

**P4-1A** Thomas Magnum began operations as a private investigator on January 1, 2010. The trial balance columns of the worksheet for Thomas Magnum, P.I. at March 31 are as follows.

**THOMAS MAGNUM, P.I.**  
 Worksheet  
 For the Quarter Ended March 31, 2010

<b>Account Titles</b>	<b>Trial Balance</b>	
	<b>Dr.</b>	<b>Cr.</b>
Cash	11,400	
Accounts Receivable	5,620	
Supplies	1,050	
Prepaid Insurance	2,400	
Equipment	30,000	
Notes Payable		10,000
Accounts Payable		12,350
T. Magnum, Capital		20,000
T. Magnum, Drawing	600	
Service Revenue		13,620
Salaries Expense	2,200	
Travel Expense	1,300	
Rent Expense	1,200	
Miscellaneous Expense	200	
	<u>55,970</u>	<u>55,970</u>

Other data:

1. Supplies on hand total \$380.
2. Depreciation is \$1,000 per quarter.
3. Interest accrued on 6-month note payable, issued January 1, \$300.
4. Insurance expires at the rate of \$200 per month.
5. Services provided but unbilled at March 31 total \$530.

**Instructions**

- (a) Enter the trial balance on a worksheet and complete the worksheet.
- (b) Prepare an income statement and owner's equity statement for the quarter and a classified balance sheet at March 31. T. Magnum did not make any additional investments in the business during the quarter ended March 31, 2010.
- (c) Journalize the adjusting entries from the adjustments columns of the worksheet.
- (d) Journalize the closing entries from the financial statement columns of the worksheet.

# SOLUTIONS TO PROBLEMS

## PROBLEM 4-1A

**THOMAS MAGNUM P.I.**  
Worksheet

Account Titles	For the Quarter Ended March 31, 2008					
	Trial Balance		Adjustments		Adjusted Trial Balance	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	11,400				11,400	
Accounts Receivable	5,620		(e)	530	6,150	
Supplies	1,050			(a)	670	380
Prepaid Insurance	2,400		(d)	600	1,800	
Equipment	30,000				30,000	
Notes Payable	10,000				10,000	
Accounts Payable	12,350				12,350	
T. Magnum, Capital	20,000				20,000	
T. Magnum, Drawing	600				600	
Service Revenue	2,200		(e)	530	2,200	
Salaries Expense	1,300				1,300	
Travel Expense	1,200				1,200	
Rent Expense	200				200	
<b>Totals</b>	<b>55,970</b>	<b>55,970</b>	(a)	670	670	
Supplies Expense		(b)	1,000	1,000	1,000	
Depreciation Expense		(c)	300	300	300	
Accumulated Depreciation		(d)	600	600	600	
Interest Expense						
Interest Payable						
Insurance Expense						
Totals						
Net Income						
<b>Totals</b>						

**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.**  
**Income Statement**  
**For the Quarter Ended March 31, 2008**

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<b>Revenues</b>	
Service revenue.....	\$14,150
<b>Expenses</b>	
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.**  
**Owner's Equity Statement**  
**For the Quarter Ended March 31, 2008**

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<b>T. Magnum, Capital, January 1 .....</b>	\$	<b>0</b>
Add: Investment by owner .....	\$20,000	
Net income .....	<u>6,680</u>	<b>26,680</b>
Less: Drawings.....		<b>600</b>
<b>T. Magnum, Capital, March 31 .....</b>		<b><u>\$26,080</u></b>

**PROBLEM 4-1A (Continued)**

**THOMAS MAGNUM P.I.**  
**Balance Sheet**  
**March 31, 2008**

<b>Assets</b>		
<b>Current assets</b>		
Cash.....	\$11,400	
Accounts receivable.....	6,150	
Supplies.....	380	
Prepaid insurance.....	<u>1,800</u>	
Total current assets.....		<u>19,730</u>
<b>Property, plant, and equipment</b>		
Equipment .....	\$30,000	
Less: Accumulated depreciation .....	<u>1,000</u>	<u>29,000</u>
Total assets .....		<u>\$48,730</u>
<b>Liabilities and Owner's Equity</b>		
<b>Current liabilities</b>		
Notes payable.....	\$10,000	
Accounts payable .....	12,350	
Interest payable .....	<u>300</u>	
Total current liabilities.....		<u>22,650</u>
<b>Owner's equity</b>		
T. Magnum, Capital.....	<u>26,080</u>	
Total liabilities and owner's equity .....		<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)**

