BA220 Financial Accounting (28-MAY-14 - 22-JUL-14 [22473])

W3 Assignment 2 "Practice Problems"

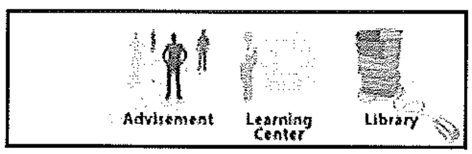
Review: Full, Anonymous: No

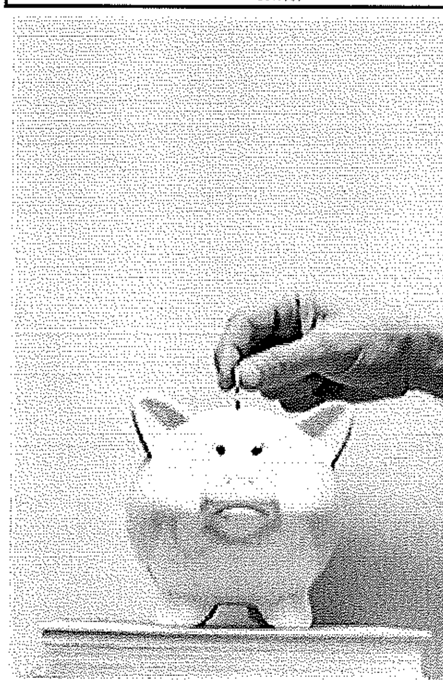
Financial Accounting

Practice Problems

These exercises are not to be submitted for a grade, but completing them will help you understand the concepts in this lesson.

- Exercise 3-9A page. 169 and 3-10A on page. 170
- Exercise 3-16A and 3-17A on page. 172
- Problem 3-31A on page. 179
- Exercise 4-14A on page. 242





equation by placing a + for *increase,* − for *decrease,* and NA for *not affected* under each of the components of the accounting equation. Finally, indicate whether the effect requires a debit or credit entry. The first event is recorded as an example.

						Stockholders Equity		
Event	Type of Event	Assets	=	Liabilities	+	Common Stock	+	Retained Earnings
a	AS	+ Debit		+ Credit		NA		NA

a. Received cash for services to be performed in the future.
b. Paid a cash dividend to the stockholders.
c. Paid cash in advance for one year's rent.
d. Provided services on account.
e. Provided services for cash.
f. Received cash in payment of accounts receivable.
g. Recognized revenue for services completed; cash collected previously.
h. Purchased land by paying cash.
i. Recognized accrued interest revenue.
j. Purchased supplies on account.
k. Paid salaries payable.
l. Recognized expense for prepaid rent that had been used up by the end of the accounting period.
m. Incurred other operating expenses on account.
n. Recognized expense for supplies used during the period.

Exercise 3-7A *Identifying increases and decreases in T-accounts*

LO 1, 2

Required

For each of the following T-accounts, indicate the side of the account that should be used to record an increase or decrease in the financial statement element:

Assets		=	Liabilities		+	Stockholders' Equity	
Debit	Credit		Debit	Credit		Debit	Credit
						Revenue	
						Debit	Credit
						Expense	
						Debit	Credit

Exercise 3-8A *T-accounts and the accounting equation*

LO 2

Required

Record each of the following Jackson Co. events in T-accounts and then explain how the event affects the accounting equation:

a. Received $40,000 cash by issuing common stock.
b. Purchased supplies for $1,800 cash.
c. Performed services on account for $14,000.
d. Paid cash for $8,000 of salaries expense.

Exercise 3-9A *Recording receivables and identifying their effect on financial statements*

LO 2

Rice Company performed services on account for $30,000 in 2013, its first year of operations. Rice collected $24,000 cash from accounts receivable during 2013 and the remaining $6,000 in cash during 2014.

