ACC1701XA
ACCOUNTING FOR DECISION MAKERS
SEMESTER 1   2025 / 2026

SELF STUDY ANSWER SOLUTIONS

PART 1 (Chapter 1 – 7)

This document contains solutions only to the textbook questions that have been assigned for self-study. Refer to the "*Detailed Course Schedule Outline*" on Canvas for the assigned list of self-study questions.

CONTENTS:

Note: Separate solutions will be provided for tutorial questions.

CHAPTER 1

PE 1-5 (LO2) Users of Financial Information

These groups or individuals would be interested in a firm's financial statements for the following reasons:

a. Current stockholders have already invested in the firm, and with the financial statements, they can analyze the firm's performance and evaluate whether their investment has been a good one.

b. Creditors are interested in the firm's performance because they have loaned money to the firm. They need to review the financial statements to see if the firm is performing well enough to repay the loan.

c. Management needs to see what areas of the business the firm needs to improve upon. Management can also see if the firm has met operational goals for the last period.

d. Prospective stockholders need to review the financial statements to determine whether they want to invest their money in the firm.

e. The tax filings made with the Internal Revenue Service are prepared using a different set of rules from those used in preparing the financial statements. However, the IRS may make a comparison between the tax filing and the financial statements to detect unusual or extreme differences suggesting the underpayment of taxes.

f. The SEC ensures that financial statements have been evaluated by independent external auditors. The SEC also identifies problematic accounting areas in which the SEC staff may do additional checking.

g. The firm's major labor union would want to make sure that the employees of the firm are being treated fairly and that the company is conducting business in an appropriate manner.

PE 1-20 (LO4) Why Do I Need to Know Accounting?

Your friend will find that he needs accounting sooner than he thinks. He will need knowledge of accounting to complete his tax returns. He will be required to have a complete financial history should he ever elect to expand his business and need to borrow funds. He will need accounting information to determine if he is covering his costs and providing to himself a fair return. Your friend will certainly need knowledge of revenues and expenses to measure his success. In addition, he will need a record of his obligations and the amounts owed to him. Every business manager finds out rather quickly that accounting information is very valuable.

AA 1-6 Nestlé Group

Real Company Analysis

1. 90,163 million of CHF are financed by creditors, and 36,387 million of CHF are financed by shareholders.

2. (1) Inventories and Trade and other receivables
(2) Trade and other payables

CHAPTER 2

PE 2-5 (LO1) The Accounting Equation

Case A	**$10,000 – $4,000 = $6,000 Equity**
Case B	**$8,000 – $3,500 = $4,500 Liabilities**
Case C	**$5,500 + $7,000 = $12,500 Assets**
Case D	**$13,000 – $15,000 = ($2,000) Equity** **Note that in this case, total equity is negative because liabilities are greater than assets.**

PE 2-11 (LO2) Computation of Net Income

Computation of net income (or net loss):

	Case A	Case B	Case C	Case D
Service revenue	$100,000	$150,000	$ 70,000	$ 200,000
Rent revenue	5,000	1,000	12,000	10,000
Wages expense	(60,000)	(30,000)	(60,000)	(110,000)
Interest expense	(18,000)	(47,000)	(25,000)	(31,000)
Net income (loss)	$ 27,000	$ 74,000	$ (3,000)	$ 69,000

E 2-2 (LO1) Accounting Equation

	Johnson Company	Best Company	Coury Company
Cash	$11,500	$ 5,800	$17,000
Accounts receivable	5,500	11,000	11,750
Land............	48,500	*20,200*	41,000
Accounts payable............	*6,000*	3,500	16,000
Mortgage payable............	37,500	19,000	32,250
Equity	22,000	14,500	*21,500*

E 2-3 (LO1) Analyze the Effect of Transactions on Assets, Liabilities, and Equity

1.	(c)	5.	(d)
2.	(d)	6.	(b)
3.	(a)	7.	(e)
4.	(b)	8.	(f)

P 2-6 (LO1, LO2) Expanded Accounting Equation

1. **Compute net increase in assets:**

Cash	$ 12,500
Interest receivable	(7,500)
Accounts receivable	(11,750)
Buildings	157,500
Net increase in assets	$150,750

2. **Compute net increase in liabilities:**

Accounts payable	$ 22,500
Mortgage payable	87,500
Wages payable	(35,250)
Net increase in liabilities	$ 74,750

3. **Figure overall increase in equity from net increases in assets and liabilities:**

Net increase in assets	$150,750
Less: Net increase in liabilities	74,750
Net increase in equity	$ 76,000

4. **Compute known net increase in equity:**

Capital stock	$ 26,250
Retained earnings (dividends paid)	(25,000)
Known net increase in equity	$ 1,250

5. **Net increase of $76,000 in equity resulted from changes in (1) the known net increase in equity and (2) net income. Thus, net income can be figured by:**

Overall net increase in equity	$ 76,000
Less: Known net increase in equity	(1,250)
Net income for 2026	$ 74,750

AA 2-8 Violating a Covenant

Ethics

There are many ways to change the current ratio. Some of them have a legitimate business purpose and some don't. For example, selling a product or service at a profit will cause the current ratio to increase, as will selling equipment. The difference is that selling a product or service is a long-term solution to the current problem, while selling equipment that the company will need is a short-term solution.

Would investors want management deciding on short-term, quick-fix solutions to avoid violating debt covenants? Management might argue that it is in the best interest of shareholders to keep the bank out of the company's business. Thus, manipulating the current ratio is the proper thing to do. The lender would counter that selling equipment to inflate the current ratio violates the spirit of the debt covenant.

What's the right answer? As is often the case in gray areas, it is probably not clear. But one thing is certain: you must always be careful when making business decisions that do not have a clear business purpose.

