

For each of the following items, enter the correct letter to show whether the expenditure should be capitalized (C) or expensed (E).

Transactions

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- \_\_\_ 1. Purchased a machine, \$70,000; gave long-term note.
- \_\_\_ 2. Paid \$600 for ordinary repairs.
- \_\_\_ 3. Purchased a patent, \$45,300 cash.
- \_\_\_ 4. Paid cash, \$200,000, for addition to old building.
- \_\_\_ 5. Paid \$20,000 for monthly salaries.
- \_\_\_ 6. Paid \$250 for routine maintenance.
- \_\_\_ 7. Paid \$16,000 for extraordinary repairs.

**M9-4 Computing Book Value (Straight-Line Depreciation)**

Calculate the book value of a three-year-old machine that cost \$400,000, has an estimated residual value of \$40,000, and has an estimated useful life of four years. The company uses straight-line depreciation.

**M9-5 Computing Book Value (Units-of-Production Depreciation)**

Calculate the book value of a three-year-old machine that cost \$400,000, has an estimated residual value of \$40,000, and has an estimated useful life of 20,000 machine hours. The company uses units-of-production depreciation and ran the machine 3,000 hours in year 1, 8,000 hours in year 2, and 6,000 hours in year 3.

**M9-6 Computing Book Value (Double-Declining-Balance Depreciation)**

Calculate the book value of a three-year-old machine that cost \$400,000, has an estimated residual value of \$40,000, and has an estimated useful life of four years. The company uses double-declining-balance depreciation. Round to the nearest dollar.

**M9-7 Calculating Partial-Year Depreciation**

Do GM's asset impairment losses seem significant in terms of total dollar value? What percentage of the company's 2008 operating loss was explained by asset impairments? Why might GM write down its HUMMER and Saab production equipment, but not its Chevrolet production equipment?

**LO 9-5 M9-9 Recording the Disposal of a Long-Lived Asset**

Prepare journal entries to record these transactions: (a) Morrell Corporation disposed of two computers at the end of their useful lives. The computers had cost \$4,800 and their Accumulated Depreciation was \$4,800. No residual value was received. (b) Assume the same information as (a), except that Accumulated Depreciation, updated to the date of disposal, was \$3,600.

**LO 9-5 M9-10 Reporting and Recording the Disposal of a Long-Lived Asset (Straight-Line Depreciation)**

As part of a major renovation at the beginning of the year, Atiase Pharmaceuticals, Inc., sold shelving units (recorded as Equipment) that were 10 years old for \$800 cash. The shelves originally cost \$6,400 and had been depreciated on a straight-line basis over an estimated useful life of 10 years with an estimated residual value of \$400. Assuming that depreciation has been recorded to the date of sale, show the effect of the disposal on the accounting equation. Prepare the journal entry to record the sale of the shelving units.

**LO 9-6 M9-11 Capitalizing versus Expensing Intangible Asset Costs**

Most highly visible companies spend significant amounts of money to protect their intellectual property, ensuring that no one uses this property without direct permission. For example, to include logos throughout this book, we had to obtain written permission from each company—a process that stretched over nearly a year and often resulted in requests being denied. Discuss whether companies should capitalize or expense the money paid to employees who evaluate the value of their logos and who search for instances where the companies' intellectual

for the disposal of the truck, assuming that Accumulated Depreciation was: (a) \$12,000, (b) \$10,000, and (c) \$15,000.

Assets                      =                      Liabilities                      +                      Stockholders' Equity

3. Based on the three preceding situations, explain how the amount of depreciation recorded up to the time of disposal affects the amount of gain or loss on disposal.
4. Prepare the journal entry to record the disposal of the truck, assuming that Accumulated Depreciation was: (a) \$12,000, (b) \$10,000, and (c) \$15,000.

**LO 9-6**

**E9-12 Computing and Reporting the Acquisition and Amortization of Three Different Intangible Assets**

Bluestone Company had three intangible assets at the end of 2014 (end of the accounting year):

- a. A patent purchased from Miller Co. on January 1, 2014, for a cash cost of \$9,300. When purchased, the patent had an estimated life of fifteen years.
- b. A trademark was registered with the federal government for \$10,000. Management estimated that the trademark could be worth as much as \$200,000 because it has an indefinite life.
- c. Computer licensing rights were purchased on January 1, 2014, for \$60,000. The rights are expected to have a five-year useful life to the company.

