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PRACTICE PROBLEM

At the end of its first month of operations, Pampered Pet Service has the following unadjusted trial balance.

PAMPERED PET SERVICE

August 31, 2017

Trial Balance

**Debit Credit**

Cash $ 5,400

Accounts Receivable 2,800

Supplies 1,300

Prepaid Insurance 2,400

Equipment 60,000

Notes Payable $40,000

Accounts Payable 2,400

Owner’s Capital 30,000

Owner’s Drawings 1,000

Service Revenue 4,900

Salaries and Wages Expense 3,200

Utilities Expense 800

Advertising Expense 400

$77,300 $77,300

Other data:

1. Insurance expires at the rate of $200 per month.

2. $1,000 of supplies is on hand at August 31.

3. Monthly depreciation on the equipment is $900.

4. Interest of $500 on the notes payable has accrued during August.

**Instructions**

(a) Prepare a worksheet.

(b) Prepare a classified balance sheet assuming $35,000 of the notes payable is long-term.

(c) Journalize the closing entries.

Solution: (a) Pampered Pet Service

Adjusting Journals

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Account Titles & Explanation | Ref. | Debit | Credit |
| August 31(1) | Insurance expense  Prepaid insurance  (To record insurance expense for the month) |  | 200 | 200 |
| ,, (2) | Supplies expense (1,300-1,000)  Supplies  (To record supplies expense for the month) |  | 300 | 300 |
| ,, (3) | Depreciation expense  Accumulated depreciation-Equipment  (To record depreciation expense for the month) |  | 900 | 900 |
| ,, (4) | Interest expense  Interest payable  (To record accrued interest for the month) |  | 500 | 500 |

Pampered Pet Service

Worksheet

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Account Titles | Trial balance | | Adjustments | | Adjusted Trial balance | | Income Statement | | Balance Sheet | |
|  | Dr | Cr | Dr | Cr | Dr | Cr | Dr | Cr | Dr | Cr |
| Cash | 5,400 |  |  |  | 5,400 |  |  |  | 5,400 |  |
| Accounts Receivable | 2,800 |  |  |  | 2,800 |  |  |  | 2,800 |  |
| Supplies | 1,300 |  |  | (2)300 | 1,000 |  |  |  | 1,000 |  |
| Prepaid Insurance | 2,400 |  |  | (1)200 | 2,200 |  |  |  | 2,200 |  |
| Equipment | 60,000 |  |  |  | 60,000 |  |  |  | 60,000 |  |
| Notes Payable |  | 40,000 |  |  |  | 40,000 |  |  |  | 40,000 |
| Accounts Payable |  | 2,400 |  |  |  | 2,400 |  |  |  | 2,400 |
| Owner’s Capital |  | 30,000 |  |  |  | 30,000 |  |  |  | 30,000 |
| Owner’s Drawings | 1,000 |  |  |  | 1,000 |  |  |  | 1,000 |  |
| Service Revenue |  | 4,900 |  |  |  | 4,900 |  | 4,900 |  |  |
| Salaries and  Wages Expense | 3,200 |  |  |  | 3,200 |  | 3,200 |  |  |  |
| Utilities Expense | 800 |  |  |  | 800 |  | 800 |  |  |  |
| Advertising Expense | 400 |  |  |  | 400 |  | 400 |  |  |  |
| Totals | 77,300 | 77,300 |  |  |  |  |  |  |  |  |
| Insurance Expense |  |  | (1) 200 |  | 200 |  | 200 |  |  |  |
| Supplies Expense |  |  | (2)300 |  | 300 |  | 300 |  |  |  |
| Depreciation Expense |  |  | (3)900 |  | 900 |  | 900 |  |  |  |
| Accumulated Depreciation-Equipment |  |  |  | (3)900 |  | 900 |  |  |  | 900 |
| Interest Expense |  |  | (4)500 |  | 500 |  | 500 |  |  |  |
| Interest Payable |  |  |  | (4)500 |  | 500 |  |  |  | 500 |
| Totals |  |  | 1,900 | 1,900 | 78,700 | 78,700 | 6,300 | 4,900 | 72,400 | 73,800 |
| Net Loss |  |  |  |  |  |  |  | 1,400 | 1,400 |  |
| Totals |  |  |  |  |  |  | 6,300 | 6,300 | 73,800 | 73,800 |

(b) PAMPERED PET SERVICE

Balance Sheet

August 31, 2017

**Assets**

**Current assets**

Cash $ 5,400

Accounts receivable 2,800

Supplies 1,000

Prepaid insurance 2,200

Total current assets $11,400

**Property, plant, and equipment**

Equipment 60,000

Less: Accumulated depreciation—equipment 900 59,100

Total assets $70,500

**Liabilities and Owner’s Equity**

**Current liabilities**

Notes payable $ 5,000

Accounts payable 2,400

Interest payable 500

Total current liabilities $ 7,900

**Long-term liabilities**

Notes payable 35,000

Total liabilities 42,900

**Owner’s equity**

Owner’s capital 27,600\*

Total liabilities and owner’s equity $70,500

\*Owner’s capital $30,000 less drawings $1,000 and net loss $1,400.