115) Wilson Company initially records all prepaid expenses as expenses and all unearned revenues as revenues. Given the following information, prepare the necessary adjusting entries at year-end, December 31, 20X5.

a) On January 3, 20X5, $3100 of supplies were purchased. A count revealed $1480 still on hand at December 31, 20X5.

b) On January 4, 20X5, a $19,200 payment was made to an insurance agency for three years' of insurance.

c) On June 30, 20X5, received nine months rent in advance from a tenant, $7050.

d) On August 1, 20X5, received six months rent in advance from a tenant, $5160.

1. Puff Co. acquired 40% of Straw, Inc.'s voting common stock on January 2, 2003, for $400,000. The carrying amount of Straw's net assets at the purchase date totaled $900,000. Fair values equaled carrying amounts for all items except equipment, for which fair values exceeded carrying amounts by $100,000. The equipment has a five-year life. During 2003, Straw reported net income of $150,000. What amount of income from this investment should Puff report in its 2003 income statement?

3. Kale Co. purchased bonds at a discount on the open market as an investment and intends to hold these bonds to maturity. Kale should account for these bonds at

   a. Cost.
   b. Amortized cost.
   c. Fair value.
   d. Lower of cost or market.

4. For a marketable debt securities portfolio classified as held-to-maturity, which of the following amounts should be included in the period’s net income?

   I. Unrealized temporary losses during the period.
   II. Realized gains during the period.
   III. Changes in the valuation allowance during the period.

   a. I and II
   b. I and III
   c. II and III
   d. I, II, and III

Items 5 and 6 are based on the following:

The following data pertains to Tyne Co.'s investments in marketable equity securities:

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
<th>12/31/02</th>
<th>12/31/01</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading</td>
<td>$150,000</td>
<td>$155,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Available-for-sale</td>
<td>150,000</td>
<td>130,000</td>
<td>120,000</td>
</tr>
</tbody>
</table>

5. What amount should Tyne report as unrealized holding gain in its 2002 income statement?

   a. $50,000
   b. $55,000
   c. $60,000
   d. $65,000

6. What amount should Tyne report as net unrealized loss on marketable equity securities at December 31, 2002, in accumulated other comprehensive income in stockholders' equity?

   \[
   \text{Loss} = \frac{30,000}{10,000} = 3
   \]

   a. $0
   b. $3
   c. $10
   d. $20
118. Peanut Corporation exchanged land for a front-end loader and cash of $6,500. The land had a book value of $45,000 and a market value of $34,000.

**Required:**
Prepare the journal entry to record the exchange.

```
Equipment - new (34,000 - 6,500)  27,500
Cash                             6,500
Loss (45,000 - 34,000)           11,000
Land                             45,000
```

119. Ford Inc. exchanged land and $7,500 cash for material handling equipment. The land had a book value of $75,000 and a market value of $105,000.

**Required:**
Prepare the journal entry to record the exchange.

```
Equipment - new (105,000 + 7500) 112,500
Gain (105,000 - 75,000)           30,000
Land                              75,000
Cash                              7,500
```

124. Agasse Industries took out a $1,500,000, 8% construction loan on January 1, 2006, to build a new production facility. Construction started on April 1. Agasse made payments to the general contractor of $400,000 on June 30, $900,000 on August 31, and $500,000 on December 31.

**Required:**
Compute the amount of interest that Agasse would capitalize in 2006.

### Interest Capitalized

<table>
<thead>
<tr>
<th>Month</th>
<th>Balance</th>
<th>Interest Rate</th>
<th>Calculation</th>
<th>Capitalized Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30</td>
<td>$400,000</td>
<td>8%</td>
<td>$400,000 x 9/12 = 26,667</td>
<td>$26,667</td>
</tr>
<tr>
<td>Aug 31</td>
<td>$900,000</td>
<td>8%</td>
<td>$900,000 x 4/12 = 30,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Dec 31</td>
<td>$500,000</td>
<td>8%</td>
<td>$500,000 x 0/12 = 0</td>
<td>0</td>
</tr>
</tbody>
</table>

**Total Interest Capitalized**

\[
\text{Interest Capitalized} = 26,667 + 30,000 + 0 = 56,667
\]

---

THIS TEST WAS:
I ACCEPTED A POSITION WITH.
Adjusting entries and account classification.

