**Reporting and Analyzing Liabilities and Stockholders’ Equity Handout**

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**ANNUAL RATES**

On October 1, 2016, Kristal Corp. issued $700,000, 5%, 10-year bonds at face value. The bonds were dated October 1, 2016, and pay interest annually on October 1. Financial statements are prepared annually on December 31.

###### *Instructions*

1. Prepare a tabular summary to record the issuance of the bonds and the adjustments to record the accrual of interest on December 31, 2016 **(page 2**).
2. Show the balance sheet presentation of bonds payable and bond interest payable on December 31, 2016.
3. Prepare a tabular summary to record the payment of interest on October 1, 2017 **(page 2**).
4. Prepare a tabular summary to record redemption of the bonds on October 1, 2026, their maturity date **(page 2**).

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Assets** | **=** | **Liabilities** | | | **+** | **Stockholders' Equity** | | | | | | |
|  |  |  |  |  |  |  |  |  | **Retained Earnings** | | | | |
|  |  |  | **Bonds** |  | **Interest** |  | **Com.** |  |  |  |  |  |  |
|  | **Cash** | **=** | **Pay.** | **+** | **Pay.** | **+** | **Stock** | **+** | **Rev.** | **-** | **Exp.** | **-** | **Div.** |
| **2016,Oct 1** | **$700,000** |  | **$700,000** |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  | **$8,750** |  |  |  |  |  | **-$8750** |  |  |
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**700 ,000 \* .05 \* 3/12 = 8750**

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On January 1, 2017, Romada Company's accounting records contained these liability accounts.

|  |  |
| --- | --- |
| Accounts Payable | $42,500 |
| Sales Taxes Payable | 6,600 |
| Unearned Service Revenue | 19,000 |

Liability ^^^^^

During January, the following selected transactions occurred.

|  |  |
| --- | --- |
| Jan.  1 | Borrowed $18,000 in cash from Apex Bank on a 4-month, 5%, $18,000 note.  **Notes payable increases, cash increases** (interest payable and interest expense at the end of the month)  1/12 is the interest expense |
| 5 | Sold merchandise for cash totaling $6,254, which includes 6% sales taxes.  **Cash increases, and so does revenue** (increase in sales tax payable)  6254/1.06 = revenue |
| 12 | Performed services for customers who had made advance payments of $10,000. (Record Service Revenue.)  **Unearned revenue decreases (liability), and revenue increases** |
| 14 | Paid state treasurer's department for sales taxes collected in December 2016, $6,600.  **Decrease cash, as well as sales tax payable** |
| 20 | Sold 500 units of a new product on credit at $48 per unit, plus 6% sales tax.  Accounts recievable **increases. Revenue increases, and sales tax payable goes up**  **500 \* $48 = revenue: $24,000** |

During January, the company's employees earned wages of $70,000. Withholdings related to these wages were $5,355 for Social Security (FICA), $5,000 for federal income tax, and $1,500 for state income tax. The company owed no money related to these earnings for federal or state unemployment tax. Assume that wages earned during January will be paid during February. Wages or payroll tax expense have not been recorded as of January 31.

###### *Instructions*

1. Prepare a tabular summary to record the January transactions and the adjustments on January 31 for the outstanding note payable and the salaries and wages expense and payroll tax expense **(page 4**).
2. Prepare the current liabilities section of the balance sheet at January 31, 2017. Assume no change in Accounts Payable **(page 5**).

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| **(a)** | **Assets** |  |  | **=** |  |  |  |  | **Liabilities** | | | | | | | | | | | | | | | **+** | **Stockholders' Equity** | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **State** |  |  |  | **Retained Earnings** | | | | |
|  |  |  |  |  |  |  |  |  | **Salaries** |  | **Unearned** |  | **Sales** |  |  |  | **FICA** |  | **Fed. Inc.** |  | **St. Inc.** |  | **Unemp.** |  |  |  |  |  |  |  |  |
|  |  |  | **Accts.** |  | **Notes** |  | **Accts.** |  | **& Wages** |  | **Serv.** |  | **Taxes** |  | **Interest** |  | **Taxes** |  | **Taxes** |  | **Taxes** |  | **Taxes** |  | **Com.** |  |  |  |  |  |  |
|  | **Cash** | **+** | **Rec.** | **=** | **Pay.** | **+** | **Pay.** | **+** | **Pay.** | **+** | **Rev.** | **+** | **Pay.** | **+** | **Pay.** | **+** | **Pay.** | **+** | **Pay.** | **+** | **Pay.** | **+** | **Pay.** | **+** | **Stock** | **+** | **Rev.** | **-** | **Exp.** | **-** | **Div.** |
| **Bal.** |  |  |  |  |  |  | **$42,500** |  |  |  | **$19,000** |  | **$6,600** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **$18,000** |  |  |  | **$18,000** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **$6,254** |  |  |  |  |  |  |  |  |  |  |  | **$354** |  |  |  |  |  |  |  |  |  |  |  |  |  | **$5,900** |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  | **-$10,000** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **$10,000** |  |  |  |  |
|  | **-$6,600** |  |  |  |  |  |  |  |  |  |  |  | **-$6,600** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **$25,440** |  |  |  |  |  |  |  |  |  |  |  | **$1,440** |  |  |  |  |  |  |  |  |  |  |  |  |  | **$24,000** |  |  |  |  |
| **ADJ** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **$75** |  |  |  |  |  |  |  |  |  |  |  |  |  | **-$75** |  |  |
|  |  |  |  |  |  |  |  |  | **$58,145 (plug)** |  |  |  |  |  |  |  | **$5,355** |  | **5,000** |  | **$1,500** |  |  |  |  |  |  |  | **-$70,000** |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **$5,355** |  |  |  |  |  |  |  |  |  |  |  | **-$5,355** |  |  |
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1. **$18,000 \* .05 \* (1/12) = $75**  B.) numbers are given for b

