

EXAM REVIEW ACCOUNTING 101 – UNIT IV – CHAPTERS 10, 11, 12 and COMPREHENSIVE FINAL EXAM

STUDY SUGGESTIONS

Review your class notes, homework exercises and problems.

Be sure to review any chapter appendices assigned on the General Course Outline.

Review **Demonstration Problem, Summary and Key Terms** at the end of each chapter.

Answer the **Multiple Choice Quiz** at the end of each chapter.

Answer **Multiple Choice Quiz A and B** on the textbook website www.mhhe.com/wild .

Know accounting terms and concepts by answering the **Discussion Questions** at the end of each chapter.

Know the account classification (i.e. asset, liability, or owner's equity) and normal balance of all accounts.

Know what the financial ratios mean and how to calculate them.

Other online help is available at a variety of sites such as:

<http://www.cliffsnotes.com/WileyCDA/Section/id-305261.html>

<http://www.simplestudies.com/>

Chapter 10 – Accounting for Long-Term Liabilities

Know the characteristics of a bond and various types of bonds.

Understand the concept of present value and how to use the present value tables.

Be able to compute the price that a buyer is willing to pay for a bond.

Know the difference between a bond premium and discount and the effect on accounting for bonds payable.

- Discount: bond interest rate less than market/effective interest rate
 - cash proceeds less than face amount of bonds
 - annual interest expense will be greater than cash interest payments due to the amortization of the discount
 - carrying value will be less than the face amount throughout the term of the bonds
 - discount account always has a debit balance
- Premium: bond interest rate greater than market/effective interest rate
 - cash proceeds greater than face amount of bonds
 - annual interest expense will be less than cash interest payments due to the amortization of the discount
 - carrying value will be greater than the face amount throughout the term of the bonds
 - premium account always has a credit balance

Be able to amortize a bond discount or premium and journalize the amortization.

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Know what a sinking fund is and how it is used.

Be able to journalize the redemption of bonds payable at par or at a premium or discount.

Chapter 11 Accounting for Equity

Understand the characteristics of a corporation.

Be able to journalize entries for issuing stock at par or at a premium.

Be able to journalize the entries for treasury stock transactions.

Be able to journalize the entries for cash dividends and stock dividends.

Cash dividends are paid in cash. To calculate the dollar value of the cash dividend, multiply the number of shares by the amount of the dividend declared per share.

Stock dividends are paid in shares of stock. To determine the number of shares, multiply the number of shares outstanding by the stock dividend percentage. To calculate the dollar value of the stock dividend, multiply the number of shares by the market price.

Understand the effect of stock splits.

Be able to compute dividends per share for common and preferred stock.

Chapter 12 – Accounting for Cash Flows

Understand the purpose for preparing the Statement of Cash Flows.

Know the three categories of cash flow activities and what types of receipts and disbursements are included in each.

Know the two methods of preparing the cash flows from operating activities section.

Be able to prepare the operating activities section of a cash flow statement using the indirect method.

Understand how to report investing and financing activities that do not involve cash.

Be able to classify dividends paid on the cash flow statement.

SAMPLE PROBLEMS – CHAPTERS 10, 11, 12

Problem 1 - Entries for issuing bonds and amortizing the discount by the straight-line method

On January 1, 1998, the Sparkle Corporation issued \$10,000,000 of five-year, 10% bonds to finance its operations. Interest is payable semiannually. The bond was issued at an effective interest rate of 12% resulting in the company receiving cash of \$9,264,050. Journalize the entries to record the following:

- a. Sale of the bonds
- b. First semiannual interest payment (amortization is to be recorded annually)
- c. Second semiannual interest payment
- d. Amortization of discount at the end of the first year using the straight-line method
- e. Determine the amount of bond interest expense for the first year.

Problem 2 - Entries for issuing bonds and amortizing the premium by the straight-line method

On January 1, 1998, the Sparkle Corporation issued \$10,000,000 of five-year, 10% bonds to finance its operations. Interest is payable semiannually. The bond was issued at an effective interest rate of 8% resulting in the company receiving cash of \$10,811,090. Journalize the entries to record the following:

- a. Sale of the bonds
- b. First semiannual interest payment (amortization is to be recorded annually)
- c. Second semiannual interest payment
- d. Amortization of discount at the end of the first year using the straight-line method
- e. Determine the amount of bond interest expense for the first year.

Problem 3 - Entry for calling bonds; loss

Gerber Corporation issued \$10,000,000 of 10 year, 10% bonds callable on January 1, 1999. The bonds were issued for cash at their face amount. Journalize the entry to record the call of the bonds at 101.

Problem 4 - Journalizing Stock Transactions

Journalize each of the following transactions of Chicago Carpet World.