CHAPTER 3

PE 3-16 (LO3) Journal Entries with Revenues, Expenses, and Dividends

a.	Equipment	260,000	
	Accounts Payable		260,000
b.	Cash	200,000	
	Service Revenue		200,000
c.	Wages Expense	54,000	
	Cash		54,000
d.	Advertising Expense	25,000	
	Cash		25,000
e.	Cash	50,000	
	Accounts Receivable	120,000	
	Service Revenue		170,000
f.	Cash	47,000	
	Accounts Receivable		47,000
g.	Accounts Payable	110,000	
	Cash		110,000
h.	Dividends	17,000	
	Cash		17,000

PE 3-18 (LO4) Posting with Revenues, Expenses, and Dividends

Cash

Beg. bal.	0		
b.	200,000		
		c.	54,000
		d.	25,000
e.	50,000		
f.	47,000		
		g.	110,000
		h.	17,000
End. bal.	91,000		

Accounts Receivable

Beg. bal.	0		
e.	120,000		
		f.	47,000
End. bal.	73,000		

Equipment

Beg. bal.	0	
a.	260,000	
End. bal.	260,000	

Accounts Payable

		Beg. bal.	0
		a.	260,000
g.	110,000		
		End. bal.	150,000

Service Revenue

	Beg. bal.	0
	b.	200,000
	e.	170,000
	End. bal.	370,000

Wages Expense

Beg. bal.	0	
c.	54,000	
End. bal.	54,000	

Advertising Expense

Beg. bal.	0	
d.	25,000	
End. bal.	25,000	

Dividends

Beg. bal.	0	
h.	17,000	
End. bal.	17,000	

E 3-3 (LO2) Expanded Accounting Equation

Transaction	Assets	=	Liabilities	+	Equity
1	+ (Supplies)		+ (Accounts Payable)		0
2	+ (Cash)		0		+ (Revenue)
3	+ (Cash)		+ (Notes Payable)		0
4	+ (Land) – (Cash)		+ (Notes Payable)		0
5	+ (Cash)		0		+ (Capital Stock)
6	– (Cash)		0		– (Expense)
7	– (Cash)		– (Accounts Payable)		0
8	+ (Cash) + (Notes Receivable) – (Buildings)		0		0
9	– (Cash)		0		– (Dividends)
10	– (Cash)		0		– (Expense)

E 3-4 (LO2) Classification of Accounts

1. A
2. OE—R
3. A
4. OE—E
5. OE
6. L
7. OE—E
8. OE
9. L
10. L
11. OE—R
12. A
13. L
14. A
15. A
16. OE—E
17. L
18. OE—E

E 3-9 (LO2) Relationships of the Expanded Accounting Equation

1. **December 31, 2025:**

Total assets	$ 250,000
Less total liabilities	(115,000)
Total equity	$ 135,000
Less retained earnings	(95,000)
Capital stock	$ 40,000

2. **December 31, 2026:**

Total assets	$ 300,000
Less total liabilities	(125,000)
Total equity	$ 175,000
Less capital stock	(60,000)
Retained earnings	$ 115,000

3.

Retained earnings, December 31, 2025	$ 95,000
Plus net income for 2026	X
Less dividends for 2026	(6,500)
Retained earnings, December 31, 2026	$ 115,000
Net income	$ 26,500*

*($95,000 + X – $6,500 = $115,000; X = $26,500)

Revenues for 2026	$ X
Less expenses for 2026	(135,500)
Net income for 2026	$ 26,500
Revenues	$162,000**

**(X – $135,500 = $26,500; X = $162,000)

Alternative solution:

Increase in Retained Earnings during year = $20,000 ($115,000 – $95,000)
$20,000 = Revenues (X) – Expenses ($135,500) – Dividends ($6,500) =
Revenues ($162,000)

E 3-12 (LO3) Journal Entries

July	2	Cash	320,000	
		Capital Stock		320,000
		Issued 80,000 shares of capital stock.		
	4	Equipment	100,000	
		Cash		75,000
		Notes Payable		25,000
		Purchased equipment with 75% cash and 25% on a note payable.		

5	**Utilities Expense**	**2,300**	
	Cash		**2,300**
	Paid utilities.		
13	**Supplies**	**250,000**	
	Cash		**75,000**
	Accounts Payable		**175,000**
	Purchased supplies, 30% cash and 70% on account.		
14	**Insurance Expense**	**6,000**	
	Cash		**6,000**
	Paid insurance premium.		
18	**Accounts Receivable**	**81,000**	
	Service Revenue		**81,000**
	Provided service on account.		
20	**Cash**	**8,500**	
	Accounts Receivable		**8,500**
	Collected accounts receivable.		
24	**Cash**	**43,000**	
	Service Revenue		**43,000**
	Provided service for cash.		
27	**Property Tax Expense**	**1,200**	
	Cash		**1,200**
	Paid property taxes.		
30	**Accounts Payable**	**175,000**	
	Cash		**175,000**
	Paid accounts payable.		

E 3-21 (LO4) **Trial Balance**

Marshall, Inc.
Trial Balance
November 30, 2026

	Debit	Credit
Cash	$ 35,000	
Short-Term Investments	15,000	
Accounts Receivable	125,000	
Notes Receivable	20,000	
Land	125,000	
Buildings	150,000	
Equipment	55,000	
Accounts Payable		$ 55,000
Salaries Payable		2,000
Notes Payable		150,000
Mortgage Payable		95,000
Capital Stock		173,000*
Retained Earnings		40,000
Service Revenue		187,000
Advertising Expense	5,000	
Other Expenses	1,000	
Property Tax Expense	1,500	
Rent Expense	7,500	
Salaries Expense	155,000	
Utilities Expense	7,000	
Totals	$702,000	$702,000

***Capital Stock is the difference between the total given credits and total debits:**

Total debits	$ 702,000
Total given credits	(529,000)
Capital Stock	$ 173,000

P 3-6 (LO3, LO4) Unifying Concepts: Compound Journal Entries, Posting, Trial Balance

1.

(a)	Cash	30,000	
	Supplies	2,500	
	Land	20,000	
	Buildings	165,000	
	Office Equipment	13,500	
	Notes Payable		6,000
	Capital Stock		225,000
(b)	Cash	20,000	
	Accounts Receivable	32,000	
	Service Revenue		52,000
(c)	Notes Payable	6,000	
	Interest Expense	500	
	Cash		6,500
(d)	Supplies	1,400	
	Cash		600
	Notes Payable		800
(e)	Office Equipment	12,000	
	Cash		6,000
	Capital Stock		6,000
(f)	Transportation equipment	25,000	
	Cash		5,000
	Notes Payable		20,000

2.

