



Chapter 04 Solution Manual Kieso IFRS

Financial Accounting (Korea Advanced Institute of Science and Technology)



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CHAPTER 4

Completing the Accounting Cycle

ASSIGNMENT CLASSIFICATION TABLE

Study Objectives	Questions	Brief Exercises	Do It!	Exercises	A Problems	B Problems
1. Prepare a worksheet.	1, 2, 3, 4, 5	1, 2, 3	1	1, 2, 3, 5, 6, 17	1A, 2A, 3A, 4A, 5A	1B, 2B, 3B, 4B, 5B
2. Explain the process of closing the books.	6, 7, 11, 12	4, 5, 6	2	4, 7, 8, 11, 19	1A, 2A, 3A, 4A, 5A	1B, 2B, 3B, 4B, 5B
3. Describe the content and purpose of a post-closing trial balance.	8, 9	7		4, 7, 8	1A, 2A, 3A, 4A, 5A	1B, 2B, 3B, 4B, 5B
4. State the required steps in the accounting cycle.	10, 11, 12	8		10, 19	5A	5B
5. Explain the approaches to preparing correcting entries.	13	9		12, 13	6A	
6. Identify the sections of a classified statement of financial position.	14, 15, 16, 17, 18, 19	10, 11	3, 4	3, 9, 14, 15, 16, 17	1A, 2A, 3A, 4A, 5A	1B, 2B, 3B, 4B, 5B
*7. Prepare reversing entries.	10, 20, 21	12		18, 19		

***Note:** All **asterisked** Questions, Exercises, and Problems relate to material contained in the appendix to the chapter.

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Prepare worksheet, financial statements, and adjusting and closing entries.	Simple	40–50
2A	Complete worksheet; prepare financial statements, closing entries, and post-closing trial balance.	Moderate	50–60
3A	Prepare financial statements, closing entries, and post-closing trial balance.	Moderate	40–50
4A	Complete worksheet; prepare classified statement of financial position, entries, and post-closing trial balance.	Moderate	50–60
5A	Complete all steps in accounting cycle.	Complex	70–90
6A	Analyze errors and prepare correcting entries and trial balance.	Moderate	40–50
1B	Prepare worksheet, financial statements, and adjusting and closing entries.	Simple	40–50
2B	Complete worksheet; prepare financial statements, closing entries, and post-closing trial balance.	Moderate	50–60
3B	Prepare financial statements, closing entries, and post-closing trial balance.	Moderate	40–50
4B	Complete worksheet; prepare classified statement of financial position, entries, and post-closing trial balance.	Moderate	50–60
5B	Complete all steps in accounting cycle.	Complex	70–90

Comprehensive Problem: Chapters 2 to 4

WEYGANDT IFRS 1E
CHAPTER 4
COMPLETING THE ACCOUNTING CYCLE

Number	SO	BT	Difficulty	Time (min.)
BE1	1	K	Simple	2–4
BE2	1	AN	Moderate	6–8
BE3	1	C	Simple	3–5
BE4	2	AP	Simple	3–5
BE5	2	AP	Simple	4–6
BE6	2	AP	Simple	6–8
BE7	3	C	Simple	2–4
BE8	4	K	Simple	3–5
BE9	5	AN	Moderate	4–6
BE10	6	AP	Simple	4–6
BE11	6	C	Simple	3–5
BE12	7	AN	Moderate	4–6
DI1	1	C	Simple	4–6
DI2	2	AP	Simple	2–4
DI3	6	AP	Simple	6–8
DI4	6	C	Simple	4–6
EX1	1	AP	Simple	12–15
EX2	1	AP	Simple	10–12
EX3	1, 6	AP	Simple	12–15
EX4	2, 3	AP	Simple	12–15
EX5	1	AN	Simple	10–12
EX6	1	AN	Moderate	12–15
EX7	2, 3	AP	Simple	8–10
EX8	2, 3	AP	Simple	10–12
EX9	6	AP	Simple	12–15
EX10	4	C	Simple	3–5
EX11	2	AP	Simple	6–8
EX12	5	AN	Moderate	8–10
EX13	5	AN	Moderate	4–6
EX14	6	AP	Moderate	10–12
EX15	6	C	Simple	5–8
EX16	6	AP	Simple	8–10

COMPLETING THE ACCOUNTING CYCLE (Continued)

Number	SO	BT	Difficulty	Time (min.)
EX17	1, 6	AP	Simple	12–15
EX18	7	AN	Moderate	5–7
EX19	2, 4, 7	AN	Moderate	10–12
P1A	1-3, 6	AN	Simple	40–50
P2A	1-3, 6	AP	Moderate	50–60
P3A	1-3, 6	AP	Moderate	40–50
P4A	1-3, 6	AN	Moderate	50–60
P5A	1-4, 6	AN	Complex	70–90
P6A	5	AN	Moderate	40–50
P1B	1-3, 6	AN	Simple	40–50
P2B	1-3, 6	AP	Moderate	50–60
P3B	1-3, 6	AP	Moderate	40–50
P4B	1-3, 6	AN	Moderate	50–60
P5B	1-4, 6	AN	Complex	70–90
BYP1	6	AN	Simple	10–12
BYP2	6	AN	Simple	8–10
BYP3	—	E	Simple	10–12
BYP4	6	AN	Moderate	15–20
BYP5	4	C	Simple	15–20
BYP6	—	E	Moderate	10–15

BLOOM'S TAXONOMY TABLE

Correlation Chart between Bloom's Taxonomy, Study Objectives and End-of-Chapter Exercises and Problems

Study Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Prepare a worksheet.	BE4-1	BE4-3 DI4-1	E4-1 E4-2 E4-3 E4-4 P4-2A	P4-3A P4-2B P4-3B E4-17 P4-2A	P4-5A P4-1B P4-4B P4-5B P4-4A	
2. Explain the process of closing the books.	Q4-6 Q4-11 Q4-12	Q4-7	BE4-4 BE4-5 BE4-6 DI4-2 E4-4 E4-7	E4-8 E4-11 P4-2A P4-3A P4-2B P4-3B	E4-19 P4-1A P4-4A P4-5A P4-1B P4-4B	
3. Describe the content and purpose of a post-closing trial balance.		Q4-8 Q4-9 BE4-7	E4-4 E4-7 E4-8 P4-2A	P4-3A P4-2B P4-3B P4-1B	P4-4B P4-5B P4-5A P4-1B	
4. State the required steps in the accounting cycle.	Q4-11 Q4-12 BE4-8	Q4-10 E4-10		E4-19 P4-5A P4-5B		
5. Explain the approaches to preparing correcting entries.		Q4-13		E4-9 E4-12 E4-13 P4-6A		
6. Identify the sections of a classified statement of financial position.	Q4-14 Q4-15 Q4-16	Q4-17 Q4-18 BE4-11 DI4-4 E4-15	Q4-19 BE4-10 DI4-3 E4-3 E4-9 E4-14	E4-16 E4-17 P4-4A P4-2A P4-5A P4-3A P4-1B P4-2B P4-4B P4-3B P4-5B	P4-1A P4-4A P4-5A P4-1B P4-2B P4-4B P4-3B P4-5B	
*7. Prepare reversing entries.		Q4-10 Q4-20		Q4-21 BE4-12	E4-18 E4-19	
Broadening Your Perspective		Communication		Financial Reporting Comparative Analysis Decision Making Across the Organization		Exploring the Web Ethics Case

ANSWERS TO QUESTIONS

1. No. A worksheet is not a permanent accounting record. The use of a worksheet is an optional step in the accounting cycle.
2. The worksheet is merely a device used to make it easier to prepare adjusting entries and the financial statements.
3. The amount shown in the adjusted trial balance column for an account equals the account balance in the ledger after adjusting entries have been journalized and posted.
4. The net income of \$12,000 will appear in the income statement debit column and the statement of financial position credit column. A net loss will appear in the income statement credit column and the statement of financial position debit column.
5. Formal financial statements are needed because the columnar data are not properly arranged and classified for statement purposes. For example, the Dividends account is listed with assets.
6. (1) (Dr) Individual revenue accounts and (Cr) Income Summary.
(2) (Dr) Income Summary and (Cr) Individual expense accounts.
(3) (Dr) Income Summary and (Cr) Retained Earnings.
(4) (Dr) Retained Earnings and (Cr) Dividends.
7. Income Summary is a temporary account that is used in the closing process. The account is debited for expenses and credited for revenues. The difference, either net income or loss, is then closed to the Retained Earnings account.
8. The post-closing trial balance contains only statement of financial position accounts. Its purpose is to prove the equality of the permanent account balances that are carried forward into the next accounting period.
9. The accounts that will not appear in the post-closing trial balance are Depreciation Expense; Dividends; and Service Revenue.
10. A reversing entry is the exact opposite of an adjusting entry and is made at the beginning of the new accounting period. Reversing entries are an optional step in the accounting cycle.
11. The steps that involve journalizing are: (1) journalize the transactions, (2) journalize the adjusting entries, and (3) journalize the closing entries.
12. The three trial balances are the: (1) trial balance, (2) adjusted trial balance, and (3) post-closing trial balance.
13. Correcting entries differ from adjusting entries because they: (1) are not a required part of the accounting cycle, (2) may be made at any time, and (3) may affect any combination of accounts.

Questions Chapter 4 (Continued)

14. The standard classifications in a statement of financial position are:

Assets	<u>Equity and Liabilities</u>
Intangible Assets	Equity
Property, Plant, and Equipment	Non-current Liabilities
Long-term Investments	Current Liabilities
Current Assets	

15. A company's operating cycle is the average time required to go from cash to cash in producing revenues. The operating cycle of a company is the average time that it takes to purchase inventory, sell it on account, and then collect cash from customers.
16. Current assets are assets that a company expects to convert to cash or use up in one year. Some companies use a period longer than one year to classify assets and liabilities as current because they have an operating cycle longer than one year. Companies usually list current assets in the reverse order in which they expect to convert them into cash.
17. Long-term investments are generally investments in shares and bonds of other companies that are normally held for many years. Property, plant, and equipment are assets with relatively long useful lives that a company is currently using in operating the business.
18. The two accounts and the purpose of each are: (1) **Share capital—ordinary** is used to record investments of assets in the business by the owners (shareholders). (2) **Retained earnings** is used to record net income retained in the business.
19. Cadbury's current liabilities at December 31, 2008 and December 31, 2007 were £3,388 million and £4,614 million respectively. Cadbury's current liabilities were higher than its current assets in both years.
- *20. After reversing entries have been made, the balances will be Interest Payable, zero balance; Interest Expense, a credit balance.

*21. (a) Jan. 10 Salaries Expense	8,000
Cash	8,000

Because of the January 1 reversing entry that credited Salaries Expense for \$3,500, Salaries Expense will have a debit balance of \$4,500 which equals the expense for the current period.

(b) Jan. 10 Salaries Payable.....	3,500
Salaries Expense	4,500
Cash	8,000

Note that Salaries Expense will again have a debit balance of \$4,500.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 4-1

The steps in using a worksheet are performed in the following sequence: (1) prepare a trial balance on the worksheet, (2) enter adjustment data, (3) enter adjusted balances, (4) extend adjusted balances to appropriate statement columns and (5) total the statement columns, compute net income (loss), and complete the worksheet. Filling in the blanks, the answers are 1, 3, 4, 5, 2.

The solution to BRIEF EXERCISE 4-2 is on page 4-9.

