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School of Business**
THE UNIVERSITY OF UTAH

Accounting 5110 – Fall 2015

HW Assignment 3

Due December 10, 2015

Section 1 by 8:40 am

Section 2 by 10:15 am

Section 3 by 3:10 pm

PLEASE ANSWER THE QUESTIONS AND COMPLETE THE PROBLEMS ON THE FOLLOWING PAGES.

WHEN COMPLETED, YOU WILL SUBMIT YOUR ANSWERS ON CANVAS. DO NOT ACCESS THE LINK UNTIL YOU ARE READY WITH ALL OF YOUR ANSWERS.

THIS IS A REQUIRED ASSIGNMENT.

This homework assignment is worth 25 points that will be awarded based on the following:

	Points
QUESTIONS: 1-10, 12, 15, 18 - 20 1 point each	15
QUESTIONS: 11, 13, 14, 16, 17 2 points each	10
TOTAL	25

1. (1 point) Skill Company had 400 units in its inventory at a cost of \$7 each. It purchased 600 more units at a cost of \$11 each. Skill then sold 900 units at a selling price of \$22 each. The LIFO liquidation understated cost of goods sold by:
 - a. \$6,600
 - b. \$2,100
 - c. \$700
 - d. \$1,200
 - e. \$3,300
 - f. \$1,100
 - g. \$3,600
 - h. None of the above.

2. (1 point) Pulley Corp. purchased a machine for \$75,000 on September 30, 2014. The estimated service life is 5 years with a \$7,500 residual value. Pulley records partial-year depreciation based on the number of months in service. Using the sum-of-the-years'-digits method, what is the amount of depreciation reported for 2015 (to the nearest dollar)? (Assume Pulley's year-end is December 31. Round all calculations to the nearest dollar)
 - a. \$40,500.
 - b. \$21,375.
 - c. \$22,500.
 - d. \$13,500.
 - e. \$18,000.
 - f. \$20,000.
 - g. \$16,875.
 - h. None of the above.

3. (1 point) Marna Company sold goods to Finess Corporation on January 1, 2015. Finess Corporation signed an 8-year note with a face amount of \$25,000 and a stated interest rate of 5%. The note pays interest annually beginning December 31, 2015. Assuming the market interest rate is 7%, how much would Marna Company record as sales revenue? (Round all calculations to the nearest dollar):
 - a. \$22,014.
 - b. \$14,550.
 - c. \$25,000.
 - d. \$35,000.
 - e. \$26,250.
 - f. \$22,110.
 - g. \$24,550.
 - h. None of the above

4. (1 point) The Greyson Corporation's physical count of inventory at December 31, 2015, was \$362,900 priced at cost, and before any necessary adjustment for the following:
- Merchandise costing \$32,400, shipped f.o.b. destination from a vendor on December 27, 2015, was received on January 3, 2016.
 - Merchandise costing \$18,700 was being held by Bright Company. This inventory was on consignment at Bright's location.
 - Merchandise costing \$37,500 was shipped to a customer f.o.b. destination on December 30, arrived at the customer's location on January 2, 2016.
 - Merchandise costing \$17,000, shipped f.o.b. shipping point from a vendor on December 29, 2015, was received on January 4, 2016.

What amount should Greyson Corporation report as inventory in its December 31, 2015, balance sheet?

- a. \$362,900.
 - b. \$436,100.
 - c. \$395,300.
 - d. \$398,700.
 - e. \$417,400.
 - f. \$379,900.
 - g. \$468,500.
 - h. None of the above
5. (1 point) On January 1, 2013, Stone Inc. purchased a machine for \$220,000, estimating a ten-year useful life with no residual value. In 2013 and 2014, Stone Inc. depreciated the asset using the sum-of-years'-digits method. In 2015, Stone Inc. changed to straight-line depreciation for this machine. What depreciation would Stone Inc. record for the year 2015 on this machine? Round your final answer to the nearest dollar.
- a. \$18,818
 - b. \$22,500.
 - c. \$14,400.
 - d. \$22,000.
 - e. \$18,000.
 - f. \$27,500.
 - g. \$11,000.
 - h. None of the above is correct.