Cash

(a)	30,000	(c)	6,500
(b)	20,000	(d)	600
		(e)	6,000
		(f)	5,000
Bal.	31,900		

Accounts Receivable

(b)	32,000		

Supplies

(a)	2,500		
(d)	1,400		
Bal.	3,900		

Land

(a)	20,000		

Buildings

(a)	165,000		

Office Equipment

(a)	13,500		
(e)	12,000		
Bal.	25,500		

Transportation Equipment

(f)	25,000		

Notes Payable

(c)	6,000	(a)	6,000
		(d)	800
		(f)	20,000
		Bal.	20,800

Capital Stock		
	(a)	225,000
	(e)	6,000
	Bal.	231,000

Service Revenue		
	(b)	52,000

Interest Expense		
(c)	500	

3.

Shaw Company
Trial Balance
December 31, 2026

	Debit	Credit
Cash	$ 31,900	
Accounts Receivable	32,000	
Supplies	3,900	
Land	20,000	
Buildings	165,000	
Office Equipment	25,500	
Transportation equipment	25,000	
Notes Payable		$ 20,800
Capital Stock		231,000
Service Revenue		52,000
Interest Expense	500	
Totals	$303,800	$303,800

P 3-7 (LO3, LO4) Unifying Concepts: Journal Entries, T-Accounts, Trial Balance

1.

2026				
May	3	Accounts Payable	3,000	
		Cash		3,000
	6	Cash	2,450	
		Accounts Receivable		2,450
	7	Cash	3,000	
		Accounts Receivable	2,000	
		Service Revenue		5,000
	15	Notes Payable	2,500	
		Cash		2,500
	21	Cash	1,000	
		Capital Stock		1,000
	23	Cash	3,750	
		Service Revenue		3,750

25	Salaries Expense	1,000	
	Cash		1,000
26	Rent Expense	250	
	Cash		250
29	Office Equipment	250	
	Cash		250

2.

Cash

Beg. bal.	8,050	5/3	3,000
5/6	2,450	5/15	2,500
5/7	3,000	5/25	1,000
5/21	1,000	5/26	250
5/23	3,750	5/29	250
End. bal.	11,250		

Accounts Receivable

Beg. bal.	2,450	5/6	2,450
5/7	2,000		
End. bal.	2,000		

Buildings

Beg. bal.	30,000		
End. bal.	30,000		

Office Equipment

Beg. bal.	2,000		
5/29	250		
End. bal.	2,250		

Notes Payable

5/15	2,500	Beg. bal.	12,500
		End. bal.	10,000

Accounts Payable

5/3	3,000	Beg. bal.	6,000
		End. bal.	3,000

Capital Stock

		Beg. bal.	15,000
		5/21	1,000
		End. bal.	16,000

Retained Earnings

		Beg. bal.	9,000

Service Revenue

		5/7	5,000
		5/23	3,750
		End. bal.	8,750

Salaries Expense

5/25	1,000		

Rent Expense

5/26	250		

3.

Chris Company
Trial Balance
May 31, 2026

	Debit	Credit
Cash	$ 11,250	
Accounts Receivable	2,000	
Buildings	30,000	
Office Equipment	2,250	
Notes Payable		$ 10,000
Accounts Payable		3,000
Capital Stock		16,000
Retained Earnings		9,000
Service Revenue		8,750
Salaries Expense	1,000	
Rent Expense	250	
Totals	$46,750	$46,750

P 3-9 (LO4) Correcting a Trial Balance

Jacubs Company, Inc.
Trial Balance
November 30, 2026

	Debit	Credit
Cash	$ 18,700	
Accounts Receivable	60,450	
Notes Receivable	12,000	
Land	95,850	
Buildings	210,700	
Equipment	37,900	
Office Equipment	18,000	
Accounts Payable		$ 23,450
Notes Payable		198,350
Wages Payable		12,000
Mortgage Payable		75,200
Capital Stock		110,000
Retained Earnings		21,400
Service Revenue		125,600
Advertising Expense	10,400	
Wages Expense	87,900	
Rent Expense	8,700	
Other Expenses	2,000	
Property Tax Expense	1,300	
Utilities Expense	2,100	
Totals	$566,000	$566,000

CHAPTER 4

PE 4-4 (LO1) Cash-Basis Accounting

	For 2026
Cash receipts	$92,000
Cash disbursements	73,000
Cash-basis income	$19,000

PE 4-5 (LO1) Accrual-Basis Accounting

	For 2026
Revenues earned	$135,000
Expenses incurred ($73,000 + $41,000)	114,000
Accrual-basis income (loss)	$ 21,000

PE 4-16 (LO3) Preparing an Adjusted Trial Balance

1.

a. Dec. 31	Interest Receivable	9,240	
	Interest Revenue		9,240

$144,000 × 0.11 × 7/12 = $9,240; 7 months elapse from June 1 through December 31.

b. Dec. 31	Unearned Fee Revenue	68,750	
	Fee Revenue		68,750

$225,000 ÷ 36 months = $6,250 per month.
$6,250 × 11 months = $68,750 fee revenue earned;
11 months from February 1 through December 31.

c. Dec. 31	Rent Expense	9,600	
	Prepaid Rent		9,600

$192,000 ÷ 60 months = $3,200 per month.
$3,200 × 3 months = $9,600 prepaid rent used up;
3 months from October 1 through December 31.

d. Dec. 31	Wages Expense	17,000	
	Wages Payable		17,000

2.

