115. North Dakota Corporation began operations in January 2005, and purchased a machine for $20,000. North Dakota uses straight-line depreciation over a four-year period for financial reporting purposes. For tax purposes, the deduction is 50% of cost in 2005, 30% in 2006, and 20% in 2007. Pretax accounting income for 2005 was $150,000, which includes interest revenue of $20,000 from municipal bonds. The enacted tax rate is 30% for all years. There are no other differences between accounting and taxable income.

**Required:**
Prepare a journal entry to record income taxes for the year 2005. Show well-labeled computations for the amount of income tax payable and the change in the deferred tax account.

<table>
<thead>
<tr>
<th>Current Year</th>
<th>Future 2006</th>
<th>2007</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pretax Income</td>
<td>150,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Permanent Diff: Municipal Bonds</td>
<td>(20,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Temporary Diff: Depreciation</td>
<td>20,000</td>
<td>(10,000)</td>
<td>(6,000)</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>130,000</td>
<td>(30%)</td>
<td>39,000</td>
</tr>
<tr>
<td>Tax Rate</td>
<td>30%</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>Tax Payable</td>
<td>45,000</td>
<td>(2000)</td>
<td>(1,800)</td>
</tr>
<tr>
<td>Deferred Tax Asset</td>
<td>9,000</td>
<td>(30,000 x 0.3)</td>
<td></td>
</tr>
<tr>
<td>Tax Expense (To Balance)</td>
<td>36,000</td>
<td>45,000</td>
<td></td>
</tr>
</tbody>
</table>

135. Parsley Corporation had 250,000 shares of common stock and 5,000 shares of 8%, $100 par, preferred stock outstanding on December 31, 2005. The preferred stock is cumulative, nonconvertible preferred stock. On June 1, 2006, Parsley sold 36,000 shares of common stock for cash. No cash dividends were declared for 2006. Parsley reported a net loss of $320,000 for the year ended December 31, 2006.

**Required:**
Calculate Parsley's loss per share for the year ended December 31, 2006. (EPS)

Basic:

\[
\text{EPS} = \frac{-320,000 - 40,000}{250,000 + 24,000(\frac{7}{12})} = \frac{-360,000}{271,000} = -1.33
\]
The Murdock Corporation reported the following balance sheet data for 2006 and 2005.

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ 77,375</td>
<td>$(22,955)</td>
</tr>
<tr>
<td>Available-for-sale securities (not cash equivalents)</td>
<td>15,500</td>
<td>85,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>80,000</td>
<td>68,250</td>
</tr>
<tr>
<td>Inventory</td>
<td>165,000</td>
<td>145,000</td>
</tr>
<tr>
<td>Prepaid insurance</td>
<td>1,500</td>
<td>2,000</td>
</tr>
<tr>
<td>Land, buildings, and equipment</td>
<td>1,250,000</td>
<td>1,125,000</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(610,000)</td>
<td>(572,000)</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$ 979,375</td>
<td>$ 830,295</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$ 76,340</td>
<td>$ 102,760</td>
</tr>
<tr>
<td>Salaries payable</td>
<td>20,000</td>
<td>24,500</td>
</tr>
<tr>
<td>Notes payable (current)</td>
<td>25,000</td>
<td>75,000</td>
</tr>
<tr>
<td>Bonds payable</td>
<td>200,000</td>
<td>0</td>
</tr>
<tr>
<td>Common stock</td>
<td>300,000</td>
<td>300,000</td>
</tr>
<tr>
<td><strong>Retained earnings</strong></td>
<td>358,035</td>
<td>328,035</td>
</tr>
<tr>
<td><strong>Total liabilities and shareholders' equity</strong></td>
<td>$ 979,375</td>
<td>$ 830,295</td>
</tr>
</tbody>
</table>

Additional information for 2006:
(1.) Sold available-for-sale securities costing $69,500 for $74,000.
(2.) Equipment costing $20,000 with a book value of $5,000 was sold for $6,000.
(3.) Issued 6% bonds payable at par, $200,000.
(4.) Purchased new equipment for cash $145,000.
(5.) Paid cash dividends of $20,000.
(6.) Net income was $50,000.
(7.) Proceeds of the notes payable were used for operating purposes.

Required:
Prepare a statement of cash flows for 2006 in good form using the indirect method for cash flows from operating activities.

The Murdock Corp
Statement of Cash Flows
Dec. 31, 2006

Operating Net Income

Adjustments:

\[ \text{↑ in Accounts Receivable} \quad (11,750) \]
\[ \text{↑ in Inventory} \quad (20,000) \]
\[ \text{↓ in Prepaid Insurance} \quad 500 \]
\[ \text{Depreciation Expense \quad (53,000)} \]
\[ \text{↓ in Accounts Payable} \quad (26,420) \]
\[ \text{↓ is Salaries Payable} \quad (4,500) \]
\[ \text{↓ in Notes Payable} \quad (50,000) \]
\[ \text{Gain on Securities} \quad (4,600) \]
\[ \text{Gain on Equipment} \quad (1,000) \]
\[ \text{Cash Outflow from Operating} \quad (14,670) \]
Investing
- Sale of Security 74,000
- Sale of Equipment 6,000
- Purchase of Equipment (145,000)
- Cash outflow from Investing (65,000)

Financing
- Cash Dividends (20,000)
- Bond Issued 200,000
- Cash inflow from Financing 180,000
- Net Cash Inflow 100,330
- Beginning Cash Balance (22,950)
- Ending Cash Balance 77,375
137. On January 1, 2006, Shamu Corporation had 100,000 shares of common stock outstanding. The following transactions occurred during 2006:

March 1: Reacquired 3,000 shares, accounted for as treasury stock.
September 30: Sold all the treasury shares.
December 1: Sold 12,000 new shares for cash.
December 31: Reported a net income of $198,500.