- a. Issued for cash 20,000 shares of \$10 par common stock at \$20 per share.
- b. Reacquired 2,000 shares of its common stock at \$16 per share.
- c. Sold 500 of the reacquired shares for \$12 per share.
- d. Sold the remaining 1,500 shares at \$21 per share.
- e. Declared a \$1 per share cash dividend.

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- f. Declared a 5% stock dividend when the market price of the common stock was \$30 per share.
- g. Paid the cash dividend.
- h. Issued the stock certificates from the stock dividend in (f)
- i. Declared a 2 for 1 stock split.

Problem 5 - Dividends per share

Slick, Inc., a computer consulting company, has stock outstanding as follows: 10,000 shares of \$8 (8%) nonparticipating, noncumulative preferred stock of \$100 par, and 50,000 shares of \$25 par common. During its third year of operation, the corporation paid a dividends of \$167,500. Calculate the dividends per share for each class of stock.

Problem 6 - Entries for issuing par stock

On June 1, Chicago Carpet World, a carpet retailer, issued for cash 10,000 shares of \$20 par common stock at \$24. On July 1, it issued for cash 5,000 shares of \$10 par preferred stock at \$14.

- a. Journalize the entries for the issuance of stock
- b. What is the total amount invested (total paid-in capital) by stockholders as of July 1.

Problem 7 - Treasury Stock transaction

On June 1 of the current year, Roma Inc., a distributor of Italian food products, reacquired 2,000 shares of its common stock at \$32 per share. On July 15, Roma Inc. sold 500 of the reacquired shares at \$41 per share. The remaining 1,500 shares were sold at \$30 per share on November 12.

- a. Journalize the transactions of June 1, July 15, and November 12.
- b. What is the balance of Paid-in Capital from Sale of Treasury Stock on December 31 of the current year?

Problem 8 - Entries for stock dividend

The board of directors of Home Value Inc., a small chain of home centers, declared a 5% stock dividend when the market price of the common stock was \$40 per share. Prior to the stock dividend, the following account balances appear on the balance sheet:

Common Stock, \$25 par, 10,000 shares	\$250,000
Paid-in Capital in excess of par-Common Stock	50,000
Retained Earnings	<u>150,000</u>
Total Stockholders' Equity	\$450,000

- a. Journalize the entries to record the declaration of the dividend, capitalizing an amount equal to the market value and the issuance of the stock certificates.
- b. What is the total stockholder's equity, at year end, after the issuance of the stock dividend?

Problem 9 - Entries for cash dividend

On November 15, the board of directors of Parker Corporation declared a cash dividend of 1.00 per share on the 50,000 shares common stock outstanding to stockholders of record on November 30, payable on December 15.

Journalize the required entries.

Problem 10 - Effect of stock split

Super Clean Corporation, which had 10,000 shares of common stock outstanding, declared a 3 for 1 stock split.

- a. What will be the number of shares outstanding after the split?
- b. If the common stock had a market value of \$90 per share before the split what would be an approximate market price per share after the split?

Problem 11 - Stockholders' Equity section of a balance sheet

The following accounts and their balances appear in the ledger of The Salty Dog, a company that sells boats and accessories, on December 31, the end of the current fiscal year:

Common Stock \$10 par	\$750,000
Paid-in Capital in Excess of Par-Common Stock	150,000
Paid-in Capital in Excess of Par-Preferred Stock	50,000
Paid-in Capital from Sale of Treasury Stock-Common	14,000
Preferred \$5 Stock, \$100 par.....	500,000
Retained Earnings	617,000
Treasury Stock-Common.....	18,000

There are 2,000 shares of common stock held as treasury stock; 250,000 of common stock and 20,000 shares of preferred stock are authorized.

Prepare the Stockholders' Equity section of the balance sheet as of December, the end of the current year using the format below:

Stockholders' Equity

Paid-in capital:

Preferred \$__stock, \$__par (_____shares authorized, _____shares issued)	\$_____	
Excess of issue price over par	_____	\$_____
Common stock, \$__par (_____shares authorized, _____shares issued)	_____	
Excess of issue price over par	_____	_____
From sales of treasury stock	_____	_____
Total paid-in capital		\$_____
Retained earnings		_____
Total		\$_____
Deduct treasury common stock (_____shares at cost)		_____
Total stockholder' equity		<u>\$_____</u>

Problem 12 - Identify the type of cash flow activity

Identify the type of cash flow activity (operating, investing, or financing) for each of the following transactions:

- payment of cash dividends
- sale of land
- issuance of bonds
- redemption of bonds
- purchase of bonds as an investment
- sale of treasury stock
- issuance of preferred stock
- purchase of equipment

Problem 13 - State the effect on cash flow

State the effect on cash flow (increase or decrease and the amount) of each of the following transactions, considered individually:

- Issued 10,000 shares of \$10 par common stock for \$15 per share, receiving cash.
- Sold investment, which cost \$72,000 for \$62,000.
- Issued \$ 1,000,000 of 10 year 8 % bonds at 98.
- Purchased 2,000 shares of \$10 par common stock as treasury stock at \$25 per share.
- Redeemed bonds with a face value of \$250,000 and a carrying value of \$248,000 for \$252,500.

