B EXERCISES

(L0 2, 3) **E5-1B (Balance Sheet Classifications)** Presented below are a number of balance sheet accounts of Castillo Inc.

(a) Trading Securities.
(b) Work in Process.
(c) Investment in Preferred Stock.
(d) Unearned Subscription Revenue.
(e) Accrued Vacation Pay.
(f) Treasury Stock.
(g) Income Taxes Payable.
(h) Warehouse in Process of Construction.
(i) Deficit.
(j) Cash Dividends Payable.
(k) Petty Cash.
(l) Accrued Interest on Notes Payable.
(m) Accumulated Depreciation.
(n) Common Stock Distributable.

Instructions

For each of the accounts above, indicate the proper balance sheet classification. In the case of borderline items, indicate the additional information that would be required to determine the proper classification.

(L0 2, 3) **E5-2B (Classification of Balance Sheet Accounts)** Presented below are the captions of Chan Company's balance sheet.

(a) Current assets.
(b) Investments.
(c) Property, plant, and equipment.
(d) Intangible assets.
(e) Other assets.
(f) Current liabilities.
(g) Non-current liabilities.
(h) Capital stock.
(i) Additional paid-in capital.
(j) Retained earnings.

Instructions

Indicate by letter where each of the following items would be classified.

1. Cash surrender value of life insurance.
2. Prepaid insurance.
3. Taxes payable.
4. Bonds payable.
5. Notes payable (due next year).
6. Bond sinking fund.
7. Common stock.
8. Merchandise inventory.
9. Office supplies.
10. Land.
11. Trading securities.
12. Preferred stock.
13. Allowance for doubtful accounts.
14. Accounts receivable.
15. Goodwill.
16. Current portion of long-term debt.
17. Wages payable.
18. Buildings.
19. Premium on bonds payable.
20. Trade accounts payable.

(L0 2, 3) **E5-3B (Classification of Balance Sheet Accounts)** Assume that Clark Enterprises uses the following headings on its balance sheet.

(a) Current assets.
(b) Investments.
(c) Property, plant, and equipment.
(d) Intangible assets.
(e) Other assets.
(f) Current liabilities.
(g) Long-term liabilities.
(h) Capital stock.
(i) Paid-in capital in excess of par.
(j) Retained earnings.

Instructions

Indicate by letter how each of the following usually should be classified. If an item should appear in a note to the financial statements, use the letter "N" to indicate this fact. If an item need not be reported at all on the balance sheet, use the letter "X."

1. Twenty-year issue of bonds payable that will mature within the next year. (No sinking fund exists, and refunding is not planned.)
2. Machinery retired from use and held for sale.
3. Discount on bonds payable. (Assume related to bonds payable in No. 1, above.)
4. Accumulated depreciation.
5. Salaries that company budget shows will be paid to employees within the next year.
6. Accrued interest on bonds payable.
7. Fully depreciated machine still in use.
8. Accrued interest on notes receivable.
9. Premium on preferred stock.
10. Copyrights.
11. Unearned subscriptions revenue.
12. Stock owned in affiliated companies.
13. Advances to suppliers.
14. Treasury stock.
15. Unearned rent revenue.
16. Sales tax payable.
17. Petty cash fund.
18. Unexpired insurance.

(LO 2, 3) **E5-4B (Preparation of a Classified Balance Sheet)** Assume that Cluver Inc. has the following accounts at the end of the current year.

1. Accrued Salaries Payable.
2. Cash Restricted for Plant Expansion.
3. Land Held for Future Plant Site.
4. Accumulated Depreciation—Buildings.
5. Retained Earnings
6. Unearned Subscriptions Revenue.
7. Finished Goods.
8. Accounts Receivable.
9. Bonds Payable (due in 4 years).
10. Receivables—Officers (due in one year).
11. Premium on Common Stock.
12. Allowance for Doubtful Accounts—Accounts Receivable
13. Common Stock
14. Treasury Stock (at cost).
15. Raw Materials.
16. Unearned Rent Revenue.
17. Copyrights.
18. Notes Receivable (short-term).
19. Cash.
20. Buildings.
21. Work in Process.
22. Preferred Stock Investments—Long-term.
23. Note Payable, short-term
24. Discount on Bonds Payable.

Instructions

Prepare a classified balance sheet in good form. (No monetary amounts are necessary.)