Selected amounts from Snead Company's trial balance of 12/31/96 appear below:

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Wages Expense</td>
<td>$380,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>160,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>150,000</td>
</tr>
<tr>
<td>Common Stock</td>
<td>60,000</td>
</tr>
<tr>
<td>Insurance Expense</td>
<td>30,000</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>130,000</td>
</tr>
<tr>
<td>Accumulated Depreciation—Equipment</td>
<td>200,000</td>
</tr>
<tr>
<td>Sales</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Allowance for Doubtful Accounts</td>
<td>20,000</td>
</tr>
<tr>
<td>Merchandise Inventory, 12/31/95</td>
<td>330,000</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>10,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>1,300,000</td>
</tr>
<tr>
<td>Cash</td>
<td>150,000</td>
</tr>
<tr>
<td>Bonds Payable</td>
<td>500,000</td>
</tr>
<tr>
<td>Notes Payable (due 6/1/97)</td>
<td>200,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>900,000</td>
</tr>
<tr>
<td>Prepaid Rent</td>
<td>160,000</td>
</tr>
</tbody>
</table>

(All of the above accounts have their standard or normal debit or credit balance.)

**Part A.** Prepare adjusting journal entries at the year end, December 31, 1996, based on the following supplemental information.

a. The equipment has a useful life of 12 years with no salvage value. (Straight-line method being used.)
b. Interest accrued on the bonds payable is $22,500 as of 12/31/96.
c. Unexpired insurance at 12/31/96 is $8,000.
d. The rent payment of $160,000 covered the four months from November 30, 1996 through March 31, 1997.
e. Salaries and wages earned but unpaid at 12/31/96, $22,000.
f. Inventory at 12/31/96 is valued at $280,000. (Adjust inventory and close purchases to Cost of Goods Sold.)

**Part B.** Indicate the proper balance sheet classification of each of the 17 numbered accounts in the 12/31/96 trial balance before adjustments by placing appropriate numbers after each of the following classifications. If the account title would appear on the income statement, do not put the number in any of the classifications.

a. Current assets
   - 13
   - 17
   - 9
   - 110

b. Property, plant, and equipment
   - 10
   - 16
   - 7

   **c. Prepaid Insurance**
   - 8,000
   - 8,000

   **c. Prepaid Insurance**
   - 8,000
   - 8,000

   **d. Rent Expense**
   - 160,000/4
   - 40,000
   - 40,000

   **e. Salaries Expense**
   - 23,000
   - 23,000

   **f. Cost of Goods Sold**
   - 50,000
   - 50,000
Fizer Pharmaceutical paid $68 million on January 2, 2006, for 4 million shares of Carne Cosmetics common stock. The investment represents a 30% interest in the net assets of Carne and gave Fizer the ability to exercise significant influence over Carne's operations. Fizer received dividends of $1 per share on December 21, 2006, and Carne reported net income of $40 million for the year ended December 31, 2006. The market value of Carne's common stock at December 31, 2006, was $18.50 per share.

- The book value of Carne's net assets was $192 million.
- The fair market value of Carne's depreciable assets exceeded their book value by $32 million. These assets had an average remaining useful life of eight years.
- The remainder of the excess of the cost of the investment over the book value of net assets purchased was attributable to goodwill.

Required:
Prepare all appropriate journal entries related to the investment during 2006.

<table>
<thead>
<tr>
<th>Date</th>
<th>Acct</th>
<th>Dr</th>
<th>Cr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 2</td>
<td>Investment in Carne Cosmetic</td>
<td>68,000,000</td>
<td>68,000,000</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>4,000,000</td>
<td>4,000,000</td>
</tr>
<tr>
<td>Dec 21</td>
<td>Cash (4,000,000 x $1)</td>
<td>12,000,000</td>
<td>1,200,000</td>
</tr>
<tr>
<td>Dec 31</td>
<td>Investment in Carne Cosmetic</td>
<td>12,000,000</td>
<td>1,200,000</td>
</tr>
<tr>
<td>Dec 31</td>
<td>Investment Revenue (32 x 3)</td>
<td>32 + 192 = 224 x 3 = 672</td>
<td>67.2 / 8 = 100</td>
</tr>
<tr>
<td>Dec 31</td>
<td>Investment Revenue</td>
<td>32 + 192 = 224 x 3 = 672</td>
<td>67.2 / 8 = 100</td>
</tr>
</tbody>
</table>

111. Meca Concrete purchased a mixer on January 1, 2004, at a cost of $45,000. Straight-line depreciation for 2004 and 2005 was based on an estimated 8-year life and $3,000 estimated residual value. In 2006, Meca revised its estimate and now believes the mixer will have a total service life of only six years, and that the residual value will be only $2,000.

Required:

\[
\begin{align*}
\text{Cost} & = 45,000 \\
\text{Depr 2004} & = \frac{45,000 - 3,000}{8} = 42,000 \\
\text{Book Value} & = 34,500 \\
\text{Residual Value} & = 5,250 \\
\text{Yrs remaining} & = 4 \\
\text{Depreciation expense 2006} & = 8125 \\
\text{2007} & = 8125
\end{align*}
\]
27. Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term by placing the letter designating the best term in the space provided by the phrase.

