1. Consider the current asset accounts (cash, accounts, receivable and inventory) individually and as a group. What impact will the following transactions have on each account and current assets in total (Increase, Decrease, No change)? (Hint: Each transaction has two sides that are equal in amount but opposite in sign. Consider whether the sides offset within current assets or if one side is recorded somewhere else.)
2. The purchase of a fixed asset for cash
3. The purchase of a fixed asset on credit
4. The purchase of inventory for cash
5. The purchase of inventory on credit
6. Customer payment of an account receivable
7. Writing off a customer’s bad debt (assume the allowance process is in placw)
8. The sale of a fixed asset for cash
9. The sale of inventory (at a profit) for cash
10. The sale of inventory (at a loss) for cash
11. The sale of inventory (at a profit) on credit
12. Preston Road Inc. was organized last year when its founder contributed $9 million and issued 3 million shares of $1.25 par value stock. The company earned $750,000 in its first year and paid dividends of $325,000. Construct the Equity section of Prestons Road’s balance sheet as of the end of the year.
13. Choosing the right bond: the first bond is offered by Microsoft Corp. and pays an interest rate of 8%. The second option is offered by the city of Springfield, Massachusetts and offers a return of 6%. Harry feels that the risk levels inherent in the two bonds are similar. They both mature in 10 years. Harry is single has taxable income of $125,000 in 2009 and lives in a state that has no personal income tax. Which bond should harry choose? (show calculations)
14. Inky Inc. reported the following information in 2009.

Operating income (EBIT) $650,000

Interest $430,000

Dividends from Printers Inc. not included in operating

Income (Inky owns 3% of Printers) $ 20,000

Dividends paid to Inky’s stockholders $50,000

1. What is Inky’s tax liability? (Tax schedule below)
2. What is Inky’s marginal tax rate?
3. What is Inky’s average tax rate?
4. Explain why only one of the rates in b and c is relevant for financial decisions?

TAX SCHEDULE FOR QUESTION # 4

Income($) Rate (%)

0-50,000 15

50,000-75,000 25

75,000-100,000 34

100,000-335,000 39

335,000-10,000,000 34

10,000,000-15,000,000 35

15,000,000-18,333,333 38

Over 18,333,333 35