

BUS 181 Final Exam Review – Fruits and Vegetables Day!

Fall, 2020

Module 1

In January, 2020, we have a feeling that 2020 will be a doozie – and many people will be stuck in their homes cleaning out their closets. As such, we start a storage company called Bananas. Our customers can rent locked rooms to store their personal belongings.

We hire the BUS 181 class to create a Chart of Accounts. They came up with the following:

101 Cash	200 Accounts Payable	400 Storage Fees Earned
102 Accounts Receivable	201 Wages Payable	
103 Office Supplies		500 Depreciation Exp Buildings
104 Prepaid Insurance	300 Common Stock	201 Salaries Expense
105 Buildings	301 Retained Earnings	502 Insurance Expense
106 Accumulated Dep. Buildings	302 Dividends	503 Rent Expense
		504 Office Supplies Expense
		503 Repairs Expense
		507 Telephone Expense

1: On January 1st, we invested \$100,000 in cash in exchange for Common Stock in the Business. Journalize the transaction in the correct Journal Entry format.

1/1/2020 DR. 101 Cash 100,000
 CR. 300 Common Stock 100,000

Desc. Initial investment in the Business.

2: On January 2nd, we purchased \$3,000 of supplies for cash. Journalize the transaction in the correct Journal Entry format.

1/2/2020 DR. 103 Office Supplies 3,000
 CR. 101 Cash 3,000

Desc. Purchase Supplies.

3: On January 4th, we pay \$7,000 cash for a 12-month Insurance Policy. Journalize the transaction in the correct Journal Entry format.

1/4/2020 DR. 104 Prepaid Insurance 7,000
CR. 101 Cash 7,000

Desc. Purchased 12-month insurance policy

4: On January 5th, we collected \$9,000 cash from customers for rental fees. Journalize the transaction in the correct Journal Entry format.

1/5/20 DR. 101 Cash 9,000
CR. 400 Storage Fees Earned 9,000

Desc. Storage Fees.

5: On January 6th, the copy machine broke, and we had to repair it. The repairs cost \$1,000, but instead of cash, we put the balance on Account. Journalize the transaction in the correct Journal Entry format.

1/6/20 DR. 5D3 Repairs Expense 1,000
CR. 200 Accounts Payable 1,000

Desc. Repair Copy Machine.

6: On January 29th, a second customer rented space from us for 1,000. However, the customer doesn't have the cash to pay us now, so we agree that they will pay us in February. Journalize the transaction in the correct Journal Entry format.

1/29/20 DR. 102 Accounts Receivable 1,000
CR. 400 Storage Fees Earned 1,000
DESC. Storage Fees Earned.

7: On January 29th, we paid salary expense of \$20,000. Journalize the transaction in the correct Journal Entry format.

1/29/20 DR. 201 Salary Expense 20,000
CR. 101 Cash 20,000
DESC. Paid Salary Expense

PART 2 – After we post all of the above Journal Entries for the month, the unadjusted trial balance looks like the following:

Bananas Company			
Unadjusted Trial Balance			
For the Month Ended 1/31/2020			
101 Cash	79,000		
102 Accounts Receivable	1,000		
103 Office Supplies	3,000		
104 Prepaid Insurance	7,000		
105 Buildings			
106 Accumulated Dep. Buildings			
200 Accounts Payable		1,000	
201 Wages Payable			
300 Common Stock		100,000	
301 Retained Earnings			
302 Dividends			
400 Storage Fees Earned		10,000	
500 Depreciation Exp Buildings			
201 Salaries Expense	20,000		
502 Insurance Expense			
503 Rent Expense			
504 Office Supplies Expense			
503 Repairs Expense	1,000		
507 Telephone Expense			
Totals	111,000	111,000	

8: Adjusting Entry: Using the above Unadjusted Trial Balance, we go out and take a look at our supplies. We actually have \$2,000 left (or on hand). Journalize the transaction in the correct Journal Entry format.

$$3,000 - 2,000 = 1,000 \text{ used}$$

Adj. DR. 504 Office Supplies Exp. 1,000
 CR. 103 Office Supplies 1,000
 Desc. Jan office Supplies Used.

9: Adjusting Entry: We have earned another \$500 in storage fees that have not been billed yet to customer. Journalize the transaction in the correct Journal Entry format.

