

1. Consider each of the transactions below. All of the expenditures were made in cash.

- The Edison Company spent \$28,000 during the year for experimental purposes in connection with the development of a new product.
- In April, the Marshall Company lost a patent infringement suit and paid the plaintiff \$10,000.
- In March, the Cleanway Laundromat bought equipment. Cleanway paid \$22,000 down and signed a noninterest-bearing note requiring the payment of \$26,000 in nine months. The cash price for this equipment was \$41,000.
- On June 1, the Jamson Corporation installed a sprinkler system throughout the building at a cost of \$44,000.
- The Mayer Company, plaintiff, paid \$28,000 in legal fees in November, in connection with a successful infringement suit on its patent.
- The Johnson Company traded its old equipment for new equipment. The new equipment has a fair value of \$14,800. The old equipment had an original cost of \$15,400 and a book value of \$7,800 at the time of the trade. Johnson also paid cash of \$11,200 as part of the trade. The exchange has commercial substance.

Required: Prepare journal entries to record each of the above transactions.

2. On January 1, 2021, the company obtained a \$3 million loan with a 12% interest rate. The building was completed on September 30, 2022. Expenditures on the project were as follows:

January 1, 2021	\$ 1,240,000
March 1, 2021	660,000
June 30, 2021	450,000
October 1, 2021	650,000
January 31, 2022	900,000
April 30, 2022	1,215,000
August 31, 2022	2,160,000

On January 1, 2021, the company obtained a \$3 million construction loan with a 12% interest rate. Assume the \$3 million loan is not specifically tied to construction of the building. The loan was outstanding all of 2021 and 2022. The company's other interest-bearing debt included two long-term notes of \$5,400,000 and \$7,400,000 with interest rates of 6% and 8%, respectively. Both notes were outstanding during all of 2021 and 2022. Interest is paid annually on all debt. The company's fiscal year-end is December 31.

Required:

1. Calculate the amount of interest that Mason should capitalize in 2021 and 2022 using the weighted-average method.
2. What is the total cost of the building?
3. Calculate the amount of interest expense that will appear in the 2021 and 2022 income statements.

Award: 10.00 points

3.

The Thompson Corporation, a manufacturer of steel products, began operations on October 1, 2019. The accounting department of Thompson has stated the fixed-asset and depreciation schedule presented below. You have been asked to assist in completing this schedule. In addition to ascertaining that the data already on the schedule are correct, you have obtained the following information from the company's records and personnel: (FV of \$1, PV of \$1, FVA of \$1, PVA of \$1, FVAD of \$1 and PVAD of \$1) (Use appropriate factor(s) from the tables provided.)

- Land A and Building A were acquired from a predecessor corporation. Thompson paid \$722,500 for the land and building together. At the time of acquisition, the land had a fair value of \$81,000 and the building had a fair value of \$729,000.
- Land B was acquired on October 2, 2019, in exchange for 2,100 newly issued shares of Thompson's common stock. At the date of acquisition, the stock had a par value of \$5 per share and a fair value of \$16 per share. During October 2019, Thompson paid \$9,500 to demolish an existing building on this land so it could construct a new building.
- Construction of Building B on the newly acquired land began on October 1, 2020. By September 30, 2021, Thompson had paid \$120,000 of the estimated total construction costs of \$210,000. Estimated completion and occupancy are July 2022.
- Certain equipment was donated to the corporation by the city. An independent appraisal of the equipment when donated placed the fair value at \$12,400 and the residual value at \$1,100.
- Equipment A's total cost of \$101,000 includes installation charges of \$460 and normal repairs and maintenance of \$10,100. Residual value is estimated at \$4,500. Equipment A was sold on February 1, 2021.
- On October 1, 2020, Equipment B was acquired with a down payment of \$3,100 and the remaining payments to be made in 10 annual installments of \$3,100 each beginning October 1, 2021. The prevailing interest rate was 9%.

Required: Supply the correct amount for each answer box on the schedule. (Round your intermediate calculations and final answers to the nearest whole dollar.)

