Introduction to accounting: Homework Assignment No.1

1-40 Analysis of Additional January Transactions ($ in millions), Nike, Inc.

Description of Transaction	Assets							=	Liabilities + Stockholders' Equity		
	Cash	+	Inventories	+	Property, plant, and equipment	+	Other assets	=	Total liabilities	+	Stockholders' equity
Balance, May 31, 2011	1,955	+	2,715	+	2,115	+	8,213	=	5,155	+	9,843
i. Acquire inventories for cash	-28		+28					=			
ii. Acquire inventories on open account			+19					=	+19		
iii. Return for full credit, shoes			-4					=	-4		
iv. Acquire equipment using cash and promissory note	-5				+14			=	+9		
v. Sold equipment	+40				-40			=			
vi. No entry								=			
vii. Disburse cash to reduce accounts payable	-16							=	-16		
viii. Borrow cash from bank	+50							=	+50		
ix. Sold common stock for cash	+90							=			+90
x. No entry								=			
Balance, June 3, 2011	2,086	+	2,758	+	2,089	+	8,213	=	5,213	+	9,933
	15,146							=	15,146		

Balance Sheet, June 3, 2011 ($ in millions), Nike, Inc.

Assets		Total Liabilities and Stockholders' Equity	
Cash	$ 2,096	Total Liabilities	$ 5,217
Inventories	2,755	Stockholders' equity	9,933
Property, plant, and equipment	2,089	Total	$ 15,146
Other assets	8,213		
Total	$ 15,146		

1-41 Analysis of November Transactions (in $), Jennifer Grant (as sole proprietorship)

* The original problem only asks for a solution for balance sheet, the analysis is listed here merely to show the train of thought

Description of Transaction	Assets					=	Liabilities + Owner's Equity				
	Cash	+	Real estate	+	Equipment	=	Mortgage payable	+	Note payable	+	Owner's equity
Balance, November 24, 20X1	119,000	+	0	+	0	=	0	+	0	+	119,000
i. Acquire real estate with mortgage	-85,000		+170,000			=	+85,000				
ii. Acquire real estate	-18,000		+18,000			=					
iii. No entry						=					
iv. No entry						=					
v. Acquire equipment	-10,000				+16,000	=			+6,000		
Balance, June 3, 2011	6,000	+	188,000	+	16,000	=	85,000	+	6,000	+	119,000
			210,000			=			210,000		

Balance Sheet, November 30, 20X1 (in $), Jennifer Grant (as sole proprietorship)

Assets		Liabilities and Owner's Equity	
Cash	$ 6,000	Total liabilities	$ 85,000
Real estate	188,000	Note payable	6.000
Equipment	16,000	Owner's equity	119,000
Total	$ 210,000	Total	$ 210,000

1-42 Bank Balance Sheet

1. If I were to deposit $1,000 at Wells Fargo, its deposits will increase by $1,000, at the same time its cash increase by $1,000.
2. Deposits are listed as liabilities because the bank does not actually own the money. Its rather a form of "debt" since account users hold the right to retrieve their money from bank deposits.
3. Loans receivable would increase by $75,000, and cash decrease by the same amount.
4. Deposits and cash decrease accordingly by $5,000.

Introduction to accounting: Homework Assignment No.2

2-47 Analysis of Transactions, Preparation of Statements

1. Analysis of transactions for July 1, 20X2 (In Thousands of $), Montero Company

Description of Transaction	Assets						=	Liabilities	+	Stockholders' Equity	
	Cash +	Accounts Receivable +	Merchandise Inventory +	Prepaid Rent +	Prepaid Insurance +	Store Equipment	=	Note Payable +	Accounts Payable +	Paid-in Capital +	Retained Earnings
a. Cash exchanged for stock	+300						=			+300	
b. Sign 1-year lease	-48			+48			=				
c. Acquire equipment	-40					+100	=	+60			
d. Acquire 2-year insurance	-24				+24		=				
e. Acquire merchandise	-35		+35				=				
f. Acquire merchandise			+190				=		+190		
g. Sales	+30	+175					=				+205 (Sales Revenue)
h. Sold Inventory			-155				=				-155 (Cost of Goods Sold)
i. Recognize July rent expense				-4			=				-4 (Rent Expense)
j. Recognize depreciation expense						-2					-2 (Depreciation Expense)
k. Recognize insurance expense					-1						-1(Insurance Expense)
l. Collect credit	+45	-45									
m. Disburse credit	-80								-80		
Balance July 31, 20X2	+148 +	+130	+70	+44	+23	+98		+60	+110	+300	+43
	513						=	513			

Answer: Transactions (h)-(m) illustrates that expenditures are first recorded as assets. Its costs are expensed when the assets are used, a process also known as the recognition of expired assets.

