Chapter 5 – pre final

**PICK ANY 14 FROM THE QUESTIONS BELOW AND ANSWER THEM ON A SEPARATE PIECE OF PAPER.**

**5.1** Mary signed up and paid $1,080 for a 6 month ceramics course on June 1st with Choplet Ceramics. As of August 1st, Choplet's accounting records would indicate:

$360 of revenue, $720 of accounts receivable

$360 of revenue, $720 of deferred revenue

$1,080 of revenue, $1,080 of cash

$720 of revenue, $360 of accounts receivable

**5.2**

Minarski Electronics sells computers and provides hardware maintenance services. On April 1st, Minarski sold a package deal containing a computer and a one-year unlimited maintenance/repair service for the computer at a bundle price of $1,000. If sold separately, the computer costs $948 and the one-year unlimited maintenance/repair service costs $252. How much revenue does Minarski Electronics recognize for the month ended April 30th, assuming that revenue is accrued monthly?

$807.50

$969.00

$21.00

$1,000

**5.3**

On July 15, 2018, Ortiz & Co. signed a contract to provide EverFresh Bakery with an ingredient-weighing system for a price of $88,800. The system included finely tuned scales that fit into EverFresh's automated assembly line, Ortiz's proprietary software modified to allow the weighing system to function in EverFresh's automated system, and a one-year contract to calibrate the equipment and software on an as-needed basis. (Ortiz competes with other vendors who offer ongoing calibration contracts for Ortiz's systems.) If Ortiz was to provide these goods or services separately, it would charge $59,000 for the scales, $10,000 for the software, and $31,000 for the calibration contract. Ortiz delivered and installed the equipment and software on August 1, 2018, and the calibration service commenced on that date.

Assume that the scales, software and calibration service are all separate performance obligations. How much revenue will Ortiz recognize in 2018 for this contract?

$61,272

$0

$72,742

$88,800

## 5.4

Orange Inc. offers a discount on an extended warranty on its oPhone when the warranty is purchased at the time the oPhone is purchased. The warranty normally has a price of $148, but Orange offers it for $119 when purchased along with an oPhone. Orange anticipates a 70% chance that a customer will purchase the extended warranty along with the oPhone. Assume Orange sells to 1,000 oPhones with the extended warranty discount offer. What is the total stand-alone selling price that Orange would use for the extended warranty discount option for purposes of allocating revenue among the performance obligations in those 1,000 oPhone contracts?

$29,000

$0

$119,000

$20,300

## 5.5

*[The following information applies to the questions 5.5a and 5.5b displayed below.]*

On April 1$^{st}$, Bob the Builder entered into a contract of one-month duration to build a barn for Nolan. Bob is guaranteed to receive a base fee of $5,800 for his services in addition to a bonus depending on when the project is completed. Nolan created incentives for Bob to finish the barn as soon as he can without jeopardizing the structural integrity of the barn. Nolan offered to pay an additional 25% of the base fee if the project finished 2 weeks early and 15% if the project finished a week early. The probability of finishing 2 weeks early is 25% and the probability of finishing a week early is 60%.

**5.5A** What is the expected transaction price with variable consideration estimated as the expected value?

$6,684

$5,800

$7,511

$5,510

**5.5B** What is the expected transaction price with variable consideration estimated as the most likely amount?

$6,670

$5,800

$7,861

$5,510

## 5.6

***[The following information applies to the questions 5.6a and 5.6b displayed below.]***

Wilson Links Products sells a product that involves two separate performance obligations: the SwingRight golf club weight and the SwingCoach teaching software. SwingRight has a stand-alone selling price of $195. Wilson sells both the SwingRight and the SwingCoach as a package deal for $290. The SwingCoach software is not sold separately. Wilson is aware that other vendors charge $190 for similar software, and Wilson's prices are generally 10% lower than what is charged by those vendors. Wilson estimates that it incurs approximately $110 of cost per copy of the software, and usually charges 50% above cost on similar products.

### 5.6A

Estimate the stand-alone selling price of the software using the adjusted market assessment approach.

$171

$95

$71

$55

**5.6B** Estimate the stand-alone selling price of the software using the expected cost plus margin approach.

$171.00

$95.00

$71.00

$165.00

**5.7** Bull'sEye sells gift cards redeemable for Bull'sEye products either in-store or online. During 2018, Bull'sEye sold $2,100,000 of gift cards, and $1,900,000 of the gift cards were redeemed for products. As of December 31, 2018, $152,000 of the remaining gift cards had passed the date at which Bull'sEye concludes that the cards will never be redeemed. How much gift card revenue should Bull'sEye recognize in 2018?

