

# [Review of financial statements essay sample](https://assignbuster.com/review-of-financial-statements-essay-sample/)

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Homework will not be collected or graded. Suggested solutions will be posted on SMUelearn.

NOTE: if you could not do the questions below, please review Introductory Financial Accounting.

Question 1 Adjusting Entries and Statement Preparation

The attached Excel file contains the preclosing trial balance of SMUST Retailers Ltd. as of 31 Dec 2005.

The following additional information is provided to you:   
1. The company paid a salary advance of $10, 000 to its employees, a total that was debited to the salaries expense account. This was an advance against the employee’s salary for the year 2006. 2. On January 1, 2005 the company paid an insurance premium of $18, 000, which was debited to the insurance expense account. The premium provided insurance coverage for 18 months beginning on January 1 2005. 3. The company decided to revise its estimate of bad debts expense by calculating it at 10% of its sales revenue. 4. On January 1, 2006 the board of directors of the company declared an additional dividend of $10, 000 for the year 2005.

Required:

1. Prepare the necessary adjusting entries for the year ended December 31, 2005. 2. Prepare an income statement for the year ended December 31, 2005. 3. Prepare a balance sheet as of December 31, 2005.

Question 2 Cash Flow Statement

The attached Excel file contains accounting information of Liquidity Inc. for the year 2005 and 2004.

The following additional information is provided to you:   
1. All short term investments (securities available for sale) were purchased on 12/31/04 and sold during 2005. 2. The company entered a lease agreement on 12/31/05.   
3. Fixed assets with a net book value of $15 were sold during the year. 4. The company repaid the current portion of long-term debt during the year. 5. Dividend was declared and partially paid.

Required:

1. Prepare the statement of cash flows for the year 2005 using the direct method. 2. Reconcile net income and operating cash flow for the year 2005.

Question 3 Accounting for Bonds

The financial year of Happy Corporation ends on December 31. The company issued a 10-year, 8%, $1, 000, 000 bond on January 1, 2006. The bond pays interest every June 30 and December 31, with the principal to be paid at the end of 10 years. The effective interest rate on the bond is 10%. The company uses effective-interest amortization for the bond.

The present value tables are as follows:

| Periods | Present Value of $1 | Present Value of Ordinary Annuity of $1 |

| 4% | 5% | 8% | 10% | 4% | 5% | 8% | 10% | | 10 | 0. 676 | 0. 614 | 0. 463 | 0. 386 | 8. 111 | 7. 722 | 6. 710 | 6. 145 | | 20 | 0. 456 | 0. 377 | 0. 215 | 0. 149 | 13. 590 | 12. 462 | 9. 818 | 8. 514 | | Required:

1. Determine the selling price of the bond on January 1, 2006 (Round to the nearest dollar) 2. Prepare the journal entry as at January 1, 2006 to account for (1) 3. Prepare journal entries for Happy Corporation for these two dates: June 30, 2006 and December 31, 2006. 4. Show the partial balance sheet presentation of the bond for Happy Corporation as at December 31, 2006.