2. Income Statement for July 31, 20X2 (on accrual basis), Montero Company

Sales	$205,000
Deduct expenses:	
Cost of goods sold	$155,000
Rent	4,000
Depreciation	2,000
Insurance	1,000
Total expenses	162,000
Net income	$43,000

3. Balance Sheet for July 31, 20X2, Montero Company

Assets		Liabilities and Stockholders' Equity	
Cash	$ 148,000	Liabilities:	
Accounts receivable	130,000	Note payable	$ 110,000
Merchandise inventory	70,000	Accounts payable	60,000
Prepaid rent	44,000	Total liabilities	170,000
Prepaid insurance	23,000	Stockholder's equity:	
Store equipment	98,000	Paid-in capital	300,000
		Retained earnings	43,000
		Total stockholder's equity	343,000
Total	$ 513,000	Total liabilities and Stockholders' Equity	$ß

2-48 Analysis of Transactions, Preparation of Statements

1. Analysis of transactions for April 1, 20X2 (In Thousands of $), Bekele Company

Description of Transaction	Assets						=	Liabilities		Stockholders' Equity	
	Cash +	Accounts Receivable +	Merchandise Inventory +	Prepaid Rent +	Prepaid Insurance +	Store Equipment	=	Note Payable +	Accounts Payable +	Paid-in Capital +	Retained Earnings
a. Cash exchanged for stock	+200						=			+200	
b. Acquire merchandise	-45		+45				=				
c. Acquire merchandise			+35				=		+35		
d. Sold inventory	+25	+75					=				+100 (Sales Revenue)
Cost of goods sold			-37				=				-37 (Cost of Goods sold)
e. Collect credit	+18	-18									
f. Pay accounts payable	-30						=		-30		
g. Acquire equipment with 36-months life expectancy	-12					+36	=	+24			
h. Prepaid rent	-6			+6			=				
i. Sales-linked rent expense	-10						=				-10 (Rent Expense)
j. Salary payment	-34										-34 (Wages Expense)
k. Recognize depreciation expense						-1					-1 (Depreciation Expense)
l. Recognize rent expense				-2							-2 (Rent Expense)
Balance July 31, 20X2	+106 +	+57	+43	+4	+0	+35		+24	+5	+200	+16
	245						=	245			

2. Balance sheet for April 30, 20X2, Bekele Company

Assets		Liabilities and Stockholders' Equity	
Cash	$ 106,000	Liabilities:	
Accounts receivable	57,000	Note payable	$ 24,000
Merchandise inventory	43,000	Accounts payable	5,000
Prepaid rent	4,000	Total liabilities	29,000
Prepaid insurance	0	Stockholder's equity:	
Store equipment	35,000	Paid-in capital	200,000
		Retained earnings	16,000
		Total stockholder's equity	216,000
Total	$ 245,000	Total liabilities and Stockholders' Equity	$ 245,000

Income Statement for April 30, 20X2, Bekele Company

Sales	$100,000
Deduct expenses:	
Cost of goods sold	$ 37,000
Wages and sales commissions	34,000
Rent	12,000
Depreciation	1,000
Total expenses	84,000
Net income	$ 16,000

Answer: It is given that Bekele company specializes in selling ladies' accessories in the form of chain discount stores, naturally April is not their peak period. Nonetheless they were able to turn a profit, which is first of all generally satisfying. To give a more specific evaluation, its EPS = $ 16,000 / $ 200,000 = 8% this month, showing that it is worth investing to a certain extent.

2-57 Net Income and Retained Earnings

1. a. Income statement for December 31 ($ in millions), 2011, Macdonald' s Corporation

Revenues	$27,006.0
Deduct expenses:	
Food and paper expense	$ 6167.2
Payroll and employee benefits	4606.3
Franchise restaurants—occupancy expenses	1481.5
Selling, general, and administrative expenses	2393.7
Occupancy and other operating expenses	3,827.6
Interest and other nonoperating expenses	517.5
Total expenses	18993.8
Income before provision for income taxes	8012.2
Provision for income taxes	2,509.1
Net income	$ 5,503.1

2. Answer: The declares cash dividend is $ 2,607.3, which takes up $ 2,607.3 / $ 5,503.1 = 47.4% of net income, and $ 2,607.3 / $ 33,811.7 of retained earnings at the start of the year. It could be inferred that McDonalds is in a steady phase rather than seeking much expansion, since the distribution of income to dividend and fund for company growth is roughly half each. The relative size of cash dividend is sizable.

