

FA 2-2

E 8-5

1 Raw Materials inventory 8100
AP 8100

2 no entry

3 Raw Materials inventory 28000
AP 28000

4 AP 7500
Raw Materials inventory 7500

5 Raw Materials Inventory 19800
AP 19800

6 Special Sales Agreement
Risks + Rewards haven't
transferred

7 Consignment inventory

E 8 - 14

Avail

I _B	1000 × 12	=	12000
P	2000 × 18	=	36000
P	3000 × 23	=	<u>69000</u>
	6000		117000

Sold 4500

I_E 1500

b) COGS $\frac{117000}{6000} \times 4500$
 $19.50 \times 4500 = 87750$

a) FIFO => COGS

1000 × 12	=	12000
2000 × 18	=	36000
1500 × 23	=	<u>34500</u>
		82500

Periodic = Perpetual

C

Avail	COGS	Inventory		
		\$	units	\$/unit
$1000 \times 12 =$ 12000		12000	1000	12
2000×18 $= 36000$	2500×16 $= 40000$	48000 8000	3000 500	16 16
3000×23 69000		77000 33000	3500 1500	22 22
	2000×22 $= 44000$			
	<hr/>			
	84000			

E 8-21

25% of
Sales

25% of
Cost

Sales (1200-70)

1 130 000

100%

125%

COGS

IB

360,000

P (700+50-12)

738 000

GAFS

1 098 000

- IE

= COGS

75%

100%

GP

25%

25%

GP = 25% of Sales

75% x 1,130,000 = 847,500

GAFS 1 098 000

IE = 250,500

COGS 847,500

GP = 25% of Cost

Cost + profit = Sales

100 + 25 = 125

GP% = $\frac{25}{125} = 20\%$

GAFS 1 098 000

IE

← 199,000

80% COGS

904 000

80% x 1 130 000

20% GP

E9-2

At par

a	Jan 1/11	Invest in bonds	300,000	
		Cash		300,000
b	Dec 31/11	Cash (10% × 300,000)	30,000	
		Interest income		30,000
c	Dec 31/12	Cash	30,000	
		Interest income		30,000
d	Jan 1/16	Cash	300,000	
		Invest in bond		300,000

EXERCISE 9-3 (15-20 minutes)

(a) **January 1, 2011**

Investment in Bonds	537,907.40
Cash	537,907.40

(b) **Schedule of Interest Income
and Bond Premium Amortization
Effective Interest Method
12% Bonds Sold to Yield 10%**

<u>Date</u>	<u>Cash Received</u>	<u>Interest Income</u>	<u>Premium Amortization</u>	<u>Carrying Amount of Bonds</u>
01/01/11	—	—	—	\$537,907.40
P1 = 1 12/31/11	\$60,000	\$53,790.74	\$6,209.26	531,698.14 P2 = 1
2 12/31/12	60,000	53,169.81	6,830.19	524,867.95 2
3 12/31/13	60,000	52,486.80	7,513.20	517,354.75 3
4 12/31/14	60,000	51,735.48	8,264.52	509,090.23 4
5 12/31/15	60,000	50,909.77*	9,090.23*	500,000.00 5

*Adjusted due to rounding.

(c) **December 31, 2011**

Cash	60,000.00
Investment in Bonds	6,209.26
Interest Income	53,790.74

(d) **December 31, 2012**

Cash	60,000.00
Investment in Bonds	6,830.19
Interest Income	53,169.81

(e) **January 1, 2016**

Cash	500,000.00
Investment in Bonds	500,000.00

E 9-3

Using calculator

Need to "solve" PV calculation to
access worksheet so

- 537 907.40 PV

500,000 FV

60,000 pmt 12% \times 500,000

CPT 1 \sim 10%

5 n

2nd Amort.

P1 = P2 =

info for pa

spec

P1 = "Start" P2 = "Stop"

EXERCISE 9-4 (15-20 minutes)

**(a) Schedule of Interest Income
and Bond Discount Amortization
Effective Interest Method
9% Bond Purchased to Yield 12%**

<u>Date</u>	<u>Cash Received</u>	<u>Interest Income</u>	<u>Bond Discount Amortization</u>	<u>Carrying Amount of Bonds</u>
01/01/11	—	—	—	\$185,589.00
12/31/11	\$18,000	\$22,270.68*	\$4,270.68	189,859.68
12/31/12	18,000	22,783.16	4,783.16	194,642.84
12/31/13	18,000	23,357.16	5,357.16**	200,000.00

*\$185,589 X .12 = \$22,270.68

**Rounded by \$.02.

(b) December 31, 2012

Cash.....	18,000.00	
Investment in Spider Bonds.....	4,783.16	
Interest Income		22,783.16

(c) December 31, 2013

Cash.....	18,000.00	
Investment in Spider Bonds.....	5,357.16	
Interest Income		23,357.16

Cash.....	200,000.00	
Investment in Spider Bonds		200,000.00

Alternatively, the entries could be combined in one compound entry:

Cash.....	218,000.00	
Interest Income		23,357.16
Investment in Spider Bonds		194,642.84

Eq-4

- 185 589 PV

200 000 FV

3 n

18000 pmt $9\% \times 200,000$

CPT 1 $\sim 12\%$

Eq-8

a)

€ Cost	€ Fair Value
65000	68000
└──────────────────┘ 3000	

Valuation allow 3,000
68,000

a)

Valuation Allowance	3000
(Adjunct to Invest)	

Investment Income 3000

Unrealized gain on investment
"holding" gain

b)

Valuation Allowance	3000
OCI gain on investments	3000

FV:NI \Rightarrow All gains/losses
run thru P&L

B/S @
Fair Value

FV:OCI \Rightarrow All gains + losses
run thru OCI

When investments sold
may reclassify
related accumulated
gains/losses from
OCI to RE
w/o recycling

B/S @
Fair Value.