THOMPSON CORPORATION									
Fixed Asset and Depreciation Schedule									
For Fiscal Years Ended September 30, 2020, and September 30, 2021									
Assets	Acquisition Date	Cost	Residual	Depreciation Method	Life in Years	Depreciation for Year Ended 9/30	2020	2021	
Land A	10/1/2019		N/A	not applicable	N/A		N/A	N/A	
Building A	10/1/2019	\$ 47,650		Straight-line		\$ 13,100			
Land B	10/2/2019		N/A	not applicable	N/A		N/A	N/A	
Building B	Under construction	120,000 to date		Straight-line	30				
Donated Equipment	10/2/2019	1,100		200% Declining balance	10				
Equipment A	10/2/2019	4,500		Sum-of-the-years'-digits	9				
Equipment B	10/1/2020			Straight-line	15				

References

Difficulty: 3 Hard

Learning Objective: 11-02 Determine periodic depreciation using both time-based and activity-based methods and account for dispositions.

4. Award: 10.00 points

Described below are three independent and unrelated situations involving accounting changes. Each change occurs during 2021 before any adjusting entries or closing entries are prepared.

- Required:**
- On December 30, 2017, Rival Industries acquired its office building at a cost of \$12,600,000. It has been depreciated on a straight-line basis assuming a useful life of 40 years and no residual value. Early in 2021, the estimate of useful life was revised to 28 years in total with no change in residual value.
 - At the beginning of 2017, the Hoffman Group purchased office equipment at a cost of \$880,000. Its useful life was estimated to be 10 years with no residual value. The equipment has been depreciated by the straight-line method. On January 1, 2021, the company changed to the double-declining-balance method.
 - At the beginning of 2021, Jantzen Specialties, which uses the straight-line method, changed to the double-declining-balance method for newly acquired vehicles. The change decreased current year net income by \$625,000.
- Required:**
- Identify the type of change.
 - Prepare any journal entry necessary as a direct result of the change as well as any adjusting entry for 2021 related to the situation described. (Ignore income tax effects.)

Complete this question by entering your answers in the tabs below.

Required 1	Required 2
------------	------------

Prepare any journal entry necessary as a direct result of the change as well as any adjusting entry for 2021 related to the situation described. (Ignore income tax effects.) (If no entry is required for a transaction/event, select "No journal entry required" in the first account field.)

View transaction list

Journal entry worksheet

< 1 2 3 4 5 >

Record the entry necessary as a direct result of the change in situation a.

Note: Enter debits before credits.

Date	General Journal	Debit	Credit
2021			

Record entry

Clear entry

View general journal

< Required 1 Required 2 >

References

Amalgamated General Corporation is a consulting firm that also offers financial services through its credit division. From time to time the company buys and sells securities. The following selected transactions relate to Amalgamated's investment activities during the last quarter of 2021 and the first month of 2022. The only securities held by Amalgamated at October 1, 2021 were \$40 million of 10% bonds of Kansas Abstractors, Inc., purchased on May 1, 2021 at face value and held in Amalgamated's trading securities portfolio. The company's fiscal year ends on December 31.

2021

Oct. 18 Purchased 2 million shares of Millwork Ventures Company common stock for \$56 million. Millwork has a total of 34 million shares issued.

Nov. 1 Purchased 10% bonds of Holistic Entertainment Enterprises at their \$18 million face value, to be held until they mature in 2031. Semiannual interest is payable April 30 and October 31.

1 Sold the Kansas Abstractors bonds for \$36 million because rising interest rates are expected to cause their fair value to continue to fall. No unrealized gains and losses had been recorded on these bonds previously.

Dec. 1 Purchased 12% bonds of Household Plastics Corporation at their \$50 million face value, to be held until they mature in 2031. Semiannual interest is payable May 31 and November 30.

20 Purchased U. S. Treasury bonds for \$5.8 million as trading securities, hoping to earn profits on short-term differences in prices.

21 Purchased 4 million shares of NXS Corporation's 48 million shares of common stock for \$48 million, planning to hold these shares until market conditions encourage their sale.

23 Sold the Treasury bonds for \$6.0 million.

29 Received cash dividends of \$9 million from the Millwork Ventures Company shares of common stock.

31 Recorded any necessary adjusting entries relating to the investments. The market price of the Millwork Ventures Company common stock was \$24.50 per share and \$14.00 per share for the NXS Corporation common stock. The fair values of the bond investments were \$59.7 million for Household Plastics Corporation and \$16.9 million for Holistic Entertainment Enterprises.

2022

Jan. 7 Sold the NXS Corporation common stock shares for \$46 million.