(LO 3) **E5-5B (Current Assets Section of the Balance Sheet)** Presented below are selected accounts of Coffey Company at December 31, 2007.

Finished Goods	$ 78,000	Cost of Goods Sold	$3,150,000
Revenue Received in Advance	135,000	Notes Receivable	60,000
Bank Overdraft	12,000	Accounts Receivable	241,500
Equipment	379,500	Raw Materials	310,500
Work-in-Process	51,000	Supplies Expense	90,000
Cash	55,500	Allowance for Doubtful Accounts	18,000
Short-term Investments in Stock	46,500	Licenses	27,000
Customer Advances	54,000	Additional Paid-in Capital	132,000
Cash Restricted for Plant Expansion	75,000	Treasury Stock	33,000

The following additional information is available.

1. Inventories are valued at lower-of-cost-or-market using LIFO.
2. Equipment is recorded at cost. Accumulated depreciation, computed on a straight-line basis, is $75,900.
3. The short-term investments have a fair value of $43,500. (Assume they are trading securities.)
4. The notes receivable are due April 30, 2009, with interest receivable every April 30. The notes bear interest at 12%. (*Hint:* Accrue interest due on December 31, 2007.)
5. The allowance for doubtful accounts applies to the accounts receivable. Accounts receivable of $75,000 are pledged as collateral on a bank loan.
6. Licenses are recorded net of accumulated amortization of $21,000.
7. Treasury stock is recorded at cost.

Instructions

Prepare the current assets section of Coffey Company's December 31, 2007, balance sheet, with appropriate disclosures.

(LO 2) **E5-6B (Current vs. Long-term Liabilities)** Constantin Corporation is preparing its December 31, 2007, balance sheet. The following items may be reported as either a current or long-term liability.

1. At December 31, bonds payable of $200,000,000 are outstanding. The bonds pay 12% interest every September 30 and mature in installments of $50,000,000 every September 30, beginning September 30, 2008.
2. On December 15, 2007, Constantin declared a cash dividend of $5.00 per share to stockholders of record on December 31. The dividend is payable on January 15, 2008. Constantin has issued 1,000,000 shares of common stock, of which 50,000 shares are held in treasury.
3. Also on December 31, Constantin declared a 10% stock dividend to stockholders of record on January 15, 2008. The dividend will be distributed on January 31, 2008. Constantin's common stock has a par value of $20 per share and a market value of $76 per share.
4. At December 31, 2006, customer advances were $24,000,000. During 2007, Constantin collected $60,000,000 of customer advances, and advances of $50,000,000 were earned.

Instructions

For each item above indicate the dollar amounts to be reported as a current liability and as a long-term liability, if any.

(L0 3) **E5-7B (Current Assets and Current Liabilities)** The current assets and liabilities sections of the balance sheet of Cooper Company appear as follows.

COOPER COMPANY
BALANCE SHEET (PARTIAL)
DECEMBER 31, 2007

Cash		$100,000	Accounts payable	$152,500
Accounts receivable	$222,500		Notes payable	167,500
Less: Allowance for				$320,000
doubtful accounts	17,500	205,000		
Inventories		427,500		
Prepaid expenses		22,500		
		$755,000		

The following errors in the corporation's accounting have been discovered:

1. The inventory included $67,500 of merchandise that had been received at December 31 but for which no purchase invoices had been received or entered. Of this amount, $30,000 had been received on consignment; the remainder was purchased f.o.b. destination, terms 2/10, n/30.
2. January 2008 cash disbursements entered as of December 2007 included payments of accounts payable in the amount of $97,500, on which a cash discount of 2% was taken.
3. Cash, not including cash sales, collected in January 2008 and entered as of December 31, 2007, totaled $88,310. Of this amount, $58,310 was received on account after cash discounts of 2% had been deducted; the remainder represented the proceeds of a bank loan.
4. Sales for the first four days in January 2008 in the amount of $75,000 were entered in the sales book as of December 31, 2007. Of these, $53,750 were sales on account, and the remainder were cash sales.

Instructions

(a) Restate the current assets and liabilities sections of the balance sheet in accordance with good accounting practice. (Assume that both accounts receivable and accounts payable are recorded gross.)

(b) State the net effect of your adjustments on Cooper Company's retained earnings balance.

(L0 2) **E5-8B (Current Liabilities)** Travis is the controller of Dave Corporation and is responsible for the preparation of the year-end financial statements. The following transactions occurred during the year.