Introduction to accounting: Homework Assignment No.3

3-39 Journal, Ledger and Trial Balance

1. Prepare journal entries.

General Journal

Detroit Machinery, Inc. (in thousands)

	Date 20X0		Description	Post. Ref.	Debit	Credit
a	Nov.		Cash		75	
			Accounts Receivable			75
			Collected cash on account.			
b			Accounts Payable		14	
			Cash			14
			Paid cash on account.			
c			Inventory		80	
			Accounts Payable			80
			Acquired inventory on account.			
d.1			Accounts Receivable		96	
			Sales			96
			Sales completed on account.			
d.2			Cost of Goods Sold		70	
			Inventory			70
			Merchandise inventory sold for cash.			
e			Rent Expense		1	
			Prepaid rent			1
			Recognition of rent expense			
f			Wages Expense		8	
			Cash			8
			Wages paid in cash for November.			
g	Nov.	29	Retained earnings		10	
			Cash			10
			Cash dividends declared and disbursed.			

*Note: Although it has been reiterated in class that explanations are not necessary in writing a journal for homework, the student here feels that it is beneficial for her to grasp this new idea that she included it in the journal above.

2. Post journal entries to T-accounts.

Beginning balance: Oct. 20X0
Ending balance: Nov. 20X0
(in thousands)

Cash

Bal.	41	b	14
a	75	f	8
		g	10
	116		32
Bal.	84		

Accounts Payable

b	14	Bal.	27
		c	80
	14		107
		Bal.	93

Costs of Goods Sold

d.2	70		

Rent Expense

e	1		

Accounts Receivable

Bal.	90	a	75
d.1	96		
	186		75
Bal.	111		

Paid-in Capital

		Bal.	160
	0		160
		Bal.	160

Inventory

Bal.	70	d.2	70
c	80		
	150		70
Bal.	80		

Retained Earnings

g	10	Bal.	16
	10		16
		Bal.	6

Wages Expense

f	8		

Prepaid Rent

Bal.	2	e	1
	2		1
Bal.	1		

Sales

		d.1	96

3. Prepare trial balance for the month ending November 30, 20X0.

Detroit Machinery, Inc. Trial Balance November 30, 20X0 (in thousands)		
	Debit	Credit
Cash	$ 84	
Accounts Receivable	111	
Inventory	80	
Prepaid Rent	1	
Accounts Payable		$ 93
Paid-in Capital		160
Retained Earnings		6
Sales		96
Costs of Goods sold	70	
Rent Expense	1	
Wages Expense	8	
Total	$ 355	355

4. Accounts payable increased very much (by $ 66,000) during November because purchases were made on account ($ 80,000) significantly more than payments on account ($ 14,000).

3-42 Transaction Analysis, Trial Balance, and Closing Entries

1. (Will be dealt with together with 3.)
2. Prepare journal entries.

General Journal

Husker Auto Glass, Inc

	Date 20X0		Description	Post. Ref.	Debit	Credit
1	Jan.	2	Cash		2,500	
			Accounts Receivable			2,500
2		3	Cash		4,200	
			Parts Revenue			700
			Labor Revenue			3,500
3		3	Costs of Parts Used		300	
			Parts Inventory			300
4		7	Legal Expense		500	
			Cash			500
5		9	Parts Inventory		900	
			Accounts Payable			900
6		11	Wages Expense		1,000	
			Cash			1,000
7		13	Repairs Expense		500	
			Cash			500
8		19	Accounts Receivable		3,600	
			Parts Revenue			800
			Labor Revenue			2,800
9		19	Costs of Parts Used		500	
			Parts Inventory			500
10		24	Wages Expense		1,400	
			Cash			1,400
11		27	Accounts Payable		1,500	
			Cash			1,500
12		31	Rent Expense		1,000	
			Prepaid Rent			1,000
13		31	Depreciation Expense, trucks		600	
			Depreciation Expense, equipment		200	
			Accumulated depreciation, trucks			600
			Accumulated depreciation, equipment			200
14		31	Utilities Expense		300	
			Cash			300
15		31	Wages Expense		800	
			Cash			800

3. Post journal entries to T-accounts.

Beginning balance: Jan. 1 20X0

Ending balance: Jan. 31 20X0

Cash

Bal.	8,000	**4**	500
2	2,500	**6**	1,000
3	4,200	**7**	500
		10	1,400
		11	1,500
		14	300
		15	800
	14,700		6,000
Bal.	8,700		