- f. Sold land which cost \$75,000 for \$ 90,000
- g. Sold 1,000 shares of treasury stock, which cost \$25 per share for \$30 per share.

Problem 14 - State the effect on cash flow

Fully depreciated equipment costing \$10,000 was discarded. What was the effect of the transaction on cash flow if:

- a. there was no salvage value and no cash was received
- b. \$500 in cash is received?

Problem 15 - Cash dividends paid

The board of directors declared cash dividends totaling \$85,000 during the current year. The comparative balance sheet indicates dividends payable of \$15,000 at the beginning of the year and \$25,000 at the end of the year. What was the amount of cash dividends paid to stockholders during the year?

Problem 16 - State the effect on cash flow from operating activities

. The balances of the current asset and current liability accounts at the beginning and end of the year are listed below. Determine if the balance increased or decreased and indicate whether each of the following would be added to or deducted from net income in determining the net cash flow from operating activities using the indirect method.

	<u>End of Year</u>	<u>Beginning of Year</u>	<u>Increase (Decrease)</u>	<u>Add or Deduct</u>
a. Accounts receivable	74,000	84,100		
b. Prepaid expenses	5,100	6,600		
c. Accounts payable	39,400	33,200		
d. Salaries payable	5,000	7,000		

Problem 17 - State the effect on cash flow from operating activities

Net income for the current year was \$92,150. Depreciation expense was \$26,500. The balances of the current asset and current liability accounts at the beginning and end of the year are listed below. Prepare the cash flows from operating activities section of the statement of cash flows using the indirect method.

	<u>End of Year</u>	<u>Beginning of Year</u>	<u>Increase (Decrease)</u>	<u>Add or Deduct</u>
a. Cash	61,500	56,250		
b. Accounts receivable	81,250	74,100		
c. Inventories	103,000	81,000		
d. Prepaid expenses	6,100	7,600		
e. Accounts payable	49,400	51,200		
f. Salaries payable	6,500	5,200		

SAMPLE PROBLEMS – CHAPTERS 1 THROUGH 9

Problem 18 - Accounting Equation and Changes in Owner's Equity

John Smith is the sole stockholder and operator of Acme Business Solutions. On January 1, 2000 Acme had assets of \$175,000 and liabilities of \$90,000. At the end of its accounting period, December 31, 2000, Acme has assets of \$250,000 and liabilities of \$130,000. Determine the following amounts:

- a. What is owner's equity on January 1, 2000 and December 31, 2000?
- b. What was the net income for the year assuming John Smith made an additional investment of \$45,000 and dividends of \$60,000 were paid?

Problem 19 - Debits and Credits

Fill in the blanks with the words Debit or Credit:

- a. An asset is decreased by a _____.
- b. Liability accounts are increased by a _____.
- c. An expense account is increased by a _____.
- d. A revenue account is increased by a _____.
- e. The retained earnings account is decreased by a _____.
- f. The normal balance of Notes Payable is a _____.
- g. The normal balance of Accumulated Depreciation is _____.
- h. The normal balance of Unearned Fees is _____.
- i. The normal balance of Preferred Stock is _____.
- j. The normal balance of Treasury Stock is _____.
- k. The Dividend account is increased with a _____.
- l. The Accounts Receivable account is increased with a _____.
- m. The Sales Discount account is increased with a _____.
- n. The Merchandise Inventory account is decreased with a _____.
- o. The Allowance for Doubtful Accounts is decreased with a _____.

Problem 20 - Accruals and Deferrals

Make adjusting entries for the following situations:

- a. The balance of Prepaid Insurance as of 1/1/00 was \$4,800. This represented the remaining 4 years of an insurance policy. What entry is required on 12/31/00?

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- b. On November 21, 2000 we received a \$120,000, 12%, 90-day note from a customer on account. Journalize the adjusting entry needed on December 31, 2000 to accrue interest earned.
- c. The Merchandise Inventory account shows a balance of \$240,000, however a physical count taken at year-end indicates inventory of \$228,000. Make an adjusting entry for the inventory shrinkage.
- d. The balance of the Unearned Fees account, before adjustment at the end of the year, is \$10,500. Journalize the adjusting entry required if the amount of unearned fees at the end of the year is \$7,800.
- e. Doctor Jones, a professional corporation, owed his staff \$5,400 for wages earned but not yet paid on December 31. Which items on the income statement and/or the balance sheet will be overstated or understated?

