Alternate Exercises and Problems

for use with

Updated for New FASB Standards 141 & 142!

INTERMEDIATE ACCOUNTING

UPDATED SECOND EDITION

J. DAVID SPICELAND | JAMES F. SEPE | LAWRENCE A. TOMASSINI

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EXERCISES

Exercise 1-1
Accrual accounting

Listed below are several transactions that took place during the first two years of operations for the accounting firm of Haskins and Price.

	Year 1	Year 2
Amounts billed to customers for services rendered	$380,000	$440,000
Cash collected from customers	330,000	450,000
Cash disbursements:		
Payment of rent for two years	60,000	- 0 -
Salaries paid to employees for services rendered during the year	200,000	210,000
Travel	50,000	60,000
Utilities	30,000	50,000

In addition, you learn that the company incurred utility costs of $40,000 in year one, that there were no liabilities at the end of year two, and no anticipated bad debts on receivables.

Required:

1. Calculate the net operating cash flow for years 1 and 2.
2. Prepare an income statement for each year according to the accrual accounting model.
3. Determine the amount of receivables from customers that the company would show on its year 1 and year 2 balance sheets prepared according to the accrual accounting model.

Exercise 1-2
Concepts; terminology; conceptual framework

Listed below are several terms and phrases associated with the FASB's conceptual framework and underlying accounting principles. Pair each item from List A (by letter) with the item from List B that is most appropriately associated with it.

List A	List B
____ 1. predictive value	a. applying the same accounting practices over time
____ 2. relevance	b. record expenses in the period the related revenue is recognized
____ 3. reliability	c. concerns the relative size of an item and its effect on decisions
____ 4. comprehensive income	d. concerns the recognition of revenue
____ 5. materiality	e. along with relevance, a primary decision-specific quality
____ 6. consistency	f. the original transaction value upon acquisition
____ 7. verifiability	g. information is useful in predicting the future
____ 8. matching principle	h. pertinent to the decision at hand
____ 9. historical cost principle	i. implies consensus among different measurers
____10. realization principle	j. the change in equity from nonowner transactions

Exercise 1-3
Basic assumptions and principles

Listed below are several statements that relate to financial accounting and reporting. Identify the basic assumption, broad accounting principle, or pervasive constraint which applies to each statement.

1. IBM provides quarterly financial information to its shareholders.
2. Cisco Corporation amortizes the cost of a patent over the patent's useful life.
3. The Zilog Company depreciates the cost of its equipment rather than the current fair market value of the equipment.
4. The Antiel Corporation included a disclosure note describing a lawsuit it is defending even though the suit has not yet been settled.
5. The Feinstein Corporation records revenue when products are delivered to customers, even though the cash has not yet been received.
6. John Gordon, the sole proprietor of Gordon's Hardware, does not list his personal automobile on the balance sheet of the hardware store.

Exercise 1-4
Basic assumptions and principles

Identify the basic assumption or broad accounting principle that was violated in each of the following situations.

1. Don Sherwood, a shareholder of the Brady Construction Corporation, has not received a financial statement from the company for over two years.
2. The Diatonics Corporation reported equipment on its balance sheet at fair market value.
3. Holyoke Corporation paid $20,000 for a three-year insurance policy and recorded the entire expenditure as insurance expense.
4. The Acme Appliance Company is involved in a major lawsuit. The company is being sued for $10 million dollars for alleged patent infringement. The company believes the suit is without merit and has not disclosed its existence in its financial statements.
5. The Ravel Company's balance sheet includes assets owned by the company as well as assets of its principal shareholder, Jim Thomas.
6. The Marine Chemical Company recorded revenue for a $50,000 advance payment received from a customer. The customer's order will be shipped next month.

EXERCISES

Exercise 2-1
Transaction analysis

The following transactions occurred during April 2000, for the Unisale Corporation. The company owns and operates a wholesale warehouse.

1. Issued 100,000 shares of capital stock in exchange for $800,000 in cash.
2. Purchased equipment at a cost of $60,000. $15,000 cash was paid and a note payable was signed for the balance owed.
3. Purchased inventory on account at a cost of $270,000. The company uses the perpetual inventory system.
4. Credit sales for the month totaled $360,000. The cost of the goods sold was $210,000.
5. Paid $20,000 in rent on the warehouse building for the month of April.
6. Paid $15,000 to an insurance company for comprehensive insurance for a two-year period beginning May 1, 2000.
7. Paid $180,000 on account for the merchandise purchased in 3.
8. Collected $190,000 from customers on account.
9. Recorded depreciation expense of $2,000 for the month on the equipment.

Required:

Analyze each transaction and show the effect of each on the accounting equation for a corporation.

Example:

	Assets	=	Liabilities	+	Paid-in Capital	+	Retained Earnings
1.	+800,000(Cash)				+800,000(Capital stock)		

Exercise 2-2
Journal entries

Prepare general journal entries to record each of the transactions listed in Exercise 2-1.