	<b>Mar. 31</b>	<b>Accounts Receivable.....</b>	<b>530</b>
		<b>Service Revenue .....</b>	<b>530</b>
<b>(d)</b>	<b>Mar. 31</b>	<b>Service Revenue .....</b>	<b>14,150</b>
		<b>Income Summary.....</b>	<b>14,150</b>
	<b>31</b>	<b>Income Summary.....</b>	<b>7,470</b>
		<b>Travel Expense.....</b>	<b>1,300</b>
		<b>Salaries Expense .....</b>	<b>2,200</b>
		<b>Rent Expense.....</b>	<b>1,200</b>
		<b>Insurance Expense.....</b>	<b>600</b>
		<b>Depreciation Expense .....</b>	<b>1,000</b>
		<b>Supplies Expense.....</b>	<b>670</b>
		<b>Interest Expense .....</b>	<b>300</b>
		<b>Miscellaneous Expense.....</b>	<b>200</b>
	<b>31</b>	<b>Income Summary.....</b>	<b>6,680</b>
		<b>T. Magnum, Capital .....</b>	<b>6,680</b>
	<b>31</b>	<b>T. Magnum, Capital .....</b>	<b>600</b>
		<b>T. Magnum, Drawing.....</b>	<b>600</b>

**P4-6A** Joe Edmonds, CPA, was retained by Fox Cable to prepare financial statements for April 2010. Edmonds accumulated all the ledger balances per Fox's records and found the following.

### FOX CABLE

Trial Balance  
April 30, 2010

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 4,100	
Accounts Receivable	3,200	
Supplies	800	
Equipment	10,600	
Accumulated Depreciation		\$ 1,350
Accounts Payable		2,100
Salaries Payable		700
Unearned Revenue		890
A. Manion, Capital		12,900
Service Revenue		5,450
Salaries Expense	3,300	
Advertising Expense	600	
Miscellaneous Expense	290	
Depreciation Expense	500	
	<u>\$23,390</u>	<u>\$23,390</u>

Joe Edmonds reviewed the records and found the following errors.

1. Cash received from a customer on account was recorded as \$960 instead of \$690.
2. A payment of \$65 for advertising expense was entered as a debit to Miscellaneous Expense \$65 and a credit to Cash \$65.
3. The first salary payment this month was for \$1,900, which included \$700 of salaries payable on March 31. The payment was recorded as a debit to Salaries Expense \$1,900 and a credit to Cash \$1,900. (No reversing entries were made on April 1.)
4. The purchase on account of a printer costing \$290 was recorded as a debit to Supplies and a credit to Accounts Payable for \$290.
5. A cash payment of repair expense on equipment for \$95 was recorded as a debit to Equipment \$59 and a credit to Cash \$59.

**Instructions**

- (a) Prepare an analysis of each error showing (1) the incorrect entry, (2) the correct entry, and (3) the correcting entry. Items 4 and 5 occurred on April 30, 2010.
- (b) Prepare a correct trial balance.

**PROBLEM 4-6A**

(a)

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

**PROBLEM 4-6A (Continued)**

(b)

**FOX CABLE**  
**Trial Balance**  
**April 30, 2008**

	<u>Debit</u>	<u>Credit</u>
<b>Cash (\$4,100 – \$270 – \$36).....</b>	\$ 3,794	
<b>Accounts Receivable (\$3,200 + \$270) .....</b>	3,470	
<b>Supplies (\$800 – \$290) .....</b>	510	
<b>Equipment (\$10,600 + \$290 – \$59).....</b>	10,831	
<b>Accumulated Depreciation .....</b>		\$ 1,350
<b>Accounts Payable.....</b>		2,100
<b>Salaries Payable (\$700 – \$700).....</b>		0
<b>Unearned Revenue .....</b>		890
<b>A. Manion, Capital.....</b>		12,900
<b>Service Revenue .....</b>		5,450
<b>Salaries Expense (\$3,300 – \$700) .....</b>	2,600	
<b>Advertising Expense (\$600 + \$65) .....</b>	665	
<b>Miscellaneous Expense (\$290 – \$65) .....</b>	225	
<b>Repair Expense.....</b>	95	
<b>Depreciation Expense .....</b>	500	
	<b><u>\$22,690</u></b>	<b><u>\$22,690</u></b>