Problem 21 - Permanent and Temporary Accounts

For each of the following accounts indicate whether it is:

IS – closed to Income Summary

RE – closed to Retained Earnings

P – permanent account and not closed

- a. Fees Earned
- b. Income Summary
- c. Accounts Receivable
- d. Supplies Expense
- e. Rent Expense
- f. Interest Income
- g. Insurance Expense
- h. Unearned Fees
- i. Capital Stock
- j. Prepaid Insurance
- k. Misc. Expense
- l. Dividends

Problem 22 - Purchase and Sales Transactions

Journalize the following transactions made by a merchandising company

- a. Purchased merchandise on account from a supplier for \$20,000, terms 2/10, n/30, FOB shipping point with transportation costs of \$200 paid by the seller and added to the invoice.

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- b. Merchandise is sold on account to a customer for \$12,000, terms 1/10, n/30 FOB destination. The merchandise cost \$9,000.
- c. Paid transportation costs of \$600 for the merchandise sold in (b).
- d. Returned \$1,500 of merchandise purchased in (a) and received a credit memorandum for the return.
- e. The customer in (b) returned \$800 of merchandise. The cost of the merchandise returned was \$600.
- f. Paid for the merchandise purchased in (a), less return (d) within the discount period.
- g. Received payment from the customer in (b) less the return (e) and discount.

Problem 23 - Bank Reconciliation and related journal entries

For each of the following indicate whether you would (a) add to the bank's balance, (b) deduct from the bank's balance, (c) add to the depositor's record or (d) deduct from the depositor's record.

- a. Cash received on account of \$820 was recorded as \$280.
- b. Deposit of \$4,000 made late on the last day of the month was not recorded on the bank statement.
- c. Bank service charges were \$35.
- d. The bank, because of insufficient funds, returned a check of a customer in the amount of \$375.
- e. There were outstanding checks at the end of the month of \$480.
- f. A short-term, non-interest bearing note in the amount of \$2,500 was collected by the bank.
- g. A check written in payment of a supplier's invoice in the amount of \$350 was recorded as \$35.

Record the journal entry for each of the above items that would require adjustment in the journal.

Problem 24 - Cash Short and Over and Petty Cash Entries

Journalize the following transactions.

- a. Record cash sales for the week if the actual cash received was \$14,275.40 and the amount indicated by the cash register tape was \$14,263.75.
- b. Established a petty cash fund in the amount of \$300.

- c. Record cash sales for the week if the actual cash received was \$12,880.20 and the amount indicated by the cash register tape was \$12,884.50.
- d. Replenished the petty cash fund, which had decreased to \$60. The following petty cash receipts were turned in: Supplies \$125, Postage \$45, Misc. Adm. \$38 and Delivery Expense \$32.

Problem 25 - Uncollectible Accounts Expense

Before year-end adjustment, the Allowance for Doubtful Accounts has a credit balance of \$35,000. Uncollectible accounts are estimated as 1% of credit sales, which were \$2,500,000. The accounts receivable balance is \$725,000.

- a. What is the uncollectible accounts expense for the period?
- b. What is the journal entry required?
- c. What is the balance of the Allowance for Doubtful Accounts after adjustment?
- d. What is the net realizable value of the receivables after adjustment?

Before the year-end adjustment the Allowance for Doubtful Accounts has a debit balance of \$8,000. Using the aging of receivables method, the desired balance of the Allowance for Doubtful Accounts is estimated as \$42,000.

- a. What is the uncollectible accounts expense for the period?
- b. What is the journal entry required?
- c. What is the balance of the Allowance for Doubtful Accounts after adjustment?
- d. If the accounts receivable balance is \$345,000, what is the net realizable value of the receivables after adjustment?

Problem 26 - Entries for receipt and dishonor of note receivable

A 90-day, 12% note for \$15,000, dated March 1 is received from a customer on account. The note is discounted on March 11 at 15%. The note is dishonored by the maker, and the bank charges a protest fee of \$50.

- a. What is the journal entry to record the receipt of the note?
- b. What is the due date and maturity value of the note?
- c. What is the amount of the discount?
- d. What are the proceeds?

- e. What is the journal entry to record the discounting of the note?
- f. What is the journal entry to record the dishonor of the note receivable?

Problem 27 - Perpetual inventory using FIFO and LIFO

The company uses a perpetual inventory system. On the basis of the following inventory, purchases and sales data, determine the cost of the merchandise sold and the value of the ending inventory using (a) FIFO and (b) LIFO.