Accounts Receivable

Bal.	3,000	**1**	2,500
8	3,600		
	6,600		2,500
Bal.	4,100		

Parts Inventory

Bal.	2,000	**3**	300
5	900	**9**	500
	2,900		800
Bal.	2,100		

Prepaid Rent

Bal.	2,000	**12**	1,000
	2,000		1,000
Bal.	1,000		

Trucks

Bal.	36,000		
Bal.	36,000		

Accounts Payable

11	1,500	**Bal.**	1,900
		5	900
	1,500		2,800
		Bal.	1,300

Paid-in Capital

		Bal.	20,000
		Bal.	20,000

Retained Earnings

		Bal.	17,100
			17,100
		Bal.	17,100

Accumulated Depreciation, Trucks

		Bal.	15,000
		13	600
			15,600
		Bal.	15,600

Costs of Parts Used

3	300		
9	500		
Bal.	800		

Rent Expense

12	1,000		

Legal Expense

4	500		

Wages Expense

6	1,000		
10	1,400		
15	800		
Bal.	3,200		

Parts Revenue

		2	700
		8	800
		Bal.	1,500

Equipment			
Bal.	8,000		
Bal.	8,000		

Accumulated Depreciation, Equipment			
		Bal.	5,000
		13	200
			5,200
		Bal.	5,200

Labor Revenue			
		2	3,500
		8	2,800
		Bal.	6,300

Utilities Expense			
14	300		

Repairs Expense			
7	500		

4. Trial Balance.

Husker Auto Glass, Inc. Trial Balance January 31, 20X0		
	Debit	Credit
Cash	$ 8,700	
Accounts Receivable	4,100	
Parts Inventory	2,100	
Prepaid Rent	1,000	
Trucks	36,000	
Equipment	8,000	
Accumulated depreciation, trucks		$ 15,600
Accumulated depreciation, equipment		5,200
Accounts Payable		1,300
Paid-in Capital		20,000
Retained Earnings		17,100
Parts Revenue		15,00
Labor Revenue		6,300
Costs of Parts Used	800	
Wages Expense	3,200	
Rent Expense	1,000	
Repairs Expense	500	
Depreciation Expense, trucks	600	
Depreciation Expense, equipment	200	
Utilities Expense	300	
Legal Expense	500	
Total	$ 67,000	$ 67,000

5. Closing entries

C1	Parts Revenue	1,500	
	Labor Revenue	6,300	
	Income Summary		7,800
C2	Income Summary	7,100	
	Costs of Parts Used		800
	Wages Expense		3,200
	Rent Expense		1,000
	Repairs Expense		500
	Depreciation Expense, trucks		600
	Depreciation Expense, equipment		200
	Utilities Expense		300
	Legal Expense		500
C3	Income Summary	700	
	Retained Earnings		700

3-49 Reconstructing Journal Entries, Posting

1. Prepare journal entries.

	Description	**Post. Ref.**	**Debit**	**Credit**
1	Cash		82,559	
	Net sales			82,559
2	Costs of products sold		40,768	
	Inventory			40,768
3	Selling, general, and administrative expense		25,973	
	Cash			25,973
4	Interest expenses		831	
	Cash			831
5	Cash		202	
	Other income, net			202
6	Income tax expense		3,392	
	Cash			3,392

2. Post to T-accounts

Cash			
1	82,599	3	25,973
5	202	4	831
		6	3,392
	82,801		30,916
Bal.	52,605		

Inventory			
		2	40,768

Costs of Products Sold			
2	40,768		

Selling, general, and administrative expense			
3	25,973		

Net Sales			
		1	82,559

Other Income, net			
		5	202

Interest Expense			
d	831		

Income Tax Expense			
6	3,392		

Introduction to accounting: Homework Assignment No.3

4-35 Adjusting Entries

1. Prepare journal entries

Adjusting Journal Entries

Susan Hatfield

	Date 20X0		Description	Post. Ref.	Debit	Credit
1	Dec.	31	Office Supplies expense		1,700	
			Office Supplies Inventory			1,700
			Consumption of office equipment by $ 3,000 – $ 1,300 = $ 1,700.			
2			Unearned Fee Revenue		20,000	
			Fee Revenue			20,000
			Recognize five months' earning of 5 * $ 48,000 / 12 = $ 20,000.			
3			Accrued interest receivable		120	
			Interest Revenue			120
			Accumulated interest $ 8,000 * 6% * 3 / 12 = $ 120			
4			Wage Expense		800	
			Accrued wages payable			800
			Record unpaid wages earned by secretary.			