The following transactions occurred during 2007:

January 10: Declared and issued a 25% stock dividend.
December 31: Reported a net income of $268,800.

**Required:**
Calculate Shamu's basic earnings per share for both years for presentation in comparative financial statements that will be prepared at the end of 2007.

\[
\begin{array}{ccc}
\text{Date} & \text{Stock} & \text{Time} \\
1/1 & 100,000 (1.25) & \times \frac{\text{10}}{12} \\
3/1 & -3,000 (1.25) & \times \frac{\text{2}}{12} \\
9/30 & 3,000 (1.25) & \times \frac{\text{2}}{12} \\
12/1 & 12,000 (1.25) & \times \frac{\text{10}}{12} \\
\hline
\end{array}
\]

\[
\begin{array}{c}
2006: \frac{198,500}{124,062.5} = 1.6 \\
2007: \frac{268,800}{140,000} = 1.92
\end{array}
\]

88. Powell Company had the following errors over the last two years:

2004: Ending inventory was overstated by $30,000 while depreciation expense was overstated by $24,000.
2005: Ending inventory was understated by $5,000 while depreciation expense was understated by $4,000.

By how much should retained earnings be adjusted on January 1, 2006? (Ignore taxes)
A) Increase by $15,000.
B) Decrease by $25,000.
C) Decrease by $6,000.
D) Increase by $25,000.
On December 31, 2005, Brisbane Company had 100,000 shares of common stock outstanding and 30,000 shares of 7%, $50 par, cumulative preferred stock outstanding. On February 28, 2006, Brisbane purchased 24,000 shares of common stock on the open market as treasury stock paying $40 per share. Brisbane sold 6,000 treasury shares on September 30, 2006, for $45 per share. Net income for 2006 was $180,905. Also outstanding during the year were stock options giving key personnel the option to buy 50,000 common shares at $40. During 2006, the average market price of the common shares was $50 with a closing price of $51 on December 31, 2006.

Required:
Compute Brisbane’s basic and diluted earnings per share for 2006.

Basic:
$$\frac{180,905 - 105,000}{100,000 - 24,000 \left(1\frac{7}{12}\right) + 6,000 \left(3\frac{1}{2}\right)} = \frac{75,905}{81,500} = 0.93$$

Diluted
$$\frac{180,905 - 105,000}{100,000 - 24,000 \left(1\frac{7}{12}\right) + 6,000 \left(3\frac{1}{2}\right) + (50,000 - 40,000)} = \frac{75,905}{91,500} = 0.83$$

104. Albatross Company purchased a piece of machinery for $60,000 on January 1, 2004, and has been depreciating the machine using the sum-of-the-years'-digits method based on a five-year estimated useful life and no salvage value. On January 1, 2006, Albatross decided to switch to the straight-line method of depreciation. The salvage value is still zero and the estimated useful life did not change. Ignore income taxes.

Required:
(1.) Prepare the appropriate journal entry, if any, to record the accounting change.
(2.) Prepare the journal entry to record depreciation for 2006.

1) No Journal Entry is needed

2) \(\frac{(5)(5+1)}{2} = 15\)

2004: \(60,000 \times \frac{5}{15} = 20,000\)
2005: \(60,000 \times \frac{4}{15} = 16,000\)
Total Depr. \(= 36,000\)

2006: Book Value = \(60,000 - 26,000 = 24,000\)

\(\frac{24,000 - 0}{(5-2)} = 8,000\)

Depreciation Expense \ 8,000
Accum. Depreciation \ 8,000
BONUS +5
EXPLAIN THE DIFFERENCE IN STOCK OPTION TREATMENTS BETWEEN APB 25 AND FASB STATEMENT 123R. BE SURE TO MENTION THE DIFFERENCE IN COMPENSATION AND THE EFFECT ON THE FINANCIAL STATEMENTS.

Under APB 25, stock options were measured using their intrinsic value whereas today, under FASB Statement 123R, stock options are measured using fair value. After the change, compensation was recorded at much higher values and this negatively impacted financial statements.

110. Determine the amount of cash received from customers for each of the four independent situations below.

<table>
<thead>
<tr>
<th>Situation</th>
<th>Sales revenue</th>
<th>Accounts receivable</th>
<th>Bad debt expense</th>
<th>Allowance for uncollectible accounts</th>
<th>Cash received from customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$300,000</td>
<td>$10,000</td>
<td>$0</td>
<td>$0</td>
<td>$290,000</td>
</tr>
<tr>
<td>2</td>
<td>300,000</td>
<td>(10,000)</td>
<td>0</td>
<td>0</td>
<td>$310,000</td>
</tr>
<tr>
<td>3</td>
<td>400,000</td>
<td>(10,000)</td>
<td>2,000</td>
<td>1,000</td>
<td>$408,000</td>
</tr>
<tr>
<td>4</td>
<td>400,000</td>
<td>10,000</td>
<td>2,000</td>
<td>(1,000)</td>
<td>$388,000</td>
</tr>
</tbody>
</table>

I HAVE A INTERNSHIP/JOB OFFER FROM: hmmm...?