**^^^1/12 is for one month gone by**

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| Current liabilities |  |  |
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| Total current liabilities |  |  |

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The stockholders' equity accounts of Cyrus Corporation on January 1, 2017, were as follows.

|  |  |
| --- | --- |
| Preferred Stock (7%, $100 par noncumulative, 5,000 shares authorized) | $ 300,000 |
| Common Stock ($4 stated value, 300,000 shares authorized) | 1,000,000 |
| Paid-in Capital in Excess of Par Value—Preferred Stock | 15,000 |
| Paid-in Capital in Excess of Stated Value—Common Stock | 480,000 |
| Retained Earnings | 688,000 |
| Treasury Stock (5,000 common shares) | 40,000 |

During 2017, the corporation had the following transactions and events pertaining to its stockholders' equity.

|  |  |
| --- | --- |
| Feb.         1 | Issued 5,000 shares of common stock for $30,000. |
| Mar.     20 | Purchased 1,000 additional shares of common treasury stock at $7 per share. |
| Oct.         1 | Declared a 7% cash dividend on preferred stock, payable November 1. |
| Nov.        1 | Paid the dividend declared on October 1. |
| Dec.         1 | Declared a $0.50 per share cash dividend to common stockholders of record on December 15, payable December 31, 2017. |
| 31 | Paid the dividend declared on December 1. |

###### *Instructions*

1. Prepare a tabular summary that includes the January 1, 2017, balances. Do not include the beginning balance in Retained Earnings in the tabular summary **(page 7)**.
2. Record the 2017 transactions in the tabular summary **(page 7)**.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  | **Assets** | **=** | **Liabilities** | **+** | **Stockholders' Equity** | | | | | | | | | | | | | | |
|  |  |  |  |  | **Paid-in-Capital** | | | | | | | | | **+** | **Retained Earnings** | | | | |
|  |  |  |  |  |  |  | **PIC in** |  |  |  | **PIC in** |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  | **Excess of** |  |  |  | **Excess of** |  |  |  |  |  |  |  |  |
|  |  |  | **Div.** |  | **Com.** |  | **Stated Value** |  | **Pref.** |  | **Par Value** |  | **Treasury** |  |  |  |  |  |  |
|  | **Cash** | **=** | **Pay.** | **+** | **Stock** | **+** | **Com.** | **+** | **Stock** | **+** | **Pref.** | **-** | **Stock** | **+** | **Rev.** | **-** | **Exp.** | - | **Div.** |
| **Bal.** |  |  |  |  | **$1,000,000** |  | **$480,000** |  | **$300,000** |  | **15,000** |  | **-$40,000** |  |  |  |  |  |  |
| **Feb.1** | **$30,000** |  |  |  | **$20,000(1.)** |  | **$10,000** |  |  |  |  |  |  |  |  |  |  |  |  |
| **Mar.20** | **-$7,000** |  |  |  |  |  |  |  |  |  |  |  | **-$7000** |  |  |  |  |  |  |
| **Oct.1** |  |  | **$21,000(2.)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **-$21,000** |
| **Nov.1** | **-$21,000** |  | **-$21,000** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Dec.1** |  |  | **$124,500(3.)** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | **-$124,500** |
| **Dec.31** | **-$124,500** |  | **-$124,500** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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1. 5000 \* $4 = 20,000
2. 3000shares \* (.07) dividend percent + $100 Par = $21,000 **No treasury stock on preferred stock.**
3. ($1,000,000 / $4)+5000shares – (**(treasury stock)** 5000 + 1000shares) \* .50/share = $124,500

^^1/1 ^^2/1 ^^1/1 ^^3/1

|  |  |
| --- | --- |
| **(c)Tot. paid-in capital** | **$1,825,000** |

1. Prepare the stockholders' equity section of the balance sheet at December 31, 2017. Include 2017 net income of $280,000 as an increase to the January 1, 2017, Retained Earnings.

