ROCKFORD CORPORATION

A PRACTICE SET TO ACCOMPANY

Intermediate Accounting, by Kieso, Weygandt, and Warfield

PERPETUAL INVENTORY

Narrative and Instructions

Rockford Corporation is a wholesale plumbing supply distributor. The corporation was organized in 1981, under the laws of the State of Illinois, with an authorized capitalization of 10,000 shares of no-par common stock with a stated value of $30 per share. The common stock is sold over the counter in the local area. You have been hired as of Wednesday, December 26, 2012, to replace the controller, who has resigned. As controller, you are responsible for the corporation's accounting records, preparation of the financial statements, safeguarding the corporate assets, and providing management with financial information to set prices and to monitor and control operations. You have an assistant who keeps the payroll records, the plant asset ledger, and the perpetual inventory. There is an inventory subsidiary ledger that is posted to daily for purchases and sales. This ledger is not included in this practice set. The corporation secretary maintains the stockholder records, and the receptionist/secretary acts as the petty cashier.

Rockford Corporation closes its books annually on December 31 but prepares financial statements quarterly. Adjusting entries are posted to the general ledger only at year-end; at the end of the first, second, and third quarter the adjustments are entered only on a ten-column work sheet, not in the general ledger. Therefore, *the adjusting entries to be recorded on December 31 are annual adjustments* that you must journalize and then post to the general ledger accounts before preparing the financial statements.

Rockford Corporation maintains a perpetual inventory system and takes a physical count each year to adjust the inventory carrying amount. Purchases are recorded at the gross amount (discounts taken are recognized at the date of payment) of the supplier's invoice, and the terms vary with each supplier. Sales on account are subject to terms of 2/10, n/30. Discounts are taken and granted only when the terms are met. The cost of all inventory sold in December was 80% of the sales price. The corporation uses the following journals and ledgers:

JOURNALS

1. A sales journal (S)–to record sales of merchandise on account.
2. A purchases journal (P)–to record purchases of merchandise on account.
3. A cash receipts journal (CR)–to record all cash receipts.
4. A cash disbursements journal (CD)–to record all cash payments.
5. A general journal (J)–to record all transactions that cannot be recorded in the other journals.

LEDGERS

1. A general ledger.
2. An accounts receivable subsidiary ledger.
3. An accounts payable subsidiary ledger.

In recording sales transactions, each sale should be posted on the day of the sale directly to the customer's account in the subsidiary ledger, using the invoice number as the posting reference number in the subsidiary account. Also, cash receipts from customers should be posted to the subsidiary ledger on the day they are received. The purchase order number should be used as the posting reference number in the subsidiary ledger for purchases on account from suppliers. Purchases from suppliers and payments to them should be posted daily. All other individual posting may be made weekly or at the month-end. Account numbers should be used as posting reference numbers in the journals.

Officers and office personnel are salaried employees and are paid monthly on the last day of each month. The delivery truck drivers and warehouse employees are hourly wage employees and are paid biweekly. Each biweekly pay period ends Friday. On the following Monday your assistant, who maintains the payroll records, provides you with a payroll summary from which you prepare general journal entries to record the biweekly payroll and the employer's taxes on the payroll. The biweekly employees' paychecks are distributed on the following day (Tuesday).

The general ledger chart of accounts is shown below:

CHART OF ACCOUNTS

Accounts	*Account Number*
Cash	101
Petty Cash	105
Accounts Receivable	112
Allowance for Doubtful Accounts	113
Notes Receivable	115
Interest Receivable	118
Inventory	120
Supplies	126
Prepaid Insurance	130
Prepaid Rent	131
Other Assets	135
Land	140
Buildings	145
Accum. Depr.–Buildings	146
Equipment	151
Accum. Depr.–Equip.	152
Trucks	163
Accum. Depr.–Trucks	164
Notes Payable	200
Accounts Payable	201
Salaries and Wages Payable	212
FICA Taxes Payable	214
Income Taxes Payable	215
Federal Withholding Taxes Payable	216
State Withholding Taxes Payable	218
FUTA Taxes Payable	224
SUTA Taxes Payable	226
Interest Payable	230
Dividends Payable	250
Notes Payable (LT Liability)	268
Bonds Payable	270
Discount on Bonds Payable	273
Common Stock	311
Paid-in Capital in Excess of Stated Value	317
Retained Earnings	320
Treasury Stock	330
Dividends	332
Income Summary	350
Sales Reveue	401
Sales Returns and Allowances	412
Sales Discounts	414
Cost of Goods Sold	505
Advertising Expense	610
Bad Debt Expense	612
Supplies Expense	631
Freight-out	644
Miscellaneous Expense	649
Depreciation Expense	711
Insurance Expense	722
Salaries and Wages Expense	726
Rent Expense	729
Payroll Tax Expense	730
Utilities Expense	732
Interest Revenue	820
Gain on Disposal of Plant Assets	826
Interest Expense	905
Loss on Disposal of Plant Assets	921
Income Tax Expense	999

