Chapter Seven—Alternate Demonstration Problem #1

At the end of the year, the M. I. Wright Company showed the following selected account balances:

Sales (all on credit)	$300,000
Accounts Receivable	800,000
Allowance for Doubtful Accounts	38,000

Required:

1. Assume the company estimates that 1% of all credit sales will not be collected.
   a. Prepare the proper journal entry to recognize the expense involved.
   b. Present the balances in Accounts Receivable and Allowance for Doubtful Accounts as they would appear on the balance sheet. Also show the net realizable Accounts Receivable.
2. Assume the company estimates that 5% of its accounts receivable will never be collected.
   a. Prepare the proper journal entry to recognize the expense involved.
   b. Present the balances in Accounts Receivable and Allowance for Doubtful Accounts as they would appear on the balance sheet. Also show the net realizable Accounts Receivable.
3. Under each of the two assumptions (described in #1 and #2 above), prepare the proper journal entry for the following event:

   June 3 John Shifty, who owes us $500, informs us that he is broke and cannot pay. We believe him.

(If this alternative demonstration problem is not covered in class, see your instructor for the solution.)

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blem II

are given several words, phrases, or numbers to choose from in completing each of the following ements or in answering the following questions. In each case select the one that best completes the ement or answers the question and place its letter in the answer space provided.

_____ 1. Orion Company has decided to write off the account of Jack Irwin against the Allowance for Doubtful Accounts. The \$2,100 balance in Irwin's account originated with a credit sale in July of last year. What is the general journal entry to record this write-off?

a.	Allowance for Doubtful Accounts	2,100	
	Accounts Receivable—Jack Irwin		2,100
b.	Accounts Receivable	2,100	
	Allowance for Doubtful Accounts		2,100
c.	Bad Debts Expense	2,100	
	Allowance for Doubtful Accounts		2,100
d.	Accounts Receivable	2,100	
	Accounts Receivable—Jack Irwin		2,100
e.	Bad Debts Expense	2,100	
	Accounts Receivable		2,100

_____ 2. Hitech Corporation had credit sales of \$3,000,000 in 2012. Before recording the December 31, 2012, adjustments, the company's Allowance for Doubtful Accounts had a credit balance of \$1,400. A schedule of the December 31, 2012, accounts receivable by age is summarized as follows:

December 31, 2012 Accounts Receivable	Age of Accounts Receivable	Uncollectible Percent Expected
\$285,000	Not due	1.5
87,000	1-45 days past due	8.2
34,000	46-90 days past due	37.0
8,000	over 90 days past due	70.0

Calculate the amount that should appear on the December 31, 2012, balance sheet as allowance for doubtful accounts.

a. \$28,189.
b. \$5,600.
c. \$25,314.
d. \$30,989.
e. \$29,589.

_____ 3. Based on the information given in problem 4, what is the general journal entry to record bad debts expense for 2012?

a. Debit Bad Debts Expense; credit Allowance for Doubtful Accounts.
b. Debit Accounts Receivable; credit Allowance for Doubtful Accounts.
c. Debit Bad Debts Expense; credit Accounts Receivable.
d. Debit Allowance for Doubtful Accounts; credit Bad Debts Expense.
e. Debit Accounts Receivable; credit Bad Debts Expense.

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_______ 4. MBC Company discounts a $25,000 note receivable, with recourse, and receives proceeds of $25,250. MBC's entry to record the transaction would include the following:

a. $25,000 debit to Cash.
b. $250 debit to Interest Expense.
c. $250 credit to Interest Revenue.
d. $25,250 credit to Notes Receivable.
e. None of the above.

_______ 5. Westing Company had net sales of $500,000 and $400,000 for 2013 and 2012, respectively. Accounts receivable at December 31, 2011 and 2012, were $45,000 and $55,000. What is Westing's accounts receivable turnover for 2013?

a. 11.1 times.
b. 10.0 times.
c. 20.0 times.
d. 9.0 times.
e. None of the above.

Problem III

Many of the important ideas and concepts discussed in Chapter 7 are reflected in the following list of key terms. Test your understanding of these terms by matching the appropriate definitions with the terms. Record the number identifying the most appropriate definition in the blank space next to each term.