Exercise 2-3
Debits and credits

Indicate whether a credit will increase (I) or decrease (D) each of the following accounts:

	Increase (I) or Decrease (D)	Account
1.	______	Accounts receivable
2.	______	Salary expense
3.	______	Loss on sale of land
4.	______	Prepaid insurance
5.	______	Interest revenue
6.	______	Capital stock
7.	______	Interest payable
8.	______	Land
9.	______	Interest expense
10.	______	Gain on sale of equipment
11.	______	Interest expense
12.	______	Accumulated depreciation
13.	______	Bad debt expense
14.	______	Sales revenue

Exercise 2-4
Transaction analysis; debits and credits

Some of the ledger accounts for the Southern Lumber Company are numbered and listed below. For each of the November 2000 transactions numbered 1 through 12 below, indicate by account number which accounts should be debited and credited. The company uses the perpetual inventory system. Assume that appropriate adjusting entries were made at the end of October.

(1) Accounts payable	(2) Equipment	(3) Inventory
(4) Accounts receivable	(5) Cash	(6) Supplies
(7) Supplies expense	(8) Prepaid insurance	(9) Sales revenue
(10) Retained earnings	(11) Note payable	(12) Capital stock
(13) Interest payable	(14) Rent expense	(15) Wages payable
(16) Cost of goods sold	(17) Wage expense	(18) Interest expense

	Account(s) Debited	Account(s) Credited
Example: Purchased equipment for cash	2	5
1. Paid a cash dividend.		
2. Paid insurance for the next six months.		
3. Sold goods to customers on account.		
4. Purchased inventory for cash.		
5. Purchased supplies on account.		
6. Paid employees wages for November.		
7. Issued capital stock in exchange for cash.		
8. Collected cash from customers on account		
9. Borrowed cash from a bank and signed a note.		
10. At the end of November, recorded the amount of supplies that had been used during the month.		
11. Paid October's interest on a bank loan.		
12. Accrued interest expense for November.		

Exercise 2-5
Adjusting entries

Prepare the necessary adjusting entries at December 31, 2000, for the Jasper Company for each of the following situations. Assume that no financial statements were prepared during the year and no adjusting entries were recorded.

1. A two-year fire insurance policy was purchased on August 1, 2000, for $12,000. The company debited prepaid insurance for the entire amount.
2. Depreciation on equipment totaled $20,000 for the year.
3. Employee salaries of $27,000 for the month of December will be paid in early January, 2001.
4. On October 1, 2000, the company lent $50,000 to a customer. The customer signed a note that requires principal and interest at 8% to be paid on September 30, 2001.
5. In July, the company purchased supplies for $4,500. The entry was recorded as a debit to supplies expense. Supplies on hand at the end of the year totaled $2,200. No supplies had been previously purchased.

Exercise 2-6
Cash versus accrual accounting; adjusting entries

The Calloway Tennis Ball Company prepares monthly financial statements for its bank. The November 30 and December 31, 2000, balance sheets contained the following account information:

	Nov. 30		Dec. 31	
	Dr.	**Cr.**	**Dr.**	**Cr.**
Supplies	4,000		8,000	
Prepaid rent	10,000		7,000	
Interest payable		7,000		4,000
Unearned rent revenue		4,500		3,000

The following information also is known:

a. The December statement of cash flows reported $6,000 in cash paid for supplies.
b. No rent payments were made in December.
c. The December income statement revealed $2,000 in interest expense.
d. On November 1, 2000, a tenant paid Calloway $6,000 in advance rent for the period November through February. Unearned rent revenue was credited.

Required:

1. What was the amount of supplies expense that appeared in the December income statement?
2. What was the amount of rent expense that appeared in the December income statement?
3. What was the amount of cash paid to the company's creditors for interest during December?
4. What was the amount of rent revenue earned in December? What adjusting entry was recorded at the end of December for unearned rent?

PROBLEMS

Problem 2-1
Accounting cycle through unadjusted trial balance

The Tazmanian Hat Company began business in July, 1998. During July, the following transactions occurred:

Jul. 1 Issued capital stock in exchange for $1,000,000 cash.
2 Purchased inventory on account for $80,000 (the perpetual inventory system is used).
4 Paid the company's landlord $10,000 for rent for the upcoming year.
10 Sold merchandise on account for $120,000. The cost of the merchandise was $75,000.
15 Borrowed $ 50,000 from a local bank and signed a note. Principal and interest at 10% is to be repaid in one year.
20 Paid employees $15,000 wages for the first half of the month.
24 Paid $50,000 to suppliers for the merchandise purchased on July 2.
26 Collected $60,000 on account from customers.
28 Paid various utility bills of $1,500 for the month of July.
31 Paid $8,000 in insurance for the period August 1, 2000 to October 1, 2000.