The January 1, 2012, balances appear in the general ledger accounts as well as the November 30, 2012, balances, for those accounts whose balances have changed. All transactions affecting the noncurrent accounts from January 1, 2012, through November 30, 2012, with explanations, appear in these accounts to facilitate the preparation of the statement of cash flows.

Subsidiary ledger account balances as of November 30, 2012, are as follows (the balances appear in the appropriate subsidiary ledger accounts):

ACCOUNTS RECEIVABLE

Boecker Builders	$ 62,920
The Potts Company	50,300
Swanson Brothers Construction	24,050
Trudy's Plumbing	15,100
Coconino Contractors, Inc.	27,800
Rankin Plumbing Corp.	74,350
Beverly's Building Products	14,000
Bilder Construction Company	45,200
Iwanaga Plumbing and Heating	3,700
Total accounts receivable	$317,420

ACCOUNTS PAYABLE

Phoenix Plastics	$ 17,450
Edward's Plumbing Supplies, Inc.	20,050
Oxenford Copperworks	26,400

Smith Pipe Company	38,100
Ron & Rod's Plumbing Products	14,850
Khatan Steel Corp.	10,000
Total accounts payable	$126,850

The transactions through December 21 have already been recorded by the former controller. You are to begin your work by entering the transaction of December 26 for the payment of cash to repurchase stock.

DECEMBER 2012

S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

NARRATIVE OF THE DECEMBER TRANSACTIONS

NOTE: All transactions from Dec. 1 thru Dec. 21
have already been recorded

December

1 Received a check in the amount of $23,569 from Swanson Brothers Construction in full payment of invoice No. 1120 dated November 26 in the amount of $24,050.

1 Sold sewer and drainage pipe to Beverly's Building Products on account, invoice No. 1201 for $13,150.

2 Purchased copper tubing and fittings from Edward's Plumbing Supplies Inc. on account, purchase order No. 315 for $24,320, terms n/60.

2 Issued check No. 1580 for $26,400 to Oxenford Copperworks in settlement of the balance owed on purchase order No. 280.

3 A court notice indicates that Iwanaga Plumbing and Heating is bankrupt and payment of its account improbable; the president orders the account to be written off as a bad debt (invoice No. 780).

3 Sold bathroom fixtures to Bilder Construction Company on account, invoice No.1202 for $44,900.

6 Received a check in the amount of $49,294 from The Potts Company in full payment of invoice No. 1128 dated November 27 for $50,300.

6 Sold plumbing supplies and plastic pipe to Coconino Contractors, Inc. on account, invoice No. 1203 for $10,300.

6 Issued check No. 1581 for $810 to Standard Oil Co. in payment of gas, oil, and truck repair from Tierney's Standard Service.

7 Issued check No. 1582 for $9,900 to Khatan Steel Corp. in full settlement of purchase order No. 312 for $10,000.

7 Issued check No. 1583 for $10,486 to Phoenix Plastics in full payment of Phoenix's invoice dated November 28 in the amount of $10,700, for purchase order No. 313, terms 2/10, n/30.

7 Received a check in the amount of $72,863 from Rankin Plumbing Corp. in full payment of invoice No. 1129 dated November 28 for $74,350.

10 Sold cast pipe to Trudy's Plumbing on account, invoice No. 1204 for $26,300.

10 Received a check in the amount of $27,800 from Coconino Contractors, Inc. in full payment of invoice No. 1091 dated October 20.

10 Purchased bathroom fixtures from Phoenix Plastics, on account, purchase order No. 316 for $52,700 terms 1/10, n/30.

10 Received a check in the amount of $29,000 from Boecker Builders in partial payment of balance outstanding covering invoice Nos. 1050 and 1071.

11 The payroll summary for the biweekly pay period ended Friday, December 7 contained the following information:

Delivery and warehouse wages	$4,860
FICA taxes withheld	350
Federal income taxes withheld	900
State income taxes withheld	190
Net pay	$3,420
Employer's payroll taxes:	
FICA tax	$ 350
Federal unemployment tax	–
State unemployment tax	–

Issued check No. 1584 for the amount of the net pay and deposited it in the payroll bank account. Individual payroll checks were then prepared for distribution to the biweekly employees on Tuesday, December 11.

