

GATEWAY HARDWARE CASE

(A computer-based interactive case for an Accounting Principles II course)

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Gateway Hardware Case

Abstract

The Gateway Hardware Case offers a challenge both to academics and to their students. This case is an expository one (fact-based case) rather than a narrative one (story-based case). Gobeil and Philips (2001) studied expository and narrative cases. Among their observations, they found that the narrative-style case helped “low-knowledge” students do a better job with applying case facts¹. The Gateway Hardware Case consists of five modules. (Some academics may say that such sub-division disqualifies the presentation from even being called a “case”.) Aside from a possible semantics debate, research should be undertaken to see if sub-dividing an expository case improves “low-knowledge” students ability to apply case facts to the extend that they are able to do so with the narrative style case. As to undergraduate students, the Gateway Hardware Case gives them an opportunity to study in detail the end of the accounting cycle when an entity employs a primitive bookkeeping system. To facilitate this endeavor, the case requires students to use Microsoft Excel as the means to organize and refine the original unadjusted data. At the end of the case, the student should be able to appreciate the value that a CPA firm adds to general purpose financial statements when undertaking an engagement where the raw bookkeeping data lacks an accrual accounting focus.

¹ Gobeil and Philips 2001, 216. They found that case style did not affect fact acquisition only fact application.

GATEWAY HARDWARE CASE

(A computer based interactive case for an Accounting Principles II course.)

Gateway Hardware's accounting system is primitive. Except for a sales journal, the corporation simply keeps track of transactions using the cash basis. At the end of the year, the outside CPA firm reviews the internal bookkeeping and prepares required adjusting entries so that the financial statements can be put into compliance with generally accepted accounting principles. You might find it interesting that a 1993 AICPA report found a considerable number of CPA firms studied had no audit clients.² In this case you will function as the outside CPA contracted to prepare the annual financial statements. You will proceed by reading and analyzing narratives associated with fifteen "Adjusting Journal Entries". However, technically speaking, not all narratives describe adjusting entries in the strictest use of the term. Some entries will be correcting entries necessary because the rudimentary accounting system employs a bookkeeper with limited accounting knowledge. And one "adjustment" will simply be a reclassification entry that could go unrecorded without affecting the final calculation of net income.

The case consists of five modules. In the first module you must develop a worksheet template using Microsoft Excel. You need to establish a general framework strategy for the worksheet template. The recommended form for your worksheet would be to place on page one the balance sheet accounts. Then use page two for the income statement accounts. Lastly the adjusting entries should be listed in general journal form on page three. The adjusting entries on page three must be directed into the adjustment columns for pages one and two. Then in turn this entry placement should automatically update the adjusted trial balance and either the income statement or balance sheet accounts columns.

As you begin the case with Module I, you will enter into your worksheet template the unadjusted trial balance (see Appendix) developed in-house by Gateway Hardware's bookkeeper at year-end. Twenty-four different accounts will only be identified in this phase with the word "suspense" plus a numerical identifier. These twenty-four accounts apply to new account names to be found in future lessons in the Accounting Principles II course. The exact account name will be identified as you study the related topics in your instructor's selected textbook. If you are developing a worksheet template for the first time, you will learn about the preliminary work necessary to provide service to a client on a routine basis. The real time savings happens the second time you prepare the client's financial statements. With that thought in mind, do not be afraid of making errors. With a well-constructed worksheet in place, entering correct data will automatically re-do total calculations of earnings and financial position.

ASSIGNMENT QUESTIONS:

1. Complete the five case modules as described on the next page. Follow the due dates established by your instructor.
2. To what extent did the computer facilitate the adjustment process? Did the computer expedite the accounting cycle?
3. What was the initial time investment for the worksheet template? Was the initial computer work worthwhile? Did you have to correct answers in any of the modules? If yes, did this experience effect your evaluation of the computer's effectiveness? If you were given data to process for a second year, how would this possible assignment affect your evaluation of the worksheet's usefulness?
4. What lessons did you learn about the relationship between the initial unadjusted trial balance and the final calculation of net income and financial position? Did the CPA add value to the client's financial statements?

