

Problem I (35 points)

Here is the trial balance for The Acme Corporation before adjustment on December 31, 2011. Tip Top provides business consulting to small businesses in Upstate New York. Its unadjusted trial balance as of December 31, 2011 follows:

**The Acme Corporation
Unadjusted Trial Balance
December 31, 2011**

	Debit	Credit
Cash	\$ 4,000	
Accounts receivable	50,000	
Supplies	10,000	
Equipment	70,000	
Prepaid Insurance	4,800	
Other Assets	20,000	
Accounts Payable		\$ 20,000
Note Payable (Due in 3 years)		30,000
Common Stock		25,000
Additional Paid in Capital- Common Stock		50,000
Service Revenue		82,800
Salaries Expense	43,200	
Utilities Expense	1,800	
Miscellaneous Expense	4,000	
	<u>\$207,800</u>	<u>\$207,800</u>

Other data:

1. Supplies inventory on hand at December 31, 2011 of \$3,000. This number was determined as a result of a physical count of the inventory.
2. The equipment was acquired on January 1, 2011 for \$70,000. The estimated useful life of this equipment is 10 years, and there is no residual value.
3. The Notes Payable was taken out on September 1, 2011. The interest rate is 4%. The principal plus interest are payable at the end of three years.
4. On July 1, 2011, a two-year insurance premium amounting to \$4,800 was paid in cash and debited in full to Prepaid Insurance.
5. Salaries of \$700 are accrued and unpaid at December 31, 2011.

6. The board of directors declared a dividend of \$5,000 on December 31, 2011 to be paid to stockholders of record on January 30, 2012.
7. The effective income tax rate is 30%.
8. There were 25,000 shares of \$1 par value common stock outstanding at the beginning and end of the year, 2011.

Instructions:

- (a) Journalize the adjusting entries on December 31, 2011.
 1. Adjust for supplies
 2. Account for depreciation of the equipment
 3. Account for interest due on note payable
 4. Adjust the prepaid insurance.
 5. Account for salaries accrued and unpaid.
 6. Record the declaration of dividends
 7. Adjust for income tax.
- (b) Prepare a ledger using T accounts. Enter the trial balance amounts and post the adjusting entries.
- (c) Prepare an adjusted trial balance on December 31, 2011. Include Income Tax expense and Income Taxes Payable on adjusted trial balance.
- (d) Prepare an income statement and a retained earnings statement for the year ending December 31 and a balance sheet at December 31, 2011.
- (e) Record the closing entries on December 31, 2011.

Ref.	Description	Debit	Credit
(1)	Supplies Expense	7000	
	Supplies		7000
(2)	Depreciation Expense	7000	
	Accumulated Depreciation		7000
(3)	Interest Expense	400	
	Interest Payable		400
(4)	Insurance Expense	1200	
	Prepaid Insurance		1200
(5)	Salaries Expense	700	
	Salaries Payable		700
(6)	Retained Earnings	5000	
	Dividends Payable		5000

Cash	
Beg.	4000
	4000

Supplies	
Beg.	10,000
	(1) 7000
	3,000

Accounts Receivable	
Beg.	50,000
	50,000

Prepaid Insurance	
Beg.	4800
	(4) 1200
End.	3,600

Equipment	
Beg.	70,000
End.	70,000

Other Assets	
Beg.	20,000
End.	20,000

Accumulated Dep. (Equip)	
	(2) 7,000
	7,000

APIC	
	50,000 Beg.
	000
	50,000

Accounts Payable	
	20,000 Beg.
	20,000

Notes Payable	
	30,000 Beg.
	30,000

Salaries Payable	
	(5) 700
	700

Interest Payable	
	(3) 400 Beg.
	400

Income Tax Payable	
Beg.	5250

Dividends Payable	
Beg.	(7) 5000
	5000

Common Stock	
Beg.	25,000
	25,000

Retained Earnings	
Beg.	(7) 5,000
	5,000

Subscription Rev.	
Beg.	82,800
	82,800

Salaries Expense	
Beg.	43,200
	(5) 700
	43,900

Utilities Expense	
Beg.	1,800
	1,800

Misc. Expense	
Beg.	4,000
	4,000

Insurance Expense	
(4)	1200
	1200

Supplies Expense	
(1)	7000
	7000

Depreciation Expense	
(2)	7,000
	7,000

Interest Expense	
(3)	400
	400

Income Tax Expense	
Beg.	5250

THE ACME CORPORATION
Adjusted Trial Balance
December 31, 2011

	Debit	Credit
Cash	4,000	
Accounts Receivable	50,000	
Supplies	3,000	
Prepaid Insurance	3,600	
Equipment	70,000	
Accumulated Depreciation- Equipment		7,000
Other Assets	20,000	
Accounts Payable		20,000
Salaries Payable		700
Interest Payable		400
Dividends Payable		5,000
Income Taxes Payable		5,250
Notes Payable		30,000
Common Stock		25,000
APIC		50,000
Retained Earnings	5,000	
Subscription Revenue		82,800
Salaries Expense	43,900	
Utilities Expense	1,800	
Misc. Expense	4,000	
Insurance Expense	1,200	
Supplies Expense	7,000	
Depreciation Expense	7,000	
Interest Expense	400	
Income Tax Expense	5,250	
	226,150	226,150

THE ACME CORPORATION
Income Statement
December 31, 2011

Operating Revenue	
Service Revenue	82,800
Total Operating Revenue	82,800
Operating Expenses	
Salaries Expense	43,900
Utilities Expense	1,800
Misc. Expense	4,000
Insurance Expense	1,200
Supplies Expense	700
Depreciation Expense	7,000
Total Operating Expense	64,900
Operating Income	17,900
Other Expenses	
Interest Expense	400
Net Income Before Taxes	17,500
Income Tax Expense	5250
Net Income	12,250
Earnings Per Share	.49

THE ACME CORPORATION
Statement of Stockholder's Equity
For year ending December 31, 2011

	Contributed Capital	Retained Earnings	Total SH Equity
Beginning Balance	50,000	0	50,000
Add. Stock Issued	0	0	0
Net Income		12,250	12,250
Dividends Declared		(5,000)	(5,000)
Ending Balance, 12/31/11	50,000	7,250	57,250

THE ACME CORPORATION
General Journal

	Adjusted Entry for Income Taxes	Debit	Credit
(8)	Income Tax Expense	5,250	
	Income Tax Payable		5,250

THE ACME CORPORATION
Balance Sheet
December 31, 2011

Assets	
Current Assets	
Cash	4,000
Accounts Receivable	50,000
Supplies	3,000
Prepaid Insurance	3,600
Total Current Assets	60,600
Noncurrent Assets	
Equipment	70,000
Accumulated Depreciation	(7,000)
Other Assets	20,000
Total Assets	143,600
Liabilities	
Current Liabilities	
Accounts Payable	20,000
Salaries Payable	700
Dividends Payable	5,000
Income Tax Payable	5,250
Total Current Liabilities	30,950
Noncurrent Liabilities	
Interest Payable	400
Notes Payable	30,000
Total Liabilities	61,350
Stockholder's Equity	
Common Stock	25,000
APIC	50,000
Retained Earnings	7,250
Total Stockholder's Equity	82,250
Total Liabilities and Stockholder's Equity	143,600

Closing Entries

	Debit	Credit
Sales Revenue	82,800	
Salaries Expense		43,900
Utilities Expense		1,800
Misc. Expense		4,000
Insurance Expense		1,200
Supplies Expense		7,000
Depreciation Expense		7,000
Interest Expense		400
Income Tax Expense		5,250
Retained Earnings		12,250