1. Sullivan Co.'s accounts receivable show the following balances by age:

*Age of Receivable Balance*

0-30 days $600,000

31-60 days 175,000

61-120 days 70,000 more than 120 days 10,000

The credit balance in the allowance for uncollectible accounts is $2,500. Sullivan Co. uses the following percentages to compute the estimated amounts of receivables that will eventually prove uncollectible: 0-30 days, 0.7%; 31-60 days, 1.2%; 61-120 days, 11%; and more than 120 days, 65%.

**Required:**

Prepare the adjusting journal entry.

2. The following cash-basis income statement has been prepared for the first year of business.

*.*

**Statement of Cash Receipts and Expenditures**

*For the Year Ending December 31, Year 1*

Cash Receipts from Sales of Merchandise $25,000

Less: Cash Expenditures for Merchandise and Services

Merchandise $10,000

Salaries 5,000

Rent 7,000

Total Cash Expenditures 22,000

Excess of Cash Receipts over Cash Expenditures $ 3,000

At year-end, the firm had inventory with a cost of $2,000 remaining. Also, customers owed $1,000 for goods that had already been delivered. The utilities for December were $500 and were billed to but not yet paid by the company. The rent of $3,500 for January, Year 2, was paid in December, Year 1.

Prepare an accrual-basis income statement for the year.

3. A friend of yours has prepared the following balance sheet for his bicycle shop but it has a problem. He thought his total assets did not reflect the assets available to the firm. He has asked you to take a look at this balance sheet and help him out.

**Assets**

Current Assets:

*Eric's Bike Shop, Inc.*

**Balance Sheet**

*As of December 31, Year 1*

Cash $15,000

Merchandise Inventory 30,000

Merchandise Sold, at cost 37,500

Prepaid Insurance 1,000

Advance from Customer (1,000) Total Current Assets $82,500

Property, Plant, and Equipment:

|  |  |
| --- | --- |
| Equipment | 8,000 |
| Less Note Payable |  (5,000) |
| Total Assets | $85,500 |
| **Liabilities and Shareholders' Equity**Current Liabilities: |  |
| Bike Sales | $55,000 |
| Accounts Payable | 2,000 |
| Accumulated Depreciation | 700 |
| Rent Payable |  1,000 |
| Total Current Liabilities | $58,700 |
| Common Stock 1,000 shares at $10 par value | $10,000 |
| Additional Paid-in Capital | 7,500 |
| Retained Earnings |  9,300 |
| Total Shareholders' Equity | $26,800 |
| Total Liabilities and Shareholders' Equity | $85,500 |

Shareholders' Equity:

**Required:**

Prepare a corrected balance sheet for Eric's Bike Shop, Inc.

4. Compute the missing amount affecting retained earnings for Year 2 in each of the five independent cases that follow. Amounts shown are in millions.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *CASE A* | *CASE B* | *CASE C* | *CASE D* | *CASE E* |

Retained earnings, Dec. 31,

Year 1

$95 **B** $75 $ 87 $175

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Net income | 30 | $450 | 45 | **D** | (50) |
| Dividends declared and paid | 10 | 120 | **C** | 35 | **E** |
| Retained earnings, Dec. 31, | **A** | 670 | 60 | 105 | 75 |

Year 2

5. Compute the missing amounts affecting the net income for Year 1 in each of the five independent cases that follow. Amounts shown are in thousands.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Sales revenue | *CASE A*$650 | *CASE B***B** | *CASE C*$400 | *CASE D*$800 | *CASE E*$390 |
| Cost of goods sold | 300 | $110 | **C** | 400 | 200 |
| Selling and | 150 | 150 | 120 | 65 | **E** |
| administrative expenses |  |  |  |  |  |
| Income tax expense | 56 | 30 | 55 | **D** | 0 |
| Net income | **A** | 10 | 75 | 235 | (15) |

6. Compute the missing balance sheet amounts in each of the three independent cases that follow:

|  |  |  |  |
| --- | --- | --- | --- |
| Noncurrent assets | *CASE A*$460,000 | *CASE B*$ 90,000 | *CASE C*$280,000 |
| Shareholders' equity | **A** | 870,000 | 340,000 |
| Total assets | **B** | **E** | 500,000 |
| Current liabilities | 270,000 | 20,000 | **I** |
| Current assets | 250,000 | **F** | **J** |
| Noncurrent liabilities | 100,000 | **G** | **K** |
| Total liabilities and shareholders' equity | **C** | 990,000 | **L** |
| Current assets minus current liabilities | **D** | **H** | 200,000 |