

**Financial Accounting
Workbook
(Version 2.0)**

Tony Bell

© Tony Bell, 2019

Table of Contents

A Note to Instructors	3
Module 1: Introduction to the Financial Statements	4
Module 2: Recording Transactions	14
Module 3: Adjusting Entries and Closing Entries.....	23
Module 4: Cash	32
Module 5: Receivables.....	37
Module 6: Inventory Purchases, Sales, Returns and Discounts.....	45
Module 7: Cost of Inventory (FIFO, LIFO, Weighted Average, and Specific Identification)	52
Module 8: Property, Plant and Equipment	57
Module 9: Liabilities	63
Module 10: Equity	69
Module 11: Statement of Cash Flows	74
Module 12: Ratios and Financial Statement Analysis.....	91

A Note to Instructors

I hope you find this workbook useful, I just want to point out three key features:

- 1.) This book is totally free to you and your students. Feel free to copy it or post it to your course website and feel free to share it with colleagues.
- 2.) Although I am widely distributing a PDF file, I have gone to great effort to make a fully editable Word version of this document. Please contact me if you'd like to have a copy of the Word version. You can edit any of these problems to better fit in your class or simply copy and paste an entire problem into an assignment or test, with the attribution "Source: accountingworkbook.com", or "Adapted from: accountingworkbook.com".
- 3.) Every problem in this workbook has a video walkthrough available at <http://accountingworkbook.com>. I suspect the true value in this book lies in the video walkthroughs, as it will be useful for homework and particularly useful for "flipping the classroom".

Please let me know if you would like to see additional question-types or topics included in the future. I intend to add to this book frequently based on your input. Also, any feedback you can provide (particularly student feedback) would be greatly appreciated.

Please note, you do not have my permission to use this for a commercial purpose, nor do you have permission to recreate the videos found at <http://accountingworkbook.com>. Send me an email if you have any questions about use or attribution.

Thanks for checking out this workbook, and I hope you'll have a look at the companion website: <http://accountingworkbook.com> !

Tony Bell

tbella@gmail.com

Module 1: Introduction to the Financial Statements

1-1A – Accounting Equation

Fill in the missing information below:

	Assets	Liabilities	Shareholders' Equity
Business #1	_____	\$181,000	\$212,000
Business #2	75,000	_____	36,000
Business #3	30,000	21,000	_____
Business #4	25,000	_____	(10,000)*

* Business #4's equity is in an accumulated deficit position.

1-1B – Accounting Equation

Fill in the missing information below:

	Assets	Liabilities	Shareholders' Equity
Business #1	_____	\$80,000	\$60,000
Business #2	1,250,000	_____	1,100,000
Business #3	75,000	48,000	_____
Business #4	52,000	_____	(9,000)*

* Business #4's equity is in an accumulated deficit position.

1-2A – Account Classification

Each of the following accounts is either an Asset (**A**), Liability (**L**), Shareholders' Equity (**SE**), Revenue (**Rev**), Expense (**Exp**) or Dividend (**Div**) account.

Mark the first blank with the appropriate classification – A, L, SE, Rev, Exp or Div.

If you have identified an item as either an Asset or Liability, mark the second blank as “C” if the item is current, or “LT” for Long-Term.

	A/L/SE/Rev/Exp/Div	C?
Long-term investments		
Accounts receivable		
Consulting revenue		
Rent revenue		
Computer		
Mortgage payable		
Salaries payable		
Cash		
Supplies expense		
Retained earnings		
Temporary investments		
Accounts payable		
Income tax expense		
Car		
Salaries expense		
Utilities expense		
Land		
Inventory		
Building		
Interest expense		
Bank loan payable		
Common shares		
Supplies		

1-2B – Account Classification

Each of the following accounts is either an Asset (**A**), Liability (**L**), Shareholders' Equity (**SE**), Revenue (**Rev**), Expense (**Exp**) or Dividend (**Div**) account.

Mark the first blank with the appropriate classification – A, L, SE, Rev, Exp or Div.

If you have identified an item as either an Asset or Liability, mark the second blank as “C” if the item is current or “LT” for Long-Term.

	A/L/SE/Rev/Exp/Div	C?
Car loan		
Software expense		
Wages expense		
Office furniture		
Long-term investments		
Inventory		
Small tools		
Accounts payable		
Retained earnings		
Accounts receivable		
Property		
Repair revenue		
Maintenance expense		
Interest expense		
Salaries payable		
Subscription revenue		
Common shares		
Telephone equipment		
Sales revenue		
Income tax expense		
Mortgage payable		
Cash		
Telephone expense		

1-3A – Basic Financial Statements

Sherry's Shuttles is a bus company offering rides to outdoor adventurers. In the summer, she caters to mountain bikers and in winter to skiers. Sherry's company has the following account balances, all on December 31, 2024 and for the year then ended unless otherwise noted:

Wages payable	\$1,600	Insurance expense	\$4,000
Dividends	3,000	Telephone expense	400
Cash	5,000	Equipment, net	30,000
Common shares (Jan 1, 2024)	60,000	Bank loan	45,000
Accounts payable	2,200	Retained earnings (January 1, 2024)	10,000
Buildings, net	100,000	Accounts receivable	1,000
Shuttle revenue	69,300	Office supplies	500
Fuel expense	11,000	Wages expense	30,000
Depreciation expense	2,000	Utilities expense	1,200

The company did not issue or repurchase any common shares during the year.

Required:

- a.) Prepare an income statement for the year ended December 31, 2024.
- b.) Prepare a statement of changes in equity for the year ended December 31, 2024.
- c.) Prepare a balance sheet as at December 31, 2024.
- d.) Based on your financial statements, compute:
 - i. The current ratio
 - ii. The debt ratio
 - iii. The equity ratio

1-3B – Basic Financial Statements

John’s Jungle Gyms is an indoor play area for children. Parents bring their toddlers to play on germ-covered slides, ladders, ball pits, monkey bars and other pieces of equipment. The following account balances relate to the company’s October 31, 2024 month end financial statements:

Retained earnings (Oct. 1, 2024)	\$118,090
Cash	14,000
Accounts payable	5,000
Wages payable	2,000
Repair expense	1,500
Accounts receivable	500
Dividends	200
Depreciation expense	2,600

Admission revenue	\$25,000
Mortgage	178,000
Buildings, net	225,000
Wages expense	6,000
Insurance expense	3,000
Common shares (Oct. 1, 2024)	10
Equipment, net	75,000
Utilities expense	300

There were no common shares issued or repurchased during the month.

Required:

- a.) Prepare an income statement for the month ended October 31, 2024.
- b.) Prepare a statement of changes in equity for the month ended October 31, 2024.
- c.) Prepare a balance sheet as at October 31, 2024.
- d.) Based on your financial statements, compute:
 - i. The current ratio
 - ii. The debt ratio
 - iii. The equity ratio

1-4A – More Complex Financial Statements

Industrial Relations Ltd. offers mediation services for unionized companies. When there is a contract dispute between a union and company management, often the two sides require an outside consultant to assist in the negotiations – Industrial Relations Ltd. fills this role. The following account balances relate to the company's June 30, 2024 year-end financial statements:

Accumulated depreciation - buildings	\$12,000
Wages expense	35,000
Equipment	7,000
Supplies	500
Depreciation expense	2,500
Consulting revenue	88,000
Buildings	125,000
Cash	3,000
Dividends	6,000
Income tax expense	11,000

Travel expense	\$6,000
Retained earnings (July 1, 2023)	34,900
Accumulated depreciation - equipment	1,500
Supplies expense	3,500
Interest expense	3,000
Common shares (July 1, 2023)	100
Mortgage payable	60,000
Accounts receivable	1,000
Notes payable	5,000
Accounts payable	2,000

Notes:

- There were no common shares issued or repurchased during the year.
- The current portion of the mortgage payable was \$8,000.

Required:

- a.) Prepare an income statement for the year ended June 30, 2024.
- b.) Prepare a statement of changes in equity for the year ended June 30, 2024.
- c.) Prepare a balance sheet as at June 30, 2024.
- d.) Based on your financial statements, compute:
 - i. The current ratio
 - ii. The debt ratio
 - iii. The equity ratio

1-4B – More Complex Financial Statements

Ragequit PC Repair specializes in computer equipment repair following incidents of “gamer rage”. After losing online games some gamers enter a fit of irrational rage, and break gaming controllers, monitors, notebook computers, mice, keyboards and televisions*. This rage has been lucrative for the Ragequit PC Repair. The following account balances relate to the company’s November 30, 2024 year-end financial statements:

Bank loan payable	4,000
Interest expense	250
Dividends	700
Common shares (Dec 1, 2023)	50
Wages expense	38,000
Supplies	1,200
Supplies expense	5,000
Tools and Equipment	6,000
Retained earnings (Dec 1, 2023)	500

Income tax expense	200
Repair revenue	55,000
Accounts payable	400
Rent expense	8,500
Accounts receivable	100
Accumulated depreciation – tools and equipment	1,500
Cash	900
Notes payable	800
Depreciation expense	1,400

Notes:

- There were no common shares issued or repurchased during the year.
- The current portion of the bank loan payable was \$600.

Required:

- a.) Prepare an income statement for the year ended November 30, 2024.
- b.) Prepare a statement of changes in equity for the year ended November 30, 2024.
- c.) Prepare a balance sheet as at November 30, 2024.
- d.) Based on your financial statements, compute:
 - i. The current ratio
 - ii. The debt ratio
 - iii. The equity ratio

*Like when your opponent (who had unbelievable RNG luck the whole game) top-decks the exact card he needed to beat you, even though you outplayed him, and are clearly smarter and better than him. Ridiculous. Hearthstone is for babies.

1-5A – More Complex Financial Statements (Net Loss and Share Issuance)

On Time Delivery Service is attempting to disrupt the package delivery industry. The company allows customers to use an app to track the exact location of their package at all times (with GPS). Its proprietary computer algorithm allows the company to estimate the delivery time of its packages very accurately. The company has taken on a round of venture capital investment in the most recent year. The following account balances relate to the company's December 31, 2024 year-end financial statements:

Depreciation expense	24,000
Wages expense	230,000
Common shares (Jan 1, 2024)	10,000
Supplies expense	15,000
Interest expense	12,000
Income tax refund (negative expense)	7,000
Computers	168,000
Delivery equipment	215,000
Cash	184,000
Interest payable	8,000

Accumulated depreciation - equipment	61,000
Accumulated depreciation - computers	42,000
Accounts receivable	17,000
Supplies	6,000
Insurance expense	9,000
Bank loan payable	140,000
Delivery revenue	260,000
Dividends	10,000
Retained earnings (Jan 1, 2024)	94,000
Accounts payable	18,000

Notes:

- The company issued \$250,000 of common shares during the year.
- There were no shares repurchased during the year.
- The current portion of the bank loan payable was \$30,000.

Required:

- a.) Prepare an income statement for the year ended December 31, 2024.
- b.) Prepare a statement of changes in equity for the year ended December 31, 2024.
- c.) Prepare a balance sheet as at December 31, 2024.
- d.) Based on your financial statements, compute:
 - i. The current ratio
 - ii. The debt ratio
 - iii. The equity ratio

1-5B – More Complex Financial Statements (Share Issuance)

Accountingworkbook.com is a website that offers accounting tutorial videos for dazed and confused accounting students all over the world, many of whom stumble on to the website late at night while cramming for exams. The following account balances relate to the company's January 31, 2024 year-end financial statements:

Utilities expense	1,500
Depreciation expense	350
Income tax expense	1,150
Retained earnings (February 1, 2023)	4,000
Web server expense	1,000
Subscription revenue	7,000
Advertising expense	700
Cash	6,000
Accumulated depreciation - computers	700

Accounts payable	300
Common shares (February 1, 2023)	50
Bank loan payable	1,000
Interest expense	200
Computers	2,500
Supplies	100
Supplies expense	600
Dividends	50
Interest payable	100

Notes:

- The company issued \$1,000 of common shares during the year.
- There were no shares repurchased during the year.
- The current portion of the bank loan payable was \$500.

Required:

- a.) Prepare an income statement for the year ended January 31, 2024.
- b.) Prepare a statement of changes in equity for the year ended January 31, 2024.
- c.) Prepare a balance sheet as at January 31, 2024.
- d.) Based on your financial statements, compute:
 - i. The current ratio
 - ii. The debt ratio
 - iii. The equity ratio

Module 2: Recording Transactions

2-1A – Basic Journal Entries – New Company

Joe's Car Repairs started operating on June 1. The following transactions occurred during June:

- June 1** Joe invested \$10,000 cash and invested equipment valued at \$20,000 in exchange for 500 common shares.
- June 2** Paid rent on a small downtown garage for \$2,500 (cash) to cover the month of June.
- June 3** Purchased equipment on account. \$8,000 is due to be paid on July 3.
- June 6** Paid \$100 to sponsor a local sports team.
- June 10** Paid \$250 cash dividend to shareholders.
- June 14** Paid employees' salaries of \$2,000.
- June 15** Performed car repair work for the first two weeks of June. Billed and received \$7,000.
- June 16** Performed car repair work for customer #233 - \$1,000. The customer did not pay but agreed to pay within 30 days.
- June 22** Paid for the equipment purchase from June 3.
- June 26** Received one half of the amount owed from the June 16 transaction.
- June 30** Paid employees' salaries of \$2,000.
- June 30** Received a telephone bill for \$125 for June. Not yet paid.

Required:

Record all necessary journal entries based on the transactions above.

2-1B – Basic Journal Entries – New Company

Fred McCarthy started his company, Cheapo Tours to take customers to the Grand Canyon from Las Vegas. The company began operations in March. The following transactions occurred during the company's first month:

- March 1** Fred invested \$10,000 cash and a van valued at \$7,500 in exchange for 50,000 common shares.
- March 3** Paid \$1,000 cash to advertise online.
- March 5** Purchased equipment on account: \$3,000.
- March 6** Purchased a second van for \$8,000. Paid \$2,000 and took the rest as a car loan.
- March 15** Took first tour group to see the Grand Canyon. The trip was a success. Customers paid \$1,000 each for their tour. In total, thirteen customers on the tour paid \$12,000. One customer was not able to pay, but promised to pay his \$1,000 by the end of the month.
- March 16** Joe paid his employees' salaries of \$3,000.
- March 17** Purchased fuel for the vehicles: \$500
- March 19** Paid \$800 to repair a broken window on one of the vans.
- March 20** Paid for the March 5 equipment purchase.
- March 22** Received a utilities bill: \$200. Did not pay yet.
- March 25** Received the last \$1,000 from the March 15 tour.
- March 31** Took a second tour group of 15 people. Each paid \$1,000.
- March 31** Paid employees' salaries of \$3,000.
- March 31** Shareholders took a cash dividend of \$5,000.

