**Question 1 (15 min)**

Computing and Reporting the Acquisition and Amortization of Three Different Intangible Assets

Waterstone Company had three intangible assets at the end of the current year:

1. A patent purchased this year from Miller Co. on January 1 for a cash cost of ……. When purchased, the patent had an estimated life of fifteen years.
2. A trademark was registered with the federal government for ……. Management estimated that the trademark could be worth as much as ……because it has an indefinite life.
3. Computer licensing rights were purchased on January 1, for ……. The rights are expected to have a five-year useful life to the company.

**Required:**

1. Compute the acquisition cost of each intangible asset.
2. Compute the amortization of each intangible for the year ended December 31.
3. Show how these assets and any related expenses should be reported on the balance sheet and income statement for the current year.

**Question 2 (15 min)**

Calculating the Book Value of Disposed Intangible Assets

Miller Group owns and markets various brands and trademarks, including Joe Boxer, London Fog, Ocean Pacific, Ecko Unltd, Umbro, Ed Hardy, Lee Cooper, Buffalo, and Peanuts. The company’s financial statements for the year ended December 31, 2013, indicating the following totals for these trademarks (in millions):

|  |  |  |
| --- | --- | --- |
|  | 2013 | 2012 |
| Trademarks (at cost) | …… | …… |
| Accumulated Amortization | …… | …… |
| Trademarks, net | …… | …… |

During 2013, Miller acquired the Buffalo and Lee Cooper trademarks at a cost of …… million, recorded ……million of trademark amortization for the year, and disposed of trademarks for proceeds of ……million cash. None of the trademarks – not even Ed Hardy – were judged to be impaired during the year.

**Required:**

Based on the information given, determine the following for trademarks disposed of during 2013: (a) their cost, (b) their accumulated amortization at the time of disposal, and (c) the gain (loss) on disposal of trademarks.

**Question 3 (15 min)**

Computing Depreciation and Book Value for Two Years Using Alternative Depreciation Methods and Interpreting the Impact on the Fixed Asset Turnover Ratio

Casa Company bought a machine for ……cash. The estimated useful life was five years and the estimated residual value was ……. Assume that the estimated useful life in productive units is ……. Units actually produced were ……in year 1 and ……in year 2.

**Required:**

1. Determine the appropriate amounts to complete the following schedule. Show computations.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Depreciation Expense for |   | Book Value at the End of |
| Method of Depreciation | Year 1 | Year 2 |   | Year 1 | Year 2 |
| Straight-line |   |   |   |   |   |
| Units-of-production |   |   |   |   |   |
| Double-declining-balance |   |   |   |   |   |

1. Which method would result in the lowest net income for year 1? For year 2?
2. Which method would result in the lowest fixed asset turnover ratio for year 1? Why?

**Question 4 (20 min)**

Computing Acquisition Cost and Recording Depreciation under Three Alternative Methods

At the beginning of the year, Unify Company bought three used machines from Vince, Inc. The machines immediately were overhauled, installed, and started operating. Because the machines were different, each was recorded separately in the accounts.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Machine A | Machine B | Machine C |
| Amount paid for asset | …… | …… | …… |
| Installation costs | …… | …… | …… |
| Renovation costs prior to use | …… | …… | …… |
| Repairs after production began | …… | …… | …… |

By the end of the first year, each machine had been operating ……hours.

**Required:**

1. Compute the cost of each machine. Explain the rationale for capitalizing or expensing the various costs.
2. Give the journal entry to record depreciation expense at the end of year 1, assuming the following:

|  |  |  |
| --- | --- | --- |
|  | Estimates |  |
| Machine | Life | Residual Value | Depreciation Method |
| A | ……years | …… | Straight-line |
| B | ……hours | …… | Units-of-production |
| C | ……years | …… | Double-declining-balance |

**Question 5 (15 min)**

Recording and Interpreting the Disposal of Long-Lived Assets

During the current year, Solar Company disposed of two different assets. On January 1, prior to their disposal, the accounts reflected the following:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Asset | Original Cost | Residual Value | Estimated Life | Accumulated Depreciation (Straight-line) |
| Machine A | …… | …… | …… | …… (13 years) |
| Machine B | …… | …… | …… | …… (6 years) |

The machines were disposed of in the following ways:

1. Machine A: Sold on January 2 for ……cash.
2. Machine B: On January 2, this machine suffered irreparable damage from an accident and was removed immediately by a salvage company at no cost.