2. Prepare balance sheet (in account format).

	Description	Assets	=	Liabilities	+	Stockholder's equity
		Office Supplies Inventory	=			Office Supplies expense
1	Consumption of office equipment	-1,700	=			-1,700

	Description	Assets	=	Liabilities	+	Stockholder's equity
			=	Unearned Fee Revenue		Fee Revenue
2	Recognize five months' earning		=	-20,000		+20,000

	Description	Assets	=	Liabilities	+	Stockholder's equity
		Accrued interest receivable	=			Interest Revenue
3	Recognize Accumulated interest	+120	=			+120

	Description	Assets	=	Liabilities	+	Stockholder's equity
			=	Accrued wages payable		Wages expense
4	Record unpaid wages earned by secretary.		=	+800		-800

4-38 Four Major Adjustments

1. Prepare journal entries

Adjusting Journal Entries

Columbia Sportswear (in thousands of $)

	Date		Description	Post. Ref.	Debit	Credit
	2012					
a	Jan.	31	Rent expense		728	
			Prepaid expense			728
b			Unearned Revenue		1,019	
			Sales Revenue			1,019
c			Accrued interest receivable		112	
			Interest Revenue			112
d			Income Tax Expense		938	
			Income Taxes payable			938

2. Prepare balance sheet (in account format, in thousands of dollars).

	Description	Assets	=	Liabilities	+	Stockholder's equity
		Prepaid expense	=			Rent expense
1	Rental outlets expired	-728	=			-728

	Description	Assets	=	Liabilities	+	Stockholder's equity
			=	Unearned Revenue		Sales Revenue
2	Product delivery completed		=	-1,019		+1,019

	Description	Assets	=	Liabilities	+	Stockholder's equity
		Accrued interest receivable	=			Interest Revenue
3	Recognize Accumulated interest	+112	=			+112

	Description	Assets	=	Liabilities	+	Stockholder's equity
			=	Income Taxes payable		Income tax expense
4	Recognize accrual income tax.		=	+938		-938

3. Prepare ending balance.

Balance Sheet, Jan. 31, 2012

Columbia Sportswear (in thousands of $)

Prepaid expenses	$ 35,664
Income taxes payable	$ 13,517

4-51 Multiple-Step Income Statement

Prepare a multiple-step statement of income. Include the correct amount for Net Revenue.

Net revenue = net income + expense + tax = Cost of sales + Gross margin (in this case) = \$ 20,242 + \$ 33,757 = \$ 53,999.

Intel Corporation Multiple-Step Income Statement December 31, 2011 (in millions)		
Net revenue		\$ 53,999
Cost of sales		20,242
Gross margin		33,757
Operating expense		
Research and development	\$ 8,350	
Marketing, general, and administrative	7,670	
Amortization of acquisition-related intangibles	260	
Total operating expense	16,280	
Operating income		17,477
Other revenues and expenses		
Interest and other income, net		192
Gains (losses) on equity investments, net		112
Income before income taxes		17,781
Provision for taxes		4,839
Total		\$ 12,942

Introduction to accounting: Homework Assignment No.5

5-56 Prepare Statement of Cash Flows from Income Statement and Balance Sheet

1. Prepare a statement of cash flows for 20X1 (direct method)

JACINTA MANUFACTURING COMPANY		
Statement of Cash Flows		
For the Year Ended December 31, 20X1		
(in thousands)		
Cash flows from operating activities:		
Cash received from customers ($ 490 + $15)		$ 505
Cash paid for Operating expenses		
Cost of sales ($300 – $5 - $5)		(290)
Salaries		(82)
Cash operating expenses		(15)
Interest		
Taxes paid		(8)
Net cash provided by operations		110
Cash flows from investing activities:		
Addition of property, plant and equipment	$ (125)	
Disposal of property, plant and equipment	5	
Net cash used for investing activities		(120)
Cash flows from financing activities:		
First issue of long-term debt	100	
Dividends paid	(10)	
Net cash used for financing activities		90
Increase in cash		$ 80

5-62 Cash Flows from Operating Activities, Indirect Method

1. Prepare a statement of net cash provided by operating activities. (indirect method)

SUMITOMO METAL INDUSTRIES, LTD.	
Statement of Cash Provided by Operating Activities	
For the Year Ended March 31, 2011	
(In Billions of ¥)	
Cash flows from operating activities:	
Net loss	¥ (36)
Adjustments to accrual basis net income:	
(+) Depreciation and amortization	127
(+) Decrease in receivables	37
(-) Increase in inventories	(14)
(+) Other, net	17
(+) Increase in payables	18
(+) Other noncash revenues and expenses	53
Net cash provided by operations	¥ 202

5-71 Statement of Cash Flows, Direct and Indirect Method

1. Prepare a statement showing net cash provided by operating activities. (direct method)

NORDSTROM, INC.		
Statement of Cash Provided by Operating Activities		
For the Year Ended January 28, 2012		
($ In Millions)		
Cash flows from operating activities:		
Cash received from customers ($ 10,877 - $ 98)		$ 10,779
Cash paid for Operating expenses		
Cost of sales and related buying and occupancy costs ($ 6,592 + $ 137 -$ 54)	6,675	
Selling, general and administrative expenses ($ 3,036 - $ 488 - $ 6 - $ 181)	2,361	
Interest	130	
Taxes paid	436	
Total payments		9,602
Net cash provided by operations		$ 1,177