BRIEF EXERCISE 4-3

Account	Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.
Accumulated Depreciation				X
Depreciation Expense	X			
Share Capital—Ordinary				X
Dividends			X	
Service Revenue		X		
Supplies			X	
Accounts Payable				X

BRIEF EXERCISE 4-4

Dec. 31	Service Revenue	50,000	
	Income Summary		50,000
31	Income Summary	31,000	
	Salaries Expense.....		27,000
	Supplies Expense		4,000
31	Income Summary	19,000	
	Retained Earnings		19,000
31	Retained Earnings	2,000	
	Dividends		2,000

BRIEF EXERCISE 4-2

LEY COMPANY Worksheet

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Prepaid Insurance	3,000	58,000		(a) 1,200	1,800				1,800	
Service Revenue			(b) 1,100							
Salaries Expense	25,000		(c) 800		25,800		25,800		59,100	
Accounts Receivable			(b) 1,100		1,100					
Salaries Payable			(c) 800				800		1,100	
Insurance Expense			(a) 1,200		1,200			1,200		800

BRIEF EXERCISE 4-5

Salaries Expense		Income Summary		Service Revenue	
Bal. 27,000	(2) 27,000	(2) 31,000	(1) 50,000	(1) 50,000	Bal. 50,000
		(3) 19,000			
		50,000	50,000		

Supplies Expense		Retained Earnings		Dividends	
Bal. 4,000	(2) 4,000	(4) 2,000	Bal. 30,000	Bal. 2,000	(4) 2,000
			(3) 19,000		
			Bal. 47,000		

BRIEF EXERCISE 4-6

July 31	Green Fee Revenue.....	13,600
	Income Summary	13,600
31	Income Summary.....	10,700
	Salaries Expense	8,200
	Maintenance Expense	2,500

Green Fee Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
7/31	Balance			13,600	13,600
7/31	Closing entry		13,600		0

Salaries Expense

Date	Explanation	Ref.	Debit	Credit	Balance
7/31	Balance		8,200		8,200
7/31	Closing entry			8,200	0

BRIEF EXERCISE 4-6 (Continued)

Maintenance Expense					
Date	Explanation	Ref.	Debit	Credit	Balance
7/31	Balance		2,500		2,500
7/31	Closing entry			2,500	<u>0</u>

BRIEF EXERCISE 4-7

The accounts that will appear in the post-closing trial balance are:

**Accumulated Depreciation
Share Capital—Ordinary
Supplies
Accounts Payable**

BRIEF EXERCISE 4-8

The proper sequencing of the required steps in the accounting cycle is as follows:

1. Analyze business transactions.
2. Journalize the transactions.
3. Post to ledger accounts.
4. Prepare a trial balance.
5. Journalize and post adjusting entries.
6. Prepare an adjusted trial balance.
7. Prepare financial statements.
8. Journalize and post closing entries.
9. Prepare a post-closing trial balance.

Filling in the blanks, the answers are 4, 2, 8, 7, 5, 3, 9, 6, 1.

BRIEF EXERCISE 4-9

1. Service Revenue	780
Accounts Receivable.....	780
2. Accounts Payable ($\text{€}1,750 - \text{€}1,570$)	180
Store Supplies	180

BRIEF EXERCISE 4-10

DIAZ COMPANY Partial Statement of Financial Position

Current assets

Prepaid insurance	£ 3,600
Supplies	5,200
Accounts receivable	12,500
Short-term investments.....	6,700
Cash	<u>15,400</u>
Total	<u>£43,400</u>

BRIEF EXERCISE 4-11

<u>CL</u> Accounts payable	<u>CL</u> Income tax payable
<u>CA</u> Accounts receivable	<u>LTI</u> Investment in long-term bonds
<u>PPE</u> Accumulated depreciation	<u>PPE</u> Land
<u>PPE</u> Building	<u>CA</u> Merchandise inventory
<u>CA</u> Cash	<u>IA</u> Patent
<u>IA</u> Copyrights	<u>CA</u> Supplies

*BRIEF EXERCISE 4-12

Nov. 1 Salaries Payable.....	1,400
Salaries Expense	1,400

The balances after posting the reversing entry are Salaries Expense (Cr.) \$1,400 and Salaries Payable \$0.

SOLUTIONS FOR DO IT! REVIEW EXERCISES

DO IT! 4-1

Income statement debit column—Utilities Expense

Income statement credit column—Service Revenue

Statement of financial position debit column—Accounts Receivable

Statement of financial position credit column—Notes Payable; Accumulated Depreciation; Share Capital

DO IT! 4-2

Dec. 31	Income Summary	29,000
	Retained Earnings	29,000
Dec. 31	Retained Earnings	22,000
	Dividends.....	22,000

DO IT! 4-3

ZURICH COMPANY Partial Statement of Financial Position December 31, 2011

Property, plant and equipment		
Equipment.....	CHF21,700	
Less: Accumulated depreciation.....	<u>5,700</u>	CHF16,000
Long-term investments		
Investments in ordinary shares		6,500
Current assets		
Inventories	2,900	
Accounts receivable	4,300	
Short-term investments	120	
Cash	<u>13,400</u>	20,720
Total assets		<u>CHF43,220</u>

DO IT! 4-4

<u>NA</u>	Interest revenue	<u>E</u>	Share Capital—Ordinary
<u>CL</u>	Utilities payable	<u>PPE</u>	Accumulated depreciation
<u>CL</u>	Accounts payable	<u>PPE</u>	Machinery
<u>CA</u>	Supplies	<u>NA</u>	Salaries expense
<u>NCL</u>	Bonds payable	<u>LTI</u>	Investment in real estate
<u>IA</u>	Trademarks	<u>CL</u>	Unearned rent

SOLUTIONS TO EXERCISES

EXERCISE 4-1

LIN COMPANY
Worksheet
For the Month Ended June 30, 2011

Account Titles	Trial Balance		Adjustments		Adj. Trial Balance		Income Statement		Statement of Financial Position	
	<u>Dr.</u>	<u>Cr.</u>	<u>Dr.</u>	<u>Cr.</u>	<u>Dr.</u>	<u>Cr.</u>	<u>Dr.</u>	<u>Cr.</u>	<u>Dr.</u>	<u>Cr.</u>
Cash	2,320				2,320				2,320	
Accounts Receivable	2,440				2,440				2,440	
Supplies	1,880		(a) 1,580		300				300	
Accounts Payable		1,120				1,120				1,120
Unearned Revenue		240	(b) 140				100			100
Share Capital—Ordinary		3,600				3,600				3,600
Service Revenue		2,400		(b) 140		2,540			2,540	
Salaries Expense	560		(c) 280		840		840			
Miscellaneous Expense	160				160		160			
Totals	<u>7,360</u>	<u>7,360</u>								
Supplies Expense			(a) 1,580		1,580		1,580			
Salaries Payable				(c) 280		280				280
Totals			<u>2,000</u>	<u>2,000</u>	<u>7,640</u>	<u>7,640</u>	2,580	2,540	5,060	5,100
Net Loss									40	40
Totals							<u>2,580</u>	<u>2,580</u>	<u>5,100</u>	<u>5,100</u>

EXERCISE 4-2

GOODE COMPANY
Worksheet (partial)
For the Month Ended April 30, 2011

Account Titles	Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	13,752				13,752	
Accounts Receivable	7,840				7,840	
Prepaid Rent	2,280				2,280	
Equipment	23,050				23,050	
Accum. Depreciation		4,921				4,921
Notes Payable		5,700				5,700
Accounts Payable		5,672				5,672
Share Capital—Ordinary		25,000				25,000
Retained Earnings		5,960				5,960
Dividends	3,650				3,650	
Service Revenue		15,590		15,590		
Salaries Expense	10,840		10,840			
Rent Expense	760		760			
Depreciation Expense	671		671			
Interest Expense	57		57			
Interest Payable		57				57
Totals	62,900	62,900	12,328	15,590	50,572	47,310
Net Income			3,262			3,262
Totals			15,590	15,590	50,572	50,572

EXERCISE 4-3

GOODE COMPANY
Income Statement
For the Month Ended April 30, 2011

Revenues	
Service revenue.....	€15,590
Expenses	
Salaries expense.....	€10,840
Rent expense	760
Depreciation expense.....	671
Interest expense.....	57
Total expenses.....	12,328
Net income	<u>€ 3,262</u>

GOODE COMPANY
Retained Earnings Statement
For the Month Ended April 30, 2011

Retained earnings, April 1	€5,960
Add: Net income	<u>3,262</u>
	9,222
Less: Dividends	<u>3,650</u>
Retained earnings, April 30	<u>€5,572</u>

GOODE COMPANY
Statement of Financial Position
April 30, 2011

Assets		
Property, plant, and equipment		
Equipment	€23,050	
Less: Accumulated depreciation.....	<u>4,921</u>	€18,129
Current assets		
Prepaid rent	2,280	
Accounts receivable	7,840	
Cash	<u>13,752</u>	<u>23,872</u>
Total assets		<u>€42,001</u>

EXERCISE 4-3 (Continued)

GOODE COMPANY
Statement of Financial Position (Continued)
April 30, 2011

Equity and Liabilities

Equity

Share capital—ordinary	€25,000	
Retained earnings	<u>5,572</u>	€30,572
Current liabilities		
Notes payable	5,700	
Accounts payable	5,672	
Interest payable	57	11,429
Total equity and liabilities		€42,001

EXERCISE 4-4

(a) Apr. 30	Service Revenue	15,590	
	Income Summary		15,590
30	Income Summary	12,328	
	Salaries Expense		10,840
	Rent Expense		760
	Depreciation Expense		671
	Interest Expense		57
30	Income Summary	3,262	
	Retained Earnings		3,262
30	Retained Earnings	3,650	
	Dividends		3,650

(b)

Income Summary			Retained Earnings		
(2)	12,328	(1)	15,590	(4)	3,650
(3)	3,262			(3)	3,262
	15,590		15,590		Bal. 5,572

EXERCISE 4-4 (Continued)

(c)

GOODE COMPANY
Post-Closing Trial Balance
April 30, 2011

	Debit	Credit
Cash	€13,752	
Accounts Receivable.....	7,840	
Prepaid Rent.....	2,280	
Equipment	23,050	
Accumulated Depreciation		€ 4,921
Notes Payable		5,700
Accounts Payable.....		5,672
Interest Payable.....		57
Share Capital—Ordinary.....		25,000
Retained Earnings		5,572
	€46,922	€46,922

EXERCISE 4-5

(a) Accounts Receivable.....	600	
Service Revenue		600
 Insurance Expense.....	400	
Prepaid Insurance.....		400
 Depreciation Expense	900	
Accumulated Depreciation		900
 Salaries Expense	500	
Salaries Payable.....		500

EXERCISE 4-5 (Continued)

(b)	Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.
Accounts Receivable			X	
Prepaid Insurance			X	
Accum. Depreciation				X
Salaries Payable				X
Service Revenue		X		
Salaries Expense	X			
Insurance Expense	X			
Depreciation Expense	X			

EXERCISE 4-6

- (a) Accounts Receivable—\$25,000 (\$34,000 – \$9,000).
 Supplies—\$2,000 (\$7,000 – \$5,000).
 Accumulated Depreciation—\$22,000 (\$12,000 + \$10,000).
 Salaries Payable—\$0 No liability recorded until adjustments are made.
 Insurance Expense—\$6,000 (\$26,000 – \$20,000).
 Salaries Expense—\$44,000 (\$49,000 – \$5,000).

(b) Accounts Receivable.....	9,000	
Service Revenue		9,000
Insurance Expense.....	6,000	
Prepaid Insurance		6,000
Supplies Expense.....	5,000	
Supplies		5,000
Depreciation Expense	10,000	
Accumulated Depreciation		10,000
Salaries Expense	5,000	
Salaries Payable.....		5,000

EXERCISE 4-7

(a) Service Revenue	4,064
Income Summary.....	4,064
 Income Summary.....	 3,828
Salaries Expense	1,344
Miscellaneous Expense.....	256
Supplies Expense.....	2,228
 Income Summary.....	 236
Retained Earnings.....	236
 Retained Earnings	 300
Dividends	300

(b)

RIO DE JANEIRO COMPANY
Post-Closing Trial Balance
June 30, 2011

<u>Account Titles</u>	<u>Debit</u>	<u>Credit</u>
Cash	R\$3,712	
Accounts Receivable.....	3,904	
Supplies	480	
Accounts Payable.....		R\$1,792
Salaries Payable.....		448
Unearned Revenue.....		160
Share Capital—Ordinary.....		5,000
Retained Earnings (R\$760 + R\$236 – R\$300)	696	
	<u>R\$8,096</u>	<u>R\$8,096</u>

EXERCISE 4-8

(a)

General Journal			J15
Date	Account Titles	Ref.	Debit Credit
July 31	Commission Revenue.....	404	65,000
	Rent Revenue	429	6,500
	Income Summary.....	350	71,500
31	Income Summary.....	350	74,600
	Salaries Expense	720	55,700
	Utilities Expense	732	14,900
	Depreciation Expense	711	4,000
31	Retained Earnings.....	320	3,100
	Income Summary.....	350	3,100
31	Retained Earnings.....	320	16,000
	Dividends.....	332	16,000

(b)

Retained Earnings			No. 320
Date	Explanation	Ref.	Debit Credit Balance
July 31	Balance		25,200
31	Close net loss	J15	3,100 22,100
31	Close dividends	J15	16,000 6,100

Income Summary			No. 350
Date	Explanation	Ref.	Debit Credit Balance
July 31	Close revenue	J15	71,500 71,500
31	Close expenses	J15	74,600 (3,100)
31	Close net loss	J15	3,100 0

EXERCISE 4-8 (Continued)

(c)

APACHI COMPANY Post-Closing Trial Balance July 31, 2011

	<u>Debit</u>	<u>Credit</u>
Cash	\$14,840	
Accounts Receivable.....	8,780	
Equipment	15,900	
Accumulated Depreciation		\$ 7,400
Accounts Payable.....		4,220
Unearned Rent Revenue.....		1,800
Share Capital—Ordinary.....		20,000
Retained Earnings		6,100
	<u>\$39,520</u>	<u>\$39,520</u>

