

**MINISTRY OF EDUCATION AND SCIENCE,  
YOUTH AND SPORTS OF UKRAINE**

**KHARKIV NATIONAL UNIVERSITY OF ECONOMICS**

**Guidelines for Independent Training  
in the Educational Discipline**

# **"ACCOUNTING AND AUDITING"**

**for students of training sphere 6.030601 "Management"  
specialization "Business Administration"  
for full time study**

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Tasks to test the knowledge and skills of independent work with the special literature, to master and deepen the skills in solving problems of the educational discipline are given.

The issue is recommended for students of the bachelor programme of "Business Administration".

Подано завдання для перевірки набутих знань і розвитку навичок самостійної роботи зі спеціальною літературою, оволодіння та поглиблення досвіду з розв'язання завдань з навчальної дисципліни.

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## Introduction

The activity of entrepreneurs is impossible without a clearly established system of accounting, which is the object of educational discipline "Accounting and Auditing". Accounting serves as a tool for identifying, measuring and communicating economic information to permit informed judgments and decisions of the users of information. Auditing is a systematic process of obtaining and evaluating objective data about economic actions and events that sets the level of compliance with specific criteria and presenting the results to interested parties

Discipline "Accounting and auditing" is a professional compulsory discipline, which is taught in accordance with educational and training program for managers of bachelor degree.

While studying educational material students are involved into theoretical practical and independent training. In credit-modular system of organization of educational process independent training is essential. The main purpose of independent training is the creation of conditions for the fullest realization of creative potential of students through individually-directed development of their abilities to research and individual activity.

Independent training for students consists of: elaboration of theoretical foundations of listening lectures, study specific issues of topics using primary and supplementary literature, legislation and guidance materials; solving individual problems, preparation for practical classes, intermediate and final control.

The purpose of the tasks for independent work of students – not only deepening of theoretical knowledge and practical skills of reflecting acquisition transactions in the accounting of Ukrainian enterprises, but above all the development of skills for independent creative research, interpretation and using practical methods that accompany the accounting work of an enterprise.

Presented guidelines for independent work meet the syllabus of the educational discipline "Accounting and auditing" in themes of module 1. "The Fundamentals of Accounting"

While carrying out the tasks for independent training one should keep in mind that these tasks are based on conventional data and have no direct

connection with the actual facts of economic activity of specific companies,  
any match with real entities is random.

## **Theme 1. The Principles of Accounting**

According to the Law of Ukraine "On Accounting and Financial Reporting in Ukraine" accounting is a process of identifying, measuring, recording, accumulation, generalization, storage and transmission of information about the enterprise' activities to the internal and external users for decision making.

Methodologically accounting is divided into financial and management, that reflects the internal and external users of information. Financial accounting is a comprehensive accounting of all types of funds and the entire economic activity of enterprises. It includes the analytical accounting of settlement with suppliers, customers, other organizations and individuals, as well as analytical accounting of financial transactions. Management accounting is concerned with the provision of information to people within organization to help them make better decisions and improve the efficiency and effectiveness of existing operations. The main objective is timely obtaining accurate information about income and expenses of a whole enterprise as well as of individual segments.

Accounting measurements tend to be based on historical cost determined by reference to an exchange transaction with another party (e.g., a purchase), so income is "revenues" minus "expenses" as determined by reference to those transactions. More specifically:

revenues are inflows and enhancements from delivery of goods and services that constitute central ongoing operations;

expenses are outflows and obligations arising from the production of goods and services that constitute central ongoing operations.

To recognize an item is to record it into the accounting records. Revenue recognition normally occurs at the time services are rendered or when goods are sold and delivered. The conditions for revenue recognition are (a) an exchange transaction, and (b) the earnings process being complete.

Expense recognition will typically follow one of three approaches, depending on the nature of the cost:

1) associating cause and effect : many costs are linked to the revenue they help produce;

2) systematic and rational allocation: some costs benefit many periods. Stated differently, these costs expire over time. In such cases, accountants may use a systematic and rational allocation scheme to spread a portion of the total cost to each period of use;

3) immediate recognition: last, some costs cannot be linked to any production of revenue, and do not benefit future periods either. These costs are recognized immediately.

National standards of accounting require that a business use the accrual basis. Under this method, revenues and expenses are recognized as earned or incurred. An alternative method is the cash basis. Under this easy approach, revenue is recorded when cash is received (no matter when it is earned), and expenses are recognized when paid (no matter when incurred).

The subject of accounting is separate sides of the expanded reproduction: the economic facts, events and operations that cause the movement of enterprise's resources, as well as the sources of their formation. The subject of accounting covers the entire process of reproduction, that is, production, distribution, circulation and consumption.

The objects of the accounting are: the company's resources (assets), sources of formation of these resources (equity and liabilities) and business processes.

Assets are items of value owned by an enterprise. Assets – are resources controlled by an enterprise as a result of past events, the use of which is expected to lead to economic benefits in the future.

Liabilities – are debts or obligations to pay money or other assets or to render services. These debts arose from past events and sinking of these debts in the future, is expected to lead to a decrease in the enterprise of resources embodying economic benefits.

In accordance with national accounting standards in Ukraine assets of the company are divided into 4 groups: fixed assets, current assets, deferred charges, fixed assets intended for sale.

Sources of enterprise resources are divided into 5 groups: equity capital (stockholder's equity), backing of impending expenses and payments, current liabilities, fixed liabilities, deferred credits.

Fixed assets are relatively long-lived assets necessary in the operation of the business and not convertible readily into cash. They are not stationary but are "fixed" from the standpoint of the permanence of the investment in them. One of the major group of fixed assets are Property, Plant and Equipment. This group contains: land, buildings, machinery, furniture and

fixtures, delivery equipment. Intangible assets are long-term assets that lack physical existence; for instance: contract rights, copyrights, patents, trademarks, etc.

Current assets are cash and other assets that will be converted into cash through the normal operation of the business, usually in less than a year. A few of the more customary titles to be found in this group are as follows:

1) Inventory contains: raw material, work in process, finished goods and merchandise;

2) Accounts Receivable – are claims to pay the business;

3) Accruals Receivable, are accumulating claims arising out of services rendered by the business over a period of time but which are not yet due;

4) Cash, which includes coins, paper money, bank drafts and any other items that a bank will accept for deposit.

Deferred charges are expenditures for supplies or services that are to be charged as expenses in a subsequent period or periods. Deferred charges include expense items that have been incurred in advance of the period to which they are applicable prepaid expenses.

Stockholders' equity is the excess of the assets over the liabilities. It is the ownership interest in the total assets of the enterprise. The capital of a corporation must not be confused with its capital stock. The amount of its capital and its capital stock is the same mostly only at the time a corporation is organized and the members invest in it.

Liabilities are debts or obligations to pay money or other assets or to render services. The two fundamental classes of liabilities are current liabilities and fixed liabilities. An additional class is deferred credits. Current liabilities are debts that are due to be paid within one year or the operating cycle, whichever is longer. Fixed liabilities are debts with a maturity date usually more than a year or the operating cycle away. These liabilities arise ordinarily at the time fixed assets are purchased. When the maturity date of any liability which has been classed as a fixed liability is less than a year or the operating cycle distant, it should be classed as a current liability if it is to be paid out of current assets.

Deferred credits represent receivables of one period that will be earnings of a subsequent period or periods. This type of liability is satisfied usually in products or by rendering services.

The quality of accounting is underpinning by some fundamental assumptions and rules: prudence concept, full disclosure principle, entity

assumption, consistency concept, going-concern assumption, matching concept, accruals concept, principle of prevalence of the essence above the form, historical cost principle, monetary unit assumption, periodicity assumption.

### Task 1.1

Match the terms to their correct descriptions in tab. 1.1, fill in the gaps by terms in Ukrainian.

Table 1.1

#### Basic terminology, that corresponds to the essence of accounting

Term			Definition	
	in English	in Ukrainian		
1	2	3	4	5
1	Accounting		A	A form of business organization where ownership is represented by divisible units called shares of stock
2	Accounting equitation		B	The excess of revenues over expenses for a designated period of time
3	Assets		C	Amounts owed by an entity to others
4	Auditing		D	An area of accounting concerned with reporting results to managers and others who are internal to an organization
5	Balance sheet		E	A financial statement that summarizes the revenues, expenses, and results of operations for a specified period of time
6	Certified public accountant		F	An individual who is licensed by a state to practice public accounting
7	Corporation		G	An area of accounting that deals with external reporting to the parties outside the firm; based on standardized rules and procedures
8	Dividends		H	Recourses provided to an organization by a person in exchange for a position of ownership in the organization
9	Expenses		I	The residual of assets minus liabilities, representing the collective interest or position of the entity's owners
10	Financial		J	A financial relationship at the heart of the



	accounting			accounting model: $\text{Assets} = \text{Liabilities} + \text{Owners' Equity}$
11	Public accounting		K	Core financial reports that are prepared to represent the financial position and the results of operations of a company

Table 1.1 (the ending)

1	2	3	4	5
12	Financial statements		L	The examination of transactions and systems that underlie an organization's financial statements with the goal of reporting thereon
13	Internal auditor		M	Inflows and other benefits received in exchange for the providing of goods and services
14	Historical cost principle		N	The economic resources owned by an entity, entailing probable future benefits to the entity
15	Income statement		O	A financial statement that presents a firm's assets, liabilities and owners' equity at a particular point of time
16	Liabilities		P	The excess of expenses over revenues for a designated period of time
17	Management accounting		Q	A person within an organization who reviews and monitors the controls, procedures, and information of the organization
18	Net income		R	Amounts paid from profits of a corporation to shareholders as a return on their investment in the stock of entity
19	Net loss		S	An organization charged with producing standards for financial reporting in the USA
20	Owner investments		T	The costs incurred in producing revenues
21	Owners' equity		U	The concept that many transactions and events are to be measured and reported at acquisition cost
22	Financial Accounting Standards Board		V	A financial statement that discloses changes in retained earnings during a designated period of time; those changes are usually attributable to income and dividends
23	Retained earnings		W	The excess of corporation's income over its dividends
24	Revenue		X	Accounting activities provided by a person to the general public, typically related to audit, tax and similar services
25	Statement of retained		Y	A set of concepts and techniques that are used to measure and report financial information

earnings			about an economic unit.
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### Task 1.2

Suggest the proper definition for each of accounting assumptions and principles, disclosed below (tab. 1.2). Which assumption (principle) was not mentioned?

