ACCOUNTING 105 CONCEPTS REVIEW

A note from the tutors:

This handout is designed to help you review important information as you study for your cumulative final exam. While it does cover many important topics, it is not meant to be 100% inclusive. You will still be responsible to know any concepts and vocabulary contained in chapters 1 through 14 (excluding chapter 12) regardless of whether it is covered in this review or not.

Beginning in the Fall Semester of 2012, the Accounting 105 cumulative final exam will be in multiple choice format but you will still need to know how to calculate the answer. Please note that in the actual test, you will be required to perform many of the same calculations as in our review problem 13, but you may be using different sets of numbers for each calculation required. We have chosen to use one set of numbers for all of the calculations required in review problem 13 to save time.

Problem 1 **A company known as Brian's Landscaping, Inc. began business on January 1, 2012. Journalize the following transactions:**

01/01/2012 Brian invested in his business by buying $50,000 worth of common stock.

01/01/2012 Brian purchased a truck costing $25,000; he paid $6,000 cash and will pay the remainder at a later date. He will depreciate the truck using straight line depreciation. Useful life is anticipated to be six years with a salvage value of $1,000.

01/03/2012 Brian purchased $1,500 worth of office supplies.

01/05/2012 Brian completed landscaping plans for a customer worth $3,000. The customer paid cash.

01/15/2012 Brian completed landscaping plans and billed the client for $2,500.

02/01/2012 Brian hired some part-time workers to assist him in his business.

02/05/2012 The customer billed on 01/15/2012 paid his bill in full.

02/10/2012 A customer paid Brian $3,000 in advance for a landscaping plan.

02/20/2012 Brian completed a landscaping plan for a customer for $2,000. The customer paid using his Master Card. Master card charges a fee of 3%.

02/28/2012 Brian recorded the payroll and payroll taxes for the month. His employees earned a total of $1,800. The following employee withholding tax rates were used: federal income tax rate 10%; social security 6.2%; medicare 1.45%; state income tax 3.07%; local income tax 1%. Brian also recorded the employer payroll taxes including the employer's portion of social security and medicare, federal unemployment tax of $15 and state unemployment tax of $25. ***Round to the nearest whole dollar.***

03/01/2012 Brian paid the annual premium of $3,300 for a one year policy of liability insurance.

03/15/2012 Brian completed the landscaping plan for the customer who paid in advance on 02/10/2012.

09/01/2012 Brian borrowed $5,000 by signing a six month, 9% note.

Problem 2 On April 1, 2012, Brian opened a garden supply store. Journalize the following transactions using both the periodic and the perpetual inventory systems.

04/01/2012 Brian purchased $5,000 worth of merchandise from the ABC Garden Supply Co. on account, terms 1/10, net 30, FOB shipping point. Freight charges were $150 (paid in cash by the appropriate party.)

04/04/2012 Brian returned $500 worth of merchandise to ABC Garden Supply Co.

04/10/2012 Brian paid his bill to ABC Garden Supply Co. in full, less the applicable discount.

Problem 3 Journalize the following May transactions using both the periodic and the perpetual inventory systems:

05/05/2012 Sold $200 worth of garden supplies for cash. The merchandise cost $100.

05/07/2012 Sold $1000 worth of garden supplies to Tyler Co. on account, terms 2/10, net 30. The merchandise cost $500.

05/10/2012 Tyler Co. returned $200 worth of supplies which originally cost $100.

05/17/2012 Tyler Co. paid its bill in full, less any applicable discount.

Problem 4 On December 31, 2012, Brian is told by his accountant that he must make some adjusting entries. Journalize the following adjusting entries as of 12/31/2012. Refer back to the original entries in Problem 1 for information needed for depreciation, supplies, insurance and the note payable.

1. An inventory of supplies showed that only $300 worth of supplies remained.
2. The account Prepaid Insurance must be updated to show the appropriate balance as of 12/31/2012.
3. Depreciation on the truck must be recognized.
4. Wages of the employees earned in December but not due to be paid until January totaled $1,000.
5. Interest has accrued on the Note Payable.
6. On December 31, 2012, Brian completed a landscaping plan worth $1,500. It has not yet been recorded.
7. As of December 31, 2012, $2,000 of unearned revenue has been earned.

