

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

<u>Account Titles</u>	<u>Trial Balance</u>	
	<u>Dr.</u>	<u>Cr.</u>
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

(a) THOMAS MAGNUM P.I.
Worksheet
For the Quarter Ended March 31, 2008

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	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) 670		380				380	
Prepaid Insurance	2,400		(d) 600		1,800				1,800	
Equipment	30,000				30,000				30,000	
Notes Payable		10,000				10,000				10,000
Accounts Payable		12,350				12,350				12,350
T. Magnum, Capital		20,000				20,000				20,000
T. Magnum, Drawing	600				600				600	
Service Revenue		13,620		(e) 530		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				1,000
Interest Expense			(c) 300		300		300			
Interest Payable				(c) 300		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.
Income Statement
For the Quarter Ended March 31, 2008**

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.
Owner's Equity Statement
For the Quarter Ended March 31, 2008**

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

PROBLEM 4-1A (Continued)

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

Assets			
Current assets			
	Cash.....		\$11,400
	Accounts receivable.....		6,150
	Supplies.....		380
	Prepaid insurance		<u>1,800</u>
	Total current assets.....		19,730
Property, plant, and equipment			
	Equipment	\$30,000	
	Less: Accumulated depreciation	<u>1,000</u>	<u>29,000</u>
	Total assets		<u>\$48,730</u>
Liabilities and Owner's Equity			
Current liabilities			
	Notes payable.....		\$10,000
	Accounts payable		12,350
	Interest payable		<u>300</u>
	Total current liabilities.....		22,650
Owner's equity			
	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)

	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	
		T. Magnum, Capital		6,680
	31	T. Magnum, Capital	600	
		T. Magnum, Drawing.....		600

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

PROBLEM 4-6A (Continued)**(b)****FOX CABLE
Trial Balance
April 30, 2008**

	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
A. Manion, Capital.....		12,900
Service Revenue		5,450
Salaries Expense (\$3,300 – \$700)	2,600	
Advertising Expense (\$600 + \$65).....	665	
Miscellaneous Expense (\$290 – \$65)	225	
Repair Expense.....	95	
Depreciation Expense	500	
	<u>\$22,690</u>	<u>\$22,690</u>

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

Account Titles	Trial Balance	
	Dr.	Cr.
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, 2008

(a)

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	2,500				2,500				2,500	
Accounts Receivable	1,800				1,800				1,800	
Roofing Supplies	1,100			(a) 860	240				240	
Equipment	6,000				6,000				6,000	
Accumulated Depreciation		700		(b) 200		900				900
Accounts Payable		1,400				1,400				1,400
Unearned Revenue		300	(c) 170			130				130
J. Watt, Capital		7,000				7,000				7,000
J. Watt, Drawing	600				600				600	
Service Revenue		3,500		(c) 170		3,670		3,670		
Salaries Expense	700		(d) 350		1,050		1,050			
Miscellaneous Expense	200				200		200			
Totals	<u>12,900</u>	<u>12,900</u>								
Supplies Expense			(a) 860		860		860			350
Depreciation Expense			(b) 200		200		200			
Salaries Payable				(d) 350		350				
Totals			<u>1,580</u>	<u>1,580</u>	<u>13,450</u>	<u>13,450</u>	<u>2,310</u>	<u>3,670</u>	<u>11,140</u>	<u>9,780</u>
Net Income							<u>1,360</u>			<u>1,360</u>
Totals							<u>3,670</u>	<u>3,670</u>	<u>11,140</u>	<u>11,140</u>

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

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

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

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

EVERLAST ROOFING
Balance Sheet
March 31, 2008

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

PROBLEM 4-1B (Continued)

EVERLAST ROOFING
Balance Sheet (Continued)
March 31, 2008

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