Table 1.2

### Assumptions and principles of accounting

Definition		Essence of accounting assumption (principle)
1		This assumption requires every business to be accounted for separately from the owner. Personal and business-related transactions are kept apart from each other
2		Based on this assumption, actual costs instead of liquidation values are used for presenting financial information
3		money is the common denominator (measurement unit) used for reporting financial information
4		This assumption assumes that business operations can be recorded and separated into different time periods such as months, quarters, and years
5		the value of an asset is never "written up" even though the asset may actually be worth more than its cost
6		The principle is recording the revenues earned during a period using the revenue realization principle and matching (offsetting) the revenues with the expenses incurred in generating this revenue.
7		The principle states that all pertinent and material financial information concerning the business and its activities is fully disclosed in an understandable form
8		The concept states that when choosing between two alternatives, the one that will be least likely to overstate assets and income should be picked
9		The concept states that revenue is recognized as earned when the product is shipped and invoiced to customers or service is rendered and (billed). Likewise, expenses are recorded as incurred when the product (service) is shipped (rendered) and invoiced by the supplier.

### Task 1.3

Define each accounting assumption or principle, given below.

1. While determining the financial results comparability of the revenues and the expenses, incurred to obtain such revenues, must be achieved.
2. Accounting information should be presented for specific and distinct reporting units.
3. Assets or income must be not overstated and costs or obligation must be not understated.
4. Fiscal year should be divided into specific measurement intervals.
5. Transactions and other events should be accounted for and disclosed in accordance with their content, not only on the basis of their form.
6. Methods of accounting must be applied permanently.
7. Assets should be valued on the costs of their production and acquisition.
8. The valuation of assets and liabilities of the enterprise is based on suggestion that its work will continue in a boundless future.
9. Accounting measures transactions and events in units of money.
10. All business transactions should be reflected on accounts without any exception.
11. Revenues and expenses should be accounted at the time of their appearance.

### Task 1.4

The Lux Corporation at the end of the referenced period has resources and sources of their formation composed of items given in table 1.3. Classify resources and sources of their formation, by filling table 1.4 and table 1.5.

Table 1.3

#### The Lux Corporation: resources and sources of their formation

№	Item	Amount, th. UAH	Resource or source	Type of resource or source
1	2	3	4	5
1	Building the office	300		
2	Cash on hand	5		
3	Building the hotel	3700		
4	Nominal capital	5000		
5	Computers	50		
6	Writing tables	27		

7	Accounts receivable from domestic travel agents	180		
8	Leather armchairs	45		
9	Retained earnings	2500		

Table 1.3 (the ending)

1	2	3	4	5
10	Catalogues of tours	2		
11	Stationery	1		
12	Accounts due from employees (wages)	100		
13	Carpets	10,8		
14	Detergents for indoor swimming pool	0,5		
15	Spare parts for repair of buses	9		
16	Share capital	2000		
17	Uniform for hotel's workers	15		
18	Accounts due from social insurance	35		
19	Patents and licenses	32		
20	long-term bank lending	40		
21	Forms of the tourist voucher	0,7		
22	Accounts due to customer (for services of conference holding )	15		
23	Buses	600		
24	Fountain	45		
25	Work-in-process	215		
26	Accounts due from state budget	80		
27	Souvenirs for realization to the foreign tourists	115		
28	Cash at bank	800		
29	Additional pension backing to the administrative personnel	36,5		
30	Accounts due to internal advance holder	0,5		
31	Fund-in-trust	2367		
32	Construction in process	5000		
33	Implements	3		
34	Subscription to the accounting periodic literature	0,5		
35	Fuel for a vehicle	8,5		
36	Tennis court installations	560		
37	Ground area	720		
38	Equipment of a laundry	30		
39	Bookkeeping software	28		

Table 1.4

### Classification of resources by structure and placement

Item	Amount, th. UAH
<b>Means of Production</b>	
<i>means of work:</i>	
The ground areas	
Buildings and structures	
Machines and equipment	
Vehicles	
Computer facilities	
Tools, devices and implements	
Intangible assets	
Capital expenditures	
Total: means of work	
<i>Object of work:</i>	
Raw materials	
Purchased semi-finished products	
Fuel	
Building materials	
Spare parts	
Not valuable and high-wear items	
Work in process	
Total: object of work	
<b>Means of Circulation</b>	
<i>Product of work:</i>	
Finished goods	
Merchandise	
Monetary funds:	
Cash at bank	
Cash on hand	
Accounts funds	
Accounts due to the buyers and customers	
Accounts due to internal advance holders	
Total Means Of Circulation	
Deferred charges	
<b>Balance</b>	

Table 1.5

### Classification of sources of economic resources

Item	Amount, th. UAH
<b>Stockholder's equity</b>	
Capital stock	
Share capital	
Retained earnings	
Total stockholder's equity	
<b>Backing of Impending Expenses and Payments</b>	
Backing of payments to the personnel	
Target financing	
Total backing of impending expenses and payments	
<b>Liabilities</b>	
long-term bank lending	
Accounts payable	
Accrued wages payable	
Accrued taxes payable	
Accounts due from social insurance	
Total liabilities	
<b>Balance</b>	

### Task 1.5

Indicate for each of the following items (tab. 1.6) whether it is a fixed asset, a current asset, a deferred charge, a fixed liability, a current liability, or a deferred credit.

Table 1.6

### Classification of sources and resources for business activity

Item	Group
1	2
1. Patents	
2. Unpaid taxes on business property	
3. Customer accounts owed to the enterprise	
4. Accrued interest due on a bank loan	
5. Amounts owed to a bank on signed notes	
6. Amounts owed to trade creditors	
7. Interest collected in advance on customer notes	



8. Advertising paid in advance.	
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Table 1.6 (the ending)

1	2
6. Amounts owed to trade creditors	
7. Interest collected in advance on customer notes	
8. Advertising paid in advance	
9. Inventory of office stationery	
10. The business long-term property	
11. Store supplies on hand	
12. Money in the safe.	

### Task 1.6

Suppose the four items listed below were either omitted or treated improperly in the preparation of a balance sheet. Indicate in each case the possible effect on the equity of the owner.

Table 1.7

### Mistakes in accounting and their influence on the stockholders' equity

Case	The essence of mistake in accounting	The effect of the mistake		
		stockholders' equity was overvalued	stockholders' equity was undervalued	stockholders' equity was estimated correctly
A	A note receivable was listed as an account receivable			
B	The inventory of merchandise was overvalued			
C	Accrued interest on notes payable was ignored			
D	A mortgage payable on the real estate was subtracted from the total value of the land and buildings.			

### Task 1.7

The business of Mr Ivanov had a net worth a year ago of 250,000 hrn. Today it has a net worth of 300,000 hrn. During the year Mr Ivanov inherited and placed in the business 90,000 of cash. He made no withdrawals during the year. Give answers to the following questions:

1) was the business operated at a net profit or net loss for the year and in what amount?

2) from the facts stated above do you think Mr Ivanov had any dividends for the year?

### Task 1.8

Determine the amount of increase or decrease in stockholder's equity for each case, given below.

Table 1.8

### Changes in the stockholders' equity caused by changes of assets and liabilities

Case	Assets	Liabilities	Stockholder's equity
A	are decreased by 5,000 hrn	are decreased by 7,000 hrn	
B	are increased by 2,000 hrn	are decreased by 3,000 hrn	
C	are decreased by 3,000 hrn	are increased by 2,000 hrn	
D	are increased by 4,000 hrn	are increased by 6,000 hrn	
E	are decreased by 6,000 hrn	are decreased by 5,000 hrn	
F	are increased by 1,500 hrn	are increased by 1,200 hrn	
G	remain the same	are decreased by 1,700 hrn	

### Task 1.9

The business of Mr Petrov has a net worth of 200,000 hrn. A year ago it had a net worth of 180,000 hrn. During the year Mr Petrov made no additional investments but he gave out of the funds of the business 10,000 hrn cash to his university endowment fund and 1,000 hrn to the welfare fund of his community. What was the amount of the net profit or net loss of the business for the year?

### Task 1.10

On January 1, the business of Mr Sydorov had assets of 300,000 hrn and liabilities of 100,000 hrn. Six months later it had assets of 280,000 hrn and liabilities of 60,000 hrn. During the six months Mr Sydorov withdrew 30,000 hrn and gave it to his mother to help her purchase a house. In the same period he placed in the business a note receivable for 10,000 hrn which he had inherited from the estate of his father. The note had not matured by June 30. Give answers to the following questions:

- 1) Would the note be included in the 280,000 hrn total of business assets on June 30?
- 2) Would the total of the business assets be the same if the note had matured and had been paid by the maker? Explain.
- 3) What is the net increase or decrease in stockholder's equity for the six months?
- 4) Determine the amount of the net profit or loss for the period.
- 5) What would have been the net worth of the business on June 30, if Mr Sydorov had not made an added investment and a withdrawal of assets?

### **Task 1.11**

Give answers to the questions in each of non-interrelated cases:

- 1) What would be the retained earnings of an enterprise if it earned 50,000,000 hrn in a year and 40,000,000 hrn of its cash were distributed to its owners?
- 2) The ABC company has a net worth of 400,000 hrn. During the past year owners withdrew 70,000 hrn cash and ABC company operated the business at a net profit of 50,000 hrn. What was the net worth of the business a year ago?
- 3) The business of Mr Dybrov had a net worth of 160,000 hrn a year ago. Today it has a net worth of 200,000 hrn. The business was operated at a profit of 50,000 hrn during the year. Mr Dybrov made no added investments during the year. What did Mr Dybrov do during the year?

### **Task 1.12**

ABC Corporation provided the following summary balance sheet information (tab. 1.9).

Table 1.9

### Summary balance sheet information

Date	Total Assets, hrn	Total Liabilities, hrn
Dec. 31, 2011	2,500,000	900,000
Dec. 31, 2012	3,800,000	1,300,000

Compute net income for the year ending December 31, 2012, under each of the following independent scenarios:

a) ABC Corporation paid no dividends, and no additional capital was raised via share issuances.

b) ABC Corporation paid 300,000 hrn in dividends, and no additional capital was raised via share issuances.

c) ABC Corporation paid no dividends, but raised 1,500,000 hrn via issuances of additional shares of stock.

d) ABC Corporation paid 300,000 hrn in dividends, and raised 1,150,000 hrn via issuances of additional shares of stock.