Required:

Prepare the appropriate journal entry for each transaction or event. Use one summary entry on December 31 to adjust the portfolio of equity investments to fair value. (If no entry is required for a transaction/event, select "No journal entry required" in the first account field. Do not round intermediate calculations. Enter your answers in millions rounded to 1 decimal place, (i.e., 5,500,000 should be entered as 5.5).)

View transaction list

Journal entry worksheet

<12345678....16>

Record the purchase of 2 million shares of Millwork Ventures Company common stock for \$56 million.

Note: Enter debits before credits.

Date	General Journal	Debit	Credit
Oct 18, 2021			

Record entry

Clear entry

View general journal

References

6.

Award: 10.00 points

The unadjusted trial balance of the Manufacturing Equitable at December 31, 2021, the end of its fiscal year, included the following account balances. Manufacturing's 2021 financial statements were issued on April 1, 2022.

Accounts receivable	\$ 108,500
Accounts payable	32,000
10% notes, payable to bank	663,000
Mortgage note payable	1,310,000

Other information:

- The bank notes, issued August 1, 2021, are due on July 31, 2022, and pay interest at a rate of 10%, payable at maturity.
- The mortgage note is due on March 1, 2022. Interest at 9% has been paid up to December 31 (assume 9% is a realistic rate). Manufacturing intended at December 31, 2021, to refinance the note on its due date with a new 10-year mortgage note. In fact, on March 1, Manufacturing paid \$330,000 in cash on the principal balance and refinanced the remaining \$980,000.
- Included in the accounts receivable balance at December 31, 2021, were two subsidiary accounts that had been overpaid and had credit balances totalling \$21,500. The accounts were of two major customers who were expected to order more merchandise from Manufacturing and apply the overpayments to those future purchases.
- On November 1, 2021, Manufacturing rented a portion of its factory to a tenant for \$21,000 per year, payable in advance. The payment for the 12 months ended October 31, 2022, was received as required and was credited to rent revenue.

Required:

- Prepare any necessary adjusting journal entries at December 31, 2021, pertaining to each item of other information (a-d).
- Prepare the current and long-term liability sections of the December 31, 2021, balance sheet.

Complete this question by entering your answers in the tabs below.

Required 1
Required 2

Prepare any necessary adjusting journal entries at December 31, 2021, pertaining to each item of other information (a-d). (If no entry is required for a transaction/event, select "No journal entry required" in the first account field.)

View transaction list

Journal entry worksheet

< 1 2 3 4 >

The bank notes, issued August 1, 2021, are due on July 31, 2022, and pay interest at a rate of 10%, payable at maturity.

Note: Enter debits before credits.

Transaction	General Journal	Debit	Credit
a			

Record entry

Clear entry

View general journal

Complete this question by entering your answers in the tabs below.

Required 1	Required 2
------------	------------

Prepare the current and long-term liability sections of the December 31, 2021, balance sheet.

Manufacturing Equitable
Balance Sheet (partial)
At December 31, 2021
Current liabilities:
Total current liabilities
Long-term liabilities:
Total Long-term Liabilities
Total Liabilities

< Required 1

References

Financial Statements

Learning Objective: 13-01
Define liabilities and

Define liabilities and

distinguish between current and long-term liabilities.

and long-term liabilities.

Learning Objective: 13-03 Characterize accrued liabilities and liabilities from advance collection and describe when and how they should be recorded.

and how they should be recorded.

Difficulty: 3 Hard

Learning Objective: 13-02

Learning Objective: 13-02
Account for the issuance and payment of various forms of

Learning Objective: 13-04 Determine when a liability can be classified as a noncurrent obligation.

on the notes.

7.

Award: 10.00 points

HolmesWatson (HW) is considering what the effect would be of reporting its liabilities under IFRS rather than U.S. GAAP. The following facts apply:

- HW is defending against a lawsuit and believes it is virtually certain to lose in court. If it loses the lawsuit, management estimates it will need to pay a range of damages that falls between \$6,700,000 and \$11,700,000, with each amount in that range equally likely.
- HW is defending against another lawsuit that is identical to item (a), but the relevant losses will only occur far into the future. The present values of the endpoints of the range are \$4,700,000 and \$9,700,000, with the timing of cash flow somewhat uncertain. HW considers these effects of the time value of money to be material.
- HW is defending against another lawsuit for which management believes HW has a slightly worse than 50/50 chance of losing in court. If it loses the lawsuit, management estimates HW will need to pay a range of damages that falls between \$4,700,000 and \$10,700,000, with each amount in that range equally likely.
- HW has \$11,700,000 of short-term debt that it intends to refinance on a long-term basis. Soon after the balance sheet date, but before issuance of the financial statements, HW obtained the financing necessary to refinance the debt.