$2,100,000

$1,900,000

$1,948,000

$2,052,000

**5.8** Gupta Industries received a $380,000 prepayment from Packard Associates for the sale of new equipment. Gupta will bill Packard an additional $108,000 upon delivery of the equipment. Upon receipt of the $380,000 prepayment, how much should Gupta recognize for a contract asset, a contract liability, and accounts receivable?

Contract asset: $380,000; contract liability: $0, accounts receivable, $0.

Contract asset: $0; contract liability: $380,000, accounts receivable, $0.

Contract asset: $0; contract liability: $380,000, accounts receivable, $108,000.

Contract asset: $380,000; contract liability: $0, accounts receivable, $108,000.

**5.9** Arizona Desert Homes (ADH) constructed a new subdivision during 2017 and 2018 under contract with Cactus Development Co. Relevant data are summarized below:

| | | |
|---|---|---|
| Contract amount | | $ 2,910,000 |
| Cost: | 2017 | 1,180,000 |
| | 2018 | 580,000 |
| Gross profit: | 2017 | 770,000 |
| | 2018 | 380,000 |
| Contract billings: | 2017 | 1,455,000 |
| | 2018 | 1,455,000 |

ADH recognizes revenue upon completion of the contract.

In its December 31, 2017, balance sheet, ADH would report:

The contract asset, cost and profits in excess of billings, of $495,000.

The contract liability, billings in excess of cost, of $275,000.

The contract asset, contract amount in excess of billings, of $1,455,000.

The contract asset, deferred profit, of $380,000.

**5.10**

Arizona Desert Homes (ADH) constructed a new subdivision during 2017 and 2018 under contract with Cactus Development Co. Relevant data are summarized below:

| | | |
|---|---|---|
| Contract amount | | $ 2,775,000 |
| Cost: | 2017 | 1,150,000 |
| | 2018 | 550,000 |
| Gross profit: | 2017 | 725,000 |
| | 2018 | 350,000 |
| Contract billings: | 2017 | 1,387,500 |
| | 2018 | 1,387,500 |

ADH recognizes revenue upon completion of the contract.

What is the journal entry in 2018 to record revenue?

| | | |
|---|---|---|
| Cost of construction | 1,875,000 | |
| Gross profit | 900,000 | |
| Revenue from long-term contracts | | 2,775,000 |

| | | |
|---|---|---|
| Accounts receivable | 1,387,500 | |
| Revenue from long-term contracts | | 1,387,500 |

| | | |
|---|---|---|
| Construction in progress | 350,000 | |
| Cost of construction | 550,000 | |
| Revenue from long-term contracts | | 900,000 |

| | | |
|---|---|---|
| Construction in progress | 1,075,000 | |
| Cost of construction | 1,700,000 | |
| Revenue from long-term contracts | | 2,775,000 |

**5.11**

JRE2 Inc. entered into a contract to install a pipeline for a fixed price of $2,470,000. JRE2 recognizes revenue upon contract completion.

| | Cost incurred | Estimated Cost to Complete |
|---|---|---|
| 2017 | $ 286,000 | $ 1,730,000 |
| 2018 | 1,780,000 | 680,000 |
| 2019 | 630,000 | 0 |

In 2018, JRE2 would report gross profit (loss) of:

$(326,000).

$(276,000).

$(502,000).

$0.

## 5.12

JRE2 Inc. entered into a contract to install a pipeline for a fixed price of $2,470,000. JRE2 recognizes revenue upon contract completion.

| | Cost incurred | Estimated Cost to Complete |
|---|---|---|
| 2017 | $ 286,000 | $ 1,730,000 |
| 2018 | 1,780,000 | 698,000 |
| 2019 | 630,000 | 0 |

In 2019, JRE2 would report gross profit (loss) of:

$22,667.

$68,000.

$(226,000).

$42,000.

## 5.13

Squeaky Shine provides car washing services in Jersey City, New Jersey. A three-month pass for automatic car wash sells for $80, which entitles the customer for an unlimited number of car washes during the contract period. Squeaky Shine estimates that pass holders wash their cars equally throughout the three-month period. On December 1st, customers purchased $1,920 of the three-month passes, with usage of the passes occurring evenly throughout the contract period.

**Required**:
**1.** Prepare the journal entries that Squeaky Shine would record on December 1 and on December 31, 2018, with respect to this transaction.
**2.** State the account titles and amounts that will be included in Squeaky Shine's 2018 income statement and balance sheet.

Prepare the journal entries that Squeaky Shine would record on December 1 and on December 31, 2018, with respect to this transaction. (If no entry is required for a transaction/event, select "No journal entry required" in the first account field. Do not round intermediate calculations.)