Problem 5 **Brian must determine which method of valuing his ending inventory and cost of goods sold he will use in his store. Brian has the information shown below regarding his merchandise. As of December 31, 2012, Brian had 175 units remaining. Using this information, calculate:**

1. **Total cost of goods available for sale;**
2. **Total value of Brian's ending inventory using three different assumptions: FIFO, LIFO and Weighted Average;**
3. **Total cost of goods sold using FIFO, LIFO and Weighted Average;**

Date	**Units**	**Unit Cost**
Beginning Inventory	150	$50
04/15/2012 Purchase	200	$52
06/18/2012 Purchase	150	$54
07/10/2012 Purchase	175	$55
09/04/2012 Purchase	75	$57

Problem 6 **(Continuation of Problem 5 above.) Due to the introduction of new models at the end of the year and a weakened economy, the market value of Brian's inventory is now $45 per unit. How would Brian report the value of his ending inventory on his balance sheet?**

Problem 7 **Brian decides to raise some badly needed cash by issuing stock to the general public. Journalize the following transactions.**

01/15/2013 Issues 10,000 shares of common stock, no par value, $2.00 stated value, for $60,000.

07/01/2013 Declares a .50 cent per share cash dividend to all common stockholders of record on 08/01/2013, payable on 08/15/2013.

08/15/2013 Paid the dividend.

09/30/2013 Declared a 2-for-1 stock split.

11/15/2013 Declared a 10% stock dividend on its outstanding shares of common stock to stockholders of record on 12/15/2013, to be distributed on 01/15/2014. The common stock is currently selling at $4.00 per share.

Problem 8 **Classify the following accounts by placing an "X" in the appropriate box.**

Account	Current Assets	Property, Plant & Equipment	Current Liabilities	Long Term Liabilities	Stockholders' Equity			
					Common Stock	Retained Earnings		
						Revenue	Dividends	Expenses
Wages Payable								
Prepaid Ins.								
Acct. Receivable								
Equipment								
Utilities Expense								
Cost of Goods Sold								
Sales								
Cash								
Acct. Payable								
Common Stock								
Supplies								
Mortgage Payable								
Dividends								
Accumulated Depreciation – Equipment								
Unearned Revenue								
Dividends Payable								
Dividends Distributable								
Inventory								
Bonds Payable								
Allowance for Doubtful Accounts								

Problem 9 **On January 2, 2014, Brian decides to set up a Petty Cash fund and establishes it at $200. At the end of the month, Petty Cash had the following receipts: meals $12.00; postage $44.00; transportation $25.00; meals $18.00; shipping $30.00; gasoline $54.00; miscellaneous $14.00. On January 31, the fund contains $5.00 and Brian decides to replenish the fund.**

1. Journalize the entry to establish the fund.
2. Journalize the entry to replenish the fund.
3. Prepare the required journal entry if Brian should decide to increase the fund to $300.

Problem 10 **Brian uses the allowance method of recording bad debt expense. On December 31, 2014, it is estimated that 1% of net credit sales will be uncollectible. Prior to the adjustment, Brian's ledger had the balances shown below. All sales are on account. Journalize the appropriate adjusting entry.**

Sales	$175,000
Sales Returns & Allowances	$2,000
Allowance for Doubtful Accts.	$650

Problem 11 **On March 15, Brian purchased a piece of land on which he intends to build a warehouse. The land cost $150,000. The real estate agent's commission was $9,000. He had to pay off a lien for back taxes totaling $6,000. The land had a dilapidated building which he demolished costing $11,000. Salvage was $2,300. Current year's real estate taxes were $3,300. He paid an architect $7,500 for plans for the new warehouse. He had a driveway constructed costing $4,500. Journalize the transaction.**

Problem 12 **On June 30, 2016, Brian sells equipment for $1,000 which he originally purchased for $16,000 on January 1, 2013. He used straight line depreciation with a useful life of four years, no salvage value. On December 31, 2015, his balance sheet had the account balances shown below.**

Equipment	$16,000
Accumulated Depreciation – Equipment	$12,000

Journalize all entries required on June 30, 2016.

