

Comprehensive Individual Project: Harriet's Hats, Inc.

Harriet's Hats is a fictional company. The following information includes the balance sheet as of December 31, 2015, and the details of the transactions that occurred during 2016.

Background: Harriet's Hats is a hat retailer (in other words, Harriet's buys hats from a hat manufacturer and then sells them in their stores). Transactions for 2016 are representative of such a company's business activities.

HINT: Read through the entire assignment at least twice before beginning to do any work. This will help you familiarize yourself with all of the important facts.

Required:

1. Using the T-accounts provided, record the transactions that occurred during 2016.
2. Prepare the balance sheet, retained earnings statement, and income statement for Harriet's Hats, Inc. for the year ended December 31, 2016.

Transactions for 2016:

1. Sales and Accounts Receivable
 - a. During the year, each hat had a sales price of \$30. All sales were made on account.
 - b. Cash collections on account amounted to \$41,000.
 - c. During the year, Harriet's identified \$350 of receivables as being uncollectible and wrote them off.
 - d. Harriet's follows a percentage-of-receivables approach to estimate its accounts receivable that will become uncollectible. As of the end of 2016, Harriet's estimates that 12% of its receivables will be uncollectible.
2. Inventory
 - a. Harriet's began 2016 with 500 hats which had a cost of \$8 each. Employees physically counted 525 hats remaining in the warehouse at the end of 2016. Harriet's uses a periodic LIFO inventory system to cost their inventory. The following purchases (all on account) were made during 2016:
 - (1) January 15th – 405 hats @ \$10.00 each
 - (2) March 23rd – 310 hats @ 12.00 each
 - (3) July 2nd – 525 hats @ \$14.00 each
 - (4) October 31st – 430 hats @ 15 each
 - b. During 2016, Harriet's made cash payments to inventory suppliers totaling \$21,000.
3. Property, Plant and Equipment
 - a. Harriet's uses straight-line depreciation for all of its store fixtures and office equipment.
 - b. Below is a schedule of the store fixtures and office equipment Harriet's had in place at the end of 2015.

FIXTURES AND EQUIPMENT (as of December 31, 2015)				
ID #	Historical Cost	Estimated Useful Life	Estimated Salvage Value	Date acquired
1256	\$12,000	10 years	\$1,200	Jan. 1, 2010
1876	\$1,700	5 years	\$300	Jan. 1, 2012
4299	\$23,000	5 years	\$1,000	Jan. 1, 2015

- c. On January 1, new store fixtures were purchased for \$3,000 in cash. Harriet's expects the fixtures to have a 5 year useful life and a \$500 salvage value.
- d. On July 1, office equipment (ID#1876) was sold for \$520.

4. Debt

- On September 1, 2016, Harriet's paid-off the note payable that was outstanding at the beginning of the period. The note had an 8% interest rate, had been issued on September 1, 2015, and required semiannual interest payments on February 28 and August 31.
- Also on September 1, 2016, Harriet's borrowed \$3,500 on a new note payable. The new note carries a 6% interest rate with similar payment terms as the note Harriet's just paid-off.

5. Operations

- Harriet's made two rent payments of \$1,650 during 2016 (on March 1 and September 1). The payments were for rent on the store building and were prepaid for six months each. The balance in the prepaid account at the end of 2016 represents the rent for January and February 2017.
- Cash paid out during 2016 for wages totaled \$12,200. Records indicate that salaries for the last week of December amounted to \$300 and would be paid at the end of the first week in January (a two-week pay period).
- Other expenses (paid in cash) totaled \$2,102.

6. Income Taxes

- In March of 2016, Harriet's paid their 2015 income taxes. Harriet's has a 30% income tax rate for both 2015 and 2016.

7. Common Stock

- Dividends of \$3,300 were declared and paid during 2016.
- New common stock was issued for \$12,000 during 2016.

Harriet's Hats, Inc.
Balance Sheet
December 31, 2015

<u>Assets</u>	
Cash	\$15,000
Accounts Receivable	5,000
Less: Allowance for Bad Debts	(500)
Net Accounts Receivable	4,500
Prepaid Rent	500
Inventory	4,000
Total Current Assets	24,000
Property, Plant, and Equipment	36,700
Less: Accumulated Depreciation	(12,000)
Net Property, Plant, and Equipment	24,700
Total Assets	<u><u>\$48,700</u></u>
<u>Liabilities and Owner's Equity</u>	
Accounts Payable	\$2,500
Wages Payable	170
Interest Payable	64
Income Taxes Payable	900
Notes Payable	2,400
Total Current Liabilities	6,034
Common Stock	20,000
Retained Earnings	22,666
Total Liabilities and Owner's Equity	<u><u>\$48,700</u></u>