(a) Credit sales for the year amounted to $5,000,000. Dave's expense provision for doubtful accounts is estimated to be 3% of credit sales.

(b) On December 15, 2007, the company declared a $1.00 per share dividend on the 40,000 shares of common stock outstanding, to be paid on January 5, 2008.

(c) During the year, customer advances of $80,000 were received; $25,000 of this amount was earned by December 31, 2007.

(d) On December 1, 2007, the company borrowed $300,000 at 8% per year. Interest is paid quarterly.

(e) On December 20, 2007, an employee filed a legal action against Dave Corporation for $50,000 for wrongful dismissal. Management believes the action to be frivolous and without merit. The likelihood of payment to the employee is remote.

(f) Bonuses to key employees based on net income for 2007 are estimated to be $75,000.

Instructions

For each item above, indicate the dollar amount to be reported as a current liability. If a liability is not reported, explain why.

(L0 3) **E5-9B (Balance Sheet Preparation)** Presented below is the adjusted trial balance of De Young Corporation at December 31, 2007.

	Debits	Credits
Cash	$?	
Office Supplies	2,640	
Prepaid Insurance	2,200	
Equipment	105,600	
Accumulated Depreciation—Equipment		$ 8,800
Trademarks	2,090	
Accounts Payable		22,000
Wages Payable		1,100
Unearned Service Revenue		4,400
Bonds Payable, due 2014		19,800
Common Stock		22,000
Retained Earnings		55,000
Service Revenue		22,000
Wages Expense	19,800	
Insurance Expense	3,080	
Rent Expense	2,640	
Interest Expense	1,980	
Total	$?	$?

Additional information:

1. Net loss for the year was $5,500.
2. No dividends were declared during 2007.

Instructions

Prepare a classified balance sheet as of December 31, 2007.

(LO 3) **E5-10B (Preparation of a Balance Sheet)** Presented below is the trial balance of Do Corporation at December 31, 2007.

	Debits	Credits
Cash	$ 98,500	
Sales		$4,050,000
Trading Securities (at cost, $145,000)	76,500	
Cost of Goods Sold	2,400,000	
Long-term Investments in Bonds	149,500	
Long-term Investments in Stocks	138,500	
Short-term Notes Payable		45,000
Accounts Payable		227,500
Selling Expenses	1,000,000	
Investment Revenue		31,500
Land	130,000	
Buildings	520,000	
Dividends Payable		68,000
Accrued Liabilities		48,000
Accounts Receivable	217,500	
Accumulated Depreciation—Buildings		76,000
Allowance for Doubtful Accounts		12,500
Administrative Expenses	450,000	
Interest Expense	105,500	
Inventories	298,500	
Extraordinary Gain		40,000
Prior Period Adjustment—Depr. Error	70,000	
Long-term Notes Payable		450,000
Equipment	300,000	
Bonds Payable		500,000
Accumulated Depreciation—Equipment		30,000
Franchise (net of $80,000 amortization)	80,000	
Common Stock ($5 par)		500,000
Treasury Stock	95,500	
Patent (net of $30,000 amortization)	97,500	
Retained Earnings		109,000
Additional Paid-in Capital		40,000
Totals	$6,227,500	$6,227,500

Instructions

Prepare a balance sheet at December 31, 2007, for Do Corporation. Ignore income taxes.

(LO 7) **E5-11B (Statement of Cash Flows—Classifications)** The major classifications of activities reported in the statement of cash flows are operating, investing, and financing. Classify each of the transactions listed below as:

1. Operating activity—add to net income.
2. Operating activity—deduct from net income.
3. Investing activity.
4. Financing activity.
5. Not reported as a cash flow.

The transactions are as follows.

(a) Depreciation of machinery.
(b) Payment of cash dividends.
(c) Purchase of treasury stock.
(d) Decrease in accounts payable during the year.
(e) Increase in accounts receivable during the year.
(f) Loss on sale of equipment.
(g) Exchange of furniture for office equipment.
(h) Sale of equipment.
(i) Purchase of land and building.
(j) Amortization of patent.
(k) Issuance of bonds for plant assets.
(l) Redemption of bonds.
(m) Issuance of capital stock.

(LO 8) **E5-12B (Preparation of a Statement of Cash Flows)** The comparative balance sheets of Duong Inc. at the beginning and the end of the year 2007 appear below.