**Required:**

1. Give the journal entry related to the disposal of Machine A on January 2 of the current year.
2. Give the journal entry related to the disposal of Machine B on January 2 of the current year.

**Question 6 (20 min)**

Computing Acquisition Cost and Recording Depreciation under Three Alternative Methods

At the beginning of the year, Wallace Industries bought three used machines from Freeman Incorporated. The machines immediately were overhauled, installed, and started operating. Because the machines were different, each was recorded separately in the accounts.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Machine A | Machine B | Machine C |
| Cost of the asset | …… | …… | …… |
| Installation costs | …… | …… | …… |
| Renovation costs prior to use | …… | …… | …… |
| Repairs after production began | …… | …… | …… |

By the end of the first year, each machine had been operating ……hours.

**Required:**

1. Compute the cost of each machine. Explain the rationale for capitalizing or expensing the various costs.
2. Give the journal entry to record depreciation expense at the end of year 1, assuming the following:

|  |  |  |
| --- | --- | --- |
|  | Estimates |  |
| Machine | Life | Residual Value | Depreciation Method |
| A | …… | …… | Straight-line |
| B | …… | …… | Units-of-production |
| C | …… | …… | Double-declining-balance |

**Question 7 (20 min)**

Recording the Effects of a Discount Bond Issue and First Interest Payment and Preparing Discount Amortization Schedule (Straight-Line Amortization)

On January 1, when the market interest rate was 9 percent, Seton Corporation completed a ……, 8 percent bond issue for ……. The bonds pay interest each December 31 and mature in 10 years. Seton amortizes the bond discount using the straight-line method.

Required:

1. Prepare the journal entry to record the bond issuance.
2. Prepare the journal entry to record the first interest payment on December 31.
3. Prepare a bond discount amortization schedule for these bonds. Round calculations to the nearest dollar.

**Question 8 (20 min)**

Recording the Effects of a Discount Bond Issue and First Interest Payment and Preparing Discount Amortization Schedule (Effective-Interest Amortization)

On January 1, when the market interest rate was …… percent, Seton Corporation completed a ……, …… percent bond issue for ……. The bonds pay interest each December 31 and mature in 10 years. Seton Corporation uses the effective-interest method to amortize the bond discount.

Required:

1. Prepare the journal entry to record the bond issuance.
2. Prepare the journal entry to record the first interest payment on December 31.
3. Prepare a bond discount amortization schedule for these bonds. Round calculations to the nearest dollar.

**Question 9 (20 min)**

Recording and Reporting Current Liabilities With Evaluation of Effects on the Quick Ratio

Ez Curb Company completed the following transactions. The annual accounting period ends December 31.

Jan. 8 - Purchased merchandise on account at a cost of ……. (Assume a perpetual inventory system.)

Jan. 17 - Paid for the January 8 purchase.

Apr. 1 - Received ……from National Bank after signing a 12-month, 6 percent, promissory note.

June 3 - Purchased merchandise on account at a cost of …….

July 5 - Paid for the June 3 purchase.

Aug. 1 - Rented out a small office in a building owned by EZ Curb Company and collected six months’ rent in advance amounting to ……. (Use an account called Unearned Rent Revenue.)

Dec. 20 - Received a $…… cash on account from a customer.

Dec. 31 - Determined that wages of …… were earned but not yet paid on December 31 (ignore payroll taxes).

Dec. 31 - Adjusted the accounts at year-end, relating to interest.

Dec. 31 - Adjusted the accounts at year-end, relating to rent.

Required:

1. Prepare journal entries for each of the transactions through December 20.
2. Prepare any adjusting entries required on December 31.
3. Show how all of the liabilities arising from these items are reported on the balance sheet at December 31.

**Question 10 (20 min)**

Recording and Reporting Current Liabilities

Riverside Company completed the following two transactions. The annual accounting

period ends December 31.

1. On December 31, calculated the payroll, which indicates gross earnings for wages (……), payroll deductions for income tax (……), payroll deductions for FICA (……), payroll deductions for United Way (……), employer contributions for FICA (matching), and state and federal unemployment taxes (……). Employees were paid in cash, but these payments and the corresponding payroll deductions and employer taxes have not yet been recorded.
2. Collected rent revenue of ……on December 10 for office space that Riverside rented to another business. The rent collected was for 30 days from December 11, to January 10, and was credited in full to Unearned Rent Revenue.