6. (1 point) Sweet Inc. reported beginning inventory for their Super Sugar Treat on May 1 as 1,450 packages at a cost of \$0.40 each. They also reported the following activity for May:

<u>Purchases</u>		<u>Sales</u>	
May 10	1,350 pkgs @\$0.42	May 2	1,400 pkgs
May 16	1,550 pkgs @\$0.48	May 17	1,500 pkgs
May 19	1,500 pkgs @\$0.50	May 25	1,100 pkgs

What is the ending inventory value at May 31 assuming LIFO and a periodic inventory system? Round your final answer to the nearest dollar.

- a. \$811.
 b. \$777.
 c. \$748.
 d. \$807.
 e. \$918.
 f. \$925.
 g. \$835.
 h. None of the above.
7. (1 point) Riley Corporation's trial balance reported the following account balances (in alphabetical order) at December 31, 2015:

Accounts receivable	\$18,600
Accumulated depreciation	24,100
Allowance for doubtful accounts	6,400
Cash	8,900
Cash held to retire bonds in 2017	12,700
Discount on note receivable	2,100
Equipment	45,300
Inventory.....	12,500
Note receivable (due 12/31/2016).....	13,500
Treasury bills (mature 9/1/2016)	8,000

The balance sheet for December 31, 2015 would report total current assets as:

- a. \$65,700.
 b. \$61,500.
 c. \$59,400.
 d. \$55,100.
 e. \$41,600.
 f. \$54,300.
 g. \$53,000.
 h. None of the above.

8. (1 point) Grant Corp had sales to customers of \$325,000 during 2015. The company estimates that 4% of all sales will be returned. The beginning and ending balance in the allowance for sales returns account was \$10,500 and \$14,200, respectively. The company reports that no merchandise from 2015 sales has been returned. What amount of merchandise did customers return from prior years' sales? Round all calculations to the nearest dollar.
- \$0.
 - \$13,000.
 - \$9,300.
 - \$16,700.
 - \$14,200.
 - \$3,700.
 - \$1,200.
 - None of the above.
9. (1 point) Farley Inc. owns equipment for which it paid \$140 million. At the end of 2015, it had accumulated depreciation on the equipment of \$42 million. Due to adverse economic conditions, Farley's management determined that it should assess whether impairment should be recognized for the equipment. The estimated undiscounted future cash flows to be provided by the equipment total \$105 million, and the equipment's fair value at that point is \$85 million. Under these circumstances, Farley:
- Would record a \$7 million impairment loss on the equipment.
 - Would record a \$13 million impairment loss on the equipment
 - Would record a \$20 million gain to write up the value of the equipment.
 - Would record no impairment loss on the equipment.
 - Would record a \$20 million impairment loss on the equipment.
 - Would record a \$7 million gain to write up the value of the equipment.
 - Would record a \$13 million gain to write up the value of the equipment.
 - None of the above is correct.
10. (1 point) Cross Company uses a LIFO inventory cost flow and had the following data related to the inventories:

	Product A	Product B	Product C	Product D
Selling price	\$255	\$105	\$330	\$165
Cost	\$165	\$90	\$225	\$145
Replacement cost	\$235	\$85	\$240	\$110
Disposal cost	\$25	\$10	\$20	\$10
Normal gross profit ratio	30%	15%	30%	20%

In applying the LCM rule, the inventory of **Product D** for Cross Company would be valued at:

- \$110.
- \$155.
- \$145.
- \$165.
- \$122.
- \$132.
- \$100.
- None of the above

Selected financial statement information and additional data for Brady Co. is presented below.

	<u>December 31</u>	
	<u>2014</u>	<u>2015</u>
Cash.....	\$46,700	\$64,500
Accounts receivable (net).....	89,600	113,200
Inventory.....	145,800	196,700
Land.....	48,200	26,000
Equipment.....	435,000	525,600
Accumulated depreciation.....	<u>(105,000)</u>	<u>(123,800)</u>
TOTAL.....	<u>\$660,300</u>	<u>\$1,081,200</u>
Accounts payable.....	54,300	64,100
Miscellaneous payables.....	35,600	21,800
Notes payable - Long-term.....	108,900	297,600
Common stock.....	395,000	487,200
Retained earnings.....	<u>66,500</u>	<u>210,500</u>
TOTAL.....	<u>\$660,300</u>	<u>\$1,081,200</u>

Additional data for 2015:

- Net income was \$212,000.
- Depreciation was \$18,800.
- Miscellaneous payables relate to operating expenses.
- Land was sold at its original cost.
- Dividends of \$68,000 were paid.
- Equipment was purchased for \$90,600 cash.

