

# 2019 UIL Student Activity Conference

## Detailed Solutions for 2019 Regional, Group 11



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## Detailed Solutions 2019 Regional, Group 11

**READ the given information. Important facts:**

- Income Statement covers 12 months
- Fiscal year end is December 31, 2018
- This is a merchandising business (not a service business)
- Presence of “Allowance” account on Balance Sheet indicates the business ESTIMATES bad debts (NOT the direct write-off method)
- All amounts still showing in the financial statements can be depended upon to be correct.

There are multiple ways to begin. This solution will use the approach of “Write Down What You Know” beginning with the given “Additional Facts.”

**Step 1: Depreciation**

Given information states “Equipment consists of ONE asset.” Also given is the depreciation method in use which is Straight Line. Look at Balance Sheet’s Equipment account.

Cost (given) (also given: purchased on 5-1-15)		26,180
Salvage Value	-	3,500
Amount to depreciate over full life	=	22,680
	/	7 years
annual depreciation	=	3,240
	/	12 months
monthly depreciation	=	270
depreciation for partial year 2015 (May thru Dec) (8 mo)	x	8
Depreciation for year 2015	=	2,160

	Depr Expense	Accum Depr	Book Value
2015 8mo	2,160		
2016	3,240		
2017	3,240		
2018	3,240	11,880	14,300

**Q#73**

**Hunter’s Haven  
Balance Sheet  
December 31, 2018**

<b>Assets</b>		
Cash in Bank		10,330
Accounts Receivable	21,945	
Allowance for Uncollectible Accounts		
Merchandise Inventory		16,200
Supplies		3,750
Prepaid Insurance		1,900
Equipment	26,180	
Accumulated Depreciation—Equipment	11,880	14,300

**<<Q#71**

Accumulated Depreciation: 2,160 + 3,240 + 3,240 + 3,240 = 11,880

Book Value: Cost 26,180 – Accum Depr 11,880 = 14,300

Record Accumulated Depreciation and book value on Balance Sheet.

Record depreciation expense (\$3,240) on Income Statement.

**Step 2: Uncollectible Accounts Receivable**

Read Additional Facts, Item #2. Make T-Accounts. The business uses the aging method. See Balance Sheet for 12-31-18 balance of Accounts Receivable AFTER AJEs.

Accts Rec		Allow. for UA		Bad Debts Exp	
?			2,290 ← 1-1-18		
	1,800 ← Given: W/O → Sept 2018	1,800			
21,945	← 12-31-18 before AJEs →		490		
			1,985 ← 2018 AJE →	1,985	<<Q#77
			2,475		

The given information states: “The aging (report) on 12-31-18 indicates that \$2,475 is estimated to be uncollectible.” Therefore, we need the ENDING balance of the Allowance account to agree to the aging report. Bad debts is calculated:  $2,475 - 490 = 1,985$

Hunter’s Haven  
Balance Sheet  
December 31, 2018

Assets		
Cash in Bank		10,330
Accounts Receivable	21,945	
Allowance for Uncollectible Accounts	2,475	19,470 <<Q#70
Merchandise Inventory		16,200
Supplies		3,750
Prepaid Insurance		1,900
Equipment	26,180	
Accumulated Depreciation—Equipment	11,880	14,300
Total Assets		

Record the balance of the Allowance account on the Balance Sheet.  
Calculate book value:  $\text{Accts Rec } 21,945 - \text{Allow. } 2,475 = 19,470$   
Record Bad Debts Expense \$1,985 on the Income Statement.

