CHAPTER 5

Short-Term Investments: aka marketable securities. These are investments in marketable securities easily convertible to cash that a company plans to hold for 1 year or less. Easily convertible into cash—next most liquid asset after cash. Types of short-term investments: Available-for-sale securities, Held-to-maturity securities and Purpose of owning **Trading security** is to hold it for a short time & then sell it for more than its cost. If market price of investment increases, a gain results, if market price of investment decreases a loss results. Can be debt or equity securities of another company. Earn interest or dividend revenue.

Realized Gains and Losses: only reported when investment is sold. **Realized gain:** if sales price > than the investment carrying amount; **Realized Loss:** if sales price < the investment-carrying amount

Reporting on Balance Sheet: short-term investments are current assets. They appear on the balance sheet immediately after cash because short-term investments are almost as liquid as cash. Report trading investments at their current fair (market) value.

Reporting on Income Statement: investments in debt and equity securities earn interest revenue and dividend revenue. Investments also create gains and loss. For trading investments, these items are reported on the income statement as other revenue, gains and [loses]

Revenue recognition: seller has transferred good or service to customer, price is fixed or determinable, collection reasonably assured. Amount is cash value of goods or services transferred. Impacted by shipping terms and payment incentive.

Shipping Terms—FOB Shipping Point: (free on board) ownership changes hands, revenue recognized –when goods leave seller's shipping dock. FOB Destination: ownership changes hands, revenue recognized—at point of delivery to customer

Sales Discounts: offered 2 customs 2 speed up cash flow 2/30→ 2% discnt if paid within 30 days, n/30→ full amt due in 30 days.

Sales Returns & Allowances: returned unsatisfactory or damaged merchandise. Net Revenue= gross revenue – sales discounts – sales returns and allowances.

Receivables: third most liquid asset, monetary claims against others, acquired mainly by:

Performing a Service on Account		Lending Money on a Note Receivable	
Accounts receivable.....	XXX	Note Receivable.....	XXX
Service revenue.....	XXX	Cash.....	XXX
Performed a service on account		*Loaned money to another company*	

- **Accounts receivable:** selling goods and services. Amounts collectible from customers from the sale of goods, and services. Balance in general ledger—**control account**, summarizes total amount due from all customers. **Subsidiary ledger**—separate account for each customer.
- **Notes receivable:** lending money. More formal contracts than accounts receivable. Written promise to pay a sum at the maturity date—plus interest. Aka promissory notes.

Internal Control: [collections on account] separate cash handling and cash accounting duties. –Bookkeeper should not handle cash, should record amounts from remittance advices. –Separate employee should open incoming mail and make deposit. Another option→ lockbox system.

Net Realizable Value: of receivables is the difference btwn accts receivable and allowance for uncollectible accts. Accts Receivable – Allowance = Net realizable value

Uncollectible Receivables: Benefit: customers who cannot pay cash immediately can buy on credit, as sales and profits increase. Cost: company cannot collect from some customers. This is called "uncollectible-account expense, doubtful-account expense or bad debt expense".

Allowance Method: records collection losses based on company collection experience. Estimates uncollectible-account expense. Also sets up Allowance for Uncollectible Accounts—contra-account to accounts receivable, shows amount of receivables expected not to be collected.

Percent-of-sales Method: [income statement approach] computes uncollectible-acct expense as a % of revenue. Emphasizes matching concept. Debit uncollectible-acct expense, credit—allowance for uncollectible accts. Adjusts allowance for uncollectible accts by the amnt of uncollectable accts expense Estimated % uncollectible x Revenue = Uncollectible-Account Expense

Aging-of-receivables Method: [Balance sheet approach] focuses on proper valuation of accounts receivable on the balance sheet. Individual customer balances analyzed based on time outstanding—aging schedule. Allowance for uncollectible accts adjusted to equal amount form aging schedule. Adjusts allowance for uncollectible accts to the amnt of uncollectible accts receivable Debit uncollectible-acct expense, credit—allowance for uncollectible accts.