EXERCISE 4-9

(a)

APACHI COMPANY Income Statement For the Year Ended July 31, 2011

Revenues		
Commission revenue.....	\$65,000	
Rent revenue	6,500	
Total revenues		\$71,500
Expenses		
Salaries expense.....	55,700	
Utilities expense.....	14,900	
Depreciation expense.....	4,000	
Total expenses.....		74,600
Net loss		(\$ 3,100)

EXERCISE 4-9 (Continued)

APACHI COMPANY Retained Earnings Statement For the Year Ended July 31, 2011

Retained earnings, August 1, 2010.....	\$25,200
Less: Net loss	\$ 3,100
Dividends	<u>16,000</u>
Retained earnings, July 31, 2011	<u>\$ 6,100</u>

(b)

APACHI COMPANY Statement of Financial Position July 31, 2011

Assets		
Property, plant, and equipment		
Equipment.....	\$15,900	
Less: Accumulated depreciation	<u>7,400</u>	\$ 8,500
Current assets		
Accounts receivable	8,780	
Cash	<u>14,840</u>	<u>23,620</u>
Total assets		<u>\$32,120</u>
Equity and Liabilities		
Equity		
Share capital—ordinary	\$20,000	
Retained earnings	<u>6,100</u>	<u>\$26,100</u>
Current liabilities		
Accounts payable	4,220	
Unearned rent revenue	<u>1,800</u>	<u>6,020</u>
Total equity and liabilities.....		<u>\$32,120</u>

EXERCISE 4-10

1. False “*Analyze business transactions*” is the first step in the accounting cycle.
2. False. Reversing entries are an *optional* step in the accounting cycle.
3. True.
4. True.
5. True.
6. False. Steps 1–3 may occur daily in the accounting cycle. Steps 4–7 are performed on a periodic basis. Steps 8 and 9 are usually prepared only at the end of a company’s annual accounting period.
7. False. The step of “*journalize the transactions*” occurs before the step of “*post to the ledger accounts*.”
8. False. Closing entries are prepared *after* financial statements are prepared.

EXERCISE 4-11

(a)	June 30	Service Revenue.....	15,100
		Income Summary	15,100
	30	Income Summary	13,100
		Salaries Expense.....	8,800
		Supplies Expense	1,300
		Rent Expense	3,000
	30	Income Summary	2,000
		Retained Earnings	2,000
	30	Retained Earnings	2,500
		Dividends	2,500

(b)

Income Summary			
June 30	13,100	June 30	15,100
June 30	2,000		
	15,100		15,100

EXERCISE 4-12

(a) 1.	Cash.....	600	
	Equipment.....		600
	Salaries Expense.....	600	
	Cash		600
2.	Service Revenue.....	100	
	Cash		100
	Cash.....	1,000	
	Accounts Receivable.....		1,000
3.	Accounts Payable	890	
	Equipment.....		890
	Equipment	980	
	Accounts Payable.....		980
(b) 1.	Salaries Expense.....	600	
	Equipment.....		600
2.	Service Revenue.....	100	
	Cash.....	900	
	Accounts Receivable.....		1,000
3.	Equipment	90	
	Accounts Payable.....		90

EXERCISE 4-13

1.	Accounts Payable (R\$630 – R\$360).....	270
	Cash	270
2.	Supplies	560
	Equipment	56
	Accounts Payable.....	504
3.	Dividends.....	400
	Salaries Expense	400

EXERCISE 4-14

(a)

KARR BOWLING ALLEY
Statement of Financial Position
December 31, 2011

Assets			
Property, plant, and equipment			
Land.....		\$64,000	
Building.....	\$128,800		
Less: Acc. depr.—building	42,600	86,200	
Equipment.....	62,400		
Less: Acc. depr.—equipment	18,720	43,680	\$193,880
Current assets			
Prepaid insurance.....		4,680	
Accounts receivable		14,520	
Cash		18,040	37,240
Total assets			<u>\$231,120</u>

EXERCISE 4-14 (Continued)

KARR BOWLING ALLEY
Statement of Financial Position (Continued)
December 31, 2011

Equity and Liabilities		
Equity		
Share capital—ordinary	\$100,000	
Retained earnings (\$15,000 + \$3,440*).....	<u>18,440</u>	\$118,440
Non-current liabilities		
Note payable.....		83,880
Current liabilities		
Current portion of note payable	13,900	
Accounts payable.....	12,300	
Interest payable.....	<u>2,600</u>	<u>28,800</u>
Total equity and liabilities		<u>\$231,120</u>

*Net income = \$14,180 – \$780 – \$7,360 – \$2,600 = \$3,440

- (b) Current assets exceed current liabilities by \$8,440 (\$37,240 – \$28,800). In addition, approximately 50% of current assets are in the form of cash. In sum, the company's liquidity appears to be reasonably good.

EXERCISE 4-15

<u>CL</u> Accounts payable	<u>CA</u> Inventories
<u>CA</u> Accounts receivable	<u>LTI</u> Investments
<u>PPE</u> Accumulated depreciation	<u>PPE</u> Land
<u>PPE</u> Buildings	<u>NCL</u> Long-term debt
<u>CA</u> Cash	<u>CA</u> Supplies
<u>E</u> Share capital—ordinary	<u>PPE</u> Office equipment
<u>IA</u> Patents	<u>CA</u> Prepaid expenses
<u>CL</u> Salaries payable	

EXERCISE 4-16

R. STEVENS COMPANY
Statement of Financial Position
December 31, 2011
(in thousands)

Assets		
Property, plant, and equipment		
Equipment	£11,500	
Less: Accumulated depreciation.....	<u>(5,655)</u>	£ 5,845
Long-term investments.....		264
Current assets		
Prepaid expenses	880	
Inventories	1,256	
Accounts receivable	1,696	
Short-term investments	3,690	
Cash	<u>2,668</u>	<u>10,190</u>
Total assets		<u>£16,299</u>
Equity and Liabilities		
Equity		
Share capital—ordinary	£10,000	
Retained earnings.....	<u>3,063</u>	£13,063
Non-current liabilities		
Long-term debt.....	943	
Notes payable (after 2012)	<u>368</u>	<u>1,311</u>
Current liabilities		
Notes payable in 2012	481	
Accounts payable	<u>1,444</u>	<u>1,925</u>
Total equity and liabilities.....		<u>£16,299</u>

EXERCISE 4-17

(a)

B. SNYDER COMPANY, INC. Income Statement For the Year Ended July 31, 2011

Revenues

Commission revenue	\$61,100
Rent revenue	<u>8,500</u>
Total revenues	\$69,600

Expenses

Salaries expense.....	51,700
Utilities expense.....	22,600
Depreciation expense.....	<u>4,000</u>
Total expense.....	<u>78,300</u>
Net loss	<u>\$ (8,700)</u>

B. SNYDER COMPANY, INC. Retained Earnings Statement For the Year Ended July 31, 2011

Retained earnings, August 1, 2010.....	\$21,200
Less: Net loss	\$8,700
Dividends	<u>4,000</u>
Retained earnings, July 31, 2011.....	<u>12,700</u>
	<u>\$ 8,500</u>

EXERCISE 4-17 (Continued)

(b)

B. SNYDER COMPANY, INC. Statement of Financial Position July 31, 2011

Assets		
Property, plant, and equipment		
Equipment	\$18,500	
Less: Accumulated depreciation.....	<u>6,000</u>	\$12,500
Current assets		
Accounts receivable	9,780	
Cash	<u>24,200</u>	<u>33,980</u>
Total assets	<u>\$46,480</u>	
Equity and Liabilities		
Equity		
Share capital—ordinary	\$30,000	
Retained earnings.....	<u>8,500</u>	\$38,500
Non-current liabilities		
Note payable.....		1,800
Current liabilities		
Accounts payable	4,100	
Salaries payable	<u>2,080</u>	<u>6,180</u>
Total equity and liabilities.....	<u>\$46,480</u>	

*EXERCISE 4-18

(a)	Dec. 31	Salaries Expense (R\$10,000 X 2/5).....	4,000	
		Salaries Payable		4,000
	Jan. 6	Salaries Payable.....	4,000	
		Salaries Expense (R\$10,000 X 3/5).....	6,000	
		Cash.....		10,000
(b)	Dec. 31	Salaries Expense.....	4,000	
		Salaries Payable		4,000
	Jan. 1	Salaries Payable.....	4,000	
		Salaries Expense.....		4,000
	Jan. 6	Salaries Expense.....	10,000	
		Cash.....		10,000

*EXERCISE 4-19

(a)	Dec. 31	Commission Revenue	92,000	
		Income Summary		92,000
	31	Income Summary	7,800	
		Interest Expense.....		7,800
(b)	Jan. 1	Commission Revenue	4,500	
		Accounts Receivable		4,500
	1	Interest Payable.....	1,500	
		Interest Expense.....		1,500

***EXERCISE 4-19 (Continued)**

(c) & (e)

Accounts Receivable		
Dec. 31 Balance	*19,500	
31 Adjusting	4,500	
	24,000	
		Jan. 1 Reversing 4,500

*(\$24,000 – \$4,500)

Commission Revenue		
Dec. 31 Closing	92,000	Dec. 31 Balance 87,500*
		31 Adjusting 4,500
	92,000	92,000
Jan. 1 Reversing	4,500	Jan. 10 4,500

*(\$92,000 – \$4,500)

Interest Payable		
	Dec. 31	Adjusting
Jan. 1 Reversing	1,500	

Interest Expense		
Dec. 31 Balance	*6,300	Dec. 31 Closing 7,800
31 Adjusting	1,500	
	7,800	7,800
Jan. 15	2,500	Jan. 1 Reversing 1,500

*(\$7,800 – \$1,500)

(d)	(1)	
Jan. 10 Cash.....		4,500
Commission Revenue.....		4,500
	(2)	
15 Interest Expense.....		2,500
Cash.....		2,500

SOLUTIONS TO PROBLEMS

PROBLEM 4-1A

(a) **THOMAS MAGNUM, P.I., INC.**

Worksheet

For the Quarter Ended March 31, 2011

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	11,400		(e)	530			11,400			11,400
Accounts Receivable	5,620						6,150			6,150
Supplies	1,050		(a)	670			380			380
Prepaid Insurance	2,400		(d)	600			1,800			1,800
Equipment	30,000				30,000				30,000	
Notes Payable		10,000				10,000			10,000	
Accounts Payable		12,350				12,350			12,350	
Share Capital—Ordinary		20,000				20,000			20,000	
Dividends	600		13,620		(e)	530	600	14,150		600
Service Revenue		2,200				2,200		2,200		
Salaries Expense		1,300				1,300		1,300		
Travel Expense		1,200				1,200		1,200		
Rent Expense		200				200		200		
Miscellaneous Expense										
Totals		<u>55,970</u>		<u>55,970</u>						
Supplies Expense			(a)	670			670			
Depreciation Expense			(b)	1,000			1,000			
Accumulated Depreciation			(c)	300			300			1,000
Interest Expense			(d)	600			600			
Interest Payable										300
Insurance Expense										
Totals		<u>3,100</u>		<u>3,100</u>			<u>600</u>		<u>6,680</u>	
Net Income										
Totals									<u>14,150</u>	<u>14,150</u>
									<u>50,330</u>	<u>50,330</u>

Key: (a) Supplies Used; (b) Depreciation Expensed; (c) Accrued Interest on note; (d) Insurance Expired; (e) Service Revenue Earned but unbilled.

