Sample accounts questions (Problems)

Problem 1

Assuming the assets increased by **$25,000** during the year and liabilities amounted to **$75,000** and **$65,000** at the beginning and end of the year, respectively, calculate revenues for the year assuming the following additional information:
Dividends for the year - **$12,000**

Capital contributions during the year - **$10,000**

Expenses for the year - **$100,000**

Problem 2

John's Delivery Company purchased a used delivery truck for **$20,000** cash on. Additional costs incurred at the time of purchase and paid in cash were **$1,200** of sales tax. John had the truck painted for **$1,000** and the engine overhauled for **$1,800** prior to its initial use.

A. Prepare the journal entry (ies) to record all of the costs to be capitalized as part of the cost of the asset (truck).

B. Prepare the **12/31/X4** and **12/31/X5** adjusting entries to record the **20X4** and **20X5** depreciation expense on the truck using straight-line depreciation and estimating a 7 year useful life with a **$3,000** salvage value. (Remember that depreciation in **20X4** should be for a partial year.)

D. Prepare the journal entry to record the payment of **$250** for an engine tune-up and oil change and, **$750** for a new set of tires in **20X6**.

C. Calculate the truck's book value at **12/31/X6** if an appraisal shows that the truck could be sold for **$14,000**.

E. What would have been the amount of depreciation in the first year given the units of production method? What will be the estimated use of 60,000 miles with 0 salvage value? Actual use in the first year is 10,000 miles.

Problem #67

Heber has spoken to a local injection molding manufacturing business about the possibility of them manufacturing the Jello molds for Heavenly Molds, Inc., on a contract basis at a price of **$1.50** per unit assuming Heber provided his own production mold. If Heber contracted out the manufacturing of the Jello molds, he believes he could operate out of his apartment and avoid all manufacturing costs except depreciation of the production molds and the building rent. (Assume for this problem that Heber has already signed a two-year lease on the building beginning September 1, but he expects that he could sublease it for **$1,600** per month and make a **$200** per month profit on the sublease if he chose not to use it for his own business). If Heber operated out of his house he would still incur all of the budgeted fixed selling and administrative costs.

What would be the net effect on Heber's profitability based on **2,750** units of budgeted production if Heber contracted out the manufacturing of those units?

Additional Questions:
What would be the effect on relative costs at higher levels of volume?

What might be some qualitative considerations involved in this decision on whether to contract out the manufacturing process?

See next page for Problem #67 data

Problem #67 HEAVENLY MOLDS, INC.

Manufacturing (Product) Costs:

Variable Costs Per Unit-	
Direct Materials	$ .30
Direct Labor	.20
Manufacturing Overhead:	
Employer Payroll Tax	.02
Machine Lease	.08
Indirect Materials	.03
Workman's Compensation	.02
Utilities	.05
Mold Depreciation	.10
	$ .80
Fixed Costs Per Month-	
Machine Lease	$2,000
Indirect Materials	300
Indirect Labor	250
Utilities	160
Building Rent	1,120
	$3,830

Problem #67

Selling and Administrative Costs:

Variable Costs Per Unit-	
Sales Commissions	$ .10
Fixed Costs Per Month-	
Building Rent	$280
Utilities	40
Telephones, Fax, etc.	300
copy Machine, Paper	250
Other Office Supplies	150
Liability Insurance	50
Accounting Service	500
	$1,570