### Task 1.13

TOP Corporation was formed at the beginning of 2011 and presents the following incomplete financial statements for three years. Complete the missing values in tables 1.10 – 1.12 for each year, remember that 2011 is the first year of business, so TOP begins with a zero balance in 2011 beginning retained earnings.

Table 1.10

### Income Statement for the Years Ending December 31

Item	2013	2012	2011
Revenues:			
services to customers	100,000		50,000
Expenses:			
wages		58,500	
interest	1,500	1,500	2,500
Total expenses			
Net income		20,000	

Table 1.11

### Statement of Retained Earnings for the Years Ending December 31

Item	2013	2012	2011
Beginning retained earnings			
Plus: Net income		20,000	12,500
Less: Dividends	15,000		
Ending retained earnings	30,000		

Table 1.12

### Balance Sheet at December 31

Item	2013	2012	2011
<b>Assets</b>			
Cash			25,000
Accounts receivable	32,500	25,000	
Land	90,000	90,000	90,000
Total assets		144,500	
<b>Liabilities</b>			
Interest payable		500	1,000
Loan payable	5,000		
Total liabilities	5,500	15,500	
<b>Stockholders' equity</b>			
Capital stock			114,000
Retained earnings		15,000	
Total stockholders' equity			119,000
Total Liabilities and equity	149,500		150,000

### Task 1.14

ABC Corporation finished the financial year on December 31 with results listed below (tab. 1.13).

Table 1.13

### Summary information for the year ending December 31

Item	The amount, th. hrn.
Capital stock	102,500
Wage expense	92,500
Revenue	225,000
Cash	22,500
Utilities expense	15,000

Beginning retained earnings	27,500
Rent expense	25,000
Accounts payable	10,000
Equipment	200,000
Dividends	12,500
Accrued income tax	23,125
Accounts receivable	47,500
Notes payable	50,000

Expenses of referenced period attributed: 65 % – to costs of manufacture, 20 % – administrative costs, 10 % – marketing costs, 5 % – other costs.

1) Prepare income statement, statement of retained earnings, and balance sheet for the year ending December 31, 2011 in conformity with GAAP.

2) Prepare income statement, statement of stockholders' equity and balance sheet for the year ending December 31, 2011 according to National Standards of Accounting of Ukraine. Be sure to prepare proper headings and dates on each financial statement/

### Task 1.15

MC Company provided the following very limited set of data (tab.1.14). Use this information to determine net income for the years ending December 31, 2010, 2011, 2012 and 2013. The company was formed at the beginning of January, 2010 by issuing 350,000,000 of capital stock. No additional shares were issued during the 4-year period. The company's 2013 dividends were equal to 50% of the 2013 net income.

Table 1.14

### Summary information for the business activity of MC Corporation

Item	The amount, th. hrn.
Revenues, 2011	315,000
Dividends, 2012	52,500
Total equity, December 31, 2012	735,000
Total liabilities, December 31, 2012	770,000
Retained earnings, December 31, 2010	143,500
Expenses, 2011	154,000
Retained earnings, December 31, 2011	280,000

Dividends, 2012	35,000
Total assets, December 31, 2013	1,750,000
Increase in liabilities, 2013	175,000

## **Theme 2. The Accounting Method**

Accounting method consists of four main elements.

1) Elements of the primary observation. These include documentation and inventory. The results of the primary observations should be fixed in a tangible medium of information. Consequently, the documentation is a tool for recording the results of observations of objects of accounting. Inventory is a way of comparing the actual resources of the enterprise, the sources of their foundation, and business processes on referenced data. Thus, documentation, and inventory provide control over the preservation of objects of accounting.

2) Elements of value measurement. These include evaluation and calculation. Evaluation is a way of measuring monetary objects of accounting. To manage the operational processes it is necessary to have information about the company's costs per unit of production and services. Such information can be obtained by using calculation. Calculation is a method of calculating the cost of goods, works and services.

3) Elements of interrelated reflection, generalization, and commensuration of information about the objects of accounting. These include accounts and double entry. Accounts is the way to reflect the presence and movements of objects of accounting. Double entry is the way to reflect on the accounts various changes occurring in the enterprise resource, the sources of their education, and business processes after each business transaction.

4) Elements of a complete generalization of information about the objects of accounting. These include balance and financial statements. Balance is a way of grouping and summarizing the availability of enterprise resources, their sources of education and economic processes at a specified date in the money measurement unit. Periodic synthesis of information on business processes, and other important accounting policies is provided in the financial statements. Financial statements is the way to estimate the total results of the enterprise activity at a certain period of time.

The balance sheet shows a picture of the business at a particular moment in time. According to the National Accounting Standards of Ukraine balance sheet is the table on the left side of which the assets are listed, on the right side – equity and liabilities are listed. The current assets are totaled



and then added to the total of the long-term assets to give total assets. Likewise, the current liabilities are totaled and added to the total of the stockholders' equity to give total equities. Total equities and total assets should be equal. Balance equation is:

$$A = E \quad (2.1)$$

where: A means assets of an enterprise;

E means equities of an enterprise, which consist of stockholders' equity, liabilities and deferred credits.

The facts of economic life cause in general in the balance changes of four types:

1) active changes. Such operations affect only certain items of the asset. Liabilities and equity are not affected. While one asset increases, the other decreases by the same amount. Balance sheet total does not change;

2) passive changes. Such operations affect only certain items of equity, assets are not affected. One component of equity increases and another component decreases by the same amount. Balance sheet total does not change;

3) active-passive changes to increase. Such operations affect both assets and liabilities. In this case, both items are increased by the same amount. Equality of asset and liability balance is preserved, Balance sheet total increases;

4) active-passive changes to decrease. Such operations affect both assets and liabilities. In this case, both items are decreased by the same amount. Equality of asset and liability balance is preserved, Balance sheet total decreases.

The balance account is an accounting symbol that is used for recording and summarizing increase or decrease in certain types of income, expenses, assets, liabilities and equity of the enterprise or organization. A listing of the accounts of an entity, along with any identification coding is named a chart of accounts.

Similarly to the balance sheet accounts are divided into real and nominal.

Real accounts – are accounts, which are used to record changes of the assets of the enterprise. Debits increase these accounts and credits decrease these accounts. These accounts normally carry a debit balance.

Nominal accounts – are used to reflect mostly shareholders’ equity and liabilities. Liability, revenue and equity accounts each follow rules that are the opposite of those for real accounts. Credits increase passive accounts while debits result in decreases. These accounts normally carry a credit balance.

Relationship between accounts is provided by the use of double entry method. Double entry is the way of the dual reflection of economic operations in the same quantity, expressed in a common monetary measuring unit, simultaneously in two or more interrelated accounts.

The record to indicate the accounts, which should reflect the business operation and its amount, is called the book entry.

Each account can be further subdivided in subsets. General ledger account total is said to be the control account or control ledger, as it represents the total of all individual subsidiary account balances. It is imperative that a company be able to reconcile subsidiary accounts to the broader account that is found in the general ledger.

### Task 2.1

Match the terms to their correct descriptions in tab. 2.1., fill in the gaps by terms in Ukrainian.

Table 2.1

#### Basic terminology, that corresponds to the accounting method

Term			Definition	
	in English	in Ukrainian		
1	2	3	4	5
1	debit		A	A record that is kept for each asset, liability, equity, revenue, expense, and dividend component of an entity
2	T-account		B	A listing of the accounts of an entity, along with any identification coding
3	chart of accounts		C	The nature of an action to an account to indicate an increase (liabilities, equity, and revenue) or decrease (assets, expenses, and dividends); usually right-justified in an entry
4	credit		D	The nature of an action to an account to indicate an increase (assets, expenses, and dividends) or

				decrease (liabilities, equity, and revenue); usually left-justified in an entry
5	account		E	An abstract representation of an account, with the left side of the "T" representing debits and the right side credits
6	control account		F	A record of the accounts comprising financial statements, and their respective balances
7	general ledger		G	The total of all subcomponent account records for an account; e.g., the sum of all individual accounts receivable
8	journal		H	A document evidencing a transaction or event and potentially providing for the initiation of a journal entry

Table 2.1 (the ending)

1	2	3	4	5
9	journalizing		I	A subcomponent account record providing individual balance details; e.g., the record for one customer out of a group of customers comprising all accounts receivable
10	posting		J	A chronological listing of the transactions and events of an organization, in debit/credit format
11	source document		K	The process of transferring journal entry effects into the respective general ledger accounts
12	subsidiary account		L	The process of recording transactions and events into the journal

### Task 2.2

Mr Ivanov recently formed a legal entity (non-VAT-payer). Table 2.2 is a manual journal that he maintained for transactions occurring during January. Mr Ivanov has requested that you prepare the journal entries for this activity, use T-accounts to analyze transaction and post these transactions to determine the balance of each account. He needs this data in order to begin the process of transitioning to his new computerized accounting system.

Table 2.2

### General journal

The content of the transactions	Debit	Credit	The amount, hrn
1. Invested cash in exchange for stock			200,000
2. Received the loan from the bank			50,000
3. Purchased raw materials on account			60,000
4. Paid for purchased raw materials			
5. Used raw materials in production process			60,000
6. Accrued wages for production employees			30,000
7. Paid wages for production employees			
8. Finished production, finished goods are received on the warehouse			
9. Sold finished goods on account			150,000
10. Determined the cost of production			
11. Collected payment on receivables			
12. Accrued interest expenses			

13. Paid off the loan with interest			
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### Task 2.3

Review the following list of accounts (tab. 2.3), and indicate the debit/credit rules for the account, as well as the account's normal balance.

Table 2.3

#### List of accounts

Account	Increased with a:	Decreased with a:	Normal balance:
Cash on Hand			
Raw Materials			
Work-in-Process			
Capital Stock			
Retained Earnings			
Equipment and Machinery			
Long-term Bank Loan Payable			
Intangible Assets			
Accrued Wages Payable			
Capital Expenditures			
Accounts Payable			
Accounts Receivable			
Revenues			
Cost of Goods Sold			
Selling Expense			

### Task 2.4

The following narratives (tab. 2.4) describe transactions impacting cash, accounts receivable, accounts payable, revenues, and selected expense accounts.

Table 2.4

#### Transactions during the referenced period

The content of transaction	The amount, th. hrn
Services were provided to customers for cash	15,230
Supplies were purchased on account and used	2,400
Collections of outstanding receivables occurred	19,410

Utilities costs were incurred and paid in cash	763
Payments on outstanding accounts payable were made	23,900

Use T-accounts to analyze this activity and determine the ending balances for accounts receivable and accounts payable. At the beginning of the period, accounts receivable totaled 54,300,000 hrn, while accounts payable totaled 31,275,000 hrn. The company started the period with 85,000,000 hrn in cash.