Required:

Record all necessary journal entries based on the transactions above.

2-2A – Basic Journal Entries, T-Accounts, Trial Balance – New Company

In August, Maria Chen started her new taxidermy business: The Right Stuff Inc. The business focused on preserving family pets after they passed away. The following transactions occurred during August:

- August 1** Maria invested \$1,000 cash in exchange for 250 common shares.
- August 1** Rented work space. Paid \$600 for the month of August.
- August 2** The company borrowed \$5,000 in the form of a long-term bank loan. The money was planned to purchase much of the equipment that would be needed.
- August 5** Purchased equipment: \$4,000. Paid \$1,000 with the rest payable at the end of August.
- August 10** Received and completed first taxidermy job – a poodle named Rex. Received \$400 cash.
- August 12** Purchased supplies on account: \$200.
- August 13** Completed second taxidermy job: A chocolate Labrador retriever named KitKat: \$600 on account.
- August 14** Maria took a cash dividend of \$500 to pay for personal expenses.
- August 19** Received and paid the utilities bill, \$200.
- August 20** Paid for the August 5 equipment purchase.
- August 21** Received a telephone bill: \$200. Did not pay yet.
- August 24** Received payment for the August 13th job.
- August 27** Completed third taxidermy job: A calico cat named Spot: \$250. Received payment.
- August 31** Paid salaries of \$1,000.

Required:

- a.) Record all necessary journal entries based on the transactions above.
- b.) Post the transactions to T-Accounts.
- c.) Prepare a trial balance dated August 31.

2-2B – Basic Journal Entries, T-Accounts, Trial Balance – New Company

Sandy Bell opened a “Zip Line” eco-adventure park in July. The following transactions occurred in the first month of operations:

- July 1** Sandy invested \$1,000 cash in exchange for 50 common shares.
- July 1** Purchased equipment on account - \$15,000 due August 1.
- July 2** The company borrowed \$25,000 in the form of a long-term bank loan. The money was planned to pay off the equipment loan.
- July 5** Purchased insurance for the year: paid \$8,000 cash. (Note this amount should not be expensed as it represents an asset to the company.)
- July 8** Paid off equipment purchased on July 1.
- July 9** Took first group through an adventure tour. Collected \$1,000 cash.
- July 12** Purchased fuel: \$500 cash.
- July 16** Purchased supplies: \$100 cash.
- July 18** Sandy took a cash dividend of \$1,000 to pay for personal expenses.
- July 20** Received but did not pay the telephone bill, \$200.
- July 21** Took another tour group out. Billed the group \$2,000. Payment has not yet been received.
- July 26** Received a utilities bill: \$250. Did not pay yet.
- July 28** Took out a tour group. Received payment in full: \$1,500.
- July 31** Paid employees’ salaries of \$3,000.

Required:

- a.) Record all necessary journal entries based on the transactions above.
- b.) Post the transactions to T-Accounts.
- c.) Prepare a trial balance dated July 31.

2-3A –Journal Entries, T-Accounts, Trial Balance – Existing Company

ABC Carpet Cleaners had been operating for several years. On March 1, the company had the following account balances: Cash \$5,000; Accounts Receivable \$300; Equipment (net) \$3,000; Accounts Payable \$500; Bank Loan \$2,000; Common Shares \$100; and Retained Earnings \$5,700.

The following transactions occurred during the month of March.

- March 1** Purchased (and used) cleaning supplies for cash: \$600.
- March 2** Paid off the \$500 that was owed from February.
- March 4** Completed a major cleaning job. Billed \$3,000 but did not collect.
- March 9** Purchased a new Super Sucker brand vacuum for \$6,000 on account. Payment is due in 30 days.
- March 11** Collected amount owed to us from February.
- March 15** Completed a cleaning job. Billed \$1,000, collected half.
- March 16** Paid employees' salaries of \$2,500.
- March 19** Paid \$500 to repair a broken vacuum.
- March 22** Received and paid a heating bill: \$100.
- March 24** Received a telephone bill: \$50, did not pay.
- March 28** Collected money from the March 4 cleaning job.
- March 29** Completed major cleaning job. Billed \$7,000, payment is due on April 29.
- March 31** Paid employees' salaries of \$2,500.
- March 31** Paid interest of \$75 on the bank loan.
- March 31** Shareholders took a dividend totaling \$700.

Required:

- a.) Record all necessary journal entries based on the transactions above.
- b.) Post the transactions to T-Accounts.
- c.) Prepare a trial balance dated March 31.

2-3B – Journal Entries, T-Accounts, Trial Balance – Existing Company

Teacher’s Pet Tutoring Service provides extra help for students. The company has been operating successfully for several years and has the following account balances entering April: Cash \$8,000; Accounts Receivable \$1,500; Supplies \$5,000; Computers (net) \$15,000; Accounts Payable \$300; Bank Loan Payable \$3,500; Common Shares \$50; Retained Earnings \$25,650. The following transactions occurred in April:

- April 1** Paid off account payable owing from March.
- April 3** Paid \$3,000 for advertising for the month of April.
- April 4** Purchased supplies on account: \$1,000.
- April 6** Collected the \$1,500 receivable from March.
- April 8** Received, but did not pay a \$250 electricity bill.
- April 12** An employee who was short of money borrowed \$500. He signed a note and promised to repay the company after payday. He is a good employee and the company chose not to charge him any interest or fees.
- April 15** Paid employees’ salaries of \$4,000.
- April 18** Employee repaid the \$500 loan.
- April 20** Borrowed \$10,000 from the bank with the intention of purchasing new computers.
- April 21** Purchased new computers \$8,500.
- April 24** Received and paid telephone bill \$150.
- April 26** Paid employees’ salaries of \$4,000.
- April 29** Paid electricity bill received on April 8.
- April 30** Paid interest on the loans for the month of \$100.
- April 30** Billed \$18,000 for the month of tutoring service. Collected \$16,000 in cash, awaiting payment for the remainder.

Required:

- a.) Record all necessary journal entries based on the transactions above.
- b.) Post the transactions to T-Accounts.
- c.) Prepare a trial balance dated April 30.

2-4A – More Journal Entries, T-Accounts, Trial Balance

Adworks Inc. is a web-based advertising agency that develops animated commercials and banner ads for clients. The company had the following account balances entering the month of January: Cash \$12,000; Accounts Receivable \$4,000; Supplies \$500; Equipment \$17,000; Accumulated Depreciation – Equipment \$6,000; Accounts Payable \$3,500; Bank Loan \$9,000; Common Shares \$1,000; and Retained Earnings \$14,000.

The following transactions occurred during the month:

- January 1** Spent \$1,100 on Google “Adwords” to promote the business.
- January 2** Renewed insurance. Paid \$4,000 for a one-year insurance renewal.
- January 4** Collected accounts receivable from the prior month.
- January 9** Purchased new computer: \$1,500 on account.
- January 11** Paid accounts payable from December.
- January 15** Paid employees’ salaries of \$3,000.
- January 16** Issued 4,000 common shares, received \$15,000.
- January 19** Hired two new employees who will start in February and March. Both will receive monthly salaries of \$4,000 (each).
- January 22** Billed and collected \$15,000 from clients.
- January 24** Received but did not yet pay cable internet bill: \$400.
- January 28** Received, but did not pay the electric bill: \$200.
- January 29** Completed a job and billed a client \$3,000 but did not collect.
- January 31** Paid dividends to shareholders of \$2,000.
- January 31** Paid income taxes for the month \$1,000.
- January 31** Received an advance of \$5,000 from a client. (Note, we had not done any work.)

Required:

- a.) Record all necessary journal entries based on the transactions above.
- b.) Post the transactions to T-Accounts.
- c.) Prepare a trial balance dated January 31.

2-4B – More Journal Entries, T-Accounts, Trial Balance

Freida's Ferns is a Landscaping Business. The company had the following account balances entering February: Cash \$1,000; Accounts Receivable \$500; Supplies \$1,500; Equipment \$12,000; Accumulated Depreciation – Equipment \$7,000; Accounts Payable \$400; Bank Loan \$2,600; Common Shares \$2,000; and Retained Earnings \$3,000.

The following transactions occurred during February:

- February 1** Purchased supplies on account: \$500.
- February 3** Collected the amount receivable from January.
- February 5** Borrowed \$5,000 from the bank.
- February 7** Purchased new lawn mower for \$3,000 cash.
- February 8** Paid off accounts payable from January.
- February 14** Performed lawn mowing work for the first two weeks. Charge a flat rate of \$20 per lawn, the company mowed 150 lawns. Collected from all but 5 customers.
- February 15** Paid employee's salary of \$2,000.
- February 17** Collected from 4 of the 5 unpaid customers from the first two weeks of February.
- February 20** Issued 1,000 common shares for \$2,000 cash.
- February 21** Purchased fuel for the mowers: \$1,200 cash.
- February 28** Performed lawn mowing work for the first two weeks. Charge \$20 per lawn, the company mowed 180 lawns. Collected from all but 8 customers.
- February 28** Paid employee's salary of \$2,000.
- February 28** Paid income tax installment of \$500.
- February 28** Paid interest on the loan: \$200.
- February 28** Paid dividends to shareholders: \$1,000.

Required:

- a.) Record all necessary journal entries based on the transactions above.
- b.) Post the transactions to T-Accounts.
- c.) Prepare a trial balance dated February 28.

Module 3: Adjusting Entries and Closing Entries

3-1A – 5 types of Adjustments

This problem explores 5 common types of adjusting journal entries. All problems relate to ABC Company, which has a fiscal year-end of December 31.

a.) Prepaid expenses - Insurance

ABC Company purchases a one-year insurance policy on June 1, 2024 for \$1,800 cash.

Required

Record the entry for the purchase of insurance and for the year-end adjustment.

b.) Depreciation

ABC Company purchases a vehicle on August 31, 2024 for \$12,000 cash. The vehicle is expected to be useful for 10-years, after which time it will have no residual value. The company wishes to use straight-line depreciation.

Required

Record the journal entry for the purchase of the vehicle and for the year-end adjustment.

c.) Accrued expenses - Interest

On May 1, 2024, ABC Company borrows \$10,000 from the bank and signs a note payable. The debt carries annual interest of 6% and is repaid in full (with interest) on July 1, 2025.

Required

Record the journal entry for the initial borrowing, the year-end adjustment and the repayment of the debt.

d.) Accrued revenues

As at December 31, 2024, ABC Company had provided 3 months of consulting service to a client at a rate of \$1,000 per month, but had not yet billed the client or collected any money. On January 31, 2025 the client was billed for four months of service and paid one week later on February 8, 2025.

Required

Record the journal entry for the year-end adjustment, and any other entries required.

e.) Unearned revenues

A client pre-pays ABC Company on November 1, 2024 for five months of consulting service (from November through the end of March). The company pays \$15,000. ABC Company earns the money evenly over the life of the project, and has fulfilled its obligations up to December 31.

Required

Record the journal entry November 1 and for the year-end adjustment.

3-1B – 5 types of Adjustments

This problem explores 5 common types of adjusting journal entries. All problems relate to XYZ Company, which has a fiscal year-end of December 31.

a.) Prepaid expenses - Supplies

On December 15, XYZ Company was completely out of supplies, so the company purchased \$1,500 of supplies on account. On December 31, a supply count revealed \$200 of supplies were on hand.

Required

Record the entry for the purchase of supplies and for the year-end adjustment.

b.) Depreciation

XYZ Company purchases a new building for \$720,000 on April 1, 2024. The building is fully financed by a mortgage. The building is expected to be useful for 20 years, after which time it will have no residual value. The company wishes to use straight-line depreciation.

Required

Record the journal entry for the purchase of the building and for the year-end adjustment.

c.) Accrued expenses - Salaries

XYZ Company pays salaries of \$4,000 every Friday. The company has a 5-day workweek and is open from Monday to Friday. This year, the December 31 falls on a Thursday.

Required

Record the year-end adjustment and the entry for when salaries are paid on Friday, January 1.

d.) Accrued revenues - interest

On October 1, 2024, XYZ Company loaned an employee (Fred Smith) \$1,000. Fred signed a note promising to pay back the \$1,000 in full plus interest at annual rate of 12%. On May 1, Fred pays back the note and accrued interest.

Required

Record the journal entry for the initial loan, the year-end adjustment and the repayment.

e.) Unearned revenues

On December 1, 2024, three customers each prepaid \$500 for a 5-month consulting package. XYZ Company fulfilled its obligations up to December 31.

Required

Record the journal entry December 1 and for the year-end adjustment.

3-2A – Recording transactions and adjusting entries

Iginla Inc. has a fiscal year end of December 31, 2024. Below are transactions that occurred during the year:

- a.) On February 1, the company purchased a 1-year insurance policy for \$4,800 cash.
- b.) On May 17, the company purchased \$2,000 of supplies on account. The supplies were counted at year end, and there were \$450 remaining.
- c.) On August 31, the company purchased a truck for \$38,000. The truck's estimated useful life is 12 years, and there is no expected residual value.
- d.) On September 30, the company signed a note payable, borrowing \$10,000 cash from a local credit union at an annual interest rate of 7%. They promised to repay \$10,000 plus interest on May 1, 2025.
- e.) On November 1, the company loaned \$1,000 cash to an employee. The employee promised to repay the company the principal plus 3% annual interest on January 31, 2025.
- f.) On November 20, the company received a \$5,000 advance payment for cleaning services it would deliver for the months of December and January. As of December 31, it had successfully fulfilled its first month of obligation.

Required:

For the transactions above, record a journal entry for the original transaction and record the required year-end adjustment. (If no journal entry is required, write "no entry".)

3-2B – Recording transactions and adjusting entries

Doan Inc. has a fiscal year end of March 31, 2025. The following transactions occurred during the year:

- a.) April 30, 2024: Purchased insurance for the year: \$6,000.
- b.) June 1, 2024: Purchased equipment on account: \$4,000. The equipment had an expected useful life of 8 years and no expected residual value.
- c.) July 21, 2024: Purchased supplies for cash: \$2,000. A count at year-end revealed the company still had \$1,700 of supplies remaining.
- d.) August 31, 2024: Borrowed \$8,000 cash in the form of a note payable. The note has annual interest at a rate of 11%. The company expects to repay the note on August 1, 2025.
- e.) December 1, 2024: Loaned \$3,000 cash signing a note receivable. The note has an annual interest rate of 6%. The company expects to be repaid on June 30, 2025.
- f.) January 1, 2025: The company received a \$12,000 prepayment for software development services it would be delivering over the next four months. As of fiscal year end, the first three months of the service had been delivered on time and on schedule with one more month remaining.

