Requirements

1. Set up columns for Land, Land Improvements, Building, and Furniture. Show how to account for each cost by listing the cost under the correct account. Determine the total cost of each asset.
2. All construction was complete and the assets were placed in service on May 1. Record partial-year depreciation for the year ended December 31.

P9-28A *(L.OBJ. 1, 2)* **Capitalized asset cost and first year depreciation, and identifying depreciation results that meet management objectives [30–40 min]**
On January 9, 2010, Swifty Delivery Service purchased a truck at a cost of $67,000. Before placing the truck in service, Swifty spent $2,200 painting it, $500 replacing tires, and $5,000 overhauling the engine. The truck should remain in service for 6 years and have a residual value of $14,700. The truck's annual mileage is expected to be 15,000 miles in each of the first 4 years and 10,000 miles in each of the next 2 years—80,000 miles in total. In deciding which depreciation method to use, Jerry Speers, the general manager, requests a depreciation schedule for each of the depreciation methods (straight-line, units-of-production, and double-declining-balance).

Requirements

1. Prepare a depreciation schedule for each depreciation method, showing asset cost, depreciation expense, accumulated depreciation, and asset book value.
2. Swifty prepares financial statements using the depreciation method that reports the highest net income in the early years of asset use. For income-tax purposes, the company uses the depreciation method that minimizes income taxes in the early years. Consider the first year that Swifty uses the truck. Identify the depreciation methods that meet the general manager's objectives, assuming the income tax authorities permit the use of any of the methods.

P9-29A *(L.OBJ. 2, 3)* **Lump sum asset purchases and partial year depreciation [20–25 min]**
Whitney Plumb Associates surveys American eating habits. The company's accounts include Land, Buildings, Office equipment, and Communication equipment, with a separate accumulated depreciation account for each asset. During 2011, Whitney Plumb completed the following transactions:

Jan 1	Traded in old office equipment with book value of $26,000 (cost of $126,000 and accumulated depreciation of $100,000) for new equipment. Plumb also paid $82,000 in cash.
Apr 1	Acquired land and communication equipment in a group purchase. Total cost was $410,000 paid in cash. An independent appraisal valued the land at $322,875 and the communication equipment at $107,625.
Sep 1	Sold a building that cost $565,000 (accumulated depreciation of $265,000 through December 31 of the preceding year). Plumb received $350,000 cash from the sale of the building. Depreciation is computed on a straight-line basis. The building has a 40-year useful life and a residual value of $45,000.
Dec 31	Recorded depreciation as follows: Communication equipment is depreciated by the straight-line method over a 5-year life with zero residual value. Office equipment is depreciated double-declining-balance over 6 years with $4,000 residual value.

Requirement

1. Record the transactions in the journal of Whitney Plumb Associates. The company ends its accounting year on December 31.

P10A-8A Calculating and recording bonds when stated rate and market rate are different [30–40 min]

On December 31, 2010, when the market interest rate is 8%, Timmony Realty Co. issues $200,000 of 5.25%, 10-year bonds payable. The bonds pay interest semiannually.

Requirements

1. Determine the present value of the bonds at issuance.
2. Assume that the bonds are issued at the price computed in requirement 1. Prepare an effective-interest method amortization table for the first two semiannual interestinstallments.
3. Using the amortization table prepared in requirement 2, journalize issuance of the bonds and the first two interest payments.

Problems (Group B)

P10A-9B Calculating present value [15–25 min]

Axel needs new manufacturing equipment. Two companies can provide similar equipment but under different payment plans:

Plan A: MRE offers to let Axel pay $55,000 each year for five years. The payments include interest at 12% per year.

Plan B: Westernhome will let Axel make a single payment of $425,000 at the end of five years. This payment includes both principal and interest at 12%.

Requirements

1. Calculate the present value of Plan A.
2. Calculate the present value of Plan B.
3. Axel will purchase the equipment that costs the least, as measured by present value. Which equipment should Axel select? Why? (Challenge)

P10A-10B Calculating the value of bonds when stated rate and market rate are different [40–50 min]

Interest rates determine the present value of future amounts.

Requirements

1. Determine the present value of ten-year bonds payable with maturity value of $84,000 and stated interest rate of 14%, paid semiannually. The market rate of interest is 14% at issuance.
2. Same bonds payable as in requirement 1, but the market interest rate is 16%.
3. Same bonds payable as in requirement 1, but the market interest rate is 8%.

Note: Problem 10A-10B must be completed before attempting Problem 10A-11B.

P10A-11B Journalizing bond transactions [20–30 min]

Consider your answers from requirements 1–3 of Problem 10A-10B.

Requirement

1. Journalize issuance of the bond and the first semiannual interest payment under each of the 3 assumptions in Problem 10A-10B. The company amortizes bond premium and discount by the effective-interest method. Explanations are not required.

P11-29A *(L.OBJ. 2, 6)* **Analyzing the stockholders' equity section of the balance sheet [15–20 min]**

The balance sheet of Ballcraft, Inc., reported the following:

Preferred stock, $6 par, 6%,	
5,000 shares authorized and issued	$ 30,000
Common stock, $4.00 par value, 45,000 shares authorized;	
10,000 shares issued	40,000
Additional paid-in capital–common	219,000
Total paid-in capital	289,000
Retained earnings	90,000
Total stockholders' equity	$ 379,000

Preferred dividends are in arrears for two years, including the current year. On the balance sheet date, the market value of the Ballcraft common stock was $31 per share.

Requirements

1. Is the preferred stock cumulative or noncumulative? How can you tell?
2. What is the total paid-in capital of the company?
3. What was the total market value of the common stock?
4. Compute the book value per share of the common stock.

P11-30A *(L.OBJ. 3)* **Journalizing corporate transactions and preparing the stockholders' equity section of the balance sheet [20–25 min]**

C-Mobile Wireless needed additional capital to expand, so the business incorporated. The charter from the state of Georgia authorizes C-Mobile to issue 60,000 shares of 10%, $150-par preferred stock, and 140,000 shares of no-par common stock. C-Mobile completed the following transactions:

Dec	2	Issued 21,000 shares of common stock for equipment with a market value of $140,000
	6	Issued 500 shares of preferred stock to acquire a patent with a market value of $75,000
	9	Issued 10,000 shares of common stock for cash of $60,000

Requirements

1. Record the transactions in the general journal.
2. Prepare the stockholders' equity section of the C-Mobile Wireless balance sheet at December 31. The ending balance of Retained Earnings is $90,000.