11. (2 points) The net cash provided by operating activities for 2015 was:

- a. \$84,900
- b. \$309,300
- c. \$230,800
- d. \$133,500
- e. \$134,500
- f. \$152,300
- g. \$94,400
- h. None of the above

Use the following information to answer the next two questions

On 8/1/2009 Armor Corp. purchased a building for \$650,000, paid closing costs of \$32,000, and paid \$22,500 to have the building prepared for use. During preparation for the new building, Armor Corp. was able to sell salvaged materials to a salvage company for \$15,000 in cash. Management of Armor Corp. estimates that the building will have a useful life of 20 years and a salvage value of \$145,000. The company depreciates its buildings using double-declining balance.

12. (1 point) Record the 8/1/2009 journal entry for the purchase of the building. What amount will Armor Corp. record as a debit to building?
- a. \$704,500.
 - b. \$559,500.
 - c. \$689,500.
 - d. \$657,500.
 - e. \$633,000.
 - f. \$595,500.
 - g. \$719,500.
 - h. None of the above.
13. (2 points) Assume that Armor Corp. originally recorded the building at a cost of \$700,000. On 5/1/2015 Armor Corp. sells the building for \$345,000. Record the journal entry for this transaction. What is the gain or loss Armor will record related to this sale? Round all calculations to the nearest dollar.
- a. Loss of \$27,927.
 - b. Gain of \$10,192.
 - c. Loss of \$176,523.
 - d. Loss of \$37,916.
 - e. Gain of \$41,402.
 - f. Loss of \$41,246.
 - g. Loss of \$11,508.
 - h. None of the above.
14. (2 points) Rushton Company adopted dollar-value LIFO on 12/31/2010. The inventory information is given below:

<u>Date</u>	<u>Ending Inventory (end-of-year prices)</u>	<u>Price Index</u>
12/31/2010	\$85,000	100
12/31/2011	\$119,240	110
12/31/2012	\$117,960	120
12/31/2013	\$140,750	125
12/31/2014	\$150,020	130

What is the ending inventory for Rushton using dollar-value LIFO at 12/31/2013?

- a. \$118,835
- b. \$117,505.
- c. \$140,750.
- d. \$130,805.
- e. \$99,300.
- f. \$113,930.
- g. \$119,500.
- h. None of the above.

15. (1 point) Kadman Company uses the FIFO method for internal reporting purposes and LIFO for external reporting purposes. The balance in the LIFO Reserve account at the end of 2014 was \$95,400. The balance in the same account at the end of 2015 is \$107,900. Kadman's Cost of Goods Sold account has a balance of \$326,000 from sales transactions recorded during the year. What amount should Kadman report as Cost of Goods Sold in the 2015 income statement? Assume Kadman Company is experiencing rising prices.
- \$218,100.
 - \$230,600.
 - \$338,500.
 - \$313,500.
 - \$326,000.
 - \$421,400.
 - \$433,900.
 - None of the above.

Sharky Inc. signed a \$800,000, 8% note on January 1, 2015 to finance the construction of a new building. Interest is payable annually on this construction loan. The company made the following expenditures related to the building in 2015:

4/1	\$750,000
5/1	\$870,000
8/1	\$1,200,000
12/1	\$1,500,000

Additional information is provided for other outstanding debt as follows:

- \$3,000,000, 10-year, 12% bond, dated 12/31/2008, interest payable annually.
- \$2,000,000, 6-year, 10% note, dated 12/21/2012, interest payable annually.

Interest revenue earned on unused construction funds in 2015 = \$42,300.