PROBLEM 4-1A (Continued)

(b)

THOMAS MAGNUM, P.I., INC. Income Statement For the Quarter Ended March 31, 2011

Revenues

Service revenue..... **€14,150**

Expenses

Salaries expense..... **€2,200**

Travel expense..... **1,300**

Rent expense..... **1,200**

Depreciation expense..... **1,000**

Supplies expense **670**

Insurance expense **600**

Interest expense..... **300**

Miscellaneous expense **200**

Total expenses..... **7,470**

Net income **€ 6,680**

THOMAS MAGNUM, P.I., INC. Retained Earnings Statement For the Quarter Ended March 31, 2011

Retained earnings, January 1 **€ 0**

Add: Net income **6,680**

6,680

Less: Dividends **600**

Retained earnings, March 31 **€6,080**

PROBLEM 4-1A (Continued)

THOMAS MAGNUM, P.I., INC.
Statement of Financial Position
March 31, 2011

Assets		
Property, plant, and equipment		
Equipment	€30,000	
Less: Accumulated depreciation	<u>1,000</u>	€29,000
Current assets		
Prepaid insurance.....	1,800	
Supplies.....	380	
Accounts receivable.....	6,150	
Cash.....	<u>11,400</u>	<u>19,730</u>
Total assets.....		€48,730

Equity and Liabilities		
Equity		
Share capital—ordinary	€20,000	
Retained earnings	<u>6,080</u>	€26,080
Current liabilities		
Notes payable.....	10,000	
Accounts payable	12,350	
Interest payable	<u>300</u>	<u>22,650</u>
Total equity and liabilities		€48,730

(c) Mar. 31	Supplies Expense	670	
	Supplies		670
31	Depreciation Expense	1,000	
	Accumulated Depreciation		1,000
31	Interest Expense	300	
	Interest Payable		300
31	Insurance Expense.....	600	
	Prepaid Insurance.....		600

PROBLEM 4-1A (Continued)

	Mar. 31	Accounts Receivable.....	530	
		Service Revenue	530	
(d) Mar. 31		Service Revenue	14,150	
		Income Summary.....	14,150	
	31	Income Summary.....	7,470	
		Travel Expense.....	1,300	
		Salaries Expense	2,200	
		Rent Expense.....	1,200	
		Insurance Expense.....	600	
		Depreciation Expense	1,000	
		Supplies Expense.....	670	
		Interest Expense	300	
		Miscellaneous Expense.....	200	
	31	Income Summary.....	6,680	
		Retained Earnings.....	6,680	
	31	Retained Earnings.....	600	
		Dividends	600	

PROBLEM 4-2A

(a)

PORTER COMPANY
Partial Worksheet
For the Year Ended December 31, 2011

Account	Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	No.	Titles	Dr.	Cr.	Dr.	Cr.
101 Cash		18,800			18,800	
112 Accounts Receivable		16,200			16,200	
126 Supplies		2,300			2,300	
130 Prepaid Insurance		4,400			4,400	
151 Office Equipment		44,000			44,000	
152 Acc. Depr.—Off. Equip.		20,000			20,000	
200 Notes Payable		20,000			20,000	
201 Accounts Payable		8,000			8,000	
212 Salaries Payable		2,600			2,600	
230 Interest Payable		1,000			1,000	
311 Share Capital—Ordinary		30,000			30,000	
320 Retained Earnings		6,000			6,000	
332 Dividends		12,000			12,000	
400 Service Revenue		77,800		77,800		
610 Advertising Expense		12,000		12,000		
631 Supplies Expense		3,700		3,700		
711 Depreciation Expense		8,000		8,000		
722 Insurance Expense		4,000		4,000		
726 Salaries Expense		39,000		39,000		
905 Interest Expense		1,000		1,000		
Totals		165,400	165,400	67,700	77,800	97,700
Net Income				10,100		10,100
Totals				77,800	77,800	97,700

PROBLEM 4-2A (Continued)**(b)**

PORTER COMPANY
Income Statement
For the Year Ended December 31, 2011

Revenues	
Service revenue.....	\$77,800
Expenses	
Salaries expense	\$39,000
Advertising expense	12,000
Depreciation expense.....	8,000
Insurance expense	4,000
Supplies expense	3,700
Interest expense.....	1,000
Total expenses.....	<u>67,700</u>
Net income	<u>\$10,100</u>

PORTER COMPANY
Retained Earnings Statement
For the Year Ended December 31, 2011

Retained earnings, January 1	\$ 6,000
Add: Net income	<u>10,100</u>
	<u>16,100</u>
Less: Dividends	<u>12,000</u>
Retained earnings, December 31	<u>\$ 4,100</u>

PROBLEM 4-2A (Continued)

PORTER COMPANY
Statement of Financial Position
December 31, 2011

Assets		
Property, plant, and equipment		
Office equipment	\$44,000	
Less: Accumulated depreciation	<u>20,000</u>	\$24,000
Current assets		
Prepaid insurance	4,400	
Supplies.....	2,300	
Accounts receivable.....	16,200	
Cash.....	<u>18,800</u>	41,700
Total assets.....		<u>\$65,700</u>
Equity and Liabilities		
Equity		
Share capital—ordinary	\$30,000	
Retained earnings	<u>4,100</u>	\$34,100
Non-current liabilities		
Notes payable.....		10,000
Current liabilities		
Notes payable.....	10,000	
Accounts payable	8,000	
Salaries payable	2,600	
Interest payable	<u>1,000</u>	21,600
Total equity and liabilities		<u>\$65,700</u>

PROBLEM 4-2A (Continued)

(c)

General Journal				J14
Date	Account Titles and Explanation	Ref.	Debit	Credit
Dec. 31	Service Revenue	400	77,800	
	Income Summary	350		77,800
31	Income Summary.....	350	67,700	
	Advertising Expense.....	610		12,000
	Supplies Expense	631		3,700
	Depreciation Expense	711		8,000
	Insurance Expense.....	722		4,000
	Salaries Expense	726		39,000
	Interest Expense	905		1,000
31	Income Summary.....	350	10,100	
	Retained Earnings	320		10,100
31	Retained Earnings.....	320	12,000	
	Dividends.....	332		12,000

(d)

Retained Earnings				No. 320
Date	Explanation	Ref.	Debit	Credit
Jan. 31	Balance	✓		6,000
Dec. 31	Closing entry	J14		10,100
31	Closing entry	J14	12,000	

Dividends				No. 332
Date	Explanation	Ref.	Debit	Credit
Dec. 31	Balance	✓	12,000	
31	Closing entry	J14		12,000

PROBLEM 4-2A (Continued)

Income Summary					No. 350
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Closing entry	J14		77,800	77,800
31	Closing entry	J14	67,700		10,100
31	Closing entry	J14	10,100		0

Service Revenue					No. 400
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓		77,800	77,800
31	Closing entry	J14	77,800		0

Advertising Expense					No. 610
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓	12,000		12,000
31	Closing entry	J14		12,000	0

Supplies Expense					No. 631
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓	3,700		3,700
31	Closing entry	J14		3,700	0

Depreciation Expense					No. 711
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓	8,000		8,000
31	Closing entry	J14		8,000	0

Insurance Expense					No. 722
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓	4,000		4,000
31	Closing entry	J14		4,000	0

PROBLEM 4-2A (Continued)

Salaries Expense			No. 726		
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓	39,000		39,000
31	Closing entry	J14		39,000	0

Interest Expense			No. 905		
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓	1,000		1,000
31	Closing entry	J14		1,000	0

(e)

PORTER COMPANY
Post-Closing Trial Balance
December 31, 2011

	Debit	Credit
Cash	\$18,800	
Accounts Receivable	16,200	
Supplies	2,300	
Prepaid Insurance	4,400	
Office Equipment	44,000	
Accumulated Depreciation—Office		
Equipment	\$20,000	
Notes Payable	20,000	
Accounts Payable	8,000	
Salaries Payable	2,600	
Interest Payable	1,000	
Share Capital—Ordinary	30,000	
Retained Earnings	4,100	
	\$85,700	\$85,700

PROBLEM 4-3A

(a)

WOODS COMPANY, INC.
Income Statement
For the Year Ended December 31, 2011

Revenues	
Service revenue	\$44,000
Expenses	
Salaries expense	\$35,200
Repair expense	5,400
Utilities expense	4,000
Depreciation expense	2,800
Insurance expense.....	<u>1,200</u>
Total expenses	48,600
Net loss.....	<u>\$ (4,600)</u>

WOODS COMPANY
Retained Earnings Statement
For the Year Ended December 31, 2011

Retained earnings, January 1	\$14,000
Less: Net loss.....	\$4,600
Dividends.....	<u>7,200</u>
Retained earnings, December 31	<u>\$ 2,200</u>

WOODS COMPANY, INC.
Statement of Financial Position
December 31, 2011

Assets		
Property, plant, and equipment		
Equipment	\$28,000	
Less: Accumulated depreciation	<u>8,600</u>	\$19,400
Current assets		
Prepaid insurance.....	1,800	
Accounts receivable.....	7,500	
Cash.....	<u>8,200</u>	<u>17,500</u>
Total assets.....		<u>\$36,900</u>

PROBLEM 4-3A (Continued)

WOODS COMPANY, INC.
Statement of Financial Position (Continued)
December 31, 2011

Equity and Liabilities			
Equity			
Share capital—ordinary		\$20,000	
Retained earnings.....		<u>2,200</u>	<u>\$22,200</u>
Current liabilities			
Accounts payable		11,700	
Salaries payable		<u>3,000</u>	<u>14,700</u>
Total equity and liabilities.....			<u>\$36,900</u>

(b)

General Journal

Date	Account Titles	Ref.	Debit	Credit
Dec. 31	Service Revenue	400	44,000	
	Income Summary	350		44,000
31	Income Summary.....	350	48,600	
	Repair Expense.....	622		5,400
	Depreciation Expense	711		2,800
	Insurance Expense.....	722		1,200
	Salaries Expense.....	726		35,200
	Utilities Expense.....	732		4,000
31	Retained Earnings.....	320	4,600	
	Income Summary	350		4,600
31	Retained Earnings.....	320	7,200	
	Dividends	332		7,200

PROBLEM 4-3A (Continued)

(c)

Retained Earnings		No. 320
12/31	4,600	12/31 Bal. 14,000
12/31	7,200	
		12/31 Bal. 2,200

Dividends		No. 332
12/31 Bal.	7,200	12/31 7,200

Income Summary		No. 350
12/31	48,600	12/31 44,000
		12/31 4,600
	48,600	48,600

Service Revenue		No. 400
12/31	44,000	12/31 Bal. 44,000

Repair Expense		No. 622
12/31 Bal.	5,400	12/31 5,400

Depreciation Expense		No. 711
12/31 Bal.	2,800	12/31 2,800

Insurance Expense		No. 722
12/31 Bal.	1,200	12/31 1,200

Salaries Expense		No. 726
12/31 Bal.	35,200	12/31 35,200

Utilities Expense		No. 732
12/31 Bal.	4,000	12/31 4,000

(d) **WOODS COMPANY, INC.**
Post-Closing Trial Balance
December 31, 2011

	Debit	Credit
Cash.....	\$ 8,200	
Accounts Receivable	7,500	
Prepaid Insurance	1,800	
Equipment	28,000	
Accumulated Depreciation.....		\$ 8,600
Accounts Payable		11,700
Salaries Payable		3,000
Share Capital—Ordinary		20,000
Retained Earnings		2,200
Totals.....	\$45,500	\$45,500

PROBLEM 4-4A

SALVADOR AMUSEMENT PARK, INC.

Worksheet

For the Year Ended September 30, 2011

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	41,400				41,400				41,400	
Supplies	18,600		(a) 17,400		1,200				1,200	
Prepaid Insurance	31,900		(b) 23,000		8,900				8,900	
Land	80,000				80,000				80,000	
Equipment	120,000				120,000				120,000	
Accumulated Depreciation			36,200		(c) 6,000		42,200		42,200	
Accounts Payable			14,600				14,600		14,600	
Unearned Admissions Revenue			3,700		(d) 1,700				2,000	
Mortgage Note Payable			50,000				50,000		50,000	
Share Capital—Ordinary			100,000				100,000		100,000	
Retained Earnings			9,700				9,700		9,700	
Dividends	14,000					14,000				
Admissions Revenue			277,500		(d) 1,700		279,200		279,200	
Salaries Expense	105,000					105,000			105,000	
Repair Expense	30,500					30,500			30,500	
Advertising Expense	9,400					9,400			9,400	
Utilities Expense	16,900					16,900			16,900	
Property Taxes Expense	18,000				(e) 3,000		21,000		21,000	
Interest Expense	6,000				(f) 4,000		10,000		10,000	
Totals	<u>491,700</u>		<u>491,700</u>							
Insurance Expense			(b) 23,000			23,000			23,000	
Supplies Expense			(a) 17,400			17,400			17,400	
Interest Payable			(c) 6,000		(f) 4,000		4,000			4,000
Depreciation Expense			(e) 3,000			6,000		6,000		
Property Taxes Payable			<u>55,100</u>		<u>504,700</u>	<u>504,700</u>	<u>239,200</u>	<u>279,200</u>	<u>265,500</u>	<u>3,000</u>
Totals										
Net Income							40,000		40,000	
Totals										

Key: (a) Supplies Used; (b) Expired Insurance; (c) Depreciation Expensed; (d) Admissions Revenue Earned; (e) Accrued Property Taxes;
 (f) Accrued Interest Payable.

