

Question 1

The following condensed income statements of the Jackson Holding Company are presented for the two years ended December 31, 2021 and 2020:

(Page 1)

	2021	2020
Sales revenue	\$15,000,000	\$9,600,000
Cost of goods sold	<u>9,200,000</u>	<u>6,000,000</u>
Gross profit	5,800,000	3,600,000
Operating expenses	<u>3,200,000</u>	<u>2,600,000</u>
Operating income	2,600,000	1,000,000
Gain on sale of division	<u>600,000</u>	<u>—</u>
	3,200,000	1,000,000
Income tax expense	<u>800,000</u>	<u>250,000</u>
Net income	<u>\$ 2,400,000</u>	<u>\$ 750,000</u>

On October 15, 2021, Jackson entered into a tentative agreement to sell the assets of one of its divisions. The division qualifies as a component of an entity as defined by GAAP. The division was sold on December 31, 2021, for \$5,000,000. Book value of the division's assets was \$4,400,000. The division's contribution to Jackson's operating income before-tax for each year was as follows:

2021	\$400,000
2020	\$300,000

Assume an income tax rate of 25%.

Required:

1. Prepare revised income statements according to generally accepted accounting principles, beginning with income from continuing operations before income taxes. Ignore EPS disclosures.
2. Assume that by December 31, 2021, the division had not yet been sold but was considered held for sale. The fair value of the division's assets on December 31 was \$5,000,000. What would be the amount presented for discontinued operations?
3. Assume that by December 31, 2021, the division had not yet been sold but was considered held for sale. The fair value of the division's assets on December 31 was \$3,900,000. What would be the amount presented for discontinued operations?

(1.5 Points)

Question 2

(Page 2)

Interpreting unadjusted and adjusted trial balances

A six-column table for Yan Consulting Company follows on next slide.

The first two columns contain the unadjusted trial balance for the company as of December 31, 2021, and the last two columns contain the adjusted trial balance as of the same date.

Required

Analysis Component

Section-1

Analyze the differences between the unadjusted and adjusted trial balances to determine the eight -adjustments that likely were made. Show the results of your analysis by inserting these adjustment amounts in the table's two middle columns. Label each adjustment with a letter **a** through **h** and -provide a short description of each.

Section-2

Preparation Component

Use the information in the adjusted trial balance to prepare Yan Consulting Company statement of retained earnings for the year ended December 31, 2021. Besides the expenses shown on the trial balance, Yan Consulting Company incurred additional direct cost of consultancy fees *earned of 25%*, *restructuring costs of \$21,000*, and *a loss of \$1500 from selling office equipment with book value of \$10,000*. Retained earnings at December 31, 2020, was \$76,200, and the current-year dividends were \$20,000.

Use these additional economic data to prepare a multiple-step income statement, and a classified balance sheet as of December 31, 2021.

2.5 Points

	Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance	
Cash	\$ 45,000				\$ 45,000	
Accounts receivable	60,000				66,660	
Office supplies	40,000				17,000	
Prepaid insurance	8,200				3,600	
Office equipment	120,000				120,000	
Accumulated depreciation— Office equip.		\$ 20,000				\$ 30,000
Accounts payable		26,000				32,000
Interest payable		0				2,150
Salaries payable		0				16,000
Unearned consulting fees		40,000				27,800
Long-term notes payable		75,000				75,000
Common stock		4,000				4,000
Retained earnings		76,200				76,200
Dividends	20,000				20,000	
Consulting fees earned		234,600				253,460
Depreciation expense— Office equip.		0			10,000	
Salaries expense	112,000				128,000	
Interest expense	8,600				10,750	
Insurance expense	0				4,600	
Rent expense	20,000				20,000	
Office supplies expense	0				23,000	
Advertising expense	42,000				48,000	
Totals	<u>\$475,800</u>	<u>\$475,800</u>			<u>\$516,610</u>	<u>\$516,610</u>

Yan Consulting Company

Account	Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance	
Cash.....	\$ 45,000				\$ 45,000	
Accounts receivable.....	60,000		(a) 6,660		66,660	
Office supplies.....	40,000			(b) 23,000	17,000	
Prepaid insurance.....	8,200			(c) 4,600	3,600	
Office equipment.....	120,000				120,000	
Accumulated depreciation— Office equipment.....		\$ 20,000		(d) 10,000		\$30,000
Accounts payable.....		26,000		(e) 6,000		32,000
Interest payable.....				(f) 2,150		2,150
Salaries payable.....				(g) 16,000		16,000
Unearned consulting fees.....		40,000	(h) 12,200			27,800
Long-term notes payable.....		75,000				75,000
Common stock.....		4,000				4,000
Retained earnings.....		76,200				76,200
Dividends.....	20,000				20,000	
Consulting fees earned.....		234,600		(a) 6,660 (h) 12,200		253,460
Depreciation expense— Office equipment.....			(d) 10,000		10,000	
Salaries expense.....	112,000		(g) 16,000		128,000	
Interest expense.....	8,600		(f) 2,150		10,750	
Insurance expense.....			(c) 4,600		4,600	
Rent expense.....	20,000				20,000	
Office supplies expense.....			(b) 23,000		23,000	
Advertising expense.....	42,000		(e) 6,000		48,000	
Totals.....	\$475,800	\$475,800		\$80,610	\$80,610	\$516,610

Ethics Case Analysis

Horizon Corporation manufactures personal computers. The company began operations in 2013 and reported profits for the years 2013 through 2016. Due primarily to increased competition and price slashing in the industry, 2017's income statement reported a loss of \$20 million. Just before the end of the 2018 fiscal year, a memo from the company's chief financial officer to Jim Fielding, the company controller, included the following comments: If we don't do something about the large amount of unsold computers already manufactured, our auditors will require us to write them off. The resulting loss for 2018 will cause a violation of our debt covenants and force the company into bankruptcy. I suggest that you ship half of our inventory to J.B. Sales, Inc., in Oklahoma City. I know the company's president and he will accept the merchandise and acknowledge the shipment as a purchase. We can record the sale in 2018 which will boost profits to an acceptable level. Then J.B. Sales will simply return the merchandise in 2019 after the financial statements have been issued.

