|  |
| --- |
| At March 31, 2010, the end of the first year of operations at Jaryd, Inc., the firm’s accountant neglected to accrue payroll taxes of $2,737 that were applicable to payrolls for the year then ended. |



 1.



|  |
| --- |
| **Requirement 1:** |

|  |  |
| --- | --- |
| **(a)** | Prepare the horizontal model to show the effect of the accrual that should have been made as of March 31, 2010. (+ for increase, - for decrease and NE for no effect). |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Balance Sheet | | | | |  | Income Statement | | | | |
|  | | | | |  |  | | | | |
| Assets | = | Liabilities | + | Owners’ Equity | ← | Net income | = | Revenues | – | Expenses |
|  |  |  |  |  |  |  |  |  |  |  |
|  | | | | | | | | | | |

[check my work](javascript:;)[eBook Link](javascript:doEbook('13252698212640399',%20E_13252698212640399,'http://connect.mcgraw-hill.com/connect/novellaEbook.do?location=/sites/0077269454/student_view0/ebook/chapter7/chbody1/current_liabilities.htm#lo4');) [references](http://ezto.mhecloud.mcgraw-hill.com/)

|  |  |  |
| --- | --- | --- |
| **Worksheet** | Difficulty: Easy |  |



 2.



|  |  |
| --- | --- |
| **(b)** | Record the journal entry to show the effect of the accrual that should have been made as of March 31, 2010.**(Omit the "$" sign in your response.)** |

|  |  |  |  |
| --- | --- | --- | --- |
| Date | General Journal | Debit | Credit |
| 3/31/10 |  |  |  |
|  |  |  |  |
|  | | | |

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|  |  |  |
| --- | --- | --- |
| **Worksheet** | Difficulty: Easy |  |



3.



|  |
| --- |
| **Requirement 2:** |
| Determine the income statement and balance sheet effects of not accruing payroll taxes at March 31, 2010. |

|  |  |
| --- | --- |
|  |  |
| Effect on expense |  |
| Effect on net income |  |
| Effect on current liabilities |  |
| Effect on retained earnings |  |
|  | |

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|  |  |  |
| --- | --- | --- |
| **Worksheet** | Difficulty: Easy |  |



 4.



|  |
| --- |
| **Requirement 3:** |
| Assume that when the payroll taxes were paid in April 2010, the payroll tax expense account was charged. Assume that at March 31, 2011, the accountant again neglected to accrue the payroll tax liability, which was $3,167 at that date. Determine the income statement and balance sheet effects of not accruing payroll taxes at March 31, 2011. **(Omit the "$" sign in your response.)** |

|  |  |
| --- | --- |
| **(a)** | Effect on net income for year ended 3/31/11: |

|  |
| --- |
| Net effect is that expense this year is $  too , and profits this year are   $ too . |

|  |  |
| --- | --- |
| **(b)** | Effect on the 3/31/11 balance sheet: |

|  |
| --- |
| Current liabilities are $  , and retained earnings is $      . |

|  |
| --- |
| Manco Co. issued $4 million face amount of 9%, 10-year bonds on June 1, 2010. The bonds pay interest on an annual basis on May 31 each year. |



 5.

|  |
| --- |
| **Required:** |

|  |  |
| --- | --- |
| **(a)** | Assume that the market [interest rates](http://ezto.mhecloud.mcgraw-hill.com/) were slightly higher than 9% when the bonds were sold. Would the proceeds from the bond issue have been more than, less than, or equal to the face amount? |

|  |  |
| --- | --- |
|  | The bonds will sell for less than their face amount. |
|  | The bonds will sell for more than their face amount. |
|  | The bonds will sell for equal to their face amount. |

9.



|  |
| --- |
| On March 1, 2005, Joe purchased $60,000 of White Co.'s 6%, 17-year [bonds](http://ezto.mhecloud.mcgraw-hill.com/) at face value. White Co. has paid the annual interest due on the bonds regularly. On March 1, 2010, market [interest rates](http://ezto.mhecloud.mcgraw-hill.com/) had risen to 10%, and Joe is considering selling the bonds. |

|  |
| --- |
| **Required:** |
| Using the present value tables ([Table 6-4](http://ezto.mhhmdemo.mcgraw-hill.com/servlet/TestPilot4/lazerwords/12592890619597600.tp4/table6-4b.jpg) and [Table 6-5](http://ezto.mhhmdemo.mcgraw-hill.com/servlet/TestPilot4/lazerwords/12592890619597600.tp4/table6-5b.jpg)), calculate the market value of Joe’s bonds on March 1, 2010. **(Round pv factor to 4 decimal places and the final answer to 2 decimal places. Omit the "$" sign in your response.)** |

