

Prepare a multistep income statement.
 Why would Prentise agree to keep the damages?

4/18/18

Exercise 4-17A Comprehensive exercise with sales discounts

Junker's Stash started the 2016 accounting period with the balances given in the financial statements model shown below. During 2016 Junker's Stash experienced the following business events:

- Paid cash to purchase \$70,000 of merchandise inventory.
- The goods that were purchased in Event 1 were delivered FOB destination. Freight costs of \$1,400 were paid in cash by the responsible party.
- Sold merchandise for \$72,000 under terms 1/10, n/30.
- Recognized \$41,900 of cost of goods sold.
- Junker's Stash customers returned merchandise that was sold for \$2,100.
- The merchandise returned in Event 4a had cost Junker's Stash \$1,250.
- The merchandise in Event 3a was sold to customers FOB destination. Freight costs of \$1,600 were paid in cash by the responsible party.
- The customers paid for the merchandise sold in Event 3a within the discount period. Recognized the sales discount.
- Collected the balance in the accounts receivable account.
- Paid cash of \$6,850 for selling and administrative expenses.
- Sold the land for \$9,100 cash.

Required

Record the above transactions in a financial statements model like the one shown below:

Inventory	+	Land	=	Com. Stk.	+	Ret. Earn.	Rev./ Gain	-	Exp.	=	Net Inc.	Cash Flow
15,000	+	11,000	=	70,000	+	36,000	NA	-	NA	=	NA	NA

- Determine the amount of net sales.
- Prepare a multistep income statement. Include common size percentages on the income statement.
- Junker's Stash return on sales ratio in 2015 was 12 percent. Based on the common size in the income statement, did Junker's Stash expenses increase or decrease in 2016?
- Explain why the term *loss* is used to describe the results due to the sale of land.

39A

Exercise 3-9A Recording receivables and identifying statements

Davos Company performed services on account for \$160,000 in 2016. Davos collected \$120,000 cash from accounts receivable during 2016, and the remaining \$40,000 was collected in cash during 2017.

Required

- a. Record the 2016 transactions in T-accounts.
- b. Record the 2016 transactions in a horizontal statements model like the following one:

Assets		=	Liab.	+	Equity	=	Rev.	-	Exp.	=	Net Inc.	=	Cash Flow
Cash	+	Accts. Rec.	=		+	Ret. Earn.							

- c. Determine the amount of revenue Davos would report on the 2016 income statement.
- d. Determine the amount of cash flow from operating activities Davos would report on the 2016 statement of cash flows.
- e. Open a T-account for Retained Earnings, and close the 2016 Service Revenue account to the Retained Earnings account.
- f. Record the 2017 cash collection in the appropriate T-accounts.
- g. Record the 2017 transaction in a horizontal statements model like the one shown in Requirement b.
- h. Assuming no other transactions occur in 2017, determine the amount of net income and the net cash flow from operating activities for 2017.

Exercise 3-10A Recording supplies and identifying their effect on financial statements

Sye Chase started and operated a small family architectural firm in 2016. The firm was affected by two events: (1) Chase provided \$25,000 of services on account, and (2) he purchased \$2,800 of supplies on account. There were \$250 of supplies on hand as of December 31, 2016.

Required

- a. Open T-accounts and record the two transactions in the accounts.
- b. Record the required year-end adjusting entry to reflect the use of supplies.
- c. Record the preceding transactions in a horizontal statements model like the following one:

Assets		=	Liab.	+	Equity	=	Rev.	-	Exp.	=	Net Inc.	=	Cash Flow
Accts. Rec.	+	Supplies	=	Accts. Pay.	+	Ret. Earn.							

- d. Explain why the amounts of net income and net cash flow from operating activities differ.
- e. Record and post the required closing entries.

331A

Problem 3-31A Effect of errors on the trial balance

The following trial balance was prepared from the ledger accounts of Ricardo Company:

RICARDO COMPANY		
Trial Balance April 30, 2016		
Account Title	Debit	Credit
Cash	\$ 68,900	
Accounts Receivable	30,000	
Supplies	1,800	
Prepaid Insurance	3,600	
Land		\$ 12,000
Accounts Payable		9,600
Common Stock		100,000
Retained Earnings		27,510
Dividends	8,000	
Service Revenue		60,000
Rent Expense	9,600	
Salaries Expense	31,500	
Operating Expense	32,400	
Totals	<u>\$185,800</u>	<u>\$209,110</u>

When the trial balance failed to balance, the accountant reviewed the records and discovered the following errors:

- The company received \$560 as payment for services rendered. The credit to Service Revenue was recorded correctly, but the debit to Cash was recorded as \$650.
- A \$900 receipt of cash that was received from a customer on accounts receivable was not recorded.
- A \$600 purchase of supplies on account was properly recorded as a debit to the Supplies account. However, the credit to Accounts Payable was not recorded.
- Land valued at \$12,000 was contributed to the business in exchange for common stock. The entry to record the transaction was recorded as a \$12,000 credit to both the Land account and the Common Stock account.
- A \$500 rent payment was properly recorded as a credit to Cash. However, the Salaries Expense account was incorrectly debited for \$500.

