

## Principles of Accounting II

### Practice Problems to Complete Before Taking the Exam on Chapters 15-16

- A. Mo Company had the following transactions relating to investments in trading securities during the current year. Prepare journal entries for each transaction below.
- May 4 Purchased 500 shares of Curly Company stock at \$110 per share plus a \$660 brokerage fee.
- Jul 1 Received a \$2.50 per share cash dividend on the Curly Company stock.
- Sep 15 Sold 200 shares of Curly Company stock for \$104 per share less a \$420 brokerage fee.
- Dec 31 The market value of Curly Company stock is \$107 per share. The balance of the Fair Value Adjustment account as of Dec 31 was -0-.
- B. On Jan 1 of the current year, Larry Company paid \$200,000 to purchase 8%, 3-year bonds at par value. The bonds pay interest semiannually on June 30 and Dec 31. Larry Company intends to hold these bonds until they mature.
- Prepare the journal to record the investment in the bonds.
  - Prepare the journal entry to record the receipt of the first interest payment.
  - Prepare the journal entry to record the redemption of the bonds at maturity.
- C. On Jan 1 of the current year, Shemp Company purchased 30,000 shares of Stooge Company stock for \$21 per share. This purchase represented 30% (a significant interest) of Stooge Company's outstanding stock. Prepare journal entries for each transaction below.
- The investment in Stooge Company stock.
  - Stooge Company declared and paid a \$1 per share dividend on July 1.
  - Stooge Company reported a net loss for 2005 of \$17,000.
  - What is the carrying value of Shemp's Long-term investment in Stooge Company on December 31 of the current year?
  - Shemp Company sells 10,000 shares of Stooge company stock on Jan 1 for \$19 per share less a \$500 brokerage fee.

- D. Jumpin' Jim Company, a merchandiser, recently completed its calendar-year 2012 operations.. Jumpin' Jim's balance sheet and income statement follow. Prepare a complete statement of cash flows; report its operating activities using the indirect method.

**JUMPIN' JIM COMPANY**  
**Income Statement**  
**For Year Ended December 31, 2012**

Sales		\$630,700
Cost of goods sold		<u>(278,000)</u>
Gross profit		352,700
Operating expenses		
Depreciation expense	\$ 15,620	
Other expenses	<u>189,000</u>	(204,620)
Other gains (losses)		
Gain on sale of equipment		<u>10,200</u>
Income before taxes		\$158,280
Income taxes		<u>(27,570)</u>
Net income		<u>\$130,710</u>

**JUMPIN' JIM COMPANY**  
**Comparative Balance Sheet**  
**December 31, 2012**

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Cash	\$ 54,400	\$ 62,900
Accounts receivable	70,250	55,500
Merchandise inventory	210,800	204,800
Prepaid expenses	250	1,560
Equipment	102,580	88,000
Accum. depreciation — Equip .	<u>(25,020)</u>	<u>(24,200)</u>
Total assets	<u>\$413,260</u>	<u>\$388,560</u>
<b>Liabilities and Equity</b>		
Accounts payable	\$ 41,090	\$ 98,100
Short-term notes payable	5,000	-0-
Long-term notes payable	26,000	40,000
Common stock, \$2 par value	122,000	120,000
Contributed capital in excess of par, common stock	70,500	67,500
Retained earnings	<u>148,670</u>	<u>62,960</u>
Total liabilities and equity	<u>\$413,260</u>	<u>\$388,560</u>

**Additional Information on Year 2012 Transactions**

- a. Sold equipment costing \$21,420, with accumulated depreciation of \$14,800, for \$16,820 cash.
- b. Purchased equipment costing \$36,000 by paying cash of \$10,000 and signing a long-term note payable for the balance.
- c. Borrowed \$5,000 cash by signing a short-term note payable.
- d. Paid \$40,000 cash to reduce the long-term notes payable.
- e. Issued 1,000 shares of common stock for cash at \$5 per share.
- f. Declared and paid cash dividends of \$45,000.