² Robert L. Gray et al. 1993, 22. 43% of 40,000 firms enrolled in the Quality Review Program did no audits.

GATEWAY HARDWARE CASE

Module 1 - Establish worksheet with given unadjusted trial balance.

(Module 1 requires a fundamental skill with worksheet formats using Excel. The data presented in the Case Appendix must be entered into your own created worksheet.)

DUE DATE: _____

Module 2 - Process adjusting entries 1-8.

Identify Suspense #4, 21

(Module 2 requires a fundamental understanding of the Accounting Cycle as studied in Accounting Principles I.)

DUE DATE: _____

Module 3 - Process adjusting entries 9 - 10

Identify Suspense #6, 7, 10, 11, 12, 22

(Module 3 will be done after studying Accounting Principles II chapters that cover current and long-term liabilities.)

DUE DATE: _____

Module 4 - Process adjusting entries 11 - 12

Identify Suspense #1, 2, 3, 18, 19, 20, 23

(Module 4 will be done after studying Accounting Principles II chapters that talk about accounting for investments.)

DUE DATE: _____

Module 5 - Process adjusting entries 13 - 15

Identify Suspense #5, 8, 9, 13, 14, 15, 16, 17, 24

(Module 5 will be done after studying in Accounting Principles II the corporate business entity and related issues. After recording adjustment #14, you will be able to process the last adjusting entry that requires calculating “pretax income” to derive income tax expense.)

DUE DATE: _____

GATEWAY HARDWARE CASE APPENDIX PART 1 - balance sheet accounts	Unadjusted December dr	Trial Bal. 31, 2003 Cr	APPENDIX PART 2 - income statement accounts	Unadjusted December dr.	Trial Bal. 31, 2003 cr.
CASH	78873		SALES		3902403
SUSPENSE 1	16590		SALES DISCOUNTS	67118	
ACCOUNTS RECEIVABLE	104427		SALES RETURN ALLOW	23296	
ALLOWANCE FOR DOUBTFUL A/C		3775	DIVIDEND REVENUE		3441
NOTE RECEIVABLE	12500		INTEREST REVENUE		3850
MERCHANDISE INVENTORY	434036		SUSPENSE 19		2475
OFFICE SUPPLIES	5992		GAIN ON SALE OF ASSETS		13435
PREPAID INSURANCE	9000		SUSPENSE 20		
PREPAID INCOME TAX	38300		NET COST OF PURCHASES	2670234	
SUSPENSE 2	103140		SUSPENSE 21		
SUSPENSE 3	116587		SELLING EXPENSES	487248	
LAND	81647		ADMINISTRATIVE EXPENSES	242576	
BUILDING	1240210		SUSPENSE 22	55071	
EQUIPMENT	235535		PROPERTY TAXES	51190	
ACCUMULATED DEPREC.		492462	UTILITIES EXPENSE	47976	
SUSPENSE 4	25000		REPAIR EXPENSE	9118	
SUSPENSE 5	11256		PROFESSIONAL FEES	12426	
NOTES PAYABLE - CURRENT			BAD DEBTS EXPENSE		
CURRENT PORTION OF LT DEBT			DEPRECIATION EXPENSE		
ACCOUNTS PAYABLE		168968	AMORTIZATION EXPENSE		
SUSPENSE 6		18502	INTEREST EXPENSE	87655	
SUSPENSE 7		21553	LOSS ON SALE OF ASSETS	660	
ACCRUED INTEREST PAYABLE		7515	SUSPENSE 23		
SUSPENSE 8			SUSPENSE 24		
SUSPENSE 9					
LOAN PAYABLE - LONG TERM		8655			
SUSPENSE 10		187500			
SUSPENSE 11		13340			
SUSPENSE 12		709555			
SUSPENSE 13		25000			
SUSPENSE 14		125000			
SUSPENSE 15		116770			
SUSPENSE 16		446457			
SUSPENSE 17	12500				
SUSPENSE 18		9505			
			TOTALS	6280161	6280161