PROBLEM 4-4A (Continued)

(b) SALVADOR AMUSEMENT PARK, INC.
Statement of Financial Position
September 30, 2011

Assets			
Property, plant, and equipment			
Land.....	R\$ 80,000		
Equipment	R\$120,000		
Less: Accum. depreciation.....	<u>42,200</u>	<u>77,800</u>	R\$157,800
Current assets			
Prepaid insurance.....	8,900		
Supplies	1,200		
Cash.....	<u>41,400</u>	<u>51,500</u>	
Total assets.....			<u>R\$209,300</u>
Equity and Liabilities			
Equity			
Share capital—ordinary	R\$100,000		
Retained earnings.....	<u>35,700*</u>	R\$135,700	
Non-current liabilities			
Mortgage note payable.....	40,000		
Current liabilities			
Current maturity of mortgage			
note payable.....	10,000		
Accounts payable	14,600		
Interest payable	4,000		
Property taxes payable	3,000		
Unearned admissions			
revenue	<u>2,000</u>	<u>33,600</u>	
Total equity and liabilities.....			<u>R\$209,300</u>

*R\$9,700 + R\$40,000 – R\$14,000

PROBLEM 4-4A (Continued)

(c) Sept. 30	Supplies Expense.....	17,400	
	Supplies		17,400
30	Insurance Expense	23,000	
	Prepaid Insurance		23,000
30	Depreciation Expense	6,000	
	Accumulated Depreciation		6,000
30	Unearned Admissions Revenue	1,700	
	Admissions Revenue		1,700
30	Property Taxes Expense	3,000	
	Property Taxes Payable.....		3,000
30	Interest Expense	4,000	
	Interest Payable		4,000
(d) Sept. 30	Admissions Revenue	279,200	
	Income Summary.....		279,200
30	Income Summary.....	239,200	
	Salaries Expense		105,000
	Repair Expense		30,500
	Insurance Expense.....		23,000
	Property Taxes Expense		21,000
	Supplies Expense.....		17,400
	Utilities Expense		16,900
	Interest Expense		10,000
	Advertising Expense		9,400
	Depreciation Expense		6,000
30	Income Summary.....	40,000	
	Retained Earnings.....		40,000
30	Retained Earnings.....	14,000	
	Dividends		14,000

PROBLEM 4-4A (Continued)**(e) SALVADOR AMUSEMENT PARK, INC.**
Post-Closing Trial Balance
September 30, 2011

	Debit	Credit
Cash	R\$ 41,400	
Supplies	1,200	
Prepaid Insurance	8,900	
Land	80,000	
Equipment	120,000	
Accumulated Depreciation		R\$ 42,200
Accounts Payable		14,600
Interest Payable		4,000
Property Taxes Payable		3,000
Unearned Admissions Revenue		2,000
Mortgage Note Payable		50,000
Share Capital—Ordinary		100,000
Retained Earnings		35,700
	<u>R\$251,500</u>	<u>R\$251,500</u>

PROBLEM 4-5A

(a)

General Journal				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
Mar. 1	Cash Share Capital—Ordinary	101 311	10,000	10,000
1	Equipment Cash Accounts Payable	157 101 201	6,000 3,000 3,000	
3	Cleaning Supplies Accounts Payable	128 201	1,200 1,200	
5	Prepaid Insurance Cash	130 101	1,200 1,200	
14	Accounts Receivable Service Revenue	112 400	4,800 4,800	
18	Accounts Payable Cash	201 101	2,000 2,000	
20	Salaries Expense Cash	726 101	1,800 1,800	
21	Cash Accounts Receivable	101 112	1,400 1,400	
28	Accounts Receivable Service Revenue	112 400	2,500 2,500	
31	Gas & Oil Expense Cash	633 101	200 200	
31	Dividends Cash	332 101	700 700	

PROBLEM 4-5A (Continued)

(b)&(c)

EDDY'S CARPET CLEANERS

Worksheet

For the Month Ended March 31, 2011

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	2,500		(a) 700		2,500				2,500	
Accounts Receivable	5,900				6,600				6,600	
Cleaning Supplies	1,200		(d) 800	400					400	
Prepaid Insurance	1,200		(c) 100	1,100					1,100	
Equipment	6,000				6,000				6,000	
Accounts Payable		2,200				2,200				2,200
Share Capital—Ordinary		10,000				10,000				10,000
Dividends	700				700				700	
Service Revenue		7,300		(a) 700		700		8,000		8,000
Gas & Oil Expense	200				200				200	
Salaries Expense	1,800		(e) 500		2,300				2,300	
Totals	19,500		(b) 250		250		250		250	
Depreciation Expense										250
Accum. Depr.—Equipment			(c) 100		100		100			
Insurance Expense			(d) 800		800		800			
Cleaning Supplies Expense			(e) 500		500		500			
Salaries Payable										500
Totals	2,350		2,350		20,950		20,950		17,300	
Net Income										4,350
Totals									17,300	

Key: (a) Service Revenue Earned; (b) Depreciation Expensed; (c) Insurance Expired; (d) Cleaning Supplies Used; (e) Unpaid Salaries.

PROBLEM 4-5A (Continued)

(a), (e) & (f)

			Cash	No. 101	
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1		J1	10,000		10,000
1		J1		3,000	7,000
5		J1		1,200	5,800
18		J1		2,000	3,800
20		J1		1,800	2,000
21		J1	1,400		3,400
31		J1		200	3,200
31		J1		700	2,500

			Accounts Receivable	No. 112	
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 14		J1	4,800		4,800
21		J1		1,400	3,400
28		J1	2,500		5,900
31	Adjusting	J2	700		6,600

			Cleaning Supplies	No. 128	
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 3		J1	1,200		1,200
31	Adjusting	J2		800	400

			Prepaid Insurance	No. 130	
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 5		J1	1,200		1,200
31	Adjusting	J2		100	1,100

			Equipment	No. 157	
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1		J1	6,000		6,000

PROBLEM 4-5A (Continued)

Accumulated Depreciation—Equipment No. 158

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Adjusting	J2		250	250

Accounts Payable No. 201

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1		J1		3,000	3,000
3		J1		1,200	4,200
18		J1	2,000		2,200

Salaries Payable No. 212

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Adjusting	J2		500	500

Share Capital—Ordinary No. 311

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1		J1		10,000	10,000

Retained Earnings No. 320

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1					0
31	Closing	J3		4,350	4,350
31	Closing	J3	700		3,650

Dividends No. 332

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31		J1	700		700
31	Closing	J3		700	0

Income Summary No. 350

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Closing	J3		8,000	8,000
31	Closing	J3	3,650		4,350
31	Closing	J3	4,350		0

PROBLEM 4-5A (Continued)

Service Revenue					No. 400
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 14		J1		4,800	4,800
28		J1		2,500	7,300
31	Adjusting	J2		700	8,000
31	Closing	J3	8,000		0

Gas & Oil Expense					No. 633
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31		J1	200		200
31	Closing	J3		200	0

Cleaning Supplies Expense					No. 634
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Adjusting	J2	800		800
31	Closing	J3		800	0

Depreciation Expense					No. 711
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Adjusting	J2	250		250
31	Closing	J3		250	0

Insurance Expense					No. 722
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Adjusting	J2	100		100
31	Closing	J3		100	0

Salaries Expense					No. 726
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 20		J1	1,800		1,800
31	Adjusting	J2	500		2,300
31	Closing	J3		2,300	0

PROBLEM 4-5A (Continued)

(d) **EDDY'S CARPET CLEANERS**
Income Statement
For the Month Ended March 31, 2011

Revenues	
Service revenue	\$8,000
Expenses	
Salaries expense	\$2,300
Cleaning supplies expense.....	800
Depreciation expense.....	250
Gas & oil expense	200
Insurance expense	100
Total expenses.....	<u>3,650</u>
Net income	<u><u>\$4,350</u></u>

EDDY'S CARPET CLEANERS
Retained Earnings Statement
For the Month Ended March 31, 2011

Retained earnings, March 1	\$ 0
Add: Net income	<u>4,350</u>
	4,350
Less: Dividends.....	<u>700</u>
Retained earnings, March 31	<u><u>\$3,650</u></u>

EDDY'S CARPET CLEANERS
Statement of Financial Position
March 31, 2011

Assets	
Property, plant, and equipment	
Equipment	\$ 6,000
Less: Accumulated depreciation	<u>250</u>
	\$ 5,750

PROBLEM 4-5A (Continued)

EDDY'S CARPET CLEANERS
Statement of Financial Position (Continued)
March 31, 2011

Assets (Continued)		
Current assets		
Prepaid insurance	1,100	
Cleaning supplies.....	400	
Accounts receivable	6,600	
Cash	2,500	<u>10,600</u>
Total assets		<u>\$16,350</u>
Equity and Liabilities		
Equity		
Share capital—ordinary.....	\$10,000	
Retained earnings	3,650	<u>\$13,650</u>
Current liabilities		
Accounts payable.....	2,200	
Salaries payable.....	500	<u>2,700</u>
Total equity and liabilities.....		<u>\$16,350</u>

(e)

General Journal			J2	
Date	Account Titles and Explanation	Ref.	Debit	Credit
Mar. 31	Accounts Receivable	112	700	
	Service Revenue	400		700
31	Depreciation Expense	711	250	
	Accumulated Depreciation— Equipment	158		250
31	Insurance Expense.....	722	100	
	Prepaid Insurance	130		100
31	Cleaning Supplies Expense.....	634	800	
	Cleaning Supplies	128		800
31	Salaries Expense.....	726	500	
	Salaries Payable	212		500

PROBLEM 4-5A (Continued)

(f)

General Journal			J3
Date	Account Titles and Explanation	Ref.	Debit Credit
Mar. 31	Service Revenue	400	8,000
	Income Summary.....	350	8,000
31	Income Summary	350	3,650
	Salaries Expense	726	2,300
	Depreciation Expense.....	711	250
	Insurance Expense.....	722	100
	Cleaning Supplies Expense	634	800
	Gas & Oil Expense	633	200
31	Income Summary	350	4,350
	Retained Earnings	320	4,350
31	Retained Earnings	320	700
	Dividends	332	700

(g) **EDDY'S CARPET CLEANERS**
Post-Closing Trial Balance
March 31, 2011

	Debit	Credit
Cash	\$ 2,500	
Accounts Receivable	6,600	
Cleaning Supplies.....	400	
Prepaid Insurance.....	1,100	
Equipment	6,000	
Accumulated Depreciation—Equipment.....		\$ 250
Accounts Payable		2,200
Salaries Payable		500
Share Capital—Ordinary		10,000
Retained Earnings		3,650
	\$16,600	\$16,600

PROBLEM 4-6A

	(1) INCORRECT ENTRY	(2) CORRECT ENTRY	(3) CORRECTING ENTRY
1.	Cash..... Accts. Receivable	960 Cash Accts. Receivable	690 Accounts Receivable..... Cash.....
2.	Misc. Expense..... Cash.....	65 Advertising Expense..... Cash.....	65 Advertising Expense..... Misc. Expense
3.	Salaries Expense..... Cash.....	1,900 1,900 Salaries Payable	1,200 Salaries Expense
4.	Supplies..... Accounts Payable.....	290 Equipment	290 Equipment
5.	Equipment	59 Repair Expense	95 Repair Expense
			95 Cash..... Equipment
			36 59

(a)

PROBLEM 4-6A (Continued)

(b)

CLARK CABLE, INC.
Trial Balance
April 30, 2011

	Debit	Credit
Cash (£4,100 – £270 – £36).....	£ 3,794	
Accounts Receivable (£3,200 + £270)	3,470	
Supplies (£800 – £290)	510	
Equipment (£10,600 + £290 – £59).....	10,831	
Accumulated Depreciation		£ 1,350
Accounts Payable.....		2,100
Salaries Payable (£700 – £700).....		0
Unearned Revenue		890
Share Capital—Ordinary.....		10,000
Retained Earnings		2,900
Service Revenue		5,450
Salaries Expense (£3,300 – £700)	2,600	
Advertising Expense (£600 + £65)	665	
Miscellaneous Expense (£290 – £65)	225	
Depreciation Expense	500	
Repair Expense.....	95	
	<u>£22,690</u>	<u>£22,690</u>

PROBLEM 4-1B

(a) **SASSE ROOFING, INC.**

Worksheet

For the Month Ended March 31, 2011

Account Titles	Trial Balance		Adjustments		Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	4,500				4,500				4,500	
Accounts Receivable	3,200				3,200				3,200	
Roofing Supplies	2,000				(a) 1,350	650			650	
Equipment	11,000					11,000			11,000	
Accumulated Depreciation			1,250		(b) 250		1,500		1,500	
Accounts Payable			2,500				2,500		2,500	
Unearned Revenue			550		(c) 380		170		170	
Share Capital—Ordinary			12,900				12,900		12,900	
Dividends	1,100						1,100		1,100	
Service Revenue			6,300		(c) 380		6,680		6,680	
Salaries Expense	1,300				(d) 600		1,900		1,900	
Miscellaneous Expense	400					400		400		
Totals	23,500		23,500							
Supplies Expense					(a) 1,350		1,350		1,350	
Depreciation Expense					(b) 250		250		250	
Salaries Payable					(d) 600		600		600	
Totals	2,580		2,580							
Net Income							3,900		3,900	
Totals							2,780		2,780	
							6,680		6,680	
									20,450	20,450

Key: (a) Supplies Used; (b) Depreciation Expensed; (c) Service Revenue Earned; (d) Salaries Accrued.