16. (2 points) What is the amount of interest to be capitalized in 2015 in relation to the construction of the building for Sharky? (Round the weighted average interest rate to two decimal places – for example, .04327 would be rounded to 4.33%. Round all other calculations to the nearest dollar.)
- \$172,360.
 - \$194,425.
 - \$148,470.
 - \$86,970.
 - \$197,960.
 - \$88,027.
 - \$129,270.
 - None of the above.

17. (2 points) Lily Company's accountant reported income from continuing operations of \$545,000 for the year ended 2015. The accountant also identified the following material transactions that occurred in 2015 that are not included in the income from continuing operations:
- Unrealized gain from foreign currency translation amounted to \$98,000.
 - The company has one of their operating divisions up for sale. The division qualifies as a component of the entity according to GAAP. The fair value and book value of the assets is \$1,050,000 and \$1,200,000, respectively. In addition, there was a loss from operations of \$275,500 for the year 2015.
 - Due to an incorrect entry, cost of goods sold was overstated by \$75,000 in the year 2014.

What is the amount of **comprehensive income** that will be reported by Lily for the year ended 2015? Assume the company's income tax rate is 30%.

- a. \$152,250.
 - b. \$204,750.
 - c. \$368,250.
 - d. \$420,750.
 - e. \$247,150.
 - f. \$315,750.
 - g. \$299,650.
 - h. None of the above.
18. (1 point) Carsen Company had a balance in the Allowance for Doubtful Accounts of \$17,400, a balance in Accounts Receivable of \$301,800, and a balance in the Allowance for Sales Returns of \$2,700 on January 1, 2015. Carsen estimates that 5% of total credit sales will prove to be uncollectible and 3% of sales will be returned. Carsen reported the following for 2015:

Credit Sales	\$357,000
Cash collections	296,200
Write-offs	11,300
Recoveries	4,100
Actual Sales Returns	2,200

What should Carsen report as the net realizable value of accounts receivable at December 31, 2015?

- a. \$309,840.
- b. \$281,700.
- c. \$321,050.
- d. \$307,640.
- e. \$313,850.
- f. \$329,050.
- g. \$320,540.
- h. None of the above.

Use the following information to answer the next two questions

Sally Company exchanged equipment used in manufacturing operations plus cash for similar equipment used in the operations of Linus Company. The following information pertains to the exchange:

	Equipment (cost)	Accumulated Depreciation	Fair Value of Equipment	Cash given up
Sally	\$30,000	\$20,400	\$12,800	\$1,500
Linus	\$26,700	\$9,800	\$14,300	\$0

19. (1 point) Prepare the journal entries to record the exchange on the books of both companies. Assume that the exchange **lacks** commercial substance. What amount of gain or loss will Sally and Linus record on the exchange, respectively?
- a. Sally will record a gain of \$3,200, and Linus will record a loss of \$2,600.
 - b. Sally will record a gain of \$0, and Linus will record a loss of \$2,600.
 - c. Sally will record a gain of \$0, and Linus will record a loss of \$0.
 - d. Sally will record a gain of \$3,200, and Linus will record a loss of \$0.
 - e. Sally will record a loss of \$2,600, and Linus will record a gain of \$0.
 - f. Sally will record a loss of \$2,600, and Linus will record a gain of \$11,100.
 - g. Sally will record a loss of \$0, and Linus will record a gain of \$11,100.
 - h. None of the above.
20. (1 point) Prepare the journal entries to record the exchange on the books of both companies. Assume that the exchange **has** commercial substance. What amount of gain or loss will Sally and Linus record on the exchange, respectively?
- a. Sally will record a gain of \$0, and Linus will record a loss of \$0.
 - b. Sally will record a gain of \$3,200, and Linus will record a loss of \$0.
 - c. Sally will record a gain of \$2,600, and Linus will record a loss of \$0.
 - d. Sally will record a loss of \$2,600, and Linus will record a gain of \$8,100.
 - e. Sally will record a loss of \$0, and Linus will record a gain of \$8,100.
 - f. Sally will record a gain of \$3,200, and Linus will record a loss of \$2,600.
 - g. Sally will record a loss of \$0, and Linus will record a gain of \$2,600.
 - h. None of the above.