 22			
(b)	7,000	(h)	9,350
(d)	2,000		
(g)	350		

Work in Process: Job No. 23			
(b)	9,000	(h)	12,500
(d)	3,000		
(g)	500		

Finished Goods			
(h)	11,750	(i)	11,750
(h)	11,800	(i)	11,800
(h)	9,350	(i)	9,350
(h)	12,500	(i)	12,500

Cost of Goods Sold			
(i)	11,750		
(i)	11,800		
(i)	9,350		
(i)	12,500		
(j)	100		

Factory Overhead			
(c)	1,000	(g)	1,700
(e)	500	(j)	100
(f)	300		

CHAPTER 27

REVIEW QUESTIONS

- | | | |
|---|---|---|
| 1. materials
work in process
finished goods | 7. Interest Expense
Interest Payable | 14. factory overhead |
| 2. Cost of Goods Sold | 8. Factory Overhead | 15. Income Statement |
| 3. actual overhead costs | 9. Factory Overhead
Accumulated | 16. cost of goods sold
cost of goods
manufactured |
| 4. overhead applied to
production | 10. under-
Depreciation | 17. factory overhead |
| 5. Work in Process
Inventory
Factory Overhead | 11. Cost of Goods Sold | 18. Income Summary |
| 6. Factory Overhead | 12. Income Tax
Payable | 19. Retained Earnings |
| | 13. Income Statement
Balance Sheet | 20. Factory Overhead
Work in Process
Inventory |

EXERCISES

Exercise 1

1.

GENERAL JOURNAL

PAGE

DATE	DESCRIPTION	POST. REF.	DEBIT				CREDIT				
1	Adjusting Entries										1
20-- Dec. 31	(a) Work in Process Inventory		8	0	0	0					2
3	Factory Overhead						8	0	0	0	3
4											4
5	31 (b) Factory Overhead		3	5	2	5					5
6	Factory Supplies						3	5	2	5	6
7											7
8	31 (c) Factory Overhead		4	2	9	5					8
9	Prepaid Insurance						4	2	9	5	9
10											10
11	31 (d) Factory Overhead		14	1	8	5					11
12	Accumulated Depreciation—Factory Building						5	4	5	0	12
13	Accumulated Depreciation—Factory Equipment						8	7	3	5	13
14											14
15	31 (e) Factory Overhead		3	4	2	5					15
16	Cost of Goods Sold						3	4	2	5	16
17											17
18											18
19											19

Exercise 3

1.

GENERAL JOURNAL

PAGE

DATE		DESCRIPTION	POST. REF.	DEBIT					CREDIT						
1		Adjusting Entries												1	
2	20-3 Dec. 31	Work in Process Inventory		12	8	0	0	00							2
3		Factory Overhead							12	8	0	0	00		3
4															4
5	31	Interest Receivable			9	2	0	00							5
6		Interest Revenue								9	2	0	00		6
7															7
8	31	Bad Debt Expense		3	9	2	0	00							8
9		Allowance for Doubtful Accounts							3	9	2	0	00		9
10															10
11	31	Office Supplies Expense		1	3	5	0	00							11
12		Office Supplies							1	3	5	0	00		12
13															13
14	31	Factory Overhead (Factory Supplies Expense)		4	2	5	0	00							14
15		Factory Supplies							4	2	5	0	00		15
16															16
17	31	Factory Overhead (Ins. Exp.—Factory Building & Equip.)		3	4	0	0	00							17
18		Prepaid Insurance							3	4	0	0	00		18
19															19
20	31	Factory Overhead (Depr. Expense—Factory Building)		4	6	0	0	00							20
21		Accumulated Depreciation—Factory Building							4	6	0	0	00		21
22															22
23	31	Factory Overhead (Depr. Expense—Factory Equipment)		6	1	0	0	00							23
24		Accumulated Depreciation—Factory Equipment							6	1	0	0	00		24
25															25
26	31	Interest Expense		8	2	5	0	00							26
27		Interest Payable							8	2	5	0	00		27
28															28
29															29
30															30

Exercise 3 (Concluded)

2.