January 1	Inventory	30 units @ \$20.00
February 15	Sale	15 units
March 10	Purchase	40 units @ \$22.00
May 30	Sale	45 units
July 31	Purchase	25 units @ \$23.00
October	Sale	15 units

Problem 28 - Periodic Inventory by three methods

There are 50 units of the item in the physical inventory at December 31. The periodic inventory system is used. The units of an item available for sale during the year were as follows:

January 1	Inventory	60 units @ \$18.00
March 10	Purchase	55 units @ \$17.00
July 31	Purchase	40 units @ \$16.00
November 5	Purchase	45 units @ 15.00

- a. Determine the cost of the ending inventory by the FIFO method.
- b. Determine the cost of the ending inventory by the LIFO method.
- c. Determine the cost of the ending inventory by the average cost method.

Problem 29 - Inventory Estimation Methods

On the basis of the following data, estimate the cost of merchandise inventory at January 31 by the retail method:

		Cost	Retail
January 1	Merchandise Inventory	\$165,000	\$250,000
Jan 1-31	Purchases (net)	375,000	650,000
	Sales (net) for January		500,000

Zimmer Hardware's inventory was destroyed by a fire on February 15. The following data was obtained from the accounting records, which he kept at home. Estimate the cost of merchandise destroyed on February 15.

January 1	Merchandise Inventory	\$80,000
	Purchases	120,000
	Sales	200,000
	Gross Profit Percentage	30%

Problem 30 - Depreciation by Three methods

A truck that cost \$300,000 has a residual value of \$20,000 and an estimated useful life of 8 years or 100,000 miles. Calculate the depreciation for years 1 and 2 using:

- The straight-line method
- The units of production method if the truck is driven 34,000 miles in year 1 and 22,000 miles in year 2.
- The declining balance method at twice the straight-line rate.

Problem 31 - Disposal of Fixed Asset

Machinery acquired on January 1, 1992 at a cost of \$150,000 had an estimated residual value of \$10,000 and an estimated life of 10 years. It was sold on July 1, 1998 for \$61,000.

- What was the annual depreciation using the straight-line method?
- What was the book value on July 1, 1998 when it was sold? Is there a gain or loss?
- Journalize the entry to record the sale, including the depreciation for the current year.

Problem 32 - Asset trade for similar asset

A truck with a cost of \$60,000 and accumulated depreciation of \$54,500 is traded for a new truck priced at \$75,000.

- Answer the following questions assuming a trade-in allowance of \$4,000.
- Answer the following questions assuming a trade-in allowance of \$10,000.
 - What is the book value of the old truck? Is there a gain or loss on the trade-in?
 - What is the cost of the new truck for financial reporting purposes?
 - Journalize the entry to record the purchase.

SOLUTIONS TO SAMPLE PROBLEMS

CHAPTERS 10, 11, 12

Problem 1 - Entries for issuing bonds and amortizing the discount by the straight-line method

- | | | |
|---------------------------|---|------------|
| a. Cash | 9,264,050 | |
| Discount on B/P | 735,950 | |
| Bonds Payable | | 10,000,000 |
| b. Interest Expense | 500,000 | |
| Cash | | 500,000 |
| c. Interest Expense | 500,000 | |
| Cash | | 500,000 |
| d. Interest Expense | 147,190 | |
| Discount on B/P | | 147,190 |
| | (735,950/5 years = 147,190) | |
| e. Bond Interest Expense: | $500,000 + 500,000 + 147,190 = 1,147,190$ | |

Problem 2 - Entries for issuing bonds and amortizing the premium by the straight-line method

- | | | |
|---------------------------|---|------------|
| a. Cash | 10,811,090 | |
| Premium on B/P | | 811,090 |
| Bonds Payable | | 10,000,000 |
| B. Interest Expense | 500,000 | |
| Cash | | 500,000 |
| c. Interest Expense | 500,000 | |
| Cash | | 500,000 |
| d. Premium on B/P | 162,218 | |
| Interest Expense | | 162,218 |
| | (811,090/5 years = 162,218) | |
| e. Bond Interest Expense: | $500,000 + 500,000 - 162,218 = 837,782$ | |

Problem 3 - Entry for calling bonds; loss

- | | | |
|--------------------|------------|------------|
| Bonds Payable | 10,000,000 | |
| Loss on Redemption | 100,000 | |
| Cash | | 10,100,000 |