Required

a. Record the 2013 transactions in T-accounts.
b. Record the 2013 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 Rice would report on the 2013 income statement.
d. Determine the amount of cash flow from operating activities Rice would report on the 2013 statement of cash flows.
e. Open a T-account for Retained Earnings, and close the 2013 Service Revenue account to the Retained Earnings account.
f. Record the 2014 cash collection in the appropriate T-accounts.
g. Record the 2014 transaction in a horizontal statements model like the one shown in Requirement *b*.
h. Assuming no other transactions occur in 2014, determine the amount of net income and the net cash flow from operating activities for 2014.

LO 2, 4

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

Nickie Hern started and operated a small family consulting firm in 2013. The firm was affected by two events: (1) Hern provided $36,000 of services on account, and (2) she purchased $10,000 of supplies on account. There were $1,800 of supplies on hand as of December 31, 2013.

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 above 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, and prepare a post-closing trial balance.

LO 2

Exercise 3-11A *Recording unearned revenue and identifying its effect on financial statements*

Ditto received a $90,000 cash advance on March 1, 2013, for legal services to be performed in the future. Services were to be provided for a one-year term beginning March 1, 2013.

Required

a. Record the March 1 cash receipt in T-accounts.
b. Record in T-accounts the adjustment required as of December 31, 2013.
c. Record the preceding transaction and related adjustment in a horizontal statements model like the following one:

Assets	=	Liab.	+	Equity	Rev.	−	Exp.	=	Net Inc.	Cash Flow

Required

a. Record in general journal format the adjustment required as of December 31, 2013.

b. Record the above adjustment in a horizontal statements model like the following one:

Assets	=	Liab.	+	Equity	Rev.	−	Exp.	=	Net Inc.	Cash Flow
		Sal. Pay.	+	Ret. Earn.						

c. Determine the amount of net income Blue Bayou would report on the 2013 income statement, assuming that Blue Bayou received $29,000 of cash revenue. What is the amount of net cash flow from operating activities for 2013?

d. What amount of salaries payable would Blue Bayou report on the December 31, 2013, balance sheet?

LO 3

Exercise 3-16A *Recording prepaid items and identifying their effect on financial statements*

Washington Mining began operations by issuing common stock for $150,000. The company paid $135,000 cash in advance for a one-year contract to lease machinery for the business. The lease agreement was signed on March 1, 2013, and was effective immediately. Washington Mining received $172,500 of cash revenue in 2013.

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, 2013.

c. Record all 2013 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 would Washington Mining report on the 2013 income statement? What is the amount of net cash flow from operating activities for 2013?

e. Determine the amount of prepaid rent Washington Mining would report on the December 31, 2013, balance sheet.

LO 3

Exercise 3-17A *Preparing closing entries*

The following financial information was taken from the books of Walker Spa:

Account Balances as of December 31, 2013	
Accounts Receivable	$54,000
Accounts Payable	15,000
Advertising Expense	7,000
Cash	80,600
Common Stock	40,000
Dividends	10,000
Land	27,000
Prepaid Rent	6,400
Rent Expense	15,600
Retained Earnings 1/1/2013	38,800
Salaries Expense	64,000
Salaries Payable	23,600
Service Revenue	153,000
Supplies	800
Supplies Expense	5,000

a. Paid $8,400 cash in advance on October 1 for a one-year lease on office space.
b. Purchased $1,600 of supplies on account on June 15. At year end, $200 of supplies remained on hand.
c. Received a $4,800 cash advance on September 1 for a contract to provide services for one year beginning immediately..
d. Paid $4,800 cash in advance on May 1 for a one-year insurance policy.