Expenses:	
Rent Expense	5,400
Insurance Expense	
Supplies Expense	
Utilities Expense	2,620
Bad Debts Expense	1,985
Depreciation Expense	3,240
Total Expenses	

**Step 3: Total Assets**

You now have enough information to calculate Total Assets on the Balance Sheet:  
 $10,330 + 19,470 + 16,200 + 3,750 + 1,900 + 14,300 = 65,950$  <<Q#78

**Step 4: Ending Capital**

Total Assets 65,950 – Accounts Payable (only one liability account) 2,410 = 63,540 <<Q#80

**Step 5: Calculate Net Income**

Beginning Capital (given) 62,135 – Withdrawals (given) 12,000 – Ending Capital 63,540 = 13,405. Write the net income on the Income Statement. Also, write the capital detail on the Balance Sheet. <<Q#79

**Step 6: Prepaid Insurance**

Read Additional Facts, Item #3. Given Prepaid Insurance in the Trial Balance is \$7,540. Recall that the balance of this account in the Trial Balance (TB) represents the 1-1-18 balance of Prepaid Insurance PLUS any insurance purchased during the year 2018. Look at the Balance Sheet: given Prepaid Insurance AFTER AJEs is 1,900.

Prepaid Insurance			Insurance Expense	
?		← 1-1-18		
?		← Premiums paid 2018		
7,540		← 12-31-18 TB (before AJEs)		
		← 2018 AJE →		
1,900		← 12-31-18 AFTER AJEs because it is on the Balance Sheet		

Calculate Insurance Expense: Prepaid Insurance on TB \$7,540 – Prepaid Insurance on the Adjusted Trial Balance (Balance Sheet) \$1,900 = Insurance Expense \$5,640 <<Q#74

Record Insurance Expense on the Income Statement.

**Step 7: Supplies**

The calculation of Supplies Expense will be similar to that of Insurance Expense.

Supplies			Supplies Expense	
?		← 1-1-18		
?		← supplies bot in 2018		
8,130		← 12-31-18 TB (before AJEs)		
		← 2018 AJE →		
3,750		← 12-31-18 AFTER AJEs because it is on the Balance Sheet		

Calculate Supplies Expense: Supplies (the asset) on TB \$8,130 – Supplies on the Adjusted Trial Balance (Balance Sheet) \$3,750 = Supplies Expense \$4,380 <<Q#76

Record Supplies Expense on the Income Statement.

**Step 8: Total Expenses:**

You now have enough information to calculate Total Expenses:

<b>Expenses:</b>	
Rent Expense	5,400
Insurance Expense	5,640
Supplies Expense	4,380
Utilities Expense	2,620
Bad Debts Expense	1,985
Depreciation Expense	3,240
Total Expenses	23,265

**Step 9: Gross Profit:**

There are two paths to solve Gross Profit.

- One way is to back into it from Net Income and Total Expenses:  
 $\text{Net Income } 13,405 + \text{Total Expenses } 23,265 = \text{Gross Profit } 36,670$
- Another way is to use the given gross profit percentage of 38% of net sales  
 $\text{Net Sales (given) } 96,500 \times .38 = \text{Gross Profit } 36,670$

**Step 10: Cost of Merchandise Sold**

Net Sales 96,500 – Gross Profit 36,670 = 59,830 <<Q#69

**Step 11: Gross Sales**

Net Sales 96,500 + Sales R&A (given) 2,478 + Sales Discounts (given) 3,280 = 102,258 <<Q#75

Hunter's Haven  
Income Statement  
For the Year Ended December 31, 2018

<b>Revenue:</b>			
Sales		102,258	
Sales Returns & Allowances		2,478	
Sales Discounts		3,280	
Net Sales			96,500
<b>Cost of Merchandise Sold:</b>			
Merchandise Inventory on 01-01-18		15,380	
Purchases			
Transportation In	4,930		
Cost of Delivered Merchandise			
Purchases Returns & Allowances	1,780		
Purchases Discounts	4,610		
Net Purchases			
Cost of Merchandise Available for Sale			
Merchandise Inventory on 12-31-18			
Cost of Merchandise Sold			59,830
Gross Profit on Sales			36,670

**Step 12: Feeling Lost?**

At first glance, it might look like there are too many missing pieces to move forward. If you knew ENDING Merchandise Inventory, could you work from Cost of Merchandise Sold and solve “backwards?”