Problem 13 **Assume that Brian's Garden Supply uses a periodic inventory system. On December 31, 2013, the ending inventory in Brian's Garden Supply was $9,600. On December 31, 2014, Brian's business had post-adjustment account balances listed below.**

Brian's Garden Supply
Post-Adjustment Trial Balance
For the Year Ended December 31, 2014

Account	Debit	Credit
Cash	28,895	
Accounts Receivable	35,000	
Allowance for Doubtful Accounts		870
Inventory	11,600	
Supplies	950	
Prepaid Insurance	1,400	
Truck	25,000	
Accumulated Depreciation - Truck		5,000
Equipment	16,000	
Accumulated Depreciation - Equipment		4,000
Notes Payable (due 9/1/2016)		5,000
Bonds Payable		15,000
Accounts Payable		1,850
Wages Payable		300
Unearned Revenue		400
Interest Payable (due 9/1/2016)		700
Common Stock		50,000
Additional Paid in Capital		10,000
Retained Earnings		26,200
Dividends	10,000	
Sales		124,500
Sales Returns & Allowances	12,100	
Sales Discounts	1,900	
Purchases	60,500	
Purchase Returns & Allowances		1,800
Freight-in	4,250	
Wages Expense	16,700	
Depreciation Expense	9,000	
Telephone Expense	5,250	
Advertising Expense	6,375	
Interest Expense	700	
	245,620	245,620

Using this information, calculate the following:

1. Net sales
2. Book value of depreciable assets
3. Net realizable value of accounts receivable
4. Total current assets
5. Cost of goods sold
6. Gross profit
7. Net income or loss
8. Ending balance (post closing) in retained earnings
9. Total property, plant and equipment
10. Total current liabilities
11. Total long-term liabilities
12. Total stockholders' equity

Problem 14 **Costs of long lived assets are allocated as expenses in a rational, systematic manner over the assets' useful lives. Depending on the type of asset, the cost allocation system will be one of the following: depreciation, depletion, or amortization. For the assets listed below, indicate which type of cost allocation system Brian will use for each type of asset by placing an "X" in the appropriate box.**

Asset	Depreciation	Depletion	Amortization
Forests			
Computers			
Oil			
Limited life franchise			
Trucks			
Copyrights			
Buildings			
Patents			

Problem 15 **Brian wants to understand the principles of internal controls required and what actions he can take to comply with the internal control requirements. The principles of internal control include the following:**

A. Establishment of responsibility
B. Segregation of duties
C. Documentation procedures
D. Physical controls
E. Independent internal verification
F. Human resource control

For each action listed below, identify by letter the principle of internal control it follows.

1.______Using a cash register in the store.

2.______Having one person make the deposits and a different person reconcile the account.

3.______Using prenumbered checks.

4.______Requiring employees to take vacations.

5.______Having only one person using the cash register during a work shift.

6.______Having a supervisor comparing the bank deposits with the register receipts.

7.______Keeping cash in the safe until it is deposited.

8.______Conducting background checks on all employees.

9.______One employee maintains the record of an asset; another employee has custody of the asset.

10._____Cash register receipts.

11._____Creating passcodes for employees.

12._____Installing an alarm system

13._____The key to the warehouse is kept by the warehouse supervisor.

Problem 16 Using the following accounts and balances, prepare the necessary closing entries.

Cash	665
Accounts Receivable	4,210
Allowance for Doubtful Accounts	870
Inventory	11,600
Supplies	950
Prepaid Insurance	1,400
Truck	16,000
Accumulated Depreciation - Truck	6,400
Equipment	10,000
Accumulated depreciation - Equipment	4,000
Notes Payable	5,000
Bonds Payable	20,000
Accounts Payable	1,850
Wages Payable	300
Unearned Revenue	400
Interest Payable	600
Common Stock	20,000
Additional Paid-in Capital	10,000
Retained Earnings	26,300
Dividends	1,000
Sales	36,900
Sales Returns & Allowances	2,100
Sales Discounts	900
Rent Revenue	1,913
Cost of Goods Sold	18,850
Wages Expense	6,700
Depreciation Expense	4,200
Telephone Expense	858
Advertising Expense	2,200
Interest Expense	700

Problem 17 An aging schedule for the Duck & Goose Corp. calculated total estimated bad debts of $7,948. As of December 31, 2013, the Allowance for Doubtful Accounts had a credit balance of $1,290. Journalize the adjusting entry required on December 31, 2013.

Problem 18 **Prepare the bank reconciliation and the necessary journal entries at September 30, 2013 for Josh's Computer Repair, Inc. using the following information:**

1. The cash balance per books was $6,249.
2. Total of the outstanding checks was $1,618.
3. Deposit in transit was $560.
4. The cash balance per bank was $8,392.
5. The bank collected a note of $1,500 plus interest of $45, less a fee of $15. No interest has been accrued.
6. There was a bank service charge of $3.
7. Check no. 8249 was written for $373 but recorded at $337.
8. A customer's check for $406 was returned due to non-sufficient funds.