Required:

- For each item, indicate how treatment of the amount would differ between U.S. GAAP and IFRS.
- Consider the total effect of items a–d. If HW's goal is to show the lowest total liabilities, which set of standards, U.S. GAAP or IFRS, best helps it meet that goal?

Complete this question by entering your answers in the tabs below.

Required 1	Required 2
------------	------------

For each item, indicate how treatment of the amount would differ between U.S. GAAP and IFRS.

	U.S. GAAP	IFRS
a. Accrue liability		Accrue liability
b. Accrue liability		Accrue liability
c. Do not accrue liability		Accrue liability
d. Long-term liability		Short-term liability
Total liabilities	\$ 0	\$ 0

< Required 1 > Required 2

References

Worksheet

- Learning Objective: 13-04 Determine when a liability can be classified as a noncurrent obligation.
- Learning Objective: 13-06 Demonstrate the appropriate accounting treatment for contingencies, including unasserted claims and assessments.
- Learning Objective: 13-05 Identify situations that constitute contingencies and the circumstances under which they should be accrued.
- Learning Objective: 13-07 Discuss the primary differences between U.S. GAAP and IFRS with respect to current liabilities and contingencies.

Difficulty: 3 Hard

8.

Award: 10.00 points

On February 1, 2021, Cromley Motor Products issued 6% bonds, dated February 1, with a face amount of \$40 million. The bonds mature on January 31, 2025 (4 years). The market yield for bonds of similar risk and maturity was 8%. Interest is paid semiannually on July 31 and January 31. Barnwell Industries acquired \$55,000 of the bonds as a long-term investment. The fiscal years of both firms end December 31. (FV of \$1, PV of \$1, FVA of \$1, PVA of \$1, FVAD of \$1 and PVAD of \$1) (Use appropriate factor(s) from the tables provided.)

Required:

1. Determine the price of the bonds issued on February 1, 2021.
- 2-a. Prepare amortization schedules that indicate Cromley's effective interest revenue for each interest period during the term to maturity.
- 2-b. Prepare amortization schedules that indicate Barnwell's effective interest expense for each interest period during the term to maturity.
3. Prepare the journal entries to record the issuance of the bonds by Cromley and Barnwell's investment on February 1, 2021.
4. Prepare the journal entries by both firms to record all subsequent events related to the bonds through January 31, 2023.

Complete this question by entering your answers in the tabs below.

Req 1	Req 2A	Req 2B	Req 3	Req 4 Cromley	Req 4 Barnwell
-------	--------	--------	-------	---------------	----------------

Prepare amortization schedules that indicate Cromley's effective interest expense for each interest period during the term to maturity. (Do not round intermediate calculations. Enter your answers in whole dollars.)

Payment Number	Cash Payment	Effective Interest	Increase in Balance	Outstanding Balance
1				
2				
3				
4				
5				
6				
7				
8				
Totals				

< Req 1 > Req 2B

References

General Journal

Difficulty: 3 Hard

Learning Objective: 14-02 Account for bonds issued at face value, at a discount, or at a premium, recording interest using the effective interest method or using the straight-line method.

Part A

In late 2020, the Nicklaus Corporation was formed. The corporate charter authorizes the issuance of 4,000,000 shares of common stock carrying a \$1 par value, and 1,000,000 shares of \$5 par value, noncumulative, nonparticipating preferred stock. On January 2, 2021, 2,000,000 shares of the common stock are issued in exchange for cash at an average price of \$10 per share. Also on January 2, all 1,000,000 shares of preferred stock are issued at \$20 per share.

Required:

1. Prepare journal entries to record these transactions.

2. Prepare the shareholders' equity section of the Nicklaus balance sheet as of March 31, 2021. (Assume net income for the first quarter 2021 was \$1,200,000.)

Part B

During 2021, the Nicklaus Corporation participated in three treasury stock transactions:

- On June 30, 2021, the corporation reacquires 130,000 shares for the treasury at a price of \$12 per share.
- On July 31, 2021, 15,000 treasury shares are reissued at \$15 per share.
- On September 30, 2021, 15,000 treasury shares are reissued at \$10 per share.