11 Issued check No. 1585 for $600 to Scooter Gordon for lettering and sign painting on some delivery trucks.

11 Issued check No. 1586 for $6,750 to Phoenix Plastics, in payment of Phoenix's invoice dated November 12 in the amount of $6,750, our purchase order No. 299.

12 Issued check No. 1587 for $37,719 to Smith Pipe Company in full payment of their invoice dated November 28, terms 1/15, n/60, our purchase order No. 314.

12 Received a check in the amount of $15,100 from Trudy's Plumbing in full settlement of invoice No. 1106 dated November 7.

12 Sold pipe, fixtures, and accessories to Trudy's Plumbing on account, invoice No. 1205 for $28,850.

13 Sold plumbing supplies and copper tubing to The Potts Company on account, invoice No. 1206 for $31,450

13 Received a check in the amount of $33,920 from Boecker Builders in full payment of invoice No. 1071.

13 Cash sales to date totaled $12,292.

14 Received a check in the amount of $25,774 from Trudy's Plumbing in payment of invoice No. 1204.

14 Sold plumbing fixtures and supplies to Boecker Builders, on account, invoice No. 1207 for $21,730.

17 The Potts Company returned defective copper tubing that it purchased on December 10. A credit memo in the amount of $4,680 is issued relative to invoice No. 1206. The copper tubing had a cost of $3,550.

17 The defective copper tubing is returned to Edward's Plumbing Supplies, Inc. along with a debit memo in the amount of $3,550 in reduction of purchase order No. 315.

17 Issued check No. 1588 for $399 in payment of November telephone bill to Northern Illinois Communications.

18 Issued check No. 1589 in the amount of $11,360 in payment of federal withholding taxes, $9,573, and FICA taxes, $1,787, payable on November salaries and wages; the check is remitted to the Winnebago County Bank as the depository.

18 Issued check No. 1590 for $52,173 to Phoenix Plastics, Inc. in payment of purchase order No. 316.

19 The president informs you that Bilder Construction Company agrees to convert the $45,200 overdue account receivable (invoice No. 1120) to a 14% note due six months from today.

19 Purchased plumbing materials from Smith Pipe Company on account, purchase order No. 317 for $45,800 terms 1/15, n/60.

19 Sold drain tile, plastic pipe, and copper tubing to A & B Hardware on account, invoice No. 1208 for $7,920.

20 Sold fixtures and materials to Coconino Contractors, Inc. on account, invoice No. 1209 for $42,780.

20 An invoice in the amount of $1,021 was received from S. White Trucking Company for freight on purchase order No. 317 and paid by issuing check No. 1591.

20 Received a check in the amount of $28,273 from Trudy's Plumbing in payment of invoice No. 1205.

21 Purchased office supplies from the Pen & Pad, issuing check No. 1592 in the amount of $1,360. (Note: Debit asset account).

21 Purchased a new Faith computer for $6,100 from Business Basics, Inc., purchase order No. 318, paying $600 down through Check No. 1593 with the balance due in thirty days (n/30). The computer has an estimated life of five years with a salvage value of $1,300. Use subsidiary account No. 16. Journalize the entire entry in the cash disbursements journal.

21 Purchased bathroom and kitchen fixtures from Phoenix Plastics, on account, purchase order No. 319 for $48,330, terms 1/10, n/30.

21 Received a bill from DeKalb Transport for $2,300 for freight costs incurred during the last 30 days, terms n/30.

24 The payroll summary for the biweekly pay period ended Friday, December 21, contained the following information:

Delivery and warehouse wages	$5,770
FICA taxes withheld	415
Federal income taxes withheld	1,067
State income taxes withheld	225
Net pay	$4,063
Employer's payroll taxes:	
FICA tax	$ 415
Federal unemployment tax	–
State unemployment tax	–

Issued check No. 1594 for the amount of the net pay and deposited it in the payroll bank account. Individual payroll checks were then prepared for distribution to the biweekly employees on Monday, December 24.

NOTE: Transactions up to this point have been recorded. At this point you became controller and are responsible for recording all further transactions.

26 The board of directors voted to purchase 1,000 shares of its own stock from stockholder Dionne Schivone at $83 per share and issued check No. 1595 in payment. Stock repurchases are recorded at cost. Rockford is purchasing these shares because Ms. Schivone had been a valuable employee.