PROBLEM 4-1B (Continued)

(b) SASSE ROOFING INC.
Income Statement
For the Month Ended March 31, 2011

Revenues	
Service revenue	\$6,680
Expenses	
Salaries expense	\$1,900
Supplies expense.....	1,350
Miscellaneous expense.....	400
Depreciation expense	<u>250</u>
Total expenses	<u>3,900</u>
Net income.....	<u>\$2,780</u>

SASSE ROOFING INC.
Retained Earnings Statement
For the Month Ended March 31, 2011

Retained earnings, March 1	\$ 0
Add: Net income.....	<u>2,780</u>
	<u>2,780</u>
Less: Dividends.....	<u>1,100</u>
Retained earnings, March 31	<u>\$1,680</u>

SASSE ROOFING INC.
Statement of Financial Position
March 31, 2011

Assets			
Property, plant, and equipment			
Equipment	\$11,000		
Less: Accum. depreciation—equipment.....	<u>1,500</u>	\$ 9,500	
Current assets			
Roofing supplies	650		
Accounts receivable.....	3,200		
Cash.....	<u>4,500</u>	<u>8,350</u>	
Total assets			<u>\$17,850</u>

PROBLEM 4-1B (Continued)

SASSE ROOFING INC.
Statement of Financial Position (Continued)
March 31, 2011

Equity and Liabilities		
Equity		
	Share capital—ordinary	\$12,900
	Retained earnings.....	<u>1,680</u>
Current liabilities		
	Accounts payable	2,500
	Salaries payable	600
	Unearned revenue	<u>170</u>
	Total equity and liabilities	<u>\$17,850</u>
(c) Mar. 31	Supplies Expense.....	1,350
	Roofing Supplies	1,350
31	Depreciation Expense	250
	Accumulated Depreciation	250
31	Unearned Revenue.....	380
	Service Revenue	380
31	Salaries Expense	600
	Salaries Payable.....	600
(d) Mar. 31	Service Revenue.....	6,680
	Income Summary.....	6,680
31	Income Summary.....	3,900
	Salaries Expense	1,900
	Supplies Expense.....	1,350
	Depreciation Expense	250
	Miscellaneous Expense.....	400
31	Income Summary.....	2,780
	Retained Earnings	2,780
31	Retained Earnings.....	1,100
	Dividends	1,100

PROBLEM 4-2B

(a)

RACHEL COMPANY INC.
Partial Worksheet
For the Year Ended December 31, 2011

Account	Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	No.	Titles	Dr.	Cr.	Dr.	Cr.
101 Cash		8,100			8,100	
112 Accounts Receivable		10,800			10,800	
126 Supplies		1,500			1,500	
130 Prepaid Insurance		2,000			2,000	
151 Office Equipment		24,000			24,000	
152 Acc. Depr.—Off. Equip.			5,600			5,600
200 Notes Payable			15,000			15,000
201 Accounts Payable			6,100			6,100
212 Salaries Payable			2,400			2,400
230 Interest Payable			600			600
311 Share Capital—Ordinary			10,000			10,000
320 Retained Earnings			5,800			5,800
332 Dividends		7,000			7,000	
400 Service Revenue			61,000	61,000		
610 Advertising Expense		8,400		8,400		
631 Supplies Expense		4,000		4,000		
711 Depreciation Expense		5,600		5,600		
722 Insurance Expense		3,500		3,500		
726 Salaries Expense		31,000		31,000		
905 Interest Expense		600		600		
Totals		106,500	106,500	53,100	61,000	53,400
Net Income				7,900		7,900
Totals				61,000	61,000	53,400

PROBLEM 4-2B (Continued)

(b)

RACHEL COMPANY INC.
Income Statement
For the Year Ended December 31, 2011

Revenues	
Service revenue.....	£61,000
Expenses	
Salaries expense.....	£31,000
Advertising expense.....	8,400
Depreciation expense.....	5,600
Supplies expense	4,000
Insurance expense	3,500
Interest expense.....	600
Total expenses.....	<u>53,100</u>
Net income	<u>£ 7,900</u>

RACHEL COMPANY INC.
Retained Earnings Statement
For the Year Ended December 31, 2011

Retained earnings, January 1	£ 5,800
Add: Net income	<u>7,900</u>
	<u>13,700</u>
Less: Dividends	<u>7,000</u>
Retained earnings, December 31	<u>£ 6,700</u>

PROBLEM 4-2B (Continued)

RACHEL COMPANY INC.
Statement of Financial Position
December 31, 2011

Assets		
Property, plant, and equipment		
Office equipment	£24,000	
Less: Accumulated depreciation	<u>5,600</u>	£18,400
Current assets		
Prepaid insurance	2,000	
Supplies.....	1,500	
Accounts receivable.....	10,800	
Cash.....	<u>8,100</u>	22,400
Total assets.....		<u>£40,800</u>
Equity and Liabilities		
Equity		
Share capital—ordinary	£10,000	
Retained earnings	<u>6,700</u>	£16,700
Non-current liabilities		
Notes payable.....		6,000
Current liabilities		
Notes payable.....	9,000	
Accounts payable	6,100	
Salaries payable	2,400	
Interest payable	<u>600</u>	18,100
Total equity and liabilities		<u>£40,800</u>

PROBLEM 4-2B (Continued)

(c)

General Journal				J14
Date	Account Titles and Explanation	Ref.	Debit	Credit
Dec. 31	Service Revenue	400	61,000	
	Income Summary	350		61,000
31	Income Summary.....	350	53,100	
	Advertising Expense.....	610		8,400
	Supplies Expense	631		4,000
	Depreciation Expense	711		5,600
	Insurance Expense.....	722		3,500
	Salaries Expense	726		31,000
	Interest Expense	905		600
31	Income Summary.....	350	7,900	
	Retained Earnings	320		7,900
31	Retained Earnings.....	320	7,000	
	Dividends.....	332		7,000

(d)

Retained Earnings				No. 320
Date	Explanation	Ref.	Debit	Credit
Jan. 1	Balance	✓		5,800
Dec. 31	Closing entry	J14		7,900
31	Closing entry	J14	7,000	

Dividends				No. 332
Date	Explanation	Ref.	Debit	Credit
Dec. 31	Balance	✓	7,000	
31	Closing entry	J14		7,000

PROBLEM 4-2B (Continued)

Income Summary				No. 350	
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Closing entry	J14		61,000	61,000
31	Closing entry	J14	53,100		7,900
31	Closing entry	J14	7,900		0

Service Revenue				No. 400	
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓		61,000	61,000
31	Closing entry	J14	61,000		0

Advertising Expense				No. 610	
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓	8,400		8,400
31	Closing entry	J14		8,400	0

Supplies Expense				No. 631	
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓	4,000		4,000
31	Closing entry	J14		4,000	0

Depreciation Expense				No. 711	
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓	5,600		5,600
31	Closing entry	J14		5,600	0

Insurance Expense				No. 722	
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓	3,500		3,500
31	Closing entry	J14		3,500	0

PROBLEM 4-2B (Continued)

Salaries Expense			No. 726		
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓	31,000		31,000
31	Closing entry	J14		31,000	0

Interest Expense			No. 905		
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓	600		600
31	Closing entry	J14		600	0

(e)

RACHEL COMPANY INC. Post-Closing Trial Balance December 31, 2011

	Debit	Credit
Cash	£ 8,100	
Accounts Receivable.....	10,800	
Supplies	1,500	
Prepaid Insurance	2,000	
Office Equipment	24,000	
Accumulated Depreciation—Office Equipment		£ 5,600
Notes Payable		15,000
Accounts Payable.....		6,100
Salaries Payable.....		2,400
Interest Payable.....		600
Share Capital—Ordinary.....		10,000
Retained Earnings		6,700
Totals	£46,400	£46,400

PROBLEM 4-3B

(a)

MUDDY COMPANY
Income Statement
For the Year Ended December 31, 2011

Revenues

Service revenue	\$56,000
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Expenses

Salaries expense	\$30,000
Depreciation expense	2,100
Insurance expense.....	1,800
Repair expense	1,600
Utilities expense	<u>1,400</u>
Total expenses	<u>36,900</u>

Net income.....	<u>\$19,100</u>
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MUDDY COMPANY
Retained Earnings Statement
For the Year Ended December 31, 2011

Retained earnings, January 1	\$ 8,500
Add: Net income.....	<u>19,100</u>
	<u>27,600</u>
Less: Dividends.....	<u>11,000</u>
Retained earnings, December 31	<u>\$16,600</u>

MUDDY COMPANY
Statement of Financial Position
December 31, 2011

Assets

Property, plant, and equipment

Equipment	\$21,000
Less: Accumulated depreciation	<u>4,500</u>
	<u>\$16,500</u>

Current assets

Prepaid insurance	2,800
Accounts receivable.....	10,800
Cash.....	<u>17,900</u>
Total assets	<u>\$48,000</u>

PROBLEM 4-3B (Continued)

MUDDY COMPANY
Statement of Financial Position (Continued)
December 31, 2011

Equity and Liabilities		
Equity		
Share capital—ordinary	\$20,000	
Retained earnings.....	<u>16,600</u>	<u>\$36,600</u>
Current liabilities		
Accounts payable	9,000	
Salaries payable	<u>2,400</u>	<u>11,400</u>
Total equity and liabilities.....		<u>\$48,000</u>

(b)

General Journal

Date	Account Titles and Explanation	Ref.	Debit	Credit
Dec. 31	Service Revenue	400	56,000	
	Income Summary	350		56,000
31	Income Summary.....	350	36,900	
	Repair Expense.....	622		1,600
	Depreciation Expense	711		2,100
	Insurance Expense.....	722		1,800
	Salaries Expense.....	726		30,000
	Utilities Expense.....	732		1,400
31	Income Summary.....	350	19,100	
	Retained Earnings	320		19,100
31	Retained Earnings.....	320	11,000	
	Dividends	332		11,000

PROBLEM 4-3B (Continued)

(c)

Retained Earnings		No. 320
12/31	11,000	1/1 Bal. 8,500
		12/31 19,100
		12/31 Bal. 16,600
Dividends		No. 332
12/31 Bal.	11,000	12/31 11,000
Income Summary		No. 350
12/31	36,900	12/31 56,000
12/31	19,100	
	56,000	56,000
Service Revenue		No. 400
12/31	56,000	12/31 Bal. 56,000

Repair Expense		No. 622
12/31 Bal.	1,600	12/31 1,600
Depreciation Expense		No. 711
12/31 Bal.	2,100	12/31 2,100
Insurance Expense		No. 722
12/31 Bal.	1,800	12/31 1,800
Salaries Expense		No. 726
12/31 Bal.	30,000	12/31 30,000
Utilities Expense		No. 732
12/31 Bal.	1,400	12/31 1,400

(d) MUDDY COMPANY
Post-Closing Trial Balance
December 31, 2011

	Debit	Credit
Cash.....	\$17,900	
Accounts Receivable	10,800	
Prepaid Insurance	2,800	
Equipment	21,000	
Accumulated Depreciation.....		\$ 4,500
Accounts Payable		9,000
Salaries Payable		2,400
Share Capital—Ordinary		20,000
Retained Earnings		16,600
Totals.....	\$52,500	\$52,500

PROBLEM 4-4B

(a)
ROCKFORD MANAGEMENT SERVICES, INC.
Worksheet
For the Year Ended December 31, 2011

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	13,800				13,800				13,800	
Accounts Receivable	28,300				28,300				28,300	
Prepaid Insurance	3,600				(a) 1,200	2,400			2,400	
Land	67,000					67,000			67,000	
Building	127,000					127,000			127,000	
Equipment	59,000					59,000			59,000	
Accounts Payable		12,500				12,500			12,500	
Unearned Rent Revenue		6,000	(d) 4,000			2,000			2,000	
Mortgage Note Payable		120,000				120,000			120,000	
Share Capital—Ordinary		100,000				100,000			100,000	
Retained Earnings		44,000				44,000			44,000	
Dividends	22,000				22,000				22,000	
Service Revenue		90,700				90,700			90,700	
Rent Revenue		29,000			(d) 4,000	33,000			33,000	
Salaries Expense	42,000					42,000			42,000	
Advertising Expense	20,500					20,500			20,500	
Utilities Expense	19,000					19,000			19,000	
Totals	402,200		402,200							
Insurance Expense		(a) 1,200				1,200			1,200	
Depr. Expense—Building		(b) 3,000				3,000			3,000	
Accum. Depr.—Building										3,000
Depr. Expense—Equipment		(c) 4,700				4,700			4,700	
Accum. Depr.—Equipment										4,700
Interest Expense	(e) 11,000					11,000			11,000	
Interest Payable			(e) 11,000			11,000			11,000	
Totals	23,900		23,900			420,900			420,900	
Net Income										22,300
Totals	123,700		123,700			123,700			123,700	319,500

Key: (a) Expired Insurance; (b) Depreciation Expense—Building; (c) Depreciation Expense—Equipment; (d) Rent Revenue Earned; (e) Accrued Interest Payable.