_______ Accounts receivable
_______ Accounts receivable turnover
_______ Aging of accounts receivable
_______ Allowance for doubtful accounts
_______ Allowance method
_______ Bad debts
_______ Direct write-off method
_______ Interest
_______ Maker of a note
_______ Matching principle
_______ Materiality constraint
_______ Maturity date of a note
_______ Payee of a note
_______ Principal of a note
_______ Promissory note (or note)
_______ Realizable value

1. Measure of both the quality and liquidness of accounts receivable; indicates how often receivables are received and collected during the period; computed by dividing net sales by average accounts receivable.
2. Entity who signs a note and promises to pay it at maturity.
3. Procedure that (1) estimates and matches bad debts expense with its sales for the period and (2) reports accounts receivable at estimated realizable value.
4. Entity to whom a note is made payable.
5. Method that records the loss from an uncollectible accounts receivable at the time it is determined to be uncollectible; no attempt is made to estimate bad debts.
6. Implies an amount can be ignored if its effect on financial statements is unimportant to users.
7. Accounts of customers who do not pay what they have promised to pay; an expense of selling on credit; also called *uncollectible accounts*.
8. Requires expenses to be reported in the same period as the sales they helped produce.
9. Expected proceeds from converting an asset into cash.

Contra asset account with a balance approximating uncollectible accounts receivable; also called *Allowance for Uncollectible Accounts*.

Date when principal and interest of a note are due.

Process of classifying accounts receivable by how long they are past due for purposes of estimating uncollectible accounts.

Amounts due from customers for credit sales.

Written promise to pay a specified amount either on demand or at a definite future date.

Charge for using money (or assets) until repaid at a future date.

Amount that the signer of a note agrees to pay back when it matures, not including interest.

Problem IV

On December 12, Lark Company received from Guy Hall, a customer, $300 in cash and a $1,500, 12%, 60-day note dated December 11 in granting a time extension on Hall's past-due account. On December 31, Lark Company recorded the accrued interest on the note, and Guy Hall paid the note and its interest on the following February 9. Prepare the journal entries to record these transactions.

DATE	ACCOUNT TITLES AND EXPLANATION	P.R.	DEBIT	CREDIT
Dec. 12				
	Received cash and a note in granting a time extension			
	on a past-due account.			
31				
	To record accrued interest on a note receivable.			
Feb. 9				
	Received payment of a note and interest.			

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Chapter Eight—Alternate Demonstration Problem #1

The New Times Company purchased a new machine on January 1, 2010. The new machine cost $120,000, had an estimated useful life of five years, and an estimated salvage value of $15,000 at the end of its useful life. It was expected that the machine would produce 210,000 widgets during its useful life.

The company used the machine for exactly three years. During these three years, the annual production of widgets was 80,000, 50,000, and 30,000 units, respectively.

On January 1, 2013, the machine is sold for $45,000.

Required:

1. Calculate the depreciation expense for each of the first three years using:
   a. Straight-line
   b. Units-of-production
   c. Double-declining-balance
2. Prepare the proper journal entry for the sale of the machine under each of the three different depreciation methods.

(If this alternative demonstration problem is not covered in class, see your instructor for the solution.)

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Problem II

You are given several words, phrases, or numbers to choose from in completing each of the following statements or in answering the following questions. In each case select the one that best completes the statement or answers the question and place its letter in the answer space provided.

_______ 1. Jocelyn Leland, CPA, paid $165,000 to purchase approximately two acres of land and the building on it to be used as an office. The building was appraised at $84,000 and the land was appraised at $126,000. What amount should be debited to the Land account?

a. $165,000
b. $211,000
c. $126,000
d. $66,000
e. $99,000

_______ 2. Flintstone Company depreciated a machine that cost $21,600 on a straight-line basis for three years under the assumption it would have a five-year life and a $3,600 trade-in value. At that point, the manager realized that the machine had three years of remaining useful life, after which it would have an estimated $2,160 trade-in value. Determine the amount of depreciation to be charged against the machine during each of the remaining years in its life.