Allowance for uncollectible accts is a contra-asset. It is a contra acct to accts receivable. The entry to establish the allowance under the allowance method is:

Uncollectible Accounts Expense.....XXX
  Allowance for Uncollectible Accounts..... XXX

Direct Write-Off Method: waits until a specific acct is uncollectible to record the expense, inferior to allowance method—receivables report at full amount, assets overstated on balance sheet. –Poor matching of uncollectible-account expense against revenue. The entry to record an uncollectible acct under the direct write-off method is: the entry to write-off acct under the allowance method is:

Uncollectible Accounts Expense.....XXX Allowance for Uncollectible Accounts.....XXX
  Accounts Receivable..... XXX Accounts Receivable..... XXX

Accting for Notes Receivable: can be current or long-term assets. Creditor→ note receivable, debtor→ note payable

- **Creditor:** the party to whom money is owed. The creditor is also called the lender.
- **Debtor:** the party that borrowed and owes the money on the note, called Maker, borrower
- **Interest:** cost of borrowing money, stated in annual percentage rate. For time periods less than a year, a fraction used—months/12. Often interest is computed based on days—denominator would be days/365
- **Maturity date:** date on which the debtor must pay the note
- **Maturity value:** sum of principal and interest on the note
- **Principal:** amount borrowed by debtor

Journal entry for maturity date collection of notes receivable:
Cash..... XXX
  Notes receivable..... XXX
  Interest Receivable..... XXX

Journal entry for establishment of notes receivable:		Journal entry for accrual of interest receivable:	
Note Receivable.....	XXX	Interest Receivable.....	XXX
Cash, Sales Revenue, or Accounts Receivable....	XXX	Interest Revenue.....	XXX

- **Term:** length of time from when note was signed to when payment must be made

CHAPTER 6

Ending Inventory: asset on the balance sheet, the cost of inventory on hand = inventory

Sold Inventory: expense on the income Statement, cost of inventory that's been sold= Cost of Goods Sold

Sales Price vs. Cost of Inventory: Sales Revenue: based on sales price of inventory sold. COGS: sold based on cost of inventory sold. Inventory: based on cost of inventory on hand. Gross Profit: sales revenue minus COGS. Number of Units in Inventory: determined from accounting records, evidenced by physical count at year end, consigned goods: does not include those held for another company, does include those out on consignment. In transit goods, depends on shipping terms.

Perpetual Inventory System: used for all types of goods, keeps a running total of all goods bought, sold and on hand, inventory counted at least once a year. Two entries needed for each sale: record revenue and asset received [cash or receivables], record cost of sale and reduction of inventory

Periodic Inventory System: used for inexpensive goods, does not keep a running total of all goods bough, sold and on hand, inventory counted at least once a year.

Recording transactions in the perpetual system: co. records the sale—debits cash or accounts receivable and credits sales revenue for the sale price of the goods. Also debits COGS and credits inventory for the cost of inventory sold.

Net Sales: Sales – sales returns – sales allowances – sales discounts = net sales.

Net Purchases: Freight-in: the cost to transport the goods from the seller to the buyer, Purchase Returns: for unsuitable goods returned to the seller, Purchase Allowances: granted by the seller, Purchase Discounts: for early payment by the buyer

Specific unit cost: The actual invoice is matched with the remaining inventory

Average cost: aka weighted-average method, an average cost during the period is calculated and that amount is multiplied by the number of units in ending inventory. Average cost per unit = cost of goods available/ number of units available.

First-in, First-out (FIFO): the first units purchased are considered to be the first units sold, so the ending inventory is made up of the most recently purchased items

Last-in, First-out (LIFO): the last units purchased are considered to be the last units sold, so the ending inventory is made up of the oldest items. Ex→ gravel pile, last mount, use what was put down last

Comparison of inventory methods:
COGS→ LIFO provides a better matching of expense to revenue-more costs included in COGS. Ending Inventory→ FIFO provides a more up-to-date inventory cost-more recent costs on the balance sheet.

Consistency Principle: use same method over and over, it is possible to change methods, it would be rare.

Disclosure Principle: a company's financial statements should report enough information for outsiders to make informed decision about the company.