Required:

1. Prepare general journal entries to record each transaction. Omit explanations.
2. Post the entries to T-accounts.
3. Prepare an unadjusted trial balance as of July 31, 2000.

Problem 2-2
Adjusting entries

The Salem Bread Company produces and sells various bakery products to restaurants. The company's fiscal year-end is December 31. The unadjusted trial balance as of December 31, 2000, appears below.

Account Title	**Debits**	**Credits**
Cash	32,000	
Accounts receivable	85,000	
Prepaid rent	4,000	
Supplies	2,300	
Inventory	80,000	
Equipment	225,000	
Accumulated depreciation - equipment		77,000
Accounts payable		38,000
Wages payable		5,000
Note payable		50,000
Interest payable		- 0 -
Unearned revenue		3,000
Capital stock		100,000
Retained earnings		127,300
Sales revenue		256,000
Cost of goods sold	145,000	
Wage expense	62,000	
Rent expense	10,000	
Depreciation expense	- 0 -	
Interest expense	- 0 -	
Supplies expense	3,000	
Miscellaneous expense	8,000	
Totals	656,300	656,300

Information necessary to prepare the year-end adjusting entries appears below.

1. Depreciation on the equipment for the year is $22,000.
2. Wages payable at the end of the month should be $7,000.
3. On April 1, 2000, Salem borrowed $50,000 from a local bank and signed a note. The note requires interest to be paid annually on March 31 at 8%. The principal is due in 5 years.
4. $1,000 of supplies remained on hand at December 31, 2000.
5. In November, a customer paid Salem $3,000 for an order that was delivered in December. The cash received was credited to Unearned revenue. No other customer advances were received during the year.
6. On December 1, 2000, $4,000 rent was paid to the owner of the building. The payment represented rent for December through March 2001, at $1,000 per month.

Required:
Prepare the necessary December 31, 2000, adjusting journal entries.

EXERCISES

Exercise 3-1
Income statement format; single-step and multiple-step

The following is a partial trial balance for Apex Computer Corporation as of December 31, 2000:

Account Title	Debits	Credits
Sales revenue		3,400,000
Interest revenue		35,000
Gain on sale of equipment		30,000
Loss from hurricane damage (event is both unusual and infrequent)	300,000	
Cost of goods sold	2,250,000	
Restructuring costs	400,000	
Administrative expense	450,000	
Selling expense	150,000	
Interest expense	20,000	

500,000 shares of common stock were outstanding throughout 2000. Income tax expense has not yet been accrued. The income tax rate is 40%.

Required:
1. Prepare a single-step income statement for 2000, including EPS disclosure.
2. Prepare a multiple-step income statement for 2000, including EPS disclosure.

Exercise 3-2
Discontinued operations

The Bilibong Company had three distinct operating divisions. The sports equipment division had been unprofitable, and on June 1, 2000, the company adopted a plan to sell the assets of the division. The actual sale was effected on December 3, 2000, at a price of $1,200,000. The sale resulted in a before-tax gain of $300,000

The division incurred before-tax operating losses of $250,000 from the beginning of the year to May 31, and $60,000 from June 1 through December 3. The income tax rate is 40%. Chance's after-tax income from its continuing operations is $500,000.

Required:
Prepare an income statement for 2000 beginning with "income from continuing operations." Include appropriate EPS disclosures assuming 200,000 shares of common stock were outstanding throughout the year.

Exercise 3-3
Discontinued operations; disposal subsequent to year of measurement date

The Ottoboni Corporation had two operating divisions, one manufacturing division and a finance division. The finance division has been unprofitable, and on October 3, 2000, Ottoboni adopted a formal plan to sell the division. The sale was completed on March 19, 2001.

On October 3, 2000, the book value of the assets of the finance division was $2,100,000. The before-tax operating loss of the division from January 1, the beginning of the fiscal year, through October 2, 2000 was $200,000. The operating loss from October 3 through December 31 was $70,000. Also, the company estimated that the loss from operating the division from January 1, 2001 until the disposal date would approximate $120,000. The selling price of the division's assets was estimated to be $2,200,000. The company's effective tax rate is 40%. The after-tax income from continuing operations for 2000 is $600,000.

Required:

1. Prepare a partial income statement for 2000 beginning with income from continuing operations. Ignore EPS disclosures.
2. Repeat requirement 1 assuming that the estimated sales price of the finance division's assets was $2,600,000, instead of $2,200,000.

Exercise 3-4
Accounting change

The Rufus and Cleft Mining Company purchased machinery on June 15, 1998, for $2,500,000. A six-year life was estimated and a salvage value of $100,000 was anticipated. The company decided to use the straight-line depreciation method and recorded $600,000 in depreciation during 1998 and 1999. Early in 2000, the company revised the *total* estimated life of the machinery to 10 years. The estimated salvage value was revised to $200,000.

Required:

1. Briefly describe the accounting treatment for this change.
2. Determine depreciation for 2000.