Comprehensive Problem Chapters 9–12

1. Journal entries for 2018

Jan.	1	Cash (150,000 × $15)	2,250,000	
		Common Stock, $1 par (150,000 × $1)		150,000
		Paid-In Capital in Excess of Par		2,100,000
		Issued 150,000 shares of $1-par common stock at $15 per share.		
	1	Building	720,000	
		Cash		720,000
		Purchased building with 25-year life and $70,000 salvage value for $720,000.		
Feb.	1	Cash	1,800,000	
		Loan Payable		1,800,000
		Borrowed $1,800,000 at 9% for four years.		
Mar.	1	Fair Value through Profit or Loss Financial Assets—Equity (50,000 shares × $30)	1,500,000	
		Cash		1,500,000
		Purchased 50,000 shares of Ryan Company at $30 per share.		
July	15	FVTOCI Financial Assets—Equity (55,000 shares × $23)	1,265,000	
		Cash		1,265,000
		Purchased 55,000 shares of Anson Company for $23 per share.		
Nov.	17	Dividends (150,000 shares × $0.30)	45,000	
		Dividends Payable		45,000
		Declared a cash dividend of $0.30 per share on 150,000 shares.		

Comp. Prob. 9–12 (Continued)

Dec. 31	Losses on Fair Value through Profit or Loss Financial Assets—Equity [($30 – $26) × 50,000] ...	200,000	
	Valuation Adjustment for Fair Value through Profit or Loss Financial Assets—Equity		200,000
	Adjusted FVTPL financial assets to market value.		
	Valuation Adjustment for FVTOCI Financial Assets —Equity [($28 – $23) × 55,000] ..	275,000	
	Unrealized Gains or Losses on FVTOCI Financial Assets—Equity		275,000
	Adjusted FVTOCI financial assets-Equity to market value.		

a.	Accounts Receivable	1,080,000	
	Sales		1,080,000
	Record sales on account.		
	Cost of Goods Sold	576,000	
	Inventory		576,000
	Sold goods costing $480,000 for $900,000.		
b.	Cash	504,000	
	Accounts Receivable		504,000
	Collected $420,000 of accounts receivable.		
c.	Inventory	648,000	
	Accounts Payable...		648,000
	Purchased inventory costing $540,000 on account.		
d.	Accounts Payable	600,000	
	Cash..		600,000
	Made $500,000 payment on accounts payable.		

Adjusting entries:

Depreciation Expense...	26,000	
Accumulated Depreciation—Building [($720,000 – $70,000)/25 years]..................................		26,000
Record depreciation on building.		
Interest Expense	148,500	
Interest Payable ($1,800,000 × 0.09 × 11/12)..................		148,500
Record accrued interest on loan from Foley Bank.		

Comp. Prob. 9–12 (Continued)

2. Trial Balance

Warner Company
Trial Balance
December 31, 2018

	Debit	Credit
Cash (see T-account)	$ 469,000	
Accounts Receivable ($1,080,000 – $504,000)	576,000	
Inventory ($648,000 – $576,000)	72,000	
Fair Value through Profit or Loss Financial Assets—Equity	1,500,000	
Valuation Adjustment for Fair Value through Profit or Loss Financial Assets—Equity		$ 200,000
FVTOCI Financial Assets—Equity	1,265,000	
Valuation Adjustment for FVTOCI Financial Assets—Equity	275,000	
Building	720,000	
Accumulated Depreciation—Building		26,000
Accounts Payable ($648,000 – $600,000)		48,000
Interest Payable		148,500
Dividends Payable		45,000
Loan Payable		1,800,000
Common Stock, $1 par		150,000
Paid-In Capital in Excess of Par		2,100,000
Unrealized Gains or Losses on FVTOCI Financial Assets—Equity		275,000
Retained Earnings		0
Dividends	45,000	
Sales		1,080,000
Cost of Goods Sold	576,000	
Interest Expense	148,500	
Depreciation Expense	26,000	
Losses on Fair Value through Profit or Loss Financial Assets—Equity	200,000	
Totals	$5,872,500	$5,872,,500

Comp. Prob. 9–12 (Continued)

Cash

(Jan. 1)	2,250,000	(Jan. 1)	720,000
(Feb. 1)	1,800,000	(Mar. 1)	1,500,000
(b)	504,000	(July 15)	1,265,000
		(d)	600,000
End. Bal.	469,000		

3. Financial statements for 2018

Warner Company
Statement of Comprehensive Income
For the Year Ended December 31, 2018