Required
Based on this information, prepare a corrected trial balance for Ricardo Company.

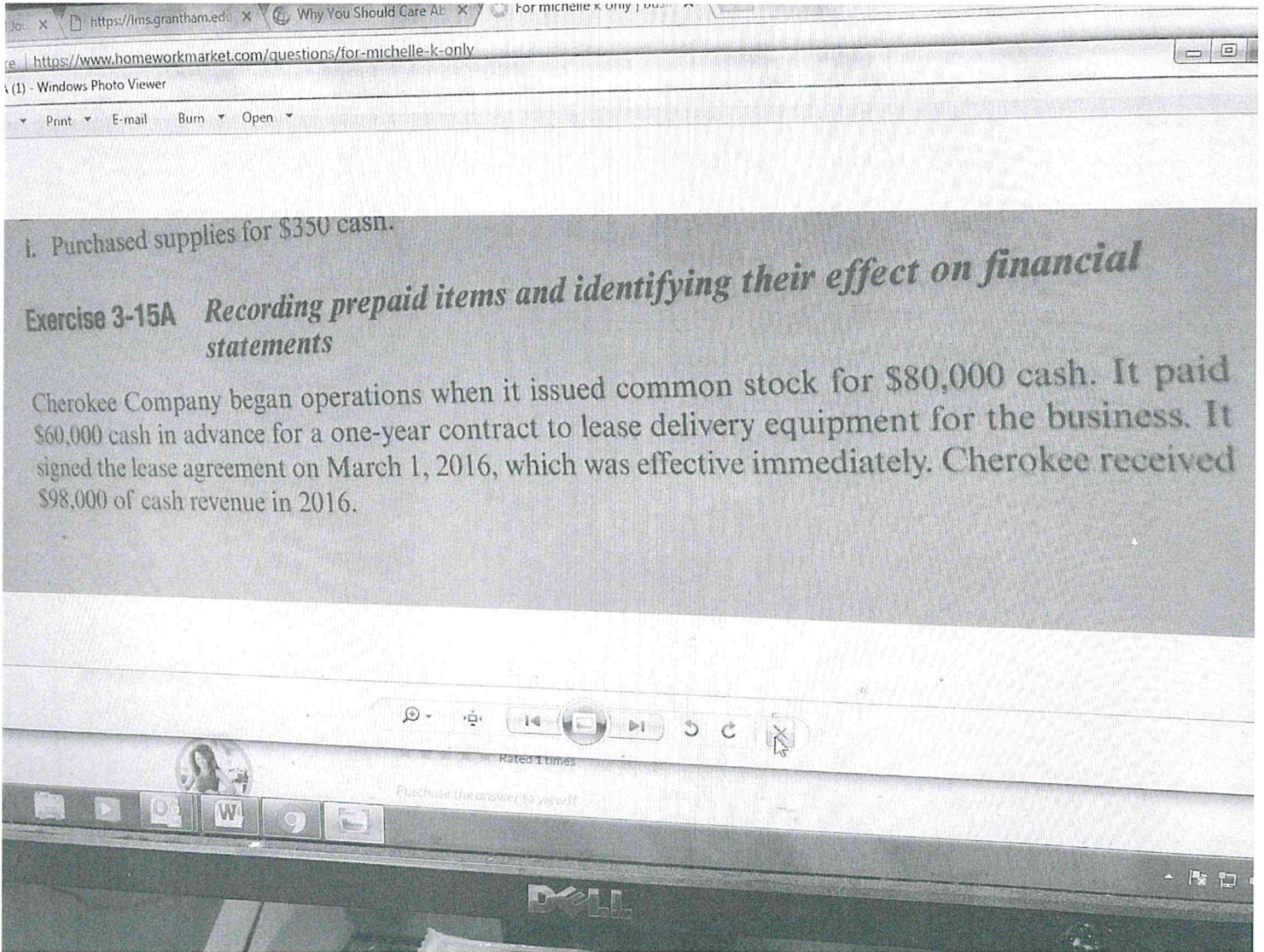
Exercise 3-17A *Preparing closing entries*

