

# Alternate Exercises and Problems

for use with

## INTERMEDIATE ACCOUNTING

SECOND EDITION



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# Intermediate Accounting

Second Edition

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**McGraw-Hill Higher Education**

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1 2 3 4 5 6 7 8 9 0 QPD/QPD 0 9 8 7 6 5 4 3 2 1 0

ISBN 0-07-240497-3

<http://www.mhhe.com>

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# **Part I**

## **Alternate Exercises and Problems**



## **Section 1**

# **The Role of Accounting As an Information System**





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## EXERCISES

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### 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**

- \_\_\_\_\_ 1. predictive value
- \_\_\_\_\_ 2. relevance
- \_\_\_\_\_ 3. reliability
- \_\_\_\_\_ 4. comprehensive income
- \_\_\_\_\_ 5. materiality
- \_\_\_\_\_ 6. consistency
- \_\_\_\_\_ 7. verifiability
- \_\_\_\_\_ 8. matching principle
- \_\_\_\_\_ 9. historical cost principle
- \_\_\_\_\_ 10. realization principle

**List B**

- a. applying the same accounting practices over time
- b. record expenses in the period the related revenue is recognized
- c. concerns the relative size of an item and its effect on decisions
- d. concerns the recognition of revenue
- e. along with relevance, a primary decision-specific quality
- f. the original transaction value upon acquisition
- g. information is useful in predicting the future
- h. pertinent to the decision at hand
- i. implies consensus among different measurers
- 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.



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## EXERCISES

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### 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:

	<b>Increase (I) or Decrease (D)</b>	<b>Account</b>
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) <u>Debited</u>	Account(s) <u>Credited</u>
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.

- A two-year fire insurance policy was purchased on August 1, 2000, for \$12,000. The company debited prepaid insurance for the entire amount.
- Depreciation on equipment totaled \$20,000 for the year.
- Employee salaries of \$27,000 for the month of December will be paid in early January, 2001.
- 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.
- 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:

	<u>Nov. 30</u>		<u>Dec. 31</u>	
	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:

- The December statement of cash flows reported \$6,000 in cash paid for supplies.
- No rent payments were made in December.
- The December income statement revealed \$2,000 in interest expense.
- 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:**

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



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## PROBLEMS

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### 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.