Sales		$ 1,080,000
Cost of goods sold		576,000
Gross margin		$ 504,000
Operating expenses:		
Interest expense	$148,500	
Depreciation expense	26,000	174,500
Operating income		$ 329,500
Other revenues and expenses:		
Losses on fair value through profit or loss financial assets		(200,000)
Net income		$ 129,500
Other comprehensive income:		
Unrealized Gains or Losses on FVTOCI Financial Assets—Equity		275,000
Total comprehensive income		$404,500

Earnings per share = $129,500 ÷ 150,000 = $0.86

Comp. Prob. 9–12 (Continued)

Warner Company
Balance Sheet
December 31, 2018

Assets			
Current assets:			
Cash		$ 469,000	
Accounts receivable		576,000	
Inventory		72,000	
Fair value through or loss financial assets—equity	$1,500,000		
Less valuation adjustment for fair value through profit or loss financial assets—equity	(200,000)	1,300,000	
Total current assets			$2,417,000
Long-term investments:			
FVTOCI financial assets—equity		$1,265,000	
Add valuation adjustment for FVTOCI financial assets—equity		275,000	1,540,000
Plant and equipment:			
Building	$ 720,000		
Less accumulated depreciation—building	26,000		694,000
Total assets			$4,651,000
Liabilities			
Current liabilities:			
Accounts payable		$ 48,000	
Interest payable		148,500	
Dividends payable		45,000	
Total current liabilities			$ 241,500
Long-term liabilities:			
Loan payable			$1,800,000
Total liabilities			$2,041,500
Equity			
Common stock, $1 par		$ 150,000	
Paid-in capital in excess of par		2,100,000	
Retained earnings ($0 + $129,500 – $45,000)		84,500	
Unrealized gains or losses on FVTOCI financial assets—equity		275,000	
Total equity			2,609,500
Total liabilities and equity			$4,651,000

Comp. Prob. 9–12 (Continued)

4. Journal entries for 2019

Jan.	1	Cash	400,000	
		Bond Payable		400,000
		Issued $400,000 bonds at par value.		
	1	No entry. Impact will be reflected in the computation of depreciation expense for 2019.		
	15	Dividends Payable	45,000	
		Cash		45,000
		Paid cash dividend declared last November.		
Feb.	1	Treasury Stock (15,000 × $32)	480,000	
		Cash		480,000
		Purchased 15,000 shares of treasury stock at $32 per share.		
	1	Interest Expense ($1,800,000 × 0.09 × 1/12)	13,500	
		Interest Payable	148,500	
		Cash ($1,800,000 × 0.09)		162,000
		Made interest payment to bank.		
Apr.	10	Losses on Fair Value through Profit or Loss Financial Assets—Equity	50,000	
		Valuation Adjustment for Fair Value through Profit or Loss Financial Assets—Equity		50,000
		Adjusted FVTPL financial assets to market value.		
		Cash (50,000 × $25)	1,250,000	
		Valuation Adjustment for Fair Value through Profit or Loss Financial Assets—Equity	250,000	
		Fair Value through Profit or Loss Financial Assets—Equity		1,500,000
		Sold 50,000 shares of Ryan Company stock at $25 per share.		
July	1	Interest Expense	20,000	
		Cash ($400,000 × 0.10 × 6/12)		20,000
		Paid semiannual interest on bonds.		
Oct.	1	Interest Expense ($400,000 × 0.10 × 3/12)	10,000	
		Bonds Payable	400,000	
		Gain on Retirement of Bonds		30,000
		Cash		380,000
		Retired bonds that were issued on January 1.		

Comp. Prob. 9–12 (Continued)

Nov. 20	Dividends [(150,000 – 15,000) × $0.30]	40,500	
	Dividends Payable		40,500
	Declared $0.30 per share cash dividend.		
Dec. 31	Depreciation Expense	34,700	
	Accumulated Depreciation—Building ($694,000 – $0)/20 years (remaining book value – salvage value)/remaining life		34,700
	Record depreciation on building.		
	Loss on Impairment of Building	339,300	
	Accumulated Impairment Losses — Building		339,300
	Recognized impairment of building.		

Note: An impairment loss is recognized becausethe book value of $659,300 ($720,000 – $60,700) is less than the recoverable amount, the building is written down to its recoverable amount of $320,000{=Max[value in use($300,000), net fair value($320,000)]}.