Required:

Using the established model for analyzing ethical cases, discuss the ethical dilemma faced by Jim Fielding.

Analyzing economic events (internal and external) and preparing financial statements

Maxwell Gear Corporation began operations in July 2021 and completed the following transactions during that first month of operations.

- July 1 Common stock with par value of \$1 was invested in exchange for \$180,000 cash to start the company.
- 2 The company rented office space and paid \$7000 cash for the July rent.
- 3 The company purchased roofing equipment for \$15,000 by paying \$6,000 cash and agreeing to pay short-term note for the \$11,000 balance due in 120 days.
- 6 The company uses straight line depreciation for an office equipment purchased for \$1600 cash. The equipment is expected to last 7 years and no salvage value.
- 8 The company sold gears to customers and immediately collected \$17,600 cash for the merchandise delivered.
- 10 The company purchased \$2,300 of office equipment on credit.
- 15 The company sold gears to customers on credit in the amount of \$82,200.
- 17 The company purchased \$3,100 of office supplies on credit.
- 23 The company paid \$2,300 cash for the office equipment purchased on July 10.
- 25 The company billed a customer \$5,000 for it's financial services work completed; the balance is due in 30 days.
- 28 The company received \$8,200 cash for the merchandise delivered on July 15.
- 30 The company paid an assistant's salary of \$11,560 cash for current month.
- 31 The company paid \$12,950 cash for this month's utility bill.
- 31 The company paid \$11,800 cash in dividends to the shareholders.
- 31 After one month after operating, Maxwell decided to discontinued its financial service operation. The company incur losses of \$10,000 from this component that met GAAP definition of discontinued operation. Maxwell Gear company's tax rate is 20%.

Required

- I. Post each journal entry to their respective General Ledger Account **(0.5 point)**

- II. Close each General Ledger Account, and transfer their balances to Maxwell Gear Corporation's unadjusted Trial Balance for **(1 point)**

- I. Prepare a single, continuous single-step statement of comprehensive income for 2021. The company's effective tax rate on all items affecting comprehensive income is 20%. Each component of other comprehensive income should be displayed net of tax. Ignore EPS disclosures. **(0.5 point)**

- III. Prepare Maxwell Gear Corporation's classified balance sheet, and the statement of retained earnings for the month of July- 2021.

2.5 Points

Interive, Inc., is a leading retailer specializing in consumer electronics. A condensed income statement and balance sheet for the fiscal year ended February 1, year 1, are shown below.

INTERIVE, INC.	
Balance Sheet	
At February 28, year 1	
(\$ in millions)	
Assets	
Current assets	
Cash and cash equivalents	\$ 504
Short-term investments	17
Accounts receivable, net	1,871
Merchandise inventories	4,771
Other current assets	1,066
Total current assets	8,229
Noncurrent assets	7,644
Total assets	<u>\$15,873</u>
Liabilities and Shareholders' Equity	
Current liabilities	
Accounts payable	\$ 4,988
Other current liabilities	3,442
Total current liabilities	8,430
Long-term liabilities	2,741
Total liabilities	11,171
Shareholders' equity	4,702
Total liabilities and shareholders' equity	<u>\$15,873</u>

INTERIVE, INC.	
Income Statement	
For the year Ended February 28, year 1	
(\$ in millions)	
Revenues	\$45,600
Costs and expenses	43,139
Operating income	2,461
Investment loss, net*	(180)
Income before income taxes	2,281
Income tax expense	670
Net income	<u>\$ 1,611</u>

* Includes \$92 of interest expense.

Liquidity and financing ratios for the industry are as follows:

	Industry Average
Current ratio	1.23
Acid-test ratio	0.60
Debt to equity	0.70
Times interest earned	5.66 times

Required:

1. Determine the following ratios for Interive, Inc. for its fiscal year ended February, 1, year 1:
 - a. Current ratio **(0.5 point)**
 - b. Acid-test ratio **(0.5 point)**
 - c. Debt to equity ratio **(0.5 point)**
 - d. Times interest earned ratio **(0.5 point)**
2. Using the ratios from requirement 1, assess Interive, Inc 's liquidity and solvency relative to its industry. **(0.5 point)**

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(\$ in millions)		(\$ in millions)	
Assets			
Current assets		Revenues	\$45,600
Cash and cash equivalents	\$ 504	Costs and expenses	43,139
Short-term investments	17	Operating income	2,461
Accounts receivable, net	1,871	Investment loss, net*	(180)
Merchandise inventories	4,771	Income before income taxes	2,281
Other current assets	1,066	Income tax expense	670
Total current assets	8,229	Net income	<u>\$ 1,611</u>
Noncurrent assets	7,644		
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