Problem 19 **Precision Manufacturing, Inc. issues $100,000, 5 year, 6% bonds at 103, with interest payable on July 1 and January 1.**

a) Prepare the journal entry to record the sale on January 1, 2013.
b) Assuming that the bonds were sold at 96 instead, prepare the journal entry to record the sale of the bonds on January 1, 2013.

Problem 20 **Assume that Precision Manufacturing, Inc. issues $100,000, 5 year, 8% bonds at 94, with interest payable on July 1 and January 1.**

a) What is the total discount?
b) What is the total cost of borrowing?
c) What would the semi-annual amortization of the discount be using straight line amortization?
d) Record the entry on July 1, 2013 to pay the interest and record the amortization of the discount.
e) What would the carrying value of the bonds be on January 1, 2014 after recording the January 1 interest?

Problem 21 **On March 31, 2014, the stockholders' equity section of Walton, Inc.'s Balance Sheet lists the following balances: Common Stock $500,000, $5 par value; Retained Earnings $1,200,000. Walton, Inc. wants to understand the effect on its stockholder equity if it chooses to do either a 2-for-1 stock split or a 10% stock dividend. The stock is currently trading for $15 per share. Prepare a chart comparing the effects of both actions on the different elements of stockholders' equity. Include columns for Before Action, After Stock Dividend, and After Stock Split.**

Problem 22 The Everbright Corporation is preparing its Statement of Cash Flows using the Indirect Method. It had the following transactions during 2013:

a) Issued $100,000 par value common stock for cash.
b) Purchased new machinery for its plant for $50,000.
c) Declared and paid a cash dividend of $25,000.
d) Redeemed $200,000 of bonds payable.
e) Sold land originally purchased for $250,000 for $225,000.
f) Collected $36,000 of accounts receivable.
g) Converted $30,000 face value of bonds payable into $30,000 par value common stock.
h) Paid a total of $29,000 of accounts payable.
i) On January 1, 2013, sold machinery for $20,000. The machinery was originally purchased on January 1, 2007 for $60,000. The company uses straight line depreciation, no salvage value, and a useful life of 10 years.
j) Bought land with a fair market value of $600,000 in exchange for a patent.

For each transaction listed above, indicate in which section of the Indirect Statement of Cash Flows Everbright would report the transaction: Operating Activities; Investing Activities; Financing Activities; or Non-Cash Investing and Financing Activities.

We recommend that you additionally review the following exercises found in Weygandt, J., P. Kimmel, and D. Kieso. Financial and Managerial Accounting.1st ed. John Wiley & Sons, 2011. Print.:

Accounting Equation	BE1-3 Page 34
Ratios	BE14-9 and BE14-10 Pages 742-743

<u>Come to the Tutoring Center for answers to these problems.</u>

ACCOUNTING 105 CONCEPTS REVIEW
ANSWER KEY

<u>Problem 1</u> **<u>Journal entries</u>**

Date	Description	Debit	Credit
01/01/2012	Cash	50,000	
	Common Stock		50,000
01/01/2012	Truck	25,000	
	Accounts Payable		19,000
	Cash		6,000
01/03/2012	Supplies	1,500	
	Cash		1,500
01/05/2012	Cash	3,000	
	Service Revenue		3,000
01/15/2012	Accounts Receivable	2,500	
	Service Revenue		2,500
02/01/2012	No journal entry is required.		
02/05/2012	Cash	2,500	
	Accounts Receivable		2,500
02/10/2012	Cash	3,000	
	Unearned Revenue		3,000
02/20/2012	Cash	1,940	
	Service Charge Expense	60	
	Service Revenue		2,000
02/28/2012	Salaries and Wages Expense	1,800	
	Federal Income Tax Payable		180
	FICA Taxes Payable		138
	State Income Tax Payable		55
	Local Income Tax Payable		18
	Salaries and Wages Payable		1,409

Date	Description	Debit	Credit
02/28/2012	Salaries and Wages Payable	1,409	
	Cash		1,409
02/28/2012	Payroll Tax Expense	178	
	FICA Taxes Payable		138
	State Unemployment Tax Payable		25
	Federal Unemployment Tax Payable		15
03/01/2012	Prepaid Insurance	3,300	
	Cash		3,300
03/15/2012	Unearned Revenue	3,000	
	Service Revenue		3,000
09/01/2012	Cash	5,000	
	Note Payable		5,000

