Investments on the Balance Sheet

Current Assets:		
Cash	$X	
Short-term investments	X	
Accounts receivable	X	
Inventories	X	
Prepaid expenses	X	
Total current assets		$X
Long-term investments		X
Property, plant and equipment		X
Intangible assets		X
Other assets		X

ANSWER: On January 1, 2012, Plymouth Company purchases $100,000, 6% bonds at a price of 90.4 and a maturity date of January 1, 2016. Interest is paid semiannually, on January 1 and July 1. Plymouth Company has a calendar year end. The entry to record the *purchase of the bond investment* on January 1, 2012, would include a:

A) debit to S-T Investment for $100,000.
B) debit to S-T Investment for $ 90,400.
C) debit to L-T Investment for $100,000.
D) debit to L-T Investment for $ 90,400.

90.4% x $100,000 = $90,400
Debit *L-T investment*
Credit Cash

S8-1, Part 1

S8-1 (Learning Objective 2: Analyze and report an available-for-sale investment) Mail 4 You completed these long-term available-for-sale investment transactions during 2012:

2012	
Apr 10	Purchased 600 shares of Tycon stock, paying $17 per share. Mail 4 You intends to hold the investment for the indefinite future.
Jul 22	Received a cash dividend of $1.24 per share on the Tycon stock.
Dec 31	Adjusted the Tycon investment to its current market value of $5,500.

1. Journalize Mail 4 You's investment transactions. Explanations are not required.
2. Assume the Tycon stock is Mail 4 You's only investment. Explain how these transactions will be reflected on Mail 4 You's Income Statement and its Statement of Other Comprehensive Income.
3. Show how to report the investment and any unrealized gain or loss on Mail 4 You's balance sheet at December 31, 2012. Ignore income tax.

2012				
Apr.	10	Available-for-Sale Investment (600 × $17)	10,200	
		Cash		10,200

July	22	Cash (600 × $1.24)	744	
		Dividend Revenue		744

Dec.	31	Unrealized Loss on Investments	4,700	
		Allowance to Adjust Investment to Market ($10,200 − $5,500)		4,700

Req. 2

The income statement will report dividend revenue of $744. The statement of other comprehensive income will report an unrealized loss on available-for-sale investments of $4,700.

- PV of $1
  - Single payment (or cash inflow)
- PV of Annuity
  - Two or more payments – equal amounts

Issue Price of Bonds Payable

Case A				
Stated interest rate	=	Market interest rate	Therefore, →	Issued at Par
Case B				
Stated interest rate	<	Market interest rate	Therefore, →	Issued at Discount
Case C				
Stated interest rate	>	Market interest rate	Therefore, →	Issued at Premium

Interest Rates & Bond Prices

- Bonds always sold at market price
  - Bond's present value
- Two interest rates set bond price
  - Stated interest rate (coupon rate)
    - Printed on bond certificate
    - Determines cash interest paid to bondholders
  - Market interest rate (effective interest rate)
    - Demanded by investors for loaning money
    - Varies minute to minute

Balance Sheet on April 30, 2013:	
Note payable, short-term	$11,000
Interest payable	990
Income Statement, April 30, 2013:	
Interest Expense	$990

Fin. Stat Analysis – Horizontal analysis is comparing period to period while Vertical analysis is comparing everything in a single period (known as common size, also is percentages, used to compare businesses)

E12-16A

Operating
Investing
Financing
Non-cash

+ increased cash
- decreased cash

I+	a. Sale of long-term investment
F+	b. Issuance of long-term note payable to borrow cash
O-	c. Increase in prepaid expenses
F-	d. Payment of cash dividend
O+	e. Loss of sale of equipment
O+	f. Decrease in merchandise inventory
NIF	g. Acquisition of equipment by issuance of note payable
O+	h. Increase in accounts payable
O+	i. Amortization of intangible assets
O+	j. Net income
F-	k. Payment of long-term debt
O+	l. Accrual of salary expense
I+	m. Cash sale of land
I-	n. Purchase of long-term investment
I-	o. Acquisition of building by cash payment
F-	p. Purchase of treasury stock
F+	q. Issuance of common stock for cash
O-	r. Decrease in accrued liabilities
O+	s. Depreciation of equipment

FORMULAS

EPS = (NET INCOME-PREFFERED DIVD)/ AVG # OF COMMN SHARES OUTSTANDING
CURRENT RATIO = CURRENT ASSESTS / CURRENT LIABILITIES
QUICK RATIO = (Cash + Short trm invest + net receive) / Current Liabilities
Inventory Turnover = COGS/ AVG INVENTORY
DAYS INVENTORY OUTSTANDING (DIO) = 365/INVENTORY TURNOVER
ACCTS RECIEVE TURNOVER = NET SALES/ AVG NET ACT RECEIVE
AVG NET ACCTS RECEIVE = (BEGIN NET AR + END NET A/R) / 2
DAYS SALE OUTSTANDING (DSO) = ABG BET RECEIVE/ ONE DAY'S SALES
ACCTS PAY TURNOVER = COGS / AVG ACCTS PAY
DAYS PAY OUTSTANDING (DPO) = 365/AP TURNOVER
CASH CONVERSION CYCLE = DIO + DSO -DPO