Terms:
A. Accelerated methods
B. Amortization
C. Change in depreciation method
D. Change in useful life
E. Depletion
F. Depreciable base
G. Depreciation expense
H. Prior period adjustment
I. Repairs and maintenance
J. Service life

Phrases:
23. ___________ Cost allocation of natural resources.
24. ___________ Amount of use expected from an operational asset.
25. ___________ Cost less residual value.
26. ___________ Treated prospectively like a change in estimate
27. ___________ Cost allocation of intangible assets.

13-22. Indicate (by letter) the level of stock ownership that most frequently relates to each concept listed below.

Level of Stock Ownership:
A. Less than 20%
B. 20% - 50%
C. More than 50%

Accounting/Reporting Concept:
13. ___________ The investor can significantly influence the investee's operating and financial policies.
14. ___________ The reporting of the investment depends on the intent of management to hold or trade it.
15. ___________ The investment is reported at cost, adjusted for subsequent growth in the investee.
16. ___________ The investment is reported at fair value.
17. ___________ Financial statements are combined as if a single company.
18. ___________ The investor controls the investee.
19. ___________ Unrealized gains and losses are recorded at each reporting date.
20. ___________ The investee is a subsidiary of the investor.
21. ___________ Assets and liabilities of the investee are combined with those of investor for reporting purposes.
22. ___________ The investor does not include an investment account for the investee in the balance sheet.

13-17. Listed below are ten terms followed by a list of phrases that describe or characterize five of the terms. Match each phrase with the correct term placing the letter designating the best term in the space provided by the phrase.

Terms:
a. Average accumulated expenditures
b. Exchange of operational assets
c. Expected cash flow approach
d. Franchise
e. Interest cost
f. Land
g. Noninterest-bearing note
h. R&D performed for others
i. Revenue-donation of asset
j. Trademark

Phrases:
13. ___________ Account credited when assets are donated to a corporation.
14. ___________ Approximation of average outstanding debt if all construction funds were borrowed.
15. ___________ Both the total amount and the amount capitalized should be disclosed.
16. ___________ Asset received is measured at fair value.
17. ___________ Right granted to use a trademark or tradename within a geographic area.
112. Watson Company purchased assets of Holmes Ltd. at auction for $1,300,000. An independent appraisal of the market value of the assets acquired is listed below:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Market Value</th>
<th>Appraisal %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$214,500</td>
<td>15%</td>
</tr>
<tr>
<td>Building</td>
<td>357,500</td>
<td>25%</td>
</tr>
<tr>
<td>Equipment</td>
<td>572,000</td>
<td>40%</td>
</tr>
<tr>
<td>Inventories</td>
<td>286,000</td>
<td>20%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,430,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Required:**
Prepare the journal entry to record the purchase of the assets.

\[
\begin{align*}
\text{DR} & \quad \text{Land} (1300,000 \times 15\%) \quad 195,000 \\
\text{CR} & \quad \text{Building} (1300,000 \times 25\%) \quad 325,000 \\
\text{CR} & \quad \text{Equipment} (1300,000 \times 40\%) \quad 520,000 \\
\text{CR} & \quad \text{Inventories} (1300,000 \times 20\%) \quad 260,000 \\
\text{CR} & \quad \text{Cash} \quad 1,300,000
\end{align*}
\]

117. Charleston Company has elected to use the dollar-value LIFO retail method to value its inventory. The following data has been accumulated from the accounting records:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
<th>Retail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchandise inventory, January 1, 2006</td>
<td>$320,000</td>
<td>$500,000</td>
</tr>
<tr>
<td>Net purchases</td>
<td>670,000</td>
<td>1,020,000</td>
</tr>
<tr>
<td>Net markdowns</td>
<td>14,000</td>
<td>4,000</td>
</tr>
<tr>
<td>Net sales</td>
<td></td>
<td>650,000</td>
</tr>
</tbody>
</table>

**Pertinent retail price indexes:**
- January 1, 2006: 1.00
- December 31, 2006: 1.10

**Required:**
Estimate the ending inventory for December 31, 2006.

\[
\begin{align*}
\text{Goods Available for sale (excluding beg)} &= 670,000 \\
\text{1030,000} & \text{Goods Available for sale (including beg)} \\
\text{Cost-to-retail percentage} &= \frac{670,000}{1030,000} \approx 65\% \\
\text{Less: Net Sales} & \quad (650,000) \\
\text{Estimated ending inventory @ retail} &= 880,000 \\
\text{Estimated ending inventory @ cost} &= 534,500
\end{align*}
\]

\[
\begin{align*}
\text{Estimated ending inv @ cost} &= 534,500 \\
\text{Estimated ending inv @ retail} &= \frac{880,000}{1.1} = 800,000 \\
\text{500,000} \times 1.0 \times .64 &= 320,000 \\
\text{360,000} \times 1.1 \times .65 &= 214,500 \\
\text{Estimated ending inv @ cost} &= 534,500
\end{align*}
\]