PROBLEM 4-4B (Continued)

(b) ROCKFORD MANAGEMENT SERVICES INC.
Statement of Financial Position
December 31, 2011

Assets			
Property, plant, and equipment			
Land		£ 67,000	
Building	£127,000		
Less: Accumulated depreciation—building.....	3,000	124,000	
Equipment	59,000		
Less: Accumulated depreciation—equipment ...	4,700	54,300	£245,300
Current assets			
Prepaid insurance		2,400	
Accounts receivable.....		28,300	
Cash.....	13,800		44,500
Total assets.....			£289,800
Equity and Liabilities			
Equity			
Share capital—ordinary	£100,000		
Retained earnings	44,300*		£144,300
Non-current liabilities			
Mortgage note payable.....			100,000
Current liabilities			
Current maturity of mortgage			
note payable	20,000		
Accounts payable	12,500		
Interest payable	11,000		
Unearned rent revenue.....	2,000		45,500
Total equity and liabilities			£289,800

*£44,000 + £22,300 – £22,000

PROBLEM 4-4B (Continued)

(c) Dec. 31	Insurance Expense	1,200	
	Prepaid Insurance		1,200
31	Depreciation Expense—Building	3,000	
	Accumulated Depreciation—		
	Building		3,000
31	Depreciation Expense—Equipment.....	4,700	
	Accumulated Depreciation—		
	Equipment		4,700
31	Unearned Rent Revenue.....	4,000	
	Rent Revenue		4,000
31	Interest Expense.....	11,000	
	Interest Payable		11,000
(d) Dec. 31	Service Revenue.....	90,700	
	Rent Revenue	33,000	
	Income Summary		123,700
31	Income Summary	101,400	
	Salaries Expense.....		42,000
	Advertising Expense.....		20,500
	Interest Expense.....		11,000
	Utilities Expense.....		19,000
	Depreciation Expense—		
	Equipment		4,700
	Depreciation Expense—		
	Building		3,000
	Insurance Expense		1,200
31	Income Summary	22,300	
	Retained Earnings.....		22,300
31	Retained Earnings	22,000	
	Dividends		22,000

PROBLEM 4-4B (Continued)**(e) ROCKFORD MANAGEMENT SERVICES INC.**
Post-Closing Trial Balance
December 31, 2011

	Debit	Credit
Cash.....	£ 13,800	
Accounts Receivable	28,300	
Prepaid Insurance.....	2,400	
Land.....	67,000	
Building	127,000	
Accumulated Depreciation—Building		£ 3,000
Equipment	59,000	
Accumulated Depreciation—Equipment		4,700
Accounts Payable	12,500	
Interest Payable	11,000	
Unearned Rent Revenue.....	2,000	
Mortgage Note Payable	120,000	
Share Capital—Ordinary	100,000	
Retained Earnings	44,300	
	£297,500	£297,500

PROBLEM 4-5B

(a)

General Journal				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
July 1	Cash.....	101	20,000	
	Share Capital—Ordinary.....	311		20,000
1	Equipment	157	9,000	
	Cash	101		4,000
	Accounts Payable.....	201		5,000
3	Cleaning Supplies.....	128	2,100	
	Accounts Payable.....	201		2,100
5	Prepaid Insurance.....	130	1,800	
	Cash	101		1,800
12	Accounts Receivable	112	4,500	
	Service Revenue	400		4,500
18	Accounts Payable	201	2,900	
	Cash	101		2,900
20	Salaries Expense.....	726	2,000	
	Cash	101		2,000
21	Cash.....	101	3,400	
	Accounts Receivable.....	112		3,400
25	Accounts Receivable	112	9,000	
	Service Revenue	400		9,000
31	Gas & Oil Expense.....	633	350	
	Cash	101		350
31	Dividends	332	1,600	
	Cash	101		1,600

PROBLEM 4-5B (Continued)

(b) & (c)

CHANG'S CLEANING SERVICES INC.
Worksheet

For the Month Ended July 31, 2011

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	10,750				10,750				10,750	
Accounts Receivable	10,100		(a) 2,700		12,800				12,800	
Cleaning Supplies	2,100			(d) 1,400	700				700	
Prepaid Insurance	1,800		(c) 150		1,650				1,650	
Equipment	9,000				9,000				9,000	
Accounts Payable			4,200				4,200			4,200
Share Capital—Ordinary			20,000				20,000			20,000
Dividends	1,600		13,500		(a) 2,700		1,600			1,600
Service Revenue							16,200			16,200
Gas & Oil Expense	350						350			350
Salaries Expense	2,000		(e) 1,000				3,000			3,000
Totals	<u>37,700</u>		<u>37,700</u>		(b) 500		500			500
Depreciation Expense					(c) 150		150			150
Accum. Depr.—Equipment					(d) 1,400		1,400			1,400
Insurance Expense					(e) 1,000		1,000			1,000
Cleaning Supplies Expense										
Salaries Payable										
Totals	<u>5,750</u>		<u>5,750</u>		<u>41,900</u>		<u>41,900</u>			<u>41,900</u>
Net Income										
Totals										

Key: (a) Service Revenue Earned; (b) Depreciation Expense; (c) Insurance Expired; (d) Cleaning Supplies Used; (e) Unpaid Salaries.

PROBLEM 4-5B (Continued)

(a), (e) & (f)

			Cash		No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
July 1		J1	20,000		20,000
1		J1		4,000	16,000
5		J1		1,800	14,200
18		J1		2,900	11,300
20		J1		2,000	9,300
21		J1	3,400		12,700
31		J1		350	12,350
31		J1		1,600	10,750

			Accounts Receivable		No. 112
Date	Explanation	Ref.	Debit	Credit	Balance
July 12		J1	4,500		4,500
21		J1		3,400	1,100
25		J1	9,000		10,100
31	Adjusting	J2	2,700		12,800

			Cleaning Supplies		No. 128
Date	Explanation	Ref.	Debit	Credit	Balance
July 3		J1	2,100		2,100
31	Adjusting	J2		1,400	700

			Prepaid Insurance		No. 130
Date	Explanation	Ref.	Debit	Credit	Balance
July 5		J1	1,800		1,800
31	Adjusting	J2		150	1,650

			Equipment		No. 157
Date	Explanation	Ref.	Debit	Credit	Balance
July 1		J1	9,000		9,000

PROBLEM 4-5B (Continued)

Accumulated Depreciation—Equipment No. 158

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2		500	500

Accounts Payable No. 201

Date	Explanation	Ref.	Debit	Credit	Balance
July 1		J1		5,000	5,000
3		J1		2,100	7,100
18		J1	2,900		4,200

Salaries Payable No. 212

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2		1,000	1,000

Share Capital—Ordinary No. 311

Date	Explanation	Ref.	Debit	Credit	Balance
July 1		J1		20,000	20,000

Retained Earnings No. 320

Date	Explanation	Ref.	Debit	Credit	Balance
July 1					
31	Closing	J3		10,800	10,800
31	Closing	J3	1,600		9,200

Dividends No. 332

Date	Explanation	Ref.	Debit	Credit	Balance
July 31		J1	1,600		1,600
31	Closing	J3		1,600	0

Income Summary No. 350

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Closing	J3		16,200	16,200
31	Closing	J3	5,400		10,800
31	Closing	J3	10,800		0

PROBLEM 4-5B (Continued)

Service Revenue					No. 400
Date	Explanation	Ref.	Debit	Credit	Balance
July 12		J1		4,500	4,500
25		J1		9,000	13,500
31	Adjusting	J2		2,700	16,200
31	Closing	J3	16,200		0

Gas & Oil Expense					No. 633
Date	Explanation	Ref.	Debit	Credit	Balance
July 31		J1	350		350
31	Closing	J3		350	0

Cleaning Supplies Expense					No. 634
Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2	1,400		1,400
31	Closing	J3		1,400	0

Depreciation Expense					No. 711
Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2	500		500
31	Closing	J3		500	0

Insurance Expense					No. 722
Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2	150		150
31	Closing	J3		150	0

Salaries Expense					No. 726
Date	Explanation	Ref.	Debit	Credit	Balance
July 20		J1	2,000		2,000
31	Adjusting	J2	1,000		3,000
31	Closing	J3		3,000	0

PROBLEM 4-5B (Continued)

(d) CHANG'S CLEANING SERVICE INC.
Income Statement
For the Month Ended July 31, 2011

Revenues	
Service revenue.....	\$16,200
Expenses	
Salaries expense.....	\$3,000
Cleaning supplies expense	1,400
Depreciation expense.....	500
Gas & oil expense.....	350
Insurance expense.....	<u>150</u>
Total expenses	<u>5,400</u>
Net income.....	<u><u>\$10,800</u></u>

CHANG'S CLEANING SERVICE INC.
Retained Earnings Statement
For the Month Ended July 31, 2011

Retained earnings, July 1	\$ 0
Add: Net income	<u>10,800</u>
	<u>10,800</u>
Less: Dividends	<u>1,600</u>
Retained earnings, July 31	<u><u>\$ 9,200</u></u>

CHANG'S CLEANING SERVICE INC.
Statement of Financial Position
July 31, 2011

Assets	
Property, plant, and equipment	
Equipment.....	\$ 9,000
Less: Accumulated depreciation	<u>500</u>
	<u><u>\$ 8,500</u></u>

PROBLEM 4-5B (Continued)

CHANG'S CLEANING SERVICE INC.
Statement of Financial Position (Continued)
July 31, 2011

Assets (Continued)		
Current assets		
Prepaid insurance	1,650	
Cleaning supplies	700	
Accounts receivable.....	12,800	
Cash.....	<u>10,750</u>	<u>25,900</u>
Total assets.....		<u>\$34,400</u>
Equity and Liabilities		
Equity		
Share capital—ordinary	\$20,000	
Retained earnings	<u>9,200</u>	<u>\$29,200</u>
Current liabilities		
Accounts payable	4,200	
Salaries payable	<u>1,000</u>	<u>5,200</u>
Total equity and liabilities		<u>\$34,400</u>

(e)

Date	Account Titles and Explanation	General Journal		J2
		Ref.	Debit	
July 31	Accounts Receivable.....	112	2,700	
	Service Revenue.....	400		2,700
31	Depreciation Expense	711	500	
	Accumulated Depreciation—			
	Equipment.....	158		500
31	Insurance Expense.....	722	150	
	Prepaid Insurance.....	130		150
31	Cleaning Supplies Expense	634	1,400	
	Cleaning Supplies	128		1,400
31	Salaries Expense	726	1,000	
	Salaries Payable	212		1,000

PROBLEM 4-5B (Continued)

(f)

General Journal			J3
Date	Account Titles and Explanation	Ref.	Debit Credit
July 31	Service Revenue	400	16,200
	Income Summary	350	16,200
31	Income Summary.....	350	5,400
	Salaries Expense	726	3,000
	Depreciation Expense	711	500
	Insurance Expense.....	722	150
	Cleaning Supplies Expense	634	1,400
	Gas & Oil Expense.....	633	350
31	Income Summary.....	350	10,800
	Retained Earnings	320	10,800
31	Retained Earnings.....	320	1,600
	Dividends.....	332	1,600

(g) **CHANG'S CLEANING SERVICE INC.**
Post-Closing Trial Balance
July 31, 2011

	Debit	Credit
Cash	\$10,750	
Accounts Receivable.....	12,800	
Cleaning Supplies	700	
Prepaid Insurance	1,650	
Equipment.....	9,000	
Accumulated Depreciation—Equipment		\$ 500
Accounts Payable.....		4,200
Salaries Payable.....		1,000
Share Capital—Ordinary		20,000
Retained Earnings.....		9,200
	<u>\$34,900</u>	<u>\$34,900</u>

COMPREHENSIVE PROBLEM: CHAPTERS 2 TO 4

(a)

General Journal				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
July 1	Cash	101	14,000	
	Share Capital—Ordinary	311		14,000
1	Equipment	157	10,000	
	Cash	101		3,000
	Accounts Payable	201		7,000
3	Cleaning Supplies	128	800	
	Accounts Payable	201		800
5	Prepaid Insurance	130	1,800	
	Cash	101		1,800
12	Accounts Receivable	112	3,800	
	Service Revenue	400		3,800
18	Accounts Payable	201	1,400	
	Cash	101		1,400
20	Salaries Expense	726	1,600	
	Cash	101		1,600
21	Cash	101	1,400	
	Accounts Receivable	112		1,400
25	Accounts Receivable	112	1,500	
	Service Revenue	400		1,500
31	Gas & Oil Expense	633	400	
	Cash	101		400
31	Dividends	332	600	
	Cash	101		600

COMPREHENSIVE PROBLEM (Continued)

(b) & (c)

JULIE'S MAIDS CLEANING SERVICE INC.