GATEWAY HARDWARE CASE

Adjusting Journal Entries Narrative
For the year ended December 31, 2003

ADJUSTING JOURNAL ENTRY #1:

An analysis of the store's bank reconciliation statement shows that a deposit in transit went unrecorded in the December, 2003 cash receipts journal. The deposit's source was cash sales for the last two days of December that amounted to \$15,010.

ADJUSTING JOURNAL ENTRY #2:

Since Gateway Hardware fails to use a Purchases Journal and/or an Accounts Payable system, Accounts Payable for the current year are recorded only as needed to prepare financial statements. Following standard orders, the bookkeeper records as a debit to the account "Purchases" all cash disbursements for merchandise inventory. In addition, the bookkeeper never records reversing entries at the start of the year. Therefore invoices for merchandise acquired in late November and in December 2003, amounting to 195,850 have yet to be recorded. While unpaid invoices from the end of 2002 amounting to \$168,968 remain in the general ledger system as shown in the unadjusted trial balance.

ADJUSTING JOURNAL ENTRY #3: (Suspense #21)

Gateway Hardware uses a periodic inventory system. While the store was closed for the Jan. 1, 2004 holiday, a complete physical inventory count took place. Final tabulations showed merchandise costing \$503,410 and unused office supplies costing \$3,130.

ADJUSTING JOURNAL ENTRY #4:

Subsidiary records for Property, Plant and Equipment contain two errors involving an equipment sale. First, in the May 2003 cash receipts journal, the bookkeeper recorded an equipment sale by simply crediting for \$10,000 the account "Gain on sale of Assets". The other error involved not recording \$1900 for the current year's depreciation expense up to the equipment's disposal date. As a result of these two errors, the sold equipment's historical cost of \$29,557 and accumulated depreciation of \$23,865 as of 12/31/02 remain in Gateway Hardware's general ledger.

ADJUSTING JOURNAL ENTRY #5: Fixed Asset Subsidiary Records:

<u>ASSETS</u>	<u>Date</u> <u>Acquired</u>	<u>Cost</u>	<u>Accumulated</u> <u>Depreciation-12/31/02</u>
Land	12/90	\$81,647	\$ -0-
Building	12/90	1,240,210	377,412
Building- Furniture	12/91	38,000	34,200
Building- Furniture	9/02	25,084	1,130
Equipment- Fork lifts	5/03	37,133	-0-
Equipment- Office	10/02	11,240	1,010
Transportation- Car	5/98	25,576	20,715
Transportation- Truck	7/01	68,945	34,130

<u>Assets:</u>	<u>Estimated Useful Life</u>	<u>Salvage Value</u>	<u>Method of Depreciation</u>
Building	40 years	32,492	Straight-line
Building Furniture	10 years	10% of cost	Straight-line
Equipment-Fork lifts	7 years	10% of cost	Straight-line
Equipment-Office	5 years	10% of cost	Straight-line
Transport-Car	60,000 miles	10% of cost	Miles used
Transport- Truck	60,000 miles	10% of cost	Miles used

Note: 2003 mileage readings for the transportation vehicles were:

	<u>During 2003</u>	<u>Prior to 2003</u>
Car	10,000 miles	54,000 miles
Truck	11,500 miles	33,000 miles

Depreciation expense for 2003 has not been recorded. To calculate depreciation when assets service only part of a year, Gateway Hardware uses the half-year assumption.