Where might we find ENDING Merchandise Inventory? Hint: look at the Balance Sheet.

The Balance Sheet gives us the ADJUSTED balance as of 12-31-18 for Merchandise Inventory \$16,200.

So now our calculations will go “in reverse.”

Cost of Merchandise Available for Sale = COMS 59,830 + Ending Inventory 16,200 = 76,030

Net Purchases = COMAS 76,030 – Beginning Inventory 15,380 = 60,650

Cost of Delivered Merchandise = Net Purchases 60,650 + PD 4,610 + PR&A 1,780 = 67,040

Purchases = Cost of Delivered 67,040 – Transportation In 4,930 = 62,110 <<Q#72

**Hunter's Haven  
Income Statement  
For the Year Ended December 31, 2018**

<b>Revenue:</b>			
Sales		102,258	
Sales Returns & Allowances		2,478	
Sales Discounts		3,280	
Net Sales			96,500
<b>Cost of Merchandise Sold:</b>			
Merchandise Inventory on 01-01-18		15,380	
Purchases	<b>62,110</b>		
Transportation In	4,930		
Cost of Delivered Merchandise	<b>67,040</b>		
Purchases Returns & Allowances	1,780		
Purchases Discounts	4,610		
Net Purchases		<b>60,650</b>	
Cost of Merchandise Available for Sale		<b>76,030</b>	
Merchandise Inventory on 12-31-18		<b>16,200</b>	
Cost of Merchandise Sold			59,830
Gross Profit on Sales			36,670

On the next page are the completed financial statements. (The larger/darker font indicates items we had to calculate or fill in from given information.) Brackets were added for clarity.

**Hunter's Haven  
Income Statement  
For the Year Ended December 31, 2018**

<b>Revenue:</b>			
Sales		<b>102,258</b>	
Sales Returns & Allowances		<2,478 >	
Sales Discounts		<3,280 >	
Net Sales			96,500
<b>Cost of Merchandise Sold:</b>			
Merchandise Inventory on 01-01-18		15,380	
Purchases	<b>62,110</b>		
Transportation In	4,930		
Cost of Delivered Merchandise	<b>67,040</b>		
Purchases Returns & Allowances	<1,780 >		
Purchases Discounts	<4,610 >		
Net Purchases		<b>60,650</b>	
Cost of Merchandise Available for Sale		<b>76,030</b>	
Merchandise Inventory on 12-31-18		<16,200 >	
Cost of Merchandise Sold			<59,830 >
Gross Profit on Sales			<b>36,670</b>
<b>Expenses:</b>			
Rent Expense		5,400	
Insurance Expense		<b>5,640</b>	
Supplies Expense		<b>4,380</b>	
Utilities Expense		2,620	
Bad Debts Expense		<b>1,985</b>	
Depreciation Expense		<b>3,240</b>	
Total Expenses			<23,265 >
<b>Net Income (Loss)</b>			<b>13,405</b>

**Hunter's Haven  
Balance Sheet  
December 31, 2018**

<b>Assets</b>		
Cash in Bank		10,330
Accounts Receivable	21,945	
Allowance for Uncollectible Accounts	<2,475 >	<b>19,470</b>
Merchandise Inventory		16,200
Supplies		3,750
Prepaid Insurance		1,900
Equipment	26,180	
Accumulated Depreciation—Equipment	<11,880 >	<b>14,300</b>
Total Assets		<b>65,950</b>
<b>Liabilities</b>		
Accounts Payable		2,410
<b>Capital</b>		
Bubba Wagner, Capital, January 1, 2018	62,135	
Plus (Less) Net Income (Loss)	<b>13,405</b>	
Less Owner Withdrawals	<12,000 >	
Bubba Wagner, Capital, December 31, 2018		<b>63,540</b>
Total Liabilities and Capital		<b>65,950</b>