GENERAL JOURNAL

PAGE

DATE		DESCRIPTION	POST. REF.	DEBIT				CREDIT				
1		Reversing Entries										1
2	20-4 Jan. 2	Factory Overhead		12	8	0	0					2
3		Work in Process Inventory						12	8	0	0	3
4												4
5	2	Interest Revenue		9	2	0	0					5
6		Interest Receivable						9	2	0	0	6
7												7
8	2	Interest Payable		8	2	5	0					8
9		Interest Expense						8	2	5	0	9
10												10
11												11
12												12
13												13
14												14
15												15
16												16
17												17
18												18
19												19
20												20
21												21
22												22
23												23
24												24
25												25
26												26
27												27
28												28
29												29
30												30

Exercise 4

GENERAL JOURNAL

PAGE

	DATE	DESCRIPTION	POST. REF.	DEBIT				CREDIT				
1		Closing Entries										1
2	Dec. 31	Income Summary		216	8	5	00					2
3		Factory Overhead (Subsidiary ledger accounts)						216	8	5	00	3
4												4
5	31	Factory Overhead		216	8	5	00					5
6		Income Summary						216	8	5	00	6
7												7
8	31	Sales		842	7	5	00					8
9		Interest Revenue		1	4	0	00					9
10		Income Summary						844	1	5	00	10
11												11
12	31	Income Summary		750	9	8	50					12
13		Cost of Goods Sold						583	6	4	00	13
14		Wages Expense						102	4	0	00	14
15		Office Supplies Expense						3	7	4	00	15
16		Depreciation Expense—Office Equipment						6	2	3	00	16
17		Utilities Expense—Office						5	4	8	50	17
18		Bad Debt Expense						2	3	5	00	18
19		Advertising Expense						9	3	5	00	19
20		Interest Expense						8	4	2	00	20
21		Income Tax Expense						29	3	7	00	21
22												22
23	31	Income Summary		93	1	6	50					23
24		Retained Earnings						93	1	6	50	24
25												25
26	31	Retained Earnings		16	0	0	00					26
27		Cash Dividends						16	0	0	00	27
28												28
29												29

PROBLEMS

Problem 5

1.

Rogerson

Work

For Year Ended

	TRIAL BALANCE				ADJUSTMENTS															
	DEBIT		CREDIT		DEBIT		CREDIT													
1 Cash	28	3	0	0	00															
2 Government Notes	7	0	0	0	00															
3 Interest Receivable						(b)	1	0	0	00										
4 Accounts Receivable	28	0	0	0	00															
5 Allowance for Doubtful Accounts									(d)	3	3	8	0	00						
6 Finished Goods Inventory	21	4	6	0	00															
7 Work in Process Inventory	11	3	2	0	00		(a)	2	9	5	0	00								
8 Materials Inventory	10	2	4	0	00															
9 Office Supplies	5	7	2	0	00				(e)	2	9	0	0	00						
10 Factory Supplies	7	1	5	0	00				(f)	4	2	5	0	00						
11 Land	100	0	0	0	00															
12 Factory Building	90	0	0	0	00															
13 Accum. Depr.—Factory Building						15	0	0	0	00		(g)	3	0	0	0	00			
14 Factory Equipment	50	0	0	0	00															
15 Accum. Depr.—Factory Equip.						10	0	0	0	00		(h)	4	5	0	0	00			
16 Accounts Payable						15	2	0	0	00										
17 Income Tax Payable												(i)	5	2	7	5	00			
18 Interest Payable												(c)	4	0	0	00				
19 Bonds Payable						100	0	0	0	00										
20 Capital Stock						60	0	0	0	00										
21 Paid-In Capital in Excess of Par						20	0	0	0	00										
22 Retained Earnings						76	2	7	0	00										
23 Cash Dividends	20	0	0	0	00															
24 Sales						395	2	0	0	00										
25 Interest Revenue						5	0	0	0	00		(b)	1	0	0	00				
26 Factory Overhead	84	6	0	0	00	97	5	0	0	00	(f)	4	2	5	0	00				
27											(g)	3	0	0	0	00				
28											(h)	4	5	0	0	00				
29											(i)	4	1	0	0	00				
30 Cost of Goods Sold	210	4	0	0	00							(i)	4	1	0	0	00			
31 Wages Expense	82	1	0	0	00															
32 Office Supplies Expense											(e)	2	9	0	0	00				
33 Utilities Expense—Office	5	1	0	0	00															
34 Bad Debt Expense											(d)	3	3	8	0	00				
35 Interest Expense	8	0	0	0	00						(c)	4	0	0	00					
36 Income Tax Expense	21	0	0	0	00						(j)	5	2	7	5	00				
37	790	3	9	0	00	790	3	9	0	00	30	8	5	5	00	30	8	5	5	00
38 Net Income																				
39																				
40																				

Problem 5 (Continued)

2. a.