ADJUSTING JOURNAL ENTRY #6

Insurance policies provided the following information:

	<u>Date Acquired</u>	<u>Cost</u>	<u>Term</u>
Policy #1	4/01/02	\$6,000	2 years
Policy #2	9/01/03	\$5,250	1 year

ADJUSTING JOURNAL ENTRY #7:

An aging of the accounts receivable subsidiary ledger at 12/31/03 provides the following information:

<u>Days past due</u>	<u>Amount</u>
Not past due	\$20,332
less than 30	3,775
30	38,795
60	24,170
90	5,790
more than 90	11,565
	<u>\$104,427</u>

The "more than 90 days past due" category includes an account from the Middletown Little League for \$7,045 which is well over one year past due. In past years, Gateway Hardware determined that any account outstanding for more than a year could not be collected.

Gateway Hardware uses the allowance method to record bad debts expense. Based upon industry guidelines and the corporation's own experience, bad debts usually amount to one-tenth of one percent of total gross sales on account. The cash receipts journal twelve-month summary shows 2003 cash sales of \$460,485.

ADJUSTING JOURNAL ENTRY #8: (Suspense #4)

Eleven years ago, Gateway Hardware paid the True Value Co. \$75,000 for franchise rights to market True Values' merchandise using the official True Value logo. Before the agreement was signed, attorneys advised Gateway Hardware that the franchise rights had a fifteen year legal life.

ADJUSTING JOURNAL ENTRY #9: (Suspense #10, 11)

On June 1, 2001, Gateway Hardware issued 16% Bonds with a par value of \$187,500 and obtained \$215,750 in cash for a bond yield of 12%. Interest pay dates are June 1 and December 1 with principal due on maturity date of June 1, 2004. The bookkeeper records premium amortization only as a year-end adjusting journal entry using the straight-line method. The straight-line method in this case does not cause a material distortion of interest expense or the year-end presentation of the liability balance. While the bookkeeper recorded all correct adjusting journal entries at 12/31/02, Gateway Hardware's accounting system makes no provision for reversing entries at the start of 2003. For 2003, accrued interest payable applies only to this debt instrument.

ADJUSTING JOURNAL ENTRY #10: (Suspense #12)

Gateway Hardware makes payments on its bank loans as required always on the first day of the month. The bookkeeper correctly allocated principal and interest payments while processing monthly cash disbursements journal transactions. While the bookkeeper has not calculated the current provision for long-term debt, bank loan amortization schedules provide the following key information:

	<u>Date</u>	<u>Amount</u>	<u>Term</u>	<u>Interest Rate</u>	<u>Monthly Payment</u>	<u>Balance at 12/31/04</u>	<u>Balance at 12/31/03</u>
Loan payable (LT)	7/01/01	\$ 45,000	3 years	12%	\$1,495	\$0	\$ 8,655
Building Mortgage	12/30/98	\$750,000	30 years	8%	\$5,550	\$699,345	\$709,555

ADJUSTING JOURNAL ENTRY #11: (Suspense #1, 2, 18, 20, 23)

The subsidiary ledgers for Gateway Hardware's investment portfolios contain the following information:

<u>Trading Securities</u>	<u>Market Value at 12/31/02</u>	<u>Carrying Value at 12/31/03</u>	<u>Market Value at 12/31/03</u>
NYNEX Common	\$3,690	\$2,775	\$3,075
ATT Common	4,380	4,680	4,080
UTC Common	3,960	4,135	3,685
GM Common	<u>11,740</u>	<u>5,000</u>	<u>5,250</u>
Total	\$23,770	\$16,590	\$16,090

Available for Sale Securities:

	<u>Market Value at 12/31/02</u>	<u>Unrealized Holding Gain / (Loss) at 12/31/02</u>	<u>Market Value At 12/31/03</u>
True Value Common	\$60,835	\$6,375	\$70,190
IBM Preferred	20,175	2,735	25,565
GTE Preferred	12,105	370	10,855
GM Preferred	<u>10,025</u>	<u>25</u>	<u>9,920</u>
Total	\$103,140	\$9,505	\$116,530

ADJUSTING JOURNAL ENTRY #12: (Suspense #3, 19)

On January 25, 2004, Gateway Hardware received a letter from America South Bank, trustee for the Bond Sinking Fund. The letter contained a report for the fourth quarter in 2003. The report said that the Sinking Fund assets earned \$1,200 in interest revenue for 2003's final quarter.