a. $3,240
b. $1,800
c. $2,640
d. $2,880
e. $3,888

_______ 3. Busy Bee Industries installed a machine in its factory at a cost of $84,000 on May 1, 2009. The machine's useful life is estimated at eight years with a $9,000 salvage value. Determine the machine's 2011 depreciation using the double-declining-balance method of depreciation.

a. $14,000
b. $10,500
c. $21,000
d. $12,500
e. $18,750

_______ 4. Spacely's Sprockets purchased a machine on September 1 for $400,000. The machine's useful life was estimated at six years or 500,000 units of product with a $25,000 trade-in value. During Its second year, the machine produced 87,000 units of product. Assuming units-of-production depreciation, calculate the machine's second-year depreciation.

a. $69,600
b. $66,667
c. $65,250
d. $62,500
e. $31,250

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_______ 5. A machine that cost $40,000 and had been depreciated $30,000 was exchanged for a new machine in a transaction which had commercial substance. The new machine had an estimated 10-year life and market value of $50,000. If $33,000 cash was paid, at what amount should the new machine be recorded in the accounts? (Appendix 8A)

a. $10,000
b. $40,000
c. $50,000
d. $43,000
e. $33,000

_______ 6. The Romeo Company exchanged its used bottle-capping machine for a new bottle capping machine. The old machine cost $14,000, and the new one had a market value of $19,000. Romeo had taken $12,000 depreciation on the old machine and paid $18,500 cash for the new machine. If the transaction had commercial substance, what gain or loss should be recorded on the exchange? (Appendix 8A)

a. No gain or loss
b. $500 gain
c. $1,500 loss
d. $1,500 gain
e. $4,500 gain

_______ 7. Cherokee Company had a bulldozer destroyed by fire. The bulldozer originally cost $16,000, but insurance paid only $14,200. Accumulated depreciation on this bulldozer was $2,000. The gain or loss from the fire is:

a. No gain or loss
b. $200 gain
c. $200 loss
d. $1,800 loss
e. $16,000 loss

_______ 8. Following is selected year-end financial statement information from the Mega Life Inc.:

	12/31/11	*12/31/12*
Total assets	$18,500	$20,000
Total liabilities	12,750	11,900
Net sales	73,000	88,550
Total expenses	48,200	53,150

What is the total asset turnover for 2010?

a. 4.4
b. 2.9
c. 0.2
d. 4.6
e. 1.8

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_____ 9. Fleet Lines made a $3,000 modification to one of its trucks that made the truck more efficient. The $3,000 should be debited to which account?

a. Trucks
b. Accumulated Depreciation, Trucks
c. Betterments
d. Extraordinary Repairs
e. Capital Expenditures

_____ 10. The process of allocating the cost of a patent to expense over time:

a. Is called depletion.
b. Is sometimes called depreciation.
c. Is usually done by the declining-balance method over 50 years.
d. Is seldom limited to less than 40 years.
e. Should be accomplished in 20 years or less.

Problem III

Many of the important ideas and concepts discussed in Chapter 8 are reflected in the following list of key terms. Test your understanding of these terms by matching the appropriate definitions with the terms. Record the number identifying the most appropriate definition in the blank space next to each term.

_____ Accelerated depreciation method
_____ Amortization
_____ Betterments
_____ Book value
_____ Capital expenditures
_____ Change in an accounting estimate
_____ Copyright
_____ Cost
_____ Declining-balance method
_____ Depletion
_____ Depreciation
_____ Extraordinary repairs
_____ Franchises
_____ Impairment
_____ Inadequacy
_____ Indefinite useful life
_____ Intangible assets
_____ Land improvements
_____ Lease
_____ Leasehold
_____ Leasehold improvements
_____ Lessee
_____ Lessor
_____ Licenses
_____ Modified Accelerated Cost Recovery System (MACRS)
_____ Natural resources
_____ Obsolescence
_____ Ordinary repairs
_____ Patent
_____ Plant assets
_____ Revenue expenditures
_____ Salvage value
_____ Straight-line depreciation
_____ Total asset turnover
_____ Trademark or trade (brand) name
_____ Units-of-production depreciation
_____ Useful life

1. Depreciation system required by federal income tax law.
2. Estimate of amount to be recovered at the end of an asset's useful life; also called *residual*, or *scrap, value*.
3. Condition in which, because of new inventions and improvements, a plant asset can no longer be used to produce goods or services with a competitive advantage.