Lower-of-Cost-or-Market Rule, principal of relevance and faithfulness. Requires that inventory be reported at dollar amount's historical cost or its market value, whichever is lower [known journal entry]

Increasing inventory prices

	Cost of goods sold	Ending inventory
FIFO	Lowest because based on older costs, which are less expensive	Highest because based on more recent and expensive costs
LIFO	Highest because based on more recent costs, which are more expensive	Lowest because based on older costs, which are less expensive

Decreasing inventory prices

	Cost of goods sold	Ending inventory
FIFO	Highest because based on older costs, which are more expensive	Lowest because based on more recent, less expensive costs
LIFO	Lowest because based on more recent costs which are less expensive	Highest because based on older, more expensive costs

BI + Purchases = EI + COGS

Gross Profit: aka gross margin. Gross profit percentage – gross profit / net sales revenue.

CHAPTER 7

Plant Assets: aka property, plant and equipment or fixed assets. Long-lived assets that are tangible. Measuring the cost of a plant asset: sum of all costs incurred to bring the asset to its intended use

- **Land:** does not depreciate, purchase price, commissions, survey and legal fees, back property taxes paid, grading and removing unwanted buildings
- **Buildings:** architectural fees and contractors charges, materials labor, and overhead, interest on funds borrowed, purchased- purchase price, broker's commission, taxes paid, costs to repair and renovate
- **Equipment:** purchase price, transportation, insurance in transit, sales tax, installation and testing
- **Land improvements:** parking lots, driveways, signs, fences, sprinkler systems
- **Leasehold improvements:** improvements to lease property, depreciated or amortized over lease term

Lump-Sum (Basket) Purchases: several assets purchased in a group for "lump-sum" amount total cost is allocated based on their market. Relative-sales-value method.

Capital Expenditure: add to cost of asset, be on balance sheet→ depreciation expense over time. Increase capacity or extended useful life, cost is added to an asset account →balance sheet

Immediate Expense: immediately shows on income statement, Repairs Expense. Do not extend capacity or useful life, maintain or restore working order; cost is recorded as an expense→ income statement

Book Value: book value of a Plant Asset = Cost – Accumulated Depreciation

Depreciation: allocation of plant assets cost to expense over its useful life. Land is NOT depreciated b/c unlimited useful life.
Causes: physical wear & tear, obsolescence. Its not a valuation process or fund to replace assets

Measuring Depreciation: 1.) Cost, 2.) Estimated Useful Life: is the length of service expected from using the asset. May be expressed in yrs, units of output, miles etc., 3.) Estimated Residual Value: the expected cash value of an asset at the end of its useful life. [Scrap value, salvage value]

Depreciation Methods:

1. **Straight-Line:** "Depreciable cost" → cost – residual value / useful life, in years = results in equal amount of depreciation each year. Accumulated depreciation (contra-asset, normal credit balance) a running total of all depreciation taken increases, book value [cost – accumulated depreciation] decreases
2. **Units-of-Production [UOP]:** Cost – Residual value / useful life in units = depreciation per unit X activity for period (units, miles)
3. **Double-Declining- Balance:** [accelerated depreciation method] step 1→ straight-line rate = 1/useful life in years. Step 2→ DDB rate = 2 x straight-line rate. Step 3 → Depreciation = book value x DDB rate

COMPARE: **straight-line**, best for assets that generate revenue evenly, best meets matching principle, 88% of companies use it, most popular. **Units-of-production**, best for assets that wear out because of use. **Double declining balance**, best for assets that generate revenue early in useful life.

Plant Asset Issues: long lives, income taxes affected by depreciation, gains and losses incurred when sold, future impact on adoption of international standards.

Depreciation for Tax Purposes: accelerated depreciation provides fastest tax deductions → tax deductions decrease tax payments → tax savings can be reinvested invested in business.

Partial Year Depreciation: annual depreciation X months from date of purchase to end of year / 12

Disposal of Plant Assets: bring depreciation up to date to measure assets final book value at record expense up to date of disposal. Remove asset and related accumulated depreciation account from books.

