HW9

E9-1 Identifying Current Liabilities, Computing Working Capital, and Explaining Working Capital

Cauce Corporation is preparing its year-end balance sheet. The company records show the following selected amounts at the end of the year:

Total assets $530,000	
Total noncurrent assets 362,000	
Liabilities:	
Notes payable (8%, due in 5 years)	15,000
Accounts payable	56,000
Income taxes payable	14,000
Liability for withholding taxes	3,000
Rent revenue collected in advance	7,000
Bonds payable (due in 15 years)	90,000
Wages payable	7,000
Property taxes payable	3,000
Note payable (10%, due in 6 months)	12,000
Interest payable	400
Common stock	100,000

Required:

1. Identify current liabilities and compute working capital. Why is working capital important to management?

2. Would your computation be different if the company reported $250,000 worth of contingent liabilities in the notes to its financial statements? Explain

(a) Current assets		$ ________
Current liabilities:		________
______________________________	$ _____	
______________________________	_____	
______________________________	_____	
______________________________	_____	
______________________________	_____	
______________________________	_____	
______________________________	_____	
______________________________	_____	
Working capital (current assets – current liabilities)		$ ________

E9-3 Computing Payroll Costs; Discussion of Labor Costs

Oaks Company has completed the payroll for the month of January, reflecting the following data:

Salaries and wages earned	$86,000
Employee income taxes withheld	10,000
FICA payroll taxes*	6,000

**Assessed on both employer and employee (i.e., $6,000 each).*

Required:

1. What was the total labor cost to the company? What was the amount of the employees' take-home pay?
2. List the liabilities and their amounts reported on the company's January 31 balance sheet, assuming the employees have been paid but that no transfers have been made to government agencies.
3. A junior accountant at Oaks stated in a meeting that giving all employees a 5 percent raise would have cost Oaks $4,300 ($86,000 × 0.05) in the month of January. Do you agree?

1.

2.

Liability for employee income taxes withheld	$ ________
FICA taxes payable	________
Total	________

3.

E9-8 Reporting Notes Payable and Calculating Interest Expense

North Face is one of the world's most popular outdoor apparel companies. Assume that North Face borrows $2 million from U.S. Bank and signs a note promising to pay back the $2 million in nine months, at which time North Face also will pay any accrued interest. The interest rate on the note is 8 percent.

Required:

1. Prepare the journal entry North Face will record when it signs the note and receives the cash.
2. Prepare the journal entry that North Face will record when it pays off the note and any accrued interest after nine months.

E9-17 Computing a Present Value Involving an Annuity and a Single Payment

You have decided to buy a used car. The dealer has offered you two options:

a. Pay \$500 per month for 20 months and an additional \$12,000 at the end of 20 months. The dealer is charging an annual interest rate of 24 percent.

b. Make a one-time payment of \$14,906, due when you purchase the car.

In present value terms, which offer is a better deal?