**Problem 10.1A**

Fifteen transactions or events affecting Computer Specialists, Inc., are as follows:

1. Made a year-end adjusting entry to accrue interest on a note payable.
2. A liability classified for several years as long-term becomes due within the next 12 months.
3. Recorded the regular biweekly payroll, including payroll taxes, amounts withheld from employees, and the issuance of paychecks.
4. Earned an amount previously recorded as unearned revenue.
5. Made arrangements to extend a bank loan due in 60 days for another 18 months,
6. Made a monthly payment on a fully amortizing installment note payable. (Assume this note is classified as a current liability.)
7. Called bonds payable due in seven years at a price above the carrying value of the liability in the accounting records.
8. Issued bonds payable at 97 on May 1, 2009. The bonds pay interest May 1 and November 1.
9. Recorded November 1, 2009, interest expense and made semiannual interest payment on bonds referred to in part **h**.
10. Recorded necessary adjusting entry on December 31, 2009, for bonds referred to in part **h**.
11. Issued bonds payable at 102 on July 31, 2009. The bonds pay interest July 31 and January 31.
12. Recorded necessary adjusting entry on December 31, 2009, for bonds referred to in part **k**.
13. Recorded an estimated liability for warranty claims.
14. Entered into a two-year commitment to buy all hard drives from a particular supplier at a price 10 percent below market.
15. Received notice that a lawsuit has been filed against the company for $7 million. The amount of the company’s liability, if any, cannot be reasonably estimated at this time.

**Instructions**

Indicate the effects of each of these transactions upon the following elements of the company’s financial statements. Organize your answer in tabular form, using the column headings shown below. Use the following code letters to indicate the effects of each transaction on the accounting element listed in the column headings: **I** for increase, **D** for decrease, and **NE** for no effect.

**Income Statement Balance Sheet**

**Transaction Revenue – Expenses = Net Income Assets = Current Liab. + Long-Term Liab. + Owners’ Equity**

**a**

**Problem 11.2A**

Waller Publications was organized early in 2004 with authorization to issue 20,000 shares of $100 par value preferred stock and 1 million shares of $1 par value common stock. All of the preferred stock was issued at par, and 300,000 shares of common stock were sold for $20 per share. The preferred stock pays a 10 percent cumulative dividend.

During the first five years of operations (2004 through 2008) the corporation earned a total of $4,460,000 and paid dividends of $1 per share each year on the common stock. In 2009, however, the corporation reported a net loss of $1,750,000 and paid no dividends.

**Instructions**

1. Prepare the stockholders’ equity section of the balance sheet at December 31, 2009. Include a supporting schedule showing your computation of retained earnings at the balance sheet date. (Hint: Income increases retained earnings, whereas dividends and net losses decrease retained earnings.)
2. Draft a note to accompany the financial statements disclosing any dividends in arrears at the end of 2009.
3. Do the dividends in arrears appear as a liability of the corporation as of the end of 2009? Explain.

**Problem 14.1A**

Campers, Inc., manufactures camping equipment. Shown below for the current year are the income statement for the company and a common size summary for the industry in which the company operates. (notice that the percentages in the right-hand column are *not* for Campers, Inc., but are the average percentages for the industry.)

**Campers, Inc. Industry Average**

Sales (net)…………………………………………….. $20,000,000 100%

Cost of goods sold………………………………… 9,800,000 57

Gross profit on sales…………………………….. $10,200,000 43%

Operating expenses:

Selling……………………………………………. $4,200,000 16%

General and administrative………….. 3,400,000 20

Total operating expenses……………………. $7,600,000 36%

Operating income……………………………….. $2,600,000 7%

Income tax expense…………………………… 1,200,000 3

Net income………………………………………… $1,400,000 4%

Return on assets………………………………… 23% 14%

**Instructions**

1. Prepare a two-column common size income statement. The first column should show for Campers, Inc., all items expressed as a percentage of net sales. The second column should show the equivalent industry average for the data given in the problem. The purpose of this common size statement is to compare the operating results of Campers, Inc., with the average for the industry.
2. Comment specifically on differences between Campers, Inc., and the industry average with respect to gross profit on sales, selling expenses, general and administrative expenses, operating income, net income, and return on assets. Suggest possible reasons for the more important disparities.

**Problem 14.4A**

The Kroger Company is one of the world’s largest supermarket chains. These selected items were adapted from a recent Kroger balance sheet. (Dollar amounts are in millions.)

Cash (including deposit-in-transit)……………………………………………………………… $ 918

Receivables………………………………………………………………………………………………… 786

Merchandise inventories…………………………………………………………………………… 4,855

Other current assets………………………………………………………………………………….. 555

Property, plant and equipment…………………………………………………………………. 12,498

Retained earnings……………………………………………………………………………………… 6,480

Total current liabilities………………………………………………………………………………. 8,689

**Instructions**

1. Using the information above, compute the amounts of Kroger’s total current assets and total quick assets.
2. Compute the company’s (**1**) current ratio, (**2**) quick ratio, and (**3**) working capital. (Round to one decimal place.)
3. From these computations, are you able to conclude whether Kroger is a good credit risk for short-term creditors or on the brink of bankruptcy? Explain.
4. Is there anything unusual about the operating cycle of supermarkets that would make you think that they normally would have lower current ratios than, say, large department stores?
5. What *other types of information* could you utilize in performing a more complete analysis of Kroger’s liquidity?