	Debit	Credit
Cash	$ 87,000	
Notes Receivable	144,000	
Interest Receivable	9,240	
Prepaid Rent ($192,000 – $9,600)	182,400	
Land	210,000	

Accounts Payable		$165,000
Wages Payable		17,000
Unearned Fee Revenue ($225,000 – $68,750)		156,250
Capital Stock		200,000
Retained Earnings		90,000
Dividends	22,000	
Fee Revenue ($257,000 + $68,750)		325,750
Interest Revenue		9,240
Wages Expense ($229,000 + $17,000)	246,000	
Utilities Expense	53,000	
Rent Expense	9,600	
Totals	$963,240	$963,240

PE 4-17 (LO3) Using an Adjusted Trial Balance to Prepare a Statement of Comprehensive Income

Fee revenue		$325,750
Interest revenue		9,240
Total revenue		$334,990
Expenses:		
Wages expense	$246,000	
Utilities expense	53,000	
Rent expense	9,600	308,600
Net income		$ 26,390
Other comprehensive income		0
Comprehensive income		$ 26,390

PE 4-18 (LO3) Using an Adjusted Trial Balance to Prepare a Balance Sheet

Assets	
Cash	$ 87,000
Notes receivable	144,000
Interest receivable	9,240
Prepaid rent	182,400
Land	210,000
Total assets	$632,640
Liabilities and Equity	
Accounts payable	$165,000
Wages payable	17,000
Unearned fee revenue	156,250
Capital stock	200,000
Retained earnings	94,390*
Total liabilities and equity	$632,640

***Beginning retained earnings $90,000 + Net income $26,390 (see PE 4-17) – Dividends $22,000 = $94,390.**

E 4-2 (LO1) Reporting Income: Cash versus Accrual Accounting

1. a. Cash-basis:

Cash receipts:		
From customers	**$185,000**	
From interest	**1,100**	**$186,100**
Cash disbursements:		
For rent	**$ 18,000**	
For wages	**71,000**	**89,000**
Net income for the year		**$ 97,100**

b. Accrual-basis:

Revenues:		
Services	**$265,000**	
Interest	**1,100**	**$266,100**
Expenses:		
Rent	**12,000**	
Utilities	**1,350**	
Wages ($71,000 + $3,500)	**74,500**	
Interest	**950**	**88,800**
Net income for the year		**$177,300**

2. Accrual-basis accounting provides a better measure of operating results. It reflects the sales that have been earned, not just the cash collected, and it reports the expenses incurred, not just the cash paid. Note that cash flows are important for assessing liquidity. Daniel would have to be careful not to spend more money than he is bringing in, especially as a new business. However, as a measure of ongoing profitability, the accrual-basis net income amount ($177,300 in this case) is the better measure of operating results.

E 4-5 (LO2) Adjusting Entries: Prepaid Expenses and Unearned Revenues

1. ***Original entry***

Prepaid Insurance	**5,400**	
Cash		**5,400**

Adjusting entry

Insurance Expense	**900**	
Prepaid Insurance		**900**
($5,400/3 years = $1,800 per year; $1,800 year × 1/2 year = $900)		

2.	***Original entry***		
	Prepaid Property Taxes...	**2,400**	
	Cash...		**2,400**
	Adjusting entry		
	Property Tax Expense	**2,200**	
	Prepaid Property Taxes		**2,200**
	($2,400/12 months = $200 per month; $200 × 11 months = $2,200)		
3.	***Original entry***		
	Prepaid Subscriptions...	**360**	
	Cash...		**360**
	Adjusting entry		
	Subscription Expense	**80**	
	Prepaid Subscriptions		**80**
	($360/36 months = $10 per month; $10 × 8 months = $80)		
4.	***Original entry***		
	Cash...	**3,600**	
	Unearned Consulting Fees Revenue		**3,600**
	Adjusting entry		
	Unearned Consulting Fees Revenue	**700**	
	Consulting Fees Revenue..		**700**
	($3,600/18 months = $200 per month; $200 per month × 3.5 months = $700)		
5.	***Original entry***		
	Cash...	**900**	
	Unearned Rent Revenue		**900**
	Adjusting entry		
	Unearned Rent Revenue...	**300**	
	Rent Revenue...		**300**
	($900/6 months = $150 per month; $150 × 2 months = $300)		
6.	***Original entry***		
	Cash...	**14,400**	
	Unearned Interest Revenue		**14,400**
	Adjusting entry		
	Unearned Interest Revenue	**1,200**	
	Interest Revenue..		**1,200**
	($14,400/24 months = $600 per month; $600 × 2 months = $1,200)		

E 4-7 (LO2) Adjusting Entries

1.	June 1	**Cash**	4,800	
		Unearned Subscription Revenue		4,800
		To record receipt of two-year subscription.		
	Dec. 31	**Unearned Subscription Revenue**	1,400	
		Subscription Revenue		1,400
		To record seven months of revenue earned. ($4,800/24 months = $200 per month; $200 × 7 months = $1,400)		
2.	a. Dec. 31	**Salaries Expense**	72,000	
		Salaries Payable		72,000
		To record salaries payable for two days. ($180,000 × 2/5 = $72,000)		
	b. Jan. 3	**Salaries Payable**	72,000	
		Salaries Expense	108,000	
		Cash		180,000
		To record payment of salaries for the week. ($180,000× 3/5 = $108,000)		

E 4-9 (LO2) Adjusting Entries

1.	Feb. 1	**Prepaid Rent**	24,000	
		Cash		24,000
		To record prepayment of rent for one year.		
	Dec. 31	**Rent Expense**	22,000	
		Prepaid Rent		22,000
		To record rent expense for 11 months. ($24,000 × 11/12 = $22,000)		
2.	Mar. 31	**Cash**	50,000	
		Notes Payable		50,000
		To record $50,000, 15%, one-year loan.		
	Dec. 31	**Interest Expense**	5,625	
		Interest Payable		5,625
		To record interest expense for nine months. ($50,000 × 0.15 × 9/12 = $5,625)		
3.	**Recorded upon receipt**			
		Cash	60,000	
		Unearned Design Revenue		60,000
		To record receipt of design fees in advance.		
	Dec. 31	**Unearned Design Revenue**	36,000	

			Debit	Credit
		Design Revenue		36,000
		To record design revenue earned.		
		[$60,000 × (1 – 0.40) = $36,000]		
4.	June 15	Supplies	1,400	
		Cash		1,400
		To record purchase of supplies.		
	Sept. 14	Supplies	1,100	
		Cash		1,100
		To record purchase of supplies.		
	Dec. 31	Supplies Expense	1,700	
		Supplies		1,700
		To record supplies used during the period.		
5.	Dec. 31	Programming Expense	800	
		Accounts Payable		800
		To record programming expense.		