Dividends Payable.... 22,000
Cash..............22,000
Paid the Cash Dividend

Retained Earnings...22,000
Dividends Payable..22,000
Declared a cash dividend

CLiabilities – Accts Pay, Current portion of Bonds Pay, Interest Pay
LTLiabilities – Notes pay LT, Bonds Pay, LESS Disct on Bonds Pay
$2000 issued at 77.5 --- 155,500 (200,000*.7775)

Cash flows from operating activities:
Net income
Adjustments to reconcile net income to net cash provided by operating activities:
+ Depreciation/depletion/amortization expense
+ Loss on sale of long-term assets
− Gain on sale of long-term assets
− Increases in current assets other than cash
+ Decreases in current assets other than cash
+ Increases in current liabilities
− Decreases in current liabilities
Net cash provided by (used for) operating activities

VOCAB

-**Discounting** is process of calculating present value, which is less than future value.
-Unrealized gains and losses **from available-for-sale investments** arise from changes in the markt value of the investment
-If treasury stock is sold at a price greater than its reacquisition costs, the difference is CREDITED TO PAID-IN CAPITAL FROM TREASURY STOCK
-The effect of the declaration of a cash dividend is an **INCREASE TO LIABILITIES AND A DECREASE TO AN STOCKHOLDERS' EQUITY**.
-The date when a cash dividend becomes a legal obligation is the **DECLERATION DATE**.
-If a corporation declares a $100,000 cash dividend, the account to be debited on the date of declaration is **RETAINED EARNINGS. DEBIT RE EARN, CREDIT DIV PAY**
-When preferred stock is cumulative, preferred dividends not paid in a year are called **DIVIDENDS IN THE ARREARS.**
-Before a company can pay dividends to the common stockholders, the owners of cumulative preferred stock must receive **ALL DIVIDENDS IN ARREARS PLUS THE CURRENT YEAR'S DIVIDENDS.**
-If stock is issued for an asset other than cash, the asset should be recorded **on the books of the cooperation at fair market value.**
-When 100 share of $1 par value common stock are issued at $25 per share, paid-in-capital in excess of par value-common stock will increase $2,400. (25-1)*100=2400
-Wolverine corp issued 5000 shares of its $5 par value common stock in payment for attorney services of $40,000. Wolverine stock has been actively trading at $20 per share. This transaction would include a DEBIT TO LEGAL EXPENSE $40,000 AND A CREDIT TO PAID-IN CAPITAL EXCESS OF PAR $15,000.
-**CEO** – Chairperson of board of directors.
-If a corporation has only one class of stock, it is understood to **be COMMON STOCK.**
-**Management Responsibility**—1. Issues report on and declares resp for internal control over financial reporting... 2. States it has conducted an assessment of internal controls based on developed frameworks. To be effective and audited by outside auditors.
-Auditors report – cpa examine statements, must comply with GAAP, audit adds credibility
-**SECURITIES AND EXCHANGE** COMMISSION required companies issuing publicly traded stock to have their financial statements audited by an external auditor.
-A prior-period adjustment corrects income of a prior period requires an **entry to retained earnings**<u>. PPA- can inc&dec RE</u>
-The statement of cash flows will **not report the # of checks not written at the end of the period**.
-The statement of cash flows is designed to fulfill all the following purposes EXCEPT **to ASSESS THE COLLECTABILTY OF ACCTS RECIEV**
-A gain on **sale of equipment** is subtracted from net income when determines cash provided by ops under indirect method. TRUE

TRUE/FALSE

-On the **maturity date** of the bond, the bondholder will receive the bond's present value. FALSE
PRESENT VALUE is what it is worth today while MATURITY VALUSE is in the future.
-The process of determining the present value is called **discounting** because the present value is more than the future value. FALSE
-The **PRINCIPAL** is the amount borrowed or invested. TRUE
-**Current maturities of long-term debt** are reported separately from long-term liabilities. TRUE
-**A current liability** must be paid out of current profits... FALSE, paid from cash
-**Purchasing merchandise inventory on account** results in a liability. TRUE
-The account **Discount on Bonds Payable** increase a company's liabilities. FALSE
-If the **market interest rate is greater than the stated interest rate**, the bonds will sell at a discount. TRUE
-If the market interest rate is 6%, a $10,000, 7%, 5 year bond, that pays interest semiannually would sell at an amount **greater than face value.**
-A debit balance in Retained Earnings indicates that a company's lifetime earnings exceed its lifetime losses and dividends issued. FALSE
-**The total stockholders' equity remains** the same before and after a stock split. TRUE
-Publicly traded companies have **the option to produce audited financial statements.** FALSE
-An **audit report is addressed to** the board of directors and stockholders of the company. TRUE
-**An unqualified opinion by independent auditors** indicates the fairness of the company's financial statements and the effectiveness of its internal control. TRUE
-**Vertical analysis** highlights changes in financial statement balances from period to period. FALSE
-**Horizontal analysis** compares financial statement items in the current period with other items in the current period. FALSE
-**Horizontal analysis** is performed on the IS, BS, statement of RE.
Casey's Computers purchased 4,000 shares of its own $10 per value common stock for $92,000. As a result of this transaction **Casey's Stockholders' Equity decreased $92,000.**