|  |  |
| --- | --- |
| Market value | $ |

|  |
| --- |
| Use the following transactions. |

|  |  |
| --- | --- |
| a. | [Income](http://ezto.mhecloud.mcgraw-hill.com/) tax expense of $897 for the current period is accrued. Of the accrual, $255 represents deferred [income taxes](http://ezto.mhecloud.mcgraw-hill.com/). |
| b. | Bonds payable with a face amount of $7,400 are issued at a price of 97. |
| c. | Of the proceeds from the bonds in part b, $5,650 is used to purchase land for future expansion. |
| d. | Because of warranty [claims](http://ezto.mhecloud.mcgraw-hill.com/), finished goods inventory costing $139 is sent to customers to replace [defective products](http://ezto.mhecloud.mcgraw-hill.com/). |
| e. | A three-month, 11% note payable with a face amount of $16,500 was signed. The bank made the [loan](http://ezto.mhecloud.mcgraw-hill.com/) on a discount basis. |
| f. | The next installment of a long-term serial bond requiring an annual principal repayment of $31,000 will become due within the current year. |



 10.



|  |
| --- |
| **Required:** |

|  |  |
| --- | --- |
| **(a)** | Show the effect, if any, of each transaction/adjustment on the appropriate [balance sheet](http://ezto.mhecloud.mcgraw-hill.com/) category or on net income by entering for each category affected the account name and amount, and indicating whether it is an addition (+) or a subtraction (–) or no effect (NE). Items that affect net income should not also be shown as affecting owners' equity. |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Transaction/ Adjustment | Current Assets | Noncurrent Assets | Current Liabilities | Noncurrent Liabilities | Owners' Equity | Net Income |
| a. |  |  |  |  |  |  |
| b. |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| c. |  |  |  |  |  |  |
| d. |  |  |  |  |  |  |
| e. |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| f. |  |  |  |  |  |  |
|  | | | | | | |



 11.

|  |  |
| --- | --- |
| **(b)** | Record the journal entries to show each transaction/adjustment. **(Omit the "$" sign in your response.)** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Events | General Journal | Debit | [Credit](http://ezto.mhecloud.mcgraw-hill.com/) | |
| a. |  |  |  | |
|  |  |  |  | |
|  |  |  |  | |
|  |  |  |  | |
| b. |  |  |  | |
|  |  |  |  | |
|  |  |  |  | |
|  |  |  |  | |
| c. |  |  |  | |
|  |  |  |  | |
|  |  |  |  | |
| d. |  |  |  | |
|  |  |  |  | |
|  |  |  |  | |
| e. |  |  |  | |
|  |  |  |  | |
|  |  |  |  | |
|  |  |  |  | |
| f. |  |  |  | |
|  |  |  |  | |
|  | | | | |
| On November 1, 2010, Gordon Co. collected $6,540 in cash from its tenant as an advance rent [payment](http://ezto.mhecloud.mcgraw-hill.com/) on its store location. The six-month lease period ends on April 30, 2011, at which time the contract may be renewed. | | | |



 12.



|  |  |
| --- | --- |
| **Requirement 1:** | |
| **(a)** | Prepare the horizontal model to record the effect of the six months rent collected in advance on November 1, 2010 for Gordon Co. (+ for increase, - for decrease and NE for no effect). |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Balance Sheet | | | | |  | Income Statement | | | | |
|  | | | | |  |  | | | | |
| Assets | = | Liabilities | + | Owners’ Equity | ← | Net income | = | Revenues | – | Expenses |
|  |  |  |  |  |  |  |  |  |  |  |
|  | | | | | | | | | | |

|  |  |
| --- | --- |
| **(b)** | Prepare the horizontal model to record the effect of the adjustment that will be made at the end of every month to show the amount of rent "earned" during the month for Gordon Co. (+ for increase, - for decrease and NE for no effect). |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Balance Sheet | | | | |  | [Income](http://ezto.mhecloud.mcgraw-hill.com/) Statement | | | | |
|  | | | | |  |  | | | | |
| Assets | = | Liabilities | + | Owners’ Equity | ← | Net income | = | Revenues | – | Expenses |
|  |  |  |  |  |  |  |  |  |  |  |
|  | | | | | | | | | | |

 13.



