Instructor: Dr. Hall **Accounting 460** **Estimated time**
CPA Problems **30-40 minutes**
Handout Problem No. F-30

Your client has entered into a business combination with Jackson Company. You have been asked to examine the financial statements of Jackson so that consolidated financial statements for the years ended December 31, 1972 and 1972, can be issued for the combined companies.

The following information regarding Jackson is available:

1. Jackson started operations on January 1, 1971 and has had a December 31 year end for 1971 and 1972.
2. On January 1, 1971, Jackson leased a building for ten years at $3,500 per month. On that date Jackson put down a $2,000 deposit and paid the first and last months' rent. The total $9,000 was charged to rent expense.
3. On January 1971, Jackson paid $1,440 of the premium on a three-year fire and casualty insurance policy. the policy requires additional annual premium payments of $1,080 on January 1, 1972 and 1973. Jackson has been expensing the premiums as they were paid.
4. On June 30, 1971, Jackson paid $57,000 to have special electrical wiring placed in the building leased January 1, 1971. The wiring has an estimated useful life of 20 years and no salvage value. Since the wiring could not be removed by Jackson at the end of the lease, it was charged to rent expense.
5. On January 1, 1972, Jackson sold equipment for $471,600 which cost $500,000 and had accumulated depreciation of $50,000. Equipment was credited for the selling price. On that same date, the equipment which had been sold was leased back for a rental of $2,200 per month for three years. Jackson has no option to repurchase the equipment or renew the lease.
6. On May 31, 1972, Jackson filed its first franchise tax return. the tax, which was based on the Company's capital structure as of April 30, 1972, amounted to $2,800. It covers the period from January 1, 1971 to April 30, 1973. The entire amount was expensed when paid.
7. Jackson has never written off uncollectible accounts receivable nor provided an allowance for bad debts. At December 31, 1971, no specific receivables were considered uncollectible; however, Jackson's management estimates that 5% of all receivables will prove uncollectible. At December 31, 1972, $23,500 of specific receivables (none from commission sales) were known to be uncollectible, of which $21,000 were receivable at December 31, 1971. At December 31, 1971 and 1972, accounts receivable were $400,000 and $435,000, respectively.
8. Jackson pays its salesmen a 3% commission when the cash is collected for a sale. The commission is expensed when paid. At December 31, 1971 and 1972, accounts receivable relating to commission sales amounted to $350,000 and $380,000, respectively (5% are estimated to be uncollectible). Commissions actually paid during 1972 on 1971 sales were $10,000.
9. Jackson purchased $3,130 of goods FOB shipping point. The goods were not included in the December 31, 1971, physical inventory count because they were in transit at that date. Jackson had recorded the transaction in the December 1971 purchase journal.
10. Jackson recorded an invoice in January 1973 for $2,860 of goods purchased in December. The goods were on hand and were included in the December 31, 1972, physical inventory count.
11. On January 1, 1971, Jackson paid $35,000 for a franchise from another company which would give Jackson the exclusive right to sell certain products. The franchise expires on January 1, 2011. The cost was charged as an extraordinary item in 1971.
12. On December 31, 1971, goods having a selling price of $6,432 and a cost value of $4,311 were shipped to a customer by Jackson, FOB shipping point. The goods were not included in the December 31, 1971, physical inventory; the sale was recorded in January 1972.

Required: Prepare a working paper showing the computation of the effects of the above errors upon Jackson's income for 1971 and 1972 and upon Jackson's balance sheet as of December 31, 1972. The worksheet analysis should be presented in the same order as the facts are given with corresponding numbers 2 through 12. (Formal journal entries or financial statements are not required.) Amortization and depreciation are to be calculated by the straight-line method. Ignore income and deferred tax considerations. Use the following columnar headings for your working paper.

	Income 1971		Income 1972		Balance Sheet Corrections at December 31, 1972		
					Amount		
Explanation	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Account

Jackson Company
Workpaper for error analysis
For the years ending December 31, 1972 and 1971

	Income 1971		Income 1972		Balance Sheet Corrections at December 31, 1972		
					Amount		
Explanation	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Account