E 4-13 (LO2) Identifying Types of Adjustments and Account Relationships

Item	(a) Type of Adjustment	(b) Accounts before Adjustment
1.	**Accrued Revenues**	**Assets Understated** Revenues Understated
2.	**Prepaid Expenses**	**Assets Overstated** Expenses Understated
3.	**Accrued Expenses**	**Expenses Understated** Liabilities Understated
4.	**Unearned Revenues**	**Liabilities Overstated** Revenues Understated
5.	**Accrued Expenses**	**Expenses Understated** Liabilities Understated
6.	**Prepaid Expenses**	**Assets Overstated** Expenses Understated

E 4-18 (LO4) Closing Entries

December 31		
Service Revenue	**906,000**	
Retained Earnings		**906,000**
December 31		
Interest Revenue	**23,000**	
Retained Earnings		**23,000**
December 31		
Retained Earnings	**450,000**	
Salaries Expense		**450,000**
December 31		
Retained Earnings	**140,000**	
Utilities Expenses		**140,000**
December 31		
Retained Earnings	**135,600**	
Income Tax Expense		**135,600**

Note: **Alternatively, the above journal entries may be combined into the following compound journal entry:**

December 31		
Service Revenue	**906,000**	
Interest Revenue	**23,000**	
Salaries Expense		**450,000**
Utilities Expenses		**140,000**
Income Tax Expense		**135,600**
Retained Earnings		**203,400**

The net result on Retained Earnings is the same under both journal entries.

E 4-19 (LO4) Closing Dividends and Preparing a Post-Closing Trial Balance

1. December 31

Retained Earnings	55,000	
Dividends		55,000

2. **Contemporary Literature Enterprises**
Post-Closing Trial Balance
December 31, 2026

	Debit	Credit
Cash	$ 63,710	
Accounts Receivable	154,230	
Prepaid Insurance	10,070	
Land	430,800	
Accounts Payable		$ 68,540
Notes Payable		92,000
Salaries Payable		27,100
Taxes Payable		36,990
Unearned Rent		18,400
Mortgage Payable		190,500
Capital Stock		130,000
Retained Earnings		95,280*
Totals	$658,810	$658,810

*$150,280 – $55,000 = $95,280

P 4-2 (LO2) Adjusting Entries

a. December 31

Salaries Expense	17,840	
Salaries Payable		17,840

b. December 31

Interest Expense	5,225	
Interest Payable		5,225

($190,000 × 0.11 × 3/12 year = $5,225)

c. December 31

Rent Expense	6,000	
Prepaid Rent		6,000

($36,000/6 months = $6,000; $6,000 × 1 month = $6,000)

d. December 31

Unearned Rent Revenue	33,900	
Rent Revenue		33,900

($76,000 – $42,100 = $33,900)

e. December 31		
Insurance Expense	**2,400**	
Prepaid Insurance		**2,400**
f. December 31		
Interest Receivable	**400**	
Interest Revenue		**400**

P 4-7 (LO4) Closing Entries

1. December 31		
Retained Earnings	**16,400**	
Service Revenue	**178,000**	
Salaries Expense		**144,000**
Interest Expense		**10,500**
Office Supplies Expense		**7,640**
Insurance Expense		**9,860**
Property Tax Expense		**22,400**
2. December 31		
Retained Earnings	**36,000**	
Dividends		**36,000**

P 4-10 (LO2, 3) Unifying Concepts: Adjusting Entries

December 31		
Rent Expense	**15,000**	
Prepaid Rent		**15,000**
Insurance Expense	**4,000**	
Prepaid Insurance		**4,000**
Salaries Expense	**12,000**	
Salaries Payable		**12,000**
Income Tax Expense	**1,200**	
Income Tax Payable		**1,200**
Interest Expense	**800**	
Interest Payable		**800**

P 4-11 (LO4) Unifying Concepts: Closing Entries

December 31		
Service Revenue	250,000	
Salaries Expense		192,000
Rent Expense		37,000
Insurance Expense		5,200
Interest Expense		1,700
Income Tax Expense		6,000
Retained Earnings		8,100

P 4-14 (LO5) Unifying Concepts: Analysis and Correction of Errors

	Assets	=	Liabilities	+	Equity
Reported balances	$103,070	≠	$ 53,300	+	$76,300
(a)					(9,000)
(b)	14,800		14,800		
(c)			4,000		(4,000)
(d)			(25,000)		25,000
(e)	17,530				
Correct balances	$135,400	=	$ 47,100	+	$88,300

P 4-15 (LO5) Unifying Concepts: The Accounting Cycle

1.	(a)	Land	80,000	
		Accounts Payable		80,000
	(b)	Cash	10,000	
		Capital Stock		10,000
	(c)	Cash	80,000	
		Accounts Receivable	100,000	
		Service Revenue		180,000
	(d)	Notes Payable	35,000	
		Interest Expense	7,000	
		Cash		42,000
	(e)	Cash	105,000	
		Accounts Receivable		105,000
	(f)	Accounts Payable	95,000	
		Cash		95,000
	(g)	Salaries Expense	30,000	
		Cash		30,000
	(h)	Dividends	10,000	
		Cash		10,000

2. **Entries (a) through (h) are derived from the solution to requirement 2. Closing entries (i) and (j) are derived from requirement 4.**

Cash

Beg. bal.	15,000	(d)	42,000
(b)	10,000	(f)	95,000
(c)	80,000	(g)	30,000
(e)	105,000	(h)	10,000
Updated bal.	33,000		

Accounts Receivable

Beg. bal.	20,000	(e)	105,000
(c)	100,000		
Updated bal.	15,000		

Land

Beg. bal.	180,000		
(a)	80,000		
Updated bal.	260,000		

Accounts Payable

(f)	95,000	Beg. bal.	25,000
		(a)	80,000
		Updated bal.	10,000

Notes Payable

(d)	35,000	Beg. bal.	35,000
		Updated bal.	0

Capital Stock

		Beg. bal.	125,000
		(b)	10,000
		Updated bal.	135,000

Retained Earnings

		Beg. bal.	30,000
		Updated bal.	30,000

Dividends

(h)	10,000		
Updated bal.	10,000		

Service Revenue

		(c)	180,000
		Updated bal.	180,000

Interest Expense

(d)	7,000		
Updated bal.	7,000		

Salaries Expense

(g)	30,000		
Updated bal.	30,000		

3.