Required:

For the transactions above, record a journal entry for the original transaction and record the required year-end adjustment. (If no journal entry is required, write “no entry”.)

3-3A – Adjusting Entries, the Adjusted Trial Balance Worksheet, Financial Statements and Closing Entries (and the kitchen sink.)

Below is the June 30, 2024 unadjusted trial balance of Netlock Security, a firm that offers hacking prevention services to large companies.

	Unadjusted TB		Adjustments		Adjusted TB	
	DR	CR	DR	CR	DR	CR
Cash	\$38,000					
Accounts receivable	12,000					
Supplies	5,000					
Prepaid insurance	28,000					
Computers	214,000					
A.D. – Computers		\$46,000				
Accounts payable		8,000				
Salaries payable						
Interest payable						
Unearned security revenue		15,000				
Note payable		30,000				
Common shares		40,000				
Retained earnings		87,000				
Dividends	10,000					
Security revenue		<u>485,000</u>				
Salaries expense	320,000					
Interest expense						
Depreciation expense						
Supplies expense						
Repairs expense	17,000					
Insurance expense						
Rent expense	60,000					
Income tax expense	<u>7,000</u>					
Total	<u>\$711,000</u>	<u>\$711,000</u>				

The company's fiscal year end is June 30, and the following items require adjustment:

- A count of supplies reveals \$300 were on hand on June 30.
- The \$28,000 insurance policy was purchased on March 1, 2024.
- The computers were purchased years ago for 214,000. At the time of purchase, the estimated life of the computers was 10 years with no estimated residual value.
- The \$30,000 note payable was issued on February 1, 2024 and accrues interest at a 10% annual rate. The note is expected to be repaid in late-2024.
- On May 1, 2024 the company entered into a 3-month contract to provide security for a major corporation, the corporation paid \$15,000 for their 3-month contract on May 1, and that amount was correctly recorded as unearned revenue. On June 30, Netlock had fulfilled the first 2 months of the contract.
- The company had three employees who were owed for two days of salaries at year end. Each employee earns \$250 per day.
- On June 1, 2024, the company entered into an agreement to provide service for a new client at a rate of \$4,000 per month. At the end of June, the client had received their first month of service but had not yet been billed.

Required:

- As necessary, record adjusting journal entries based on items a.) through g.) above.
- Using your adjusting journal entries, complete the adjusted trial balance.
- Based on the adjusted trial balance, prepare an income statement, statement of changes in equity and a balance sheet. Assume no common shares were issued during the year.
- Prepare closing entries for the company.

3-3B – Adjusting Entries, the Adjusted Trial Balance Worksheet, Financial Statements, Closing Entries (and the kitchen sink.)

Below is the September 30, 2024 unadjusted trial balance of CleanPanes Window Washers:

	Unadjusted TB		Adjustments		Adjusted TB	
	DR	CR	DR	CR	DR	CR
Cash	\$1,600					
Accounts receivable	750					
Supplies	400					
Prepaid insurance	1,600					
Prepaid rent	800					
Equipment	20,000					
A.D. – Equipment		\$2,000				
Accounts payable		900				
Wages payable						
Interest payable						
Unearned washing revenue		600				
Note payable		4,000				
Common shares		1,000				
Retained earnings		2,550				
Dividends	1,000					
Washing revenue		<u>38,000</u>				
Wages expense	12,000					
Interest expense						
Depreciation expense						
Supplies expense						
Maintenance expense	100					
Insurance expense						
Rent expense	8,800					
Income tax expense	<u>2,000</u>					
Total	<u>\$49,050</u>	<u>\$49,050</u>				

The company's fiscal year end is September 30, and the following items require adjustment:

- a.) A count of supplies reveals \$50 were on hand on September 30.
- b.) The \$1,600 insurance policy was purchased on February 1, 2024.
- c.) The equipment was purchased last year. At the time of purchase, the estimated life of the equipment was 10 years with no estimated residual value.
- d.) The \$4,000 note payable was issued on July 1, 2024 and accrues interest at a 7% annual rate. The note is expected to be repaid in January of 2025.
- e.) On September 1, 2024 the company entered into a 6-month contract to provide window washing for a local restaurant. The restaurant paid \$600 in advance for the service. CleanPanes has washed the restaurant's windows properly up to September 30.
- f.) The company had an employee who had unpaid wages of \$100 on September 30.
- g.) As of September 30, the company had completed, but not yet billed \$250 worth of work.
- h.) The prepaid rent was for the months of August and September. It has all expired.

Required:

- a.) As necessary, record adjusting journal entries based on items a.) through g.) above.
- b.) Using your adjusting journal entries, complete the adjusted trial balance.
- c.) Based on the adjusted trial balance, prepare an income statement, statement of changes in equity and a balance sheet. Assume no common shares were issued during the year.
- d.) Prepare closing entries for the company.

3-4A – Closing Entries

Below is XYZ Consulting Inc.'s adjusted trial balance on its fiscal year end: December 31, 2024.

	Adjusted TB	
	DR	CR
Cash	\$125,000	
Accounts receivable	22,000	
Supplies	15,000	
Prepaid rent	8,000	
Equipment	225,000	
Accumulated depreciation - equipment		\$52,000
Accounts payable		9,000
Salaries payable		1,000
Unearned consulting revenue		10,000
Notes payable		85,000
Common shares		4,000
Retained earnings		184,000
Dividends	2,000	
Consulting revenue		<u>350,000</u>
Wages expense	140,000	
Interest expense	4,000	
Depreciation expense	9,000	
Repairs expense	12,000	
Insurance expense	26,000	
Rent expense	96,000	
Income tax expense	<u>12,000</u>	
Total	<u>\$696,000</u>	<u>\$696,000</u>

Required:

Based on the adjusted trial balance above, prepare the necessary closing entry/entries.

3-4B – Closing Entries

Below is ABC Consulting Inc.'s adjusted trial balance on its fiscal year end: December 31, 2024.

	Adjusted TB	
	DR	CR
Cash	\$3,000	
Accounts receivable	500	
Supplies	1,000	
Prepaid insurance	200	
Buildings	125,000	
Accumulated depreciation - buildings		\$32,000
Accounts payable		100
Wages payable		300
Interest payable		600
Unearned consulting revenue		1,200
Mortgage payable		65,000
Common shares		200
Retained earnings		14,200
Dividends	1,200	
Consulting revenue		<u>85,000</u>
Wages expense	50,000	
Interest expense	3,500	
Depreciation expense	4,000	
Maintenance expense	1,000	
Insurance expense	1,400	
Rent expense	2,800	
Income tax expense	<u>5,000</u>	
Total	<u>\$198,600</u>	<u>\$198,600</u>

Required:

Based on the adjusted trial balance above, prepare the necessary closing entry/entries.

Module 4: Cash

4-1A – Bank Reconciliation

ZipFlyer Inc.'s cash T-Account for May shows the following information:

Cash					
<u>Date</u>	<u>Comments</u>	<u>Amount</u>	<u>Date</u>	<u>Comments</u>	<u>Amount</u>
May 1	Opening balance	\$13,846	May 1	Cheque #75	\$550
May 1	Deposit	1,550	May 3	Cheque #76	875
May 3	Deposit	2,700	May 4	Cheque #77	1,256
May 15	Deposit	4,950	May 7	Cheque #78	3,684
May 21	Deposit	2,600	May 10	Cheque #79	1,100
May 31	Deposit	3,000	May 13	Cheque #80	486
			May 17	Cheque #81	548
			May 21	Cheque #82	3,058
			May 25	Cheque #83	1,244
			May 28	Cheque #84	983
			May 29	Cheque #85	68
			May 31	Cheque #86	175
May 31	Ending Balance	\$14,619			

The following comes from the company's April 2024 Bank Statement:

<u>Date</u>	<u>Description</u>	<u>Withdrawals</u>	<u>Deposits</u>	<u>Balance</u>
April 30	Balance Forward			\$13,846
May 2	Deposit		1,550	15,396
May 3	Cheque #75	550		14,846
May 4	Deposit		2,700	17,546
May 6	Cheque #77	1,256		16,290
May 7	NSF Cheque – W. White	600		15,690
May 8	Cheque #76	875		14,815
May 10	Cheque #78	3,684		11,131
May 11	Bank Collection		4,300	15,431
May 13	Cheque #79	1,100		14,331
May 14	EFT – Utilities bill	300		14,031
May 15	Deposit		4,950	18,981
May 18	Cheque #80	468		18,513
May 21	Deposit		2,600	21,113
May 24	EFT - Telephone	100		21,013
May 25	Cheque #82	3,058		17,955
May 27	Cheque #83	1,244		16,711
May 31	Bank plan fee	5		16,706
May 31	Interest		1	16,707

Additional Information:

A – The correct amount of cheque #80 – a payment of an account payable is \$468. ZipFlyer's bookkeeper made an error.

B – The bank collection was a note receivable. The note included principal of \$4,000 and interest of \$300. No previous interest accruals had been made on the note.

Required

- Prepare a bank reconciliation dated May 31, 2024.
- Record any required adjustments based on your reconciliation.

4-1B – Bank Reconciliation

Biggie Burger’s cash T-Account for July shows the following information:

Cash					
<u>Date</u>	<u>Comments</u>	<u>Amount</u>	<u>Date</u>	<u>Comments</u>	<u>Amount</u>
July 1	Opening balance	\$6,843	July 1	Cheque #143	\$550
July 1	Deposit	2,200	July 3	Cheque #144	1,225
July 3	Deposit	500	July 4	Cheque #145	300
July 15	Deposit	1,800	July 7	Cheque #146	1,350
July 21	Deposit	800	July 10	Cheque #147	62
July 25	Deposit	400	July 13	Cheque #148	1,640
July 31	Deposit	1,600	July 17	Cheque #149	543
			July 21	Cheque #150	2,400
			July 25	Cheque #151	300
			July 28	Cheque #152	450
			July 29	Cheque #153	560
			July 31	Cheque #154	400
July 31	Ending Balance	\$4,363			

The following comes from the company’s April 2024 Bank Statement:

<u>Date</u>	<u>Description</u>	<u>Withdrawals</u>	<u>Deposits</u>	<u>Balance</u>
July 1	Balance forward			\$6,843
July 2	Deposit		2,200	9,043
July 3	Cheque #143	550		8,493
July 3	Deposit		500	8,993
July 4	EFT - Maintenance	150		8,843
July 5	Cheque #144	1,252		7,591
July 7	Cheque #145	300		7,291
July 9	Bank Collection		600	7,891
July 12	Cheque #147	62		7,829
July 14	NSF Cheque – J. Carver	500		7,329
July 16	Deposit		1,800	9,129
July 17	Cheque #148	1,640		7,489
July 21	Deposit		800	8,289
July 23	Cheque #150	2,400		5,889
July 24	Cheque #149	543		5,346
July 25	Deposit		400	5,746
July 28	Cheque #151	300		5,446
July 31	Bank plan fee	10		5,436
July 31	Interest		2	5,438

Additional Information:

A – The correct amount of cheque #144 – a payment of an account payable is \$1,252. Biggie Burger’s bookkeeper made an error.

B – The bank collection was a note receivable. The note included principal of \$500 and interest of \$100. No previous interest accruals had been made on the note.

Required

- Prepare a bank reconciliation dated July 31, 2024.
- Record any required adjustments based on your reconciliation.

4-2A – Bank Reconciliation (Clearing Prior Month Items)

Dentalworks Inc.'s bank reconciliation dated February 28, 2024 is shown below.

Dentalworks Inc. Bank Reconciliation February 28	
Ending Balance per bank:	\$24,500
Add: Deposits in transit	1,800
Deduct: Outstanding cheques	
Cheque #2895	\$500
Cheque #2897	300
Cheque #2898	<u>1,300</u>
	<u>(2,100)</u>
Reconciling Balance	<u>\$24,200</u>

The company's cash T-Account for March shows the following information:

Cash					
Date	Comments	Amount	Date	Comments	Amount
March 1	Opening balance	24,200	March 2	Cheque #2899	600
March 6	Deposit	1,500	March 3	Cheque #2900	750
March 11	Deposit	800	March 5	Cheque #2901	885
March 30	Deposit	2,700	March 8	Cheque #2902	2,600
March 31	Deposit	1,250	March 11	Cheque #2903	1,100
			March 16	Cheque #2904	50
			March 18	Cheque #2905	850
			March 21	Cheque #2906	1,900
			March 24	Cheque #2907	225
			March 30	Cheque #2908	900
			March 31	Cheque #2909	1,500
		19,090			

The following comes from the company's March 2024 Bank Statement:

Date	Description	Withdrawals	Deposits	Balance
March 1	Balance Forward			24,500
March 2	Deposit		1,800	26,300
March 4	Cheque #2899	600		25,700
March 5	Cheque #2898	1,300		24,400
March 6	EFT - Maintenance	105		24,295
March 7	Cheque #2900	750		23,545
March 7	Deposit		1,500	25,045
March 8	Bank Collection		840	25,885
March 10	Cheque #2897	300		25,585
March 11	Cheque #2902	2,600		22,985
March 13	Cheque #2903	1,100		21,885
March 13	Deposit		800	22,685
March 21	Cheque #2905	850		21,835
March 23	Cheque #2901	858		20,977
March 25	Cheque #2907	225		20,752
March 31	EFT - Rent (April)	1,300		19,452
March 31	Bank plan fee	15		19,437
March 31	Interest		1	19,438

Additional Information:

A – The correct amount of cheque #2901 – a payment of an account payable is \$858. The company's bookkeeper made an error.

B – The bank collection was a note receivable. The note included principal of \$800 and interest of \$40. No previous interest accruals had been made on the note.

Required

- Prepare a bank reconciliation dated March 31, 2024.
- Record any required adjustments based on your reconciliation.

4-2B – Bank Reconciliation (Clearing Prior Month Items)

CompuStore Inc.'s bank reconciliation dated August 31, 2024 is shown below.

