

# Problem 5

Following are selected transactions or events of Alpine Company relating to its first month of operation.

- 01-Jun Alpine borrowed \$75,000 via a note payable bearing interest at 1% per month. This note and all accrued interest is due at the end of July.
- 10-Jun Purchased \$15,000 of inventory, terms 2/10,n/30. The purchase was initially recorded at the net amount. The obligation was not paid during June.
- 15-Jun The company adopted an employee health insurance plan. The total estimated cost is \$75 per day. None of this cost was funded during June.
- 20-Jun Sold goods for \$65,000 cash. Alpine offers a warranty on the goods, and anticipates that total warranty cost will be 2% of sales.
- 25-Jun One of Alpine's vehicles was involved in an accident. Alpine expects to be held responsible for an estimated \$7,500 in damages.
- 30-Jun At month end, it was estimated that employees are owed for \$11,500 in accrued wages. In addition, \$275 was spent on warranty service work.
- Prepare any initial journal entries necessary to record the above transactions or events.
  - Prepare month-end adjusting journal entries that are deemed appropriate related to the above transactions or events.
  - Prepare the current liability section of the company's balance sheet as of the end of the month. The only obligations are those related to the above transactions or events.



b)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit

c)

Liabilities			
Current liabilities			
Notes payable	\$	-	
Accounts payable		-	
Interest payable		-	
Wages payable		-	
Employee health insurance liability		-	
Warranty obligation		-	
Estimated liability for accident		-	\$ -
		-	-

Solution 5

a)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
1-Jun	Cash	75,000	
	Note Payable		75,000
	<i>Record note payable</i>		
10-Jun	Purchases (or Inventory)	14,700	
	Accounts Payable		14,700
	<i>Record purchase, net of discount</i>		
20-Jun	Cash	65,000	
	Warranty Expense	1,300	
	Sales		65,000
	Warranty Obligation		1,300
	<i>Record sale and warranty cost</i>		
25-Jun	Loss	7,500	
	Estimated Liability for Accident		7,500
	<i>Record estimated cost of accident</i>		

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b)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
30-Jun	Wages Expense	11,500	
	Wages Payable		11,500
	<i>Record accrued wages</i>		
30-Jun	Warranty Obligation	275	
	Cash		275
	<i>Record warranty work performed</i>		
30-Jun	Interest Expense	750	
	Interest Payable		750
	<i>Accrue 1% interest on note</i>		
30-Jun	Discount Lost (or Inventory)	300	
	Accounts Payable		300
	<i>Lapse of available discount</i>		
30-Jun	Employee Insurance Expense	1,125	
	Insurance Liability		1,125
	<i>Accrue 15 days of insurance cost</i>		

c)

Liabilities			
Current liabilities			
Notes payable		\$	75,000
Accounts payable			15,000
Interest payable			750
Wages payable			11,500
Employee health insurance liability			1,125
Warranty obligation			1,025
Estimated liability for accident			7,500
			<u>7,500</u>
		\$	111,900