**Required:**

1. Compute the acquisition cost of each intangible asset.
2. Compute the amortization of each intangible for the year ended December 31, 2014.
3. Show how these assets and any related expenses should be reported on the balance sheet and income statement for 2014.

**LO 9-4, 9-6**

**E9-13 Recording the Purchase, Amortization, and Impairment of a Patent**

Nutek, Inc., holds a patent for the Full Service™ handi-plate, which the company described as "a patented plastic buffet plate that allows the user to hold both a plate and cup in one hand" and that "has a multitude of uses including social gatherings such as backyard barbecues, buffets, picnics, and parties of any kind." (No, we're not making this up.) Nutek also purchased a patent for \$1,000,000 for "a specialty line of patented switch plate covers and outlet plate covers specifically designed to light

Nutek, Inc.

## **M10-1 Recording Unearned Revenues**

A local theater company sells 1,500 season ticket packages at a price of \$250 per package. The first show in the ten-show season starts this week. Show the accounting equation effects and prepare the journal entries related to (a) the sale of the season tickets before the first show and (b) the revenue earned after putting on the first show.

## **M10-2 Recording Sales and State Tax**

Ahlers Clocks is a retailer of wall, mantle, and grandfather clocks and is located in the Empire Mall in Sioux Falls, South Dakota. Assume that a grandfather clock was sold for \$10,000 cash plus 4 percent sales tax. The clock had originally cost Ahlers \$6,000. Show the accounting equation effects and prepare the journal entries related to this transaction. Assume Ahlers uses a perpetual inventory system, as explained in Chapter 6.

## **M10-3 Calculating Payroll Tax Liabilities**

Lightning Electronics is a midsize manufacturer of lithium batteries. The company's payroll records for the November 1–14 pay period show that employees earned wages totaling \$50,000 but that employee income taxes totaling \$7,000 and FICA taxes totaling \$2,625 were withheld from this amount. The net pay was directly deposited into the employees' bank accounts. What was the amount of net pay? Assuming Lightning Electronics must also pay \$250 of unemployment taxes for this pay period, what amount would be reported as the total payroll costs?

## **M10-4 Reporting Payroll Tax Liabilities**

Refer to M10-3. Prepare the journal entry or entries that Lightning would use to record the payroll. Include both employee and employer taxes.

### **M10-5 Reporting Current and Noncurrent Portions of Long-term Debt**

Assume that on December 1, 2013, your company borrowed \$15,000, a portion of which is to be repaid each year on November 30. Specifically, your company will make the following principal payments: 2014, \$2,000; 2015, \$3,000; 2016, \$4,000; and 2017, \$6,000. Show how this loan will be reported in the December 31, 2014 and 2013 balance sheets, assuming that principal payments will be made when required.

### **M10-6 Recording a Note Payable**

Greener Pastures Corporation borrowed \$1,000,000 on November 1, 2012. The note carried a 9 percent interest rate with the principal and interest payable on June 1, 2013. Show the accounting equation effects and prepare the journal entries for (a) the note issued on November 1 and (b) the interest accrual on December 31.

### **M10-7 Reporting Interest and Long-term Debt, Including Current Portion**

Barton Chocolates used a promissory note to borrow \$1,000,000 on July 1, 2012, at an annual interest rate of 6 percent. The note is to be repaid in yearly installments of \$200,000, plus accrued interest, on June 30 of every year until the note is paid in full (on June 30, 2017). Show how the results of this transaction would be reported in a classified balance sheet prepared as of December 31, 2012.

### **M10-8 Determining Bond Discount or Premium from Quoted Price**

On May 9, 2011, [finance.yahoo.com/bonds](http://finance.yahoo.com/bonds) quoted a bond price of 129.7 for **Ford Motor Company's** 9.3 percent bonds maturing on March 1, 2030. Were the bonds selling at a discount or premium? Does this mean the market interest rate for comparable bonds was higher or lower?

— 3. It must be repaid.

— 4. Additional stock issuances dilute existing stockholders' control.

**11-1 M11-2 Computing the Number of Issued Shares**

Face 2 Face Corporation reports 100 outstanding shares, 500 authorized shares, and 50 shares of treasury stock. How many shares are issued?

**11-1 M11-3 Computing the Number of Unissued Shares**

The balance sheet for Crutcher Corporation reported 200,000 shares outstanding, 300,000 shares authorized, and 20,000 shares in treasury stock. Compute the maximum number of new shares that Crutcher could issue.