CompuStore Inc. Bank Reconciliation August 31	
Ending Balance per bank:	\$32,800
Add: Deposits in transit	1,500
Deduct: Outstanding cheques	
Cheque #824	\$700
Cheque #825	1,100
Cheque #826	<u>1,000</u>
	<u>(2,800)</u>
Reconciling Balance	<u>\$31,500</u>

The company's cash T-Account for September shows the following information:

Cash					
Date	Comments	Amount	Date	Comments	Amount
Sept 1	Opening balance	31,500	Sept 1	Cheque #827	450
Sept 5	Deposit	3,000	Sept 3	Cheque #828	4,800
Sept 21	Deposit	2,500	Sept 10	Cheque #829	325
Sept 26	Deposit	6,000	Sept 12	Cheque #830	1,520
Sept 30	Deposit	4,500	Sept 15	Cheque #831	1,300
			Sept 19	Cheque #832	700
			Sept 21	Cheque #833	7,600
			Sept 22	Cheque #834	1,950
			Sept 25	Cheque #835	50
			Sept 28	Cheque #836	735
			Sept 29	Cheque #837	805
		27,265			

The following comes from the company's September 2024 Bank Statement:

Date	Description	Withdrawals	Deposits	Balance
Sept 1	Balance forward			\$32,800
Sept 1	Cheque #824	700		32,100
Sept 2	Cheque #825	1,100		31,000
Sept 2	NSF Cheque – J. Staples	500		30,500
Sept 2	Deposit		1,500	32,000
Sept 4	Cheque #827	450		31,550
Sept 6	Deposit		3,000	34,550
Sept 8	Cheque #828	4,800		29,750
Sept 10	EFT - Utilities	150		29,600
Sept 16	Cheque #830	1,520		28,080
Sept 18	Cheque #829	352		27,728
Sept 21	Deposit		2,500	30,228
Sept 23	Bank collection		2,200	32,428
Sept 24	Cheque #832	700		31,728
Sept 27	Deposit		6,000	37,728
Sept 28	Cheque #834	1,950		35,778
Sept 30	Cheque #835	50		35,728
Sept 30	Bank plan fee	25		35,703
Sept 30	Interest		3	35,706

Additional Information:

- A – The correct amount of cheque #829 – a payment of an account payable is \$325. The bank made an error.
 B – The bank collection was a note receivable. The note included principal of \$2,000 and interest of \$200. No previous interest accruals had been made on the note.

Required

- Prepare a bank reconciliation dated September 30, 2024.
- Record any required adjustments based on your reconciliation.

Module 5: Receivables

5-1A –Note receivable

On July 31, 2024, Lender Co. loaned \$56,000 to B. Smith who signed a one-year 7% note. Lender Co. has a November 30 fiscal year end.

Required:

Assuming the note is paid back in full on July 31, 2025, record all journal entries and adjustments relevant to the note (from Lender Co's perspective.)

5-1B –Note receivable

On April 30, 2024, Bell Co. loaned \$7,000 to Y. Chang who signed a one-year 4% note. Bell Co. has a June 30 fiscal year end.

Required:

Assuming the note is paid back in full on April 30, 2025, record all journal entries and adjustments relevant to the note (from Bell Co's perspective.)

5-2A –Notes receivable

Smith Company has the following transactions involving notes receivable:

- January 1 Provided consulting services for D. Becker. Becker was unable to pay cash, but signed a note for \$9,000 bearing 5% annual interest.
- March 1 Loaned \$15,000 to A. Owusu. Owusu signed a one-year 10% note.
- July 31 Becker repaid the note from January 1.
- September 30 Loaned \$20,000 to W. Branchflower. Branchflower signed a 6-month 7% note.
- December 31 Accrued interest on all outstanding notes payable at year-end.

Required:

Record all entries and adjustments based on the information above.

5-2B –Notes receivable

Jones Company has the following transactions involving notes receivable:

- May 31 Loaned \$6,000 to Y. Yang. She signed a 5% note.
- June 15 Yang repaid her loan.
- August 1 Loaned \$3,000 to A. Fergus. He signed a one-year 6% note.
- November 15 Completed maintenance work for Redflag Construction. The company could not pay and signed a one-year 8% note for \$10,000.
- January 31 Accrued interest on all outstanding notes payable at year-end. Interest is rounded to the nearest ½ month.

Required:

Record all entries and adjustments based on the information above.

5-3A –Percentage of Sales Method

Salazar Inc. shows the following information on May 31, 2024, the company's fiscal year-end:

Account	Debit	Credit
Accounts receivable	\$235,000	
Allowance for doubtful accounts	2,000	
Sales (\$448,000 cash sales)		\$1,850,000

The company's accountant estimates bad debts to be 2% of credit sales.

Required:

- a.) Prepare the adjustment to allowance for doubtful accounts based on the information above.
- b.) Show how accounts receivable, net would be disclosed on the balance sheet.

5-3B –Percentage of Sales Method

Nethery Co. shows the following account balances on October 31, 2024, its fiscal year-end.

Account	Debit	Credit
Accounts receivable	\$41,000	
Allowance for doubtful accounts		\$300
Sales (\$60,000 cash sales)		430,000

The company's accountant estimates bad debts to be 3.5% of credit sales.

Required:

- a.) Prepare the adjustment to allowance for doubtful accounts based on the information above.
- b.) Show how accounts receivable, net would be disclosed on the balance sheet.

5-4A – Aging of Receivables Method

Stormer Company shows the following information on July 31, 2024, the company's fiscal year-end:

Account	Debit	Credit
Accounts receivable	\$5,000	
Allowance for doubtful accounts	500	
Sales (\$5,000 cash sales)		\$75,000

The company's accountant generated the following aging schedule of accounts receivable:

Number of Days Outstanding	Amount Receivable	Estimated Uncollectible
0-30 days	\$3,000	1%
31-60 days	1,000	5%
61-90 days	600	10%
Over 90 days	400	40%

Required:

- a.) Prepare the adjustment to allowance for doubtful accounts based on the information above.
- b.) Show how accounts receivable, net would be disclosed on the balance sheet.

5-4B – Aging of Receivables Method

Kilt Company shows the following information on January 31, 2024, the company's fiscal year-end:

Account	Debit	Credit
Accounts receivable	\$68,000	
Allowance for doubtful accounts		\$1,000
Sales (\$55,000 cash sales)		\$981,000

The company's accountant generated the following aging schedule of accounts receivable:

Number of Days Outstanding	Amount Receivable	Estimated Uncollectible
0-30 days	\$42,000	1%
31-60 days	15,000	4%
61-90 days	6,000	8%
Over 90 days	5,000	25%

Required:

- a.) Prepare the adjustment to allowance for doubtful accounts based on the information above.
- b.) Show how accounts receivable, net would be disclosed on the balance sheet.

5-5A – Writing off bad debts

On August 11, 2024, Aamco Carpet Cleaners wants to write off a \$4,000 account receivable from a customer: Good Sleep Hotels.

Required

Record the journal entry to write off this receivable.

5-5B – Writing off bad debts

On July 21, 2024, ABC Company wishes to write off a \$200 receivable from XYZ Company.

Required

Record the journal entry to write off this receivable.

5-6A – Recording receivables transactions

On November 1, 2024, Recchi Company showed the following account balances:

Account	Debit	Credit
Accounts receivable	\$35,000	
Allowance for doubtful accounts		\$2,000

During the next fiscal year, the following events occurred:

- a.) Consulting revenues for the year were \$425,000. 95% were on account, 5% were cash sales.
- b.) Collections for the year were \$375,000.
- c.) \$5,000 was added to the total accounts receivable due to interest on overdue accounts.
- d.) Writeoffs of uncollectible accounts totaled \$3,500.
- e.) One of the accounts written off in part d.) was collected: \$750.
- f.) On October 31, 2025 (the company's fiscal-year end), using the aging-of-receivables method, the allowance for doubtful accounts was estimated to be \$3,500.

Required:

- a.) Record journal entries based on the summary events above.
- b.) Show how net receivables will be presented on the October 31, 2025 balance sheet.

5-6B – Recording receivables transactions

On January 1, 2024, Brown Company showed the following account balances:

Account	Debit	Credit
Accounts receivable	\$634,000	
Allowance for doubtful accounts		\$28,000

During the next fiscal year, the following events occurred:

- a.) Repair revenues for the year were \$5,850,000. 75% were on account, 25% were cash sales.
- b.) Collections for the year were \$4,705,000.
- c.) \$35,000 was added to the total accounts receivable due to interest on overdue accounts.
- d.) Writeoffs of uncollectible accounts totaled \$27,000.
- e.) One of the accounts written off in part d.) was collected: \$2,250.
- f.) On December 31, 2024 (the company's fiscal-year end), using the aging-of-receivables method, the allowance for doubtful accounts was estimated to be \$33,000.

Required:

- a.) Record journal entries based on the summary events above.
- b.) Show how net receivables will be presented on the December 31, 2024 balance sheet.

Module 6: Inventory Purchases, Sales, Returns and Discounts

6-1A –Inventory Purchases and Returns

The following transactions occurred for Bellco:

May 7 Purchased \$1,000 of inventory on account. Terms 2/10, n/30.
May 10 Some of the goods were damaged. Received a credit memo of \$250.
May 14 Paid the bill.

Bellco uses a perpetual inventory system.

Required:

Prepare journal entries based on the transactions above.

6-1B –Inventory Purchases and Returns

The following transactions occurred for Chang Inc:

August 28 Purchased \$5,000 of inventory on account. Terms 3/15, n/30.
September 3 Returned \$400 of merchandise (not satisfied with the quality).
September 10 Paid the bill.

Chang Inc. uses a perpetual inventory system.

Required:

Prepare journal entries based on the transactions above.

6-2A –Inventory Sales and Returns

The following transactions occurred for Smithco – a plumbing retailer:

- January 6 Sold \$3,000 of inventory on account. The inventory cost \$1,200. Terms 2/10, n/30.
- January 11 Inventory was returned (it was not broken or damaged, just the wrong item.) A \$100 credit was applied to the customer’s account. The returned inventory had a cost of \$40.
- January 15 Received payment for the amount owing.

Smithco uses a perpetual inventory system.

Required:

Prepare journal entries based on the transactions above.

6-2B –Inventory Sales and Returns

The following transactions occurred for Bob Company:

- July 14 Sold \$1,000 of inventory on account. The inventory cost \$700. Terms 3/10, n/30.
- July 19 Inventory was returned broken. The inventory could not be repaired, and the customer did not want a replacement. The inventory was discarded. A credit of \$200 was applied to their account. The original cost of the inventory was \$120.
- July 21 Received payment for the amount owing.

Bob Company uses a perpetual inventory system.

Required:

Prepare journal entries based on the transactions above.

6-3A –Inventory Purchases, Sales, Returns and More!

The following transactions occurred for Romney Inc.:

- February 1 Purchased inventory on account: \$3,400. Terms: 2/10, n/30.
- February 2 Paid freight on inventory of \$200. (Paid cash).
- February 5 Returned \$400 of inventory from the February 1 purchase.
- February 9 Paid for the inventory purchase of February 1.
- February 11 Sold inventory for \$3,500 on account. The inventory cost \$1,600. Terms 2/10, n/30.
- February 14 Purchased inventory on account: \$2,500. Terms: 1/15, n/30.
- February 19 Sold inventory for \$1,500 on account. The cost of inventory was \$600. Terms 2/10, n/30.
- February 21 Paid for inventory purchase from February 14.
- February 24 Customer from February 11 transaction paid the amount owing.
- February 25 Customer from the February 19 transaction returns \$100 of inventory (cost: \$40). The inventory was in good condition and put back on the shelf for resale.
- February 28 Customer from the February 19 sale pays the amount owing.

Romney Inc. uses a perpetual inventory system.

Required:

Prepare journal entries based on the transactions above.

6-3B –Inventory Purchases, Sales, Returns and More!

The following transactions occurred for Perry Inc.:

- March 1 Sold inventory on account for \$1,500. The inventory cost \$800. Terms 2/10, n/30.
- March 3 Purchased inventory on account: \$2,800. Terms: 2/10, n/30.
- March 5 Inventory was returned from the March 1 sale. The inventory was badly damaged and was thrown out. A credit of \$200 was given. The inventory had an original cost of \$110.
- March 9 Received payment for the inventory sold on March 1.
- March 16 Purchased inventory on account: \$500. Terms: 1/5, n/15.
- March 18 Paid freight on March 16 inventory purchase: \$50.
- March 22 Sold inventory for \$3,000 on account. The cost of inventory was \$1,100. Terms 2/10, n/30.
- March 24 Paid for inventory purchase from March 16.
- March 31 Customer from the March 22 sale paid the amount owing.

Perry Inc. uses a perpetual inventory system.

Required:

Prepare journal entries based on the transactions above.

6-4A – Preparing a Merchandiser’s Financial Statements

Below is the adjusted trial balance of Julie’s Plumbing Supplies:

Julie’s Plumbing Supplies		
Trial Balance		
31-Mar-24		
	<u>Debit</u>	<u>Credit</u>
Cash	\$24,000	
Accounts receivable	18,000	
Allowance for doubtful accounts		\$3,000
Inventory	54,000	
Prepaid insurance	6,000	
Equipment	125,000	
Accumulated depreciation - equipment		20,000
Accounts payable		15,000
Wages payable		7,000
Unearned revenues		5,000
Bank loan payable		84,000
Common shares		1,000
Retained earnings		41,000
Dividends	6,000	
Sales revenues		<u>365,000</u>
Sales returns and allowances	25,000	
Cost of goods sold	150,000	
Wages expense	55,000	
Bad debt expense	5,000	
Advertising expense	12,000	
Utilities expense	2,000	
Depreciation expense	6,000	
Rent expense	15,000	
Insurance expense	10,000	
Interest expense	7,000	
Income tax expense	<u>21,000</u>	
Total	<u>\$541,000</u>	<u>\$541,000</u>

Required:

- a.) In good form, prepare an income statement for the year ended March 31, 2024.
 - i. Compute the Gross Profit Percentage
- b.) Assuming no shares were issued or repurchased, prepare a statement of changes in equity for the year ended March 31, 2024.
- c.) Prepare a balance sheet dated March 31, 2024.

6-4B – Preparing a Merchandiser’s Financial Statements

Below is the adjusted trial balance of Fred’s Fishing Gear:

Fred’s Fishing Gear Trial Balance August 31, 2024		
	<u>Debit</u>	<u>Credit</u>
Cash	\$85,000	
Accounts receivable	128,000	
Allowance for doubtful accounts		\$14,000
Inventory	436,000	
Prepaid rent	12,000	
Office equipment	260,000	
Accumulated depreciation - equipment		45,000
Accounts payable		35,000
Salaries payable		12,000
Unearned revenues		53,000
Long-term note payable		185,000
Common shares		5,000
Retained earnings		431,000
Dividends	12,000	
Sales revenues		<u>853,000</u>
Sales returns and allowances	20,000	
Cost of goods sold	360,000	
Salaries expense	125,000	
Bad debt expense	25,000	
Marketing expense	35,000	
Utilities expense	12,000	
Depreciation expense	15,000	
Rent expense	28,000	
Repairs expense	11,000	
Interest expense	18,000	
Income tax expense	<u>51,000</u>	
Total	<u>\$1,633,000</u>	<u>\$1,633,000</u>

Required:

- a.) In good form, prepare an income statement for the year ended August 31, 2024.
 - i. Compute the Gross Profit Percentage
- b.) Assuming no shares were issued or repurchased, prepare a statement of changes in equity for the year ended August 31, 2024.
- c.) Prepare a balance sheet dated August 31, 2024.