|  |  |  |
| --- | --- | --- |
|  | | |
| Stockholders’ equity |  |  |
| Paid in-capital |  |  |
| Capital stock |  |  |
| Preferred Stock (7% dividends, $100 par, 5,000authorized | $300,000 |  |
| Common stock(no par, $4 stated, 300,000 | $1,020,000 | $1,320,000 |
| Additional paid-in capital |  |  |
| Add. Paid in capital preferred stock | $15,000 |  |
| Add. Paid in capital common stock | $490,000 | $505,000 |
| Total paid-in capital |  | 1,025,000 |
| Retained earnings |  |  |
| Less: treasury stock |  | -47,000 |
| Total stockholders’ equity |  |  |

1. Calculate the payout ratio, earnings per share, and return on common stockholders' equity. (*Note:* Use the common shares outstanding on January 1 and December 31 to determine the average shares outstanding.)

**R/E = Beg.R/E 688,000 + 280,000 – 21,000 – 124,500**

**+ Net Income**

**-Dividends**

**= Ending R/E**

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Tidal Corporation was organized on January 1, 2017. It is authorized to issue 20,000 shares of 6%, $50 par value preferred stock and 500,000 shares of no-par common stock with a stated value of $1 per share. The following stock transactions were completed during the first year.

|  |  |
| --- | --- |
| Jan.   10 | Issued 70,000 shares of common stock for cash at $4 per share. |
| Mar.    1 | Issued 12,000 shares of preferred stock for cash at $53 per share. |
| May    1 | Issued 120,000 shares of common stock for cash at $6 per share. |
| Sept.    1 | Issued 5,000 shares of common stock for cash at $5 per share. |
| Nov.    1 | Issued 3,000 shares of preferred stock for cash at $56 per share. |

###### *70,000 \* $4/share = $280,000*

###### *Instructions*

1. Prepare a tabular summary to record the transactions **(page 9).**

|  |  |
| --- | --- |
| **(b)Tot. paid-in capital** | **$1,829,000** |

1. Prepare the paid-in capital portion of the stockholders' equity section at December 31, 2017.

|  |  |  |
| --- | --- | --- |
|  | | |
| Stockholders’ equity |  |  |
| Paid in-capital |  |  |
| Capital stock |  |  |
| Preferred Stock (6% dividends, $50 par, 20,000authorized | $750,000 |  |
| Common stock(no par, $1 stated, 500,000 | $195,000 | $945,000 |
| Additional paid-in capital |  |  |
| Add. Paid in capital preferred stock | 540,000 |  |
| Add. Paid in capital common stock | 830,000 | 884,000 |
| Total paid-in capital |  |  |
| Retained earnings |  | + 0 |
| Less: treasury stock |  | * 0 |
| Total stockholders’ equity |  | 1,829,000 |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| **(a)** | **Assets** | **=** | **Liabilities** | **+** | **Stockholders' Equity** | | | | | | | | | | | | |
|  |  |  |  |  | **Paid-in-Capital** | | | | | | | **+** | **Retained Earnings** | | | | |
|  |  |  |  |  |  |  | **PIC(apic) in** |  |  |  | **PIC in** |  |  |  |  |  |  |
|  |  |  |  |  |  |  | **Excess of** |  |  |  | **Excess of** |  |  |  |  |  |  |
|  |  |  |  |  | **Com.** |  | **Stated Value** |  | **Pref.** |  | **Par Value** |  |  |  |  |  |  |
|  | **Cash** | **=** |  | **+** | **Stock** | **+** | **Com.** | **+** | **Stock** | **+** | **Pref.** | **+** | **Rev.** | **-** | **Exp.** | **-** | **Div.** |
| **1/10** | **$280,000** |  |  |  | **$70,000** |  | **$210,000(A.)** |  |  |  |  |  |  |  |  |  |  |
|  | **$636,000** |  |  |  |  |  |  |  | **$600,000** |  | **36,000(B.)** |  |  |  |  |  |  |
|  | **$720,000** |  |  |  | **$120,000** |  | **$600,000** |  |  |  |  |  |  |  |  |  |  |
|  | **$25,000** |  |  |  | **$5000** |  | **$20,000** |  |  |  |  |  |  |  |  |  |  |
|  | **$168,000** |  |  |  |  |  |  |  | **$150,000** |  | **$18,000** |  |  |  |  |  |  |
|  | **$1,829,000** |  | **=** |  | **$195,000** | **+** | **$830,000 +** |  | **$750,000** | **+** | **$54,000** |  |  |  |  |  |  |

**A = [ 70,000shares \* ($4 - $1 Par) ]**

**B = [ 12,000shares \* ($53-$50 Par) ]**

**C = [ 120,000shares \* ($6 - $1 Par) ]**

**Retained earnings = beg.year RE + NI -dividends = ending retained earnings**