Selling a Plant Asset: cash received is greater than book value → GAIN, cash received is less than book value→ LOSS

Exchanging Plant Assets: aka nonmonetary exchange. Old assets traded in for new assets. Cost of plant asset received is equal to the fair values of assets given up—old asset and any cash paid. Difference between fair vale of old asset and its book value is gain or loss.

Natural Resources: such as oil and gas reserves, coalmines, or stands of timber, are accounted for as long-term assets when they're purchased or developed. Assets are physically used—depletion. Distinct from depreciation, computed like UOP. If all of extracted resource is sold amount depleted is recorded as an expense. If portion of extracted resource is not immediately sold, amount becomes inventory.

Intangible Assets: No physical form, useful life of the special rights they carry. Patents, copyrights, and franchises. Two categories: Finite lives: **amortization** records—straight-line method, -intangible asset reduce directly. Indefinite lives: tested for loss in value (impairment).

Accounting for Specific Intangibles:

1. **Patents:** granted by fed gov't, give holder exclusive right to produce & sell an invention, lasts 20 years
2. **Copyrights:** granted by fed gov't, give holder exclusive rights to reproduce and sell a book, musical composition, film or other work of one, extended 70 years after creator's life—useful life is usually very short
3. **Trademarks and Trade Names:** distinctive identification of a product or service—also includes adv. Slogans, useful life may be set by contract—or indefinite life, indicated by ™ or ®
4. **Franchises and Licenses:** granted by private business or gov't, give purchase right to sell a product or service with specified conditions, include restaurant chains & sports orgs, have indefinite life
5. **Goodwill:** only recorded when an entire company is purchased, defined as the excess of the purchase price of the co. over the market value of its net assets, represents earning power of a co. purchased, not amortized

Effect of Inventory Errors

Example: Let's say ending inventory is overstated in Period 1.

	Period 1: Ending inventory overstated	Period 2: Beginning inventory overstated
Sales		
Cost of goods sold		
Beginning inventory		
Purchases		
Goods available		
Ending inventory		
Cost of goods sold		

S5-15

S5-15 (Learning Objective 5: Account for notes receivable) Highland Park & Town Company lent $150,000 to Shannon Summers on a three-month, 8% note. Record the following for the bank (explanations are not required):

a. Lending the money on February 10.
b. Collecting the principal and interest at maturity. Specify the date.

a.) Feb 10 Note Receivable—S. Summers..... 150,000
  Cash..... 150,000
b.) May 10 Cash..... 153,000
  Note Receivable—S. Summers 150,000
  Interest Revenue.....
  ($150,000 x .08 x 3/12)..... 3,000

3—Trading securities are reported at their current market value. 3—A trading security is always a current because the investor intends to sell the trading security in the very near future. A trading security is a current asset that is to be sold within the company's operating cycle if its longer than a year.

Q1 Sharon geel keeps the accts receivable subaccount of Ace & Peel, a partnership. What duty will a good internal control system withhold from Peel? Why? —Peel, the accountant, should not handle the company's cash. b/c the accountant can steal cash & hide the theft by writing off a customers account receivable as uncollectible.

Q2. On December 23, 2012, Big sky sports manufacturing sells a truckload of sporting goods to the Sports R Us stores in Texas. The terms of the sale are FOB destination. The truck runs into bad weather on the wy to Texas and doesn't arrive until Jan 2, 2013. Big Sky Sports Manufacturing's invoice totals $238,000 including sales tax. The company's year-end is Dec 31. What should Big Sky Sports manufacturing reflect in its 2012 income statement for the sale? —the ent of sales revenue to be reported on the income statement related to transaction is nothing for their 2012 income statement. Since the goods are received.

