Vol. 1, Chapter 8 – Introduction to Managerial Accounting

Problem 1: Solution

1. Account
2. Adjusting entry
3. Balance sheet
4. Trial balance; Debit/Credit; Debit/Credit
5. Fundamental accounting equation
6. Liabilities
7. Journal
8. Ledger
9. Posting
10. Permanent account

Problem 2: Solution

1. Yes, as it would be good management to keep workers' superiors informed should any future issue arise.
2. Potentially, yes.
3. (1) *Is the decision legal?*
   Yes.
   (2) *Is the decision fair?*
   This is a tough call. Fair to whom? There may be undue pressure on the worker to take the work even if he does not want to spend his time working outside the business on Saturdays.
   (4) *Does the decision hurt anyone?*
   No.
   (5) *Have I been honest with those affected?*
   Yes.
   (6) *Am I willing to publicize my decision?*
   This appears to be a good question, since the worker was approached quietly.
   (7) *What if everyone did what I did?*
   Maintenance workers may have considerable outside earnings, but this would be acceptable if they desired to take on the extra work.

Problem 3: Solution

1. D Full disclosure
2. E Materiality
3. G Consistency
4. B Business entity
5. H Matching
6. A Cost
7. J Objective evidence
8. F Continuity of business

Problem 4: Solution

1.	Prepaid rent	$2,000		
	Rent expense		$2,000	
2.	Interest expense	$1,120.90		
	Interest payable		$1,120.90	(1)
3.	Inventory end of month	$800		
	Cost of goods sold		$800	
4.	Depreciation expense	$2,200		
	Accumulated depreciation		$2,200	(2)
5.	Interest receivable	$600		
	Interest income		$600	(3)

(1) 50,000 × .06 = 3,000
3,000 / 12 = 250
250 × 4 = 1,000
250 / 31 = 8.06
8.06 × 15 = 120.90
120.90 + 1,000 = 1,120.90

(2) $\frac{25,000 - 3,000}{5} = 4,400$
4,400 / 2 = 2,200

(3) 10,000 × .06 = 600

Problem 5: Solution

1. b
2. d Conservatism
3. d
4. c
5. b
6. c
7. b

Problem 6: Solution

1. Matching
2. Conservatism
3. Continuity of business unit
4. Materiality
5. Full disclosure
6. Consistency
7. Business entity
8. Cost

Problem 7: Solution

1. auditing
2. cost accounting
3. financial accounting
4. managerial accounting
5. managerial accounting
6. tax accounting
7. internal auditing
8. accounting systems

Problem 8: Solution

1. Assets = Liabilities + Owners' Equity

   Assets: things owned by the firm. This includes, but is not limited to, current assets such as cash and marketable securities, and property and equipment, such as land, buildings, and equipment.
   Liabilities: all obligations to creditors. This would include accounts payable, notes payable, etc.
   Owners' Equity: the claim the owners have on the assets of the company.

2. An asset account can be increased by the purchase of an asset such as a piece of equipment. However, if the asset is purchased with cash, there is no increase in total assets, while a credit purchase would increase both total liabilities and assets.

   A liability can be increased by taking out a loan. This will result in an increase in the cash account (an asset) and the liability account in order for the equation to remain in equilibrium.

   Owners' equity could be increased by the issuance of more stock. This would also increase cash (if it were sold for cash) to maintain equilibrium.

3. Temporary accounts include accounts that are closed at the end of the accounting period to the appropriate owners' equity account. When a hospitality business is organized as a corporation, the temporary accounts are closed to retained earnings. The temporary accounts include revenue and expense accounts. Revenue accounts normally have a credit balance while expense accounts normally have a debit balance. When revenues exceed expenses, the business has earned net income, so when the temporary accounts are closed to retained earnings, retained earnings is increased.

Problem 9: Solution

1.	Revenue:	
	Net sales	$27,000
	Expenses:	
	Cost of goods sold	(8,100)
	Wages expense	(8,100)
	Rent expense	(3,000)
	Depreciation expense	(450)
	Other expenses	(6,000)
	Income before income taxes	1,350
	Income tax expense	- 405
	Net income	$ 945

2.	Cash sources and uses:	
	Paid rent for next 3 months	($9,000)
	Down payment for equipment	(6,000)
	Cash sales	21,600
	Food purchases	(6,000)
	Labor	(8,100)
	Other expenses	(6,000)
	Felix, equity	50,000
		$36,500

Problem 10: Solution

Browny Brad's Beach Motel
Rooms in the motel: 40

Month	Days in Month	Rooms Available	Rooms Sold
January	31	1,240	400
February	28	1,120	600
March	31	1,240	700
April	30	1,200	840
May	31	1,240	960
June	30	1,200	980
July	31	1,240	992
August	31	1,240	973
September	30	1,200	800
October	31	1,240	705
November	30	1,200	650
December	31	1,240	500

	Totals		
	Available	Sold	Occ. %
Summer Months	4,920	3,905	79.37%
Off-Season	9,680	5,195	53.67%
Entire Year	14,600	9,100	62.33%

Problem 11: Solution

1. The S corporation format would probably be preferred for the following reasons:

   - She avoids double taxation.
   - Her liability is limited to her investment.
   - She is able to maintain control as long as she retains a majority of the common stock.