Problem 2 Journal Entries for Purchases by a Merchandiser – Perpetual Inventory System

Date	Description	Debit	Credit
04/01/2012	Inventory	5,000	
	Accounts Payable – ABC Garden Supply		5,000
04/01/2012	Inventory	150	
	Cash		150
04/04/2012	Accounts Payable – ABC Garden Supply	500	
	Inventory		500
04/10/2012	Accounts Payable – ABC Garden Supply	4,500	
	Cash		4,455
	Inventory (4,500 x 1%)		45

Accounts Payable - ABC Garden Supply

Debit	Credit
	5,000
500	
	4,500

Problem 2 **Journal Entries for Purchases by a Merchandiser – Period Inventory System**

Date	Description	Debit	Credit
04/01/2012	Purchases	5,000	
	Accounts Payable – ABC Garden Supply		5,000
04/01/2012	Freight-In	150	
	Cash		150
04/04/2012	Accounts Payable – ABC Garden Supply	500	
	Purchase Returns & Allowances		500
04/10/2012	Accounts Payable – ABC Garden Supply	4,500	
	Cash		4,455
	Purchase Discounts		45

Problem 3 **Journal Entries for Sales by a Merchandiser – Perpetual Inventory System**

Date	Description	Debit	Credit
05/05/2012	Cash	200	
	Sales Revenue		200
	Cost of Goods Sold	100	
	Inventory		100
05/07/2012	Accounts Receivable – Tyler Co.	1,000	
	Sales Revenue		1,000
	Cost of Goods Sold	500	
	Inventory		500
05/10/2012	Sales Returns & Allowances	200	
	Accounts Receivable – Tyler Co.		200
	Inventory	100	
	Cost of Goods Sold		100
05/17/2012	Cash	784	
	Sales Discounts (800 x 2%)	16	
	Accounts Receivable – Tyler Co.		800

Accounts Receivable - Tyler Co.	
1,000	
	200
800	

Problem 3 **Journal Entries for Sales by a Merchandiser – Periodic Inventory System**

Date	Description	Debit	Credit
05/05/2012	Cash	200	
	Sales Revenue		200
05/07/2012	Accounts Receivable – Tyler Co.	1,000	
	Sales Revenue		1,000
05/10/2012	Sales Returns & Allowances	200	
	Accounts Receivable – Tyler Co.		200
05/17/2012	Cash	784	
	Sales Discounts	16	
	Accounts Receivable – Tyler Co.		800

Problem 4 **Adjusting Entries**

	Date	Description	Debit	Credit
		Adjusting Entries		
1.	12/31/2012	Supplies Expense	1,200	
		Supplies		1,200

Supplies	
1,500	
	1,200
300	

Supplies Expense	
1,200	

	Date	Description	Debit	Credit
2.	12/31/2012	Insurance Expense	2,750	
		Prepaid Insurance		2,750

3,300 divided by 12 = 275 per month
275 x 10 months = 2,750

Prepaid Insurance

Debit	Credit
3,300	
	2,750
550	

	Date	Description	Debit	Credit
3.	12/31/2012	Depreciation Expense	4,000	
		Accumulated Depreciation – Truck		4,000

25,000	Cost
-1,000	Salvage Value
24,000	Depreciable Cost
6	Divide by useful life
4,000	Annual Depreciation Expense

Depreciation Expense

Debit	Credit
4,000	

Accumulated Depreciation - Truck

Debit	Credit
	4,000

	Date	Description	Debit	Credit
4.	12/31/2012	Wages Expense	1,000	
		Wages Payable		1,000
5.	12/31/2012	Interest Expense	150	
		Interest Payable		150

$$\text{Face Value of Note} \times \text{Annual Interest Rate} \times \frac{\text{\# of months}}{12}$$

$$\frac{5{,}000 \times 9\% \times 4}{12} = 150$$

Date		Description	Debit	Credit
6.	12/31/2012	Accounts Receivable	1,500	
		Service Revenue		1,500
7.	12/31/2012	Unearned Revenue	2,000	
		Service Revenue		2,000

Problem 5 **FIFO, LIFO and Weighted Average**

Cost of Goods Available for Sale

Date	Units	Unit Price	Total
Beginning Inventory	150	$50	$7,500
04/15/2012 Purchase	200	$52	$10,400
06/18/2012 Purchase	150	$54	$8,100
07/10/2012 Purchase	175	$55	$9,625
09/04/2012 Purchase	75	$57	$4,275
Total	**750**		**$39,900**

