**Question 1 PP&E**

Swift Motor Lines is a trucking company that hauls crude oil in the Rocky Mountain states. Swift’s fiscal year-end is December 31 of each year. The following information relates to a truck:

a. Date truck was purchased, July 1, 2009

b. Cost of truck

Truck………………………………………………………………$125,000

Sales tax…………………………………………………………… $10,000

c. Estimated useful life of truck, eight years

d. Estimated salvage value of truck $27,000

e. 2011 expenditures on truck:

(1) $6,000 on new tries and regular maintenance

(2) On January 1, spent $44,000 to completely rework the truck’s engine. As a result of the engine work, the remaining life of the truck is increased to nine years, but the expected salvage value remains the same.

Required:

Record journal entries to account for the following (Use the double-declining balance depreciation method).

1. The purchase of the truck

Dr. Truck 135,000

Cr. Cash 135,000

2. Depreciation expense for:

a. 2009

135,000 x (2/8) x (1/2) = 16,875

Dr. Depreciation expense 16,875

Cr. Accumulated depreciation 16,875

b. 2010

(135,000 – 16,875) x (2/8) = 29,531

Dr. Depreciation expense 29,531

Cr. Accumulated depreciation 29,531

c. 2011

(135,000 – 16,875 – 29,531 + 44,000) x (2/9) = 29,465

Dr. Depreciation expense 29,465

Cr. Accumulated depreciation 29,465

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Beg. Bal | Depr Exp | AD | End. Bal |
| 2009 | 135,000 | 16,875 | 16,875 | 118,125 |
| 2010 | 118,125 | 29,531 | 46,406 | 88,594 |
| 2011 | 132,594 | 29,465 | 75,872 | 103,128 |
| 2012 | 103,128 | 22,917 | 98,789 | 80,211 |
| 2013 | 80,211 | 17,825 | 116,614 | 62,386 |
| 2014 | 62,386 | 13,864 | 130,477 | 48,523 |
| 2015 | 48,523 | 10,783 | 141,260 | 37,740 |
| 2016 | 37,740 | 8,387 | 149,647 | 29,353 |
| 2017 | 29,353 | 2,353 | 152,000 | 27,000 |

3. The expenditures on the truck during 2011.

Dr. Repairs and maintenance expense 6,000

Cr. Cash 6,000

Dr. Truck 44,000

Cr. Cash 44,000

**Question 2 Bonds Payable**

On January 1, 2014, Clorox, 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.

Required:

1. At what price were the bonds issued? 93,165,000 (or 93,204,837 if you use a financial calculator)

100,000,000 x 0.456 = 45,600,000

3,500,000 x 13.590 = 47,565,000

93,165,000

2. What is the book value of the bonds on January 1, 2016? 94,127,249 (or 94,173,852 if you use a financial calculator)

3. On January 1, 2016, the market interest rate for bonds of this type is 6%. What is the market value of the bonds on this date?

100,000,000 x 0.623 = 62,300,000

3,500,000 x 12.561 = 43,963,500

106,263,500 (or 106,280,551 if you use a financial calculator)

4. Suppose that the bonds were repurchased for cash on January 1, 2016, at the market price. If you ignore taxes, what journal entry would the company make to record the debt retirement?

Dr. Bonds payable 100,000,000

Dr. Loss 12,136,251

Cr. Discount on bonds payable 5,872,751

Cr. Cash 106,263,500

If you use a financial calculator,

Dr. Bonds payable 100,000,000

Dr. Loss 12,106,699

Cr. Discount on bonds payable 5,826,148

Cr. Cash 106,280,551

\*For an early retirement of bonds, you first need to determine the carrying amount of bonds payable at the retirement date.

**Question 3 Stockholders’ Equity**

Weldon has issued 2,500,000 shares of $2 par common stock at an average price of $10 per share. Of these, 100,000 shares were repurchased during the year for $15 each and retired. Another 200,000 shares of the shares were repurchased for $17 each and are being held for later use. There were no other common stock transactions during the year.

Required:

Determine the balance in each of the following shareholders’ equity accounts: Common stock; paid-in capital in excess of par, common stock; treasury stock; paid-in capital, treasury stock

Dr. Cash 25,000,000

Cr. Common stock 5,000,000

Cr. Paid-in capital, common stock 20,000,000

*To record the issuance of shares*

Dr. Treasury stock 1,500,000

Cr. Cash 1,500,000

*To record shares buyback*

Dr. Common stock 200,000

Dr. Paid-in capital, common stock 800,000

Dr. Paid-in capital, treasury stock 500,000

Cr. Treasury stock 1,500,000

*To record the retirement of treasury stock*

Dr. Treasury stock 3,400,000

Cr. Cash 3,400,000

*To record shares buyback*

|  |  |
| --- | --- |
| Common stock | $4,800,000 |
| Paid-in capital in excess of par, common stock | 19,200,000 |
| Paid-in capital, treasury stock | (500,000) |
| Treasury stock | (3,400,000) |
| Total stockholders’ equity | $20,100,000 |