Required:

1. Give the journal entries to record payroll on December 31.
2. Give ( *a* ) the journal entry for the collection of rent on December 10, and ( *b* ) the adjusting journal entry on December 31.
3. Show how any liabilities related to these items should be reported on the company’s balance sheet at December 31.

**Question 11 (20 min)**

On January 1, 2015, Surreal Manufacturing issued 600 bonds, each with a face value of ……, a stated interest rate of …… percent paid annually on December 31, and a maturity date of December 31, 2017. On the issue date, the market interest rate was …… percent, so the total proceeds from the bond issue were ……. Surreal uses the effective-interest bond amortization method and adjusts for any rounding errors when recording interest in the final year.

Required:

1. Prepare a bond amortization schedule.
2. Give the journal entry to record the bond issue.
3. Give the journal entries to record the interest payments on December 31, 2015 and 2016.
4. Give the journal entry to record the interest and face value payment on December 31, 2017.
5. Assume the bonds are retired on January 1, 2017, at a price of 101. Give the journal entry to record the bond retirement.

**Question 12 (20 min)**

Analyzing Accounting Equation Effects, Recording Journal Entries, and Preparing a Partial Balance Sheet Involving Stock Issuance, Purchase, and Reissuance Transactions

Wilard Company obtained a charter from the state in January that authorized …… shares of common stock, ……par value. During the first year, the company earned ……200 and the following selected transactions occurred in the order given:

1. Issued ……shares of the common stock at ……cash per share.
2. Reacquired ……shares at ……cash per share from stockholders; the shares are now held in treasury
3. Reissued ……of the shares in transaction (*b)* two months later at ……cash per share.

Required:

1. Indicate the effects of each transaction on the accounting equation.
2. Prepare journal entries to record each transaction.
3. Prepare the stockholders’ equity section of the balance sheet at December 31.

**Question 13 (15 min)**

Recording Stock Dividends

Logos Inc., reported the following in the notes to its financial statements.

*Stock Split — In July, the Board of Directors approved a two-for-one split of our outstanding common shares effected in the form of a stock dividend (“the split”). The split was paid September 5, to shareholders of record as of August 25. The par value of our common stock was maintained at the pre-split amount of* …… *per share.*

Required:

1. Describe the effects that this transaction would have had on the company’s financial statements. Assume that …… shares were outstanding at the time of the transaction, trading at a stock price of …….
2. Why might the board of directors have decided to declare a stock dividend rather than a stock split?

**Question 14 (20 min)**

Comparing Stock and Cash Dividends

Avenue Corp. had the following stock outstanding and Retained Earnings at December 31, 2015:

Common Stock (par ……; outstanding, ……shares) ……

Preferred Stock, ……(par ……; outstanding, ……shares) ……

Retained Earnings ……

On December 31, 2015, the board of directors is considering the distribution of a cash dividend to the common and preferred stockholders. No dividends were declared during 2013 or 2014, and none have been declared yet in 2015. Three independent cases are assumed:

**Case A:** The preferred stock is noncumulative; the total amount of 2015 dividends would be …….

**Case B:** The preferred stock is cumulative; the total amount of 2015 dividends would be ……. Dividends were not in arrears prior to 2013.

**Case C:** Same as Case B, except the amount is …….

Required:

Compute the amount of 2015 dividends, in total and per share, that would be payable to each class of stockholders if dividends were declared as described in each case. Show computations.

**Question 15 (20 min)**

Analyzing Accounting Equation Effects, Recording Journal Entries, and Preparing a Partial Balance Sheet Involving Stock Issuance and Purchase Transactions

Bridge Marine obtained a charter from the state in January that authorized ……shares of common stock, …… par value. During the first year, the company earned …… of net income and the following selected transactions occurred in the order given:

1. Issued ……shares of the common stock at …… cash per share.
2. Reacquired ……shares at ……cash per share.
3. Reissued ……shares from treasury for ……per share.
4. Reissued ……shares from treasury for ……per share.

Required:

1. Indicate the effects of each transaction on the accounting equation.
2. Prepare journal entries to record each transaction.
3. Prepare the stockholders’ equity section of the balance sheet at December 31.

