

1. A company reports the following information for Year 1:

Sale of Equipment	\$20,000
Issuance of the company's bonds	\$10,000
Dividends paid	\$5,000
Purchase of stock of another company	\$2,000
Purchase of U.S. Treasury note	\$2,000
Income taxes paid	\$2,000
Interest income received	\$500

What is the company's net cash flow from financing activities?

- a. (\$9,000)
- b. \$5,000
- c. \$5,500
- d. \$15,000

2. Long Co. invested in marketable securities. At year-end, fair-value changes in this investment were included in Long's other comprehensive income. How would Long classify this investment?

- a. Held-to-maturity securities
- b. Trading securities
- c. Equity securities
- d. Available-for-sale securities

3. Howell Co. had the following first-year amounts for a \$7,000,000 construction contract:

Actual costs     \$2,000,000

Estimated costs to complete: \$6,000,000

Progress billings: \$1,800,000

Cash collected: \$1,500,000

What amount should Howard recognize as gross profit (loss) using the percentage-of-completion method?

- a. (\$1,000,000)
- b. (\$200,000)
- c. \$800,000
- d. \$1,750,000

## Problems

1. Lewis Inc. purchased several investment securities during 2014, its first year of operations. The following information pertains to these securities. The fluctuations in their fair values are not considered permanent.

		Fair Value	Fair Value		Amortized Cost	Amortized Cost
Held to Maturity		12/31/15	12/31/16		12/31/15	12/31/16
Baxter Co. Bonds		\$375,000	\$400,000		\$367,500	\$360,000
Trading Securities						
Ready Co. Stock		\$48,000	\$62,500		\$66,000	
Sky Inc Stock		\$47,000	\$78,000		\$39,000	
Brandy Inc Stock		\$44,000	\$40,500		\$32,900	
Available for Sale Securities						
Overarmor Co Stock		\$130,500	\$150,600		\$140,000	

What balance sheet amount would Lewis report for its total investment securities at 12/31/2016?

2. Moore Construction specializes in the construction of commercial and industrial buildings. The contractor is experienced in bidding long-term construction projects of this type, with the typical project lasting fifteen to twenty-four months. The contractor uses the percentage-of-completion method of revenue recognition since, given the characteristics of the contractor's business and contracts, it is the most appropriate method. Progress toward completion is measured on a cost to cost basis. Moore began work on a lump-sum contract at the beginning of 2016. As bid, the statistics were as follows:

Lump-sum price (contract price)		\$12,000,000
Estimated costs		
Labor	\$2,550,000	
Materials and subcontractor		5,250,000
Indirect costs	1,200,000	9,000,000
	\$3,000,000	

At the end of the first year, the following was the status of the contract:

Billings to date		\$6,690,000
Costs incurred to date		
Labor	\$1,392,000	
Materials and subcontractor		3,294,000
Indirect costs	579,000	5,265,000
Latest forecast total cost		9,000,000

It should be noted that included in the above costs incurred to date were standard electrical and mechanical materials stored on the job site, but not yet installed, costing \$315,000. These costs should not be considered in the costs incurred to date.

#### Instructions

- Compute the percentage of completion on the contract at the end of 2016.
- Indicate the amount of gross profit that would be reported on this contract at the end of 2016.
- Make the journal entry to record the income (loss) for 2016 on Moore's books.

3. Prepare a cash flow statement for the following information. (Indirect Method)

Balance Sheet (\$)		
	Jan 1	Dec 31
<b>ASSETS:</b>		
Current Assets:		
Cash	310,000	600,000
Marketable Securities	1,200,000	1,000,000
Accounts Receivable, net	290,000	330,000
Inventory	3,000,000	4,000,000
Prepaid Expenses	200,000	300,000
Total Current Assets	5,000,000	6,230,000
 Total Fixed Assets, net	 2,500,000	 2,000,000
 Total Assets	 7,500,000	 8,230,000
 <b>LIABILITIES &amp; EQUITIES</b>		
Current Liabilities:		
Accounts Payable	1,500,000	1,000,000
Notes Payable	1,000,000	1,000,000
Accrued Expenses	500,000	800,000
Total Current Liabilities	3,000,000	2,800,000
 Total Long-term Liabilities	 1,000,000	 1,500,000
Total Liabilities	4,000,000	4,300,000
 Preferred Stock	 500,000	 500,000
Common Stock	500,000	500,000
Capital in Excess of Par	1,000,000	1,000,000
Retained Earnings	1,500,000	1,930,000
Total Stockholders Equity	3,500,000	3,930,000
 Total Liabilities and Equity	 7,500,000	 8,230,000

Income Statement (for problem 3)	
Sales	10,000,000
COGS	6,000,000
Gross Profit	4,000,000
Administrative expenses	1,200,000
Depreciation	500,000

EBIT	2,300,000
Interest Expense	500,000
EBT	1,800,000
Taxes (40%)	720,000
Net Income	1,080,000

5. Computation of selected ratios.

The following data is given:

	December 31, 2016	2015
Cash	\$ 68,000	\$ 50,000
Accounts receivable (net)	70,000	60,000
Inventories	90,000	130,000
Plant assets (net)	383,000	325,000
Accounts payable	60,000	40,000
Salaries and wages payable	10,000	5,000
Bonds payable	70,000	70,000
10% Preferred stock, \$40 par	100,000	100,000
Common stock, \$10 par	120,000	90,000
Paid-in capital	80,000	65,000
Retained earnings	170,000	175,000
Net credit sales	800,000	
Cost of goods sold	600,000	
Net income	80,000	

Instructions

Compute the following ratios:

- Acid-test ratio at 12/31/16
- Receivables turnover in 2016
- Inventory turnover in 2016
- Profit margin on sales in 2016