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

**AP8–6.**

**Req. 1**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Assets | Liabilities | Stockholders’ Equity |
| Jan. 1 (a) | LicenseCash | +7,200–7,200 |  |  |  |  |
| Jan. 1 (b) | Leasehold improvementsCash | +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) | CashEquipmentAccumulated 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) | CashEquipment | –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 yearsAmortization 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 |