Module 7: Cost of Inventory (FIFO, LIFO, Weighted Average, and Specific Identification)

7-1A – FIFO, LIFO and Weighted Average Inventory Records

Lakeshore Ltd. uses a perpetual inventory system and reports the following transactions for the month of January:

Date	Explanation	Units	Cost/Price
January 1	Beginning inventory	200	\$25.00
January 5	Purchase	50	24.00
January 8	Purchase	110	23.00
January 15	Sale	260	50.00
January 21	Purchase	150	20.00
January 30	Sale	175	50.00

Required:

- a.) Prepare inventory records using:
 - i. The FIFO method
 - ii. The LIFO method
 - iii. The weighted average method
- b.) Under each of the methods you prepared in part a.) above, compute Sales, Cost of Goods Sold and Gross Profit.

NOTE: Download the template from <http://accountingworkbook.com>

7-1B – FIFO, LIFO and Weighted Average Inventory Records

Riverside Inc. uses a perpetual inventory system and reports the following transactions for the month of July:

Date	Explanation	Units	Cost/Price
July 1	Beginning inventory	12	\$100.00
July 4	Purchase	8	103.00
July 9	Purchase	5	104.00
July 17	Sale	23	400.00
July 21	Purchase	6	107.00
July 31	Sale	7	400.00

Required:

- a.) Prepare inventory records using:
 - i. The FIFO method
 - ii. The LIFO method
 - iii. The weighted average method
- b.) Under each of the methods you prepared in part a.) above, compute Sales, Cost of Goods Sold and Gross Profit.

NOTE: Download the template from <http://accountingworkbook.com>

7-2A – FIFO, LIFO and Weighted Average Inventory Records and Entries

Aberdeen Auto Mart uses a perpetual inventory system and reports the following transactions for the month of May for one of its products:

Date	Explanation	Units	Cost/Price
May 1	Beginning inventory	20	\$3.00
May 5	Purchase	5	3.25
May 13	Sale	22	10.00
May 20	Purchase	7	3.55
May 24	Purchase	5	3.70
May 31	Sale	13	10.00

Required:

- a.) Prepare inventory records using:
 - i. The FIFO method
 - ii. The LIFO method
 - iii. The weighted average method
- b.) Under each of the methods you prepared in part a.) above, compute Sales, Cost of Goods Sold and Gross Profit.
- c.) Prepare journal entries for May 24 and May 31 under all methods.

NOTE: Download the template from <http://accountingworkbook.com>

7-2B – FIFO, LIFO and Weighted Average Inventory Records and Entries

Northhills Super Save uses a perpetual inventory system and reports the following transactions for the month of December for one of its products:

Date	Explanation	Units	Cost/Price
December 1	Beginning inventory	6	\$40.00
December 6	Purchase	4	42.00
December 11	Sale	7	100.00
December 24	Purchase	12	43.40
December 26	Purchase	5	44.00
December 31	Sale	10	100.00

Required:

- a.) Prepare inventory records using:
 - i. The FIFO method
 - ii. The LIFO method
 - iii. The weighted average method
- b.) Under each of the methods you prepared in part a.) above, compute Sales, Cost of Goods Sold and Gross Profit.
- c.) Prepare journal entries for December 26 and December 31 under all methods.

NOTE: Download the template from <http://accountingworkbook.com>

7-3A – Lower of Cost and Net Realizable Value

On May 3, 2024, Smith Computing (a computer retailer) purchases a tablet computer for \$300, and immediately puts the tablet on sale for \$449. The tablet received poor reviews in the press, and it does not sell. On July 1, Smith Computing discounts the tablet to \$399. It still doesn't sell. On August 15, the tablet gets further discounted to \$349, but doesn't sell. On December 26 (Boxing Day) the tablet gets discounted to \$269. The tablet sells on January 8, 2025 for its discounted price of \$269.

The company's fiscal year end is December 31.

Required

Explain the lower of cost and net realizable value rule and record any necessary year-end adjusting entries.

7-3B – Lower of Cost and Net Realizable Value

On June 1, 2024, Bill's Ski World buys a new pair of Cambria Carbon Pro skis for \$600 and puts them on sale for \$999. The skis do not sell, and see price reductions as follows:

August 18 - \$900

September 30 - \$750

November 15 - \$700

December 26 - \$550

The company's fiscal year end is December 31.

The skis finally sell on April 6, 2025 for \$550.

Required

Record all entries required for the life of the skis.

7-4A – Inventory Ratios

The following information relates to Orange Computer (in millions of dollars):

	2028	2027	2026
Cost of goods sold	\$112,000	\$105,000	\$90,000
Inventory	2,000	1,800	800

Required:

- a.) Compute inventory turnover for 2027 and 2028
- b.) Compute days sales in inventory for 2027 and 2028
- c.) Comment on the results from parts a.) and b.)

7-4B – Inventory Ratios

The following information relates to Home DIY Stores (in millions of dollars):

	2028	2027	2026
Cost of goods sold	\$54,000	\$51,000	\$49,000
Inventory	11,000	11,100	11,700

Required:

- a.) Compute inventory turnover for 2027 and 2028
- b.) Compute days sales in inventory for 2027 and 2028
- c.) Comment on the results from parts a.) and b.)

Module 8: Property, Plant and Equipment

8-1A – Asset Cost

Frugal Bakery purchased a large oven on October 31, 2024. Costs related to the acquisition included the following:

- a.) purchase price of the oven: \$32,000;
- b.) the cost of delivery: \$2,000;
- c.) insurance on the delivery: \$200;
- d.) insurance on the oven for the year: \$750;
- e.) staff safety training to use the oven properly: \$1,000
- f.) installation: \$1,500;
- g.) damage to the walls during installation that required repair: \$400

The company paid cash for the oven and all of the related costs.

Required:

The credit for each of the items above should be cash. In each case identify the account to be debited

8-1B – Asset Cost

Island Glass makes specialty doors and windows. On July 17, 2024, the company purchased a new piece of equipment with the following costs:

- a.) purchase price of the equipment: \$2,500;
- b.) delivery: \$500;
- c.) sales tax (refundable) \$300;
- d.) insurance on delivery: \$50;
- e.) installation: \$300;
- f.) repair of machine damaged during installation: \$1,000;
- g.) employee training: \$800.

The company paid cash for the equipment and all of the related costs.

Required:

The credit for each of the items above should be cash. In each case identify the account to be debited

8-2A – Depreciation – Partial Year, All Methods

On March 31, 2024, Kemp Co. purchased a new vehicle for \$25,000. The vehicle had an expected useful life of five years, and an expected residual value of \$5,000. The company expected that in those five years, the vehicle would be driven for 100,000 kilometers based on the following schedule:

2024 – 10,000 kilometers
2025 – 20,000 kilometers
2026 – 25,000 kilometers
2027 – 22,000 kilometers
2028 – 18,000 kilometers
2029 – 5,000 kilometers

Required:

Assuming a December 31 fiscal year-end, prepare a depreciation schedule for the life of the asset using:

- a.) Straight-line depreciation
- b.) Units-of-production depreciation
- c.) Double-declining-balance depreciation

8-2B – Depreciation – Partial Year, All Methods

On July 1, 2024, Payton Inc. purchased a new piece of equipment for \$500,000. The equipment had an expected useful life of four years, and an expected residual value of \$100,000. The company expected that in those four years, the machine would produce 40,000 units based on the following schedule:

2024 – 3,000 units
2025 – 11,000 units
2026 – 12,000 units
2027 – 10,000 units
2028 – 4,000 units

Required:

Assuming a December 31 fiscal year-end, prepare a depreciation schedule for the life of the asset using:

- a.) Straight-line depreciation
- b.) Units-of-production depreciation
- c.) Double-declining-balance depreciation

8-3A – Disposing of Depreciable Assets at a Gain or Loss

Bill's Towing purchased a new tow truck on April 1, 2024 for \$110,000 cash. The company expects to keep the tow truck for 10 years, after which time it plans to sell the truck for \$10,000. The company's accountant wishes to use straight-line depreciation. Bill's Towing has a fiscal year end of December 31. On October 1, 2025, Bill sells the truck for \$106,000 cash.

Required:

- a.) Record all relevant entries for the truck.
- b.) Assume that instead of \$106,000, Bill had received \$75,000 for the truck – re-record the sale journal entry given this new sale price.

8-3B – Disposing of Depreciable Assets at a Gain or Loss

Gaby's Family Restaurant purchases a new stove on July 1, 2024. The company pays \$8,000 cash. Gaby expects the stove to be useful for 5 years after which time she expects to sell it for \$2,000. The company has a December 31 fiscal-year end and would like to use straight-line depreciation. On October 31, 2025, Gaby sells the stove for \$7,600 cash.

Required:

- a.) Record all relevant journal entries for the life of the stove.
- b.) Assume that instead of \$7,600, Gaby sold the stove for \$3,000. Re-record the sale journal entry given this new sale price.

8-4A – Disposing of Depreciable Assets at a Gain or Loss – various depreciation methods

On July 1, 2024, Table Co. purchased a new piece of equipment for \$150,000. The equipment had an expected useful life of five years, and an expected residual value of \$30,000. The company expected that in those five years, the machine would operate for 2,000 hours.

The company has a fiscal year end of December 31.

On September 30, 2026, the company sells the equipment for \$100,000.

The machine actually operated for the following hours:

2024 – 200 hours

2025 – 500 hours

2026 – 400 hours

Required:

Fill in the following table:

	Straight Line	Units of Production	Double D. Balance
2024 Depreciation exp			
2025 Depreciation exp			
2026 Depreciation exp			
Accumulated Dep'n on Date of Sale			
Gain/Loss on Sale			

8-4B – Disposing of Depreciable Assets at a Gain or Loss – various depreciation methods

On April 1, 2024, Stool Co. purchased a new vehicle for \$45,000. The vehicle had an expected useful life of six years, and an expected residual value of \$9,000. The company expected that in those six years, the vehicle would be driven for 150,000 kilometers.

The company has a fiscal year end of December 31.

On July 1, 2026, the company sells the vehicle for \$28,000.

The vehicle was actually driven for the following kilometers each year:

2024 – 10,000 kilometers

2025 – 20,000 kilometers

2026 – 15,000 kilometers

Required:

Fill in the following table:

	Straight Line	Units of Production	Double D. Balance
2024 Depreciation exp			
2025 Depreciation exp			
2026 Depreciation exp			
Accumulated Dep'n on Date of sale			
Gain/Loss on Sale			

Module 9: Liabilities

9-1A – Short-Term Note Payable

On September 1, 2024, Taylor Inc. borrowed \$30,000 and signed a note promising to pay back the principal plus 6% (annual) interest after nine months. The company's fiscal-year end is January 31.

Required:

Assuming the company makes the repayment as agreed, record all journal entries and adjustments required for the note.

9-1B – Short-Term Note Payable

On May 31, 2024, Anderson Co. borrowed \$100,000 and signed a note promising to pay back the principal plus 2.4% (annual) interest after eight months. The company's fiscal-year end is November 30.

Required:

Assuming the company makes the repayment as agreed, record all journal entries and adjustments required for the note.

9-2A – Warranties

Long Corporation sells computer systems for \$2,000 each. During 2024 the company sells 200 systems to customers. The company provides a 1-year manufacturer's warranty. The company has estimated that it will experience warranty claims of approximately \$100 per unit.

Required:

- a.) Record the year-end adjustment for warranties needed on December 31, 2024.
- b.) On January 15, 2025 a warranty claim comes in costing the company \$500 cash. Record the adjustment required for this situation.
- c.) What is a contingent liability? Does a warranty fit this definition?

9-2B – Warranties

Short Corporation sells air conditioning units for \$1,000 each. During 2024 the company sells 100 systems to customers. The company provides a 1-year manufacturer's warranty. The company has estimated that it will experience warranty claims of approximately \$100 per unit.

Required:

- a.) Record the year-end adjustment for warranties needed on December 31, 2024.
- b.) On January 25, 2025 a warranty claim comes in costing the company \$200 cash. Record the adjustment required for this situation.

9-3A – Bond Issued at a Discount

On February 1, 2017, Tinger Inc. issues a \$250,000 10-year 5% bond. The market rate of interest is 6%. Because the market rate is higher than the bond rate, the bonds issue at a discount. The bond quote is: 92.561. The bonds pay interest semi-annually on February 1 and August 1. The company's fiscal-year end is September 30.

Required

- a.) Prepare a bond amortization schedule for the issuance and the first three interest periods.
- b.) Record the journal entry required on:
 - i. The issuance of the bond. (February 1, 2017)
 - ii. The first interest payment. (August 1, 2017)
 - iii. The company's fiscal year-end. (September 30, 2017)
 - iv. The second interest payment. (February 1, 2018)

9-3B – Bond Issued at a Discount

On November 1, 2017, Terry Co. issues a \$50,000 5-year 3% bond. The market rate of interest is 5%. Because the market rate is higher than the bond rate, the bonds issue at a discount. The bond quote is: 91.248. The bonds pay interest semi-annually on May 1 and November 1. The company's fiscal-year end is May 31.

Required

- a.) Prepare a bond amortization schedule for the issuance and the first three interest periods.
- b.) Record the journal entry required on:
 - i. The issuance of the bond. (November 1, 2017)
 - ii. The first interest payment. (May 1, 2018)
 - iii. The company's fiscal year-end. (May 31, 2018)
 - iv. The second interest payment. (November 1, 2018)

9-4A – Bond Issued at a Premium

On April 30, 2017, Smokey Inc. issues a \$100,000 10-year 7% bond. The market rate of interest is 6%. Because the market rate is lower than the bond rate, the bonds issue at a premium. The bond quote is: 107.439. The bonds pay interest semi-annually on October 31 and April 30. The company's fiscal-year end is December 31.