Problem 4 - Journalizing Stock Transactions

- | | | |
|---|---------|---------|
| a. Cash | 400,000 | |
| Common Stock | | 200,000 |
| PIC in excess of par – common stock | | 200,000 |
| | | |
| b. Treasury Stock | 32,000 | |
| Cash | | 32,000 |
| | | |
| c. Cash | 6,000 | |
| PIC from sale of treasury stock | 2,000 | |
| Treasury Stock | | 8,000 |
| | | |
| d. Cash | 31,500 | |
| Treasury Stock | | 24,000 |
| PIC from sale of treasury stock | | 7,500 |
| | | |
| e. Cash Dividends | 20,000 | |
| Cash dividends payable | | 20,000 |
| | | |
| f. Stock Dividends | 30,000 | |
| Stock dividends distributable | | 10,000 |
| PIC in excess of par – common stock | | 20,000 |
| | | |
| g. Cash dividends payable | 20,000 | |
| Cash | | 20,000 |
| | | |
| h. Stock dividends distributable | 10,000 | |
| Common Stock | | 10,000 |
| | | |
| i. No entries are required for a stock split. Shares increase to 40,000 and par decreases to \$5 per share. | | |

Problem 5 - Dividends per share

Preferred Stock Dividend: \$8 per share X 10,000 shares =\$80,000

Total dividends paid \$167,500 - \$80,000 to preferred shareholders
= \$87,500 for common shareholders

Common Stock Dividend: \$87,500 / 50,000 shares = \$1.75 per share

Problem 6 - Entries for issuing par stock

a. June 1:

Cash	240,000	
Common Stock		200,000
Paid-in Capital in Excess of Par –		
Common Stock		40,000

July 1:

Cash	70,000	
Preferred Stock		50,000
Paid-in Capital in Excess of Par –		
Preferred Stock		20,000

b. Total amount invested by all stockholders as of July 1, \$310,000
(\$240,000 + \$70,000)

Problem 7 - Treasury Stock transactions

a. June 1:

Treasury Stock	64,000	
Cash		64,000

July 15:

Cash	20,500	
Treasury Stock		16,000
Paid-in Capital from		
Sale of Treasury Stock		4,500

Nov 12:

Cash	45,000	
Paid-in Capital from		
Sale of Treasury Stock	3,000	
Treasury Stock		48,000

b. Credit balance of \$1,500

Problem 8 - Entries for stock dividend

a. Stock Dividends	20,000	
(10,000 shares x 5% x \$40)		
Stock Dividends Distributable		12,500
Paid-in Capital in excess of par- Common Stock		7,500
 Stock Dividends Distributable	12,500	
Common Stock		12,500

b. Total Stockholders' Equity after the stock dividend is \$450,000 (the same as it was before the stock split)

Problem 9 - Entries for cash dividend

Nov 15:		
Cash Dividends	50,000	
Cash Dividends Payable		50,000
 Nov 30:		
No entry required		
 Dec 15:		
Cash Dividends Payable	50,000	
Cash		50,000

Problem 10 - Effect of stock split

- a. 30,000 shares
- b. \$30 per share

Problem 11 - Stockholders' Equity section of balance sheet

Stockholders' Equity

Paid-in capital:

Preferred \$5 stock, \$100 par (20,000 shares authorized, 5,000 shares issued)	\$500,000	
Excess of issue price over par	<u>50,000</u>	\$ 550,000
Common stock, \$10 par (250,000 shares authorized, 75,000 shares issued)	750,000	
Excess of issue price over par	<u>150,000</u>	900,000
From sales of treasury stock	<u>14,000</u>	
Total paid-in capital		\$1,464,000
Retained earnings		<u>617,000</u>
Total		\$2,081,000
Deduct treasury common stock (2,000 shares at cost)		<u>18,000</u>
Total stockholder' equity		<u>\$2,063,000</u>

Problem 12 - Identify the type of cash flow activity

- a. payment of cash dividends - **financing**
- b. sale of land - **investing**
- c. issuance of bonds - **financing**
- d. redemption of bonds - **financing**
- e. purchase of bonds as an investment - **investing**
- f. sale of treasury stock - **financing**
- g. issuance of preferred stock - **financing**
- h. purchase of equipment – **investing**

Problem 13 - State the effect on cash flow

- a. Issued 10,000 shares of \$10 par common stock for \$15 per share, receiving cash.
Increase in cash of \$150,000
- b. Sold investment which cost \$72,000 for \$62,000.
Increase in cash of \$62,000
- c. Issued \$ 1,000,000 of 10 year 8 % bonds at 98.
Increase in cash of \$980,000
- d. Purchased 2,000 shares of \$ 10 par common stock as treasury stock at \$25 per share.
Decrease in cash of \$50,000

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e. Redeemed bonds with a face value of \$250,000 and a carrying value of \$248,000 for \$252,500.

