

Problem 1:

For a business that makes advance provision for uncollectible receivables:

- (a) Journalize the entries to record the following:
- (1) Record the adjusting entry at December 31, the end of the fiscal year, to provide for doubtful accounts. The accounts receivable account has a balance of \$900,000, and the contra asset account before adjustment has a debit balance of \$2,000. Analysis of the receivables indicates doubtful accounts of \$24,000.
 - (2) In March of the following fiscal year, the \$800 owed by Kik Co. on account is written off as uncollectible.
 - (3) Eight months later, \$500 of the Kik Co. account is reinstated and payment of that amount is received.
 - (4) In October, \$600 is received on the \$900 owed by Fox Co. and the remainder is written off as uncollectible.
- (b) Based on the data in (a) (1) above, what is the net realizable value of the accounts receivable as reported on the balance sheet as of December 31?
- (c) Assuming that the business had been following the direct write-off procedure in accounting for uncollectible receivables, journalize the entries to record the following:
- (1) Recorded write-off of account of Kik Co. [(a) (2) above].
 - (2) Reinstated account of Kik Co. for \$500 and recorded payment of that amount received [(a) (3) above].
 - (3) Recorded the receipt of \$600 from Fox Co. in (a) (4) above and wrote off the remainder owed as uncollectible.

Problem 2:

Prepare entries to record the following selected transactions completed during the current fiscal year:

- Feb. 1 The board of directors reduced the par of common shares from \$100 to \$20. This action increased the number of outstanding shares to 500,000.
- 11 Purchased 25,000 shares of own stock at \$20, recording the treasury stock at cost.
- May 1 Declared a dividend of \$2 per share on the outstanding shares of common stock..
- 15 Paid the dividend declared on May 1.
- Oct. 19 Declared a 2% stock dividend on the common stock outstanding (the fair market value of the stock to be issued is \$50).
- Nov. 12 Issued the certificates for the common stock dividend declared on October 19.

Problem 3:

The comparative balance sheet of SARS Company, for the current year and the preceding year ended December 31, 2003, appears below in condensed form:

	<u>Current</u> <u>Year</u>	<u>Preceding</u> <u>Year</u>
Cash	\$ 68,000	\$ 42,500
Accounts receivable (net)	61,000	70,200
Inventories	121,000	105,000
Investments	100,000
Equipment	515,000	425,000
Accumulated depreciation-equipment	<u>(153,000)</u>	<u>(175,000)</u>
	<u>\$612,000</u>	<u>\$567,700</u>
Accounts payable	\$ 59,750	\$ 47,250
Bonds payable, due 2000	75,000
Common stock, \$20 par	375,000	325,000
Premium on common stock	50,000	25,000
Retained earnings	<u>127,250</u>	<u>95,450</u>
	<u>\$612,000</u>	<u>\$567,700</u>

Additional data for the current year are as follows:

- (a) Net income, \$71,800.
- (b) Depreciation reported on income statement, \$38,000.
- (c) Fully depreciated equipment costing \$60,000 was scrapped, no salvage, and equipment was purchased for \$150,000.
- (d) Bonds payable for \$75,000 were retired by payment at their face amount.
- (e) 2,500 shares of common stock were issued at \$30 for cash.
- (f) Cash dividends declared and paid, \$40,000.
- (g) Investments of \$100,000 were sold for \$125,000.

Prepare a statement of cash flows using the indirect method.

Problem 4:

ACE Soft Drinks makes three products: iced tea, soda, and lemonade. The following data are available:

	<u>Iced Tea</u>	<u>Soda</u>	<u>Lemonade</u>
Sales price per unit	\$.90	\$.60	\$1.00
Variable cost per unit	.30	.10	.30
Fixed cost per unit	.15	.10	.35

ACE is experiencing a bottleneck in one of its processes that affects each product as follows:

	<u>Iced Tea</u>	<u>Soda</u>	<u>Lemonade</u>
Bottleneck process hours per unit	3	2	2

- (a) Rank the products in terms of profitability. Explain.
- (b) What price for lemonade would equate its profitability to that of soda?