ACCT2003 Principles of Accounting I

Assignment 2 – Suggested Answers

Question 1

Part A
1)

Accounts	**Debit**	**Credit**
1. Close Revenue accounts		
Consulting Fees Earned	92,600	
Rental Income	6,000	
Income Summary		98,600
2. Close Expenses accounts		
Income Summary	81,250	
Salaries Expense		45,800
Insurance Expense		20,000
Depreciation Expense		13,500
Miscellaneous Expense		1,950
3. Close Income Summary account		
Income Summary	17,350	
Owner’s Capital		17,350
4. Close Withdrawal account		
Owner’s Capital	3,850	
Owner’s withdrawals		3,850

2)

Yadi Business Consulting
Post-closing Trial Balance
December 31, 2022

	Debit	Credit
Cash	$ 19,200	
Accounts Receivable	26,500	
Prepaid Expenses	5,500	
Equipment	85,800	
Accumulated Depreciation		$ 21,400
Accounts Payable		25,200
Notes Payable		3,000
Owner's Capital		**87,400**
Totals	$ 137,000	$ 137,000

Part B

a). Closing entries are a necessary step because we want:

- The revenue, expense, and withdrawals accounts to be reflected in equity and to begin with zero balances after measuring the results from the period just ended.
- Owner's capital account to reflect increases from profit and decreases from losses and withdrawals from the period just ended.

b). A post-closing trial balance is a list of permanent accounts and their balances after all the closing entries are journalized and posted.

It is used to verify the equality of debits and credits of the permanent account balances.

It also verifies that the temporary accounts have zero balances.

Question 2

Part A

			Debit	Credit
July	5	Merchandise Inventory	33,450	
		Accounts Payable—Kester Ltd		33,450
	6	Accounts Receivable—Parsley Ltd	36,000	
		Sales		36,000
		Cost of Goods Sold	25,000	
		Merchandise Inventory		25,000
	7	Merchandise Inventory	1,000	
		Cash		1,000
	8	Delivery expense	1,200	
		Cash		1,200
	10	Accounts Payable—Kester Ltd	6,850	
		Merchandise Inventory		6,850
	15	Accounts Payable—Kester Ltd	26,600	
		Merchandise Inventory =(33,450-6,850)× 2%		532
		Cash		26,068
	20	Cash	35,640	
		Sales discounts = 1% × 36,000	360	
		Accounts Receivable—Parsley Ltd		36,000
	21	Merchandise Inventory	91,200	
		Accounts Payable—Delta Ltd		91,200
	22	Accounts payable—Delta Ltd	1,500	
		Cash		1,500
	25	Sales Returns and Allowances	7,150	
		Cash		7,150
		Merchandise Inventory	4,250	
		Cost of Goods Sold		4,250

	27	Accounts Payable—Delta Ltd	5,000	
		Merchandise Inventory		5,000

Part B

a). The basic components of income start with net sales, and from net sales is subtracted the cost of goods sold.

The resulting amount is called gross profit or gross margin.

b). Under the periodic system, although the cost of inventory is recorded when purchased, the quantity on hand or sold to customers is not tracked. The accounting records are updated at the end of each period to reflect the results of physical counts of the items on hand.

Under the perpetual system, a continuous record of the cost of inventory on hand and the cost of goods sold is kept.