Anderson Company
Statement of Comprehensive Income
For the Year Ended December 31, 2026

Service revenue		$180,000
Expenses:		
Salaries expense	$30,000	
Interest expense	7,000	37,000
Net income		$ 143,000
Other comprehensive income		0
Comprehensive income		$ 143,000

Anderson Company
Balance Sheet
December 31, 2026

Assets	
Cash	$ 33,000
Accounts receivable	15,000
Land	260,000
Total assets	$308,000
Liabilities and Equity	
Liabilities:	
Accounts payable	$ 10,000
Equity:	
Capital stock	$135,000
Retained earnings	163,000*
Total equity	$298,000
Total liabilities and equity	$308,000

*See statement of retained earnings.

Anderson Company
Statement of Retained Earnings
For the Year Ended December 31, 2026

Retained earnings (January 1)	$30,000
Add: Net income for 2026	143,000
	$173,000
Less: Dividends for 2026	10,000
Retained earnings (December 31)	$163,000

4.

(i)	Service Revenue	180,000	
	Salaries Expense		30,000
	Interest Expense		7,000
	Retained Earnings		143,000
(j)	Retained Earnings	10,000	
	Dividends		10,000

5. Post the closing entries (i) and (j) derived from requirement 4. The updated bal. is referred from the posting entries in requirement 2.

Cash

Updated bal.	33,000	
Final bal.	33,000	

Accounts Receivable

Updated bal.	15,000	
Final bal.	15,000	

Land

Updated bal.	260,000	
Final bal.	260,000	

Accounts Payable

	Updated bal.	10,000
	Final bal.	10,000

Notes Payable

	Updated bal.	0
	Final bal.	0

Capital Stock

		Updated bal.	135,000
		Final bal.	135,000

Retained Earnings

(j)	10,000	Updated bal.	30,000
		(i)	143,000
		Final bal.	163,000

Dividends

Updated bal.	10,000	(j)	10,000
Final bal.	0		

Service Revenue

(i)	180,000	Updated bal.	180,000
		Final bal.	0

Interest Expense

Updated bal.	7,000	(i)	7,000
Final bal.	0		

Salaries Expense

Updated bal.	30,000	(i)	30,000
Final bal.	0		

Anderson Company
Post-Closing Trial Balance
December 31, 2026

	Debit	Credit
Cash	$ 33,000	
Accounts Receivable	15,000	
Land	260,000	
Accounts Payable		$ 10,000
Capital Stock		135,000
Retained Earnings		163,000
Totals	$308,000	$308,000

CHAPTER 5

E 5-1 (LO1) Accounting Errors—Transaction Errors

a. **The asset account Equipment—Truck is understated by the cost of the truck. Maintenance Expense is overstated by the same amount. In the basic accounting equation, Assets and Equity are each understated. The overstated expense results in an understatement of income.**

b. **Cash is understated and Accounts Receivable is overstated. The accounting equation is not affected because both accounts are assets. Because no revenue or expense accounts are affected, income is not affected.**

c. **Accounts Receivable is overstated by the amount of the fictitious sales. Sales Revenue is also overstated by the same amount. In the accounting equation, Assets and Equity are both overstated. Because the revenue account is overstated, so is income.**

d. **Both Repairs Expense and Accounts Payable are understated by $300. In the accounting equation, Liabilities are understated and Equity is overstated. Income is overstated by $300 because of the expense understatement.**

e. **Unearned Revenue, a liability account, is understated by the amount of the prepayment received on December 31. Rent Revenue is overstated. In the accounting equation, Liabilities are understated and Equity is overstated. Income is overstated because of the revenue overstatement.**

E 5-2 (LO1) Errors in Financial Statements

Balance Sheet

Assets	
Cash	$ 1,300
Real estate properties (previously listed)	6,000,000
Property recorded as sold*	1,800,000
Total assets	$ 7,801,300
Liabilities	
Accounts payable	$ 100,000
Mortgage payable	6,000,000
Total liabilities	$ 6,100,000
Equity	
Capital stock	$ 10,000
Retained earnings ($5,071,300 – $3,380,000)	1,691,300
Total Equity	$ 1,701,300
Total liabilities and Equity	$ 7,801,300

*$5,000,000 (sales price) – $3,200,000 (gain on sale) = $1,800,000 (property value)

Statement of Comprehensive Income

Revenues	$ 0
Expenses	1,200,000
Net loss	$(1,200,000)
Other comprehensive income	0
Comprehensive loss	$(1,200,000)

Note: **This is a real case where massive fraud was committed.**

E 5-4 (LO2) Internal Control Procedures

a. *Authorization*. The managers of the stores should follow the authorization policy and review all requests for large amounts of credit.

b. *Segregation of duties and independent checks on performance*. The bank reconciliation should be performed by a second individual, preferably someone not in the accounting department.

c. *Segregation of duties*. Various functions should be assigned to different people. If the record keeping and physical handling of inventory were performed by two separate individuals, the opportunity for theft would be greatly reduced.

d. *Adequate documents and records*. A well-designed document should be formatted so that it can be handled quickly and efficiently.