**11-2 M11-4 Analyzing and Recording the Issuance of Common Stock**

To expand operations, Aragon Consulting issued 1,000 shares of previously unissued common stock with a par value of \$1. The price for the stock was \$50 per share. Analyze the accounting equation effects and record the journal entry for the stock issuance. Would your answer be different if the par value were \$2 per share? If so, analyze the accounting equation effects and record the journal entry for the stock issuance with a par value of \$2.

**11-2 M11-5 Analyzing and Recording the Issuance of No-Par Value Common Stock**

Refer to M11-4. Assume the issued stock has no par value. Analyze the accounting equation effects and record the journal entry for the issuance of the no-par value stock at \$50. Do the effects on total assets, total liabilities, and total stockholders' equity differ from those in M11-4?

**11-4 M11-6 Comparing Common Stock and Preferred Stock**

Your parents have just retired and have asked you for some financial advice. They have decided to invest \$100,000 in a company very similar to National Beverage Corp. The company has issued both common and preferred stock. Which type of stock would you recommend? What factors are relevant to this recommendation?

1. Total assets.
2. Total liabilities.
3. Total stockholders' equity.
4. Net income.

### **M11-8 Determining the Amount of a Dividend**

Netpass Company has 300,000 shares of common stock authorized, 270,000 shares issued, and 100,000 shares of treasury stock. The company's board of directors declares a dividend of \$1 per share of common stock. What is the total amount of the dividend that will be paid?

### **M11-9 Recording Dividends**

On May 20, 2013, the board of directors for Auction.com declared a cash dividend of 50 cents per share payable to stockholders of record on June 14. The dividends will be paid on July 14. The company has 500,000 shares of stock outstanding. Prepare any necessary journal entries for each date.

### **M11-10 Determining the Impact of a Stock Dividend**

Sturdy Stone Tools, Inc., announced a 100 percent stock dividend. Determine the impact (increase, decrease, no change) of this dividend on the following:

1. Total assets.
2. Total liabilities.
3. Common stock.
4. Total stockholders' equity.
5. Market value per share of common stock.

### **M11-11 Determining the Impact of a Stock Split**

to reduce its stock price, Shriver Food Systems, Inc., declared and issued a 100 percent stock dividend. The company has 800,000 shares authorized and 200,000 shares outstanding. The par value of the stock is \$1 per share and the market value is \$100 per share. Prepare the journal entry to record this large stock dividend.

### **M11-13 Determining the Amount of a Preferred Dividend**

Colliers, Inc., has 100,000 shares of cumulative preferred stock outstanding. The preferred stock pays dividends in the amount of \$2 per share but because of cash flow problems, the company did not pay any dividends last year. The board of directors plans to pay dividends in the amount of \$600,000 this year. What amount will go to preferred stockholders? How much will be available for common stock dividends?

### **M11-14 Calculating and Interpreting Earnings per Share (EPS) and Return on Equity (ROE)**

Academy Driving School reported the following amount in its financial statements:

	2013	2012
Number of common shares	11,500	11,500
Net income	\$ 23,000	\$ 18,000
Cash dividends paid on common stock	\$ 3,000	\$ 3,000
Total stockholders' equity	\$240,000	\$220,000

## 11 Stockholders' Equity

Calculate 2013 EPS and ROE. Another driving school in the same city reported a higher net income (\$45,000) in 2013, yet its EPS and ROE ratios were lower than those for the Academy Driving School. Explain how this apparent inconsistency could occur.

### 11-5 M11-15 Inferring Financial Information Using the P/E Ratio

In 2012, Rec Room Sports reported earnings per share of \$8.50 when its stock price was \$212.50. In 2013, its earnings increased by 20 percent. If the P/E ratio remains constant, what is likely to be the price of the stock? Explain.

### 11-S1 M11-16 (Supplement 11A) Comparing Owner's Equity to Stockholders' Equity

On January 2, Daniel Harrison contributed \$20,000 to start his business. At the end of the year, the business had generated \$30,000 in sales revenues, incurred \$18,000 in operating expenses, and distributed \$5,000 for Daniel to use to pay some personal expenses. Prepare (a) a statement of owner's equity, assuming this is a sole proprietorship, (b) the owner's equity section of the balance sheet, assuming this is a sole proprietorship, and (c) the stockholder's equity section of the balance sheet, assuming this is a corporation with no-par value stock.