Unit #3 Exam Review (Chapters 8-10)

Chapter 8

Objective 1: Explain Account Receivables

1. Define:
    1. Account Receivable:
    2. Note Receivable:
    3. Trade Receivable:
    4. Other Receivable:

Review: A company sold merchandise on account for $5,000 with the terms 2/10, n/30. The customer returns $500 worth of merchandise after 2 days, and pays the amount due on day 8.

1. Record the sale.

2. Record the return.

3. Record the receipt of payment.

Objective 2: Valuing Accounts Receivable

1. Define:

Term	Definition
Direct Write-Off Method	
Allowance Method	
Cash (net) realizable value	
Percentage of receivables basis	
Aging the accounts receivable	
Factor of accounts receivable	
Allowance for Doubtful Accounts	

Type of Account:	Normal Balance:	Financial Statement:
Accounts Receivable		
Notes Receivable		
Allowance for Doubtful Accounts		
Bad Debt Expense		

2. Direct Write Off Method:
    1. How is it done?

    2. When is it done?

    3. What is the journal entry when the account is uncollectible?

	Debit	
		Credit

3. Allowance Method:
    1. How is it done?

    2. When is it done?

    3. What is the journal entry when the amount is estimated?

	Debit	
		Credit

    4. What is the journal entry when an account is uncollectible?

	Debit	
		Credit

<u>Allowance Method Example:</u>

a. During the year, a company has credit sales of $300,000. Of this amount, $50,000 of receivables remains uncollected at year end. The company estimates 2% of receivables will be uncollectible. The balance in the Allowance for Doubtful accounts is a $200 debit balance. Prepare the period end adjusting journal entry:

What is the cash realizable value of the accounts receivable?_________ - _________ = ___________

b. What if the balance in the Allowance for Doubtful accounts is a $200 credit balance instead? Prepare the period end adjusting journal entry:

What is the cash realizable value of the accounts receivable?_________ - _________ = ___________

c. The company determines that a receivable balance from XYX Co. is not collectible and management authorizes a write-off of $350.

4. Factoring A/R and Credit Card Sales

Record Sale of Receivables to a Factor

	Debit	
	Debit	
		Credit

Record Credit Card Sale

	Debit	
	Debit	
		Credit

Objective 3: Notes Receivable

1. Define:
    1. Maker:

    2. Payee:

    3. Interest Calculation:

    4. Honoring of note:

2. Determining Maturity Dates: Omit the date of the note, but include the due date. (you need to know how many days each month has)
   Example: $10,000, 5%, 90 day note, issued on July 1
   July 2-31= 30 days
   August 1-31= 31 days
   Total is 61 so far. 90-61= 29. Note is due on September 29th

3. Compute the Interest:
   Example: $10,000, 5%, 90 day note, issued on July 1
   $10,000 * 5% * (90/360) = $125

4. Record the issuance of a note to settle on open account:
   Example: $10,000, 5%, 90 day note, issued on July 1

	10,000	
		10,000

5. Record note paid in full on September 29th:
   Example: $10,000, 5%, 90 day note, issued on July 1

	10,125	
		10,000
		125

Chapter 9

Objective 1: Accounting for Plant Assets

1. Define and provide examples:
   a. Plant asset:

   b. Historical cost principle:

   c. Land Improvements:

   d. Buildings:

   e. Equipment:

   f. Ordinary Repairs:

   g. Capital Expenditures:

2. Explain and give examples of costs that get assets "ready for intended use":

Objective 2: Depreciation Methods

1. Define:

Term	**Definition**
Depreciation	
Book Value	
Cost	
Useful Life	
Salvage Value	
Straight-line	
Units-of-Activity	
Declining Balance	

Term	Definition
Impairment	

2. Journalize Depreciation

	DEBIT	
		CREDIT

Objective 3: Disposal of Plant Assets

1. Define:
   a. Gain on Disposal: Cash Received for the sale of asset > book value of the asset
   b. Loss on Disposal: Cash Received for the sale of asset < book value of the asset
2. Journal Entries:
   a. Gain on Disposal:

	DEBIT	
	DEBIT	
		CREDIT
		CREDIT

   b. Loss on Disposal:

	DEBIT	
	DEBIT	
	DEBIT	
		CREDIT

   c. Retirement of fully depreciated asset:

	DEBIT	
		CREDIT

   d. Retirement of asset prior to full depreciation:

	DEBIT	
	DEBIT	
		CREDIT

INSERT REVISING PERIOD DEPRECIATION – PAGE 9-15

Objective 4: Natural Resources and Intangible Assets

1. Define:

Term	Definition
Natural Resource	
Depletion	
Intangible asset	
Amortization	
Goodwill	

2. Equation for Depletion Cost per Unit:

3. Journal Entry for Depletion

	DEBIT	
		CREDIT

4. Equation for Amortization of Intangible Asset:

5. Journal Entry for Amortization

	DEBIT	
		CREDIT

<u>DEPRECIATION EXAMPLE: Provide equations in the boxes below</u>

Depreciable Cost	
Book Value	
Straight Line	
Units of Activity	
Declining Balance	
Revised Depreciation	

Depreciation Examples:

<u>Straight Line Example</u>

The New Times Company purchased a new machine on January 1, 2017. The new machine cost $120,000, had an estimated useful life of five years, and an estimated salvage value of $15,000 at the end if it's useful life. It was expected that the machine would produce 210,000 widgets during its useful life. The company used the machine for exactly three years. During these three years, the annual production of widgets was 80,000, 50,000, and 30,000 units, respectively. On January 1, 2020, the machine is sold for $45,000.