|  |  |
| --- | --- |
| **(c)** | Record the journal entry to show the effect of the six months rent collected in advance on November 1, 2010 for Gordon Co. **(Omit the "$" sign in your response.)** |

|  |  |  |
| --- | --- | --- |
| General Journal | Debit | Credit |
|  |  |  |
|  |  |  |
|  | | |

|  |  |
| --- | --- |
| **(d)** | Record the journal entry to show the effect of the adjustment that will be made at the end of every month to show the amount of rent "earned" during the month for Gordon Co. **(Omit the "$" sign in your response.)** |

|  |  |  |
| --- | --- | --- |
| General Journal | Debit | [Credit](http://ezto.mhecloud.mcgraw-hill.com/) |
|  |  |  |
|  |  |  |
|  | | |



 14.



|  |
| --- |
| **Requirement 2:** |
| Calculate the amount of unearned rent that should be shown on the December 31, 2010, balance sheet with respect to this lease. **(Omit the "$" sign in your response.)** |

|  |  |
| --- | --- |
| Unearned rent | $ |



15.



|  |
| --- |
| **Requirement 3:** |
| Suppose the advance collection received on November 1, 2010, covered an 30-month lease period at the same amount of rent per month. How should Gordon Co. report the unearned rent amount on its December 31, 2010, balance sheet? **(Omit the "$" sign in your response.)** |

|  |  |
| --- | --- |
|  | |
| Current liability | $ |
| Noncurrent liability | $ |
|  | |

|  |
| --- |
| On January 1, 2010, Taught Inc., issued $12 million face amount of 20-year, 14% stated rate bonds when market [interest rates](http://ezto.mhecloud.mcgraw-hill.com/) were 16%. The bonds pay interest semiannually each June 30 and December 31 and mature on December 31, 2029. |



16.



|  |  |
| --- | --- |
| **Required:** | |
| **(a)** | Using the present value tables ([Table 6-4](http://ezto.mhhmdemo.mcgraw-hill.com/servlet/TestPilot4/lazerwords/12591248649422900.tp4/ch07.6-4.jpg) and [Table 6-5](http://ezto.mhhmdemo.mcgraw-hill.com/servlet/TestPilot4/lazerwords/12591248649422900.tp4/table6-5.jpg)), calculate the proceeds (issue price) of Taught Inc.'s, bonds on January 1, 2010, assuming that the bonds were sold to provide a market rate of return to the investor. **(Round pv factor to 4 decimal places and the final answer to the nearest dollar amount. Omit the "$" sign in your response.)** |

|  |  |
| --- | --- |
| Proceeds | $ |



 17.



|  |  |
| --- | --- |
| **(b)** | Assume instead that the proceeds were $12,453,000. Prepare the horizontal model to record the payment of semiannual interest and the related premium [amortization](http://ezto.mhecloud.mcgraw-hill.com/) on June 30, 2010, assuming that the premium of $453,000 is amortized on a straight-line basis. (+ for increase, - for decrease and NE for no effect). |

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Balance Sheet | | | | |  | [Income](http://ezto.mhecloud.mcgraw-hill.com/) Statement | | | | |
|  | | | | |  |  | | | | |
| Assets | = | Liabilities | + | Owners’ Equity | ← | Net income | = | Revenues | – | Expenses |
|  |  |  |  |  |  |  |  |  |  |  |
|  | | | | | | | | | | |



18.



|  |  |
| --- | --- |
| **(c)** | Assume instead that the proceeds were $12,453,000. Record the journal entry to show the [payment](http://ezto.mhecloud.mcgraw-hill.com/) of semiannual interest and the related premium amortization on June 30, 2010, assuming that the premium of $453,000 is amortized on a straight-line basis. **(Omit the "$" sign in your response.)** |

|  |  |  |
| --- | --- | --- |
| General Journal | Debit | [Credit](http://ezto.mhecloud.mcgraw-hill.com/) |
|  |  |  |
|  |  |  |
|  |  |  |
|  | | |

[check my work](javascript:;)[eBook Link](javascript:doEbook('13252698212592374',%20E_13252698212592374,'http://connect.mcgraw-hill.com/connect/novellaEbook.do?location=/sites/0077269454/student_view0/ebook/chapter7/chbody1/noncurrent_liabilities.htm#lo8');) [references](http://ezto.mhecloud.mcgraw-hill.com/)

|  |  |  |
| --- | --- | --- |
| **Worksheet** | Difficulty: Hard |  |



 19.

|  |  |
| --- | --- |
| **(d)** | If the premium in part (b) were amortized using the [compound interest](http://ezto.mhecloud.mcgraw-hill.com/) method, would interest expense for the year ended December 31, 2010, be more than, less than, or equal to the interest expense reported using the straight-line method of premium [amortization](http://ezto.mhecloud.mcgraw-hill.com/)? |

|  |  |
| --- | --- |
|  | Interest expense will be the same. |
|  | Interest expense will be less. |
|  | Interest expense will be more. |