



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 | Q4-1 BE4-3 Q4-2 DI4-1 Q4-3 Q4-4 Q4-5 | E4-1 P4-3A E4-2 P4-2B E4-3 P4-3B E4-17 P4-2A | BE4-2 P4-5A E4-5 P4-1B E4-6 P4-4B P4-1A P4-5B P4-4A | | |
| 2. Explain the process of closing the books. | Q4-6 Q4-11 Q4-12 | Q4-7 | BE4-4 E4-8 BE4-5 E4-11 BE4-6 P4-2A DI4-2 P4-3A E4-4 P4-2B E4-7 P4-3B | E4-19 P4-5B 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 P4-3A E4-7 P4-2B E4-8 P4-3B P4-2A | P4-1A P4-4B P4-4A 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 | | BE4-9 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 E4-16 BE4-10 E4-17 DI4-3 P4-2A E4-3 P4-3A E4-9 P4-1B E4-14 P4-2B E4-14 P4-3B | P4-1A P4-4A P4-5A P4-1B P4-4B P4-5B | | |
| *7. Prepare reversing entries. | | Q4-10 Q4-20 | | Q4-21 E4-18 BE4-12 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:

| <u>Assets</u> | <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 | | | (a) 1,200 | 1,800 | | | | 1,800 | |
| Service Revenue | | 58,000 | | (b) 1,100 | | 59,100 | | 59,100 | | |
| Salaries Expense | 25,000 | | (c) 800 | | 25,800 | | 25,800 | | | |
| Accounts Receivable | | | (b) 1,100 | | 1,100 | | | | 1,100 | |
| Salaries Payable | | | | (c) 800 | | 800 | | | | 800 |
| Insurance Expense | | | (a) 1,200 | | 1,200 | | 1,200 | | | |

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 | | <u>0</u> |

Salaries Expense

| Date | Explanation | Ref. | Debit | Credit | Balance |
|------|---------------|------|-------|--------|----------|
| 7/31 | Balance | | 8,200 | | 8,200 |
| 7/31 | Closing entry | | | 8,200 | <u>0</u> |

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 (€1,750 – €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 | 15,400 | |
| 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> | <u>20,720</u> |
| 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 | |
|------------------------|---------------|--------------|--------------|----------------|--------------------|--------------|------------------|--------------|---------------------------------|--------------|
| | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. |
| 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 | <u>160</u> | | | | <u>160</u> | | <u>160</u> | | | |
| Totals | <u>7,360</u> | <u>7,360</u> | | | | | | | | |
| Supplies Expense | | | (a) | 1,580 | 1,580 | | 1,580 | | | |
| Salaries Payable | | | | (c) <u>280</u> | | <u>280</u> | | | | <u>280</u> |
| Totals | | | <u>2,000</u> | <u>2,000</u> | <u>7,640</u> | <u>7,640</u> | <u>2,580</u> | <u>2,540</u> | <u>5,060</u> | <u>5,100</u> |
| Net Loss | | | | | | | | <u>40</u> | <u>40</u> | |
| 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 | <u>62,900</u> | <u>62,900</u> | <u>12,328</u> | <u>15,590</u> | <u>50,572</u> | <u>47,310</u> |
| Net Income | | | <u>3,262</u> | | | <u>3,262</u> |
| Totals | | | <u>15,590</u> | <u>15,590</u> | <u>50,572</u> | <u>50,572</u> |

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..... | | <u>12,328</u> |
| 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 | <u>57</u> | 11,429 |
| Total equity and liabilities | | <u>€42,001</u> |

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 |
| (3) | 3,262 | (4) | 3,650 |
| | <u>15,590</u> | | <u>Bal.</u> |
| | | | 5,960 |
| | | | (3) |
| | | | 3,262 |
| | | | <u>Bal.</u> |
| | | | 5,572 |

EXERCISE 4-4 (Continued)

(c)

GOODE COMPANY Post-Closing Trial Balance April 30, 2011

| | <u>Debit</u> | <u>Credit</u> |
|--------------------------------|----------------|----------------|
| 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 |
| | <u>€46,922</u> | <u>€46,922</u> |