ADJUSTING JOURNAL ENTRY #13: (Suspense #5)

On December 31, 2001, Gateway Hardware incorporated its business in the State of Florida and in doing so incurred legal and filing fees amounting to \$14,070. The corporation decided to amortize these organization costs over the same minimum number of years required by the IRS when calculating the yearly allowable income tax deduction.

ADJUSTING JOURNAL ENTRY #14: (Suspense #8, 13, 14, 15, 16, 17)

The Board of Directors declared annual cash dividends on December 31, 2003 for both preferred and common stockholders. Since this dividend declaration was the first in Gateway Hardware's corporate history, the confused bookkeeper failed to record an entry in the company's general journal. The corporation's charter contains the following information:

	<u>Preferred Stock</u>	<u>Common Stock</u>
Shares authorized	5,000	100,000
Par Value	\$50	\$1
Dividend terms	9% non-cumulative	N/A

On December 31, 2003 Gateway Hardware Inc. issued 2,500 shares of preferred stock and 25,000 shares of common stock. These shares remained outstanding until January 15, 2003 when the corporation purchased 5,000 shares of common stock from an original partner in the former business arrangement for Gateway Hardware. The corporation paid \$2.50 per share for these new treasury holdings.

On December 31, 2003, Gateway Hardware declared the following cash dividends to be paid on February 14, 2004:

1. The full annual amount due to preferred shareholders;
2. \$2.50 per share for the common shareholders.

ADJUSTING JOURNAL ENTRY #15: (Suspense #9, 24)

The "Prepaid Income Taxes" balance at 12/31/03 consists of quarterly 2003 estimated federal corporate income tax payments and from the 2002 income tax refund that Gateway Hardware elected to use as 2003 estimated payments. Florida taxes real and personal corporate property. Gateway records this tax on the lien date. (For purposes of this case, assume Gateway Hardware is exempt from state income taxes.) Therefore a year-end adjustment for "income taxes payable" simply involves federal government regulations which tax corporations at the following 2003 rates:

Taxable income \$50,000 or less	15%
Taxable income over \$50,000 but not over \$75,000	25%
Taxable income over \$75,000 but not over \$10,000,000	34%
Taxable income over \$10,000,000	35%

The 2003 federal income tax form 1120 will be filed on March 15, 2004. So the bookkeeper journalized only the estimated tax payments and never recorded income tax expense based upon the final pre-tax income calculation.

GATEWAY HARDWARE CASE

TEACHING NOTES

This case divides into five modules. The first module creates a worksheet template using Microsoft Excel in order to solve all case modules. The case will take longer to develop when effective worksheet construction is absent. In this first module the student will need to enter into his / her worksheet the unadjusted trial balance developed internally at year-end by Gateway Hardware's bookkeeper. Twenty-four different accounts will only be identified in this module with the word "suspense" plus a numerical identifier. These twenty-four accounts apply to new lessons to be assigned in the Accounting Principles II course. They will be identified as you cover the related topics in your main textbook. Module I establishes and encourages organization skills that will expedite adjustments, corrections, reclassifications and tentative calculations of net income necessary to evaluate the reasonableness of those entries. After completing Module I, the student then must tie the case's adjustment narrative data into the unadjusted trial balance now entered into the student's own electronic worksheet.

The second module reviews lessons that you first taught in the Accounting Principles I course within the context of a sole proprietor type economic entity. Module II revisits the basic accounting cycle of a merchandising company that applies to all business entities whether sole proprietorship, partnership or corporation. Included in this second module is an account called "inventory change", the author's invention. This unique account reflects the fact that in a periodic inventory system the calculation of cost of goods sold expense is a function not only of the net delivered cost of purchases but also the change in balance from beginning to ending inventory. Having this account available formally demonstrates inventory change as an element of cost of goods sold. Other adjustments involve supplies expense, depreciation, prepaid expenses, bad debts and intangible asset amortization. Also correcting entries must be made to recognize unrecorded cash sales, an unrecorded worthless account receivable, and to properly record a fixed asset disposal.