FIFO

Ending Inventory	Units	Unit Price	Total
09/04/2012 Purchase	75	$57	$4,275
7/10/2012 Purchase	100	$55	$5,500
Total Ending Inventory	**175**		**$9,775**

Total Cost of Goods Available	$39,900
Less: Ending Inventory	9,775
Cost of Goods Sold	**$30,125**

LIFO

Ending Inventory	Units	Unit Price	Total
Beginning Inventory	150	$50	$7,500
4/15/2012 Purchase	25	$52	$1,300
Total Ending Inventory	**175**		**$8,800**

Total Cost of Goods Available	$39,900
Less: Ending Inventory	$8,800
Cost of Goods Sold	**$31,100**

Weighted Average

Total Cost of Goods Available for Sale	$39,900
Divide by total number of units available	750
Average price per unit	**$53.20**
Ending Inventory in units	175
Average price per unit	$53.20
Total Ending Inventory	**$9,310**
Total Cost of Goods Available	$39,900
Less: Ending Inventory	$9,310
Cost of Goods Sold	**$30,590**

Problem 6 Lower of Cost or Market

Brian would report the value of his ending inventory at the lower of cost or market. In this case, the market price is lower than his cost. Therefore, he would report his ending inventory as being $7,875 (175 units X $45.)

Problem 7 Issuance of Common Stock, Cash and Stock Dividends

Date	Description	Debit	Credit
01/15/2013	Cash	60,000	
	Common Stock (10,000 x $2)		20,000
	Paid-in Capital in Excess of Stated Value		40,000
07/01/2013	Cash Dividends	5,000	
	Dividends Payable		5,000
08/01/2013	No journal entry is required.		
08/15/2013	Dividends Payable	5,000	
	Cash		5,000
09/30/2013	No journal entry is required.		
11/15/2013	Stock Dividends (2,000 shares x $4)	8,000	
	Common Stock Dividends		
	Distributable (2,000 shares x $1)		2,000
	Paid-in capital in Excess of Stated Value		6,000

Note: There were 10,000 shares of $2 stated value common stock outstanding prior to the stock split. After the split, there were 20,000 shares of $1 stated value common stock outstanding. The stock dividend on 11/15/2013 was 10% of 20,000 shares – 2,000 shares of $1 stated value stock with a fair market price of $4 per share.

On the distribution date, Brian will make the following entry:

1/15/2014	Dividends Distributable	2,000	
	Common Stock		2,000

<u>Problem 8</u> **<u>Classify the following accounts by placing an "X" in the appropriate box.</u>**

Account	Current Assets	Property, Plant & Equipment	Current Liabilities	Long Term Liabilities	Stockholders' Equity			
					Common Stock	Retained Earnings		
						Revenue	Dividends	Expenses
Wages Payable			X					
Prepaid Ins.	X							
Acct. Receivable	X							
Equipment		X						
Utilities Expense								X
Cost of Goods Sold								X
Sales						X		
Cash	X							
Acct. Payable			X					
Common Stock					X			
Supplies	X							
Mortgage Payable				X				
Dividends							X	
Accumulated Depreciation – Equipment		X						
Unearned Revenue			X					
Dividends Payable			X					
Dividends Distributable					X			
Inventory	X							
Bonds Payable				X				
Allowance for Doubtful Accounts	X							

Problem 9 **Petty Cash**

01/02/2014	Petty Cash	200	
	Cash		200
01/31/2014	Meals Expense	30	
	Postage Expense	44	
	Transportation Expense	25	
	Freight-out	30	
	Gasoline Expense	54	
	Miscellaneous Expense	14	
	Cash		195
	Cash Over and Short		2
01/31/2014	Petty Cash	100	
	Cash		100

Problem 10 **Allowance for Doubtful Accounts**

12/31/2014	Bad Debt Expense	1,730	
	Allowance for Doubtful Accounts		1,730

Sales (all credit)	175,000
Less: Sales Returns & Allowances	2,000
Net Credit Sales	173,000
Times estimated 1% uncollectible	.01
Bad Debt Expense	1,730

Problem 11 **Recording Cost of Fixed Asset**

Cost of Land

Purchase Price	150,000
Real Estate Agent's Fee	9,000
Back taxes	6,000
Demolition of old building	11,000
Salvage	(2,300)
Total Cost of Land	173,700