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 | <u>6,500</u> | |
| Total revenues | | \$71,500 |
| Expenses | | |
| Salaries expense..... | 55,700 | |
| Utilities expense..... | 14,900 | |
| Depreciation expense..... | <u>4,000</u> | |
| Total expenses..... | | <u>74,600</u> |
| Net loss | | <u>(\$ 3,100)</u> |

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> | <u>19,100</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> | \$26,100 |
| 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 |
| (b) | | Equipment | 980 | |
| | | Accounts Payable..... | | 980 |
| | 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 | <u>42,600</u> | 86,200 | |
| Equipment | 62,400 | | |
| Less: Acc. depr.—equipment | <u>18,720</u> | <u>43,680</u> | \$193,880 |
| Current assets | | | |
| Prepaid insurance..... | | 4,680 | |
| Accounts receivable | | 14,520 | |
| Cash | | <u>18,040</u> | <u>37,240</u> |
| 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> | 1,311 |
| 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> | <u>12,700</u> |
| Retained earnings, July 31, 2011..... | | <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> | 33,980 |
| 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> | 6,180 |
| 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 | |
| | | <u>24,000</u> | |
| | | | 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 |
| | | <u>92,000</u> | <u>92,000</u> |
| Jan. 1 | Reversing | 4,500 | Jan. 10 4,500 |

*($\$92,000 - \$4,500$)

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

| Interest Expense | | | |
|------------------|-----------|--------------|------------------------|
| Dec. 31 | Balance | *6,300 | Dec. 31 Closing 7,800 |
| 31 | Adjusting | 1,500 | |
| | | <u>7,800</u> | <u>7,800</u> |
| 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

| THOMAS MAGNUM, P.L., 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 | | | | 11,400 | | | | 11,400 | |
| Accounts Receivable | 5,620 | | (e) | 530 | 6,150 | | | | 6,150 | |
| Supplies | 1,050 | | | (a) | 380 | | | | 380 | |
| Prepaid Insurance | 2,400 | | | (d) | 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 | | | | 600 | | | | 600 | |
| Service Revenue | | 13,620 | | (e) | | 14,150 | | 14,150 | | |
| Salaries Expense | 2,200 | | | | 2,200 | | 2,200 | | | |
| Travel Expense | 1,300 | | | | 1,300 | | 1,300 | | | |
| Rent Expense | 1,200 | | | | 1,200 | | 1,200 | | | |
| Miscellaneous Expense | 200 | | | | 200 | | 200 | | | |
| Totals | 55,970 | 55,970 | | | | | | | | |
| Supplies Expense | | | (a) | 670 | 670 | | 670 | | | |
| Depreciation Expense | | | (b) | 1,000 | 1,000 | | 1,000 | | | |
| Accumulated Depreciation | | | | (b) | | 1,000 | | | | 1,000 |
| Interest Expense | | | (c) | 300 | 300 | | 300 | | | |
| Interest Payable | | | | (c) | | 300 | | | | 300 |
| Insurance Expense | | | (d) | 600 | 600 | | 600 | | | |
| Totals | | | 3,100 | 3,100 | 57,800 | 57,800 | 7,470 | 14,150 | 50,330 | 43,650 |
| Net Income | | | | | | | 6,680 | | | 6,680 |
| Totals | | | | | | | 14,150 | 14,150 | 50,330 | 50,330 |

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..... | | <u>7,470</u> |
| Net income | | <u>€ 6,680</u> |

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

| | |
|------------------------------------|----------------------|
| Retained earnings, January 1 | € 0 |
| Add: Net income | <u>6,680</u> |
| | 6,680 |
| Less: Dividends | <u>600</u> |
| Retained earnings, March 31 | <u>€6,080</u> |

