This assignment has a value of 5 points.

***Scenario:***

**You are the Accountant for WanneBee Corporation**

WannaBee Corporation has $1,500,000 of Receivables on December 31, 2000. WannaBee uses the Allowance Method and historical data indicates that 7% of receivables become uncollectible. The end of year balance in the ADA is 0.

The following are the 2000 end of year receivables.

AR- Goodboy $25,000 AR-NannyNancy $250,000

AR-BusyBody $75,000 AR-AlphaBetCo $130,000

AR-DippyDo $55,000 AR-TipsyTurvy $98,000

AR-MerryMen $145,000 AR-HappyHart $289,000

AR-CurlyCues $211,000 AR-MityMan $47,000

AR-PrettyPenny $109,000 AR-JumpingJax $66,000

During 2001 the following events occurred:

Goodboy defaulted.

BusyBody declared bankruptcy but paid $19,000.

DippyDo paid the account in full.

MerryMen still owes $48,000.

CurlyCues has not answered the phone for 8 months.

PrettyPenny paid its account.

NannyNancy paid $150,000 and on November 21 made a 120 note at 4% APR for the remainder.

AlphaBetCo paid its account in full.

TipsyTurvy has closed its business.

HappyHart paid its bill.

MityMan still owes its account.

JumpingJax paid ½ its bill and will not pay the rest.

The Receivables balance at the end of the year is $2,235,000

***Assignments:***

1. **Prepare the Required AJE for December 31, 2000.**
2. **Prepare the Required AJE for December 31, 2001.**

PROBLEM 1, PART 1:

Spoiled Baby Corp sells baby buggies and has decided to expand its operations. It needs to borrow $500,000 for 18 months and has sent you to negotiate with the bank.

The bank is more than willing to lend the money to the company and is offering the company a discounted note at 6%. Mr. Moneybags, the banker, has indicated that this is quite a deal and non-discounted notes are currently being charged 6.2% APR

As the company accountant you must provide the necessary information to support your recommendation to the Board of Directors.

PROBLEM 2, PART 2:

Spoiled Baby Corp (SPC) sells baby buggies. Recent changes in the law required SPC to warranty its products for 90 days and you must set up the required accounts. Historical Data indicates that 6% of monthly sales result in warranty claims. The June 20x1 monthly sales are $481,000.

The following warranty claims were made against June sales.

July 8 210 July 14 450

July 16 900 July 21 385

July 26 421 July 28 772

Aug 4 1,795 Aug 8 921

Aug 14 267 Aug 17 1,022

Aug 25 186 Aug 27 755

Aug 29 548 Aug 30 899

Sept 2 111 Sept 3 219

Sept 5 1,135 Sept 14 816

Sept 18 242 Sept 24 987

Sept 27 147 Sept 28 1,587

Sept 29 788 Sept 30 489

Oct 1 1188 Oct 8 1387

Oct 14 489 Oct 17 577

Oct 21 1,967 Oct 27 927

Oct 28 683 Oct 29 492

Oct 30 897 Oct 31 1572

Prepare the Journal entries required to **create** and **close** the *warranty period*.

PROBLEM 3, PART 3:

Spoiled Baby Corp sells baby buggies and has begun an equipment replacement project. You are required to determine the Book Value of each of its fixed assets and make decisions regarding the purchases, trades, and disposition of various assets.

**Indicate your recommendation and justify your position for each of the following events.**

1. SPC purchased a tube extruder on April 3, 2007 for $27,000. It has a useful life of 10 years and a residual value of $4,000. SPC used double declining balance depreciation for this asset. On February 19, 2012 SPC has an offer to sell this unit for 8,000.
2. SPC purchased a winding machine on July 28, 2012 for $21,000. It has a useful life of 6 years or 12,000 hours. It has a residual value of $3,000. SPC is unsure whether to use straight line depreciation or units of production. It anticipates using the equipment approximately 3000 hours each year.
3. SPC purchased a funneling machine on February 9, 2009 for $72,000. It has a useful life of 5 years and a residual value of $12,000. SPC has used Straight line depreciation for this equipment. SPC has determined that this equipment no longer meets its needs and has decided to exchange this unit for a new model. The new Model has a MSRP of $100,000. On December 28, 2012 SPC will exchange its equipment for the new Model and pay $77,000.
4. SPC has a fully piece of equipment that is currently fully depreciated on its books. This equipment is no longer used and SPC wants to get rid of it. The cost of the equipment is $10,000. The company has been offered $300 for its parts. **What is the journal entry that would record this transaction?**

PROBLEM 2, PART 1 DIRECTIONS

You are an accountant and have two clients you’ll be dealing with during this assignment. JumpinJehosaPhats is a *haberdashery* (Google it!), and is owned by J.J. Phats. JJ is expanding the company and is in need of advice. He has come to you to discuss the future of the company.

Part 1 – Incorporating (25% of grade)

Discuss in detail the requirements of incorporating the business, the advantages and disadvantages, and provide JJ with recommendations.

Part 2 – Account Prep (25% of grade)

Using the data provided, create the owner’s equity accounts and the shareholder’s equity section of the balance sheet after the incorporation of JumpinJehosaPhats.

Part 3 – Expansion Considerations (25% of grade)

JJ is in need of raising money to expand the company and has identified the methods that he is considering. Using the information provided, calculate any burden to the corporation and provide recommendations to JJ concerning his options.

Part 4 – Cash Flow (25% of grade)

Your second client, Bailey’s Chocolates, is asking you to produce a Cash flow from Operating Activities. Using the Indirect Method and the information provided, calculate the cash flow from Operating Activities.

Be sure to cite your resources and include supporting calculations and evidence to support your positions.

PROBLEM 2, Part 2

JumpinJehosaPhats is a small business owned by JJ Phats as the sole proprietor. JJphats is incorporating the business.

On January 1, 2012 *JumpinJehosaPhats Inc.* has been authorized to issue 1,000,000 common shares with a Par Value of $1. In the process of incorporating, the sole proprietor owner’s equity accounts must be closed and the equity must now reflect a corporate stockholders’ equity account.

The books for the Sole Proprietorship indicate the following:

JJ Phats deposited $35,000 to start JumpinJehosaPhats

JJ Phats contributed $50,000 of equipment to start JumpinJehosaPhats

Retained Earnings December 31, 2011 = $150,000

**Prepare the Stockholder’s Equity Portion of the Balance Sheet on January 1, 2012.**

PROBLEM 2, PART 3

JumpinJehosaPhats was incorporated on January 1, 2012 and a year later it needs $10,000,000 to expand operations. JJ Phats is the sole shareholder of the corporation.

The corporation is considering three methods to raise the capital:

* issuing common shares at FMV
* issuing preferred stock with par = $1000
* issuing 10 year bonds with par = $1000

**You have been hired to determine the best way for the company to obtain the funds needed which might be a single method or combination of methods. Using the following information, discuss the pros and cons of each method and provide necessary calculations to support the position you recommend.**

* The company is authorized to issue 1,000,000 shares with a par value of $1.00
* On January 1, 2013 an appraisal of the company indicates that it has a current value of $25,000,000.
* On January 1, 2013 current interest rates are 3.5% APR and rising.
* On December 1, 2012 the competition (LeapinLizards Inc) issued 10,000 ten year cumulative preferred shares with par = $1000 at 3.4%

PROBLEM 2, PART 4 is in the excel file.