Required

- a.) Prepare a bond amortization schedule for the issuance and the first three interest periods.
- b.) Record the journal entry required on:
 - i. The issuance of the bond. (April 30, 2017)
 - ii. The first interest payment. (October 31, 2017)
 - iii. The company's fiscal year-end. (December 31, 2017)
 - iv. The second interest payment. (April 30, 2018)

9-4B – Bond Issued at a Premium

On July 31, 2017, Bandit Inc. issues a \$1,250,000 10-year 5% bond. The market rate of interest is 4.5%. Because the market rate is lower than the bond rate, the bonds issue at a premium. The bond quote is: 103.991. The bonds pay interest semi-annually on January 31 and July 31. The company's fiscal-year end is December 31.

Required

- a.) Prepare a bond amortization schedule for the issuance and the first three interest periods.
- b.) Record the journal entry required on:
 - i. The issuance of the bond. (July 31, 2017)
 - ii. The company's fiscal year-end. (December 31, 2017)
 - iii. The first interest payment. (January 31, 2018)
 - iv. The second interest payment. (July 31, 2018)

9-5A – Computing Bond Issue Price

On November 30, 2024, Jones Inc. issues a \$5,000,000 20-year 7% bond. The market rate of interest is 6%.

Required

- a.) Compute the issue price of the bond.
- b.) Compute the bond quote.

9-5B – Computing Bond Issue Price

On July 31, 2024, Birthday Store Co. issues a \$1,000,000 10-year 5% bond. The market rate of interest is 5.5%.

Required

- a.) Compute the issue price of the bond.
- b.) Compute the bond quote.

Module 10: Equity

10-1A – Equity transactions, Statement of Changes in Shareholders' Equity

The December 31, 2016 shareholders' equity section of Bossman Inc.'s balance sheet is shown below:

Preferred shares, \$10 non-cumulative, 500 issued	\$50,000
Common shares, 20,000 issued	200,000
Retained earnings	750,000
Total shareholders' equity	<u>\$1,000,000</u>

The following equity transactions occurred during 2017:

- Jan 31 Issued 5,000 common shares for \$12 each.
May 14 Issued 100 preferred shares in exchange for equipment with a fair value of \$90,000.
July 1 Declared the regular cash dividend on preferred shares.
July 15 Paid the regular cash dividend on preferred shares.
August 7 Declared and issued a 20% stock dividend on common shares at a time when the market price was \$13 per share.

Required:

- a.) Journalize the transactions above.
- b.) Assuming net income for the year was \$125,000, prepare the statement of changes of shareholders' equity for the year ended December 31, 2017.

10-1B – Equity transactions, Statement of Changes in Shareholders' Equity

The December 31, 2016 shareholders' equity section of Kamala Co.'s balance sheet is shown below:

Preferred shares, \$2 cumulative, 1,000 issued	\$25,000
Common shares, 10,000 issued	150,000
Retained earnings	200,000
Total shareholders' equity	<u>\$375,000</u>

The following equity transactions occurred during 2017:

- Jan 15 Issued 1,000 common shares for a piece of land with a fair value of \$160,000.
Mar 21 Issued 100 preferred shares for \$3000 cash.
August 1 Declared the regular cash dividend on preferred shares.
August 10 Paid the regular cash dividend on preferred shares.
November 8 Declared and issued a 10% stock dividend on common shares at a time when the market price was \$18 per share.

Required:

- a.) Journalize the transactions above.
- b.) Assuming net income for the year was \$50,000, prepare the statement of changes of shareholders' equity for the year ended December 31, 2017.

10-2A – Equity section analysis

The December 31, 2017 shareholders' equity section of Hart Inc.'s balance sheet is shown below:

Preferred shares, \$6 non-cumulative, 1,500 issued	\$75,000
Common shares, 1,000,000 authorized, 40,000 issued	80,000
Retained earnings	<u>120,000</u>
Total shareholders' equity	<u>\$275,000</u>

Required:

- a.) How much were the preferred shares issued for?
- b.) How much were the common shares issued for?
- c.) What does authorized mean as it relates to common shares?
- d.) What does the term "non-cumulative" mean in relation to preferred shares?
- e.) What amount must the preferred shareholders receive before common shareholders can be paid a dividend?
- f.) Assume the company declared and paid the preferred dividend and also paid a dividend of \$2 per common share. Journalize the transaction.

10-2B – Equity section analysis

The December 31, 2017 shareholders' equity section of Hart Inc.'s balance sheet is shown below:

Preferred shares, \$2 cumulative, 2,500 issued	\$250,000
Common shares, 10,000,000 authorized, 10,000 issued	500,000
Retained earnings	300,000
Total shareholders' equity	<u>\$1,050,000</u>

Required:

- a.) How much were the preferred shares issued for?
- b.) How much were the common shares issued for?
- c.) What does authorized mean as it relates to common shares?
- d.) What does the term "cumulative" mean in relation to preferred shares?
- e.) What amount must the preferred shareholders receive before common shareholders can be paid a dividend?
- f.) Assume the company has not paid any dividends in 2016 or 2017. On January 15, 2018 the company wishes to pay common shareholders a dividend of \$1 per share. How much must they pay preferred shareholders at that time? Record the journal entry for both the preferred and common dividends.

Module 11: Statement of Cash Flows

Statement of Cash Flows
For the year ended _____

Cash flows from Operating Activities

DIRECT

Cash collections from customers	
Cash paid for merchandise	
Cash paid for operating expenses	
Cash paid for salaries	
Cash paid for interest	
Cash paid for income taxes	
Dividends Received	
Net inflow/outflow from operating:	

INDIRECT

Net income	
Adjustments to reconcile net income to net operating cash:	
Depreciation expense	
Gain/Loss on Sale of Assets	
Gain/Loss on Sale of Investments	
Goodwill amortization	
Changes in non-cash working capital accounts:	
Change in prepaid rent	
Change in taxes payable	
Change in wages/salaries payable	
Change in accounts receivable	
Change in inventory	
Change in prepaid insurance	
Change in office supplies	
Change in accounts payable	
Change in interest payable	
Change in other (accrued) liabilities	
Net inflow/outflow from operating:	

Net Cash inflow/outflow from operating activities →

Cash flows from Investing Activities		
Cash paid for equipment		
Cash received on the sale of equipment		
Cash paid for investments		
Cash received on sale of investments		
Net cash inflow/outflow from investing activities:		
Cash flows from financing activities:		
Cash paid for reduction of bonds/long term debt:		
Cash received on issuance of bonds/long term debt		
Cash received on issuance of shares		
Cash paid for redemption of shares		
Cash paid for dividends		
Cash paid/received on short term debt		
Net cash inflow/outflow from financing activities		
Net increase/decrease in cash		
Cash Balance, _____		
Cash Balance, _____		

Statement of Cash Flows
For the year ended _____

Cash flows from Operating Activities

DIRECT

Cash collections from customers	
Cash paid for merchandise	
Cash paid for operating expenses	
Cash paid for salaries	
Cash paid for interest	
Cash paid for income taxes	
Dividends Received	
Net inflow/outflow from operating:	

INDIRECT

Net income	
Adjustments to reconcile net income to net operating cash:	
Depreciation expense	
Gain/Loss on Sale of Assets	
Gain/Loss on Sale of Investments	
Goodwill amortization	
Changes in non-cash working capital accounts:	
Change in prepaid rent	
Change in taxes payable	
Change in wages/salaries payable	
Change in accounts receivable	
Change in inventory	
Change in prepaid insurance	
Change in office supplies	
Change in accounts payable	
Change in interest payable	
Change in other (accrued) liabilities	
Net inflow/outflow from operating:	

Net Cash inflow/outflow from operating activities →

Cash flows from Investing Activities		
Cash paid for equipment		
Cash received on the sale of equipment		
Cash paid for investments		
Cash received on sale of investments		
Net cash inflow/outflow from investing activities:		
Cash flows from financing activities:		
Cash paid for reduction of bonds/long term debt:		
Cash received on issuance of bonds/long term debt		
Cash received on issuance of shares		
Cash paid for redemption of shares		
Cash paid for dividends		
Cash paid/received on short term debt		
Net cash inflow/outflow from financing activities		
Net increase/decrease in cash		
Cash Balance, _____		
Cash Balance, _____		

Statement of Cash Flows
For the year ended _____

Cash flows from Operating Activities

DIRECT

Cash collections from customers	
Cash paid for merchandise	
Cash paid for operating expenses	
Cash paid for salaries	
Cash paid for interest	
Cash paid for income taxes	
Dividends Received	
Net inflow/outflow from operating:	

INDIRECT

Net income	
Adjustments to reconcile net income to net operating cash:	
Depreciation expense	
Gain/Loss on Sale of Assets	
Gain/Loss on Sale of Investments	
Goodwill amortization	
Changes in non-cash working capital accounts:	
Change in prepaid rent	
Change in taxes payable	
Change in wages/salaries payable	
Change in accounts receivable	
Change in inventory	
Change in prepaid insurance	
Change in office supplies	
Change in accounts payable	
Change in interest payable	
Change in other (accrued) liabilities	
Net inflow/outflow from operating:	

Net Cash inflow/outflow from operating activities →

Cash flows from Investing Activities		
Cash paid for equipment		
Cash received on the sale of equipment		
Cash paid for investments		
Cash received on sale of investments		
Net cash inflow/outflow from investing activities:		
Cash flows from financing activities:		
Cash paid for reduction of bonds/long term debt:		
Cash received on issuance of bonds/long term debt		
Cash received on issuance of shares		
Cash paid for redemption of shares		
Cash paid for dividends		
Cash paid/received on short term debt		
Net cash inflow/outflow from financing activities		
Net increase/decrease in cash		
Cash Balance, _____		
Cash Balance, _____		

Statement of Cash Flows
For the year ended _____

Cash flows from Operating Activities

DIRECT

Cash collections from customers	
Cash paid for merchandise	
Cash paid for operating expenses	
Cash paid for salaries	
Cash paid for interest	
Cash paid for income taxes	
Dividends Received	
Net inflow/outflow from operating:	

INDIRECT

Net income	
Adjustments to reconcile net income to net operating cash:	
Depreciation expense	
Gain/Loss on Sale of Assets	
Gain/Loss on Sale of Investments	
Goodwill amortization	
Changes in non-cash working capital accounts:	
Change in prepaid rent	
Change in taxes payable	
Change in wages/salaries payable	
Change in accounts receivable	
Change in inventory	
Change in prepaid insurance	
Change in office supplies	
Change in accounts payable	
Change in interest payable	
Change in other (accrued) liabilities	
Net inflow/outflow from operating:	

Net Cash inflow/outflow from operating activities →

↓

Cash flows from Investing Activities		
Cash paid for equipment		
Cash received on the sale of equipment		
Cash paid for investments		
Cash received on sale of investments		
Net cash inflow/outflow from investing activities:		
Cash flows from financing activities:		
Cash paid for reduction of bonds/long term debt:		
Cash received on issuance of bonds/long term debt		
Cash received on issuance of shares		
Cash paid for redemption of shares		
Cash paid for dividends		
Cash paid/received on short term debt		
Net cash inflow/outflow from financing activities		
Net increase/decrease in cash		
Cash Balance, _____		
Cash Balance, _____		

Statement of Cash Flows
For the year ended _____

Cash flows from Operating Activities

DIRECT

Cash collections from customers	
Cash paid for merchandise	
Cash paid for operating expenses	
Cash paid for salaries	
Cash paid for interest	
Cash paid for income taxes	
Dividends Received	
Net inflow/outflow from operating:	

INDIRECT

Net income	
Adjustments to reconcile net income to net operating cash:	
Depreciation expense	
Gain/Loss on Sale of Assets	
Gain/Loss on Sale of Investments	
Goodwill amortization	
Changes in non-cash working capital accounts:	
Change in prepaid rent	
Change in taxes payable	
Change in wages/salaries payable	
Change in accounts receivable	
Change in inventory	
Change in prepaid insurance	
Change in office supplies	
Change in accounts payable	
Change in interest payable	
Change in other (accrued) liabilities	
Net inflow/outflow from operating:	

Net Cash inflow/outflow from operating activities →

↓

Cash flows from Investing Activities		
Cash paid for equipment		
Cash received on the sale of equipment		
Cash paid for investments		
Cash received on sale of investments		
Net cash inflow/outflow from investing activities:		
Cash flows from financing activities:		
Cash paid for reduction of bonds/long term debt:		
Cash received on issuance of bonds/long term debt		
Cash received on issuance of shares		
Cash paid for redemption of shares		
Cash paid for dividends		
Cash paid/received on short term debt		
Net cash inflow/outflow from financing activities		
Net increase/decrease in cash		
Cash Balance, _____		
Cash Balance, _____		

Statement of Cash Flows
For the year ended _____

Cash flows from Operating Activities

DIRECT

Cash collections from customers	
Cash paid for merchandise	
Cash paid for operating expenses	
Cash paid for salaries	
Cash paid for interest	
Cash paid for income taxes	
Dividends Received	
Net inflow/outflow from operating:	

INDIRECT

Net income	
Adjustments to reconcile net income to net operating cash:	
Depreciation expense	
Gain/Loss on Sale of Assets	
Gain/Loss on Sale of Investments	
Goodwill amortization	
Changes in non-cash working capital accounts:	
Change in prepaid rent	
Change in taxes payable	
Change in wages/salaries payable	
Change in accounts receivable	
Change in inventory	
Change in prepaid insurance	
Change in office supplies	
Change in accounts payable	
Change in interest payable	
Change in other (accrued) liabilities	
Net inflow/outflow from operating:	

Net Cash inflow/outflow from operating activities →

↓

Cash flows from Investing Activities		
Cash paid for equipment		
Cash received on the sale of equipment		
Cash paid for investments		
Cash received on sale of investments		
Net cash inflow/outflow from investing activities:		
Cash flows from financing activities:		
Cash paid for reduction of bonds/long term debt:		
Cash received on issuance of bonds/long term debt		
Cash received on issuance of shares		
Cash paid for redemption of shares		
Cash paid for dividends		
Cash paid/received on short term debt		
Net cash inflow/outflow from financing activities		
Net increase/decrease in cash		
Cash Balance, _____		
Cash Balance, _____		

Statement of Cash Flows
For the year ended _____

Cash flows from Operating Activities

DIRECT

Cash collections from customers	
Cash paid for merchandise	
Cash paid for operating expenses	
Cash paid for salaries	
Cash paid for interest	
Cash paid for income taxes	
Dividends Received	
Net inflow/outflow from operating:	

INDIRECT

Net income	
Adjustments to reconcile net income to net operating cash:	
Depreciation expense	
Gain/Loss on Sale of Assets	
Gain/Loss on Sale of Investments	
Goodwill amortization	
Changes in non-cash working capital accounts:	
Change in prepaid rent	
Change in taxes payable	
Change in wages/salaries payable	
Change in accounts receivable	
Change in inventory	
Change in prepaid insurance	
Change in office supplies	
Change in accounts payable	
Change in interest payable	
Change in other (accrued) liabilities	
Net inflow/outflow from operating:	