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> | 19,730 | |
| Total assets | | <u>€48,730</u> | |
| 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> | 22,650 | |
| Total equity and liabilities | | <u>€48,730</u> | |
| | | | |
| (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 | |
|---------|------------------------|------------------------|----------------|------------------|---------------|---------------------------------|---------------|
| | | Dr. | Cr. | 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 | <u>165,400</u> | <u>165,400</u> | <u>67,700</u> | <u>77,800</u> | <u>97,700</u> | <u>87,600</u> |
| | Net Income | | | <u>10,100</u> | | | <u>10,100</u> |
| | Totals | | | <u>77,800</u> | <u>77,800</u> | <u>97,700</u> | <u>97,700</u> |

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> |
| | 16,100 |
| 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> | <u>41,700</u> |
| 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> | <u>21,600</u> |
| 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 | Balance |
| Jan. 31 | Balance | ✓ | | 6,000 | 6,000 |
| Dec. 31 | Closing entry | J14 | | 10,100 | 16,100 |
| 31 | Closing entry | J14 | 12,000 | | 4,100 |

| Dividends | | | | | No. 332 |
|-----------|---------------|------|--------|--------|---------|
| Date | Explanation | Ref. | Debit | Credit | Balance |
| Dec. 31 | Balance | ✓ | 12,000 | | 12,000 |
| 31 | Closing entry | J14 | | 12,000 | 0 |

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 |
| | <u>\$85,700</u> | <u>\$85,700</u> |

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..... | 1,200 | |
| Total expenses | | <u>48,600</u> |
| Net loss..... | | <u><u>\$ (4,600)</u></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> | <u>11,800</u> |
| Retained earnings, December 31 | | <u><u>\$ 2,200</u></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><u>\$36,900</u></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> | | \$22,200 |
| 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..... | <u>\$45,500</u> | <u>\$45,500</u> |

PROBLEM 4-4A

(a) **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 | | | | 1,200 | | | | 1,200 | |
| Prepaid Insurance | 31,900 | | (a) 17,400 | | 8,900 | | | | 8,900 | |
| Land | 80,000 | | (b) 23,000 | | 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 | | | | 2,000 | | | | 2,000 |
| Mortgage Note Payable | | 50,000 | (d) 1,700 | | | 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 | | | 279,200 | 14,000 | |
| Admissions Revenue | | 277,500 | | (d) 1,700 | | 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 | 491,700 | 491,700 | | | | | | | | |
| Insurance Expense | | | (b) 23,000 | | 23,000 | | 23,000 | | | |
| Supplies Expense | | | (a) 17,400 | | 17,400 | | 17,400 | | | |
| Interest Payable | | | | (f) 4,000 | | 4,000 | | | | 4,000 |
| Depreciation Expense | | | (c) 6,000 | | 6,000 | | 6,000 | | | |
| Property Taxes Payable | | | | (e) 3,000 | | 3,000 | | | | 3,000 |
| Totals | | | 55,100 | 55,100 | 504,700 | 504,700 | 239,200 | 279,200 | 265,500 | 225,500 |
| Net Income | | | | | | | 40,000 | | | 40,000 |
| Totals | | | | | | | 279,200 | 279,200 | 265,500 | 265,500 |