Date	Accounts	Debit	Credit
	Sales Returns and Allowances	5,000	

Invoice Amount	x	Discount %	
$ 195,000	x	4	%

Apply GAAP for short-term investments—Eastern Corp the investment backing company, often has extra cash to invest. Suppose eastern buys 1,000 shares of Dream, Inc. stock at $57 per share. Assume eastern expects to hold the dream stock for one month then sell it. The purchase occurs December 15,2012. At December 31, the market price share of Dream stock is $58 per share. Requirements→1. What type of investment is this to Eastern? Give reasons for your answer. 2. Record Eastern's purchase of the dream stock on Dec 15th and the adjustment to market value on Dec 31. 3). Show how eastern would report this investment on it valance sheet at Dec 31 and any gain or loss on its income statement for the year ended December 31, 2013

1. This is trading investment because Eastern Corporation intends to sell the stock within a short time.
2. Dec 15 Short-term investment (1,000 x $57).... 57,000
   Cash..... 57,000
   Dec 31 Short Term investment
   [1,000 x $58)- $57,000] 1,000
   Unrealized Gain on investment..... 1,000
   Adjust investment to market value.
3. BALANCE SHEET (partial)
   Current assets:
   Short-term investment, at market value..... $58,000
   INCOME STATEMENT (partial)
   ..... $1,000

Unique Interiors reported the following: Jul 2 sold merchandise on account to Erin Reilly, $800, terms 2/12, n/30. Jul 10, sold merchandise on account to Alise O'Brien $1,000 terms 2/10, n/30. Jul 12 collected payment from Erin Bailey for Jul 2 sale. Jul 15 Alise returned $800 of the merchandise purchased on Jul 10. Jul 20 collected payment from Alise O'Brien for the balance on the Jul 10 sale. Requirement→ 1. Record the foregoing transactions in the journal of Unique Interiors. 2. Prepare a computation of net sale for the month of July.

July 2 Accounts Receivable..... 980
Sales Revenue..... 800
July 10 Accounts Receivable..... 1,000
Sales Revenue..... 1,000
July 12 Cash ($800-$16)..... 784
Sales Discounts ($800 x 2%)..... 16
Accounts Receivable..... 800
July 15 Sales Returns and Allowances..... 800
Accounts Receivable..... 800
July 20 Cash ($1,000 - $20)..... 980
Sales Discounts ($1,000 x 2%)..... 20
Accounts Receivable ($1,000 - $800)..... 1,000

$(Sales revenue ($1,000 +800) $1,800
Less: Sales returns and allowances -800
Sales discounts ($20 +16) -36
Net sales revenue

S5-12. entry a

S5-12 (Learning Objectives 3, 4: Account for accounts receivable and uncollectible accounts) Craig and Delaney a law firm, started 2012 with accounts receivable of $20,000 and an allowance for uncollectible accounts of $1,000. The 2012 service revenues on account totaled $165,000, and cash collections on accounts totaled $155,000. During 2012, Craig and Delaney wrote off uncollectible accounts receivable of $2,500. At December 31, 2012, the aging of accounts receivable is dated but Craig and Delaney will not collect $6,700 of its accounts receivable.

Journalize Craig and Delaney's (a) service revenue, (b) cash collections on account, (c) write-offs of uncollectible receivables, and (d) uncollectible-account expense for the year. Explanations are not required. Prepare a T-account for Allowance for Uncollectible Accounts to show your computation of uncollectible-accounts expense for the year.

a.] Accounts Receivable..... 165,000
Sales Revenue..... 165,000
b.] Cash..... 155,000
Accounts Receivable..... 155,000
c.] Allowance for Uncollectible Accounts..... 2,500
Accounts Receivable..... 2,500
d.] Uncollectible-Account Expense..... 2,290
Allowance for Uncollectible Accounts..... 2,290

Basic issue with inventory

Assume 1 shirt cost to purchase for $10 cash (does not increase)

+ Beginning Inventory (one 10 worth $10)
+ Purchases (4 at $10 each $40)
= Available for sale
- Ending inventory (one $10 unit)
= Number of units sold (COGS)

$50

Total cost of BI + Purchases will always equal Total cost of EI + COGS

$40 COGS ($10 x 4)

$50

Allowance for Uncollectible Accounts			
Write-offs	2,500	Beg. bal.	2,000
		Uncollectible-account exp.	X = 2,290
		End. bal.	1,790