03/15/2014	Land	173,700	
	Land Improvements	4,500	
	Building	7,500	
	Real Estate Tax Expense	3,300	
	Cash		189,000

Problem 12 Sale of Fixed Asset

06/30/2016	Depreciation Expense	2,000	
	Accumulated Depreciation – Equipment		2,000
06/30/2016	Cash	1,000	
	Accumulated Depreciation – Equipment	14,000	
	Loss on Disposal	1,000	
	Equipment		16,000

Equipment

16,000	
	16,000
0	

Accumulated Depreciation - Equipment

	12,000
	2,000
	14,000
14,000	
	0

Book value of the equipment at the time of the sale, after adjusting for one-half year of depreciation, was $2,000 (cost 16,000 – accumulated depreciation 14,000.) He received $1,000 cash which was $1,000 less than its book value. He therefore had a loss.

Problem 13 Calculations

1. **Net Sales** =

Sales	$124,500
Less: Sales Returns & Allowances	$12,100
Sales Discounts	$1,900
Net Sales	$110,500

2. **Book Value** = Cost
Less: Accumulated Depreciation

Truck	**Equipment**
$25,000	$16,000
- $5,000	- $4,000
$20,000	$12,000

3. **Net (cash) realizable value of accounts receivable**

=	Accounts Receivable	$35,000
	Less: Allowance for Doubtful Accounts	870
	Net realizable value of accounts receivable	$34,130

4. **Total current assets**

Cash	$28,895
Accounts Receivable	$35,000
Allowance for Doubtful Accounts	($870)
Inventory	$11,600
Supplies	$950
Prepaid Insurance	$1,400
Total Current Assets	$76,975

5. **Cost of Goods Sold**

Purchases	$60,500
Less: Purchase Returns & Allowances	$1,800
Purchase Discounts	0
Net Purchases	$58,700
Net Purchases	$58,700
Add: Freight-in	$4,250
Cost of Goods Purchased	$62,950
Beginning Inventory	$9,600
Add: Cost of Goods Purchased	$62,950
Cost of Goods Available for Sale	$72,550
Cost of Goods Available for Sale	$72,550
Less: Ending Inventory	$11,600
Cost of Goods Sold	$60,950

6. **Gross Profit** =

Net Sales	$110,500
Less: Cost of Goods Sold	$60,950
Gross Profit	$49,550

7. **Net Income or Loss**

Operating Expenses	
Wages Expense	$16,700
Depreciation Expense	9,000
Telephone Expense	5,250
Advertising Expense	6,375
Total Operating Expenses	$37,325

Gross Profit	$49,550
Less: Operating Expenses	37,325
Income from Operations	12,225
Less: Other Expenses	700
Net Income	$11,525

8. **Retained Earnings**

Beginning Balance in Retained Earnings	$26,200
Add: Net Income	11,525
	37,725
Less: Dividends	10,000
Ending Balance in Retained Earnings	$ 27,725

9. **Total Property, Plant & Equipment**

Truck	$25,000	
Less: Accumulated Depreciation – Truck	5,000	20,000
Equipment	$16,000	
Less: Accumulated Depreciation – Equip.	4,000	12,000
Total Property, Plant & Equipment		$32,000

10. **Total Current Liabilities**

Accounts Payable	$1,850
Wages Payable	300
Unearned Revenue	400
Total Current Liabilities	$2,550

11. **Total Long-term Liabilities**

Bonds Payable	$15,000
Notes Payable	5,000
Interest Payable	700
Total Long-term liabilities	$20,700

12. **Stockholders' Equity**

Common Stock	$50,000
Add: Additional Paid-in Capital	10,000
Total Paid-in Capital	60,000
Add: Retained Earnings	27,725
Total Stockholders' Equity	$87,725

Problem 14 Cost Allocation Systems

Asset	Depreciation	Depletion	Amortization
Forests		X	
Computers	X		
Oil		X	
Limited life franchise			X
Trucks	X		
Copyrights			X
Buildings	X		
Patents			X

Problem 15 Internal Controls

1.	D	8.	F
2.	B	9.	B
3.	C	10.	C
4.	F	11.	A
5.	A	12.	D
6.	E	13.	A
7.	D		

Problem 16 **Closing Entries**

Date	Description	Debit	Credit
12/31/20__	Sales	36,900	
	Rent Revenue	1,913	
	Income Summary		38,813
12/31/20__	Income Summary	36,508	
	Sales Returns & Allowances		2,100
	Sales Discounts		900
	Cost of Goods Sold		18,850
	Wages Expense		6,700
	Depreciation Expense		4,200
	Telephone Expense		858
	Advertising Expense		2,200
	Interest Expense		700
12/31/20__	Income Summary	2,305	
	Retained Earnings		2,305
12/31/20__	Retained Earnings	1,000	
	Dividends		1,000

