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**Mövzu 10: Liabilities**

***1. Preparing Journal Entries to Record Issuance of Bonds and Payments of Interest***

On January 1, ACC issues ….. in bonds that mature in 10 years. The bonds have a stated interest rate of …. percent. When the bonds were issues, the market interest rate was …. percent. The bonds pay interest once per year on December 31.

Required:

1. Determine the price at which the bonds were issued and the amount that ACC received at issuance.
2. Prepare the journal entry to record the bond issuance.
3. Prepare the journal entry to record the first interest payment on December 31 assuming no interest has been accrued earlier in the year.

***2. 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 …… 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.

***3. 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.

***4. 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.

***5. 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.

***6. Recording Bond Issue, Interest Payments and Early Bond Retirement***

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.

**Mövzu 2: Stockholders’ Equity**

***1. Recording and Reporting Stockholders’ Equity Transactions, Including Closing Entry***

The annual report for Malibu beachwear reporting the following transactions affecting stockholder’ equity:

1. Purchased …. of common stock now held in treasury.
2. Declared cash dividends in the amount of …...
3. Paid dividends in (b).
4. Issued ….. of the new shares of ….par value common shares for ….. per share.
5. Closed the dividends account.

Required:

1. Prepare journal entries to record each of these events.
2. Prepare a Statement of Stockholders’ Equity, assuming the following opening balances: Common stock ….; Additional paid in capital …..; Retained earnings …..; and Treasury stock, ….. Net income for the current year was …...

***2. 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. Prepare journal entries to record each transaction.
2. Prepare the stockholders’ equity section of the balance sheet at December 31.

***3. 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?

***4. Comparing Stock and Cash Dividends***

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.

***5. 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. Prepare journal entries to record each transaction.
2. Prepare the stockholders’ equity section of the balance sheet at December 31.

***6. 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?

**Mövzu 3: Statement of Cash Flow**

***1. 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.

***2. 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?

***3. 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?

***4. Inferring Balance Sheet Changes from the Cash Flow Statement (Indirect Method)***

Colgate-Palmolive was founded in 1806. Its statement of cash flows reported the following information (in millions) for the year ended December 31, 2012:

Operating Activities

Net Income $.....

Depreciation ….

Cash effect of changes in

Accounts Receivable ….

Inventories …..

Accounts Payable …..

Other …..

Net Cash Provided by Operations ……

Required:

Based on the information reported in the operating activities section of the statement of cash flows for Colgate-Palmolive, determine whether the following accounts increased or decreased during the period: Accounts Receivable, Inventories, and Accounts Payable.

***5. 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.

Required:

Prepare a properly formatted Statement of Cash Flows for Consultex, Inc., for the year ended October 31, 2010 (using the indirect method).

***6. 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.

***7. 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.

**Mövzu 4: Measuring and Evaluating Financial Performance**

***1. Computing and Interpreting Profitability Ratios***

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?

***2. Computing a Commonly Used Solvency Ratio***

According to the producer price index database maintained by the Bureau of Labor Statistics, the average cost of computer equipment fell 8.1 percent between 2012 and 2013. Let’s see whether these changes are reflected in the income statement of Computer Tycoon Inc. for the year ended December 31, 2013.

Required:

Compute the times interest earned ratios for 2013 and 2012. In your opinion, does Computer Tycoon generate sufficient net income (before taxes and interest) to cover the cost of debt financing?

***3. 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.

***4. 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.

***5. Analyzing the Impact of Selected Transactions on the Current Ratio***

In its most recent annual report, Sunrise Enterprises reported current assets of ….. and current liabilities of …….

Required:

Determine for each of the following transactions whether the current ratio, and each of its two components, for Sunrise will increase, decrease, or have no change: (1) sold long-term assets for cash, (2) accrued severance pay for terminated employees, (3) wrote down the carrying value of certain inventory items that were deemed to be obsolete, and (4) acquired new inventory by signing an 18-months promissory note (the supplier was not willing to provide normal credit terms).

***6. 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.