**Financial Accounting *Homework 4***

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**BE 4-14**

***(a) Answer:***

The **closing journal entries** at July 31 is:

*Dr.* Service Revenue $16,000

*Cr.* Income Summary $16,000

*Dr.* Income Summary $11,900

*Cr.* Salaries and Wages Expense $8,400

*Cr.* Maintenance and Repairs Expense $2,500

*Cr.* Income Tax Expense. $1,000

*Dr.* Income Summary $4,100 (16,000 – 11,900)

*Cr.* Retained Earnings $4,100

*Dr.* Retained Earnings $1,300

*Cr.* Dividends $1,300

***(b) Answer:***

The ending balance of Retained Earnings should be:

$20,000 + 4,100 – 1,300 = $22,800

So, the ending balance of Retained Earnings is $22,800.

|  |  |
| --- | --- |
| **Retained Earnings** | |
| July 31. $1,300 | Beg: $20,000  July 31. 4,100 |
|  | **End: $22,800** |

**E 2-8**

***(a) Answer:***

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| **WHITNALL CORPORATION**  **Income Statement**  **July 31, 2012** | | | |
|  |  |  |  |
| Revenues |  |  |  |
|  | Service Revenue | $66,100 |  |
|  | Rent Revenue | 8,500 |  |
|  | Total Revenues |  | $74,600 |
| Expenses |  |  |  |
|  | Salaries and Wages Expense | 57,500 |  |
|  | Supplies Expense | 15,600 |  |
|  | Depreciation Expense | 4,000 |  |
|  | Total Expenses |  | 77,100 |
| Net Loss |  |  | $ (2,500) |

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| **WHITNALL CORPORATION**  **Retained Earnings Statement**  **July 31, 2012** | | |
|  |  |  |
| Retained Earnings, Begin |  | $34,000 |
| Less: Net loss | 2,500 |  |
| Dividends | 4,000 | 6,500 |
| Retained Earnings, July 31 |  | $27,500 |

***(b) Answer:***

|  |  |  |  |
| --- | --- | --- | --- |
| **WHITNALL CORPORATION**  **Balance Sheet July 31, 2012** | | | |
| **Assets** | | | |
| **Current assets** |  |  |  |
| Cash |  | $29,200 |  |
| Accounts Receivable |  | 9,780 |  |
| Total Current assets |  |  | $ 38,980 |
| **Property, plant and equipment** |  |  |  |
| Equipment | 18,500 |  |  |
| Less: Accumulated Depreciation—Equipment | 6,000 | 12,500 |  |
| Total Property, plant and equipment |  |  | 12,500 |
| **Total Assets** |  |  | **$51,480** |
| **Liabilities and Stockholders’ Equity** | | | |
| **Current Liabilities** |  |  |  |
| Salaries and Wages Payable |  | $2,080 |  |
| Accounts payable |  | 4,100 |  |
| Total Current Liabilities |  |  | $ 6,180 |
| **Long-term Liabilities** |  |  |  |
| Notes payable |  | 1,800 |  |
| Total Long-term Liabilities |  |  | 1,800 |
| Total Liabilities |  |  | 7,980 |
| **Stockholders’ Equity** |  |  |  |
| Common Stock |  | 16,000 |  |
| Retained Earnings |  | 27,500 |  |
| Total Stockholders’ Equity |  |  | 43,500 |
| **Total Liabilities and Stockholders’ Equity** |  |  | **$51,480** |

***(c) Answer:***

***(d) Answer:***

The journal entry of this transaction for Whitnall Corporation should be:

*Dr.* Equipment $20,000

*Cr.* Notes payable $20,000

Based on this, it is obvious that the **Current ration** of Whitnall Corporation **will have no changes**. Because:

1. The Equipment is PPE and can’t be included to the “Current assets”, so the “Current assets” will not be changed;
2. The 5-year not-payable belongs to long-term liabilities which will make no changes to “Current liabilities”.

The **Debt to total asset ratio** will change to be:

Only looking at the debt to assets ratio, were I the president of Crescent Equipment, I would like to make the sale. The debt to total asset ratio of Whitnall Corporation will increase to be 39.1% after the sale. This is not a very high level, **and its ability to pay the notes should not be a problem**. The risk and return of this sale is acceptable.

However, the company has not operated a good year (negative net income), which would lead me to **have questions about its ability to make interest and loan payments in the long term**. I would not make the proposed sale unless Whitnall Corporation has enough evidence to prove that it can have better operation in the future.