Rogerson Company
Income Statement
For Year Ended December 31, 20--

Net sales		\$395,200
Less cost of goods sold:		
Finished goods inventory, January 1	\$ 19,300	
Cost of goods manufactured	208,460	
Cost of goods available for sale	\$227,760	
Finished goods inventory, December 31	21,460	
Cost of goods sold		206,300
Gross profit		\$188,900
Operating expenses:		
Wages expense	\$ 82,100	
Office supplies expense	2,900	
Utilities expense—office	5,100	
Bad debt expense	3,380	
Total operating expenses		93,480
Operating income		\$ 95,420
Other revenue:		
Interest revenue		600
		\$ 96,020
Other expense:		
Interest expense		8,400
Income before income taxes		\$ 87,620
Income tax		26,275
Net income		\$ 61,345

Problem 5 (Continued)

2. b.

Rogerson Company			
Schedule of Cost of Goods Manufactured			
For Year Ended December 31, 20--			
Work in process, January 1			\$ 9,480
Materials inventory, January 1	\$13,650		
Materials purchases	43,200		
Materials available for use	\$56,850		
Materials inventory, December 31	10,240		
Cost of materials used		\$46,610	
Direct labor		70,290	
Factory overhead		96,350	
Total manufacturing costs			213,250
Total work in process during the period			\$222,730
Work in process, December 31			14,270
Cost of goods manufactured			\$208,460

2. c.

Rogerson Company	
Statement of Retained Earnings	
For Year Ended December 31, 20--	
Retained earnings, January 1	\$ 76,270
Add net income for the year (after provision for income taxes of \$26,275)	61,345
	\$137,615
Less cash dividends	20,000
Retained earnings, December 31	\$117,615

Problem 6

1.

Omega Company

Income Statement

For Year Ended December 31, 20--

Net sales		\$533,960
Less cost of goods sold:		
Finished goods inventory, January 1	\$ 20,345	
Cost of goods manufactured	361,190	
Cost of goods available for sale	\$381,535	
Finished goods inventory, December 31	23,900	
Cost of goods sold		357,635
Gross profit		\$176,325
Operating expenses:		
Wages expense	\$ 74,125	
Office supplies expense	2,500	
Bad debt expense	1,890	
Utilities expense—office	2,200	
Total operating expenses		80,715
Operating income		\$ 95,610
Other revenue:		
Interest revenue		440
		\$ 96,050
Other expense:		
Interest expense		3,600
Income before income taxes		\$ 92,450
Income tax		19,680
Net income		\$ 72,770

Problem 6 (Continued)

1.

Omega Company			
Schedule of Cost of Goods Manufactured			
For Year Ended December 31, 20--			
Work in process, January 1			\$ 7,535
Direct materials			
Materials inventory, January 1	\$ 4,820		
Materials purchases	167,060		
Materials available for use	\$171,880		
Materials inventory, December 31	6,380		
Cost of materials used		\$165,500	
Less indirect materials charged to production		3,800	
Cost of direct materials used		\$161,700	
Direct labor		97,500	
Factory overhead		104,300	
Total manufacturing costs			363,500
Total work in process during the period			\$371,035
Work in process, December 31			9,845
Cost of goods manufactured			\$361,190

2.

Omega Company	
Statement of Retained Earnings	
For Year Ended December 31, 20--	
Retained earnings, January 1	\$ 68,925
Add net income for the year (after provision for income taxes of \$19,680)	72,770
	\$141,695
Less cash dividends	20,000
Retained earnings, December 31	\$121,695

Problem 6 (Continued)

3.