**P4-1B** The trial balance columns of the worksheet for Sasse Roofing at March 31, 2010, are as follows.

**SASSE ROOFING**  
Worksheet  
For the Month Ended March 31, 2010

<b>Account Titles</b>	<b>Trial Balance</b>	
	<b>Dr.</b>	<b>Cr.</b>
Cash	4,500	
Accounts Receivable	3,200	
Roofing Supplies	2,000	
Equipment	11,000	
Accumulated Depreciation—Equipment		1,250
Accounts Payable		2,500
Unearned Revenue		550
J. Sasse, Capital		12,900
J. Sasse, Drawing	1,100	
Service Revenue		6,300
Salaries Expense	1,300	
Miscellaneous Expense	400	
	<u>23,500</u>	<u>23,500</u>

Other data:

1. A physical count reveals only \$650 of roofing supplies on hand.
2. Depreciation for March is \$250.
3. Unearned revenue amounted to \$170 at March 31.
4. Accrued salaries are \$600.

**Instructions**

- (a) Enter the trial balance on a worksheet and complete the worksheet.
- (b) Prepare an income statement and owner's equity statement for the month of March and a classified balance sheet at March 31. J. Sasse did not make any additional investments in the business in March.
- (c) Journalize the adjusting entries from the adjustments columns of the worksheet.
- (d) Journalize the closing entries from the financial statement columns of the worksheet.

## **PROBLEM 4-1B**

**EVERLAST ROOFING**  
**Worksheet**  
**For the Month Ended March 31, 200**

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

**PROBLEM 4-1B (Continued)**

(b) **EVERLAST ROOFING**  
**Income Statement**  
**For the Month Ended March 31, 2008**

<b>Revenues</b>	
Service revenue .....	<b>\$3,670</b>
<b>Expenses</b>	
Salaries expense .....	\$1,050
Supplies expense.....	860
Depreciation expense.....	200
Miscellaneous expense.....	200
Total expenses.....	<b>2,310</b>
Net income .....	<b>\$1,360</b>

**EVERLAST ROOFING**  
**Owner's Equity Statement**  
**For the Month Ended March 31, 2008**

<b>J. Watt, Capital, March 1 .....</b>	<b>\$7,000</b>
Add: Net income .....	1,360
	8,360
Less: Drawings .....	600
<b>J. Watt, Capital, March 31 .....</b>	<b>\$7,760</b>

**EVERLAST ROOFING**  
**Balance Sheet**  
**March 31, 2008**

<b>Assets</b>	
<b>Current assets</b>	
Cash.....	\$2,500
Accounts receivable .....	1,800
Roofing supplies .....	240
Total current assets .....	4,540
<b>Property, plant, and equipment</b>	
Equipment .....	\$6,000
Less: Accum. depreciation—equipment.....	900
Total assets.....	5,100 <b>\$9,640</b>

**PROBLEM 4-1B (Continued)**

**EVERLAST ROOFING**  
**Balance Sheet (Continued)**  
**March 31, 2008**

<b>Liabilities and Owner's Equity</b>		
<b>Current liabilities</b>		
Accounts payable.....		\$1,400
Salaries payable.....		350
Unearned revenue .....		<u>130</u>
Total current liabilities .....		1,880
<b>Owner's equity</b>		
J. Watt, Capital.....		<u>7,760</u>
Total liabilities and owner's equity .....		<u>\$9,640</u>
 <b>(c) Mar. 31</b>		
<b>Supplies Expense.....</b>	860	
<b>Roofing Supplies.....</b>		860
<b>Depreciation Expense.....</b>	200	
<b>Accumulated Depreciation.....</b>		200
<b>Unearned Revenue .....</b>	170	
<b>Service Revenue.....</b>		170
<b>Salaries Expense.....</b>	350	
<b>Salaries Payable .....</b>		350
 <b>(d) Mar. 31</b>		
<b>Service Revenue.....</b>	3,670	
<b>Income Summary.....</b>		3,670
<b>Income Summary .....</b>	2,310	
<b>Salaries Expense.....</b>		1,050
<b>Supplies Expense.....</b>		860
<b>Depreciation Expense.....</b>		200
<b>Miscellaneous Expense.....</b>		200
<b>Income Summary .....</b>	1,360	
<b>J. Watt, Capital .....</b>		1,360
<b>J. Watt, Capital .....</b>	600	
<b>J. Watt, Drawing.....</b>		600