### **Theme 3. Organization of Accounting for Business Activity of an Enterprise**

A recordable transaction should be evidenced by a source document. The source documents are analyzed to determine the nature of a transaction and what accounts are impacted. Source documents should be retained (perhaps in electronic form) as an important part of the records supporting the various debits and credits that are entered into the accounting records.

A properly designed accounting system will have controls to make sure that all transactions are fully captured.

A log book that contains a chronological listing of a company's transactions and events is called accounting journal. The accounting journal contains information about detailed accounting transactions. In contrast, the general ledger contains information for each and every account in use by a company.

Organizing the accounting system, ensuring fixation all business transactions by the back-up documents, safety and security of primary documents, accounting registers and financial statements within the prescribed period rest with the head of a company or its owner.

The company by its own determines the accounting policy. Accounting policy is a set of principles, methods and procedures used for compiling and presenting financial statements), it chooses the form of accounting system , defines the rights of executives to sign the accounting documents, ratifies processing technology of accounting information; introduces an additional system of accounts and registers of analytical accounting.

#### **Task 3.1**

Paul Morris is a doctor of veterinary medicine specializing in horses. At the beginning of March, he incorporated his practice, and has completed his first month in business (tab. 3.1).

Table 3.1

### General journal

The content of the transactions	Debit	Credit	The amount, hrn
1. Issued capital stock			30,000
2. Invested cash in exchange for stock			30,000
3. Received long-term loan from the bank			50,000
4. Accrued interest expenses			400
5. Paid off interest expenses			
6. Accrued rent expenses			1,500
7. Accrued wages for main employees			2,000
8. Paid off wages			2,000
9. Purchased raw materials on account			3,300
10. Used raw materials in production process			3,300
11. Paid for purchased raw materials			3,300
12. Accrued utility expenses			700
13. Paid for utilities			
14. Determined the cost of services			
15. Accrued revenues			35,815
16. Collected payment on accounts			26,315
17. To close the expenses accounts to Income Summary			
18. To close the revenue account to Income Summary			
19. Accrued income tax			
20. To close the income tax expenses account to Income Summary			
21. To close Income Summary to Retained Earnings			

1) Prepare summary journal entries that reflect the first month of business.

2) Use T-accounts to capture the impact of the transactions on the accounts.

3) Prepare the turnover balance sheet as of the end of March (tab. 3.2).

4) Prepare statements for the end of March, 2012 in conformity with GAAP.

5) Prepare statements for the end of March, 2012 according to National Standards of Accounting of Ukraine.

Table 3.2

**Turnover balance sheet**

Account	Beginning balance		Turnover		Ending balance	
	Debit	Credit	Debit	Credit	Debit	Credit
31						
23						
20						
36						
46						
40						
501						
684						
685						
661						
631						
641						
44						
95						
92						
903						
98						
703						
79						
Total						

**Theme 4. Accounting for Major Business Processes of Legal Entities**

Generalizing, cash includes items that are acceptable to a bank for deposit and are free from restrictions (i.e., available for use in satisfying current debts). Cash typically includes coins, currency, funds on deposit with a bank. Items like postdated checks, certificates of deposit, stamps, and travel advances are not classified as cash.

Cash equivalents arise when companies place their cash in very short-term financial instruments that are deemed to be highly secure and will



convert back into cash within 90 days (e.g., short-term government-issued treasury bills). These financial instruments are usually very marketable in the event the company has an immediate need for cash.

To account for the presence and movements of cash on hand a company uses a synthetic account 30 – "Cash on hand", which has the following sub-accounts: 301 – "Cash in the national currency" and 302 – "Cash in foreign currency." Cash disbursements are recorded on the credit of account 30, and reflected in the Journal 1 (Section 1). Turnover on the debit of the account is written in different Journals and, moreover, are controlled by Register 1.1.

To conduct settlements with suppliers and customers, to store main amounts of cash current accounts are used. Current account is an account, that was opened by a bank to an enterprise on a contractual basis for the storage of cash and cash settlement using payment instruments in accordance with the requirements of the legislation.

Receiving and withdrawals cash or cashless transfers are based on the documents of the special form approved by the National Bank of Ukraine. Of these, the most common are: cash checks, money orders, payment order-requests.

To identify errors, irregularities, and adjustments for the Cash account the bank reconciliation is conducted. The reconciliation compares the amount of cash shown on the monthly bank statement (the document received from a bank which summarizes deposits and other credits, and checks and other debits) with the amount of cash reported in the general ledger. These two balances will frequently differ. Differences are caused by items reflected on company records but not yet recorded by the bank; examples include deposits in transit (a receipt entered on company records but not processed by the bank) and outstanding checks (checks written which have not cleared the bank). Other differences relate to items noted on the bank statement but not recorded by the company; examples include bank service charges, notes receivable collected by the bank on behalf of a company, and interest earnings. This reconciliation will trigger various adjustments to the Cash account in the company ledger.

The methodological principles of accounting for inventories are determined in NSAU 9 "Inventories".

Manufactured inventories are enlisted in the Balance sheet at original cost, which consists of incurred cost of production. Original cost of

inventories purchased for a payment consists of the following charges: payment to the supplier minus VAT and excise tax; import duty; freight and insurance in; procurement cost and other charges directly connected to purchase of inventories and finishing them up to a condition of suitability for use in the planned purposes.

The methods of inventory valuation from which to choose are varied, generally consisting of one of the following: the specific identification, the standard cost, the retail method, First-in, first-out (FIFO), Average Cost.

The specific identification method requires a business to identify each unit of merchandise with the unit's cost and retain that identification until the inventory is sold. Once a specific inventory item is sold, the cost of the unit is assigned to cost of goods sold.

The standard cost – the predetermined budgeted cost of a regular manufacturing process is implemented.

The retail method is widely used by merchandising firms to value or estimate ending inventory. This method would only work where a category of inventory has a consistent mark-up. The cost-to-retail percentage is multiplied times ending inventory at retail. Ending inventory at retail can be determined by a physical count of goods on hand, at their retail value.

With first-in, first-out, the oldest cost is matched against revenue and assigned to cost of goods sold. Conversely, the most recent purchases are assigned to units in ending inventory.

The average cost method relies on average unit cost to calculate cost of units sold and ending inventory. Average cost is determined by dividing total cost of goods available for sale by total units available for sale.

The accounting for receivables are based on NSA 10 "Receivables".

Receivables are the sums, that are due from debtors for the certain date. The debts of the buyers and customers are recognized as an asset simultaneously with the recognition of the sale. Uncollectible accounts are frequently called "bad debts."

According to NSA two approaches can be applied to uncollectibles:

1) direct write-off method – under this technique, a specific account receivable is removed from the accounting records at the time it is finally determined to be uncollectible;

2) allowance method will result in the recording of an estimated bad debts expense in the same period as the related credit sales. Allowance for uncollectibles can be determined by one of the following techniques: via an aging analysis or as a percentage of total receivables.

Property, Plant, and Equipment are the physical assets deployed in the productive operation of the business more than 1 year or the operational cycle of business. Using-up of a fixed asset necessitates depreciation. The depreciation method is the pattern by which the cost is allocated to each of the periods involved in the service life. Depreciation methods are the following: straight-line method, declining balance depreciation method, accelerated declining balance depreciation method, cumulative method, units-of-output method.

### Task 4.1

Review the following items (tab. 4.1) and decide if each would be more appropriately classified as: Cash, Cash equivalent, Neither cash nor cash equivalent.

Table 4.1

#### List of assets

Item	Cash	Cash equivalent	Neither cash nor cash equivalent
Currency on hand			
Postage stamps in a file cabinet			
The balance on deposit in a regular checking account			
An advance to an employee for travel costs to be incurred			
A certificate of deposit maturing in 2 years			
A 30-day certificate of deposit			
An investment in a government treasury security maturing in 2 years			
A 90-day government treasury security			
A post-dated check accepted from a customer			
Amounts due from customers			

### Task 4.2

Review the following reconciliation (tab. 4.2) and prepare proposed journal entries that need to be recorded.

Table 4.2

**Reconciliation**

Part	Item	The amount, hrn	Total, hrn
1	2	3	4
A	Ending balance per bank statement		67,700.98
	Add: Deposits in transit		13,444.12

Table 4.2 (the ending)

1	2	3	4
	Deduct: Outstanding checks		
	№ 12221	16,887.34	
	№ 12327	8,550.50	
	№ 12329	132.74	(25,570.58)
	Correct cash balance		55,574.52
B	Ending balance per company records		52,148.55
	Add:		
	Payment from customer via ETF	3,445.99	
	Interest earnings	566.88	4,012.87
	Deduct:		
	Service charges	586.90	(586.90)
	Correct cash balance		55,574.52

### Task 4.3

ABC Corporation received its August 31 bank statement showing total funds on deposit of \$288,090.09. This amount was \$152,158.22 in excess of the balance in the general ledger Cash account. Additional information consists of the following:

1) The company has a 1-year, \$100,000, certificate of deposit. This amount is included in the total funds listed on the bank statement. ABC classifies this security in a separate investment account in its general ledger.

2) Interest earned on the CD was \$475 during the month. This interest is free for withdrawal and is automatically posted to the regular checking account. ABC's first notification of the amount of interest for the month is via the bank statement, and the interest income has not yet been recorded in the general ledger Cash account.

3) ABC Corporation received a \$50,000 draft for an oil and gas lease from XTX Exploration. This draft was presented to the bank in early July. Drafts are not cash until the maker (XTX) honors them (at their option), and this process can take as long as several weeks. The bank statement included notification that XTX had honored and funded the draft in mid August. This is the first notification to ABC of actual funding, and ABC has not previously recorded this transaction.

4) ABC made a deposit late in the afternoon of August 31. The amount of the deposit was \$3,666.04, but this amount did not appear on the August 31 bank statement. The bank has a sign in its lobby that says "Deposits after 3 pm will be processed on the next following business day".

5) ABC has authorized automatic payments to its utility company for monthly charges. Withdrawals of \$1,445.99 appear in the bank statement for such utilities. This is the first notification to ABC, and ABC has not previously recorded this transaction.

6) Late in August, ABC did an online authorization for a credit card company payment. Due to a timing issue, the bank statement does not yet reflect the payment for \$4,446.09. ABC has appropriately recorded the reduction in cash in the general ledger.