Omega Company

Balance Sheet

December 31, 20--

Assets			
Current assets:			
Cash		\$23,475	
Treasury notes		5,500	
Interest receivable		95	
Accounts receivable	\$ 48,210		
Less allowance for doubtful accounts	2,895	45,315	
Inventories:			
Finished goods	\$ 23,900		
Work in process	9,845		
Materials	6,380	40,125	
Office supplies		770	
Factory supplies		915	
Prepaid insurance		850	
Total current assets			\$117,045
Property, plant, and equipment:			
Land		\$30,000	
Building	\$ 95,000		
Less accumulated depreciation	23,800	71,200	
Equipment	\$110,000		
Less accumulated depreciation	32,000	78,000	
Total property, plant, and equipment			179,200
Total assets			\$296,245

Problem 7

1.

GENERAL JOURNAL

PAGE

DATE	DESCRIPTION	POST. REF.	DEBIT				CREDIT			
	Adjusting Entries									
20-4 Dec. 31	(a) Work in Process Inventory		2	8	5	0				
	Factory Overhead						2	8	5	0
	31 (b) Interest Receivable			1	6	5				
	Interest Revenue							1	6	5
	31 (c) Interest Expense		1	3	5	0				
	Interest Payable						1	3	5	0
	31 (d) Bad Debt Expense		2	4	7	5				
	Allowance for Doubtful Accounts						2	4	7	5
	31 (e) Office Supplies Expense		5	2	4	5				
	Office Supplies						5	2	4	5
	31 (f) Factory Overhead		4	9	5	0				
	Factory Supplies						4	9	5	0
	31 (g) Factory Overhead		6	2	0	0				
	Prepaid Insurance						6	2	0	0
	31 (h) Factory Overhead		6	0	0	0				
	Accumulated Depreciation—Factory Building						6	0	0	0
	31 (i) Factory Overhead		7	5	0	0				
	Accumulated Depreciation—Factory Equipment						7	5	0	0
	31 (j) Cost of Goods Sold		6	4	0	0				
	Factory Overhead						6	4	0	0
	31 (k) Income Tax Expense		4	8	0	0				
	Income Tax Payable						4	8	0	0

Problem 7 (Continued)

2.

GENERAL JOURNAL

PAGE

	DATE	DESCRIPTION	POST. REF.	DEBIT					CREDIT					
1		Closing Entries											1	
2	20-4 Dec. 31	Income Summary		107	8	5	0	00						2
3		Factory Overhead (Subsidiary ledger accounts)							107	8	5	0	00	3
4														4
5	31	Factory Overhead		107	8	5	0	00						5
6		Income Summary							107	8	5	0	00	6
7														7
8	31	Sales		357	2	0	0	00						8
9		Interest Revenue			7	6	5	00						9
10		Income Summary							357	9	6	5	00	10
11														11
12	31	Income Summary		349	5	0	0	00						12
13		Cost of Goods Sold							205	3	0	0	00	13
14		Wages Expense							90	0	0	0	00	14
15		Office Supplies Expense							5	2	4	5	00	15
16		Utilities Expense—Office							5	9	3	0	00	16
17		Bad Debt Expense							2	4	7	5	00	17
18		Interest Expense							8	7	5	0	00	18
19		Income Tax Expense							31	8	0	0	00	19
20														20
21	31	Income Summary		8	4	6	5	00						21
22		Retained Earnings							8	4	6	5	00	22
23														23
24	31	Retained Earnings		10	0	0	0	00						24
25		Cash Dividends							10	0	0	0	00	25
26														26
27														27
28														28
29														29
30														30

Problem 7 (Concluded)

3.

GENERAL JOURNAL

PAGE

DATE		DESCRIPTION	POST. REF.	DEBIT				CREDIT				
1		Reversing Entries										1
2	20-5 Jan. 2	Factory Overhead		2	8	5	00					2
3		Work in Process Inventory						2	8	5	00	3
4												4
5	2	Interest Revenue			1	6	50					5
6		Interest Receivable						1	6	5	00	6
7												7
8	2	Interest Payable		1	3	5	00					8
9		Interest Expense						1	3	5	00	9
10												10
11												11
12												12
13												13
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