Net Cash inflow/outflow from operating activities →

Cash flows from Investing Activities		
Cash paid for equipment		
Cash received on the sale of equipment		
Cash paid for investments		
Cash received on sale of investments		
Net cash inflow/outflow from investing activities:		
Cash flows from financing activities:		
Cash paid for reduction of bonds/long term debt:		
Cash received on issuance of bonds/long term debt		
Cash received on issuance of shares		
Cash paid for redemption of shares		
Cash paid for dividends		
Cash paid/received on short term debt		
Net cash inflow/outflow from financing activities		
Net increase/decrease in cash		
Cash Balance, _____		
Cash Balance, _____		

Statement of Cash Flows
For the year ended _____

Cash flows from Operating Activities

DIRECT

Cash collections from customers	
Cash paid for merchandise	
Cash paid for operating expenses	
Cash paid for salaries	
Cash paid for interest	
Cash paid for income taxes	
Dividends Received	
Net inflow/outflow from operating:	

INDIRECT

Net income	
Adjustments to reconcile net income to net operating cash:	
Depreciation expense	
Gain/Loss on Sale of Assets	
Gain/Loss on Sale of Investments	
Goodwill amortization	
Changes in non-cash working capital accounts:	
Change in prepaid rent	
Change in taxes payable	
Change in wages/salaries payable	
Change in accounts receivable	
Change in inventory	
Change in prepaid insurance	
Change in office supplies	
Change in accounts payable	
Change in interest payable	
Change in other (accrued) liabilities	
Net inflow/outflow from operating:	

Net Cash inflow/outflow from operating activities →

Cash flows from Investing Activities		
Cash paid for equipment		
Cash received on the sale of equipment		
Cash paid for investments		
Cash received on sale of investments		
Net cash inflow/outflow from investing activities:		
Cash flows from financing activities:		
Cash paid for reduction of bonds/long term debt:		
Cash received on issuance of bonds/long term debt		
Cash received on issuance of shares		
Cash paid for redemption of shares		
Cash paid for dividends		
Cash paid/received on short term debt		
Net cash inflow/outflow from financing activities		
Net increase/decrease in cash		
Cash Balance, _____		
Cash Balance, _____		

11-1A – Basic Cash Flow Statement

The financial statements of Bait and Tackle are presented below:

Bait and Tackle Balance Sheet As at December 31		
	2017	2016
Cash	\$39,000	\$24,000
Accounts receivable	64,000	50,000
Inventory	58,000	88,000
Equipment	325,000	250,000
Accumulated depreciation	<u>(92,000)</u>	<u>(125,000)</u>
Total assets	<u>\$394,000</u>	<u>\$287,000</u>
Accounts payable	\$32,000	\$40,000
Income taxes payable	10,000	11,000
Bank loan payable	20,000	0
Common shares	60,000	50,000
Retained earnings	<u>272,000</u>	<u>186,000</u>
Total liabilities and shareholders' equity	<u>\$394,000</u>	<u>\$287,000</u>

Bait and Tackle Income Statement For the Year Ended December 31, 2017	
Sales	\$635,000
Cost of goods sold	<u>320,000</u>
Gross profit	315,000
Operating expenses	<u>135,000</u>
Operating income	180,000
Interest expense	<u>1,000</u>
Income before taxes	179,000
Income taxes	<u>43,000</u>
Net income	<u>\$136,000</u>

Additional information:

- 1.) Operating expenses are composed of: Depreciation \$12,000; Salaries \$50,000; Loss on Sale of Equipment \$9,000; other operating expenses \$64,000.
- 2.) Other operating expenses are cash expenses.
- 3.) Equipment was purchased during the year for \$135,000 cash.
- 4.) Equipment was sold for cash during the year. The original cost of the equipment was \$60,000, and the accumulated depreciation was \$45,000.
- 5.) Dividends were declared and paid during the year.

Required:

Prepare a cash flow statement using the direct method or indirect method or both (depending on what your instructor assigns).

11-1B – Basic Cash Flow Statement

The financial statements of Safety First are presented below:

Safety First Balance Sheet As at December 31		
	2017	2016
Cash	\$2,600	\$500
Accounts receivable	500	700
Inventory	2,500	2,300
Equipment	21,000	17,000
Accumulated depreciation	<u>(3,800)</u>	<u>(3,000)</u>
Total assets	<u>\$22,800</u>	<u>\$17,500</u>
Accounts payable	\$200	\$600
Income taxes payable	400	200
Bank loan payable	2,000	0
Common shares	200	100
Retained earnings	<u>20,000</u>	<u>16,600</u>
Total liabilities and shareholders' equity	<u>\$22,800</u>	<u>\$17,500</u>

Safety First Income Statement For the Year Ended December 31, 2017	
Sales	\$51,000
Cost of goods sold	<u>29,000</u>
Gross profit	22,000
Operating expenses	<u>15,000</u>
Operating income	7,000
Interest expense	<u>100</u>
Income before taxes	6,900
Income taxes	<u>2,000</u>
Net income	<u>\$4,900</u>

Additional information:

- 1.) Operating expenses are composed of: Depreciation \$1,800; Salaries \$12,000; Loss on Sale of Equipment \$400; other operating expenses \$800.
- 2.) Other operating expenses are cash expenses.
- 3.) Equipment was purchased during the year for \$7,000 cash.
- 4.) Equipment was sold for cash during the year. The original cost of the equipment was \$3,000, and the accumulated depreciation was \$1,000.
- 5.) Dividends were declared and paid during the year.

Required:

Prepare a cash flow statement using the direct method or indirect method or both (depending on what your instructor assigns).

11-2A –Cash Flow Statement

The financial statements of Simmons Inc. are presented below:

Simmons Inc. Balance Sheet As at May 31		
	2017	2016
Cash	\$37,000	\$35,000
Accounts receivable	14,000	12,000
Inventory	18,000	15,000
Prepaid insurance	2,000	3,000
Building and equipment	92,000	77,000
Accumulated depreciation	<u>(31,000)</u>	<u>(19,000)</u>
Total assets	<u>\$132,000</u>	<u>\$123,000</u>
Accounts payable	\$18,000	\$30,000
Salaries payable	4,000	6,000
Income taxes payable	3,000	4,000
Bank loan payable	30,000	10,000
Common shares	6,000	3,000
Retained earnings	<u>71,000</u>	<u>70,000</u>
Total liabilities and shareholders' equity	<u>\$132,000</u>	<u>\$123,000</u>

Simmons Inc. Income Statement For the Year Ended May 31, 2017	
Sales	\$425,000
Cost of goods sold	<u>186,000</u>
Gross profit	239,000
Operating expenses	<u>188,000</u>
Operating income	51,000
Interest expense	<u>2,000</u>
Income before taxes	49,000
Income taxes	<u>10,000</u>
Net income	<u>\$39,000</u>

Additional information:

- 1.) Operating expenses are composed of: Depreciation \$21,000; Salaries \$134,000; **Gain** on Sale of Equipment \$6,000; other operating expenses \$39,000.
- 2.) Prepaid insurance is related to the other operating expenses.
- 3.) Equipment was purchased during the year for \$32,000 cash.
- 4.) Equipment was sold for cash during the year. The original cost of the equipment was \$17,000, and the accumulated depreciation was \$9,000.
- 5.) Dividends were declared and paid during the year.

Required:

Prepare a cash flow statement using the direct method or indirect method or both (depending on what your instructor assigns).

11-2B –Cash Flow Statement

The financial statements of Kimmel Inc. are presented below:

Kimmel Inc. Balance Sheet As at July 31		
	2017	2016
Cash	\$104,000	\$123,000
Accounts receivable	78,000	84,000
Inventory	409,000	368,000
Prepaid insurance	15,000	12,000
Building and equipment	704,000	684,000
Accumulated depreciation	<u>(219,000)</u>	<u>(215,000)</u>
Total assets	<u>\$1,091,000</u>	<u>\$1,056,000</u>
Accounts payable	\$42,000	\$43,000
Salaries payable	20,000	17,000
Income taxes payable	8,000	11,000
Bank loan payable	140,000	200,000
Common shares	70,000	61,000
Retained earnings	<u>811,000</u>	<u>724,000</u>
Total liabilities and shareholders' equity	<u>\$1,091,000</u>	<u>\$1,056,000</u>

Kimmel Inc. Income Statement For the Year Ended July 31, 2017	
Sales	\$931,000
Cost of goods sold	<u>483,000</u>
Gross profit	448,000
Operating expenses	<u>268,000</u>
Operating income	180,000
Interest expense	<u>15,000</u>
Income before taxes	165,000
Income taxes	<u>40,000</u>
Net income	<u>\$125,000</u>

Additional information:

- 1.) Operating expenses are composed of: Depreciation \$35,000; Salaries \$155,000; Loss on Sale of Equipment \$4,000; other operating expenses \$74,000.
- 2.) Prepaid insurance is related to the other operating expenses.
- 3.) Equipment was purchased during the year for \$74,000 cash.
- 4.) Equipment was sold for cash during the year. The original cost of the equipment was \$54,000, and the accumulated depreciation was \$31,000.
- 5.) Dividends were declared and paid during the year.

Required:

Prepare a cash flow statement using the direct method or indirect method or both (depending on what your instructor assigns).

11-3A –Cash Flow Statement

The financial statements of Vita Cleanse Inc. are presented below:

Vita Cleanse Inc. Balance Sheet As at June 30		
	2017	2016
Cash	\$326,000	\$385,000
Accounts receivable	120,000	148,000
Inventory	1,325,000	1,105,000
Prepaid insurance	15,000	20,000
Building and equipment	1,591,000	1,659,000
Accumulated depreciation	<u>(900,000)</u>	<u>(942,000)</u>
Total assets	<u>\$2,275,000</u>	<u>\$2,375,000</u>
Accounts payable	\$75,000	\$88,000
Salaries payable	25,000	19,000
Dividends payable	4,000	6,000
Income taxes payable	15,000	18,000
Bank loan payable	1,500,000	1,700,000
Common shares	75,000	50,000
Retained earnings	<u>783,000</u>	<u>494,000</u>
Total liabilities and shareholders' equity	<u>\$2,477,000</u>	<u>\$2,375,000</u>

Vita Cleanse Inc. Income Statement For the Year Ended June 30, 2017	
Sales	\$3,650,000
Cost of goods sold	<u>2,140,000</u>
Gross profit	1,510,000
Operating expenses	<u>925,000</u>
Operating income	585,000
Interest expense	<u>143,000</u>
Income before taxes	442,000
Income taxes	<u>115,000</u>
Net income	<u>\$327,000</u>

Additional information:

- 1.) Operating expenses are composed of: Depreciation \$238,000; Salaries \$588,000; Loss on Sale of Equipment \$23,000; other operating expenses \$76,000.
- 2.) Prepaid insurance is related to the other operating expenses.
- 3.) Equipment was purchased during the year for \$276,000 cash.
- 4.) Equipment was sold for cash during the year. The original cost of the equipment was \$344,000, and the accumulated depreciation was \$280,000.
- 5.) Dividends were declared and paid during the year.

Required:

Prepare a cash flow statement using the direct method or indirect method or both (depending on what your instructor assigns).

11-3B –Cash Flow Statement

The financial statements of CGP Inc. are presented below:

CGP Inc.		
Balance Sheet		
As at April 30		
	2017	2016
Cash	\$58,500	\$18,000
Accounts receivable	40,000	32,000
Inventory	41,000	37,000
Prepaid insurance	1,000	1,200
Building and equipment	67,000	88,000
Accumulated depreciation	<u>(31,000)</u>	<u>(35,000)</u>
Total assets	<u>\$176,500</u>	<u>\$141,200</u>
Accounts payable	\$20,000	\$18,000
Salaries payable	3,000	5,000
Dividends payable	1,000	500
Income taxes payable	800	2,000
Bank loan payable	25,000	0
Common shares	7,000	5,000
Retained earnings	<u>119,700</u>	<u>110,700</u>
Total liabilities and shareholders' equity	<u>\$176,500</u>	<u>\$141,200</u>

CGP Inc.	
Income Statement	
For the Year Ended April 30, 2017	
Sales	\$125,000
Cost of goods sold	<u>48,000</u>
Gross profit	77,000
Operating expenses	<u>58,000</u>
Operating income	19,000
Interest expense	<u>1,500</u>
Income before taxes	17,500
Income taxes	<u>4,500</u>
Net income	<u>\$13,000</u>

Additional information:

- 1.) Operating expenses are composed of: Depreciation \$8,000; Salaries \$41,000; **Gain** on Sale of Equipment \$7,000; other operating expenses \$16,000.
- 2.) Prepaid insurance is related to the other operating expenses.
- 3.) Equipment was purchased during the year for \$10,000 cash.
- 4.) Equipment was sold for cash during the year. The original cost of the equipment was \$31,000, and the accumulated depreciation was \$12,000.
- 5.) Dividends were declared and paid during the year.

Required:

Prepare a cash flow statement using the direct method or indirect method or both (depending on what your instructor assigns).

11-4A –Cash Flow Statement – Challenging Problem

The financial statements of Brady Inc. are presented below:

Brady Inc.		
Balance Sheet		
As at September 30		
	2017	2016
Cash	\$600	\$2,000
Accounts receivable	14,000	6,000
Inventory	48,000	24,000
Prepaid insurance	1,000	1,500
Building and equipment	45,500	48,000
Accumulated depreciation	<u>(9,000)</u>	<u>(7,000)</u>
Total assets	<u>\$100,100</u>	<u>\$74,500</u>
Accounts payable	\$13,000	\$9,000
Salaries payable	3,000	2,000
Dividends payable	600	500
Interest payable	800	100
Unearned revenues	6,000	4,000
Income taxes payable	100	300
Bank loan payable	20,000	4,000
Common shares	1,500	1,000
Retained earnings	<u>55,100</u>	<u>53,600</u>
Total liabilities and shareholders' equity	<u>\$100,100</u>	<u>\$74,500</u>

Brady Inc.	
Income Statement	
For the Year Ended September 30, 2017	
Sales	\$108,000
Cost of goods sold	<u>54,000</u>
Gross profit	54,000
Operating expenses	<u>48,000</u>
Operating income	6,000
Interest expense	<u>1,500</u>
Income before taxes	4,500
Income taxes	<u>1,000</u>
Net income	<u>\$3,500</u>

Additional information:

- 1.) Operating expenses are composed of: Depreciation \$8,000; Salaries \$36,000; **Loss** on Sale of Equipment \$1,000; other operating expenses \$3,000.
- 2.) Prepaid insurance is related to the other operating expenses.
- 3.) Equipment was purchased during the year for \$7,500 cash.
- 4.) Equipment was sold for cash during the year.
- 5.) Dividends were declared and paid during the year.
- 6.) Unearned revenues are collected from customers.
- 7.) Paid off \$2,000 of long-term note and issued a new note for cash.

