Exercise 7-11A *Accounting for notes receivable* LO 7-5

Rainey Enterprises loaned $20,000 to Small Co. on June 1, 2016, for one year at 6 percent interest.

Required

a. Record these general journal entries for Rainey Enterprises:
   (1) The loan to Small Co.
   (2) The adjusting entry at December 31, 2016.
   (3) The adjusting entry and collection of the note on June 1, 2017.

b. Show the effects of the three above transactions in a horizontal statements model like the one shown below:

	Assets					=	Liab.	+	Equity	Rev.	−	Exp.	=	Net Inc.	Cash Flows
Date	Cash	+	Notes Rec.	+	Int. Rec.	=			Ret. Earn.						

Exercise 7-12A *Notes receivable—accrued interest* LO 7-5

On May 1, 2016, Benz's Sandwich Shop loaned $10,000 to Mark Henry for one year at 6 percent interest.

Required

Answer the following questions:

a. What is Benz's interest income for 2016?
b. What is Benz's total amount of receivables at December 31, 2016?
c. How will the loan and interest be reported on Benz's 2016 statement of cash flows?
d. What is Benz's interest income for 2017?
e. What is the total amount of cash that Benz's will collect in 2017 from Mark Henry?
f. How will the loan and interest be reported on Benz's 2017 statement of cash flows?
g. What is the total amount of interest that Benz's earned on the loan to Mark Henry?

Exercise 7-13A *Effect of credit card sales on financial statements* LO 7-6

Ultra Day Spa provided $120,000 of services during 2016. All customers paid for the services with credit cards. Ultra submitted the credit card receipts to the credit card company immediately. The credit card company paid Ultra cash in the amount of face value less a 5 percent service charge.

Required

a. Record the credit card sales and the subsequent collection of accounts receivable in a horizontal statements model like the one shown here. In the Cash Flow column, indicate whether the item is an operating activity (OA), investing activity (IA), or financing activity (FA). Use NA to indicate that an element is not affected by the event.

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

b. Based on this information alone, answer the following questions:

(1) What is the amount of total assets at the end of the accounting period?

(2) What is the amount of revenue reported on the income statement?

(3) What is the amount of cash flow from operating activities reported on the statement of cash flows?

(4) What costs would a business incur if it maintained its own accounts receivable? What cost does a business incur by accepting credit cards?

LO 7-6

Exercise 7-14A *Recording credit card sales*

Luna Company accepted credit cards in payment for $6,000 of services performed during July 2016. The credit card company charged Luna a 4 percent service fee; it paid Luna as soon as it received the invoices.

Required

a. Prepare the general journal entry to record the service revenue.

b. Prepare the general journal entry for the collection of the receivable from the credit card company.

c. Based on this information alone, what is the amount of net income earned during the month of July?

LO 7-1, 7-5, 7-6

Exercise 7-15A *Comprehensive single-cycle problem*

The following post-closing trial balance was drawn from the accounts of Little Grocery Supplier (LGS) as of December 31, 2015:

	Debit	Credit
Cash	$ 9,000	
Accounts Receivable	41,000	
Allowance for Doubtful Accounts		$ 2,500
Inventory	78,000	
Accounts Payable		21,000
Common Stock		50,000
Retained Earnings		54,500
Totals	$128,000	$128,000

Transactions for 2016

1. LGS acquired an additional $20,000 cash from the issue of common stock.
2. LGS purchased $85,000 of inventory on account.
3. LGS sold inventory that cost $91,000 for $160,000. Sales were made on account.
4. The company wrote off $900 of uncollectible accounts.

on October 1, 2021.

e. Prepare the journal entry for the disposal of the equipment on October 1, 2021.

LO 8-2, 8-8

CHECK FIGURE
b. Depreciation Expense: $8,000

Problem 8-33A *Continuing expenditures with statements model*

Tower Company owned a service truck that was purchased at the beginning of 2016 for $31,000. It had an estimated life of three years and an estimated salvage value of $4,000. Tower Company uses straight-line depreciation. Its financial condition as of January 1, 2018, is shown in the following financial statements model:

Assets			=	Equity			Rev.	−	Exp.	=	Net Inc.	Cash Flow
Cash	+	Book Value of Truck	=	Com. Stk.	+	Ret. Earn.						
20,000	+	13,000	=	9,000	+	24,000	NA	−	NA	=	NA	NA

In 2018, Tower Company spent the following amounts on the truck:

Jan. 4 Overhauled the engine for $6,000. The estimated life was extended one additional year, and the salvage value was revised to $3,000.
July 6 Obtained oil change and transmission service, $250.
Aug. 7 Replaced the fan belt and battery, $350.
Dec. 31 Purchased gasoline for the year, $7,500.
31 Recognized 2018 depreciation expense.

Required

a. Record the 2018 transactions in a statements model like the preceding one.
b. Prepare journal entries for the 2018 transactions.

