**SOLUTIONS TO ASSIGNED PROBLEMS AP8-6, P9-2**

**AP8–6.**

**Req. 1**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | Assets | | Liabilities | | | Stockholders’ Equity | | | | |
| Jan. 1 (a) | | | | License  Cash | +7,200 –7,200 |  |  | |  | | |  | |
| Jan. 1 (b) | | | | Leasehold improvements  Cash | +17,800  –17,800 |  |  | |  | | |  | |
| July 1 (c) | | | | Assets(1) (not detailed)  Goodwill  Cash | +115,000  +29,000  –120,000 | Liabilities (not detailed) | +24,000 | |  | | |  | |
| Dec. 31 (d1) | | | | Accumulated depreciation, Machine A(2) | –4,500 |  |  | | Depreciation expense | | | –4,500 | |
| Dec. 31 (d2) | | | | Cash  Equipment  Accumulated depreciation, Machine A(3) | +6,000  –21,500  +18,000 |  |  | | Gain on disposal of long-lived asset(4) | | | +2,500 | |
| 2012 (e) | | | | Cash | –6,700 |  |  | | Repair and maintenance expense | | | –6,700 | |
| Dec. 31 (f) | | | | Cash  Equipment | –8,000  +8,000 |  |  | |  | | |  | |
|  | Computations for Acquisition: | | | | | |  | |  |  | |
|  | (1) | Purchase price | | | | | $120,000 | |  |  | |
|  |  | Less: Market value of net assets ($115,000 - $24,000) | | | | | 91,000 | |  |  | |
|  |  | Goodwill | | | | | $ 29,000 | |  |  | |
|  | Computations for Machine A: | | | | | |  | |  |  | |
|  | (2) | Depreciation expense for 2015: | | | | |  | |  |  | |
|  |  | ($21,500 - $3,500) x 1/4 | | | | | $4,500 | |  |  | |
|  |  |  | | | | | | |  |  | |
|  | (3) | Accumulated depreciation to Jan. 1, 2015 | | | | | $13,500 | |  |  | |
|  |  | Add: Depreciation expense for 2015 (above) | | | | | 4,500 | |  |  | |
|  |  | Total accumulated depreciation | | | | | $18,000 | |  |  | |
|  |  |  | | | | |  | |  |  | |
|  | (4) | Cash proceeds from disposition | | | | | $6,000 | |  |  | |
|  |  | Net book value of Machine A ($21,500 – $18,000) | | | | | 3,500 | |  |  | |
|  |  | Gain on disposal of long-lived asset | | | | | 2,500 | |  |  | |

**Req. 2 December 31, 2015 depreciation and amortization expense:**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | |  |  | | | |
| *a.* | License: $7,200 ÷ 4 years = $1,800 | | |
|  |  | | |
| *b.* | Leasehold improvements: | | |
|  | Amortize over shorter of:   1. remaining lease term = 10 years   or  (b) life of the asset = 5 years  Amortization for 2015: $17,800 x 1/5 = $3,560 | | | |
|  |  | | |
| *c.* | Goodwill: No amortization since it has an indefinite life. | | |
|  |  | | |
| *d.* | Machine A: | | |
|  | Machine A was sold on December 31, 2015. Depreciation expense was computed up to the date of disposal. No additional depreciation is necessary. | | |
|  |  | | |
| *e.* | This transaction involved an ordinary repair and maintenance expenditure and not an intangible or capitalized asset. | | |
|  |  | | |
| *f.* | Machine B: | | |
|  | ($18,000 - $2,000) x 1/4 = $4,000 depreciation expense for 2015 | | | | |

The $8,000 capital expenditure was made on December 31, 2015; no depreciation expense is recorded in 2015 because the reconditioned machine has not yet been used.