DUONG INC.
BALANCE SHEETS

Assets	Dec. 31, 2007	Jan. 1, 2007	Inc./Dec.
Cash	$ 90,000	$ 26,000	$64,000 Inc.
Accounts receivable	182,000	176,000	6,000 Inc.
Equipment	78,000	44,000	34,000 Inc.
Less: Accumulated depreciation	(34,000)	(22,000)	12,000 Inc.
Total	$316,000	$224,000	
Liabilities and Stockholders' Equity			
Accounts payable	$ 40,000	$ 30,000	$10,000 Inc.
Common stock	200,000	160,000	40,000 Inc.
Retained earnings	76,000	34,000	42,000 Inc.
Total	$316,000	$224,000	

Net income of $88,000 was reported, and dividends of $46,000 were paid in 2007. New equipment was purchased and none was sold.

Instructions

Prepare a statement of cash flows for the year 2007.

(LO 8) **E5-13B (Preparation of a Statement of Cash Flows)** Presented below is a condensed version of the comparative balance sheets for Garcia Corporation for the last two years at December 31.

	2007	2006
Cash	$442,500	$195,000
Accounts receivable	450,000	462,500
Investments	130,000	185,000
Equipment	745,000	600,000
Less: Accumulated depreciation	(265,000)	(222,500)
Current liabilities	335,000	377,500
Capital stock	400,000	400,000
Retained earnings	767,500	442,500

Additional information:
Investments were sold at a loss (not extraordinary) of $25,000; no equipment was sold; cash dividends paid were $75,000; and net income was $400,000.

Instructions

(a) Prepare a statement of cash flows for 2007 for Garcia Corporation.
(b) Determine Garcia Corporation's free cash flow.

(LO 8) **E5-14B (Preparation of a Statement of Cash Flows)** A comparative balance sheet for Gokhale Corporation is presented below.

	December 31	
Assets	2007	2006
Cash	$109,500	$ 33,000
Accounts receivable	123,000	99,000
Inventories	270,000	283,500
Land	106,500	165,000
Equipment	390,000	300,000
Accumulated depreciation—equipment	(103,500)	(63,000)
Total	$895,500	$817,500
Liabilities and Stockholders' Equity		
Accounts payable	$ 51,000	$ 70,500
Bonds payable	225,000	300,000
Common stock ($1 par)	321,000	246,000
Retained earnings	298,500	201,000
Total	$895,500	$817,500

Additional information:

1. Net income for 2007 was $187,500.
2. Cash dividends of $90,000 were declared and paid.
3. Bonds payable amounting to $75,000 were retired through issuance of common stock.

Instructions

(a) Prepare a statement of cash flows for 2007 for Gokhale Corporation.
(b) Determine Gokhale Corporation's current cash debt coverage ratio, cash debt coverage ratio, and free cash flow. Comment on its liquidity and financial flexibility.

(LO 3, 8) **E5-15B (Preparation of a Statement of Cash Flows and a Balance Sheet)** Gonzalvo Corporation's balance sheet at the end of 2006 included the following items.

Current assets	$282,000	Current liabilities	$180,000
Land	36,000	Bonds payable	120,000
Building	144,000	Common stock	216,000
Equipment	108,000	Retained earnings	52,800
Accum. depr.—building	(36,000)	Total	$568,800
Accum. depr.—equipment	(13,200)		
Patents	48,000		
Total	$568,800		

The following information is available for 2007.

1. Treasury stock was purchased at a cost of $13,200.
2. Cash dividends of $36,000 were declared and paid.
3. A long-term investment in stock was purchased for $19,200.
4. Current assets other than cash increased by $34,800. Current liabilities increased by $15,600.
5. Depreciation expense was $4,800 on the building and $10,800 on equipment.
6. Net income was $66,000.
7. Bonds payable of $60,000 were issued.
8. An addition to the building was completed at a cost of $32,400.
9. Patent amortization was $3,000.
10. Equipment (cost $24,000 and accumulated depreciation $9,600) was sold for $12,000.

Instructions

(a) Prepare a statement of cash flows for 2007.
(b) Prepare a balance sheet at December 31, 2007.

(LO 2, 3) **E5-16B (Classification of Balance Sheet Accounts)** Presented below are the captions of Rosa Company's balance sheet.