26 The board of directors declared a $2.30 per-share cash dividend payable on January 14 to stockholders of record on December 26 (after purchase of stock).

26 The president informs you that Beverly's Building Products agrees to convert the $14,000 overdue accounts receivable (invoice No. 1119) balance to a 12% note due six months from today.

27 A half-acre parcel of land adjacent to the building is acquired in exchange for 600 shares of unissued common stock. The land has a fair value of $54,000 and will be used immediately as an outside storage lot and parking lot.

27 An invoice in the amount of $2,650 is received from Wayne McManus, lawyer, for legal services involved in the acquisition of the adjacent parcel of land; check No. 1596 is issued in payment.

27 Sold pipe and plumbing materials to Boecker Builders on account, invoice No. 1210 for $45,040.

28 Issued check No. 1597 in the amount of $500 to the *Northern Star* for advertisement run in the home building supplement of December 13.

28 Issued check No. 1598 in the amount of $925 to Standard Oil Co. in payment of gas, oil, and truck repairs from Standard Oil Co. (use Freight-out).

28 Purchased copper and cast iron pipe from Oxenford Copperworks on account, purchase order No. 320 for $58,940, terms 1/10, n/30.

28 Check No. 1599 for $15,000 is issued to the bond sinking fund trustee, Chicago Trust Co., for deposit in the sinking fund. (Use Other Assets).

28 Sold plumbing supplies to Swanson Brothers Construction on account, invoice No. 1211 for $24,650.

31 Received a check for $21,730 from Boecker Builders in payment of invoice No. 1207.

31 Issued check No. 1600 for $43,362 to Smith Pipe Company in payment of purchase order No. 317.

31 The custodian of the petty cash fund submits the following receipts for reimbursement and reports a cash-on-hand count of $8.

Postage stamps used	$38
United Parcel (freight-out)	23
C.O.D. postage (freight costs)	51
Christmas office decorations	30

Check No. 1601 is issued and cashed to reimburse the fund.

31 Sold an electric truck-lift to Leila Stierman Co. for $2,500 cash. The original cost was $7,900 with salvage value of $900, a life of 10 years, and accumulated depreciation recorded through 12/31/11 of $4,550. The straight-line method is used. (Note: the company follows the practice of recording a half year's depreciation in the year of acquisition and a half year in the year of disposal.) First, bring the depreciation expense up to date in the general journal. Then journalize the entire entry for the sale in the cash receipts journal.

31 Sold bathroom fixtures and plumbing supplies to Trudy's Plumbing on account, invoice No. 1212 for $55,770.

31 Because for some time the petty cash fund has been smaller than required for monthly expenditures, the fund is increased by $75 by cashing check No. 1602 and placing the money in the petty cash fund.

31 The payroll summary for the *monthly* paid employees is submitted so that December checks can be distributed before the year-end; the details are as follows:

Office and administrative salaries	$40,900
Federal income taxes withheld	7,696
State income taxes withheld	1,517
FICA taxes withheld	2,120
Net pay	$29,567

Issued check No. 1603 for the amount of the net pay and deposited it in the payroll bank account. Individual payroll checks were prepared for distribution to all monthly employees by the end of the day.

Employer's payroll taxes:	
FICA tax (all office and administrative)	$2,120
Federal unemployment tax	–
State unemployment tax	–

31 Cash sales since December 13 total $27,980.

INSTRUCTIONS

1. Make the entries in the appropriate journals for December 26 through December 31.
2. Post any amounts to be posted as individual amounts from the journals to the general ledger and any amounts to be posted to the subsidiary ledger accounts. (If the normal practice of daily posting were followed, the postings would be in chronological order; proper date sequence for this practice set is not necessary.)
3. Foot and cross-foot the columnar journals and complete the month-end postings of all books of original entry.
4. Prepare a trial balance by entering the account balances from the general ledger in the first two columns of the ten-column work sheet (list all accounts, including those with zero balances).
5. From the following information prepare adjusting entries in the general journal and enter them in the "adjustments" columns of the work sheet and cross-reference the amounts using the related alphabetic characters (round all calculations to the nearest dollar).

   a. The annual provision for doubtful accounts receivable is recorded by providing a charge to Bad Debt Expense in an amount equal to 2% of net sales. (This entry should be entered below the middle of General Journal page 10.)

   b. An inventory count of the office supplies revealed $830 of supplies on hand at year-end.

   c. The insurance premium outstanding on January 1, 2012, covers the period January 1 through August 31, 2012. The insurance premium of $7,800 recorded in August covers the period of September 1, 2012 through August 31, 2013. Rockford estimates that 75% of the premiums are attributable to general activities and 25% to selling activities. (Use Miscellaneous Expense).