Equation:

Depreciation Calculation:

Journal Entry:

Total Accumulated Depreciation:

Sale:

<u>Units-of-Activity Example</u>

The New Times Company purchased a new machine on January 1, 2017. The new machine cost $120,000, had an estimated useful life of five years, and an estimated salvage value of $15,000 at the end if it's useful life. It was expected that the machine would produce 210,000 widgets during its useful life. The company used the machine for exactly three years. During these three years, the annual production of widgets was 80,000, 50,000, and 30,000 units, respectively. On January 1, 2020, the machine is sold for $45,000.

Equation:

Depreciation Calculation:

Journal Entry Y1:

Journal Entry Y2:

Journal Entry Y3:

Total Accumulated Depreciation:

Sale:

Declining Balance Example
The New Times Company purchased a new machine on January 1, 2017. The new machine cost $120,000, had an estimated useful life of five years, and an estimated salvage value of $15,000 at the end if it's useful life. It was expected that the machine would produce 210,000 widgets during its useful life. The company used the machine for exactly three years. During these three years, the annual production of widgets was 80,000, 50,000, and 30,000 units, respectively. On January 1, 2020, the machine is sold for $45,000.
Equation:

Depreciation Calculation:

Journal Entry Y1:

Journal Entry Y2:

Journal Entry Y3:

Total Accumulated Depreciation:

Sale:

Objective 5: Review of Classified Balance Sheet

1. Understand the different classifications of the balance sheet

Chapter 10

Objective 1: Explain accounting for current liabilities

1. Define:
    1. Current Liability:
    2. Long-term Liability:
    3. Notes Payable:
2. Journal Entry to record issuance of Note Payable

	DEBIT	
		CREDIT

3. Formula to compute interest expense on Note Payable:

	X		X		=	

Journal Entry to record accrual of Interest Expense

	DEBIT	
		CREDIT

Journal Entry to record payment of Note Payable and Interest

	DEBIT	
	DEBIT	
		CREDIT

4. Sales Tax Payable

Journal Entry to record payment of Sale and Sales Tax Payable

	DEBIT	
		CREDIT
		CREDIT

Formula to compute sales based on total receipts:

	/		=	

5. Unearned Revenues:

Journal Entry to receipt of cash

	DEBIT	
		CREDIT

Journal Entry to record revenue earned

	DEBIT	
		CREDIT

6. Define Long-Term Debt and the section of the balance sheet where it belongs:

7. Payroll

Journal Entry to record Payroll Expense

	DEBIT	
		CREDIT
		CREDIT
		CREDIT
		CREDIT

Journal Entry to record payment of payroll

	DEBIT	
		CREDIT

Journal Entry to record Employer Payroll Expense and Liability

	DEBIT	
		CREDIT
		CREDIT
		CREDIT

Objective 2: Characteristics of Bonds

1. Define:

Term	**Definition**
Bond	
Secured Bond	
Unsecured Bond	
Convertible Bond	

Term	Definition
Callable Bond	
Face Value	
Contractual / Stated Rate	

2. Formula to calculate bond price:

	X		=	

Objective 3: Accounting for Bonds Transactions

1. *Bonds at Face Value*

Journal Entry to record sale of bond

	DEBIT	
		CREDIT

Journal Entry to record accrual of interest

	DEBIT	
		CREDIT

Formula to calculate interest:

	X		=	

Journal Entry to record payment of interest

	DEBIT	
		CREDIT

2. *Discount or Premium on Bonds*

Define:

1. Premium:

2. Discount:

Bonds at Discount

Journal Entry to record sale of bond with discount

	DEBIT	
	DEBIT	
		CREDIT

Total cost of borrowing:

	+		=	

Bonds at Premium
Journal Entry to record sale of bond with premium

	DEBIT	
		CREDIT
		CREDIT

Total cost of borrowing:

	-		=	

3. Redeeming Bonds

Journal Entry to redemption of bond at maturity

	DEBIT	
		CREDIT

Redemption of bond before maturity
Steps:
1
2
3
Define:

1. Carrying Value:

Journal Entry to redemption of premium bond before maturity with a gain

	DEBIT	
	DEBIT	
	DEBIT	
		CREDIT

Journal Entry to redemption of a discounted bond before maturity with a loss

	DEBIT	
		CREDIT
		CREDIT
		CREDIT

Objective 4: Accounting for Long-Term Notes Payable

1. Define:
    1. Mortgage:

Journal Entry to mortgage loan

	DEBIT	
		CREDIT

Journal Entry to record installment payment

	DEBIT	
	DEBIT	
		CREDIT

2. Lease:

Journal Entry to lease arrangement

	DEBIT	
		CREDIT

Objective 5: Liabilities Reported and Analyzed

1. Presentation: Review Liabilities section of balance sheet.

2. Analysis

3. Define and provide equation for:

Term	Definition
Working Capital	
Current Ratio	
Debt to Assets Ratio	
Times Interest Earned	