Introduction to accounting: Homework Assignment No.6

6-62 Simple Bank Reconciliation

1. Prepare a bank reconciliation as of July 31.

East End Hospital Statement of Cash Flows Bank Reconciliation July 31			
BANK		**BOOK**	
Balance, July 31	$ 35,860	Balance, July 31	$ 50,000
ADD:		ADD:	
Deposit in Transit	9,000	No entry	
LESS:		LESS:	
Outstanding checks	(6,000)	Service Charge	(140)
		NSF check	(11,000)
			(11,140)
Adjusted bank balance	$ 38,860	Adjusted book balance	$ 38,860

2. Prepare the hospital journal entries required by the given information.

Adjusting Journal Entries
East End Hospital (in dollars)

Date		Description	Post. Ref.	Debit	Credit
July	31	Accounts Receivable – NSF Check		11,000	
		Bank Service Charge Expense		140	
		Cash			11,140
		to adjust cash account			

6-68 Aging of Accounts

1. Prepare an aging schedule

Aging Accounts Receivable Worksheets (in dollars)					
Accounts / Age	**under 30 days**	**31-60 days**	**61-90 days**	**Over 90 days**	**Total**
Akita Nurseries			20,000	5,000	25,000
Michael' s Landscaping	2,000	6,000			8,000
Rose' s Garden Supply		4,800	7,200		12,000
Loring Farm	20,000				20,000
Hjortshoj Florists	3,000		1,000		4,000
Other accounts (each detailed)	40,000	24,000		4,000	80,000
Total	$ 65,000	$ 34,800	$ 40,200	$ 9,000	$ 149,000
Prospective bad debt percentage	.2%	.8%	.10%	85%	
Bad debt allowance	$ 130	278.4	4,020	7,650	$ 12,078.4

6-71 Percentage of Sales and Percentage of Ending Accounts Receivable

1. Uses the percentage of sales method to calculate an allowance for bad debts. Prepare December 31, 20X0, balance sheet. Give the journal entry required to recognize the bad debt expense for 20X0.

   The Cottonwood Equipment Company uses the **Percentage of credit sales method** in accounting its bad debt expenses, which amounts to 1.1% * %7million = $ 77,000.

Cottonwood Equipment Company Balance Sheet December 31, 20X0	
Balance, December 31, 20X0	$ 480,000
LESS:	
Allowance for bad debts (77,000 – 1,200)	(75,800)
Net accounts receivable	$ 404,200

Adjusting Journal Entries
Cottonwood Equipment Company (in dollars)

Date		Description	Post. Ref.	Debit	Credit
Dec.	31	Bad debt Expense		77,000	
		Allowance for bad dabts			77,000
		to recognize bad debt expenses			

2. Repeat 1. using the percentage of ending accounts receivable method.

The Cottonwood Equipment Company uses the **Percentage of total receivables method** in accounting its bad debt expenses, which amounts to 17% * $ 480,000 = $ 81,600.

Cottonwood Equipment Company	
Balance Sheet	
December 31, 20X0	
Balance, December 31, 20X0	$ 480,000
LESS:	
Allowance for bad debts	(81,600)
Net accounts receivable	$ 398,400

Adjusting Journal Entries
Cottonwood Equipment Company (in dollars)

Date		Description	Post. Ref.	Debit	Credit
Dec.	31	Bad debt Expense (81,600 + 12,000)		82,800	
		Allowance for bad dabts			82,800
		to recognize bad debt expenses			

3. Which method do you prefer? Why?

I would prefer the percentage of total receivables method. Because it is more direct in the sense that it locates uncollected money to specific accounts which are outstanding. In the case of bad debt, it is the customers' ability to pay that in the end determines whether or not the trade made on account is valid, or to put it more plainly, if the company can receive its hard-earned money.

Introduction to accounting: Homework Assignment No.7

7-56 Comparison of Inventory Methods

1. Prepare a comparative statement of gross profit for the year ended December 31, 20X8, using FIFO, LIFO, and average cost inventory methods.

Contractor Supply Company Comparative Statement of Gross Profit Kemtone Cooktops, in dollars December 31, 20X8						
	FIFO		LIFO		Weighted-average	
Net Sales, 260 units *		26,200		26,200		26,200
Deduct: Cost of goods sold						
Inventory, Dec 31, 20X7, 110 @ $50	5,500		5,500		5,500	
Net Purchases, 300 units *	21,200		21,200		21,200	
Cost of goods available for sale, 300 + 110 = 410 units	26,700		26,700		26,700	
Deduct: Inventory, Dec 31, 20X8, 410 - 260 = 150 units **	100 @ $80 = 8,000		110 @ $50 = 5,500		160 @ $65.12 = 10,419***	
	60 @ $70= 4,200		50 @ $60 = 3,000			
Total	12,200		8,500		10,419	
Cost of goods sold	14,500		18,200		16,281	
Gross profit		$11,700		$8,000		$9,919

*Since no cash discount / sales returns and allowances are mentioned, in this case, gross sales = net sales, gross purchases = net purchases.