1.) Compute the amount of interest during 2012, 2013, and 2014 for the following not receivable. On May 21,2012 TMRN bank lent $220000 to bob Morrison on a two-year, 8% more. 2.) Which party has an a—not receivable, b—not payable, c—interest revenue, d—interest expense. 3.) How much in total would TMRN bank collect if bob Morrison paid off the note early—say on November 30,2012

1. Interest for:
   - 2012 ($220,000 x .08 x 7/12) 10,267
   - 2013 ($220,000 x .08) 17,600
   - 2014 ($220,000 x .08 x 5/12) 7,333
2. a. Bank, b. Bob, c. Bank, d. Bob
3. Payoff at November 30, 2012
   - Principal..... $220,000
   - Interest ($220,000 x .08 x 8/12)..... 8,800
   - Total..... $228,800

Beg. bal. 2,000 | Write-offs 2,500 | Uncollectible-account exp. X = 2,290 | End. bal. 1,790

X - 2,500 = 1,790 → X = 2,290

Given this data, calculate cost of ending inventory using FIFO.

Date	Item	Unit
5/1	Beginning inventory	10 units at $15 per unit
5/8	Purchase	8 units at $20 per unit
5/20	Purchase	8 units at $25 per unit
5/27	Purchase	12 units at $30 per unit
5/30	Ending inventory	20 units

Now sold in units from 5/20

A) $545
B) $720
C) $740
D) $915

FIFO means oldest ones sold, newest ones still in EI

10 units @ $15		$150
8 units @ $20		160
12 units @ $25		300
20		$610

A) $545
B) $720
C) $740
D) $915

Question: How many units were SOLD?

Date		Item	Quantity	Unit Cost	Sale Price
Jan	1	Balance	14	$42	
Jan	2	Purchase	6	$9	
Jan	7	Sale	7		$111
Jan	13	Sale	5		$111

SOLD 12

Toyland's inventory records show the following data at January 31:
Beginning inventory, Jan 1 – 250 units at $8 per unit
Jan 10 purchase – 900 units at $10 per unit
Jan 22 purchase – 110 units at $11 per unit

At January 31, 210 units are still on hand. What is the value of the ending inventory at January 31 if Toyland uses the FIFO method?

Answer:
110 units @ 11 = $1,210
$65,000 - $49,000 = $16,000

FIFO means oldest ones sold, newest

S6-7 $420,000 + $16,000 = $436,000

BI	14
+ Purchased	6
- Sold	12
= EI	6

Question: How many units in EI?

Basic inventory calculation:

+ Beginning inventory
+ Purchases
= Available for sale
- Ending inventory

BASIC INVENTORY CALCULATION:

+ Beginning inventory
+ Purchases
= Available for sale
- Number of units sold
= Ending inventory

Inventory, June 30, 2011	$10,000
Purchases of inventory on account	46,000
Sales of inventory—40% on account, 60% for cash (cost $30,000)	75,000
Inventory at FIFO, June 30, 2012	17,000

2. Sales:
   Cash ($75,000 x .17)..... 12,750
   Accounts Receivable ($75,000 x .83)..... 62,250
   Sales Revenue..... 75,000
   Cost of Goods Sold..... 39,000
   Inventory..... 39,000

1.) Compute the amount of interest during 2012, 2013, and 2014 for the following not receivable. On May 21,2012 TMRN bank lent $220000 to bob Morrison on a two-year, 8% more. 2.) Which party has an a—not receivable, b—not payable, c—interest revenue, d—interest expense. 3.) How much in total would TMRN bank collect if bob Morrison paid off the note early—say on November 30,2012

1. Interest for:
   - 2012 ($220,000 x .08 x 7/12) 10,267
   - 2013 ($220,000 x .08) 17,600
   - 2014 ($220,000 x .08 x 5/12) 7,333
2. a. Bank, b. Bob, c. Bank, d. Bob
3. Payoff at November 30, 2012
   - Principal..... $220,000
   - Interest ($220,000 x .08 x 8/12)..... 8,800
   - Total..... $228,800

Date	Item	Unit Cost	Sale Price

Newsome Corp. holds a portfolio of trading securities. Suppose that on March 15, Newsome paid $81,000 for an investment in Orion shares to add to its portfolio. At December 31, the market value of the Orion shares is $90,000. For this situation, show everything that Newsome would report on its December 31 balance sheet and on its income statement for the year ended December 31.