Income Summary

36,508	38,813
	2,305
2,305	
	0

Problem 17 **Allowance for Doubtful Accounts**

Date	Description	Debit	Credit
12/31/20__	Bad Debt Expense	6,658	
	Allowance for Doubtful Accounts		6,658

The aging schedule calculates the required balance in Allowance for Doubtful Accounts. Since Allowance for Doubtful Accounts had a beginning credit balance of 1,290, the adjusting entry would be for the difference between the beginning balance and the required balance.

Problem 18 **Bank Reconciliation**

Josh's Computer Repair, Inc.
Bank Reconciliation
September 30, 2013

Cash Balance per Bank Statement		$8,392
Add: Deposits in Transit		560
		8,952
Less: Outstanding Checks		1,618
Adjusted Cash Balance Per Bank Statement		$7,334
Cash Balance per Books		$6,249
Add: Collection of Note Receivable $1,500 plus interest $45.00,		
Less collection fee of $15.00		1,530
		7,779
Less: NSF Check	$406	
Error in recording check #8249	36	
Bank Service Fee	3	
		445
Adjusted Cash Balance Per Books		$7,334

Adjusting Entries

		Debit	Credit
a)	Cash	1,530	
	Miscellaneous Expense	15	
	Note Receivable		1,500
	Interest Revenue		45
	(To record receipt of Notes Receivable plus interest less fee)		
b)	Accounts Receivable	406	
	Cash		406
	(To record return of NSF check)		
c)	Accounts Payable	36	
	Cash		36
	(To correct error in recording check #8249)		
d)	Miscellaneous Expense	3	
	Cash		3
	(To record bank service charge fee)		

Problem 19 **Bonds Payable**

a)	Cash	103,000	
	Bonds Payable		100,000
	Premium on Bonds Payable		3,000
b)	Cash	96,000	
	Discount on Bonds Payable	4,000	
	Bonds Payable		100,000

Problem 20 **Bonds Payable**

a) 100,000 Bonds Payable
-94,000 Cash Received
6,000 Discount on Bonds Payable

b)

Total Interest to be Paid	$40,000
Discount on Bonds Payable	6,000
Total Cost of Borrowing	$46,000

c) Bond Discount / # of interest periods = Bond Discount Amortization
6,000 10 = 600

d)

Interest Expense	4,600	
Cash		4,000
Discount on Bonds Payable		600

e)

Bonds Payable	100,000	
Less: Discount on Bonds Payable	4,800	(6,000 – 600 – 600 = 4,800)
Carrying Value of Bonds Payable	95,200	

Problem 21 **Stock Dividends vs. Stock Splits**

	Before	**After Dividend**	**After Stock Spit**
Stockholders' Equity			
Paid in Capital			
Common Stock	500,000	550,000	500,000
Paid in Capital in Excess of Par Value – Common Stock	0	100,000	0
Total Paid in Capital	500,000	650,000	500,000
Retained Earnings	1,200,000	1,050,000	1,200,000
Total Stockholders' Equity	1,700,000	1,700,000	1,700,000
Outstanding Shares	100,000	150,000	200,000
Par Value per Share	5.00	5.00	2.50

Stock Dividend Calculations

1. 500,000 / $5 par value = 100,000 shares
2. 100,000 shares X 10% stock dividend = 10,000 dividend shares
3. 10,000 X $15 market price = $150,000 total value of 10,000 shares of stock
4. Dividends would be debited for $150,000
5. Common stock dividends distributable would be credited for the par value of the stock – $50,000
6. Paid in Capital in Excess of Par Value – Common Stock would be credited for $100,000
7. On the distribution date, the Common Stock Dividends Distributable is debited and Common Stock is credited for $50,000

Problem 22 **Cash Flow Statement**

a) Financing Activities
b) Investing Activities
c) Financing Activities
d) Financing Activities
e) Investing Activities for the sale; Operating Activities for the Gain
f) Operating Activities
g) Non-cash Investing and Financing Activities
h) Operating Activities
i) Investing Activities for the sale; Operating Activities for the Loss
j) Non-cash Investing and Financing Activities