Adj.	Dr. 102	Accounts Receivable	500	
	cr. 400	Storage Fees Earned	500	
Jan. additional Storage fees				

10: After making the necessary adjustments to the accounts for the above 2 adjusting entries, calculate the Adjusted Trial balance:

Bananas Company		
Adjusted Trial Balance		
For the Month Ended 1/31/2020		
101	Cash	79,000
102	Accounts Receivable	1,500
103	Office Supplies	2,000
104	Prepaid Insurance	7,000
105	Buildings	
106	Accumulated Dep. Buildings	
200	Accounts Payable	1,000
201	Wages Payable	
300	Common Stock	100,000
301	Retained Earnings	
302	Dividends	
400	Storage Fees Earned	10,500
500	Depreciation Exp Buildings	
201	Salaries Expense	20,000
502	Insurance Expense	
503	Rent Expense	
504	Office Supplies Expense	1,000
503	Repairs Expense	1,000
507	Telephone Expense	
	Totals	111,500 - 111,500 ✓

11: Using the Adjusted Trial Balance you created above, draft out the following statements:

Bananas Company	
Income Statement	
For the Month Ended 1/31/2020	
Revenue	
Storage Fees Earned	10,500
Expenses	
Salaries Expense	20,000
Office Supplies Expense	1,000
Repairs Expense	1,000
Total Expenses	<u>22,000</u>
Net Loss	(11,500)

Bananas Company	
Retained Earnings Statement	
For the Month Ended 1/31/2020	
Beg. R/E	0
+ Net Income	
- Net Loss	(11,500)
- Dividends	
Ending Retained Earnings	<u>(11,500)</u>

Bananas Company	
Balance Sheet	
For the Month Ended 1/31/2020	
<u>Assets</u>	<u>Liabilities</u>
Cash 79,000	Accts. Payable 1,000
Accounts Rec. 1,500	
Office Supplies 2,000	
Prepaid Ins. 7,000	
Total Assets 89,500	<u>Equity</u>
	Common Stock 100,000
	Retained Earnings (11,500)
	Total L + OE = 89,500

✓

12: Which of the Accounts in the Adjusted Trial Balance above would you close out in the Closing Process? These were also called Temporary Accounts.

Storage Fees Earned	Office Supplies Expense
Salaries Expense	Repairs Expense

13: Throughout the class, I consistently grouped the Accounts into the following 6 Categories:

Assets

Liabilities

Owner's Equity

Dividends

Revenues

Expenses

Which Categories have Normal Debit Balances and which Accounts have Normal Credit Balances? I called this DEAD vs NOT DEAD.

Normal Debit Balance

Expenses

Assets

Dividends

Normal Credit Balance

Liabilities

Owner's Equity

Revenues

Module 2

14: Broccoli Company buys merchandise from Strawberry Corporation.

On February 1st, Broccoli Company bought 1,000 on Account, terms 2/10, n/30 from Strawberry Corporation. The merchandise had a cost of \$300 to Strawberry Corporation.

On February 2nd, Broccoli Company paid the amount due.

Identify the Buyer and the Seller, and make the necessary journal entries on February 1st and February 2nd.

$$1,000 + 980 = 1,980$$

BUYER <u>Broccoli</u>	2/1	Dr. Merch. Inventory	980
		Cr. Accts. Payable	980
		Desc. Purchased Merch.	
	2/2	Dr. Accts. Payable	980
		Cr. Cash	980
		Desc. Paid amount due	

SELLER <u>Strawberry</u>	2/1	Dr. Accts Receivable	980
		Cr. Sales Revenue	980
		Dr. Cost of Goods Sold	300
		Cr. Merch. Inventory	300
	Desc.	Sold Merchandise	
	2/2	Dr. Cash	980
		Cr. Accounts Receiv.	980
		Desc. Collected Cash.	

15: Who Pays the shipping charges if a sale is made FOB Destination?