**Question 4 Stockholders’ Equity**

On December 31, 2014, the Stockholders’ Equity section of Mercedes Corporation was as follows:

|  |  |
| --- | --- |
| Common stock, par value $5; authorized 30,000 shares; issued and outstanding , 9,000 shares | $45,000 |
| Paid-in capital in excess of par, common stock | 58,000 |
| Retained earnings | 73,000 |
| Total stockholders’ equity | $176,000 |

On March 1, 2015, the board of directors declared a 10% stock dividend and accordingly issued 900 additional shares. The stock’s fair value at that time was $8 per share. For the three months ended March 31, 2015, Mercedes sustained a net loss of $16,000.

Required:

What amount should the company report as retained earnings on its quarterly financial statement dated March 31, 2015?

Dr. Retained earnings 7,200

Cr. Common stock 4,500

Cr. Paid-in capital, common stock 2,700

*To record share dividend*

Retained earnings at March 31, 2015 = Retained earnings at December 31, 2014 – 7,200 – 16,000

= 73,000 – 7,200 – 16,000

= 49,800

**Question 5 Adjusting Journal Entries**

The following trial balance is for NeilMed Company as of December 31, 2012.

|  |  |  |  |
| --- | --- | --- | --- |
| NeilMed Company  Trial Balance  December 31, 2012 | | | |
|  | Debits |  | Credits |
| Cash………………………………………………………………… | $1,024,057 |  |  |
| Accounts Receivable………………………………………………... | 16,925 |  |  |
| Supplies on Hand………………………………………………….... | 7,845 |  |  |
| Prepaid Rent………………………………………………………… | 27,000 |  |  |
| Prepaid Insurance…………………………………………………… | 3,120 |  |  |
| Land………………………………………………………………… | 341,180 |  |  |
| Discount on Bonds Payable………………………………………… | 33,666 |  |  |
| Accounts Payable…………………………………………………… |  |  | $14,145 |
| Wages Payable……………………………………………………… |  |  |  |
| Utilities Payable…………………………………………………….. |  |  |  |
| Income Taxes Payable………………………………………………. |  |  |  |
| Interest Payable……………………………………………………... |  |  | 795 |
| Unearned Rent Revenue…………………………………………….. |  |  | 132,000 |
| Notes Payable……………………………………………………….. |  |  | 97,620 |
| Bonds Payable………………………………………………………. |  |  | 800,000 |
| Common Stock……………………………………………………… |  |  | 126,600 |
| Accumulated Other Comprehensive Income……………………….. |  |  | 34,130 |
| Retained Earnings…………………………………………………... |  |  | 208,390 |
| Rent Revenue……………………………………………………….. |  |  |  |
| Service Revenue……………………………………………………. |  |  | 189,280 |
| Interest Expense…………………………………………………….. | 45,642 |  |  |
| Wages Expense……………………………………………………... | 91,250 |  |  |
| Rent Expense………………………………………………………... |  |  |  |
| Utilities Expense……………………………………………………. | 4,750 |  |  |
| Insurance Expense…………………………………………………... | 930 |  |  |
| Supplies Expense……………………………………………………. | 6,595 |  |  |
| Income Tax Expense………………………………………………... |  |  |  |
| Totals | $1,602,960 |  | $1,602,960 |

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

a. A physical count at December 31 shows that $5,895 of supplies is still on hand.

Dr. Supplies expense 1,950

Cr. Supplies 1,950

b. The company rented an office for a year and paid a full rental fee of $27,000 in cash on October 1.

Dr. Rent expense 6,750

Cr. Prepaid rent 6,750

c. The company purchased a one-year fire insurance for $3,120 and paid in advance on July 1.

Dr. Insurance expense 1,560

Cr. Prepaid insurance 1,560

d. Wages earned by employees in December 2012 are $7,500, and yet they will not be paid until January 5, 2013.

Dr. Wages expense 7,500

Cr. Wages payable 7,500

e. On December 15, 2012, a bill for $235 was received for utilities, but it will not be paid until January 15, 2013.

Dr. Utilities expense 235

Cr. Utilities payable 235

f. On September 1, the company rented its land to Fox Co. for a year and received a full year rent of $132,000 in cash.

Dr. Unearned rent revenue 44,000

Cr. Rent revenue 44,000

g. The company issued bonds with a face value of $800,000 and a stated rate of 10% on January 1, 2012. The interests are 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 selling price was 760,692.

Dr. Interest expense 45,980

Cr. Discount on bonds payable 5,980

Cr. Interest payable 40,000

g. The company’s income is taxed at a rate of 5%.

After making the above adjusting entries, the difference between total revenues and total expenses is $20,138, which is income before income tax. Therefore, income tax expense of 1,007 should be recognized and an increase in liabilities is also to be recorded.

Dr. Interest expense 1,007

Cr. Income tax payable 1,007