7) The bank statement included monthly service charges of \$125. ABC has not previously recorded these charges.

8) At the end of July, three checks were outstanding (#12170, \$245.55; #12200, \$1,889.66; and #12202, \$75). At the end of August, three checks were outstanding (#12170, \$245.55; #12290, \$1,333.07, and #12291, \$1,117.54).

9) A review of deposits clearing the bank revealed that ABC had recorded a \$2,000.22 deposit as \$2,222.22 in the general ledger Cash and Accounts Payable accounts.

On the basis of information given above:

- 1) prepare ABC's bank reconciliation as of August 31 (tab. 4.3);
- 2) define the correct balance for Cash in the August 31 balance sheet;
- 3) prepare the journal entries suggested by the reconciliation (tab. 4.4).

Table 4.3

**ABC Corporation: reconciliation for August 31**

Part	Item	The amount, hrn	Total, hrn
1	2	3	4
A	Ending balance per bank statement		
	Add: Deposits in transit		
	Credit card payment		
	Deduct: Outstanding checks		
	#12221		
	#12327		

	#12329 Certificate of deposit		
	Correct cash balance		

Table 4.3 (the ending)

1	2	3	4
B	Ending balance per company records		
	Add:		
	Honored draft		
	Interest earnings		
	Deduct:		
	Utilities expenses		
	Bank service charges		
	Correct cash balance		

Table 4.4

### General journal

The content of the transactions	Debit	Credit	The amount, hrn
1. Accrued interest earned on the certificate of deposit			
2. Collected payment of interest			
3. Collected payment on draft			
4. Accrued utility expenses			
5. Paid for utilities			
6. Accrued bank service charges			
7. Paid for bank service charges			
8. Decreased cash by the amount of mistaken entry			

### Task 4.4

Match the terms to their correct descriptions in tab. 4.5, fill in the gaps by terms in Ukrainian.

Table 4.5

### Basic terminology, that corresponds to accounting for current assets

Term			Definition	
	in English	in Ukrainian		
1	2	3	4	5
1	prudence concept		A	An inventory cost flow assumption based on the notion that the earliest costs are to be



			assigned to units sold
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Table 4.5 (continued)

1	2	3	4	5
2	consignment		B	An inventory cost flow assumption based on the notion that the most recent costs are to be assigned to units sold
3	first-in, first-out		C	Goods in the process of being transported to the buyer; ownership is based on freight terms
4	goods in transit		D	The process of counting inventory actually on hand
5	last-in, first-out method		E	A general principle of accounting measurement; when in doubt understate assets and income and overstate liabilities
6	lower-of-cost-or-market		F	To report inventory at the lower of its cost or market value; market is generally defined as replacement cost
7	physical inventory		G	Inventory costing method where the actual cost of each unit of merchandise is tracked and used for accounting purposes
8	retail inventory method		H	To place inventory in the custody of another party without requiring them to purchase it, as a sales agent
9	specific identification method		I	Inventory cost is based on the average cost of units purchased giving consideration to the quantities purchased at different prices
10	weighted-average inventory method		J	A inventory costing technique used by retailers that extrapolates inventory values by applying cost-to-retail percentages to known sales and purchase transactions
11	accounts receivable		K	The amount of cash expected to be collected on outstanding accounts receivable; accounts receivable minus the allowance for uncollectibles
12	aging of accounts receivable		L	A simple, non-GAAP, method that expenses uncollectible accounts only as they are determined to be uncollectible and are written off
13	allowance method for uncollectibles		M	A method that estimates uncollectibles as a portion of total receivables and establishes an offsetting contra allowance account
14	direct write-off		N	Amounts due from transactions and events

	method			not directly related to sales of products
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Table 4.5 (the ending)

1	2	3	4	5
15	net realizable value		O	Amounts due from customers from credits sales of products or services
16	nontrade receivables		P	Amounts due from customers from credits sales of products or services; "trade receivables"
17	notes receivable		Q	A written promise from a client or customer to pay a definite amount of money on a specific future date
18	trade receivables		R	Analysis used to estimate the uncollectible accounts; involves stratification of receivables based upon age

### Task 4.5

LC Company buys luxury cars from manufacturers and then "saws them in half" and adds a number of components to upgrade and stretch them into exotic limousines. Examine the following items (tab. 4.6) and decide if each should be included in inventory. If so, should the item be shown as raw materials, work in process, or finished goods?

Table 4.6

### List of assets

Items	Inventory		Category		
	Yes	No	Raw Material	Work-in-Process	Finished Goods
1	2	3	4	5	6
Finished stretch limos awaiting sale					
Limos under production that have been ordered by specific customers and a deposit made					
Finished limos shipped to dealers, terms FOB shipping point					
Finished limos shipped to customers, terms FOB destination					
Luxury cars ordered from a manufacturer and in transit, FOB destination					
Luxury cars ordered from a manufacturer and in transit, FOB					

shipping point					
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Table 4.6 (the ending)

1	2	3	4	5	6
Sheet metal in the company's warehouse					
Wiring produced in China, in transit on a ship in the Pacific Ocean, terms FOB Shanghai					
Leather installed on a limo currently under production					
LCD monitors installed in a finished limo awaiting shipment to a customer					
Finished and sold limo returned to the factory for repair under warranty					

### Task 4.6

ABC Corporation owns a galvanizing plant. Customers bring in their fabricated steel products (like light poles, towers, trailers, etc.), and ABC dips them into a vat of molten zinc. The zinc bonds to the metal and produces a highly durable corrosion resistant product.

ABC's primary inventory is molten zinc. Zinc is purchased from suppliers in large blocks of solid material. These blocks are immersed in the heated vat and they melt together with the zinc already in the pool. ABC generally keeps the vat relatively full, and it is never allowed to cool.

ABC started the year with 500,000 kilograms of zinc in the pool. During the year ABC purchased 2,800,000 kilograms of zinc. At year's end, the pool contained 520,000 kilograms of zinc.

Following are some questions to answer:

- 1) How much zinc was used during the referenced period?
- 2) Accountants frequently refer to "goods available for sale." Is this concept the same as ending inventory? How much zinc, in kilograms, was "available for sale?"
- 3) If the beginning inventory cost 1.25 hrn per kilogram, and purchases during the year cost 1.50 hrn per kilogram, how much is the "cost of goods available for sale"?

4) If ABC uses FIFO, how much should be attributed to ending inventory and how much to cost of goods sold?

5) If ABC uses weighted-average inventory method, how much should be attributed to ending inventory and how much to cost of goods sold?

6) What will be the difference in profitability between choosing the FIFO and weighted-average inventory methods? Does it seem reasonable the choice of accounting method can change the reported profit?

### Task 4.7

LUX.ltd (non-VAT payer) sales luxury autos. Below is a listing of automobiles that were either in beginning inventory or acquired during the year (tab. 4.7).

Table 4.7

### Inventory of LUX.ltd

Automobile	Date Acquired	Cost, hrn per unit
Bentley	Beginning inventory	1,080,000
Rolls Royce	Beginning inventory	1,440,000
Cadillac	January	360,000
Lexus	March	450,000
Land Rover	June	540,000
Jaguar	July	378,000
Porsche	September	675,000
Mercedes	November	765,000
BMW	December	576,000
Inifiniti	December	351,000

Total sales during the year were 5,400,000 hrn. Automobiles in ending inventory were the Rolls Royce, Lexus, Jaguar, and BMW.

1) What is appropriate method to value LUX's inventory?

2) Determine the ending inventory, cost of goods sold, and gross profit for LUX.ltd.

### Task 4.8

Patti Corporation (non-VAT payer) buys and sells digital clocks.

Following (tab. 4.8) is the Patti Corporation inventory activity for January. The amount of clocks on hand at January 1 was 40 units, these clocks had a unit cost of \$140.

Table 4.8

### Purchase and sales of inventory

Date	Purchase		Sale	
	Quantity, units	Price, hrn per unit	Quantity, units	Price, hrn per unit
05.01	60	150	–	–
16.01	–	–	70	255
23.01	90	170	–	–
28.01	–	–	55	295

1) If Patti Corporation uses the first-in, first-out (FIFO) inventory method (periodic approach), what values would be assigned to ending inventory and cost of goods sold? How much is gross profit?

2) If Patti Corporation uses the last-in, first-out (LIFO) inventory method (periodic approach), what values would be assigned to ending inventory and cost of goods sold? How much is gross profit? Is LIFO allowed for Ukrainian enterprises to use?

3) If Patti Corporation uses the weighted-average inventory method (periodic approach), what values would be assigned to ending inventory and cost of goods sold? How much is gross profit?

4) Prepare journal entries (tab. 4.9) that reflect the activity if Patti Corporation uses FIFO inventory method.

Table 4.9

### General journal

The content of the transactions	Debit	Credit	The amount, hrn
1. Purchased inventory on account			
2. Sold merchandise			
3. Collected payment on accounts			
4. Paid for purchased inventory			
5. Accrued cost of goods sold			
6. To close the expenses account to Income Summary			
7. To close the revenue account to Income Summary			



8. Accrued income tax			
9. To close the income tax expenses account to Income Summary			
10. To close Income Summary to Retained Earnings			

### Task 4.9

Taylor Corporation (non-VAT payer) is a newly formed entity that engages in the purchase and resale merchandise. Purchases for the first year of operation were as follows (tab. 4.10).

Table 4.10

### Purchase and sales of inventory

Date	Purchase		Sale	
	Quantity, units	Price, hrn per unit	Quantity, units	Price, hrn per unit
07.01	50	5,000		
15.03	70	5,350	10	6,400
16.06	30	6,050	45	6,800
03.08	90	6,530	100	7,000
11.10	25	7,089	55	7,540

Using the information given above, fill in the table 4.11.

Table 4.11

### General journal

The content of the transactions	Debit	Credit	The amount, hrn	
			FIFO	WA
1. Purchased inventory on account				
2. Sold merchandise				
3. Collected payment on accounts				
4. Paid for purchased inventory				
5. Accrued cost of goods sold				
6. To close the expenses account to Income Summary				
7. To close the revenue account to Income Summary				

8. Accrued income tax				
9. To close the income tax expenses account to Income Summary				
10. To close Income Summary to Retained Earnings				

Also answer the following questions:

If Taylor uses the first-in, first-out (FIFO) inventory method (periodic approach), what values would be assigned to ending inventory and cost of goods sold? How much is gross profit?