**Question 16 (15 min)**

Recording Cash Dividends

Vivel Corp. produces chocolate bars and snacks under the brand names Blast and Soothe. A press release contained the following information:

March 5, —Vivel Corp. today announced that its Board of Directors has declared

a special “one-time” cash dividend of ……per share on its ……outstanding common

shares. The dividend will be paid on April 29 to shareholders of record at the close of business on March 26. The Company’s fiscal year will end April 30.

Required:

1. Prepare any journal entries that Vivel Corp. should make on the four dates mentioned in the press release and lectures.
2. What two requirements would the board of directors have considered before making the dividend decisions?

**Question 17 (15 min) E12-8**

Reporting Cash Flows from Operating Activities (Indirect Method)

The following information pertains to Guy’s Gear Company:

Required:

Present the operating activities section of the statement of cash flows for Guy’s Gear Company

using the indirect method.

**Question 18 (15 min)**

Reporting and Interpreting Cash Flows from Operating Activities from an Analyst’s Perspective (Indirect Method)

New Vision Company completed its income statement and balance sheet and provided the following information:

|  |  |  |
| --- | --- | --- |
| Service Revenue |   | ……  |
| Expenses: |  |   |
|  Salaries and Wages | ……  |   |
|  Depreciation | ……  |   |
|  Utilities  | ……  |   |
| ……  | ……  | ……  |
| Net Income |  | ……  |
| Decrease in Account Receivable | ……  |   |
| Paid cash for equipment | ……  |   |
| Increase in Salaries and Wages Payable | ……  |   |
| Decrease in Account Receivable | ……  |   |

Required:

1. Present the operating activities section of the statement of cash flows for New Vision Company using the indirect method.
2. Of the potential causes of differences between cash flow from operations and net income, which are the most important to financial analysts?

**Question 19 (20 min)**

Reporting and Interpreting Cash Flows from Operating Activities from an Analyst’s Perspective (Indirect Method)

Pizza International, Inc., operates 700 family restaurants around the world. The company’s annual report contained the following information (in thousands):

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Net Loss | ……  |   | Decrease in account payable | ……  |
| Depreciation | ……  |  | Decrease in accrued liabilities | ……  |
| Increase in receivables | ……  |  | Increase in income taxes payable | ……  |
| Decrease in inventory | ……  |  | Payments on notes payable | ……  |
| Increase in prepaid expenses | ……  |   | Cash paid for equipment | ……  |

Required:

1. Based on this information, compute cash flow from operating activities using the indirect method.
2. What were the major reasons that Pizza International was able to report positive cash flow from operations despite having a net loss?
3. Of the potential causes of differences between cash flow from operations and net income, which are the most important to financial analysts?

**Question 20 (20 min)**

Preparing and Evaluating a Statement of Cash Flows (Indirect Method) from Comparative Balance Sheets and Income Statements

Consultex, Inc., was founded in 2007 as a small financial consulting business. The company had done reasonably well in 2007–2009, but started noticing its cash dwindle early in 2010. In January 2010, Consultex had paid …… to purchase land and repaid …… principal on an existing promissory note. In March 2010, the company paid …… cash for dividends and ……

 to repurchase and eliminate Consultex stock that had previously been issued for ……

. To improve its cash position, Consultex borrowed …… by signing a new promissory note in May and also issued stock to a new private investor for …… cash. Comparative balance sheets and income statements for the most recent fiscal year are presented below.

 Requirements:

1. Prepare a properly formatted Statement of Cash Flows for Consultex, Inc., for the year ended October 31, 2010 (using the indirect method).
2. What one thing can Consultex reasonably change in 2011 to avoid depleting its cash?

**Question 21 (15 min)**

Reporting Cash Flows from Investing and Financing Activities

Rowe Furniture Corporation is a Virginia-based manufacturer of furniture. In a recent quarter, it reported the following activities:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Net Income | ……  |   | Payments to reduce notes payable (long-term) | ……  |
| Purchase of equipment | ……  |  | Sale of investments  | ……  |
| Borrowings under line of credit (bank) | ……  |  | Proceeds from sale of equipment | ……  |
| Proceeds from issuance of common stock | ……  |  | Dividends paid | ……  |
| Cash received from customers | ……  |   | Interest paid | ……  |

Required:

Based on this information, present the cash flows from investing and financing activities sections of the cash flow statement.