200 Lense of Seller

Seller Pays

Kale Inc. is a merchandising business. They buy and sell vegetable juicers. We know the following:

	# of Items	\$ Per Item
Beginning Inventory	50	\$25
BUY	60	\$23
SELL	70	\$50
BUY	75	\$20
SELL	80	\$50

16: IF we use **FIFO**, calculate the following (you are welcome to use the following table as we did in class, but you are not required to):

Purchases		Sales		Ending Inventory	
Items	Per Unit \$	Items	Per Unit \$	Items	Per Unit \$
				50 @ 25	
60	23			50 @ 25	
				60 @ 23	
		50 @ 25			
		20 @ 23		40 @ 23	
75	20			40 @ 23	
				75 @ 20	

Sales Revenue:

Cost of Goods Sold:

Gross Profit:

Ending Inventory:

40 @ 23
40 @ 20

35 @ 20

= (70 + 80) x 50 =

7,500

(3,430)

4,070

= \$700 (35 + 20)

COGS = 50 x 25 = 1,250
 20 x 23 = 460
 40 x 23 = 920
 40 x 20 = 800
 3,430

17: IF we use **LIFO**, calculate the following (you are welcome to use the following table as we did in class, but you are not required to):

Purchases		Sales		Ending Inventory	
Items	Per Unit \$	Items	Per Unit \$	Items	Per Unit \$
				50 @ 25	
60 @ 23				50 @ 25	
				60 @ 23	
		60 @ 23		40 @ 25	
		10 @ 25			
75 @ 20				40 @ 25	
				75 @ 20	
		75 @ 20		35 @ 25	
		5 @ 25			

Sales Revenue: $(70 + 80) \times 50 = 7,500$

Cost of Goods Sold:

Gross Profit:

Ending Inventory:

$(35 + 25) = 875$

$(3,255)$
4,245

COGS
 $60 \times 23 = 1,380$
 $10 \times 25 = 250$
 $75 \times 20 = 1,500$
 $5 \times 25 = 125$
3,255

18: IF we use **WEIGHTED AVERAGE**, calculate the following (you are welcome to use the following table as we did in class, but you are not required to): * Every Buy = Recalculate

Purchases		Sales		Ending Inventory	
Items	Per Unit \$	Items	Per Unit \$	Items	Per Unit \$
				50 @ 25	
60 @ 23				110 @ 23.91	
		70 @ 23.91		40 @ 23.91	
75 @ 20				115 @ 21.36	
		80 @ 21.36		35 @ 21.36	

Sales Revenue: $(70 + 80) \times 50 = 7,500$

Cost of Goods Sold:

Gross Profit:

Ending Inventory:

$(35 \times 21.36) = 747.60$

COGS
 $70 \times 23.91 = 1,673.70$
 $80 \times 21.36 = 1,708.80$
3,382.50

$(1,250 + 1,380)$
 $(50 + 60) = 23.91$
 $(956.40 + 1,500)$
 $(40 + 75) = 21.36$

19: Critical Thinking: Which Inventory Method results in the largest tax liability? Why is this different than the example we did in class?

In this example, LIFO would generate the largest tax liability. This example is in a period of falling prices! 25 to 23 to 20

20: Grapefruit Corporation uses the aging of receivables method to calculate bad debt expense. The accounts receivable balance is \$450,000 and credit sales are \$1,000,000. An aging of accounts receivable shows that approximately 7% of the outstanding receivables will be uncollectible. *Additionally, 1/4 of 1% of*
 What adjusting entry will Grapefruit Corporation will make if the Allowance for Doubtful Accounts has a credit balance of \$1,500 before adjustment?

What will be the ending balance in the Account?

$$\begin{array}{r} 450,000 \\ \times 7\% \\ \hline 31,500 \text{ SHOULD BE!} \end{array}$$

ENTRY: DR. Bad Debt Expense 30,000
 CR. Allowance 30,000

Allow.	
1,500	
30,000 Entry	
31,500 S/B	

Ending Balance:

31,500

21: Grapefruit Corporation uses the % of sales method to calculate bad debt expense. The accounts receivable balance is \$450,000 and credit sales are \$1,000,000. An aging of accounts receivable shows that approximately 7% of the outstanding receivables will be uncollectible.

What adjusting entry will Grapefruit Corporation will make if the Allowance for Doubtful Accounts has a credit balance of \$1,500 before adjustment?

What will be the ending balance in the Account?

$$\begin{array}{r} 1,000,000 \\ \times 1\% \\ \times .25 \\ \hline 2,500 \times \text{Entry} \end{array}$$

ENTRY: DR. Bad Debt Expense 2,500
 CR. Allowance 2,500

Ending Balance:

4,000

Allowance	
1,500	
2,500	
4,000	

Module 3:

Kiwi Company purchases a tractor for \$500,000 in Year 1. We think it will last for 10 years or 250,000 miles and have a residual value of \$50,000.