AA 5-2 Auditing a Company

Discussion

The audit provided by Jones is very deficient. Jones was not completely independent in this case because of the promise to have the audit completed in two weeks to satisfy the bank loan procedure. Due professional care was not exercised in the performance of the audit. Certainly, the audit was not performed by a person having adequate technical training and proficiency as an auditor. It was inappropriate for Jones to hire the two students to conduct the audit. Indeed, the two students didn't know how to conduct an audit and were only following instructions, which were not complete. The work was not adequately planned, and the assistants, the two students, were not properly supervised. Two hours of training is not sufficient; there should have been on-the-job supervision. The students were given no information concerning the internal control structure to be used in planning the audit and determining the extent of tests to be performed. Sufficient, competent evidence was not obtained. The report did not state that the financial statements were presented in accordance with GAAP. There were no informative disclosures (e.g., notes) with the financial statements.

CHAPTER 6

PE 6-1 (LO1) Classifying Major Business Activities

	Business Activity	Type of Activity
a.	Acquiring inventory for resale	Operating
b.	Buying and selling stocks and bonds of other companies	Investing
c.	Issuing shares of stock to investors for cash	Financing
d.	Selling products or services	Operating
e.	Buying property, plant, or equipment	Investing
f.	Acquiring and paying for other operating items	Operating
g.	Selling property, plant, or equipment	Investing
h.	Borrowing cash from creditors	Financing

PE 6-2 (LO2) Control of Cash

The correct answer is B. The specific balance in the cash account is usually not considered a control associated with cash. For any given company, the cash balance commonly falls well below the sum of inventory and accounts receivable.

E 6-1 (LO1) Classification of Business Activities

1. **Operating activity: a, c, e. Investing activity: d. Financing activity: b.**
2. **All but a. will have an immediate effect on cash balance.**

E 6-2 (LO2) Internal Control of Cash

Procedure a. violates the principle of segregation of duties. The two roles should be served by two individuals.
Procedure c. will delay the detection of possible irregularities. It should be prepared at least once a month.
Procedure d. exposes the company to the risk of theft. Cash receipts in a day should be deposited to banks on the same day.

E 6-3 (LO2) Control of Cash

Procedure	IC Strength or Weakness	Related Internal Control Principles
1.	Weakness	Payment of all expenditures by prenumbered checks
2.	Strength	Preparing a bank reconciliation regularly
3.	Weakness	Separation of duties in handling of cash and accounting or cash
4.	Strength	Separation of duties in handling of cash and accounting or cash
5.	Strength	Daily deposit all cash receipts in banks

P 6-2 (LO2) Internal Control Structure

1. A
2. E
3. A
4. D
5. C
6. B

CHAPTER 7

PE 7-5 (LO3) Estimating Uncollectible Accounts Receivable Using Aging Accounts Receivable

Estimate of Losses from Uncollectible Accounts

Age	Balances	Percentage Estimated to Be Uncollectible	Amount
Current	$16,450	1.75%	$ 288
1–30 days past due	8,150	6	489
31–60 days past due	7,150	15	1,073
61–90 days past due	900	35	315
91–120 day past due	2,000	65	1,300
Over 120 days past due	4,000	90	3,600
Totals	$38,650		$7,065

1. The $7,065 represents the receivables that are likely to be uncollectible. We need to adjust the allowance account to this balance with the following entry:

Expected Credit Loss..	5,065	
Loss Allowance..		5,065

To adjust the allowance account to the desired ending balance:
$7,065 – $2,000 = $5,065

2.

Expected Credit Loss..	10,665	
Loss Allowance..		10,665

To adjust the allowance account to the desired ending balance:
$7,065 + $3,600 = $10,665

PE 7-7 (LO4) Accounts Receivable Turnover

$$\text{A/R Turnover} = \frac{\text{Sales Revenue}}{\text{Average Accounts Receivable}} = \frac{\$520{,}000}{[(\$46{,}000 + \$54{,}000)/2]} = 10.40$$

PE 7-8 (LO4) Average Collection Period

$$\text{Average Collection Period} = \frac{365}{\text{Accounts Receivable Turnover}} = \frac{365}{10.40^*} = 35.1 \text{ days}$$

*The accounts receivable turnover of 10.40 was calculated in PE 7-7 by dividing sales by the average accounts receivable.

PE 7-9 (LO4) Accounts Receivable Turnover and Average Collection Period

Year 1 accounts receivable turnover = 365/60 = 6.08 > 5.50
Year 1 has higher accounts receivable turnover than Year 2.

PE 7-10 (LO5) Recording Notes Receivable

May 1		
Notes Receivable	**8,500**	
Sales Revenue		**8,500**

E 7-6 (LO3) Accounting for Uncollectible Accounts Receivable

Year 1				
Dec.	**31**	**Expected Credit Loss**	**6,000**	
		Loss Allowance		**6,000**
Year 2				
Nov.	**1**	**Loss Allowance**	**3,000**	
		Accounts Receivable		**2,000**
Dec.	**31**	**Expected Credit Loss**	**3,940**	
		Loss Allowance		**3,940**

Year 1: Ending balance of Accounts Receivable = 250,000 + 950,000 – 850,000 – 3,000 = 347,000

Year 2: Ending balance of Loss Allowance *after* adjusting entry = 347,000 x 2% = 6,940
Ending balance of Loss Allowance *before* the adjusting entry = 6,000 – 3,000 = 3,000
Amount to be added to Loss Allowance through the adjusting entry = 6,940 – 3,000 = 3,940

E 7-8 (LO3) Aging of Accounts Receivable

1.

Category	Amount	Percentage	Total
Less than 30 days	$122,000	2%	$ 2,440
31–60 days	24,000	10	2,400
61–90 days	8,000	30	2,400
Over 90 days	9,000	75	6,750
Total estimated uncollectible accounts			$13,990

2.

Expected Credit Loss	**13,990**	
Loss Allowance		**13,990**
To record estimated loss allowance.		

3. **The net accounts receivable balance at December 31, 2026, is \$149,010 (\$163,000 – \$13,990).**

E 7-11 (LO4) Measuring Accounts Receivable Quality

		2027	2026	2025
$\frac{\text{Loss allowance}}{\text{Accounts receivable}}$	=	7.01%	7.59%	8.20%

It appears that the creditworthiness of Kayley's customers has increased because the loss allowance has become a smaller percentage of accounts receivable.