The third module contains lessons about current and long-term liabilities. In addition to the standard year-end interest accrual, a reclassification entry needs to be made so that short-term liabilities can disclose the current portion of long-term debt. This module provides an instructor yet another opportunity to teach students about bonds payable and the necessity to amortize (in this case) a premium to make interest expense reflect market rates. As the author I sacrificed reality (namely a company this size would not be able to issue bonds) for the opportunity to try one more time to make students think about the concepts behind bonds payable and the related amortization.

The fourth module brings current and long-term investments into the entity. The module's trading securities and available for sale securities require year-end adjustments in order to establish fair market valuation. The electronic worksheet helps the student visualize that the available for sale securities fair market value adjustment makes no impact on the income statement. Also, a bond sinking fund needs to be updated as the corporation receives a letter from the fund's fiduciary that provides a recent earnings report on the fund.

The fifth and final module introduces lessons specifically applicable to the corporate form of business entity. The deferred charge "organization cost" needs to be amortized, and cash dividends need to be recorded. You can stress that the most distinctive feature of a corporation is the detailed presentation of owners' equity. Plus point out that unlike other economic entities the corporate form is a taxable one. Therefore current liabilities will contain income taxes payable. The last adjustment calculates the corporation's income tax expense. Before this last adjustment can be made, the student needs to post to the worksheet all previous adjustments and use the worksheet to calculate a "pre-tax" income. This step reveals the final nature of the income tax adjustment and the help that an electronic worksheet can be to make this next to last case calculation of pre-tax income.

While Module I and Module II serve a review purpose, Modules III, IV and V reinforce current lessons in the following sequence: liabilities; investments; stockholders' equity and income taxes. You may have to mix and match Modules III, IV and V to follow your course syllabus. Of course Adjusting Journal Entry #15 will have to be assigned last because of the necessity to establish pre-tax income.

The idea behind the use of “suspense accounts” is to give the student a chance to see where new lessons merge with previous lessons dealing with earnings and financial position concepts. The adjustment narratives refer to specific suspense accounts. So as a particular formerly unknown account takes the spotlight illuminated by an adjustment, the student should see the connection between adjustment data and the preliminary data in the unadjusted trial balance. As an overall goal, this case attempts to get a student to grasp the broader implications of transactional processing. Adjustments make a difference. Therefore each case module will generate a different balancing net income. And the way the adjustments must be processed depends upon the initial organization of the unadjusted data. As a result of this connection a student can experience that the ultimate communicative effectiveness of financial reports starts with general ledger account organization, matures with transactional processing and clarifies with the adjustment process. The suspense accounts used in the case are as follows:

Suspense Account Numbers	Suspense Account Names
#1	Trading Securities
#2	Available for Sale Securities
#3	Bond Sinking Fund
#4	Franchise Costs
#5	Organization Costs
#6	Payroll Taxes Payable
#7	Sales Taxes Payable
#8	Dividends Payable
#9	Corporate Income Taxes Payable
#10	Bonds Payable
#11	Premium on Bonds Payable
#12	Mortgage Payable
#13	Common Stock
#14	Preferred Stock
#15	Paid in Capital in Excess of Par
#16	Retained Earnings
#17	Treasury Stock
#18	Unrealized Holding Gain / Loss
#19	Bond Sinking Fund Revenue
#20	Unrealized Holding Gain
#21	Inventory Change
#22	Payroll Taxes
#23	Unrealized Holding Loss
#24	Income Tax Expense

The correct net income to be calculated at the end of each case module is:

Module 1	\$171,036
Module 2	\$155,736
Module 3	\$170,168
Module 4	\$170,868
Module 5	\$122,666 (with \$168,054 as the pretax income for AJE #15)

The Gateway Hardware case can also be used in an Intermediate Accounting I course. Usually the second chapter covered in Intermediate Accounting I involves a review of the Accounting cycle. This case could be assigned at the

beginning of the semester to be completed on or before the first examination. While all topics involved in this case should have been covered in the Accounting Principles sequence, you would be advised to maintain the five separate modules as a way to control student errors. The student should obtain the correct module net income before proceeding to the next module. The answer key's fifteen adjusting entries start on the next page. Following the adjusting entries is a final worksheet solution labeled "Module 5".

AJE #1	CASH	15010	
	SALES		15010
AJE #2	ACCOUNTS PAYABLE	168968	
	PURCHASES		168968
AJE #2A	PURCHASES	195850	
	ACCOUNTS PAYABLE		195850
AJE #3	MERCHANDISE INVENTORY	69374	
	INVENTORY CHANGE		69374
AJE #3A	ADMINISTRATIVE EXPENSES	2862	
	OFFICE SUPPLIES		2862
AJE #4	DEPRECIATION EXPENSE	1900	
	ACCUMULATED DEPRECIATION		1900
AJE #4A	ACCUMULATED DEPRECIATION	25765	
	EQUIPMENT		29557
	GAIN ON SALE OF EQUIPMENT	3792	
AJE #5	DEPRECIATION EXPENSE	51056	
	ACCUMULATE DEPRECIATION		51056
BUILDING	$(1,240,210 - 32,492) / 40 \text{ YEARS} =$	30193	
FURNITURE	$(38,000 - 3,800) / 10 \text{ YEARS} =$	0	
FURNITURE	$(25,084 - 2,508) / 10 \text{ YEARS} =$	2258	
FORK LIFT	$(37,133 - 3,713) / 7 \text{ YEARS} \times 6/12 =$	2387	
Office Equipment	$(11,240 - 1,124) / 5 \text{ YEARS} =$	2023	
CAR	$(25,576 - 2,558) / 60,000 \text{ miles} = .3836$		
	$6,000 \text{ miles} \times .3836 =$	2302	
TRUCK	$(68,945 - 6,895) / 60,000 \text{ miles} = 1.0342$		
	$11,500 \text{ miles} \times 1.0342$	11893	
	TOTAL DEPRECIATION EXPENSE	51056	
AJE #6	ADMINISTRATIVE EXPENSES	4750	
	PREPAID INSURANCE		4750
POLICY #1	$(6000 / 24 \text{ MONTHS}) \times 12 \text{ MONTHS}$	3000	
POLICY #2	$(5250 / 12 \text{ MONTHS}) \times 4 \text{ MONTHS}$	1750	
AJE #7	BAD DEBTS	EXPENSE	3442

ALLOWANCE FOR DOUBTFUL A/C 3442

(3,902,403 - 460,485) X .001 = 3442

AJE #7A ALLOWANCE FOR DOUBTFUL A/C 7045
 ACCOUNTS RECEIVABLE 7045

AJE # 8 AMORTIZATION EXPENSE 5000
 FRANCHISE 5000

AJE # 9 PREMIUM ON BONDS PAYABLE 9417
 INTEREST EXPENSE 9417
 (\$215750 - \$187500) / 3 years = \$9417

AJE # 9A INTEREST EXPENSE 2500 7515
 ACCRUED INTEREST
 PAYABLE 7515 2500

AJE # 10 LOAN PAYABLE - LONG TERM 8655
 MORTGAGE
 PAYABLE 10210
 CURRENT PORTION OF LT DEBT 1886
 5

AJE #11 UNREALIZED HOLDING LOSS 500
 TRADING SECURITIES 500

AJE #11A AVAILABLE FOR SALE SECURITIES 13390
 UNREALIZED HOLDING GAIN / LOSS 1339
 0

AJE #12 BOND SINKING FUND 1200
 BOND SINKING FUND REVENUE 1200

AJE #13 AMORTIZATION EXPENSE 2814
 ORGANIZATION COSTS 2814

AJE #14 RETAINED EARNINGS 61250
 DIVIDENDS PAYABLE 6125
 0

(PREFERRED 2500 X \$50 X 9% = 11250)

