

ACCT 621 Assignment 1

Question 1 (30 minutes)

The cash balance per books for Evergreen Company on November 30, 2017, is \$10,740.93. The following checks and receipts were recorded for the month of December 2017:

Checks				Receipts	
No.	Amount	No.	Amount	Amount	Date
17	\$372.96	22	\$ 578.84	\$ 843.86	12/5
18	780.62	23	1,687.50	941.54	12/21
19	157.00	24	921.30	808.58	12/27
20	587.50	25	246.03	1,367.00	12/31
21	234.15				

In addition, the bank statement for the month of December is presented below:

Balance	Deposits and Credits		Checks and Debits		Balance			
Last Statement	No.	Total Amount	No.	Total Amount	This Statement			
\$5,404.84	5	\$9,578.36	10	\$3,632.19	\$11,351.01			
Checks and other debits			Deposits		Date	Balance		
No.	Amount	No.	Amount	No.	Amount			
14	148.29	17	372.96	22	578.84	5,484.38	12/1	\$9,875.13
18	708.62	24	921.30			843.86	12/8	\$9,219.03
19	157.00	25	246.03			941.54	12/23	\$9,541.58
21	234.15		15.00 SC			808.58	12/29	\$10,101.01
	250.00 NSF					1,500.00 CM	12/31	\$11,351.01

Symbols: NSF (Not sufficient funds) SC (Service charge) CM (Credit Memo)

Check No. 18 was correctly written for \$708.62 for a payment on account. The NSF check was from S. Gill, a customer, in settlement of an account receivable. The NSF check has not been recorded. The credit memo is for the collection of a note receivable including interest of \$60 that has not been accrued. The bank service charge is \$15.00.

Instructions

- (a) Prepare a bank reconciliation at December 31.
- (b) Indicate the adjustments required by the bank reconciliation.

Question 2 (10 minutes)

Jim Gant has worked for Dr. Ken Flood for several years. Jim demonstrates a loyalty that is rare among employees. He hasn't taken a vacation in the last three years. One of Jim's primary duties at the medical office is to open the mail and list the checks received. He also takes cash from patients at the cashier window as patients leave. At times it is so hectic that Jim doesn't bother with giving patients a receipt for the cash paid on their accounts. He assures them he will see to it that they receive the proper credit. When the traffic is slow in the office Jim offers to help Lisa post the payments to the patients' accounts receivable. She is always happy to receive his help, because he is a very conscientious worker.

Instructions

Identify any principles of internal control that may be violated in this medical office situation.

Question 3 (20 minutes)

Comparative financial statement data for Arthur Corporation and Lancelot Corporation, two competitors, appear below. All balance sheet data are as of December 31, 2017.

	<u>Arthur Corporation</u>	<u>Lancelot Corporation</u>
	<u>2017</u>	<u>2017</u>
Net sales	\$1,850,000	\$620,000
Cost of goods sold	1,225,000	365,000
Operating expenses	303,000	98,000
Interest expense	9,000	3,800
Income tax expense	85,000	36,800
Current assets	427,200	130,336
Plant assets (net)	532,000	139,728
Current liabilities	66,325	35,348
Long-term liabilities	148,500	29,620
Additional Information:		
Cash from operating activities	\$153,000	\$44,000
Capital expenditures	\$90,000	\$20,000
Dividends paid	\$36,000	\$15,000
Average number of shares outstanding	100,000	50,000

Instructions

- (a) Comment on the relative profitability of the companies by computing the net income and earnings per share for each company for 2017.
- (b) Comment on the relative solvency of the companies by computing the debt to assets ratio and the free cash flow for each company for 2017.

Question 4 (20 minutes)

Hansen Company uses the periodic inventory method and had the following inventory information available:

		<u>Units</u>	<u>Unit Cost</u>	<u>Total Cost</u>
1/1	Beginning Inventory	100	\$3	\$ 300
1/20	Purchase	500	\$4	2,000
7/25	Purchase	100	\$5	500
10/20	Purchase	<u>300</u>	\$6	<u>1,800</u>
		<u>1,000</u>		<u>\$4,600</u>

A physical count of inventory on December 31 revealed that there were 380 units on hand.

Instructions

Answer the following independent questions and show computations supporting your answers.

1. Assume that the company uses the FIFO method. The value of the ending inventory at December 31 is \$_____.
2. Assume that the company uses the average cost method. The value of the ending inventory on December 31 is \$_____.
3. Assume that the company uses the LIFO method. The value of the ending inventory on December 31 is \$_____.
4. Determine the difference in the amount of income that the company would have reported if it had used the FIFO method instead of the LIFO method. Would income have been greater or less?

Question 5 (20 minutes)

Vineyard Company sold the following two pieces of equipment in 2017:

	<u>Equipment A</u>	<u>Equipment B</u>
Cost	\$116,000	\$63,000
Purchase date	7/1/13	1/1/14
Useful life	8 years	5 years
Salvage value	\$4,000	\$3,000
Depreciation method	Straight-line	Straight-line
Date sold	7/1/17	9/1/17
Sales price	\$49,000	\$20,000

Instructions

Indicate the accounts required to be increased/decreased to update depreciation and record the sales of the two assets in 2017. The company has recorded depreciation on the equipment through December 31, 2016.

Question 6 (20 minutes)

The comparative balance sheet of Delta Company appears below:

Delta COMPANY
Comparative Balance Sheet
December 31,

<u>Assets</u>	<u>2017</u>	<u>2016</u>
Current assets	\$ 450	\$280
Plant assets	<u>550</u>	<u>520</u>
Total assets	<u>\$1,000</u>	<u>\$800</u>
 <u>Liabilities and stockholders' equity</u>		
Current liabilities	\$ 180	\$120
Long-term debt	250	160
Common stock	310	320
Retained earnings	<u>260</u>	<u>200</u>
Total liabilities and stockholders' equity	<u>\$1,000</u>	<u>\$800</u>

Instructions

- (a) Using horizontal analysis, show the percentage change for each balance sheet item using 2016 as a base year.
- (b) Using vertical analysis, prepare a common size comparative balance sheet.