**Using period inventory method.

***Weighted average = ($26,700)/410 = $65.12

2. Calculate income tax difference induced by using LIFO and FIFO method

The amount income tax would be smaller by 40% $(11,700 – 8,000) = $1,480 if LIFO is used instead of FIFO. Since income tax difference only depends on gross profit difference in this case, assuming that all other figures in the income statement remains unchanged.

7-69 Comparison of Inventory Methods

1. Prepare a comparative income statement for the 2011 fiscal year for the product in question. Use FIFO, LIFO, and average cost inventory methods.

Texas Instruments						
Comparative Income Statement						
Semiconductos, $ in millions						
December 31, 2011						
	FIFO		LIFO		Weighted-average	
Net Sales, 190 units *		2,260		2,260		2,260
Deduct: Cost of goods sold						
Inventory, Dec 31, 2010, 80 @ $5	400		400		400	
Net Purchases, 220 units *	1,580		1,580		1,580	
Cost of goods available for sale, 80 + 220 = 300 units	1,980		1,980		1,980	
Deduct: Inventory, Dec 31, 20X8, 300 - 190 = 110 units **	90 @ $8 = 720		80 @ $5 = 400		110 @ $6.6 = 726**	
	20 @ $7 = 140		50 @ $6= 300			
Total	860		700		726	
Cost of goods sold	1,120		1,280		1,254	
Gross profit		$1,140		$980		$1,006
Other expenses		600		600		600

(Continued on the next page)

Income before income tax	540	380	406
Income tax expense (tax rate at 40%)	216	152	162.4
Net income	324	228	243.6

*Since no cash discount / sales returns and allowances are mentioned, in this case, gross sales = net sales, gross purchases = net purchases.

**Weighted average = ($1,980)/300 = $6.6

2. Calculate income tax difference induced by using LIFO and FIFO method

   The amount income tax would be smaller by 40% * $(540 – 380) = $216 – $152 = $64.

3. Compute gross margin (or gross profit) using the specific identification method, under two different scenarios.

Texas Instruments Statement of Gross Profit, specific identification method Semiconductos, $ in millions December 31, 2010				
	Scenario (a)		Scenario (b)	
Net Sales, 190 units		2,260		2,260
Deduct: Cost of goods sold				
Inventory, Dec 31, 2010, 80 @ $5	400		400	
Net Purchases, 220 units	1,580		1,580	
Cost of goods available for sale, 80 + 220 = 300 units	1,980		1,980	
Deduct: Inventory, Dec 31, 20X8, 300 - 190 = 110 units	90 @ $8 = 720		60 @ $5 = 300	

	20 @ $7 = 140		50 @ $8= 400	
Total	860		700	
Cost of goods sold	1,120		1,280	
Gross profit		$1,140		$980

7-77 Inventory Errors

1. Which items in the financial statements would be incorrect and by how much? Use O for overstated, U for understated, and N for not affected. Assume a 40% tax rate and state dollar amounts in millions.

	Effect on Fiscal Year	
	2011	2010
Beginning inventory	O by $20	N
Ending inventory	N	O by $20
Cost of sales	O by $20	U by $20
Gross profit	U by $20	O by $20
Income before taxes on income	U by $20	O by $20
Taxes on income	U by $8	O by $8
Net income	U by $12	O by $12

2. What is the dollar effect of the inventory error on retained earnings at the end of fiscal 2011 and 2010?

Retained earnings would be overstated by $12 million at the end of fiscal 2010. However, retained earnings would be correct at the end of fiscal 2011.

Introduction to accounting: Homework Assignment No.7

8-57 Reconstruction of Plant Asset Transactions

1. The original historical cost of assets sold or retired during fiscal 2011

General Mills, T-Account
($ in millions)

Land, Buildings and Equipment			
Beg.Bal.	$6,949.7		
		Written off	X
Purchase	848.8		
End.Bal.	7,492.1		

Solve for the original historical cost, which equals to X:
6,949.7 – X + 848.8 = 7,492.1, X = $ 306.4.

2. The amount of accumulated depreciation associated with the assets sold or retired

General Mills, T-Account
($ in millions)

Accumulated Depreciation			
		Beg.Bal.	$3,822.0
		Depreciation Exp.	472.6
Written off	Y		
		End.Bal.	4,146.2

Solve for the original historical cost, which equals to Y:
3,822.0 – Y + 472.6 = 4,146.2, Y = $ 148.4.