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On November l, 2011, Orleaon Co. borrowed $200,000 for 90 days at 9% by signing a note.

Required:

1. Assume that the face value of the note equals the principal of the loan. Prepare the general journal entries to record issuing the note, accrual of interest at the end of 2011 and the payment of the note at maturity.
2. Assume that the face value of the note ($204,500) includes both the principal of the loan and the interest to be paid at maturity. Prepare the general journal entries to record issuing the note, accrual of interest at the end of 2011 and the payment of the note at maturity.

(If this alternative demonstration problem is not covered in class, see your instructor for the solution.)

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Problem II

You are given several words, phrases, or numbers to choose from in completing each of the following statements or in answering the following questions. In each case select the one that best completes the statement or answers the question and place its letter in the answer space provided.

_______ 1. On November 1, 2011, Profitable Company borrowed $50,000 by giving a 90-day, 12% note payable. The company has an annual, calendar-year accounting period and does not make reversing entries. What amount should be debited to Interest Expense on January 30, 2012?

a. $6,000
b. $1,500
c. $1,000
d. $500
e. $0

For the next two questions, use the following information as to earnings and deductions taken from a company's payroll records for the pay period ended November 15:

Employee's Name	*Earnings to End of Previous Week*	*Gross Pay This Week*	*Federal Income Taxes*	*Medical Insurance Deducted*
Rita Hawn	$25,700	$ 800	$155.00	$ 35.50
Dolores Hopkins	930	800	134.00	35.50
Robert Allen	76,100	1,000	193.00	42.00
Calvin Ingram	18,400	740	128.00	42.00
		$3,340	$610.00	$155.00

_______ 2. Employees' FICA taxes are withheld at an assumed rate of 6.2% on the first $90,000 earned for Social Security and 1.45% of all wages earned for Medicare. The journal entry to accrue the payroll should include a:

a. Debit to Accrued Payroll Payable for $3,340.
b. Debit to FICA Taxes Payable for $255.51.
c. Debit to Payroll Taxes Expense for $765.
d. Credit to FICA Taxes Payable for $255.51.
e. Credit to Accrued Payroll Payable for $2,575.

_______ 3. Assume a state unemployment tax rate of 5.4% on the first $7,000 paid each employee and a federal unemployment tax rate of 0.8% on the first $7,000 paid each employee. The journal entry to record the employer's payroll taxes resulting from the payroll should include a debit to Payroll Taxes Expense for:

a. $305.11.
b. $277.91.
c. $293.23.
d. $349.03.
e. The entry does not include a debit to Payroll Taxes Expense.

Problem VI

The following information as to earnings and deductions for the pay period ended November 15, w[illegible] taken from a company's payroll records:

Employee's Name	*Earnings to End of Previous Week*	*Gross Pay This Week*	*Federal Income Taxes*	*Medical Insurance Deducted*
Rita Hawn	$25,700	$ 800	$155.00	$ 35.50
Dolores Hopkins	930	800	134.00	35.50
Robert Allen	89,900	1,000	193.00	42.00
Calvin Ingram	18,400	740	128.00	42.00
		$3,340	$610.00	$155.00

Required:

1. Calculate the employees' FICA taxes withheld assuming a rate of 6.2% on the first $90,000 earned for Social Security and 1.45% of all wages earned for Medicare, and prepare the journal entry to accrue the payroll under the assumption that all of the employees work in the office.
2. Prepare the journal entry to record the employer's payroll taxes resulting from the payroll. Assume a state unemployment tax rate of 2% on the first $7,000 paid each employee and a federal unemployment tax rate of 0.8% on the first $7,000 paid each employee.

DATE	ACCOUNT TITLES AND EXPLANATION	P.R.	DEBIT	CREDIT