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 | 101 | 10,000 | |
| | Share Capital—Ordinary | 311 | | 10,000 |
| 1 | Equipment | 157 | 6,000 | |
| | Cash | 101 | | 3,000 |
| | Accounts Payable | 201 | | 3,000 |
| 3 | Cleaning Supplies | 128 | 1,200 | |
| | Accounts Payable | 201 | | 1,200 |
| 5 | Prepaid Insurance | 130 | 1,200 | |
| | Cash | 101 | | 1,200 |
| 14 | Accounts Receivable | 112 | 4,800 | |
| | Service Revenue | 400 | | 4,800 |
| 18 | Accounts Payable | 201 | 2,000 | |
| | Cash | 101 | | 2,000 |
| 20 | Salaries Expense | 726 | 1,800 | |
| | Cash | 101 | | 1,800 |
| 21 | Cash | 101 | 1,400 | |
| | Accounts Receivable | 112 | | 1,400 |
| 28 | Accounts Receivable | 112 | 2,500 | |
| | Service Revenue | 400 | | 2,500 |
| 31 | Gas & Oil Expense | 633 | 200 | |
| | Cash | 101 | | 200 |
| 31 | Dividends | 332 | 700 | |
| | Cash | 101 | | 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 | | | | 2,500 | | | | 2,500 | |
| Accounts Receivable | 5,900 | | (a) 700 | | 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 | | 8,000 | | 8,000 | | |
| Gas & Oil Expense | 200 | | | | 200 | | 200 | | | |
| Salaries Expense | 1,800 | | (e) 500 | | 2,300 | | 2,300 | | | |
| Totals | 19,500 | 19,500 | | | | | | | | |
| Depreciation Expense | | | (b) 250 | | 250 | | 250 | | | |
| Accum. Depr.—Equipment | | | | (b) 250 | | 250 | | | | 250 |
| Insurance Expense | | | (c) 100 | | 100 | | 100 | | | |
| Cleaning Supplies Expense | | | (d) 800 | | 800 | | 800 | | | |
| Salaries Payable | | | | (e) 500 | | 500 | | | | 500 |
| Totals | | | 2,350 | 2,350 | 20,950 | 20,950 | 3,650 | 8,000 | 17,300 | 12,950 |
| Net Income | | | | | | | 4,350 | | | 4,350 |
| Totals | | | | | | | 8,000 | 8,000 | 17,300 | 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>\$4,350</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>\$3,650</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 | <u>2,500</u> | <u>10,600</u> | |
| Total assets | | | <u>\$16,350</u> |
| Equity and Liabilities | | | |
| Equity | | | |
| Share capital—ordinary | \$10,000 | | |
| Retained earnings | <u>3,650</u> | | <u>\$13,650</u> |
| Current liabilities | | | |
| Accounts payable | 2,200 | | |
| Salaries payable | <u>500</u> | <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 |
| | <u>\$16,600</u> | <u>\$16,600</u> |

PROBLEM 4-6A

(a)

| | (1) INCORRECT ENTRY | (2) CORRECT ENTRY | (3) CORRECTING ENTRY |
|----|---|---|---|
| 1. | Cash Accts. Receivable 960 | Cash Accts. Receivable 690 | Accounts Receivable Cash 270 |
| 2. | Misc. Expense Cash 65 | Advertising Expense Cash 65 | Advertising Expense Misc. Expense 65 |
| 3. | Salaries Expense Cash 1,900 | Salaries Expense Salaries Payable Cash 1,200 700 1,900 | Salaries Payable Salaries Expense 700 |
| 4. | Supplies Accounts Payable 290 | Equipment Accounts Payable 290 | Equipment Supplies 290 |
| 5. | Equipment Cash 59 | Repair Expense Cash 95 | Repair Expense Cash Equipment 95 36 59 |

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 | | Adjusted 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 | | | 6,680 | 1,100 | |
| Service Revenue | | 6,300 | | (c) 380 | | 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 | | | 600 |
| Depreciation Expense | | | (b) 250 | | 250 | | 250 | | | 17,670 |
| Salaries Payable | | | | (d) 600 | | 600 | | | | 2,780 |
| Totals | | | 2,580 | 2,580 | 24,350 | 24,350 | 3,900 | 6,680 | 20,450 | 20,450 |
| Net Income | | | | | | | 2,780 | 6,680 | | |
| Totals | | | | | | | | | 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 | 250 | |
| 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> |
| | 2,780 |
| 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> | \$14,580 |
| Current liabilities | | | |
| | Accounts payable | 2,500 | |
| | Salaries payable | 600 | |
| | Unearned revenue | <u>170</u> | <u>3,270</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. | 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 | <u>106,500</u> | <u>106,500</u> | <u>53,100</u> | <u>61,000</u> | <u>53,400</u> | <u>45,500</u> |
| | Net Income | | | <u>7,900</u> | | | <u>7,900</u> |
| | Totals | | | <u>61,000</u> | <u>61,000</u> | <u>53,400</u> | <u>53,400</u> |