1 December 01

2 December 31

State the account titles and amounts that will be included in Squeaky Shine's 2018 income statement and balance sheet.

| Account Titles | Amounts | Income Statement and Balance Sheet |
|---|---|---|
| | $ | |
| | $ | |
| | $ | |

## 5.14

Accorsi & Sons specializes in selling and installing upscale home theater systems. On March 1, 2018, Accorsi sold a premium home theater package that includes a projector, set of surround speakers, and high quality leather seats, along with complete installation service, for $36,000. If sold separately, each of these goods or services would have cost $18,300 (projector), $10,200 (speakers), $8,500 (seats), and $3,000 (installation), respectively.

**Required**:
How much of the transaction price would be allocated to the projector, the speakers, the leather seats, and the installation service, assuming that each of these four parts of the contract is a separate performance obligation? **(Round the percentage values to 2 decimal places.)**

| | Transaction Price |
|---|---|
| Projector | $ |
| Surround speakers | $ |
| Leather seats | $ |
| Installation service | $ |

## 5.15

The Rink offers annual $250 memberships that entitle members to unlimited use of ice-skating facilities and locker rooms. Each new membership also entitles the member to receive ten "25% off a $5 meal" coupons that are redeemable at the Rink's snack bar. The Rink estimates that approximately 80% of the coupons will be redeemed, and that, if the coupons weren't redeemed, $5 meals still would be discounted by 5% because of ongoing promotions.

Calculate how much of the transaction price should be allocated to meals. **(Round your answer to 2 decimal places.)**

5.15A T ransaction Price: ______________________

5/15B Prepare the journal entry to recognize the sale of a new membership. Clearly identify revenue or deferred revenue associated with each performance obligation. **(If no entry is required for a transaction/event, select "No journal entry required" in the first account field. Round your answers to 2 decimal places.)**

| Account | Dr | Cr |
|---|---|---|
| ______________________ | ________ | ________ |
| ______________________ | ________ | ________ |
| ______________________ | ________ | ________ |

## 5.16

*[The following information applies to the questions displayed below 5.16A and 5.16B.]*

On July 1, Wiggins Associates enters into a contract to provide consulting services to Pennsylvania University (PU). The contract is anticipated to last four months and is intended to achieve significant cost savings at the university. The contract stipulates that PU will pay Wiggins $36,000 at the end of each month, and, if total cost savings reach a specific target, PU will pay an additional $31,000 to Wiggins at the end of the contract. Wiggins estimates a 80% chance that cost savings will reach the target.

**5.16A Assume that Wiggins estimates uncertain consideration as the most likely amount.**

**Required:**

Do the following for Wiggins:

**a.** Prepare the journal entry on July 31 to record the first month of revenue under the contract.
**b.** Assuming total cost savings exceed the target, prepare the journal entry, if any, on October 31 to record receipt of the $31,000 bonus (ignore the normal October payment of $36,000).

**c.** Assuming total cost savings do not reach the target, prepare the journal entry, if any, on October 31 to record failure to receive the $31,000 bonus (ignore the normal October payment of $36,000).

**(For all requirements, If no entry is required for a transaction/event, select "No journal entry required" in the first account field.)**

| No | Date | General Journal | Debit | Credit |
|---|---|---|---|---|
| 1 | July 31 | | | |
| 2 | October 31 | | | |
| 3 | October 31 | | | |

## 5.16B Required information

### Assume that Wiggins estimates variable consideration as the expected value.

**Required:**

Prepare the journal entry on July 31 to record the first month of revenue under the contract. **(If no entry is required for a transaction/event, select "No journal entry required" in the first account field.)**

| No | Date | General Journal | Debit | Credit |
|---|---|---|---|---|
| 1 | July 31 | | | |

## 5.17

Bria Furniture sells bed frames and mattresses. One of its products is a premium therapeutic bed set produced by OmniSleep, which comes with a mattress and a bed frame. Bria offers a package consisting of the mattress, the frame, and on-site installation by its staff. All of these components can be sold separately, as often done by other vendors, so Bria concludes that these are separate performance obligations. Bria sells the OmniSleep package for $3,400. The mattress and the frame are sold separately for $2,200 and $1,085, respectively. Other vendors in the same area typically charge $230 for on-site installation. Bria does not sell on-site installation separately. On average, the prices charged by Bria are 10% higher than those of its competitors. Bria estimates that it incurs about $115 of compensation and other costs to provide the installation service. The profit margin over cost is estimated to be approximately 40%.