22: IF we decide to use Straight Line Depreciation, draft a journal entry for Year 1 and for Year 2 to record the depreciation on the tractor

Calculations:

$$\frac{(500,000 - 50,000)}{10} = 45,000 \text{ /year}$$

Year 1 Entry: Dr. Depreciation Expense 45,000
Cr. Accumul. Deprec. 45,000

Year 2 Entry: Dr. Depreciation Expense 45,000
Cr. Accumula. Dep. 45,000

23: IF we decide to use the Double Declining method, draft a journal entry for Year 1 and for Year 2 to record the depreciation on the tractor.

Calculations: $\frac{1}{10} = 10\% \times 2 = 20\%$

1.	500,000	+	20%	=	100,000	400,000
2.	400,000	+	20%	=	80,000	320,000

Year 1 Entry:

Dr. Depreciation Expense	100,000
cr. Accumulated Dep.	100,000

Year 2 Entry:

Dr. Depreciation Exp.	80,000
cr. Accumulated Dep.	80,000

24: IF we decide to use the Units of Output method, draft a journal entry for Year 1 and for Year 2 to record the depreciation on the ~~delivery van~~ tractor. Assume we drove the tractor for 25,000 miles in year 1 and 30,000 miles in year 2.

Calculations:

$$\text{Rate} = \frac{(500,000 - 50,000)}{250,000} = \$1.80/\text{mile}$$

	<u>1</u>	<u>2</u>
	25,000	30,000
	x 1.80	x 1.80
	<u>45,000</u>	<u>54,000</u>

Year 1 Entry:

Dr. Depreciation Exp.	45,000
cr. Accumulated Dep.	45,000

Year 2 Entry:

Dr. Depreciation Exp.	54,000
cr. Accumulated Dep.	54,000

25: What do we have to be super careful about when using the units of output method? This is similar to one of the exercises you had in Cengage:

That you don't depreciate Below the residual value!

Bonds

Squash Company decides to raise money via issuing a bond on **January 1, 2020**. We know the following:

Face Value:	\$50,000,000
Contract (Coupon) Rate	7%
Effective Rate:	9%
Life:	10-Years
Semiannual Payments	
Present Value of the Bond:	43,495,895.

26: Is this Bond issued at a Premium or a Discount?

Discount

27: What is the Journal Entry Required when the Bond is First Issued?

1/1/20	DR. Cash	43,495,895	
	DR. Discount	6,504,105	
		CR. Bonds Payable	50,000,000

28: Calculate the CASH AMOUNT of the Interest Payments each payment made and calculate the INTEREST EXPENSE we would record each payment.

Cash Payment:

$$= 50,000,000 \times 7\% \div 2 = 1,750,000 \checkmark$$

Interest Expense:

Dr. Int. Exp.	2,075,205	
Cr. Discount	325,205	
Cr. Cash	1,750,000	
		6,504,105
		10
		2
		325,205

Equity:

29: What is the difference between Authorized / Issued / Outstanding Stock?

Authorized = max in the bylaws
 Issued = sold to Public
 Outstanding = Issued minus Treasury

30: Pumpkin Corporation issued 100,000 shares of \$5 Par Common Stock for \$7.50 per share and 50,000 shares of 5% Preferred Stock, with a Par Value of \$10 for \$25 each. Journalize the Entry for the issuance of the shares:

Common Stock: Dr. Cash 750,000
 Cr. Common Stock 500,000
 Cr. Additional Paid,.... 250,000

Preferred Stock:
 Dr. Cash 1,250,000
 Cr. Preferred Stock 500,000
 Cr. Additional Paid,.... 750,000

31: If the Company pays a cash dividend of \$60,000 in year 1 (so there are not any dividends in arrears, how much will each shareholder receive?

Preferred Stock: $\frac{\text{Total}}{50,000} = 60,000$
 $= 10 \times 5\% \times 50,000 = \$25,000$
 $\frac{25,000}{50,000} = \0.50

Common Stock: $\frac{35,000}{100,000} = \$0.35 / \text{share}$