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> |
| | 13,700 |
| 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> | <u>22,400</u> |
| 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> | <u>18,100</u> |
| 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 | Balance |
| Jan. 1 | Balance | ✓ | | 5,800 | 5,800 |
| Dec. 31 | Closing entry | J14 | | 7,900 | 13,700 |
| 31 | Closing entry | J14 | 7,000 | | 6,700 |

| Dividends | | | | | No. 332 |
|-----------|---------------|------|-------|--------|---------|
| Date | Explanation | Ref. | Debit | Credit | Balance |
| Dec. 31 | Balance | ✓ | 7,000 | | 7,000 |
| 31 | Closing entry | J14 | | 7,000 | 0 |

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 | <u>£46,400</u> | <u>£46,400</u> |

PROBLEM 4-3B

(a)

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

| | | |
|----------------------------|-----------------|------------------------|
| Revenues | | |
| Service revenue | | \$56,000 |
| Expenses | | |
| Salaries expense | \$30,000 | |
| Depreciation expense | 2,100 | |
| Insurance expense..... | 1,800 | |
| Repair expense | 1,600 | |
| Utilities expense | 1,400 | |
| Total expenses | | <u>36,900</u> |
| Net income..... | | <u>\$19,100</u> |

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> |
| | 27,600 |
| 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> | \$16,500 |
| Current assets | | |
| Prepaid insurance | 2,800 | |
| Accounts receivable..... | 10,800 | |
| Cash..... | <u>17,900</u> | <u>31,500</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> | \$36,600 |
| 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..... | <u>\$52,500</u> | <u>\$52,500</u> |

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 | <u>402,200</u> | <u>402,200</u> | | | | | | | | |
| Insurance Expense | | | (a) 1,200 | | 1,200 | | 1,200 | | | |
| Depr. Expense—Building | | | (b) 3,000 | | 3,000 | | 3,000 | | | |
| Accum. Depr.—Building | | | | (b) 3,000 | | 3,000 | | | | 3,000 |
| Depr. Expense—Equipment | | | (c) 4,700 | | 4,700 | | 4,700 | | | |
| Accum. Depr.—Equipment | | | | (c) 4,700 | | 4,700 | | | | 4,700 |
| Interest Expense | | | (e) 11,000 | | 11,000 | | 11,000 | | | |
| Interest Payable | | | | (e) 11,000 | | 11,000 | | | | 11,000 |
| Totals | | | <u>23,900</u> | <u>23,900</u> | <u>420,900</u> | <u>420,900</u> | <u>101,400</u> | <u>123,700</u> | <u>319,500</u> | <u>297,200</u> |
| Net Income | | | | | | | <u>22,300</u> | | | <u>22,300</u> |
| Totals | | | | | | | <u>123,700</u> | <u>123,700</u> | <u>319,500</u> | <u>319,500</u> |

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..... | <u>3,000</u> | 124,000 | |
| Equipment | 59,000 | | |
| Less: Accumulated depreciation—equipment ... | <u>4,700</u> | <u>54,300</u> | £245,300 |
| Current assets | | | |
| Prepaid insurance | | 2,400 | |
| Accounts receivable..... | | 28,300 | |
| Cash..... | | <u>13,800</u> | <u>44,500</u> |
| Total assets | | | <u>£289,800</u> |

| Equity and Liabilities | | | |
|---|----------------|--------------|------------------------|
| Equity | | | |
| Share capital—ordinary | £100,000 | | |
| Retained earnings | <u>44,300*</u> | £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..... | | <u>2,000</u> | <u>45,500</u> |
| Total equity and liabilities | | | <u>£289,800</u> |

*£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

| | <u>Debit</u> | <u>Credit</u> |
|--|-----------------|-----------------|
| 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 |
| | <u>£297,500</u> | <u>£297,500</u> |