LO 8-10

CHECK FIGURE
b. Depletion Expense: $4,000

Problem 8-34A *Accounting for intangible assets*

Mitre Company acquired Midwest Transportation Co. for $1,400,000. The fair market values of the assets acquired were as follows. No liabilities were assumed.

Equipment	$510,000
Land	150,000
Building	520,000
Franchise (10-year life)	40,000

Required

a. Calculate the amount of goodwill acquired.
b. Prepare the journal entry to record the amortization of the franchise fee at the end of year 1.

LO 8-11

Problem 8-35A *Accounting for goodwill*

Rossie Equipment Manufacturing Co. acquired the assets of Alba Inc., a competitor, in 2016. It recorded goodwill of $70,000 at acquisition. Because of defective machinery Alba had produced prior to the acquisition, it has been determined that all of the acquired goodwill has been permanently impaired.

Give some examples of long-term operatio
to own: *(a)* Sears, *(b)* Princess Cruise Lines

Exercise 8-2B *Identifying long-term*

Required

Which of the following items should be cla

a. Cash
b. Buildings
c. Production machinery
d. Accounts receivable
e. Prepaid rent
f. Franchise

Exercise 8-3B *Classifying tangible a*

Required

Identify each of the following long-term op

a. Retail store building
b. Shelving for inventory
c. Trademark
d. Gas well
e. Drilling rig
f. FCC license for TV station

Exercise 8-4B *Determining the cost o*

Oregon Logging Co. purchased an electron
had a list price of $160,000. The seller agre
cash. Delivery terms were FOB shipping po
hire an individual to operate the saw. Oreg
The cost of the platform was $2,500. The
The cost of the company's theft insurance
quiring of the saw. The saw had a five-year

Required

a. Determine the amount to be capitalize
b. Record the purchase in general journal

Exercise 8-5B *Allocating costs on th*

Florida Company purchased a building an
cost of $800,000 cash. The land was appra

Required

a. What is the accounting term for this ty
b. Determine the amount of the purcha
allocate to the building.

cost to allocate to the land and the amount to

e purchase? Why or why not?

like the following one:

	–	Exp.	=	Net Inc.	Cash Flow

nat.

ket purchase

and furniture for $500,000 cash. The appraised

$180,000
300,000
120,000
$600,000

books for each asset.

nts model like the following one:

Rev.	–	Exp.	=	Net Inc.	Cash Flow

e purchase.

e accounting equation

e 2016 fiscal year:

0 cash by issuing common stock.

sh.

cooktop. Purchased on January 1, 2016, the

ars and an estimated salvage value of $4,000.

Exercise 8-8A *Effect of double-declining-balance depreciation on financial statements* LO 8-3

Golden Manufacturing Company started operations by acquiring $150,000 cash from the issue of common stock. On January 1, 2016, the company purchased equipment that cost $120,000 cash, had an expected useful life of six years, and had an estimated salvage value of $4,000. Golden Manufacturing earned $72,000 and $83,000 of cash revenue during 2016 and 2017, respectively. Golden Manufacturing uses double-declining-balance depreciation.

Required

Prepare income statements, balance sheets, and statements of cash flows for 2016 and 2017. Use a vertical statements format. (*Hint:* Record the events in T-accounts prior to preparing the statements.)

Exercise 8-9A *Events related to the acquisition, use, and disposal of a tangible plant asset: straight-line depreciation* LO 8-2, 8-5

City Taxi Service purchased a new auto to use as a taxi on January 1, 2016, for $36,000. In addition, City paid sales tax and title fees of $1,200 for the vehicle. The taxi is expected to have a five-year life and a salvage value of $4,000.

Required

a. Using the straight-line method, compute the depreciation expense for 2016 and 2017.
b. Prepare the general journal entry to record the 2016 depreciation.
c. Assume that the taxi was sold on January 1, 2018, for $22,000. Prepare the journal entry for the sale of the taxi in 2018.

Exercise 8-10A *Computing and recording straight-line versus double-declining-balance depreciation* LO 8-2, 8-3

At the beginning of 2016, Copland Drugstore purchased a new computer system for $52,000. It is expected to have a five-year life and a $7,000 salvage value.

Required

a. Compute the depreciation for each of the five years, assuming that the company uses
   (1) Straight-line depreciation.
   (2) Double-declining-balance depreciation.
b. Record the purchase of the computer system and the depreciation expense for the first year under straight-line and double-declining-balance methods in a financial statements model like the following one:

		Assets	=	Equity	Rev.	–	Exp.	=	Net Inc.	Cash Flow
Cash	+	Book Value of Comp. Sys.	=	Ret. Earn.						

c. Prepare the journal entries to recognize depreciation for each of the five years, assuming that the company uses
   (1) Straight-line depreciation.
   (2) Double-declining-balance depreciation.