If Taylor uses the weighted-average (WA) inventory method (periodic approach), what values would be assigned to ending inventory and cost of goods sold? How much is gross profit?

Which of the above techniques produces the highest profit? Which of the above techniques reports the most "current" cost on a balance sheet? Which of the above techniques results in the lowest income tax obligation?

### Task 4.10

Flowers Company frequently receives rush orders for floral deliveries. Some of these orders are on account. Occasionally, customers do not pay for their orders. Flowers Company is a small business. Review the two following "open" accounts and determine which should be written off. Flowers Company prefers to use the direct write-off method and routinely reviews all accounts that are more than 90 days past due.

1) During the referenced period Mr. Colion ordered flowers to be delivered to his girlfriend. Unfortunately, a bee was delivered along with the flowers, and Mr. Colion and his girlfriend spent the evening at the emergency room nursing a bad sting. Mr. Colion owes 250 hrn for the flowers. The account is six months past due, and under the circumstances, the owners of Flowers Company have no plans to press Mr. Colion for payment.

2) Rebecca Warren ordered flowers to be delivered to a friend in the hospital. Rebecca owes 160 hrn, and the account is four months past due. The owners of Flowers Company just realized that the bill was sent to Warren Rebecca, a different customer. Rebecca Warren has since moved to a distant town, but was last known to be a responsible person. The owners of Flowers Company are now trying to get a new address for Rebecca Warren from her friend that was in the hospital.

Following are some questions to answer:

1) Is the direct write-off method allowed for legal entities to use in Ukraine? In the USA, according to GAAP? When and how might a business choose to ignore GAAP and use the direct write-off method? In your opinion, should a large corporation that must meet financial reporting obligations to shareholders select this simplifying option?

2) Prepare the journal entry necessary to write off the "bad" account.

3) How does the existence of "other" questionable accounts potentially produce misleading financial reports?

### Task 4.11

ABC Corporation applies allowance method for uncollectible accounts. During the referenced period uncollectible accounts expenses were accrued in the amount of 80,000 hrn. On the basis of information given in tab. 4.11 estimate the net realizable value of accounts receivable.

Table 4.11

#### Balance sheet information for accounts receivable

Item	The amount, hrn
Primary value	1,400,000
Allowance for uncollectible accounts	(120,000)
Net realizable value	

### Task 4.12

A company uses an allowance method to account for bad debts. A company estimates that 5 % of the outstanding accounts receivable will be uncollectible. At the end of the year, the company has outstanding accounts receivable of \$750,000, and a debit balance in the Allowance for Uncollectible Accounts of \$9,000. Prepare the journal entry to record uncollectible accounts expense.

### Task 4.13

GY Company routinely sells on credit. Annually, the company reviews and updates its allowance for uncollectible accounts. Periodic write-offs against the allowance account are made throughout the year when individual

accounts are deemed to be worthless. Following are relevant facts for the current year:

a) prior to recording any year-end adjustments, the total balance of all accounts receivable amounted to 2,300,000 hrn;

b) the existing Allowance for Uncollectible Accounts had a balance of 18,000 hrn;

c) no entry was made during the year to increase this account, but 40,000 hrn of uncollectible accounts were written off against the allowance during the year.

Answer the next questions:

1) What was the beginning-of-year balance for the Allowance for Uncollectible Accounts?

2) Prepare a summary journal entry that reflects 40,000 hrn of write-offs already recorded by the company (tab. 4.12).

Table 4.12

**General journal**

The content of the transaction	Debit	Credit	The amount, hrn
To record the write-off an uncollectible accounts on allowance			

3) Prepare a summary journal entry assuming that the year-end allowance should equal 3 % of outstanding receivables (tab. 4.13).

Table 4.13

**General journal**

The content of the transaction	Debit	Credit	The amount, hrn
To adjust the allowance account from existing to the target balance			

4) How will the accounts receivable and allowance appear on the balance sheet?

5) How much expense will appear in the annual income statement as uncollectible accounts expense?

### Task 4.14

A corporation utilizes an accounting software package that is capable of producing a detailed aging of outstanding accounts receivable (tab. 4.14 and tab. 4.15).

Table 4.14

#### Bad debts (write-offs in next periods) in the amount of accounts receivable at the end of the quarter

The end of the quarter	The amount for periods of repayment, th. hrn			
	up to 30 days	31 to 60 days	61 to 120 days	Over 120 days
March,31	1,200	14,000	20,000	7,500
June,30	280	14,400	–	5,500
September,30	–	13,500	18,000	8,400
December,31				

Table 4.15

#### Ending balance of accounts receivable at the end of the quarter

The end of the quarter	The amount for periods of repayment, th. hrn			
	up to 30 days	31 to 60 days	61 to 120 days	Over 120 days
March,31	24,000	70,000	50,000	12,500
June,30	28,000	80,000	45,000	10,000
September,30	30,000	90,000	60,000	12,000
December,31	45,000	50,000	80,000	20,000

On the basis of given information:

- 1) estimate the allowance for uncollectibles at December 31 (tab. 4.16);

Table 4.16

### Allowance for uncollectibles at December 31

Item	The amount for periods of repayment, th. hrn				
	up to 30 days	31 to 60 days	61 to 120 days	Over 120 days	Total
Rate					-
Allowance					

2) show how accounts receivable and the related allowance for uncollectibles should appear on the balance sheet at December 31;

3) prepare the necessary journal entry to update the allowance for uncollectibles, assuming the balance prior to preparing the aging was a 15,000 hrn credit;

4) prepare the necessary journal entry to update the allowance for uncollectibles, assuming the balance prior to preparing the aging was a 5,000 hrn debit. How could the allowance account have contained a debit balance?

### Task 4.15

Fast Delivery Company experiences a high rate of uncollectible accounts, however, it does not book allowance for bad debts and uses direct write-off method.

On the basis of information about company's monthly sales and write-offs for the first quarter of the referenced year (tab. 4.17) prepare monthly journal entries to summarize sales on account, to record the actual write-offs (tab. 4.17) and answer questions listed below.

Table 4.17

### Revenue and uncollectible accounts expenses of Fast Delivery Company

Month	Sales, hrn	Actual write-offs, hrn
January	630,000	100,000
February	480,000	80,000
March	590,000	140,000

### General journal

The content of the transaction	Debit	Credit	The amount, hrn, for month		
			January	February	March
Sold merchandise on account					
To record the write-off an uncollectible accounts					

1) Why are the monthly write-offs not also proportional to that month's sales? Does the amount written off in a particular month impact net income for that month?

2) Some companies book allowances based on credit sales. Why might this be logical for Morrison, and when might the other alternative make more sense?

3) The chief executive officer Fast Delivery Company has the idea offer a 10 % cash discount if a customer will pay the full amount at spot. What are your thoughts on this policy?

4) Fast Delivery Company is contemplating issuing shares of stock to a group of outside investors. The chief executive officer has requested the chief financial officer to begin booking the allowance account at 12 % of sales. What might be the motivation behind this request, and how should the chief financial officer respond?

### Task 4.15

Start Corporation follows generally accepted accounting principles in accounting for uncollectibles. Start received notification from a bankruptcy court that its customer, Timber Creek, had been adjudicated and released from all claims presently pending against it by Start Corporation. The chief executive officer of Start Corporation, was not at all pleased with this decision, he had anticipated recovering at least 50,000 hrn from Timber Creek, and that balance remained in the Accounts Receivable accounts of Start Corporation. Because Start Corporation has no further remedies for collection, the chief executive officer directed the accounting department to prepare a journal entry to write off the account of Timber Creek.

1) Prepare the journal entry to write off the Timber Creek account.

2) Explain why the actual write-off will not result in a reduction of Start Corporation's income?

3) Suppose Timber Creek recovered from its bankruptcy and eventually voluntarily paid the 50,000 hrn "owed" to Start. Prepare Start's journal entries to record the unexpected recovery.

### Task 4.17

Match the terms to their descriptions in tab. 4.19, fill in the gaps by terms in Ukrainian.

Table 4.19

#### Basic terminology, that corresponds to accounting for notes

Term			Definition	
	in English	in Ukrainian		
1	2	3	4	5
1	interest		A	The date on which a note and related interest are due to be paid



Table 4.19 (the ending)

1	2	3	4	5
2	dishonoring a note		B	A written promise from a client or customer to pay a definite amount of money on a specific future date
3	maker		C	The party creating the note and agreeing to make payment
4	maturity date		D	The charge imposed on the borrower of funds for the use of money
5	maturity value		E	The basic stated amount of a note on which interest is usually calculated; generally relating to the amount borrowed
6	principal		F	The party to whom a note is made payable
7	payee		G	To fail to pay a note at maturity
8	notes receivable		H	The amount due at maturity of a note; includes principal and interest

### Task 4.17

Vitalii Protorov was interviewing for a job at the Private Bank. The bank requires all job applicants to take a competency test on basic money mathematics. Vitalii has completed the interest calculations portion of the exam. Below are his questions and answers. Vitalii must correctly answer in at least 3 cases to be eligible for the job. Evaluate and correct Vitalii's answers if it is necessary. Does he qualify for the job?

1) Assume the bank holds a 400,000 hrn note receivable dated June 1, 2012. This note matures on August 31, 2012. This note is written to assume a 360 day year and 30 day months. The annual interest rate is stated at 10 %. What is the maturity value of the note, including interest?

Answer:  $400,000 \times 10\% \times 60/360 = 6,666.67$

$400,000 + 6,666.67 = 406,666.67$

2) Assume the bank holds a 400,000 hrn note receivable dated June 1, 2012. This note matures on August 31, 2012. This note is written to assume a 365 day year and actual days outstanding are used in all calculations. The annual interest rate is stated at 10 %. What is the maturity value of the note, including interest?

Answer:  $400,000 \times 10\% \times 92/365 = 10,082.19$

3) Assume the bank holds a 1,000,000 hrn note receivable dated October 1, 2011. This note matures on September 30, 2012. This note is written to assume a 360 day year and 30 day months. The annual interest rate is stated at 8 %. How much interest income should the bank record for its accounting year ending December 31, 2011?

Answer: Zero, the note is not due until 2012.

4) Assume the bank holds a 1,000,000 hrn note receivable dated October 1, 2011. This note matures on September 30, 2012. This note is written to assume a 360 day year and 30 day months. The annual interest rate is stated at 8 %. How much interest income should the bank record for its accounting year ending December 31, 2012?

Answer:  $1,000,000 \times 8\% \times 270/360 = 600,000$ .