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 | | | | 1,600 | | | | 1,600 | |
| Service Revenue | | 13,500 | | (a) 2,700 | | 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> | | | | | | | | |
| Depreciation Expense | | | (b) 500 | | 500 | | 500 | | | |
| Accum. Depr.—Equipment | | | | (b) 500 | | 500 | | | | 500 |
| Insurance Expense | | | (c) 150 | | 150 | | 150 | | | |
| Cleaning Supplies Expense | | | (d) 1,400 | | 1,400 | | 1,400 | | | |
| Salaries Payable | | | | (e) 1,000 | | 1,000 | | | | 1,000 |
| Totals | | | <u>5,750</u> | <u>5,750</u> | <u>41,900</u> | <u>41,900</u> | | | | |
| Net Income | | | | | | | 5,400 | 16,200 | 36,500 | 25,700 |
| Totals | | | | | | | <u>10,800</u> | <u>16,200</u> | <u>36,500</u> | <u>36,500</u> |

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 | 150 |
| Total expenses | <u>5,400</u> |
| Net income | <u>\$10,800</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> |
| | 10,800 |
| Less: Dividends | <u>1,600</u> |
| Retained earnings, July 31 | <u>\$ 9,200</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> | \$ 8,500 |

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)

| General Journal | | | | J2 |
|------------------------|--|-------------|--------------|---------------|
| Date | Account Titles and Explanation | Ref. | Debit | Credit |
| 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 | Trial Balance | | Adjustments | | Adjusted Trial Balance | | Income Statement | | Statement of Financial Position | |
|---------------------------|---------------|---------------|--------------|--------------|------------------------|---------------|------------------|--------------|---------------------------------|---------------|
| | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. |
| Cash | 6,600 | | | | 6,600 | | | | 6,600 | |
| Accounts Receivable | 3,900 | | (a) 1,300 | | 5,200 | | | | 5,200 | |
| Cleaning Supplies | 800 | | | (d) 700 | 100 | | | | 100 | |
| Prepaid Insurance | 1,800 | | | (c) 150 | 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 | | | | 600 | | | | 600 | |
| Service Revenue | | 5,300 | | (a) 1,300 | | 6,600 | | 6,600 | | |
| Gas & Oil Expense | 400 | | | | 400 | | 400 | | | |
| Salaries Expense | 1,600 | | (e) 500 | | 2,100 | | 2,100 | | | |
| Total | 25,700 | 25,700 | | | | | | | | |
| Depreciation Expense | | | (b) 200 | | 200 | | 200 | | | |
| Accum. Depr.—Equipment | | | | (b) 200 | | 200 | | | | 200 |
| Insurance Expense | | | (c) 150 | | 150 | | 150 | | | |
| Cleaning Supplies Expense | | | (d) 700 | | 700 | | 700 | | | |
| Salaries Payable | | | | (e) 500 | | 500 | | | | 500 |
| Totals | | 2,850 | 2,850 | 2,850 | 27,700 | 27,700 | 3,550 | 6,600 | 24,150 | 21,100 |
| Net Income | | | | | | | 3,050 | | | 3,050 |
| Totals | | | | | | | 6,600 | 6,600 | 24,150 | 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>\$3,050</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> |
| | 3,050 |
| Less: Dividends | <u>600</u> |
| Retained earnings, July 31 | <u>\$2,450</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)..... | <u>6,000</u> | \$20,000 | |
| Delivery trucks (\$34,000 + \$5,000) | 39,000 | | |
| Less: Accum. depreciation— | | | |
| delivery trucks | | | |
| (\$5,000 + \$5,000)..... | <u>10,000</u> | <u>29,000</u> | \$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..... | | <u>6,500</u> | <u>24,900</u> |
| Total assets | | | <u>\$73,900</u> |
| Equity and Liabilities | | | |
| Equity | | | |
| Share capital—ordinary | \$40,000 | | |
| Retained earnings | <u>4,650*</u> | \$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) | <u>1,250</u> | <u>14,250</u> | |
| Total equity and liabilities | | | <u>\$73,900</u> |

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><u>\$ 4,650</u></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.**