(COMMON 20000 X \$2.50 = 50000)

AJE #15 INCOME TAX EXPENSE 45388
 PREPAID INCOME TAX 3830
 0
 CORP. INCOME TAXES PAYABLE 7088

[\$7500 + \$6250 + 34% x (\$168,054 - \$75000)] = \$45,388

Gateway Hardware Case Solution MODULE 5	Adjusting December dr	Entries 31, 2003 Cr	Income December dr	Statement 31, 2003 cr	Balance December dr	Sheet 31, 2003 cr
CASH	1	15010			93883	
Trading Securities			11	500	16090	
A/C Receivable			8A	7045	97382	
Allow. For Doubtful a/c	7A	7045	7	3442		172
NOTE RECEIVABLE					12500	
Merchandise Inventory	3	69374			503410	
OFFICE SUPPLIES			3A	2862	3130	
PREPAID INSURANCE			6	4750	4250	
PREPAID INCOME TAX			15	38300	0	
Avail securities for sale	11A	13390			116530	
BOND SINKING FUND	12	1200			117787	
LAND					81647	
BUILDING					1240210	
EQUIPMENT			4A	29557	205978	
Accumulated Deprec.	4A	25765	*	52956		519653
FRANCHISE COSTS			8	5000	20000	
Organization Costs			13	2814	8442	
Note Pay. - Current						0
Current Port. LT Debt			10	18865		18865
ACCOUNTS PAYABLE	2	168968	2A	195850		195850
Payroll Taxes Payable						18502
Sales Taxes Payable						21553
Accrued Int. Payable	9A	7515	9A	2500		2500
DIVIDENDS PAYABLE			14	61250		61250
Corp. Income Tax Pay.			15	7088		7088
Loan Payable - LT	10	8655				0
BONDS PAYABLE						187500
Premium on Bonds	9	9417				3923
MORTGAGE PAYABLE	10	10210				699345
COMMONS STOCK						25000
PREFERRED STOCK						125000
Pd in Capital > Par						116770
RETAINED EARNINGS	14	61250				385207
TREASURY STOCK					12500	
Unrealized Holding			11A	13390		22895

Gateway Hardware
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	Adjusting December dr.		Entries 31, 2003 cr.	Income December dr.	Statement 31, 2003 cr.	Balance December dr.	Sheet 31, 2003 cr.
SALES		1	15010		3917413		
SALES DISCOUNTS				67118			
Sales Returns & Allow.				23296			
DIVIDEND REVENUE					3441		
INTEREST REVENUE					3850		
Bond Sinking Fd Rev.		12	1200		3675		
Gain On Sale of Assets	4A 3792				9643		
Unrealized Hold Gain							
Net Cost of Purchases	2A 195850	2	168968	2697116			
INVENTORY CHANGE		3	69374		69374		
SELLING EXPENSES				487248			
Admin. Expenses	* 7612			250188			
PAYROLL TAXES				55071			
PROPERTY TAXES				51190			
UTILITIES EXPENSE				47976			
				0			
REPAIR EXPENSE				9118			
PROFESSIONAL FEES				12426			
BAD DEBTS EXPENSE	7 3442			3442			
Depreciation Expense	* 52956			52956			
Amortization Expense	* 7814			7814			
INTEREST EXPENSE	9A 2500	*	16932	73223			
Loss on Sale of Assets				660			
Unrealized Hold. Loss	11 500			500			
INCOME TAX EXPENSE	15 45388			45388			
TOTALS	717653		717653	3884730	4007396	2533739	2411073
Net Income (Net Loss)				122666			122666

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