(a) Current assets.
(b) Investments.
(c) Property, plant, and equipment.
(d) Intangible assets.
(e) Other assets.
(f) Current liabilities.
(g) Non-current liabilities.
(h) Capital stock.
(i) Additional paid-in capital.
(j) Retained earnings.

Instructions

Indicate by letter where each of the following items would be classified.

1. Treasury stock.
2. Copyrights.
3. Dividends payable.
4. Accounts payable.
5. Equipment.
6. Trading securities.
7. Current portion of long-term debt.
8. Discount on bonds payable.
9. Prepaid expenses.
10. Inventory.
11. Cash surrender value of life insurance.
12. Notes payable (due in 6 months).
13. Office supplies.
14. Additional paid-in capital—common stock.
15. Land improvements.
16. Bond sinking fund.
17. Inventory.
18. Short-term notes receivable.
19. Bonds payable.
20. Income taxes payable.

(LO 2, 3) **E5-17B (Preparation of a Classified Balance Sheet)** Assume that Cedeno Inc. has the following accounts at the end of the current year.

1. Common Stock.
2. Premium on Bonds Payable.
3. Treasury Stock (at cost).
4. Note Payable, short-term.
5. Inventory.
6. Investments—long-term.
7. Unearned Revenue.
8. Advances to Employees.
9. Trademarks.
10. Buildings.
11. Accrued Salaries Payable.
12. Cash.
13. Accumulated Depreciation—Buildings.
14. Bonds Payable (due in 4 years).
15. Land Held for Future Plant Site.
16. Allowance for Doubtful Accounts—Accounts Receivable.
17. Retained Earnings.
18. Premium on Common Stock.
19. Unearned Subscriptions Revenue.
20. Prepaid Insurance.
21. Notes Receivable.
22. Accounts Receivable.

Instructions

Prepare a classified balance sheet in good form. (No monetary amounts are necessary.)

(LO 3) **E5-18B (Balance Sheet Preparation)** Presented below is the adjusted trial balance of Zambrano Corporation at December 31, 2007.

	Debits	Credits
Cash	$ 13,700	
Supplies	2,400	
Prepaid Advertising	2,000	
Equipment	96,000	
Accumulated Depreciation—Equipment		$ 8,000
Copyrights	1,900	
Accounts Payable		20,000
Salaries Payable		1,000
Unearned Revenue		4,000
Bonds Payable, due in 5 years		18,000
Common Stock		20,000
Retained Earnings		50,000
Service Revenue		20,000
Salary Expense	8,000	
Insurance Expense	2,800	
Rent Expense	2,400	
Interest Expense	1,800	
Total	$141,000	$141,000

Additional information:

1. Net income for the year was $5,000.
2. No dividends were declared during 2007.

Instructions

Prepare a classified balance sheet as of December 31, 2007.

(LO 7) **E5-19B (Statement of Cash Flows—Classifications)** The major classifications of activities reported in the statement of cash flows are operating, investing, and financing. Classify each of the transactions listed below as:

1. Operating activity—add to net income.
2. Operating activity—deduct from net income.
3. Investing activity.
4. Financing activity.
5. Not reported as a cash flow.

The transactions are as follows.

(a) Issuance of bonds.
(b) Purchase of equipment.
(c) Purchase of treasury stock.
(d) Sale of equipment.
(e) Depreciation of machinery.
(f) Payment of cash dividends.
(g) Exchange of furniture for office equipment.
(h) Increase in accounts receivable.
(i) Loss on sale of equipment.

(LO 8, 9) **E5-20B (Preparation of a Statement of Cash Flows)** A comparative balance sheet for Harrison Corporation is presented below.

	December 31	
Assets	2007	2006
Cash	$ 36,500	$ 11,000
Accounts receivable	41,000	33,000
Inventory	90,000	94,500
Building	130,000	100,000
Accumulated depreciation—building	(34,500)	(21,000)
Land	35,500	55,000
Total	$298,500	$272,500
Liabilities and Stockholders' Equity		
Accounts payable	$ 17,000	$ 23,500
Bonds payable	75,000	100,000
Common stock ($1 par)	107,000	82,000
Retained earnings	99,500	67,000
Total	$ 298,500	$272,500

Additional information:

Cash dividends of $30,000 were declared and paid.
Bonds payable of $25,000 were converted to common stock.

Instructions

Prepare a statement of cash flows for the current year.