

PART 1: Statement of Cash Flows

The income statement and additional data of Espresso Roasters, Inc., follow:

ESPRESSO ROASTERS, INC.
INCOME STATEMENT
YEAR ENDED DECEMBER 31, 20X6

REVENUES		
SERVICE REVENUE	283,000	
DIVIDEND REVENUE	8,000	291,000
EXPENSES:		
COST OF GOODS SOLD	103,000	
SALARY EXPENSE	78,000	
DEPRECIATION EXPENSE	26,000	
ADVERTISING EXPENSE	4,500	
INTEREST EXPENSE	2,600	
INCOME TAX EXPENSE	8,000	222,100
NET INCOME		68,900

Additional data:

- a. Acquisition of PP&E was \$212,000. Of this amount, \$160,000 was paid in cash and \$52,000 by signing a note payable.
- b. Proceeds from sale of land totaled \$27,000.
- c. Proceeds from issuance of shares totaled \$80,000.
- d. Payment of long-term note payable was \$17,000.
- e. Payment of dividends was \$13,000.
- f. Dividends, interest, and taxes on the income statement are equal to the cash amounts of each for the year.
- g. Partial balance sheet information:

	DECEMBER 31	
	20X6	20X5
CURRENT ASSETS		
CASH	30,000	10,800
A/R	42,000	59,000
INVENTORY	30,000	91,000
PREPAID EXPENSES	9,400	8,700
CURRENT LIABILITIES		
A/P	38,000	27,000
ACCRUED LIABILITIES (PAYABLES)	18,000	99,000

Requirements

- 1) Prepare Espresso Roasters' statement of cash flows for the year ended December 31, 2016 using the indirect method. Include dividends and interest in operating cash flows.
- 2) Prepare Espresso Roasters' statement of cash flows for the year ended December 31, 2016 using the direct method. Include dividends and interest in operating cash flows.

PART 2: Financial Statement Analysis

Refer to the financial statements from part 1, and consider the following information:

- a. No other current assets and current liabilities exist.
- b. Long term assets totaled \$200,000 (same as the previous year)
- c. Long term liabilities totaled \$150,000 (same as the previous year)

1. Calculate the following ratios, rounding to 2 decimal points:

RATIO	VALUE
CURRENT RATIO	
QUICK RATIO	
RECEIVABLE TURNOVER	
INVENTORY TURNOVER	
PAYABLE TURNOVER	
CASH CONVERSION CYCLE	
DEBT RATIO	
RETURN ON ASSETS	
RETURN ON EQUITY	

2. Assume that standard ratios for the industry are as follows. How is Espresso Roasters performing? Why do you think this is the case?

RATIO	STANDARD INDUSTRY VALUE
CURRENT RATIO	1.75
QUICK RATIO	1.10
RECEIVABLE TURNOVER	6.00
INVENTORY TURNOVER	3.25
PAYABLE TURNOVER	5.00
CASH CONVERSION CYCLE	100.14
DEBT RATIO	0.40
RETURN ON ASSETS	0.05
RETURN ON EQUITY	0.30

PART 3: Liabilities (Bonds)

On January 1, 2014, Espresso Roasters, Inc., issued \$100 million of bonds with a 7% coupon interest rate. The bonds mature in 10 years and pay interest semiannually on June 30 and December 31 of each year. The market rate of interest on January 1, 2014, for bonds of this type was 8%. The company closes its books on December 31. *Round all answers to the nearest dollar.*

Required:

1. At what price were the bonds issued?
2. What is the book value (carrying value) of the bonds on January 1, 2016, after the interest payment?
3. On January 1, 2016, the market interest rate for bonds of this type is 6%. What is the market value of the bond on this date? That is, if the bond was issued on January first with the same par, coupon rate, and maturity date, what would the price be?
4. Suppose that the bonds were repurchased for cash on January 1, 2016, at market price after the interest payment is made. What journal entry would the company make to record the debt retirement?

PART 4: Bank Reconciliation

Latte Lab's checkbook lists the following transactions throughout the month of June 2010:

DATE	CHECK NO.	ITEM	CHECK	DEPOSIT	BALANCE
JUNE 1					525
4	622	Art Café	30		495
9		Dividends received		110	605
13	623	General Tire Co.	35		570
14	624	QuickMobil	68		502
18	625	Cash	55		447
26	626	Charity Donation	85		362
28	627	Rent	285		77
30		Cash from customers		1,210	1,287

Latte Lab's June bank statement shows the following:

BALANCE		525
ADD: DEPOSITS		110
DEBIT CHECKS:	Number	
	622	30
	623	35
	624	86
	625	55
		(206)
OTHER CHARGES:		
	NSF check	20
	Service charge	10
		(30)
BALANCE		399

Noticing the discrepancy in the value of check 624, Latte Lab's CFO tracked down the receipt and found that the bank's statement has the correct value.

Based on all the above information, prepare a bank reconciliation to show if there are any other inaccuracies in the above records.