Worksheet

For the Month Ended July 31, 2011

Account Titles	For the Month Ended July 31, 2011				Income Statement		Statement of Financial Position	
	Trial Balance	Dr.	Cr.	Adjustments	Dr.	Cr.	Dr.	Cr.
Cash	6,600			(a) 1,300		6,600		6,600
Accounts Receivable	3,900			(d) 700		5,200		5,200
Cleaning Supplies	800			(c) 150		100		100
Prepaid Insurance	1,800					1,650		1,650
Equipment	10,000					10,000		10,000
Accounts Payable		6,400				6,400		6,400
Share Capital—Ordinary		14,000				14,000		14,000
Dividends	600			(a) 1,300		600		600
Service Revenue		5,300		(e) 500		400		400
Gas & Oil Expense	400					2,100		2,100
Salaries Expense	1,600							
Total	25,700			(b) 200		200		200
Depreciation Expense								
Accum. Depr.—Equipment				(c) 150		150		150
Insurance Expense				(d) 700		700		700
Cleaning Supplies Expense						500		500
Salaries Payable								
Totals	2,850			(e) 500		27,700		24,150
Net Income								
Totals	6,600			6,600		6,600		24,150

Key: (a) Service Revenue; (b) Depreciation Expense; (c) Insurance Expired; (d) Cleaning Supplies Used; (e) Unpaid Salaries.

COMPREHENSIVE PROBLEM (Continued)

(a), (e) & (f)

			Cash	No. 101	
Date	Explanation	Ref.	Debit	Credit	Balance
July 1		J1	14,000		14,000
1		J1		3,000	11,000
5		J1		1,800	9,200
18		J1		1,400	7,800
20		J1		1,600	6,200
21		J1	1,400		7,600
31		J1		400	7,200
31		J1		600	6,600

			Accounts Receivable	No. 112	
Date	Explanation	Ref.	Debit	Credit	Balance
July 12		J1	3,800		3,800
21		J1		1,400	2,400
25		J1	1,500		3,900
31	Adjusting	J2	1,300		5,200

			Cleaning Supplies	No. 128	
Date	Explanation	Ref.	Debit	Credit	Balance
July 3		J1	800		800
31	Adjusting	J2		700	100

			Prepaid Insurance	No. 130	
Date	Explanation	Ref.	Debit	Credit	Balance
July 5		J1	1,800		1,800
31	Adjusting	J2		150	1,650

			Equipment	No. 157	
Date	Explanation	Ref.	Debit	Credit	Balance
July 1		J1	10,000		10,000

COMPREHENSIVE PROBLEM (Continued)

Accumulated Depreciation—Equipment No. 158

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2		200	200

Accounts Payable No. 201

Date	Explanation	Ref.	Debit	Credit	Balance
July 1		J1		7,000	7,000
3		J1		800	7,800
18		J1	1,400		6,400

Salaries Payable No. 212

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2		500	500

Share Capital—Ordinary No. 311

Date	Explanation	Ref.	Debit	Credit	Balance
July 1		J1		14,000	14,000

Retained Earnings No. 320

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Closing	J3		3,050	3,050
31	Closing	J3	600		2,450

Dividends No. 332

Date	Explanation	Ref.	Debit	Credit	Balance
July 31		J1	600		600
31	Closing	J3		600	0

Income Summary No. 350

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Closing	J3		6,600	6,600
31	Closing	J3	3,550		3,050
31	Closing	J3	3,050		0

COMPREHENSIVE PROBLEM (Continued)

Service Revenue					No. 400
Date	Explanation	Ref.	Debit	Credit	Balance
July 12		J1		3,800	3,800
25		J1		1,500	5,300
31	Adjusting	J2		1,300	6,600
31	Closing	J3	6,600		0

Gas & Oil Expense					No. 633
Date	Explanation	Ref.	Debit	Credit	Balance
July 31		J1	400		400
31	Closing	J3		400	0

Cleaning Supplies Expense					No. 634
Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2	700		700
31	Closing	J3		700	0

Depreciation Expense					No. 711
Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2	200		200
31	Closing	J3		200	0

Insurance Expense					No. 722
Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2	150		150
31	Closing	J3		150	0

Salaries Expense					No. 726
Date	Explanation	Ref.	Debit	Credit	Balance
July 20		J1	1,600		1,600
31	Adjusting	J2	500		2,100
31	Closing	J3		2,100	0

COMPREHENSIVE PROBLEM (Continued)

(d) JULIE'S MAIDS CLEANING SERVICE INC.
Income Statement
For the Month Ended July 31, 2011

Revenues	
Service revenue.....	\$6,600
Expenses	
Salaries expense.....	\$2,100
Cleaning supplies expense	700
Gas & oil expense.....	400
Depreciation expense.....	200
Insurance expense.....	150
Total expenses	<u>3,550</u>
Net income.....	<u><u>\$3,050</u></u>

JULIE'S MAIDS CLEANING SERVICE INC.
Retained Earnings Statement
For the Month Ended July 31, 2011

Retained earnings, July 1	\$ 0
Add: Net income	<u>3,050</u>
	<u>3,050</u>
Less: Dividends	<u>600</u>
Retained earnings, July 31	<u><u>\$2,450</u></u>

COMPREHENSIVE PROBLEM (Continued)

JULIE'S MAIDS CLEANING SERVICE INC. Statement of Financial Position July 31, 2011

Assets		
Property, plant, and equipment		
Equipment	\$10,000	
Less: Accumulated depreciation	<u>200</u>	\$ 9,800
Current assets		
Prepaid insurance	1,650	
Cleaning supplies	100	
Accounts receivable.....	5,200	
Cash.....	<u>6,600</u>	<u>13,550</u>
Total assets.....		<u>\$23,350</u>
Equity and Liabilities		
Equity		
Share capital—ordinary	\$14,000	
Retained earnings	<u>2,450</u>	\$16,450
Current liabilities		
Accounts payable	6,400	
Salaries payable	<u>500</u>	<u>6,900</u>
Total equity and liabilities		<u>\$23,350</u>

COMPREHENSIVE PROBLEM (Continued)

(e)

General Journal			J2
Date	Account Titles and Explanation	Ref.	Debit Credit
July 31	Accounts Receivable	112	1,300
	Service Revenue	400	1,300
31	Depreciation Expense	711	200
	Accumulated Depreciation— Equipment	158	200
31	Insurance Expense	722	150
	Prepaid Insurance	130	150
31	Cleaning Supplies Expense.....	634	700
	Cleaning Supplies	128	700
31	Salaries Expense.....	726	500
	Salaries Payable.....	212	500

(f)

General Journal			J3
Date	Account Titles and Explanation	Ref.	Debit Credit
July 31	Service Revenue.....	400	6,600
	Income Summary.....	350	6,600
31	Income Summary	350	3,550
	Salaries Expense	726	2,100
	Depreciation Expense	711	200
	Insurance Expense.....	722	150
	Cleaning Supplies Expense	634	700
	Gas & Oil Expense	633	400
31	Income Summary	350	3,050
	Retained Earnings	320	3,050
31	Retained Earnings	320	600
	Dividends	332	600

COMPREHENSIVE PROBLEM (Continued)

(g) **JULIE'S MAIDS CLEANING SERVICE INC.**
Post-Closing Trial Balance
July 31, 2011

	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 6,600	
Accounts Receivable	5,200	
Cleaning Supplies	100	
Prepaid Insurance.....	1,650	
Equipment	10,000	
Accumulated Depreciation—Equipment	\$ 200	
Accounts Payable	6,400	
Salaries Payable	500	
Share Capital—Ordinary	14,000	
Retained Earnings	2,450	
	<u>\$23,550</u>	<u>\$23,550</u>

- (a) Total current assets were £2,635 million at December 31, 2008, and £2,600 million at December 31, 2007.
- (b) Current assets are properly listed in the reverse order of liquidity. As you will learn in the next chapter, inventory is considered to be less liquid than receivables. Thus, it is listed above receivables.
- (c) The primary asset classifications are similar to the text: (1) goodwill, (2) intangible assets, (3) property, plant, and equipment, (4) investments, and (5) current assets.
- (d) Cash equivalents are investments with original maturities of 3 months or less that Cadbury does not intend to rollover beyond three months.
- (e) Total current liabilities were £3,388 million at December 31, 2008, and £4,614 million at December 31, 2007.

(a)	(in millions)	Cadbury	Nestlé
1. Total current assets		£2,635	CHF33,048
2. Net property, plant & equipment		1,761	21,097
3. Total current liabilities		3,388	33,223
4. Total equity		3,534	54,916

- (b) Current assets are cash and other resources that are reasonably expected to be realized in cash or sold or consumed within one year or the company's operating cycle, whichever is longer. Current liabilities are obligations that are reasonably expected to be paid from existing current assets or through the creation of other current liabilities.

Cadbury current liabilities were 29% greater than its current assets, but Nestlé's current assets were approximately the same as its current liabilities. From this information, it appears that Nestlé is in a better liquidity position than Cadbury.

The solution is dependent upon the companies chosen by the student.

(a)

WHITEGLOVES JANITORIAL SERVICE INC.
Statement of Financial Position
December 31, 2011

Assets			
Property, plant, and equipment			
Cleaning equipment			
(\$22,000 + \$4,000).....		\$26,000	
Less: Accum. depreciation—			
cleaning equipment			
(\$4,000 + \$2,000).....	6,000	\$20,000	
Delivery trucks (\$34,000 + \$5,000)	39,000		
Less: Accum. depreciation—			
delivery trucks			
(\$5,000 + \$5,000).....	10,000	29,000	\$49,000
Current assets			
Prepaid insurance (\$4,800 X 2/3).....		3,200	
Janitorial supplies			
(\$5,200 – \$2,700)		2,500	
Accounts receivable			
(\$9,000 + \$3,700)		12,700	
Cash.....		6,500	24,900
Total assets.....			\$73,900
Equity and Liabilities			
Equity			
Share capital—ordinary		\$40,000	
Retained earnings		4,650*	\$44,650
Non-current liabilities			
Notes payable, due July 1, 2012.....		15,000	
Current liabilities			
Notes payable due within one year		10,000	
Accounts payable (\$2,500 + \$500).....		3,000	
Interest payable (\$25,000 X 10% X 6/12)		1,250	14,250
Total equity and liabilities			\$73,900

BYP 4-4 (Continued)

WHITEGLOVES JANITORIAL SERVICE INC.
Statement of Financial Position (Continued)
December 31, 2011

*Retained earnings balance as reported	\$14,000
Add: Earned but unbilled fees.....	<u>3,700</u>
	17,700
Less: Janitorial supplies used	\$2,700
Insurance expired (\$4,800 X 1/3).....	1,600
Expenses incurred but unpaid	500
Interest accrued.....	1,250
Depreciation (\$2,000 + \$5,000).....	<u>7,000</u>
Total.....	<u>13,050</u>
Retained earnings balance as adjusted	<u>\$ 4,650</u>

- (b) Whitegloves Janitorial Service met the terms of the bank loan because current assets exceed current liabilities by \$10,650 ($\$24,900 - \$14,250$) at December 31, 2011.

MEMO

To: Accounting Instructor

From: Student

Re: Accounting Cycle

The required steps in the accounting cycle, in the order in which they should be completed, are:

1. Analyze business transactions.
2. Journalize the transactions.
3. Post to ledger accounts.
4. Prepare a trial balance.
5. Journalize and post adjusting entries.
6. Prepare an adjusted trial balance.
7. Prepare financial statements.
8. Journalize and post closing entries.
9. Prepare a post-closing trial balance.

The optional steps in the accounting cycle include preparing a worksheet and preparing reversing entries. If a worksheet is prepared, it is done after step 3 above, and it includes steps 4 and 6. The worksheet is a form used to make it easier to prepare adjusting entries and financial statements. If reversing entries are prepared, they are journalized and posted after step 9, at the beginning of the next accounting period. A reversing entry is the exact opposite of a previously recorded adjusting entry and simplifies the recording of subsequent transactions.

(a) The stakeholders in this case are:

- ▶ You, as controller.
- ▶ Jerry McNabb, president.
- ▶ Users of the company's financial statements.

(b) The ethical issue is the continued circulation of significantly misstated financial statements. As controller, you have just issued misleading financial statements. You have acted ethically by telling the company's president. The president has reacted unethically by allowing the misleading financial statements to continue to circulate.

(c) As controller, you should impress upon the president the consequences of having those misleading financial statements be detected by some user or securities regulator. Also stress upon him that you have a professional obligation to correct the statements or to resign.