Decrease in cash of \$252,500

f. Sold land which cost \$75,000 for \$ 90,000

Increase in cash of \$90,000

g. Sold 1,000 shares of treasury stock which cost \$25 per share for \$30 per share.

Increase in cash of \$30,000

Problem 14 - State the effect on cash flow

a. No effect on cash flow

b. Increase in cash of \$500

Problem 15 - Cash dividends paid

Cash dividends declared \$85,000

Plus dividends payable at beginning of year 15,000

Less Dividends payable at end of year (25,000)

Cash dividends paid during year \$75,000

Problem 16 - State the effect on cash flow from operating activities

	<u>End of Year</u>	<u>Beginning of Year</u>	<u>Increase (Decrease)</u>	<u>Add or Deduct</u>
a. Accounts receivable	74,000	84,100	Decrease	Add
b. Prepaid expenses	5,100	6,600	Decrease	Add
c. Accounts payable	39,400	33,200	Increase	Add
d. Salaries payable	5,000	7,000	Decrease	Deduct

Problem 17 - State the effect on cash flow from operating activities

	<u>End of Year</u>	<u>Beginning of Year</u>	<u>Increase (Decrease)</u>	<u>Add or Deduct</u>
g. Cash	61,500	56,250	5,250	
h. Accounts receivable	81,250	74,100	7,150	Deduct
i. Inventories	103,000	81,000	22,000	Deduct
j. Prepaid expenses	6,100	7,600	(1,500)	Add
k. Accounts payable	49,400	51,200	(1,800)	Deduct
l. Salaries payable	6,500	5,200	1,300	Add

Cash flows from operating activities section of the Statement of Cash Flows:

Cash flows from operating activities:

Net income per income statement		\$92,150
Add: Depreciation	26,500	
Decrease in Prepaid expenses	1,500	
Increase in Salaries payable	<u>1,300</u>	<u>29,300</u>
		121,450
Deduct: Increase in Accounts receivable	7,150	
Increase in Inventories	22,000	
Decrease in Accounts payable	<u>1,800</u>	<u>30,950</u>
Net cash flow from operating activities		<u><u>\$90,500</u></u>

SOLUTIONS TO SAMPLE PROBLEMS CHAPTERS 10, 11, 12

Problem 18 - Accounting Equation and Changes in Owner's Equity

- a. $A = L + OE: 175,000 = 90,000 + 85,000$
 $250,000 = 130,000 + 120,000$
- b. $85,000 + 45,000 - 60,000 + \text{Net Income} = 120,000$
 $\text{Net Income} = 50,000$

Problem 19 - Debits and Credits

- a. Credit
- b. Credit
- c. Debit
- d. Credit
- e. Debit
- f. Credit
- g. Credit
- h. Credit
- i. Credit
- j. Debit
- k. Debit
- l. Debit
- m. Debit
- n. Credit
- o. Debit

Problem 20 - Accruals and Deferrals

- | | | |
|-----------------------------|----------------------------------|--------|
| a. Insurance Expense | 1200 | |
| Prepaid Insurance | | 1200 |
| b. Interest Receivable | 1600 | |
| Interest Revenue | | 1600 |
| c. Cost of Merchandise Sold | 12,000 | |
| Merchandise Inventory | | 12,000 |
| d. Unearned Fees | 2700 | |
| Fees Earned | | 2700 |
| e. Income Statement: | Expenses are understated | |
| | Net Income is overstated | |
| f. Balance Sheet: | Liabilities are understated | |
| | Retained Earnings are overstated | |

Problem 21 - Permanent and Temporary Accounts

- a. IS
- b. RE
- c. P
- d. IS
- e. IS
- f. IS
- g. IS
- h. P
- i. P
- j. P
- k. IS
- l. RE

Problem 22 - Purchase and Sales Transactions

A. Merchandise Inventory	20,200	
A/P		20,200
b. A/R		12,000
Sales		12,000
COMS	9,000	
Mdse Inventory		9,000
c. Transportation Out	600	
Cash		600
d. A/P		1,500
Mdse Inventory		1,500
e. Sales Returns & Allowances	800	
A/R		800
Merchandise Inventory	600	
COMS		600
f. A/P		18,700
Cash		18,330
Mdse Inventory		370
(20,000-1,500) x 2% = 370 discount		
18,500 – 370 disc + 200 shipping cost = 18,330 cash		
g. Cash	11,088	
Sales Discount	112	
A/R		11,200
(12,000-800) x 1% = 112 discount 11,200 – 112 disc = 11,088 cash		