d. The payroll summary for the employees who are paid biweekly shows the following information at December 31, 2012:

Delivery and Warehouse Wages	$5,600
FICA Taxes Payable	390
Federal Withholding Taxes	1,036
State Withholding Taxes	218
Net pay	$3,956

e. The employer's share of the FICA tax ($390) must be accrued; no state or federal unemployment tax is incurred during the fourth quarter because all wages and salaries earned during the last quarter exceed the maximum subject to unemployment tax.

f. Interest has accrued at 8% on the long-term notes payable since July 1, 2012. The next six-month interest payment at 9% on the bonds is due on March 1, 2013. The discount on bonds payable has not been amortized for any part of 2012; the bonds are dated March 1, 2006, and mature March 1, 2016. (Use straight-line.)

g. The interest accrued to 12/31/12 on notes receivable is composed of the following:

Platteville Plumbers, 10%, 6 months, due March 31, 2013	$1,125
Bilder Construction, 11%, 6 months, due June 14, 2013	232
Beverly's Building, 9%, 6 months, due June 26, 2013	17
	$1,374

The interest accrued at 12/31/12 on the note payable of $15,000 @ 10% is $1,500. Interest is payable on January 2, 2013. (The note is due in 2013.)

h. A warehouse lease payment of $9,600 was made on September 1, 2012, for rental through February 28, 2013. (The Prepaid Rent account is for advance lease payments on the warehouse.)

i. $530 is owed to Northern Electric Co. and $279 is owed to City of Rockford for utility services provided during December 2012.

j. Plant and equipment to be depreciated are composed of the following:

Assets	Date Acquired	Cost	Estimated Usage or Life	Salvage Value	Depreciation Method
Building	7/1/08	$306,000	25 years	$20,000	sum-of-the-years' digits
Truck No. 1	4/1/09	28,000	60,000 miles	3,100	miles driven
Truck No. 2	9/1/11	33,000	60,000 miles	4,200	miles driven
Lift No. 1 (Sold 12/31/12)	8/17/05	7,900	10 years	900	straight-line
Lift No. 2	3/29/09	4,500	10 years	500	straight-line
Lift No. 3	9/16/10	5,000	10 years	500	straight-line
Office Equipment	All prior to 1/1/12	32,800	7 years	2,000	straight-line
Computer	12/22/12	6,100	4 years	1,300	Double-decling balance

Truck No. 1 has been driven 45,000 miles prior to 1/1/12 and truck No. 2 has been driven 30,500 miles prior to 1/1/12. During 2012 truck No. 1 was driven 12,000 miles and truck No. 2 was driven 14,000 miles. Remember that the Rockford Company takes a half-year's depreciation in the year of acquisition and a half-year in the year of sale.

6. Complete the work sheet. In completing the worksheet, compute State of Illinois corporate income taxes at $4\frac{1}{2}\%$ of pretax income. The state income tax is deductible on the federal tax return, and the federal tax is *not* deductible on the Illinois return. Assume federal corporate income tax on income subject to federal tax is as follows:

first $50,000	@15%
next 25,000	@25%
remainder	@34%

Income between $100,000 and $335,000 is assessed a 5% federal surtax, not to exceed $11,750.

Hint: Corporations subject to federal income tax must make estimated tax payments throughout the year. At the time of the payment, the account Income Tax Expense is debited and Cash is credited. To determine the taxable income at year end, net the total debits and total credits from the income statement in the worksheet. Note that the estimated income tax expense is listed as a debit and must be subtracted from total debits when determining taxable income (federal tax is not a deductible item).

7. Prepare the journal entry for income taxes. Post all adjusting entries.
8. Prepare schedules of subsidiary accounts receivable and accounts payable and determine that the total per each subsidiary schedule agrees with the related control account.
9. Prepare an income statement (assume the weighted-average number of shares outstanding for the year 2012 is 5,600 shares). Assume that bad debt expense and depreciation expense are administrative expenses.
10. Prepare a statement of retained earnings.
11. Prepare a balance sheet. (Hint: combine Petty Cash with Cash for balance sheet purposes.)
12. *OPTIONAL ASSIGNMENT* (1 to $1\frac{1}{2}$ hours): Prepare a statement of cash flows using the indirect approach. (Hint: combine Petty Cash with Cash for purposes of determining changes in cash.)
13. Prepare and post closing entries.
14. Prepare a post-closing trial balance.