**Req 3. (Added) Prepare Journal Entries for Each Transaction (a) – (f) in Req 1**

(a)

|  |  |  |
| --- | --- | --- |
| Licenses | 7,200 |  |
| Cash |  | 7,200 |

Licenses is an intangible asset. Also, Intangible Assets - Licenses

(b)

|  |  |  |
| --- | --- | --- |
| Leasehold improvements | 17,800 |  |
| Cash |  | 17,800 |

(b)

|  |  |  |
| --- | --- | --- |
| Goodwill | 29,000 |  |
| Other assets | 115,000 |  |
| Other liabilities |  | 24,000 |
| Cash |  | 120,000 |

(d)

|  |  |  |
| --- | --- | --- |
| Depreciation expense | 4,500 |  |
| Accumulated depreciation |  | 4,500 |
| *To depreciate to date of sale, December 31, 2015* |  |  |
| (21,500 – 3,500) / 4 = 4,500 per year |  |  |
| Cash | 6,000 |  |
| Accumulated depreciation – machinery | 18,000 |  |
| Machinery |  | 21,500 |
| Gain/Loss on sale of machinery |  | 2,500 |
| *To record sale*  *13,500 + 4,500 = 18,000.* |  |  |

(e)

|  |  |  |
| --- | --- | --- |
| Repairs and maintenance expense | 6,700 |  |
| Cash |  | 6,700 |

(f)

|  |  |  |
| --- | --- | --- |
| Machinery | 8,000 |  |
| Cash |  | 8,000 |
|  | | |

**P9–2.**

**Req. 1**

January 8:

|  |  |  |  |
| --- | --- | --- | --- |
| Purchases (+A) | 14,860 |  |  |
| Accounts payable (+L) |  |  | 14,860 |
|  |  |  |  |

January 17:

|  |  |  |  |
| --- | --- | --- | --- |
| Accounts payable (-L) | 14,860 |  |  |
| Cash (-A) |  |  | 14,860 |
|  |  |  |  |

April 1:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Cash (+A) | 35,000 |  |  | |
| Note payable, short term (+L) |  |  | 35,000 | |
|  | | | |

June 3:

|  |  |  |  |
| --- | --- | --- | --- |
| Purchases (+A) | 17,420 |  |  |
| Accounts payable (+L) |  |  | 17,420 |
|  |  |  |  |

July 5:

|  |  |  |  |
| --- | --- | --- | --- |
| Accounts payable (-L) | 17,420 |  |  |
| Cash (-A) |  |  | 17,420 |
|  |  |  |  |

August 1:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Cash (+A) | 6,000 |  |  | |
| Rent revenue ($6,000 x 5/6) (+R, +SE) |  |  | 5,000 | |
| Deferred rent revenue ($6,000 x 1/6) (+L) |  |  | 1,000 | |
|  | | | |

December 20:

|  |  |  |  |
| --- | --- | --- | --- |
| Cash (+A) | 100 |  |  |
| Liability-deposit on trailer (+L) |  |  | 100 |
|  |  |  |  |

December 31:

|  |  |  |  |
| --- | --- | --- | --- |
| Wage expense (+E, -SE). | 9,500 |  |  |
| Wages payable (+L) |  |  | 9,500 |
|  |  |  |  |

**Req. 2**

December 31:

|  |  |  |  |
| --- | --- | --- | --- |
| Interest expense (+E, -SE). | 2,100 |  |  |
| Interest payable (+L) |  |  | 2,100 |
| ($35,000 x 8% x 9/12 = $2,100). |  |  |  |

**Req. 3**

Balance Sheet, December 31

|  |  |  |  |
| --- | --- | --- | --- |
| Current Liabilities |  |  |  |
| Note payable, short term | $35,000 |  |  |
| Deposit on trailer | 100 |  |  |
| Wages payable | 9,500 |  |  |
| Interest payable | 2,100 |  |  |
| Deferred rent revenue | 1,000 |  |  |
| Total |  |  | $47,700 |

**Req. 4. Effect on Operating Cash Flows. Note, the problem does not ask for the adjustment in the Operating Activities Section, but asks for the effect on operating cash flow.**

|  |  |
| --- | --- |
| **Transaction** | **Effect** |
| January 8 | No effect |
| January 17 | Decrease |
| April 1 | Financing activity (no effect on operating activities) |
| June 3 | No effect |
| July 5 | Decrease |
| August 1 | Increase |
| December 20 | Increase |
| December 31 | No effects for either entry |