**Required:**

**(a)** Estimate the stand-alone selling price of the installation service using the adjusted market assessment approach.
**(b)** Estimate the stand-alone selling price of the installation service using the expected cost plus margin approach.
**(c)** Estimate the stand-alone selling price of the installation service using the residual approach.

| | |
|---|---|
| (a) Stand-alone selling price | $ |
| (b) Stand-alone selling price | $ |
| (c) Stand-alone selling price | $ |

**5.18**

Berry Farm produces organic tomatoes and strawberries. In June 2018, it transported 115 boxes of strawberries with a price of $17 per box to the Bay Farmers' Market. Berry Farm paid an upfront fee of $130 to present its products at the market for one week, and the market earns a 30% profit margin on each item sold, but Berry Farm is responsible for any items that remain unsold at the end of the week.

**Required**:

The market was able to sell 70 boxes of strawberries to customers. How much revenue should Berry Farm recognize with respect to this transaction?

| | |
|---|---|
| Revenue | $ |

**5.19**

Beck Construction Company began work on a new building project on January 1, 2017. The project is to be completed by December 31, 2019, for a fixed price of $168 million. The following are the actual costs incurred and estimates of remaining costs to complete the project that were made by Beck's accounting staff:

| Years | Actual costs incurred in each year | Estimated remaining costs to complete the project (measured at Dec. 31 of each year) |
|---|---|---|
| 2017 | $ 46million | $ 92million |
| 2018 | $ 77million | $ 77million |
| 2019 | $ 51million | $ 0 |

**Required:**
What amount of gross profit (or loss) would Beck record on this project in each year, assuming that Beck recognizes revenue for this project upon completion of the project? Place answers in the spaces provided below and show supporting computations. **(Loss amounts should be indicated with a minus sign. Enter your answers in millions (i.e., 10,000,000 should be entered as 10).)**

| Years | Gross Profit (or Loss) recognized |
|---|---|
| 2017 | $ |
| 2018 | $ |
| 2019 | $ |

**5.20**

*[The following information applies to the questions displayed below 5.20A 5.20B. 5.20C 5.20D]* ***WHEN YOU NEED TO RECORD JOURNAL ENTRIES – SEE LIST OF ACCOUNTS AT END OF QUESTION.***

Beavis Construction Company was the low bidder on a construction project to build an earthen dam for $1,860,000. The project was begun in 2017 and completed in 2018. Cost and other data are presented below:

| | 2017 | 2018 |
|---|---|---|
| Costs incurred during the year | $ 432,000 | $1,160,000 |
| Estimated costs to complete | 1,008,000 | 0 |
| Billings during the year | 430,000 | 1,430,000 |
| Cash collections during the year | 330,000 | 1,530,000 |

**5.20 A.** Assume that Beavis recognizes revenue on this contract over time according to percentage of completion.

**Required:**

Compute the amount of gross profit recognized during 2017 and 2018.

| | |
|---|---|
| Amount of gross profit recognized in 2017 | $ |
| Amount of gross profit recognized in 2018 | $ |

**5.20 B** Assume that Beavis recognizes revenue on this contract over time according to percentage of completion.

**Required:**
Prepare all journal entries to record costs, billings, collections, and profit recognition. **(If no entry is required for a transaction/event, select "No journal entry required" in the first account field.)**

| No | Date | General Journal | Debit | Credit |
|---|---|---|---|---|
| 1 | 2017 | | | |
| 2 | 2017 | | | |

| | |
|---|---|
| 3 | 2017 |
| 4 | 2017 |
| 5 | 2018 |
| 6 | 2018 |
| 7 | 2018 |
| 8 | 2018 |
| 9 | 2018 |

**5.20 C** Assume that Beavis recognizes revenue upon completion of the project.

**Required:**
Compute the amount of gross profit recognized during 2017 and 2018. **(Leave no cells blank - be certain to enter "0" wherever required.)**

| Gross Profit | |
|---|---|
| 2017 | $ |
| 2018 | $ |

**5.20 D** Assume that Beavis recognizes revenue upon completion of the project.

**Required:**
Prepare all journal entries to record costs, billings, collections, and profit recognition. **(If no entry is required for a transaction/event, select "No journal entry required" in the first account field.)**

| No | Date | General Journal | Debit | Credit |
|---|---|---|---|---|
| 1 | 2018 | | | |
| 2 | 2018 | | | |
| 3 | 2018 | | | |
| 4 | 2018 | | | |
| 5 | 2018 | | | |
| 6 | 2018 | | | |
| 7 | 2018 | | | |
| 8 | 2018 | | | |

**Listing of Accounts to choose from:**

- • No journal entry required
- Accounts receivable
- Advertising expense
- Billings on construction contract
- Bonus receivable
- Cash
- Construction in progress
- Cost of construction
- Cost of goods sold
- Deferred gross profit
- Deferred revenue
- Gain on sale of land
- Installment receivables
- Inventory
- Land
- Loss on long-term contract
- Loss on repossession
- Notes receivable
- Realized gross profit
- Repossessed inventory
- Revenue from long-term contracts
- Sales revenue

- Service revenue