104. The Sloan Corporation uses a job costing system. Record the following transactions in Sloan's general journal for the current month:

a) Purchased materials on account, $60,000.
b) Requisitioned $45,000 of direct materials and $6,500 of indirect materials for use in production.
c) Factory payroll incurred, $72,000.
d) Allocated factory payroll, 95% direct labor, 15% indirect labor.
e) Recorded depreciation on factory equipment $13,800, and other manufacturing overhead of $45,900 (credit accounts payable).
f) Allocated manufacturing overhead based on 120% of direct labor cost.
g) Cost of completed production for the current month, $150,500.
h) Cost of finished goods sold, $135,000; selling price, $196,000 (all sales on account).

**Solution:**

<table>
<thead>
<tr>
<th>Date</th>
<th>Accounts</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>Materials Inventory</td>
<td>60,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Accounts Payable</td>
<td></td>
<td>60,000</td>
</tr>
<tr>
<td>b)</td>
<td>Work in Process Inventory</td>
<td>45,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manufacturing Overhead</td>
<td>6,500</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Materials Inventory</td>
<td></td>
<td>51,500</td>
</tr>
<tr>
<td>c)</td>
<td>Manufacturing Wages</td>
<td>72,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Wages Payable</td>
<td></td>
<td>72,000</td>
</tr>
<tr>
<td>c)</td>
<td>Work in Process Inventory</td>
<td>61,200</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manufacturing Overhead</td>
<td>10,800</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manufacturing Wages</td>
<td></td>
<td>72,000</td>
</tr>
<tr>
<td>c)</td>
<td>Manufacturing Overhead</td>
<td>59,400</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Accum. Depn., Factory Equip.</td>
<td>13,500</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Accounts Payable</td>
<td></td>
<td>45,900</td>
</tr>
<tr>
<td>f)</td>
<td>Work in Process inventory</td>
<td>73,440</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manufacturing Overhead</td>
<td></td>
<td>73,440</td>
</tr>
<tr>
<td>g)</td>
<td>Finished Goods Inventory</td>
<td>150,500</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Work in Process Inventory</td>
<td></td>
<td>150,500</td>
</tr>
<tr>
<td>h)</td>
<td>Accounts Receivable</td>
<td>135,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sales Revenue</td>
<td></td>
<td>196,000</td>
</tr>
<tr>
<td></td>
<td>Cost of Goods Sold</td>
<td>145,500</td>
<td>53,410</td>
</tr>
<tr>
<td></td>
<td>Finished Goods Inventory</td>
<td>135,000</td>
<td></td>
</tr>
</tbody>
</table>

L.O. 2, 3 Moderate Page: 802, 808
MATCHING

a) working capital
b) common-size statement
c) accounts receivable turnover
d) times-interest-earned ratio
e) dividend yield
f) current ratio
g) acid-test ratio
h) horizontal analysis
i) vertical analysis
j) debt ratio

Solution:

91. 91. a) Current assets minus current liabilities
92. b) Analysis of a financial statement that reveals the relationship of each statement item to the total, which is 100%
93. c) Ratio of income from operations to interest expense
94. d) A financial statement that reports only percentages
95. e) Ratio of net credit sales to average net accounts receivable
96. f) Ratio of total liabilities to total assets
97. g) Current assets divided by current liabilities
98. h) Study of percentage changes in comparative financial statements
99. i) Ratio of dividends per share of stock to the stock's market price per share
100. j) Ratio of the sum of cash plus short-term investments plus net current receivables to current liabilities

102. Electronics Inc. has two departments, X and Y. Manufacturing overhead is allocated based on direct labor cost in Department X and direct labor hours in Department Y. The following additional information is available:

<table>
<thead>
<tr>
<th>Estimated Amounts</th>
<th>Department X</th>
<th>Department Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct labor cost</td>
<td>$245,000</td>
<td>$195,000</td>
</tr>
<tr>
<td>Direct labor hours</td>
<td>50,000</td>
<td>45,000</td>
</tr>
<tr>
<td>Manufacturing overhead costs</td>
<td>$254,000</td>
<td>$247,000</td>
</tr>
</tbody>
</table>

Actual data for completed Job No. 140 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Department X</th>
<th>Department Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct materials requisitioned</td>
<td>$23,700</td>
<td>$48,600</td>
</tr>
<tr>
<td>Direct labor cost</td>
<td>$31,400</td>
<td>$22,900</td>
</tr>
<tr>
<td>Direct labor hours</td>
<td>4,300</td>
<td>3,800</td>
</tr>
</tbody>
</table>

a) Compute the predetermined manufacturing overhead rate for Department X.
b) Compute the predetermined manufacturing overhead rate for Department Y.
c) What is the total manufacturing overhead cost for Job No. 140?

a) $254,000 / $245,000 = 104% of direct labor cost
b) $247,500 / 45,000 hours = $5.50 per direct labor hour
c) Dept. X = ($31,400 x 120%) = $37,680
Dept. Y = ($5.50 x 3,800) = $20,900