3. The book value of the assets sold or retired is equal to the cash received for the disposal of Land, Buildings and Equipment (since there is no gain or loss), which is $158.0 million. The number can be verified by checking the write-off difference between Land, Buildings and Equipment & Accumulated Depreciation, which is also 306.4 – 148.4 = $158.0 million.

8-59 Reconstruction of Plant Asset Transactions

1. Special Tools amortization of 2011.

Ford Motor Company, T-Account
($ in millions)

Special Tools, net			
Beg.Bal.	$7,473		
		Amortization Exp.	X
Acquisitions	2,000	**Disposals, book value**	700
End.Bal.	6,999		

Solve for the amortization of the year 2011, which is X:
7,473 – X + 2,000 -700 = 6,999 , X = $ 1,774.

2. Estimation of the cost of the new acquisitions of land, plant, and equipment.

Ford Motor Company, T-Account
($ in millions)

Land, Buildings and Equipment			
Beg.Bal.	$49,454		
		Disposals, original cost	Y
Acquisition, new	Z		
End.Bal.	48,104		

Accumulated Depreciation			
		Beg.Bal.	$33,900
		Depreciation Exp.	W
Disposal, fully depreciated	Y		
		End.Bal.	32,874

*Since the assets are considered to be fully depreciated when disposed, its accumulated depreciation at disposal should be the same amount as that of its original cost

It is given that the total depreciation and amortization for 2011 is $3,533 million, therefore W can be solved first, using the result from 1: 1,774 + W = $3,533, yielding W = $1,759.

Henceforth, Y could be solved: 33,900 + 1,759 – Y = 32,874, we have Y = $ 2,785.

Eventually, the wanted solution for an estimate of new acquisitions of land, plant, and equipment can be solved, which is equal to solving Z: 49,454 - 2,785 + Z = 48,104. Z = $ 1,435.

8-62 Depreciation, Income Taxes, and Cash Flow

1&2. Fill in the columns.

Wal-mart, Depreciation
($ in millions)

	1. Zero Income Taxes		2. 40% Income Taxes	
	Straight-Line Depreciation	*Accelerated Depreciation*	*Straight-Line Depreciation*	*Accelerated Depreciation*
Revenues (all cash)	$421,849	$421,849	$421,849	$421,849
Cash operating expenses	388,666	388,666	388,666	388,666
Cash provided by operations before income taxes	33,183	33,183	33,183	33,183
Depreciation expense	7,641	9,641	7,641	9,641
Pretax income	25,542	23,542	25,542	23,542
Income tax expense	0	0	10216.8	9416.8
Net income	$25,542	$23,542	$15,325.2	$14,125.2
Supplementary analysis				
Cash provided by operations before income taxes	$33,183	$33,183	$33,183	$33,183
Income tax payments	0	0	10216.8	9416.8
Net cash provided by operations	$33,183	$33,183	$22,966.2	$23,766.2

3. Depreciation does not provide cash directly. However, depreciation intrinsically brings Earnings Before Interest and Tax down, which decreases net income. Since income taxes, as the name suggests, is based on the amount of income, a decrease in reported net income results in a decrease in income tax. The less tax the company has to pay, the more net cash provided by operations would remain. Therefore in effect, depreciation causes more cash to be remained after tax had been paid, though it has no effect on the pretax income.

4. Compare the two set of columns, the changes are found to be :
   ($ in millions)

	Increase/Decrese	Amount
Cash	↑	$800
Accumulated depreciation	↑	2,000
Pretax income	↓	2,000
Income tax expense	↓	800
Retained earnings	↓	1,200

The new balances would be:

Cash, ($7,395 million + $800 million) = $8,195 million
Accumulated depreciation, ($43,386 million + $2,000 million) = $45,386 million.

5. Net cash provided by operations before income taxes would not be affected in both cases, which further stresses the narrative in requirement 3. (The changes are shown in red in the chart below. Note that since tax is always zero here and cash before income taxes remains unchanged, Net cash naturally remains unchanged.)

Wal-mart, Depreciation
($ in millions)

	Zero Income Taxes	
	Straight-Line Depreciation	*Accelerated Depreciation*
Revenues (all cash)	$421,849	$421,849
Cash operating expenses	388,666	388,666
Cash provided by operations before income taxes	33,183	33,183
Depreciation expense	7,641+2,750	9,641+2,750
Pretax income	25,542-2,750	23,542-2,750
Income tax expense	0	0
Net income	$25,542-2,750	$23,542-2,750
Supplementary analysis		
Cash provided by operations before income taxes	$33,183	$33,183
Income tax payments	0	0
Net cash provided by operations	$33,183	$33,183