Problem 23 - Bank Reconciliation and related journal entries

- a. Add to depositor's balance
- b. Add to bank's balance
- c. Deduct from depositor's balance
- d. Deduct from depositor's balance
- e. Deduct from bank's balance
- f. Add to depositor's balance
- g. Deduct from depositor's balance

Journal entries required:

Cash	3,040	
A/R		540
N/P		2,500
Miscellaneous Expense	35	
A/R		375
A/P		315
Cash		725

Problem 24 - Cash Short and Over and Petty Cash Entries

a. Cash	14,275.40	
Cash Short & Over		11.65
Sales		14,263.75
B. Petty Cash	300.00	
Cash		300.00
c. Cash	12,880.20	
Cash Short & Over	4.30	
Sales		12,884.50
d. Supplies	125.00	
Postage Expense	45.00	
Misc. Adm. Expense	38.00	
Delivery Expense	32.00	
Cash		240.00

- ### **Problem 26 - Entries for receipt and dishonor of note receivable**

- ### Problem 27 - Perpetual inventory using FIFO and LIFO

- ### **Problem 28 - Periodic Inventory by three methods**

- a. FIFO: Ending Inventory (50 units) = 45 @ \$15 + 5 @ \$16 = \$755
- b. LIFO: Ending Inventory (50 units) = 50 @ \$18 = \$900

c. Average Cost:

Jan 1	60 units @ \$18	\$1,080	
Mar 10	55 units @ \$17	935	
July 31	40 units @ \$16	640	
Nov 5	<u>45 units @ \$15</u>	<u>675</u>	
Total	200 units	\$3,330	$\$3,330 / 200 = \$16.65/\text{unit}$

$$\text{Ending Inventory} = 50 * \$16.65 = \$832.50$$

Problem 29 - Inventory Estimation Methods

a.

	Cost	Retail	Cost to Retail %	
Merchandise Inventory	\$165,000	\$250,000		
+ Purchases	<u>375,000</u>	<u>650,000</u>		
Available For Sale	540,000	900,000	60%	= 540,000/900,000
- Sales (Cost of Merchandise Sold @ retail)		<u>500,000</u>		
= Ending Inventory @ retail		400,000		
Ending Inventory @ cost	240,000			= 400,000 * 60%

b. Merchandise Inventory	\$80,000	
+ Purchases	<u>120,000</u>	
Available For Sale	200,000	
- Cost of Merchandise Sold	<u>140,000</u>	= 200,000 - (200,000 * 30%)
Ending Inventory	60,000	

Problem 30 - Depreciation by three methods

- a. Straight-line: $(\$300,000 - 20,000)/8 \text{ years} = \$35,000 \text{ per year}$
- b. Units of Production: $(\$300,000 - 20,000)/100,000 \text{ miles} = \2.80 per mile
 Year 1: $34,000 * \$2.80 = \$95,200$
 Year 2: $22,000 * \$2.80 = \$61,600$
- c. Declining Balance: Straight Line Rate = $100\%/8 \text{ years} * 2 = 25\%$
 Year 1: $300,000 * 25\% = \$75,000$
 Year 2: $225,000 * 25\% = \$56,250$

Problem 31 - Disposal of Fixed Asset

- a. Annual Depreciation: $(150,000 - 10,000)/10 = \$14,000$ per year
b. Book Value: $150,000 - (14,000 * 6.5 \text{ years}) = \$59,000$
Gain/Loss: $\$61,000 \text{ (SP)} - \$59,000 \text{ (BV)} = \$2,000 \text{ gain}$
c. Depreciation Expense 7,000
Accumulated Depreciation 7,000

Cash	61,000	
Accumulated Depreciation	91,000	
Machinery		150,000
Gain on sale		2,000

Problem 32 - Asset trade for similar asset

- a. 1. Book Value: $\$60,000 \text{ (cost)} - 54,500 \text{ (accumulated depreciation)} = \$5,500$
Gain/Loss: $\$4,000 \text{ (trade-in)} - 5,500 \text{ (book value)} = \$1,500 \text{ loss}$
2. Cost of New Truck: $\$75,000$ (equal to its cost since there is a recognized loss)
3. Accumulated Depreciation 54,500
Truck (new) 75,000
Loss on Disposal 1,500
Truck (old) 60,000
Cash 71,000
- b. 1. Book Value: $\$60,000 \text{ (cost)} - 54,500 \text{ (accumulated depreciation)} = \$5,500$
Gain/Loss: $\$10,000 \text{ (trade-in)} - \$5,500 \text{ (book value)} = \$4,500 \text{ gain}$
2. Cost of New Truck: $\$70,500$ ($75,000 - 4,500 \text{ gain}$)
3. Accumulated Depreciation 54,500
Truck (new) 70,500
Truck (old) 60,000
Cash 65,000