Prepare for your Grand Adventure! - June 2018

Formulas you should know very well and be able to explain what they measure:

Book value per share (impact of share issues)
Return on equity (why is it so important to investors)
Price-earnings ratio (some possible scenarios that may explain why it is high/low)

Division of Partnership Income

Matthews and Marner have a partnership agreement which includes the following provisions regarding sharing net income and net loss:

1.Since Marner will work only part time in the partnership, he will be allocated a salary allowance that is one half the salary allowance allocated to Matthews. Mathews' salary allowance will be 20% of net income.

2.Both partners will be given an interest allowance of 5% on their beginning-of-the-year capital account balances.

3.The remaining income and loss is to be divided 70% to Matthews and 30% to Marner.

The capital account balances on January 1, 2018, for Matthews and Marner were $160,000 and $40,000, respectively. During 2018, the Matthews and Marner partnership had sales of $1,770,000, cost of goods sold of $570,000, and operating expenses of $300,000.

Instructions
Prepare a schedule which clearly sets out the division of income or loss to the partners for 2018 and the closing entries.

Bond Financing

BorntoRun Company issues $2,000,000 of 6%, 10-year bonds on January 1, 2018 at 107. Interest is payable semi-annually on July 1 and January 1. The issue was correctly recorded. The company uses the straight-line method of amortization.

INSTRUCTIONS

(a) Journalize the entries for bond interest on (1) July 1, 2010 and (2) December 31,2018.

(b) Show the balance sheet presentation of the bonds at December 31, 2018.

(c) What would the entries be if the bond was issued at 90
(d) What would the entries be if the bond were issued at 100
(e) What would the entries be if the bond were issued at 105

Amortization Methods

The following information is available for ZoSo Company, which has an accounting year end on December 31, 2017.

1. A Zeppelin was purchased on May 1, 2012, for $100,000. It was estimated to have a $10,000 salvage value after being flown 100,000 kilometres. Prior to 2017 the Zeppelin was flown for 75,000 kms. During 2017, the Zeppelin was flown 20,000 kilometres. The units-of-activity method of amortization is used.

2. A Levee was purchased on January 1, 2017, for $2,000,000. It is estimated to have a $250,000 salvage value at the end of its 20-year useful life. The straight-line method of amortization is being used.

3. A carouselambra was purchased on June 1, 2015, for $60,000. It was estimated that the carouselambra would have a $4,000 salvage value at the end of its 5-year useful life. The double declining-balance method of amortization is being used.

Instructions: Show all of your calculations
Complete the table shown below by filling in the appropriate amounts.

Assets 1/1/17	Accumulated Amortization	Amortization Expense for 2017	Net Book Value at 12/31/17
Zeppelin	$	$	$
The Levee	$	$	$
Carouselambra	$	$	$

Problem D - Corporations

The shareholders' equity section of Zuma Corporation at December 31, 2017, included the following:

$3 preferred shares, no par value, cumulative,100,000 shares authorized, 10,000 shares issued ...... $ 800,000

Common shares, no par value, 25,000,000 shares authorized, 5,000,000 shares issued.... $5,000,000

Dividends were not declared on the preferred shares in 2016 and are in arrears.

On July 1, 2017 the board of directors declared a 10% stock dividend on the common shares, distributable July 31, 2017 to shareholders of record on July 15, 2017. On July 1, 2017 the shares were trading for $2.

On August 5, 2017, the board of directors of Zuma Corporation declared dividends on the preferred shares for 2016 and 2017, to shareholders of record on August 31, 2017, payable on September 15, 2017.

On November 1, 2017, the board of directors declared a $2 per share dividend on the common shares, payable November 30, 2017, to shareholders of record on November 15, 2017.

INSTRUCTIONS
Prepare the journal entries (if required) that should be made by Zuma Corporation on the dates indicated below:

July 1,2017	August 5, 2017	November 1, 2017
July 15, 2017	August 31, 2017	November 15, 2017
July 31, 2017	September 15, 2017	November 30, 2017

Problem E - Inventory Management

TragicallyHip Co., which uses a *periodic* inventory system, had a beginning inventory on May 1, of 400 units of Product A at a cost of $14 per unit. During May, the following purchases and sales were made.

Purchases		
May 6	375	units at $18
14	250	units at $20
21	300	units at $22
28	425	units at $26
	1,350	

Sales		
May 4	275	units
8	350	units
17	400	units
24	225	units
	1,250	

Instructions: Calculate the May 31 ending inventory and May cost of goods sold under (a) Weighted Average Cost, (b) FIFO, and (c) LIFO. Provide appropriate supporting calculations.

(a) Weighted Average

Ending Inventory = $_________; Cost of Goods Sold = $_________.

(b) FIFO

Ending Inventory = $_________; Cost of Goods Sold = $_________.

(c) LIFO

Ending Inventory = $_________; Cost of Goods Sold = $_________.