E 7-14 (LO5) Recording Notes Receivable

2025			
Aug. 1	**Notes Receivable—Lala Co.**	**9,600**	
	Accounts Receivable		**9,600**
Dec. 31	**Interest Receivable**	**320**	
	Interest Revenue		**320**
2026			
Feb. 1	**Cash**	**9,984**	
	Notes Receivable—Lala Co.		**9,600**
	Interest Receivable		**320**
	Interest Revenue		**64**

P 7-1 (LO3) Accounting for Accounts Receivable

1. Journal entries for transactions in 2026.

Accounts Receivable	**4,200,000**	
Sales Revenue		**4,200,000**
To record 2026 sales.		
Cash	**3,680,000**	
Accounts Receivable		**3,680,000**
To recognize collections of receivables.		
Loss Allowance	**18,800**	
Accounts Receivable		**18,800**
To write off uncollectible accounts receivable.		

To be complete, the journal entries for the sales transaction should also include:

Cost of Goods Sold	**XXX**	
Inventory		**XXX**

(For the beginners, this point will be clearer after learning Chapter 8.)

2. Ending balance of accounts receivable on 12/31/2026 is $1,141,200.

Accounts Receivable

1/1	640,000	Collections in 2026	3,680,000
Credit sales in 2026	4,200,000	Write-off in 2026	18,800
12/31 balance	1,141,200		

Loss Allowance

Write-off in 2026	18,800	1/1	20,600
		12/31 adjusting	41,800
		12/31 balance (given)	43,600

3. Adjusting entries on 12/31/2026.

Expected Credit Loss	41,800	
Loss Allowance		41,800

20,600 – 18,800 + X = 43,600 X = 41,800

P 7-2 (LO3) Analysis of Loss Allowance

1. Loss Allowance on December 31, 2026

2%	×	$1,140,000	=	$ 22,800
10%	×	$600,000	=	60,000
23%	×	$400,000	=	92,000
75%	×	$120,000	=	90,000
				$264,800

December 31, 2025 allowance	$130,000
Accounts written off	(90,000)
Accounts recovered	15,000
	$ 55,000

Expected Credit Loss	209,800	
Loss Allowance		209,800

To record estimate of uncollectible accounts receivable ($264,800 – $55,000 = 209,800).

2.

Loss Allowance	90,000	
Accounts Receivable		90,000

To write off uncollectible accounts receivable.

Accounts Receivable	15,000	
Loss Allowance		15,000

To reinstate account balance previously written off.

Cash		**15,000**	
Accounts Receivable			**15,000**
To recognize collection of previously written off receivables.			

P 7-5 (LO3) Unifying Concepts: Aging of Accounts Receivable and Uncollectible Accounts

1. Dec.31, 2025

Expected Credit Loss	**1,387**	
Loss Allowance		**1,387**
To adjust the allowance account to desired balance.*		

***$105,600**	×	**0.5%**	=	**$ 528.00**	
$31,400	×	**3%**	=	**942.00**	
$14,200	×	**4.5%**	=	**639.00**	
$3,600	×	**8%**	=	**288.00**	
$900	×	**10%**	=	**90.00**	
				$2,487.00	**Total estimated uncollectible receivables**
				(1,100.00)	**Previous balance**
				$1,387.00	**Net addition to account**

2. Feb. 14, 2026

Loss Allowance	**89**	
Accounts Receivable		**89**
To write off the uncollectible account of Shannon Johnson.		

3. Jun.29, 2026

Accounts Receivable	**89**	
Loss Allowance		**89**
To reinstate account balance previously written off.		
Cash	**89**	
Accounts Receivable		**89**
Received payment in full from Shannon Johnson of an amount previously written off as uncollectible.		

4. Dec. 31, 2025

Expected Credit Loss	**3,587**	
Loss Allowance		**3,587**
To adjust the allowance account to desired balance.*		

***Balance from aging**	**$2,487**
Deficit balance in account	**1,100**
Total entry needed	**$3,587**

P 7-6 (LO3) The Aging Method

1.

Category	Amount	Percentage	Total
Less than 30 days	$294,000	1%	$ 2,940
31–60 days	66,000	5	3,300
61–90 days	10,000	30	3,000
Over 90 days	15,000	90	13,500
Total			$22,740

2.

Expected Credit Loss	19,240	
Loss Allowance		19,240
To adjust the loss allowance to the appropriate ending balance [$22,740 + $16,500 (write-offs) – $20,000 (beginning) = $19,240].		

3. **The net accounts receivable balance as of December 31 is $362,260 ($385,000 – $22,740).**

AA 7-3 You Decide: Can a company overestimate expected credit loss in good years and then use lower estimates when times are bad?

What the boss is asking you to do is a form of income smoothing or reserve accounting. It is inappropriate because the allowance (or reserve) needs to be estimated consistently from year to year. It is inappropriate to "reserve whatever the bottom line can afford."

AA 7-7 Changing Our Estimates in Order to Meet Analysts' Expectations

John must make sure that the estimates being made are reasonable and are consistent with prior years' estimates. It is not uncommon for estimates to be changed, but any changes that significantly modify the financial results would need to be disclosed and discussed in a note to the financial statements. If the changes being proposed are not reasonable, then what John would be proposing would be wrong. The objective of financial statements is to fairly represent the financial situation of a firm. If the controller *knowingly* makes estimates and assumptions that result in the financial statements not fairly reflecting the performance of the firm, then he would be doing something wrong; he could be held civilly and criminally liable should financial statement users rely on those financial statements and incur a loss.

On the other hand, John is not required to go out of his way to present an overly gloomy picture of BioMedic's performance. In many cases involving accounting estimates, reasonable people can honestly disagree over the estimated uncollectible amount of Receivables or the estimated warranty liabilities. Given this honest disagreement, it is certainly reasonable for John and the board of BioMedic's to prefer to report the most favorable result possible, *as long as the accounting estimates are within an acceptable range.*

This potential honest disagreement over accounting estimates illustrates the importance of the auditor in the financial reporting process. John must be able to convince BioMedic's auditor that all accounting estimates are reasonable.

~ END OF PART 1 SOLUTIONS ~