### Task 4.18

Prepare journal entries (tab. 4.20) for each of the following transactions:

1) On December 1, 2011, ABC Company received a 10 %, 1-year, note receivable from First.ltd. This note was issued in payment for a 24,000 hrn outstanding account receivable.

2) On December 31, 2011, ABC Company recorded an end-of-year entry to record accrued interest on the note receivable.

3) On November 30, 2012, First.ltd paid to ABC Company the full amount due on the note receivable.

Table 4.20

### General journal

The content of the transaction	Debit	Credit	The amount, hrn
1. To record issuance of 10 %, 1-year note, in exchange for outstanding receivable			
2. To accrue interest on note (1 month)			
3. a) to accrue interest on note (11 months)			
3. b) to record collection of note receivable and previously accrued interest			

How would the November 30 entry differ if First.ltd defaulted on the payment?

### Task 4.19

New Energy Company builds specially designed blades for generators used in wind energy farming operations. The company started the year with the following accounts receivable position (tab. 4.20).

Table 4.20

**Balance sheet information for accounts receivable**

Item	The amount, hrn
Primary value	10,500,000
Allowance for uncollectible accounts	(320,500)
Net realizable value	10,179,500

During the year, a customer, Windy Point Power Company, was devastated by an unusually severe storm. At that time, New Energy Company concluded that it is highly unlikely that Windy Point would ever be able to pay their outstanding balance of 150,000 hrn. This account was written off against the allowance account. Much later in the year, Windy Point was rescued by a group of investors who offered to pay 90,000 hrn toward the unpaid balance, provided New Energy Company would permanently forgive the other 60,000 hrn and resume selling product to Windy Point. New Energy Company agreed, and has since resumed doing business with Windy Point.

During the year, sales on account amounted to 25,689,000 hrn. Collections on account totaled 21,300,500 hrn (excluding the Windy Point collection). Accounts written-off (not including the Windy Point transaction) were 123,000 hrn. At year’s end, a detailed analysis of accounts receivable was performed, and it was concluded that the allowance account should contain a balance of 475,000 hrn.

Prepare summary journal for New Energy Company (tab. 4.21).

Table 4.21

**General journal**

The content of the transaction	Debit	Credit	The amount, hrn
To record the write-off of the Windy Point receivable			
To restore the portion of the Windy Point receivable that was collected			
To record the collection of the Windy Point receivable			
To record sales on account			

To record collections on account			
To record the write-off of accounts			
To establish the correct balance in the allowance for uncollectibles			

With table 4.22 show the impacts of each entry from table 4.21.

Table 4.22

### Changes in accounts under the influence of book entries

The transaction	Accounts receivable	Allowance for uncollectibles	Net realizable value	Uncollectible accounts expense
To record the write-off of the Windy Point receivable				
To restore the portion of the Windy Point receivable that was collected				
To record the collection of the Windy Point receivable				
To record sales on account				
To record collections on account				
To record the write-off of accounts				
To establish the correct balance in the allowance for uncollectibles				

### Task 4.20

Ego's manufactures and sells customized work clothes and uniforms. Following (tab. 4.23) is a list of accounts receivable as of December 31, 2011.

Table 4.23

### List of accounts receivable

Customer	Date of Sale	Amount, hrn
1	2	3
A	December 11, 2011	12,300
B	November 12, 2011	5,000
C	August 18, 2011	14,805
D	December 9, 2011	21,900

E	August 15, 2010	16,040
F	September 19, 2011	8,990
G	December 17, 2011	11,789
H	December 4, 2011	135,100
I	November 29, 2011	16,500

Table 4.23 (the ending)

1	2	3
J	May 20, 2011	11,786
K	December 21, 2011	255,000
L	February 16, 2011	18,780
M	December 23, 2011	10,000
N	December 14, 2011	3,550
O	October 25, 2011	22,310
P	December 13, 2011	40,900
Q	December 27, 2011	34,700
R	February 3, 2011	14,440
S	December 7, 2011	3,700
T	October 20, 2011	15,100
U	December 3, 2011	144,000

A. Sort the receivables list by age category and determine the estimated balance of uncollectible accounts (tab. 4.24). Estimated rates of noncollection are: 1 % of receivables up to 30 days, 3 % for 31 to 90 days, 10 % for 91 to 180 days, and 40 % of accounts over 180 days.

Table 4.24

### Aging schedule

Age	Balance	Rate of noncollection	Allowance for uncollectibles
0 to 30 days			
31 to 90 days			
91 to 180 days			
Over 180 days			
Total		-	

B. If the balance of Allowance for Uncollectible Accounts contained 15,000 hrn (credit), what adjusting entry is needed to reflect the analysis from part (a).

C. If the balance of Allowance for Uncollectible Accounts contained 15,000 hrn (debit), what adjusting entry is needed to reflect the analysis from

part (a).How is it possible that the allowance account could contain a debit balance?

### **Task 4.21**

Light Corporation sells customized stage lighting equipment for use in the entertainment industry. The company has a broad dealer network. One dealer, "Everydealer.ltd", obtained a large contract with a ship builder to install an elaborate stage lighting system produced by Light Corporation. The new cruise ship was being promoted as the Broadway on the Water, and promised to offer the world's finest theatrical performances at sea.

In 2012, Light Corporation sold the lighting equipment to Everydealer for 300,000 hrn. Terms were 20% cash payment, and the balance in 75 days. The extended payment terms were necessary because Everydealer needed to collect from the ship builder before being able to pay Light Corporation.

Unfortunately, Everydealer experienced difficulties. It seems the floor of the stage was equipped with a sophisticated leveling system that caused it to move in counter-motion to the ship's rocking while at sea. This feature provided entertainers with a stable stage on which to perform. However, this attribute was not considered in the design of the lighting equipment. As a result, when the ship rocked, the beams from the lights moved all about on the stage. No one was happy, and the cruise ship delayed payment to Everydealer. Everydealer was not able to pay Light Corporation. All parties believed some resolution and payment would eventually occur, but the timing was uncertain.

1. Prepare Light Corporation's journal entry to record the initial sale and down payment. Be sure to also record the cost of goods sold (assume the lighting equipment cost 220,000 hrn).

2. After 75 days, Everydealer paid an additional 40,000 hrn and executed a 180-day, 6 %, promissory note for the unpaid balance. Prepare Light Corporation entry.

3. Light Corporation's accounting year ended 60 days following the execution of the promissory note. Prepare the end-of-year entry.

4. 180 days following the execution of the promissory note, all matters had been resolved and Everydealer paid the full amount due on the promissory note. Prepare Light Corporation's journal entry.

5. Prepare respective journal entries for Everydealer.

### Task 4.22

Match the terms to their correct descriptions in tab. 4.25., fill in the gaps by terms in Ukrainian.

Table 4.25

### Basic terminology, that corresponds to accounting for fixed assets

Term			Definition	
	in English	in Ukrainian		
1	2	3	4	5
1	accelerated depreciation methods		A	A lease that effectively transfers the risks and rewards of ownership to the lessee
2	capital expenditures		B	An accelerated depreciation method by which a constant rate (that is a multiple of the straight-line rate) is multiplied by each period's beginning (constantly declining) book value
3	capital lease		C	A revision of assumptions used in a related accounting calculation (e.g., change in estimated useful life of an asset); handled prospectively by revising current and future periods
4	change in accounting estimate		D	An accelerated depreciation method by which a constant rate (that is 200% of the straight-line rate) is multiplied by each period's beginning (constantly declining) book value
5	depreciable base		E	Includes the cost of parking lots, sidewalks, landscaping, irrigation systems, and similar expenditures that are incurred to better land
6	declining balance depreciation method		F	Several alternative depreciation approaches that result in relatively more depreciation in early years of use, and smaller amounts during later years
7	Accelerated declining		G	A matter of accounting judgment; when amounts involved are slight, expediency may dictate



	balance depreciation			waiving the technically correct alternative in lieu of a simpler approach
8	land improvements		H	Ordinary and necessary costs incurred to place an item of property, plant, or equipment in its condition for intended use

Table 4.25 (the ending)

1	2	3	4	5
9	lump-sum purchase		I	Amount expected to be realized at the end of an asset's service life; "salvage value"
10	materiality		J	The period of time that a depreciable asset will be in use by an entity; the time interval over which the asset will be depreciated
11	operating lease		K	Cost minus salvage value; the amount of cost that will be allocated to the service life
12	residual value		L	A lease where the lessee makes periodic payments for use of an asset, but does not assume the ultimate risks and rewards of owning the asset
13	service life		M	A simple depreciation method by which the depreciable base is spread uniformly over the service life
14	straight-line depreciation		N	A depreciation approach where the depreciable base is allocated to the expected total units of output; mileage, hours, etc.
15	units of output depreciation		O	A single price paid for a package of assets; the purchase price must be allocated to each of the components

### Task 4.23

The following selected account balances (tab. 4.26) were taken from the general ledger of ABC Corporation as of December 31, 2011. All accounts listed carry a normal balance.

Table 4.26

### General ledger: fixed assets

Item	The amount, hrn
Land	500,000
Buildings	1,650,000
Equipment	2,860,000
Depreciation expense: Land	10,000
Depreciation expense: Buildings	125,000
Depreciation expense: Equipment	278,111

1. Examine this information to find any mistakes in the ABC's general ledger.

2. At December 31, 2012 accumulated depreciation came to: 472,000 (Buildings) and 1,333,400 (Equipment)

Prepare the property, plant and equipment section of the company's balance sheet on December 31, 2011.

### Task 4.24

ABC Corporation recently purchased a new sign to be erected in front of its dealership. The sign company (non-VAT payer) that produced the sign had a standard price for this item at 30,000 hrn, but ABC Corporation's manager was able to negotiate a 20 % discount from standard. However ABC Corporation paid 1,200 hrn (within VAT) of freight costs to deliver the sign. ABC Corporation hired an electrician for 1,800 hrn (within VAT) to wire the new sign's lighting. In addition, it rented a crane for 400 hrn (within VAT) and paid an installation crew 1,600 hrn (within VAT) to erect the sign. During installation, the crew accidentally damaged an adjoining neighbor's landscaping, and ABC Corporation paid 750 hrn (without VAT) to clean and repair those problems.

Determine the correct cost allocation to the sign, and prepare a journal entry to reflect the total expenditures related to this acquisition.