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

LO 4

CHECK FIGURE
Corrected cash balance: $9,200

The following trial balance was prepared from the ledger accounts of Smith Inc.:

SMITH INC.
Trial Balance
May 31, 2013

Account Titles	Debit	Credit
Cash	$ 7,200	
Accounts Receivable	1,770	
Supplies	420	
Prepaid Insurance	2,400	
Land	5,000	
Accounts Payable		$ 1,500
Common Stock		1,800
Retained Earnings		7,390
Dividends	400	
Service Revenue		19,600
Rent Expense	3,600	
Salaries Expense	9,000	
Operating Expenses	2,500	
Totals	$32,290	$30,290

The accountant for Smith, Inc., made the following errors during May 2013:

1. The cash purchase of land for $3,000 was recorded as a $5,000 debit to Land and a $3,000 credit to Cash.
2. A $1,600 purchase of supplies on account was properly recorded as a debit to the Supplies account but was incorrectly recorded as a credit to the Cash account.
3. The company provided services valued at $7,800 to a customer on account. The accountant recorded the transaction in the proper accounts but in the incorrect amount of $8,700.
4. A $1,200 cash receipt from a customer on an account receivable was not recorded.
5. An $800 cash payment of an account payable was not recorded.
6. The May utility bill, which amounted to $1,050 on account, was not recorded.

Required

a. Identify the errors that would cause a difference in the total amounts of debits and credits that would appear in a trial balance. Indicate whether the Debit or Credit column would be larger as a result of the error.
b. Indicate whether each of the preceding errors would overstate, understate, or have no effect on the amount of total assets, liabilities, and equity. Your answer should take the following form:

Event No.	Assets	=	Liabilities	+	Stockholders' Equity
1	Overstate		No effect		No effect

c. Prepare a corrected trial balance.

Required

a. Prepare a 2013 multistep income statement for Byrd Incorporated.
b. Assume that normal operating activities grow evenly by 10% during 2014. Prepare a 2014 multistep income statement of Byrd Incorporated.
c. Determine the percentage change in net income between 2013 and 2014.
d. Should the stockholders have expected the results determined in Requirement *c*? Explain your answer.

LO 2, 3, 4

Exercise 4-13A *Purchase returns, discounts, loss, and a multistep income statement*

The following information was drawn from the 2013 accounting records of Sawyer Merchandisers.

1. Inventory with a list price of $40,000 was purchased under terms 2/10, net/30.
2. Sawyer returned $4,200 of the inventory to the supplier.
3. The accounts payable was settled within the discount period.
4. The inventory was sold for $69,000.
5. Selling and administrative expenses amounted to $12,000.
6. Interest expense amounted to $800.
7. Land that cost $15,000 was sold for $20,000 cash.

Required

a. Determine the cost of the inventory sold.
b. Prepare a multistep income statement.
c. Where would the interest expense be shown on the statement of cash flows?
d. How would the sale of the land be shown on the statement of cash flows?
e. Explain the difference between a loss and an expense.

LO 2, 3, 4, 7

Exercise 4-14A *Comprehensive exercise with purchases discounts*

The Wedding Shop (TWS) started the 2013 accounting period with the balances given in the financial statements model shown below. During 2013 TWS experienced the following business events:

1. Purchased $60,000 of merchandise inventory on account, terms 2/10, n/30.
2. The goods that were purchased in Event 1 were delivered FOB shipping point. Freight costs of $1,500 were paid in cash by the responsible party.
3. Returned $3,000 of goods purchased in Event 1.

4a. Recorded the cash discount on the goods purchased in Event 1.
4b. Paid the balance due on the account payable within the discount period.
5a. Recognized $59,000 of cash revenue from the sale of merchandise.
5b. Recognized $45,000 of cost of goods sold.

6. The merchandise in Event 5a was sold to customers FOB destination. Freight costs of $1,400 were paid in cash by the responsible party.
7. Paid cash of $9,000 for selling and administrative expenses.
8. Sold the land for $14,500 cash.

Required

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

Event No.	Cash	+	Inventory	+	Land	=	Accts. Pay.	+	Com. Stk.	+	Ret. Earn.	Rev./ Gain	−	Exp.	=	Net Inc.	Cash Flow
Bal.	60,000	+	8,000	+	12,000	=	–0–	+	50,000	+	30,000	NA	−	NA	=	NA	NA

b. Prepare a multistep income statement. Include common size percentages on the income statement.