**Question 22 (15 min)**

Reporting and Interpreting Cash Flows from Investing and Financing Activities with Discussion of Management Strategy

Gibraltar Industries, Inc., is a manufacturer of steel products for customers such as Home Depot, Lowe’s, Chrysler, Ford, and General Motors. In the year ended December 31, 2013, it reported the following activities:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Net Income (loss) | ……  |   | Depreciation | ……  |
| Purchase of equipment | ……  |  | Proceeds from sale of equipment | ……  |
| Payments on notes payable to bank | ……  |  | Increase in account receivables  | ……  |
| Net proceeds from stock issuance | ……  |   | Proceeds from notes payable to bank | ……  |

Required:

Based on this information, present the cash flows from investing and financing activities sections of the cash flow statement.

**Question 23 (15 min)**

Preparing and Interpreting a Schedule for Horizontal and Vertical Analyses

The average price of a gallon of gas in 2013 dropped …… (…… percent) from ……in 2012 (to

……in 2013). Let’s see whether these changes are reflected in the income statement of Chevron Corporation for the year ended December 31, 2013 (amounts in billions).

|  |  |  |
| --- | --- | --- |
|   | 2013 | 2012 |
| Revenues | …… | …… |
| Cost of crude oil and products | …… | …… |
| Other operating costs | …… | …… |
| Income before income tax expense | …… | …… |
| Income tax expense | …… | …… |
| Net income | …… | …… |

Use the information provided to complete the following requirements.

Required:

1. Compute the gross profit percentage for each year (one decimal place). Assuming that the change from 2012 to 2013 is the beginning of a sustained trend, is Chevron likely to earn more or less gross profit from each dollar of sales in 2014?
2. Compute the net profit margin for each year (expressed as a percentage with one decimal place). Given your calculations here and in requirement 1, explain whether Chevron did a better or worse job of controlling expenses other than the costs of crude oil and products in 2013 relative to 2012.
3. Chevron reported average net fixed assets of ……billion in 2013 and ……billion in 2012. Compute the fixed asset turnover ratios for both years (round to two decimal places). Did the company better utilize its investment in fixed assets to generate revenues in 2013 or 2012?
4. Chevron reported average stockholders’ equity of ……billion in 2013 and ……billion in 2012. Compute the return on equity ratios for both years (expressed as a percentage with one decimal place). Did the company generate greater returns for stockholders in 2013 or 2012?

**Question 24 (15 min)**

Computing and Interpreting Liquidity Ratios

Cintas Corporation is the largest uniform supplier in North America. Selected information from its annual report follows. For the 2013 fiscal year, the company reported sales revenue of …… billion and Cost of Goods Sold of ……billion.

|  |  |  |
| --- | --- | --- |
| **Fiscal Year** | **2013** | **2012** |
| **Balance Sheet (amounts in millions)** |   |
| Cash | …… | …… |
| Account Receivable, net | …… | …… |
| Inventory | …… | …… |
| Prepaid Rent | …… | …… |
| Accounts Payables | …… | …… |
| Salaries and Wages Payable | …… | …… |
| Income Tax Payable | …… | …… |
| Notes Payable (long-term) | …… | …… |

Required:

Assuming that all sales are on credit, compute the current ratio (two decimal places), inventory

turnover ratio (one decimal place), and accounts receivable turnover ratio (one decimal place)

for 2013. Explain what each ratio means for Cintas.

**Question 25 (15 min)**

Analyzing the Impact of Selected Transactions on the Current Ratio

In its most recent annual report, Appalachian Beverages reported current assets of …… and a current ratio of ……. Assume that the following transactions were completed: (1) purchased merchandise for ……on account, and (2) purchased a delivery truck for ……, paying ……cash and signing a two-year promissory note for the balance.

Required:

Compute the updated current ratio, rounded to two decimal places, after each transaction.

**Question 26 (15 min)**

Analyzing the Impact of Selected Transactions on the Current Ratio

A company has current assets that total ……, a current ratio of ……, and uses the perpetual inventory method. Assume that the following transactions are completed: (1) sold ……in merchandise on short-term credit for …… (2) declared but did not pay dividends of ……, (3) paid prepaid rent in the amount of ……, (4) paid previously declared dividends in the amount of ……, (5) collected an account receivable in the amount of $……, and (6) reclassified ……of long-term debt as a current liability.

Required:

Compute the updated current ratio, rounded to two decimal places, after each transaction.