### Task 4.25

Evaluate the following costs (tab. 4.27) and decide if each is a "capital expenditure" or not. Then, if a capital expenditure, decide which account the cost should be recorded in: Land, Land Improvement, Building, or Equipment.

Table 4.27

### List of costs

Item	Capital expenditure		Category			
	Yes	No	Land	Land improvement	Building	Equipment
1	2	3	4	5	6	7
Delivery cost of new press						
Wages paid to guard at						

office building						
Cost of periodic repainting of parking lot						

Table 4.27 (the ending)

1	2	3	4	5	6	7
Cost of building new sidewalks						
Interest costs on loan to buy equipment						
Computer training class on general commercial software package						
Interest cost on loan during construction period for a new building						
Architects' fees for a new building						
Installation and setup costs on new machinery						
Repair of damage to device broken during initial installation						
Safety violation fines at construction site						
Tap fees for connecting new building to city water system						

### Task 4.26

On January 1, 2008, ABC Corporation purchased a digital press for 1,550,000 hrn. It cost an additional 50,000 hrn to deliver, install, and calibrate the press. This machine has a service life of 5 years, at which time it is expected that the device will be disposed of for a 100,000 hrn salvage value. ABC Corporation uses the straight-line depreciation method for the digital press.

1) Compute annual depreciation expense and net book value by the end of each year.

2) Show how the asset and related accumulated depreciation would appear on a balance sheet at December 31, 2012.

3) Prepare journal entries (tab. 4.28) to record the asset's acquisition, annual depreciation for each year, and the asset's eventual sale for 200,000 hrn.

### ABC General Journal

Date	The content of the transaction	Debit	Credit	The amount, hrn
01.01.08	To record the purchase of press			
01.01.08	To record the payment for purchase			
01.01.08	To record the delivery, installation and calibration expenses			
01.01.08	To record the payment for delivery, installation and calibration			
01.01.08	The press placed in operation			
31.12.08	To record 2008 depreciation			
31.12.09	To record 2009 depreciation			
31.12.10	To record 2010 depreciation			
31.12.11	To record 2011 depreciation			
31.12.12	To record 2012 depreciation			
02.01.13	To close accumulated depreciation			
02.01.13	The press intended for sale			
02.01.13	To record the sale of press in account			
02.01.13	To record the cost of press sold			
02.01.13	To record payment collected			
02.01.13	To close the expense account to the Income Summary			
02.01.13	To close the gains account to the Income Summary			
02.01.13	To close the Income Summary account to retained earnings			

### Task 4.27

On January 1, 2009, Ukrainian Air purchased a new engine for one of its airplanes used to transport adventurers to different regions of Ukraine. The engine cost 750,000 hrn and has a service life of 10,000 flight hours. Regulations require careful records of usage, and the engines must be replaced or rebuilt at the end of the 10,000 hour service period. Ukrainian Air simply chooses to sell its used engines and acquire new ones. Used engines are expected to be resold for 1/3 of their original cost. During its service life the engine was used as follows:

2009	1,500 hours
2010	4,000 hours
2011	3,000 hours

2012      1,500 hours

1. What is appropriate method to depreciate the engine? Compute annual depreciation expense and net book value on the end of each year.

2. Show how the asset and related accumulated depreciation would appear on a balance sheet at December 31, 2011.

3. Prepare journal entries to record the asset's acquisition, annual depreciation for each year, and the asset's eventual sale for 250,000 hrn.

### **Task 4.28**

On January 1, 2010, City Road Construction Company (VAT-payer) acquired an excavator for 180,000 hrn. This device had a 4-year service life to the company, at which time it is expected that the equipment will be sold for a 10,000 hrn salvage value. Compute annual depreciation expense and net book value on the end of each year for the cases if the company uses accelerated depreciation methods.

### **Task 4.29**

On January 1, 2005, City Road Construction Company (VAT-payer) purchased a delivery truck for 260,000 hrn. At the time of purchase, the company anticipated that it would use the truck for 4 years, even though its physical life is 8 years. At the end of the 4-year period, the company believes it will be able to sell the truck for 80,000 hrn. The company uses the straight-line depreciation method.

Gasoline prices increased significantly, and consumers began to buy more efficient vehicles. By early 2008, it became apparent that the market for used delivery trucks like the one belonging to City Road Construction Company was virtually nonexistent. Accordingly, the company changed its plans and decided it would use the truck for its full 8-year life. At the end of the revised useful life, it is expected that the truck will be worth 2,000 hrn for scrap value.

Prepare a schedule (tab. 4.29) showing annual depreciation expense, accumulated depreciation, and related calculations for each year.

Table 4.29

### Depreciation schedule

The year	Annual depreciation expense	Accumulated depreciation	Net book value
2005			
2006			
2007			
2008			
2009			
2010			
2011			
2012			

### Task 4.30

The accounting firm of PROEL was asked by one of its clients (non-VAT payer) to help them properly account for various transactions related to plant and equipment. The client prepared the following list of transactions (tab. 4.30) that occurred during 2011. Because the client was not sure what to do with these activities, they debited an account called "Suspense" and credited "Cash" for each expenditure. The only exception relates to item № 7, for which no entry has been recorded.

Table 4.30

### List of transactions

№	The content of transaction
1	Paid 2,500 hrn for 2011 insurance coverage on equipment
2	Paid 17,500 hrn for trees and shrubs
3	Paid 1500 hrn attorney's fees for document preparation related to land purchase
4	Paid 2,150,000 hrn for land and building. The land was separately valued at 1,400,000 hrn, and the building at 750,000 hrn.
5	Paid 12,000 freight costs on purchase of new furniture
6	Paid 300 hrn for staplers, trash cans, and desktop mats
7	Ordered new 750,000 hrn truck, to be delivered and paid for in 2012
8	Paid 10,000 hrn of interest costs on loan on active building construction project
9	Paid 25,000 hrn to expand parking lot paving



10	Paid 5,000 hrn of interest on loan related to completed in-use office building
----	--------------------------------------------------------------------------------

You should examine the following activities, and prepare a spreadsheet (tab. 4.31) showing how the costs should be allocated to specific Land, Land Improvement, Building, Equipment, or expense accounts (you may assume that the spreadsheet data are for the year ending December 31, 2011, and disregard any depreciation implications).

Table 4.31

**Cost allocation schedule**

Transaction	Land	Land improvement	Building	Equipment	Expense
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
Total					

After you complete the allocation, prepare a suggested correcting journal entry.

**Task 4.31**

On January 1, 2008, The Khar Winery (non-VAT payer) purchased a new bottling system. The system has an expected life of 5 years. The system cost 490,000 hrn. Shipping, installation, and set up was an additional 60,000. At the end of the useful life, the chief accountant for Khar Winery expects to dispose of the bottling system for 40,000 hrn. She further anticipates total output of 255,000 bottles over the useful life. Actual output, in bottles, was 70,000 (2008), 60,000 (2009), 55,000 (2010), 30,000 (2011), and 40,000 (2012). Compare annual depreciation expense and net book value on the end of each year for each depreciation method you know.

### Task 4.32

Dotcom Corporation operates a web hosting company. Examine the following items and prepare the current liability section of the company's December 31, 2012, balance sheet.

1. The beginning of year accounts payable was 200,000 hrn. Purchases on trade accounts during the year were 1,200,000 hrn, and payments on account were 970,000 hrn.

2. The company incurs substantial costs for electricity to run its servers and air conditioning systems. As of December 31, 2012, it is estimated that 75,000 hrn of electricity has been used, although the monthly billing for December has not yet been received.

3. Dotcom Corporation sells web hosting plans for as low as 110 hrn per month. However, it requires its customers to prepay in 6-month increments. As of the end of the year, 575,000 hrn had been collected for 2013 web hosting plans.

4. The company has total bank loans of 1,500,000 hrn. This debt bears interest at 6 %, payable monthly. As of December 31, 2012, all interest had been paid, with the exception of accrued interest for December.

5. The company's bank loans (1,500,000 hrn) are all due on June 30, 2013. However, Server Planet has a firm lending agreement with the bank to renew and extend 1,000,000 hrn of this amount on a 5-year basis. The company intends to exercise this renewal option, but is not yet sure about the final disposition of the remainder.

### Task 4.33

Following (tab. 4.32) are selected transactions or events of ABC Company relating to its first month of operation.

Table 4.32

#### Business transactions

Date	The content of transaction
01.09	The company borrowed 100,000 hrn via a note payable bearing interest at 1.7 % per month. This note and all accrued interest is due at the end of December.
10.09	Purchased 25,000 hrn of inventory on account. The obligation was not paid during September.
15.09	The company employed 2 administrative workers and adopted an employee salary plan. The total estimated cost is 150 hrn per day. None of this cost was

	funded during September.
17.09	Sold goods for 80,000 hrn on account, cost of goods sold is 55,000 hrn.
19.09	Collected payment in amount of 60,000 hrn
20.09	The company was involved in an accident that resulted in damage to another person's property. The company expects to be held responsible for an estimated 10,000 hrn in damages.

Prepare any initial journal entries necessary to record the above transactions or events.

Prepare the current liability section of the company's balance sheet as of the end of the month. The only obligations are those related to the above transactions or events.

### **Task 4.34**

Prepare journal entries to record each of the following independent stock issue situations.

A Corporation issued 100,000 shares of 10 hrn par value common stock. The issue price was 30 hrn per share.

B Corporation issued 50,000 shares of no par common stock for 100 hrn per share.

C Corporation issued 40,000 shares of 1,000 hrn par value preferred stock. The issue price was 1,020 hrn per share.

D Corporation issued 5,000 shares of 50 hrn par value common stock for land with a fair value of 275,000 hrn.

### **Task 4.35**

ABC Corporation presented the following selected information:

a) before considering the effects of dividends, if any, its net income for 2012 was 2,500,000 hrn. For 2013 before considering the effects of dividends, if any, its net income was 3,000,000 hrn;

b) on November 15, 2012 the company declared 750,000 hrn. of dividends. The date of record was January 15, 2013. The dividends were paid on February 1, 2013;

c) stockholders' equity, at January 1, 2012, was 5,000,000 hrn. No transactions impacted stockholders' equity throughout 2012 and 2013, other than the impact of earnings and dividends on retained earnings.

Prepare journal entries, if needed, to reflect the dividend declaration, the date of record, and the date of payment and answer the following questions:

- 1) how much was net income for 20X7 and 20X8?
- 2) how much was total equity at the end of 20X7 and 20X8?
- 3) is total "working capital" reduced on the date of declaration, date of record, and/or date of payment?

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