

INSTRUCTIONS: Complete all requirements for the comprehensive problem and turn in the original of your problem (stapled) by the due date & time specified by your professor. No late problems will be accepted for any reason!!! You should make a copy of your solution to check your answers with the solutions which will be provided on BbLearn.

REQUIREMENTS:

- (1) PREPARE JOURNAL ENTRIES FOR
MERCHANDISING TRANSACTIONS _____
- (2) PREPARE JOURNAL ENTRIES FOR
ACCOUNTS RECEIVABLE TRANSACTIONS _____
- (3) PREPARE FINANCIAL STATEMENTS:
 - (a) MULTIPLE-STEP INCOME STATEMENT _____
 - (b) RETAINED EARNINGS STATEMENT _____
 - (c) CLASSIFIED BALANCE SHEET _____
- (4) CALCULATE LIQUIDITY, PROFITABILITY,
& SOLVENCY MEASURES _____

COMPREHENSIVE PROBLEM 2 REQUIREMENTS

- (1) Prepare journal entries to record the merchandising transactions below for March 2015, assuming that the perpetual inventory system is used; Check figure: Total Debits = \$148,435.
- (2) Prepare journal entries to record additional transactions (a) and (b) on the following page for Accounts Receivable related to uncollectible accounts.
- (3) Using the March 31, 2015 Adjusted Trial Balance, prepare *in good form*, the 2015 fiscal year financial statements:
 - (a) Detailed, Multistep Income Statement (include earnings per share; there were 250,000 shares of common stock outstanding throughout the year); Check figure: Net Income = \$132,720.
 - (b) Retained Earnings Statement; Check figure: Retained Earnings, March 31, 2015 = \$400,220.
 - (c) Classified Balance Sheet; Check figure: Total Assets = \$982,295.
- (4) Calculate liquidity, profitability, & solvency measures; *show all calculations and use the proper notation for each answer* (% , times, \$). Round your final answer to at least *one* decimal place (e.g., for a ratio stated as a percentage, show an amount calculated to be .104376 as 10.4%).

TRANSACTIONS FOR REQUIREMENT (1), ABOVE:

Presented below are selected inventory transactions pertaining to AZ Running Gear, Inc. for the month of March 2015:

- | | | |
|------|----|--|
| Mar. | 3 | Sold \$15,625 of merchandise on credit to Mr. Runner, terms 3/10, net 30, FOB Shipping Point. Cost of merchandise was \$7,300. |
| | 6 | Sold \$2,145 of merchandise for cash, FOB Destination. Cost of merchandise was \$1,180. |
| | 8 | Paid \$75 of shipping cost to FedEx for the merchandise sold on March 6. |
| | 9 | Mr. Runner returned \$3,125 of merchandise sold on March 3 for credit on his account. Cost of merchandise returned \$1,720. |
| | 11 | Purchased \$45,500 of merchandise on account from Runner's World, terms 2/10, net 30, FOB Shipping Point. |
| | 12 | Paid \$285 to UPS for shipping cost related to merchandise purchased from Runner's World on March 11. |
| | 13 | Received payment in full from Mr. Runner for the balance due from the March 3 sale less the March 9 return (hint: within the discount period). |
| | 15 | Returned for credit on account \$12,000 of merchandise purchased from Runner's World on March 11. |
| | 18 | Purchased merchandise from Runner Time, Inc., \$13,480 cash. |
| | 21 | Paid Runner's World the balance due from the March 11 purchase less the March 15 return (hint: payment is within the discount period). |

TRANSACTIONS FOR REQUIREMENT (2):

Assume that AZ Running Gear, Inc. has a beginning of the year balance in Allowance for Doubtful Accounts of \$2,655. On March 31, the following events occurred related to accounts receivable:

- (a) Record the write-off of \$1,760 of accounts receivable due from customers.
- (b) After recording (a) above, the following aging schedule of accounts receivable is provided. Prepare the year-end adjusting journal entry for bad debts using the allowance method, using the percentage of receivables basis from the aging schedule.

	Accounts Receivable	Estimated Percentage Uncollectible	Estimated Uncollectible Amount
Current Accounts	\$ 14,000	1%	
1-30 days past due	8,000	6%	
31-60 days past due	5,250	12%	
61-90 days past due	2,580	25%	
Over 90 days past due	<u>780</u>	75%	
Totals	<u>\$ 30,610</u>		

INFORMATION FOR REQUIREMENT (3):

After the transactions from requirements (1) and (2) above and other transactions for the year were posted to the accounts, the accounts in alphabetical order from the March 31, 2015 year-end adjusted trial balance of AZ Running Gear Inc. are as follows:

AZ RUNNING GEAR, INC.
ADJUSTED TRIAL BALANCE
MARCH 31, 2015

ACCOUNT TITLES	DEBIT	CREDIT
Accounts Payable		\$19,870
Accounts Receivable	\$30,610	
Accrued Liabilities		5,595
Accumulated Depreciation - Building		40,625
Accumulated Depreciation - Equipment		59,200
Advertising & Marketing Expense	41,875	
Allowance for Doubtful Accounts		2,480
Bad Debt Expense	1,585	
Building	325,000	
Cash	56,635	
Common Stock (250,000 shares outstanding)		250,000

COMPREHENSIVE PROBLEM 2 (CHAPTERS 2, 5, 6, 8)

ACCOUNT TITLES	DEBIT	CREDIT
Cost of Goods Sold	422,250	
Depreciation Expense	55,850	
Dividends	42,500	
Equipment	148,000	
Freight Out Expense	9,500	
Gain on the Sale of Land		55,800
Income Tax Expense	48,750	
Income Taxes Payable		1,585
Insurance Expense	8,500	
Interest Expense	3,200	
Interest Payable		2,400
Inventory	105,360	
Land	150,500	
Legal & Professional Service Expense	8,750	
Long-Term Investments in Stock	76,500	
Loss on Sale of Equipment	18,835	
Mortgage Payable (\$24,500 due in next year, remainder due later)		250,000
Notes Payable (due in 4 years)		50,000
Notes Receivable (to be received in 2 months)	8,400	
Patent	89,000	
Prepaid Insurance	5,800	
Rent Expense	17,500	
Retained Earnings (beginning balance)		310,000
Salaries & Wages Expense	100,500	
Sales Discount	22,250	
Sales Returns & Allowances	61,750	
Sales Revenue		912,015
Short-Term Debt Investments	15,000	
Supplies	1,495	
Supplies Expense	4,375	
Trademark	72,300	
Unearned Revenue		2,625
Utilities Expense	9,625	
Totals	<u>\$ 1,962,195</u>	<u>\$ 1,962,195</u>

[illegible]

COMPREHENSIVE PROBLEM 2 (CHAPTERS 2, 5, 6, 8)

GENERAL JOURNAL

[illegible]

INCOME STATEMENT (CONTINUED)

[illegible]

AZ RUNNING GEAR, INC.
RETAINED EARNINGS STATEMENT

Complete the
date line \Rightarrow

[illegible]

FINANCIAL MEASURES: Show all calculations! Refer to page 68 in the course packet for a summary of ratio formulas. Show your answer using the proper notation and round your final answer to one decimal place. Place your answers in the spaces provided for each ratio.

MEASURE

CALCULATION:

ANSWER:

LIQUIDITY

Working Capital

Current Ratio

Receivable Turnover Ratio (note: beginning net accounts receivable = \$32,700)
(use net sales)

Average collection Period

Inventory Turnover Ratio (note: beginning inventory = \$92,300)

Days in Inventory

PROFITABILITY

Gross Profit Rate

Profit Margin

SOLVENCY

Debt to Assets