Required:

1. Prepare journal entries to record these transactions.

2. Prepare the Nicklaus Corporation shareholders' equity section as it would appear in a balance sheet prepared at September 30, 2021. (Assume net income for the second and third quarter was \$2,650,000.)

Part C

On October 1, 2021, Nicklaus Corporation receives permission to replace its \$1 par value common stock (4,000,000 shares authorized, 2,000,000 shares issued, and 1,900,000 shares outstanding) with a new common stock issue having a \$0.50 par value. Since the new par value is one-half the amount of the old, this represents a 2-for-1 stock split. That is, the shareholders will receive two shares of the \$0.50 par stock in exchange for each share of the \$1 par stock they own. The \$1 par stock will be collected and destroyed by the issuing corporation.

On November 1, 2021, the Nicklaus Corporation declares a \$0.07 per share cash dividend on common stock and a \$0.23 per share cash dividend on preferred stock. Payment is scheduled for December 1, 2021, to shareholders of record on November 15, 2021.

On December 2, 2021, the Nicklaus Corporation declares a 1% stock dividend payable on December 28, 2021, to shareholders of record on December 14. At the date of declaration, the common stock was selling in the open market at \$10 per share. The dividend will result in 38,000 (0.01 × 3,800,000) additional shares being issued to shareholders.

Required:

1. Prepare journal entries to record the declaration and payment of these stock and cash dividends.

2. Prepare the December 31, 2021, shareholders' equity section of the balance sheet for the Nicklaus Corporation. (Assume net income for the fourth quarter was \$2,150,000.)

3. Prepare a statement of shareholders' equity for Nicklaus Corporation for 2021.

10.

Award: 10.00 points

On December 31, 2020, Dow Steel Corporation had 660,000 shares of common stock and 306,000 shares of 10%, noncumulative, nonconvertible preferred stock issued and outstanding. Dow issued a 5% common stock dividend on May 15 and paid cash dividends of \$460,000 and \$75,000 to common and preferred shareholders, respectively, on December 15, 2021.

On February 28, 2021, Dow sold 56,000 common shares. In keeping with its long-term share repurchase plan, 2,000 shares were retired on July 1. Dow's net income for the year ended December 31, 2021, was \$2,400,000. The income tax rate is 25%. Also, as a part of a 2020 agreement for the acquisition of Merrill Cable Company, another 29,000 shares (already adjusted for the stock dividend) are to be issued to former Merrill shareholders on December 31, 2022, if Merrill's 2022 net income is at least \$560,000. In 2021, Merrill's net income was \$690,000.

As part of an incentive compensation plan, Dow granted incentive stock options to division managers at December 31 of the current and each of the previous two years. Each option permits its holder to buy one share of common stock at an exercise price equal to market value at the date of grant and can be exercised one year from that date. Information concerning the number of options granted and common share prices follows:

Date Granted	Options Granted (adjusted for the stock dividend)	Share Price
December 31, 2019	13,000	\$ 18
December 31, 2020	8,000	\$ 27
December 31, 2021	11,500	\$ 26

The market price of the common stock averaged \$26 per share during 2021.

On July 12, 2019, Dow issued \$1,000,000 of convertible 8% bonds at face value. Each \$1,000 bond is convertible into 30 common shares (adjusted for the stock dividend).

Required:

Compute Dow's basic and diluted earnings per share for the year ended December 31, 2021. (Enter your answers in thousands. Round "Earnings per share" answers to 2 decimal places. Do not round intermediate calculations)

	Numerator	/	Denominator	=	Earnings per share
Dow's basic		/		=	
Dow's diluted		/		=	

References

Worksheet

Learning Objective: 19-06 Differentiate the effect on EPS of the sale of new shares, a stock dividend or stock split, and the reacquisition of shares.

Learning Objective: 19-10 Determine whether potential common shares are antidilutive.

Difficulty: 2 Medium

Learning Objective: 19-07 Describe how preferred dividends affect the calculation of EPS.

Learning Objective: 19-11 Describe the two components of the proceeds used in the treasury stock method and how restricted stock is incorporated in the calculation of EPS.

Learning Objective: 19-04 Distinguish between a simple and a complex capital structure.

Learning Objective: 19-08 Describe how options, rights, and warrants are incorporated in the calculation of EPS.

Learning Objective: 19-05 Describe what is meant by the weighted-average number of common shares.

Learning Objective: 19-09 Describe how convertible securities are incorporated in the calculation of EPS.