$58,580
111. State whether the following ratios are classified as:

a) ratios that measure the company's ability to pay current liabilities
b) ratios that measure the company's ability to pay short-term and long-term debt
c) ratios used to analyze the company's stock as an investment
d) ratios that measure the company's profitability
e) ratios that measure the company's ability to sell inventory and collect receivables

1) __________ Debt ratio
2) __________ Price/earnings ratio
3) __________ Rate of return on total assets
4) __________ Accounts receivable turnover
5) __________ Times-interest-earned ratio
6) __________ Book value per share of common stock
7) __________ Rate of return on common stockholders' equity
8) __________ Acid-test ratio
9) __________ Inventory turnover
10) __________ Days' sales in receivables

Solution:

1) b
2) c
3) d
4) e
5) b
6) c
7) d
8) a
9) e
10) e

THIS TEST WAS:
113. The following information has been taken from the financial statements of the Gaines Company:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$60,000</td>
</tr>
<tr>
<td>Total assets, January 1, 20X9</td>
<td>$500,000</td>
</tr>
<tr>
<td>Total liabilities, December 31, 20X9</td>
<td>$175,000</td>
</tr>
<tr>
<td>Net sales</td>
<td>$500,000</td>
</tr>
<tr>
<td>Interest expense</td>
<td>$20,000</td>
</tr>
<tr>
<td>Current assets, December 31, 20X9</td>
<td>$175,000</td>
</tr>
<tr>
<td>Current liabilities, December 31, 20X9</td>
<td>$75,000</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>$25,000</td>
</tr>
<tr>
<td>Total assets, December 31, 20X9</td>
<td>$575,000</td>
</tr>
<tr>
<td>Stockholders' equity, January 1, 20X9</td>
<td>$300,000</td>
</tr>
<tr>
<td>Stockholders' equity, December 31, 20X9</td>
<td>$400,000</td>
</tr>
<tr>
<td>Common shares outstanding for 20X9</td>
<td>$100,000</td>
</tr>
</tbody>
</table>

Use the given data for the Gaines Company to calculate the following ratios for 20X9:

a) rate of return on total assets  
\[ \frac{\$60,000 + \$20,000}{(\$575,000 + \$500,000)/2} \]

b) rate of return on common stockholders' equity  
\[ \frac{\$60,000}{(\$400,000 + \$300,000)/2} \]

c) rate of return on net sales  
\[ \frac{\$60,000}{\$300,000} \]

d) times-interest-earned ratio  
\[ \frac{\$60,000 + \$20,000 + \$25,000}{\$20,000} \]

Explain how California unitary taxation works:

PAY ROLL
PROPERTY
SALES

WORLDWIDE X INCOME = CALIF SHARE
The following selected data for Coach Corporation for the year ended December 31, 20X6, is available to you for preparing the statement of cash flows:

Cost of goods sold $56,500
Depreciation expense 9,300
Amortization expense 4,800
Other operating expenses 17,700
Loss on sale of investments 1,400
Gain on sale of plant assets 7,200

NET LOSS (39,000)

The cash account began the year with a balance of $15,000 and ended the year with a balance $195,800.

Accounts receivable decreased $13,500
Inventory increased 5,500
Prepaid expenses increased 2,700
Accounts payable decreased 21,490
Salary payable increased 1,500
Accrued liabilities decreased 4,300
Income tax payable increased 300
Acquisition of plant assets 45,000
Issuance of common stock 39,000
Proceeds from sale of investments 35,000
Collection of loan principal 22,300
Payment of dividends 15,000
Purchased equipment by signing a note payable 20,000
Proceeds from sale of plant assets 31,700
Proceeds from sale of treasury stock 45,000

Prepare the statement of cash flows for Coach Corporation for the year ended December 31, 20X6, using the indirect method, and include a schedule of noncash investing and financing activities if necessary.
Solution:

Coach Corporation
Statement of Cash Flows
For the Year Ended December 31, 20X6

Cash flows from operating activities:

Net loss $4,200
Add (subtract) items that affect net
income and cash flows differently:

Depreciation $9,300
Amortization 4,800
Loss on sale of investments 1,400
Gain on sale of plant assets (7,200)
Increase in inventory (6,800)
Decrease in accounts receivable 13,600
Decrease in prepaid expenses 2,700
Increase in accounts payable 21,400
Increase in salary payable 1,600
Increase in income tax payable 800
Decrease in accrued liabilities 4,200

Net cash inflow from operating activities $37,200

Cash flows from investing activities

Acquisition of plant assets $(46,000)
Proceeds from sale of investments 35,000
Collections on loans 22,900
Proceeds from sale of plant assets 22,900

Net cash inflow from investing activities 42,300

Cash flows from financing activities

Proceeds from issuance of common stock $60,000
Payment of dividends (15,000)
Proceeds from sale of treasury stock 45,000

Net cash inflow from financing activities 110,000

Net increase in cash $170,300
Cash balance, December 31, 20X5 15,000
Cash balance, December 31, 20X6 $185,300

Noncash investing and financing activities:
Purchased equipment by signing note $23,000

*$57,500 + $4,100 + $3,600 + $7,200 - $56,500 - $9,300 - $4,900 - $17,700 - $1,400 - $24,600 - $55,900 - $2,300 = $0 (7,700)

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