31	Unrealized Gains or Losses on FVTOCI Financial Assets—Equity	495,000	
	Valuation Adjustment for FVTOCI Financial Assets—Equity [($28 – $19) × 55,000]		495,000
	Adjusted FVTOCI financial assets to market value.		
a.	Accounts Receivable	2,160,000	
	Sales		2,160,000
	Record sales on account.		
	Cost of Goods Sold	1,140,000	
	Inventory		1,140,000
	Sold inventory costing $1,140,000 for $2,160,000.		
b.	Cash	1,848,000	
	Accounts Receivable		1,848,000
	Collected $1,848,000 of accounts receivable.		
c.	Inventory	1,200,000	
	Accounts Payable		1,200,000
	Purchased $1,200,000 of inventory on account.		

d. Accounts Payable	1,164,000	
Cash..		1,164,000
Made $1,164,000 payment on accounts payable.		

Adjusting entries:

Interest Expense	148,500	
Interest Payable ($1,800,000 × 0.09 × 11/12)..........		148,500
Record accrued interest on loan from Foley Bank.		

Comp. Prob. 9–12 (Continued)

5. Trial Balance

Warner Company
Trial Balance
December 31, 2019

	Debit	Credit
Cash (see T-account)	$1,716,000	
Accounts Receivable ($576,000 + $2,160,000 – $1,848,000)	888,000	
Inventory ($72,000 + $1,200,000 – $1,140,000)	132,000	
FVTOCI Financial Assets—Equity	1,265,000	
Valuation Adjustment for FVTOCI Financial Assets—Equity ($495,000 – $275,000)		$220,000
Building	720,000	
Accumulated Depreciation—Building		60,700
Accumulated Impairment Losses—Building		339,300
Accounts Payable ($48,000 + $1,200,000 – $1,164,000)		84,000
Interest Payable		148,500
Dividends Payable		40,500
Loan Payable		1,800,000
Common Stock, $1 par		150,000
Paid-In Capital in Excess of Par		2,100,000
Retained Earnings		84,500
Unrealized Gains or Losses on FVTOCI Financial Assets—Equity ($495,000 – $275,000)	220,000	
Treasury Stock	480,000	
Dividends	40,500	
Sales		2,160,000
Cost of Goods Sold	1,140,000	
Interest Expense*	192,000	
Depreciation Expense	34,700	
Losses on Fair Value through Profit or Loss Financial Assets	50,000	
Loss on Impairment of Building	339,300	
Gain on Retirement of Bonds		30,000
Totals	$7,217,500	$7,217,500

*Calculation of interest expense:
$13,500 + $20,000 + $10,000 + $148,500 = $192,000

Comp. Prob. 9–12 (Continued)

Cash

Beg. Bal.	469,000	(Jan. 15)	45,000
(Jan. 1)	400,000	(Feb. 1)	480,000
(Apr. 10)	1,250,000	(Feb. 1)	162,000
(b)	1,848,000	(July 1)	20,000
		(Oct. 1)	380,000
		(d)	1,164,000
End. Bal.	1,716,000		

6. Financial statements for 2019

Warner Company
Statement of Comprehensive Income
For the Year Ended December 31, 2019

Sales		$2,160,000
Cost of goods sold		1,140,000
Gross margin		$1,020,000
Operating expenses:		
Interest expense	$192,000	
Depreciation expense	34,700	226,700
Operating income		$ 793,300
Other revenues and expenses:		
Losses on fair value through profit or loss financial assets—equity		(50,000)
Loss on impairment of building		(339,300)
Gain on retirement of bonds		30,000
Net income		$ 434,000
Other comprehensive income:		
Unrealized Gains or Losses on FVTOCI Financial Assets—Equity		(220,000)
Total comprehensive income		$ 214,000

Earnings per share = $434,000 ÷ 135,000 = $3.21

Comp. Prob. 9–12 (Concluded)

Warner Company
Balance Sheet
December 31, 2019

Assets			
Current assets:			
Cash			$1,716,000
Accounts receivable			888,000
Inventory			132,000
Total current assets			$2,736,000
Long-term investments:			
FVTOCI financial assets—equity		$1,265,000	
Less valuation adjustment for FVTOCI financial assets—equity		(220,000)	1,045,000
Plant and equipment:			
Building	$720,000		
Less accumulated depreciation—building	(60,700)		
accumulated impairment losses—building		(339,300)	320,000
Total assets			$4,101,000
Liabilities			
Current liabilities:			
Accounts payable		$ 84,000	
Interest payable		148,500	
Dividends payable		40,500	
Total current liabilities			$ 273,000
Long-term liabilities:			
Loan payable			$1,800,000
Total liabilities			$2,073,000
Equity			
Common stock, $1 par		$ 150,000	
Paid-in capital in excess of par		2,100,000	
Retained earnings ($84,500-$40,500+$434,000		478,000	
Unrealized gains or losses on FVTOCI financial assets—equity		(220,000)	
Less treasury stock		(480,000)	
Total equity			2,028,000
Total liabilities and equity			$4,101,000