BALANCE SHEET
Current assets:
Short-term trading investment, at market value $ 90,000
INCOME STATEMENT
Other revenue and gains (losses):
Unrealized gain on investment $ 9,000

Notice investments purchased (bought) are recorded (recorded) on December 15 for $ this one.

1. Suppose the Orion shares decreased in value to $80,000 at December 31. Make the Newsome journal entry to adjust the Short-Term Investment account to its market value.
2. Show how Newsome would report the investment investment on its balance sheet and the unrealized gain or loss on its income statement.

Accounts and Explanation	Debit	Credit
Unrealized Loss on Investment	$1,000	
Short-term Trading Investment		1,000
Adjust investment to market value.		

Balance Sheet
Current assets:
Short-term trading investment, at market value $ 80,000
Income Statement
Other revenues and gains (losses):
Unrealized loss on investment $ (1,000)

	Sales Revenue	-	Sales Returns	x	Discount %	=	Sales discount
$	1,800	-	$ 1,200	x	1	%	= $ 6

SECOND YEAR DEPRECIATION

Straight-line ($44,400,000 − $6,400,000) / 5 years..... $ 7,800,000
Units-of-production [($44,400,000 − $6,400,000) / 6,400,000 miles] × 1,226,000 miles..... $ 7,360,000
Double-declining-balance [$44,400,000 − $17,760,000] × ..... $ 8,880

EI appears on balance sheet under Current Assets

1.)Under the allowance method for uncollectible receivables, the entry to record uncollectible-account expense has what effect on the financial statements? → Decreases net income & decreases assets. 2.) If the adjusting entry to accrue interest on a note receivable is omitted, then → assets, net income, & stockholder's equity are understated. 3.) On Aug 1,2013 Access, Inc. sold equipt & accepted a six-month, 11%, $30,000 note receible. Access' yr.-end is Dec 31. If Access, Inc. fails to make an adjusting entry for the accrued interest → net income will be understated & assets will be understated. 4.)* Which of the following accounts will Access credit in the journal entry at maturity on Feb 1 2013, assuming collection in full? Interest receivable 5.) Sales discounts should appear in the financial statements as a deduction from sales 6.) Gross profit is the excess of sales revenue over COGS 7.) How is inventory classified in the financial statements → as an asset. 8.) When does the cost of inventory become an expense → when inventory is delivered to a customer. 9.) Land, buildings, and equipment are acquired for a lump sum of $800,000. The market values of the three assets are, respectively, $250,000, $490,000 and $160,000. What is the cost assigned to the equipment? $368,132. Market value→ % of market value equipt is (160,000,000) → 16.78% x $80,000. 10.) Land is purchased for $643,710. Back taxes paid by the purchaser were $8,500, total costs to demolish an existing building and clear the land were $215,000, and costs of paving the parking lot were $120,000. What is the cost of the land? → $787,210. $43,710 + $500 + 215000 = 787,210 11). When applying the lower-cost-or-market rule to inventory, "market" generally means replacement cost. 12.) During a period of rising prices, the inventory method that will yield the highest net income & asset value is FIFO. 13.) Application of the lower-of-cost-or-mket rule often results in lower inventory value 14.) The ending inventory of Cove Harbor Co. is $87000. If the BI was $68000 & goods available totaled $137,000, the cost of goods sold is $50,000 15.) the word "market" as used in the "lower of cost or market" generally means replacement cost. 16.) an overstatement of ending inventor in one period results in an understatement of net income of the next period 17.) an error understate Rec Corp. Dec 31, 212, EI by $35,000. What effects will this error have on total assets and net income for 2012 → assets → understate, net income → understate. Effect on net income for 2013 will overstate. 18.) a tune-up of a company vehicle is not a capital expenditure