2. This question suggests that her firm is going to grow considerably. Thus, she may have to secure significant additional capital. An S corporation is only allowed to have 75 stockholders, so this might limit her. An alternative could be the limited liability company. She could have many more owners, avoid double taxation, and maintain control.

Problem 12: Solution

1. Insurance Expense $12,000
   Prepaid Insurance $12,000
   To record the insurance expense for July 1-December 31, 20X3.

2. Depreciation Expense $523.80
   Accumulated Depreciation, Equipment $523.80
   To record depreciation for the cash register for September 1-December 31, 20X3.

   Calculation

   $$\text{Monthly depreciation} = \frac{12{,}000 - 1{,}000}{7 \times 12} = \$130.95$$

   $$\text{4 months depreciation} = 130.95 \times 4 = \$523.80$$

3. Wages Expense $1,800
   Accrued Payroll $1,800
   To accrue unpaid payroll at the end of 20X3.

4. Bad Debt Expense $3,000
   Allowance for Doubtful Accounts $3,000
   To record bad debt expense for 20X3.

5. Utilities Expense $620
   Accrued Liabilities $620
   To record unpaid utility expenses for December 20X3.

   Note: Generally the amount of utility expense for January 1-4, 20X4, would be recorded as an expense for 20X3 since it is immaterial in amount.

Problem 13: Solution

1. Bad Debt Expense $800
   Allowance for Doubtful Accounts $800
   To increase the allowance account to the calculated requirement.

$123,200 × .055 =	$6,776
to round	24
	6,800
preadjustment balance	6,000
required adjustment	$ 800

2. Insurance Expense $500
   Prepaid Insurance $500
   To record expired insurance (6,000 × 1/12 = $500/month).

3. Cost of Food Sold $200
   Food Inventory $200
   To adjust food inventory to the physical (4,000 - 3,800).

4. Depreciation Expense $10,388.89
   Accumulated Depreciation—Building $3,722.22
   Accumulated Depreciation—Equipment $6,666.67
   To record depreciation expense for December, 20X5.

$$\text{Calculation of Building Depreciation} = \frac{\text{Cost-Salvage value}}{\text{Years} \times 12}$$

$$= \frac{1{,}440{,}000 - 100{,}000}{360}$$

$$= \$3{,}722.22$$

$$\text{Calculation of Equipment Depreciation} = \frac{\text{Cost-Salvage value}}{\text{Years} \times 12}$$

$$= \frac{400{,}000 - 0}{60}$$

$$= \$6{,}666.67$$

Problem 14: Solution

The boathouse and dock should be recorded at $22,500. The cost principle dictates that assets be recorded at their cost. Cost is the most objective figure in this case. In cases where an objective figure is not available, such as the exchange of capital stock (not publicly traded) for a piece of equipment with an unknown cost, an appraised value would be accepted.

Problem 15: Solution

1. $5,000,000 - $4,500,000	=	$500,000
2. $5,000,000(.680)	=	$3,400,000
3. $5,000,000(.016)	=	$80,000
4. $4,500,000(.444)	=	$1,998,000
5. $4,500,000(.058)	=	$261,000

Problem 16: Solution

See the following page.

Problem 17: Solution

1. Cash Accounting Method

Sales	$4,800
Operating Expenses:	
Beverage Cost	1,000
Wage Expense	1,500
Supplies	300
Rent	800
Total	3,600
Net Income	$1,200

2. Accrual Accounting Method

Sales	$5,000
Operating Expenses:	
Beverage Cost	800
Wage Expense	1,700
Utility Expense	50
Supplies	200
Rent	400
Total	3,150
Net Income	$1,850

Hornet Catering Company
Worksheet
For the year ended December 20X3

Account Title	Trial Balance Debit	Trial Balance Credit	Adjustments Debit	Adjustments Credit	Adjusted Trial Balance Debit	Adjusted Trial Balance Credit	Income Statement Debit	Income Statement Credit	Balance Sheet Debit	Balance Sheet Credit
Cash	$10,500				$10,500				$10,500	
Food Inventory	1,000			(a) $500	500				500	
Prepaid Insurance	500			(b) 100	400				400	
Equipment	25,000				25,000				25,000	
Accumulated Dpr., Equipment		$5,000		(d) 2000		$7,000				$7,000
Accounts Payable		1,000				1,000				1,000
W.H. Hornet, Capital		13,100				13,100				13,100
Catering Revenue		160,000				160,000		$160,000		
Wages	60,000		(c) 1000		61,000		$61,000			
Food expense	60,000		(a) $500		60,500		60,500			
Supplies expense	10,000				10,000		10,000			
Utilities	3,000				3,000		3,000			
Insurance expense	1,100		(b) 100		1,200		1,200			
Advertising	8,000				8,000		8,000			
Total	$179,100	$179,100								
Accrued Wages				(c) 1000		1,000				1,000
Depreciation Expense, Equipment			(d) 2000		2,000				2,000	
			$3,600	$3,600	$182,100	$182,100	$143,700	$160,000	$38,400	$22,100
Net Income							16,300			16,300
							$160,000	$160,000	$38,400	$38,400