EXERCISE 9-9 (20-30 minutes)

(a) **January 15, 2011**

Investments (10,000 X \$33.50).....	335,000	
Commissions Expense	1,980	
Cash.....		336,980

April 1, 2011

Investments (5,000 X \$52.00).....	260,000	
Commissions Expense	3,370	
Cash.....		263,370

September 10, 2011

Investments (7,000 X \$26.50).....	185,500	
Commissions Expense	4,910	
Cash.....		190,410

(b) **May 20, 2011**

Cash [(4,000 X \$35) – \$3,850]	136,150	
Commissions Expense	3,850	
Investments (4,000 X \$33.50).....		134,000
Gain on investment (FV-NI).....		6,000

(c)

<u>Shares</u>	<u>Cost</u>	<u>Fair Value</u>
Nirmala Corp.	\$201,000	\$180,000
Oxana Corp.	260,000	275,000
WTA Corp.	185,500	196,000
Total portfolio	<u>\$646,500</u>	<u>\$651,000</u>

December 31, 2011

Valuation allowance	4,500	
Gain on investment (FV-NI)		4,500

EXERCISE 9-9 (Continued)

(d) The total purchase price of these investments is:

Nirmala: $(10,000 \times \$33.50) + \$1,980 = \$336,980$

Oxana: $(5,000 \times \$52.00) + \$3,370 = \$263,370$

WTA: $(7,000 \times \$26.50) + \$4,910 = \$190,410$

The purchase entries will be:

January 15, 2011		
Investment in Nirmala Corp.....	336,980	
Cash.....		336,980
April 1, 2011		
Investment in Oxana Corp.....	263,370	
Cash.....		263,370
September 10, 2011		
Investment in WTA Corp.....	190,410	
Cash.....		190,410
May 20, 2011		
Investment in Nirmala Corp*	1,358	
Holding Gain on Nirmala Corp (OCI)....		1,358
Cash [(4,000 X \$35) – \$3,850]	136,150	
Investment in Nirmala Corp		136,150
Optional		
Accumulated OCI	1,358	
Retained earnings.....		1,358
*Gross selling price of 4,000 shares at \$35		\$140,000
Less: Brokerage commissions		<u>(3,850)</u>
Net proceeds from sale		136,150
Cost of 4,000 shares ($\$336,980 \times 0.4$)		<u>(134,792)</u>
Gain on sale of shares		<u>\$ 1,358</u>

EXERCISE 9-9 (Continued)

December 31, 2011		
Holding Loss on investments (OCI).....	4,968	
Valuation allowance		4,968

<u>Shares</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Holding Gain (Loss)</u>
Nirmala Corp.	\$202,188*	\$180,000	\$(22,188)
Oxana Corp.	263,370	275,000	11,630
WTA Corp.	<u>190,410</u>	<u>196,000</u>	<u>5,590</u>
Total portfolio	<u>\$655,968</u>	<u>\$651,000</u>	<u>(4,968)</u>

*\$336,980 X 0.6 = \$202,188 or \$336,980 – \$134,792.

EXERCISE 9-23 (20-25 minutes)

(a) Investment in Novotna Corp.	355,000	
Cash.....		355,000

(b) Cost of investment		\$355,000
Carrying amount		
Assets	\$1,300,000	
Liabilities	<u>100,000</u>	
	1,200,000	
	<u>X 25%</u>	<u>300,000</u>

Cost in excess of share of carrying amount		<u>\$ 55,000</u>
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Allocated		
Assets subject to depreciation		
[(\$860,000 – \$800,000) X 25%]		\$15,000
Goodwill		<u>40,000</u>
		<u>\$55,000</u>

Cash (\$120,000 X .25).....	30,000	
Investment in Novotna Corp.		30,000

Investment in Novotna Corp.	67,500	
Investment Income (ordinary)		50,000*
Investment Income (disc. operations) ...		17,500**

*\$200,000 X .25
 **\$70,000 X .25

Investment Income (ordinary)	1,500	
Investment in Novotna Corp.....		1,500

Undervalued depreciable assets (\$15,000 ÷ 10) = \$1,500
 Goodwill is not amortized, but rather is tested on an annual basis for impairment.

EXERCISE 9-24 (20-25 minutes)

(a) Investment in Chow Corp.	400,000	
Cash.....		400,000

(b) Cost	\$400,000	
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Carrying amounts:

Assets	\$800,000	
Liabilities	<u>100,000</u>	
	700,000	
	X 40%	<u>280,000</u>
Excess		<u>\$120,000</u>

Allocated

Assets subject to depreciation		
[($\$680,000 - \$600,000$) X 40%]	\$32,000	
Goodwill	<u>88,000</u>	
		<u>\$120,000</u>

Cash.....	50,000	
Investment in Chow Corp.		50,000
($\$125,000 \times .40$)		

Investment in Chow Corp.	64,000	
Investment Income		64,000
($\$160,000 \times .40$)		

Investment Income.....	4,000	
Investment in Chow Corp		4,000
($\$32,000 \div 8$)		

EXERCISE 9-24 (Continued)

(c) Loss from Investment		
(discontinued operations)*	12,000	
Investment in Chow Corp	64,000	
Investment Income		76,000
(\$190,000 X .40)		
*\$30,000 X .40 = \$12,000		
Investment Income	4,000	
Investment in Chow Corp		4,000

(d) The unrealized gain on investments accounted for using the FV-OCI model be recorded as follows:

Investment in Chow Corp	18,000	
Holding Gain on Investment in Chow Corp. (OCI)		18,000
(\$45,000 X .40)		