PART 5: Assets

For each of the below transactions, determine if the underlined part should be included in the asset's value (i.e., capitalized) or expensed.

- a. A company purchases a new piece of machine on account for \$20,000, shipped following FOB shipping point. Shipping the machine cost \$1,000.
- b. A machine requires \$2,000 of maintenance to set up before it can be used in production.
- c. A company purchases \$10,000 of inventory, shipped following FOB destination. Shipping cost \$100.
- d. A company tests out a new t-shirt printing machine, using \$300 worth of inventory. The resulting product is in good condition, and can be sold at full price.
- e. A company purchases land for \$100,000. In order to build on the land, \$2,000 of dirt is trucked in to level it out.
- f. A vehicle was meant to be retired in a year, but broke down. \$2,000 of maintenance was done to fix it up. Of the \$2,000, \$500 was essential to making it last 1 year. The other \$1,500 was commissioned to increase the car's useful life to 3 years.
- g. Regular maintenance on a machine cost \$100.
- h. A company purchases \$700 of inventory, shipped following FOB shipping point. Shipping cost \$50.
- i. A company tests out a new mousepad printing machine, using \$200 worth of inventory. Each mousepad printed was cut in half by the machine, making them unusable.
- j. A celebratory party is held for the opening of a new office building. The party cost \$1 million.

PART 6: Equity

What accounts do the following transactions affect, and in what direction? Journalize the transactions, and assume they are done in order and that APIC has a balance of 0 at the start.

1. Issue 5,000 shares at \$50 each.
2. Declare a dividend of \$10,000.
3. Pay dividend declared in #2.
4. Repurchase 400 shares to hold as treasury shares for \$40 per share.
5. Sell 100 treasury shares at a loss of \$2 per share.
6. Sell 100 treasury shares at a gain of \$4 per share.
7. Sell 100 treasury shares at a loss of \$2 per share.
8. Sell 100 treasury shares at a gain of \$4 per share.

PART 7: Adjusting Entries

The following trial balance is for Coffee Conglomerate as of December 31, 2012.

Coffee Conglomerate Trial Balance December 31, 2012		
	Debits	Credits
Cash	\$1,024,006	
Accounts Receivable	16,925	
Supplies on Hand	7,845	
Prepaid Rent	27,000	
Prepaid Insurance	3,120	
Land	341,180	
Discount on Bonds Payable	33,699	
Accounts Payable		\$14,145
Wages Payable		0
Utilities Payable		0
Income Taxes Payable		0
Interest Payable		795
Unearned Rent Revenue		132,000
Notes Payable		97,620
Bonds Payable		800,000
Common Stock		126,600
Retained Earnings		242,500
Rent Revenue		0
Service Revenue		189,280
Interest Expense	45,640	
Wage Expense	91,250	
Rent Expense	0	
Utilities Expense	4,750	
Insurance Expense	930	
Supplies Expense	6,595	
Totals	<u>\$1,602,940</u>	<u>\$1,602,940</u>

On December 31, 2012, the company's accountant gathers the following information to adjust the accounts:

- A physical count at December 31 shows that \$5,895 of supplies is still on hand.
- The company rented an office for a year and prepaid a full rental fee of \$27,000 in cash on October 1.
- The company purchased a one-year fire insurance plan for \$3,120 and paid in advance on July 1.
- Wages earned by employees in December 2012 are \$7,500, and yet they will not be paid until January 5, 2013.
- On December 15, 2012, a bill for \$235 was received for utilities, but it will not be paid until January 15, 2013.
- On September 1, the company rented its land to Latte Lab for a year and received a full year of rent of \$132,000 in cash.
- The company issued bonds with a face value of \$800,000 and a stated rate of 10% on January 1, 2012. Interest is paid semiannually, each July 1 and January 1 for the next 3 years. The market interest rate for this type of bond was 12% at the date of issuance and the bond price was 760,661.

PART 8: Bad debt

In 2017, Coffee Conglomerate began having trouble with their accounts receivable. At the start of the year, they had \$26,000 of A/R on hand, and they had an Allowance for uncollectible accounts with a balance of \$3,000.

Requirement 1: Record the following A/R related journal entries and keep track of the balance of A/R and the allowance throughout.

- On January 31, Latte Lab declared bankruptcy. They owed Coffee Conglomerate \$1,500 on account.
- Throughout the first half of the year, Coffee Conglomerate made \$130,000 of sales on account and collected \$126,000.
- On August 2, Kopi Corp went bankrupt. They were a major customer of Coffee Conglomerate, owing \$7,000.
- On October 17, a check from Latte Lab for \$500 was received related to the amount written off on January 31.
- Throughout the second half of the year, Coffee Conglomerate made \$181,000 of sales on account and collected \$173,000.

A/R		Allowance	
26,000			3,000

Requirement 2: Based on the T-accounts including the above journal entries, Coffee Conglomerate needs to update their allowance for uncollectible accounts. Given how their previous balance was insufficient, the CFO has decided that the allowance should equal 20% of the A/R as of December 31. Record the journal entry to adjust the allowance.