3-17A

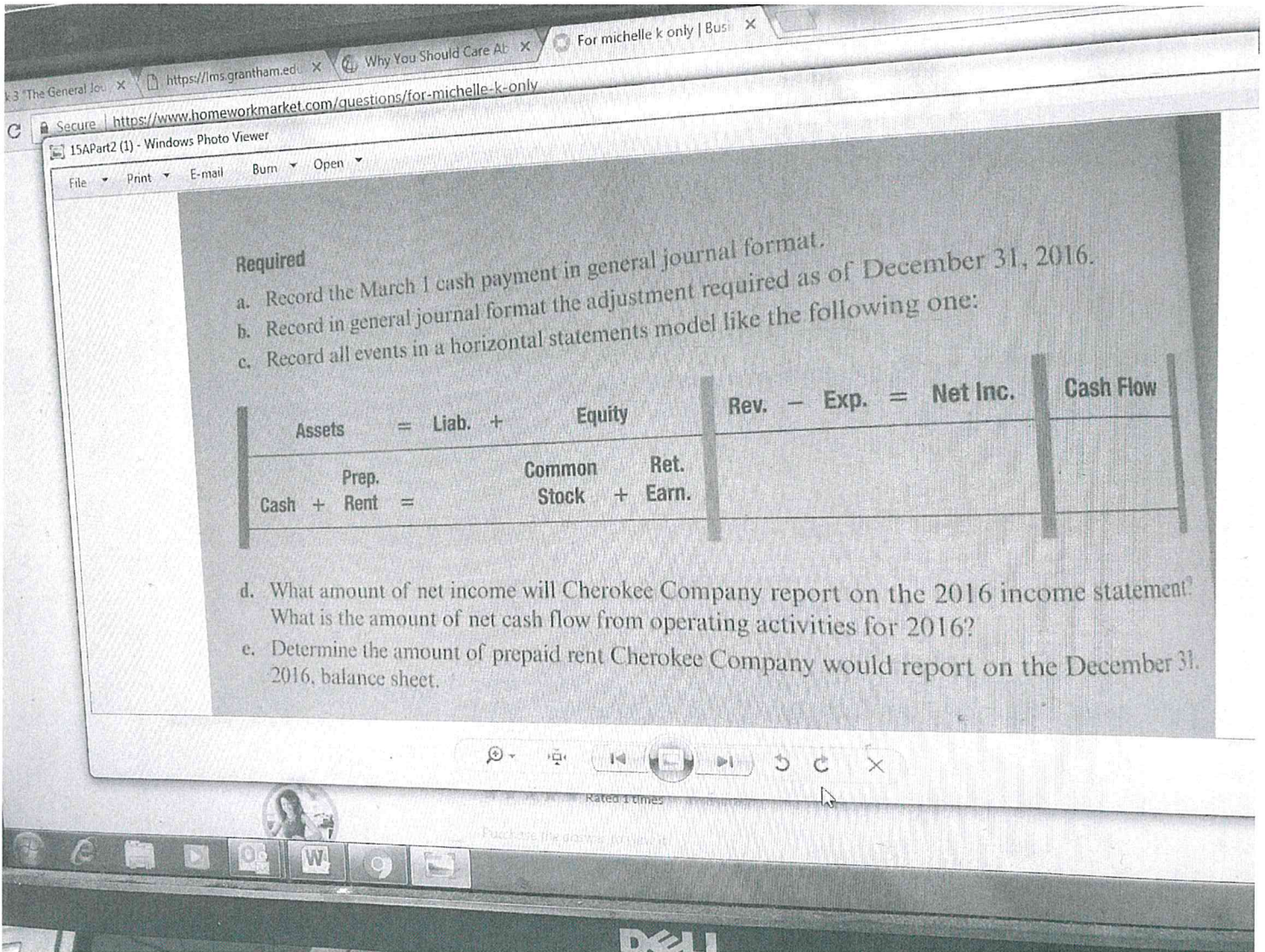
The following financial information was taken from the books of Zone Health Club, a small spa and fitness club:

Account Balances as of December 31, 2016

Accounts Receivable	\$12,450
Accounts Payable	6,200
Salaries Payable	3,150
Cash	36,750
Dividends	2,000
Operating Expense	35,300
Prepaid Rent	1,200
Rent Expense	8,400
Retained Earnings 1/1/2016	41,250
Salaries Expense	14,500
Service Revenue	65,400
Supplies	650
Supplies Expense	3,150
Common Stock	7,000
Unearned Revenue	6,400
Land	15,000



15A



Required

- a. Record the March 1 cash payment in general journal format.
- b. Record in general journal format the adjustment required as of December 31, 2016.
- c. Record all events in a horizontal statements model like the following one:

Assets		=	Liab.	+	Equity		Rev.	-	Exp.	=	Net Inc.	Cash Flow
Cash	+ Prep. Rent	=			Common Stock	+ Ret. Earn.						

- d. What amount of net income will Cherokee Company report on the 2016 income statement? What is the amount of net cash flow from operating activities for 2016?
- e. Determine the amount of prepaid rent Cherokee Company would report on the December 31, 2016, balance sheet.

ISA Part 2