Required:

Prepare a cash flow statement using the direct method or indirect method or both (depending on what your instructor assigns).

11-4B –Cash Flow Statement – Challenging Problem

The financial statements of Wilson Inc. are presented below:

Wilson Inc.		
Balance Sheet		
As at October 31		
	2017	2016
Cash	\$821,000	\$580,000
Accounts receivable	375,000	350,000
Inventory	850,000	880,000
Prepaid insurance	30,000	38,000
Building and equipment	3,512,000	3,400,000
Accumulated depreciation	<u>(1,940,000)</u>	<u>(1,800,000)</u>
Total assets	<u>\$3,648,000</u>	<u>\$3,448,000</u>
Accounts payable	\$450,000	\$500,000
Salaries payable	100,000	120,000
Dividends payable	65,000	50,000
Interest payable	25,000	15,000
Unearned revenues	200,000	180,000
Income taxes payable	40,000	25,000
Bank loan payable	1,400,000	1,100,000
Common shares	90,000	50,000
Retained earnings	<u>1,278,000</u>	<u>1,408,000</u>
Total liabilities and shareholders' equity	<u>\$3,648,000</u>	<u>\$3,448,000</u>

Wilson Inc.	
Income Statement	
For the Year Ended October 31, 2017	
Sales	\$1,500,000
Cost of goods sold	<u>580,000</u>
Gross profit	920,000
Operating expenses	<u>680,000</u>
Operating income	240,000
Interest expense	<u>85,000</u>
Income before taxes	155,500
Income taxes	<u>35,000</u>
Net income	<u>\$120,000</u>

Additional information:

- 1.) Operating expenses are composed of: Depreciation \$200,000; Salaries \$420,000; **Gain** on Sale of Equipment \$15,000; other operating expenses \$75,000.
- 2.) Prepaid insurance is related to the other operating expenses.
- 3.) Equipment was purchased during the year for \$200,000 cash.
- 4.) Equipment was sold for cash during the year.
- 5.) Dividends were declared and paid during the year.
- 6.) Unearned revenues are collected from customers.
- 7.) Paid off \$100,000 of bank loan and signed a new loan for additional cash.

Required:

Prepare a cash flow statement using the direct method or indirect method or both (depending on what your instructor assigns).

Module 12: Ratios and Financial Statement Analysis

Common Financial Ratios

Liquidity	
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Acid-Test Ratio	$\frac{\text{Cash} + \text{Short-term investments} + \text{Net current receivables}}{\text{Current liabilities}}$
Turnover	
Inventory Turnover	$\frac{\text{Cost of goods sold}}{\text{Average inventory}}$
Days' sales in inventory	$\frac{365 \text{ days}}{\text{Inventory turnover}}$
Accounts receivable turnover	$\frac{\text{Net credit sales}}{\text{Average net accounts receivable}}$
Collection period	$\frac{365 \text{ days}}{\text{Accounts receivable turnover}}$
Long-Term Debt Paying Ability	
Debt ratio	$\frac{\text{Total liabilities}}{\text{Total assets}}$
Times-interest-earned	$\frac{\text{Income from operations}}{\text{Interest expense}}$
Profitability	
Gross profit percentage	$\frac{\text{Gross profit}}{\text{Net sales}}$
Return on sales	$\frac{\text{Net income}}{\text{Net sales}}$
Return on assets	$\frac{\text{Net income} + \text{Interest expense}}{\text{Average total assets}}$
Return on equity	$\frac{\text{Net income} - \text{Preferred dividends}}{\text{Average common shareholders' equity}}$
Earnings per share	$\frac{\text{Net income} - \text{Preferred dividends}}{\text{Average number of common shares outstanding}}$
Stock Market Performance	
Price/earnings ratio	$\frac{\text{Market price per common share}}{\text{Earnings per share}}$
Dividend yield	$\frac{\text{Dividends per share}}{\text{Market price per share}}$

12-1A – Horizontal Analysis

Below is a comparative income statement for Elky Co.:

Elky Co.		
Income Statement		
For the years ended December 31		
	2017	2016
Sales	\$168,000	\$151,000
Cost of goods sold	<u>90,000</u>	<u>78,000</u>
Gross profit	78,000	73,000
Operating expenses	<u>32,000</u>	<u>30,000</u>
Operating income	46,000	43,000
Interest expense	<u>2,000</u>	<u>3,000</u>
Income before taxes	44,000	40,000
Income taxes	<u>11,000</u>	<u>10,000</u>
Net income	<u>\$33,000</u>	<u>\$30,000</u>

Required:

- Prepare a horizontal analysis for the company calculating the change and percentage change of each line item from one year to the next. (Round your answers to the nearest tenth of a percent, ie 0.13578 → 13.6%)
- Which item/items in your analysis would you wish to investigate? Why?

12-1B – Horizontal Analysis

Below is a comparative income statement for Dwan Inc.:

Dwan Inc. Income Statement For the years ended July 31		
	2017	2016
Sales	\$580,000	\$415,000
Cost of goods sold	<u>285,000</u>	<u>205,000</u>
Gross profit	295,000	210,000
Operating expenses	<u>140,000</u>	<u>80,000</u>
Operating income	155,000	130,000
Interest expense	<u>6,000</u>	<u>5,000</u>
Income before taxes	149,000	125,000
Income taxes	<u>24,000</u>	<u>20,000</u>
Net income	<u>\$125,000</u>	<u>\$105,000</u>

Required:

- a.) Prepare a horizontal analysis for the company calculating the change and percentage change of each line item from one year to the next. (Round your answers to the nearest tenth of a percent, ie 0.13578 → 13.6%)
- b.) Which item/items in your analysis would you wish to investigate? Why?

12-2A – Vertical Analysis

Harpreet Gill is concerned about his company's financial performance and financial position. He has obtained the financial statements of his largest competitor, Hossain Inc. and notes that the company is over ten times larger than his, so it is making the numbers difficult to compare.

Below is condensed financial information from Hossain Inc. and Gill Inc.:

Hossain Inc. and Gill Inc.		
Income Statements		
For the years ended August 31, 2017		
	<u>Hossain</u>	<u>Gill</u>
Sales	\$5,600,000	\$450,000
Cost of goods sold	<u>2,300,000</u>	<u>160,000</u>
Gross profit	3,300,000	290,000
Operating expenses	<u>2,200,000</u>	<u>125,000</u>
Operating income	1,100,000	165,000
Interest expense	<u>60,000</u>	<u>5,000</u>
Income before taxes	1,040,000	160,000
Income taxes	<u>300,000</u>	<u>48,000</u>
Net income	<u>\$740,000</u>	<u>\$112,000</u>

Hossain Inc. and Gill Inc.		
Balance Sheets		
As at August 31, 2017		
	<u>Hossain</u>	<u>Gill</u>
Current assets	\$1,450,000	\$85,000
Long-term assets	<u>3,000,000</u>	<u>250,000</u>
Total assets	<u>\$4,450,000</u>	<u>\$335,000</u>
Current liabilities	\$500,000	\$68,000
Long-term liabilities	<u>1,500,000</u>	<u>120,000</u>
Total liabilities	2,000,000	188,000
Shareholders' equity	<u>2,450,000</u>	<u>147,000</u>
Total liabilities and shareholders' equity	<u>\$4,450,000</u>	<u>\$335,000</u>

Required:

- Prepare a vertical analysis for the companies calculating the relative percentages of each item in the financial statements. (Round your answers to the nearest tenth of a percent, ie 0.13578 → 13.6%)
- Comment on the common-sized income statements of the companies (prepared in part a.).
- Comment on the common-sized balance sheets of the companies (prepared in part a.).

12-2B – Vertical Analysis

Siracusa Inc. and Arment Co. are competing technology retailers.

Below is condensed financial information from the companies:

Siracusa Inc. and Arment Co.		
Income Statements		
For the years ended December 31, 2017		
	<u>Siracusa</u>	<u>Arment</u>
Sales	\$850,000	\$250,000
Cost of goods sold	<u>300,000</u>	<u>110,000</u>
Gross profit	550,000	140,000
Operating expenses	<u>300,000</u>	<u>60,000</u>
Operating income	250,000	80,000
Interest expense	<u>10,000</u>	<u>5,000</u>
Income before taxes	240,000	75,000
Income taxes	<u>75,000</u>	<u>20,000</u>
Net income	<u>\$165,000</u>	<u>\$55,000</u>

Siracusa Inc. and Arment Inc.		
Balance Sheets		
As at December 31, 2017		
	<u>Siracusa</u>	<u>Arment</u>
Current assets	\$225,000	\$50,000
Long-term assets	<u>750,000</u>	<u>250,000</u>
Total assets	<u>\$975,000</u>	<u>\$300,000</u>
Current liabilities	\$200,000	\$20,000
Long-term liabilities	<u>450,000</u>	<u>100,000</u>
Total liabilities	650,000	120,000
Shareholders' equity	<u>325,000</u>	<u>180,000</u>
Total liabilities and shareholders' equity	<u>\$975,000</u>	<u>\$300,000</u>

Required:

- Prepare a vertical analysis for the companies calculating the relative percentages of each item in the financial statements. (Round your answers to the nearest tenth of a percent, ie 0.13578 → 13.6%)
- Comment on the common-sized income statements of the companies (prepared in part a.).
- Comment on the common-sized balance sheets of the companies (prepared in part a.).

12-3A – Ratio Analysis

Below are the financial statements of Squirrel Co.

Squirrel Co.		
Income Statement		
For the Year Ended November 30		
	2017	2016
Sales, net	\$3,600,000	\$3,900,000
Cost of goods sold	<u>1,500,000</u>	<u>1,600,000</u>
Gross profit	2,100,000	2,300,000
Operating expenses	<u>1,600,000</u>	<u>2,000,000</u>
Operating income	500,000	300,000
Interest expense	<u>200,000</u>	<u>150,000</u>
Income before taxes	300,000	150,000
Income taxes	<u>85,000</u>	<u>40,000</u>
Net income	<u>\$215,000</u>	<u>\$110,000</u>

Squirrel Co.			
Balance Sheet			
As at November 30			
	2017	2016	2015
Cash	\$150,000	\$53,000	\$125,000
Accounts receivable, net	140,000	80,000	55,000
Inventory	450,000	350,000	300,000
Prepaid insurance	<u>35,000</u>	<u>20,000</u>	<u>25,000</u>
Total current assets	775,000	503,000	505,000
Property, plant and equipment, net	<u>600,000</u>	<u>550,000</u>	<u>400,000</u>
Total assets	<u>\$1,375,000</u>	<u>\$1,053,000</u>	<u>\$905,000</u>
Accounts payable	\$350,000	\$185,000	\$160,000
Salaries payable	<u>37,000</u>	<u>50,000</u>	<u>35,000</u>
Total current liabilities	387,000	235,000	195,000
Bank loan payable	<u>550,000</u>	<u>500,000</u>	<u>450,000</u>
Total liabilities	937,000	735,000	645,000
Preferred shares \$20 (1,000 shares all years)	150,000	150,000	150,000
Common shares (50,000 shares all years)	100,000	100,000	100,000
Retained earnings	<u>188,000</u>	<u>93,000</u>	<u>10,000</u>
Total shareholders' equity	<u>438,000</u>	<u>343,000</u>	<u>260,000</u>
Total liabilities and shareholders' equity	<u>\$1,375,000</u>	<u>\$1,053,000</u>	<u>\$905,000</u>

Additional information:

	2017	2016	2015
Market price per share	\$150	\$50	\$35
Dividends per share	\$2.00	\$1.00	\$0.50

Required:

- For 2016 and 2017, compute all “Common Financial Ratios” from the beginning of this module. For each ratio note whether it is getting Better (B) or Worse (W).
- Comment on the financial performance and position of the company.

12-3B – Ratio Analysis

Below are the financial statements of Moose Co.

Moose Co.		
Income Statement		
For the Year Ended May 31		
	2017	2016
Sales, net	\$2,100,000	\$1,600,000
Cost of goods sold	<u>900,000</u>	<u>650,000</u>
Gross profit	1,200,000	950,000
Operating expenses	<u>700,000</u>	<u>525,000</u>
Operating income	500,000	425,000
Interest expense	<u>25,000</u>	<u>20,000</u>
Income before taxes	475,000	405,000
Income taxes	<u>120,000</u>	<u>100,000</u>
Net income	<u>\$355,000</u>	<u>\$305,000</u>

Moose Co.			
Balance Sheet			
As at May 31			
	2017	2016	2015
Cash	\$175,000	\$220,000	\$155,000
Accounts receivable, net	61,000	150,000	100,000
Inventory	525,000	450,000	400,000
Prepaid insurance	<u>40,000</u>	<u>35,000</u>	<u>50,000</u>
Total current assets	801,000	855,000	705,000
Property, plant and equipment, net	<u>950,000</u>	<u>703,000</u>	<u>750,000</u>
Total assets	<u>\$1,751,000</u>	<u>\$1,558,000</u>	<u>\$1,455,000</u>
Accounts payable	\$25,000	\$175,000	\$160,000
Salaries payable	40,000	30,000	60,000
Unearned revenues	<u>90,000</u>	<u>140,000</u>	<u>125,000</u>
Total current liabilities	155,000	345,000	345,000
Bank loan payable	<u>660,000</u>	<u>500,000</u>	<u>600,000</u>
Total liabilities	815,000	845,000	945,000
Preferred shares \$4 (500 shares all years)	50,000	50,000	50,000
Common shares (10,000 shares all years)	150,000	150,000	150,000
Retained earnings	<u>736,000</u>	<u>513,000</u>	<u>310,000</u>
Total shareholders' equity	<u>936,000</u>	<u>713,000</u>	<u>510,000</u>
Total liabilities and shareholders' equity	<u>\$1,751,000</u>	<u>\$1,558,000</u>	<u>\$1,455,000</u>

Additional information:

	2017	2016	2015
Market price per share	\$200	\$190	\$160
Dividends per share	\$13.00	\$12.00	\$10.00

Required:

- For 2016 and 2017, compute all “Common Financial Ratios” from the beginning of this module. For each ratio note whether it is getting Better (B) or Worse (W).
- Comment on the financial performance and position of the company.

