LO4 Complete the closing process in the accounting cycle.

Closing entry for	Debit	Credit
Revenue	Revenue	Retained Earnings
Expense	Retained Earnings	Expense
Dividends	Retained Earnings	Dividends

LO5 Understand how all the steps in the accounting cycle fit together.

- The accounting cycle consists of specific steps to analyze, record, classify, summarize, and report the transactions of a business. The three detailed steps of "reporting" covered in this chapter are:
    - Making adjusting entries
    - Preparing financial statements
    - Making closing entries

Key Terms & Concepts

- accrual-basis accounting, 122
- adjusting entries, 125
- calendar year, 122
- cash-basis accounting, 124
- closing entries, 139
- fiscal year, 122
- matching principle, 123
- nominal accounts, 139
- post-closing trial balance, 140
- prepaid expenses, 128
- real accounts, 139
- time-period assumption, 122
- unearned revenues, 130
- unrecorded liabilities, 127
- unrecorded receivables, 126

Review Problem

The Accounting Cycle

This review problem provides a useful summary of the entire accounting cycle. The following post-closing trial balance is for Sports Haven Company as of December 31, 2016.

Sports Haven Company
Post-Closing Trial Balance
December 31, 2016

	Debits	Credits
Cash	$17,500	
Accounts Receivable	17,000	
Property, Plant, and Equipment	28,800	
Supplies on Hand	1,200	
Prepaid Building Rental	24,000	
Accounts Payable		$18,000
Capital Stock (3,600 shares outstanding)		54,000
Retained Earnings		16,500
Totals	$88,500	$88,500

Following is a summary of the company's transactions for 2017.

a. At the beginning of 2017, the company issued 1,500 new shares of stock at $20 per share.
b. A car was purchased on credit for $49,500.
c. Total sales of sports courses were $125,000; $102,900 were on credit, the rest were for cash.
d. In December, due to an "early bird" discount, a customer paid $3,500 cash in advance for swimming classes that won't start until next year. The advance payments received from customers are initially recorded as liabilities. The $3,500 is not included in the sales figures in (c) above.
e. The company paid $66,500 on accounts payable during the year.
f. The company collected $102,000 of accounts receivable during the year.

g. The company purchased $600 of supplies for cash during 2017, debiting Supplies on Hand.
h. The company paid $850 for advertising during the year, debiting Prepaid Advertising.
i. Total salaries paid during the year were $45,000.
j. The company paid $650 during the year for utilities.
k. Dividends of $7,500 were paid to stockholders in December.

On December 31, 2017, the company's accountant gathers the following information to adjust the accounts:

l. As of December 31, salaries of $750 had been earned by employees but will not be paid until January 3, 2018.
m. A count at December 31 shows $800 of supplies still on hand.
n. The prepaid advertising paid during 2017 includes $400 paid on December 1, 2017, for a series of radio advertisements to be broadcast throughout December 2017 and January 2018. The balance in the account, $450, represents advertisements that were broadcast during 2017.
o. On December 31, 2016, the company rented an office building for two years and paid $24,000 in cash (the full rental fee for 2017 and 2018). The payment was recorded with a debit to Prepaid Building Rental. No entries have been made for building rent in 2017.
p. On December 20, 2017, a bill for $150 was received for utilities. No entry was made to record the receipt of the bill, which is to be paid on January 4, 2018.
q. The company's income is taxed at a rate of 15%.

Required:

1. Make entries in the general journal to record each of the transactions [items (a) through (k)].
2. Using T-accounts to represent the general ledger accounts, post the transactions recorded in the general journal. Enter the beginning balances in the accounts that appear in the December 31, 2016, post-closing trial balance before posting 2017 transactions. When all transactions have been posted to the T-accounts, determine the balance for each account.
3. Prepare a trial balance as of December 31, 2017.
4. Record adjusting entries [items (l) through (q)] in the general journal; post these entries to the general ledger (T-accounts).
5. Prepare a statement of comprehensive income and balance sheet for 2017.
6. Record closing entries [label (r) and (s)] in the general journal; post these entries to the general ledger (T-accounts).
7. Prepare a post-closing trial balance.

Solution:

1. Following are the journal entries to record the transactions for the year. Several of these are summary entries representing numerous individual transactions.

(a)	Cash	30,000	
	Capital Stock		30,000

The company issued additional shares of stock, so Capital Stock must be credited to reflect the increase in equity. Since the company received cash of $30,000 (1,500 shares at $20 per share), Cash is also increased.

(b)	Property, Plant, and Equipment	49,500	
	Accounts Payable		49,500

The company purchased a car for $49,500 on credit. Property, Plant, and Equipment is increased (debited) for this amount. Accounts Payable is credited to show the increase in liabilities.

(c)	Accounts Receivable	102,900	
	Cash	22,100	
	Service Revenue		125,000

Total sales of courses were $125,000, so Service Revenue must be increased (credited) by that amount. Of this amount, $102,900 were on credit, and $22,100 were by cash. We increase the asset accounts, Accounts Receivable and Cash, by debiting them.

(d)	Cash	3,500	
	Unearned Service Revenue		3,500

Cash is debited (increased) by the amount received from the customer. The company recorded the advance payments for swimming classes by crediting a liability account, Unearned Sales Revenue.

(e)	Accounts Payable	66,500	
	Cash		66,500

The company's payments on its accounts reduce the amount of its obligation to creditors, so Accounts Payable (liability) is debited to decrease it by the amount paid. Cash must also be decreased (credited).

(f)	Cash	102,000	
	Accounts Receivable		102,000

Since the company has collected some of its receivables from customers, Accounts Receivable is credited to show a decrease. Cash is increased (debited).

(g)	Supplies on Hand	600	
	Cash		600

The company purchased $600 of supplies. By debiting Supplies on Hand, an increase is shown in that asset account. Cash must be credited to show a decrease.

(h)	Prepaid Advertising	850	
	Cash		850

The company purchased $850 of advertising and chose to initially debit an asset account, Prepaid Advertising. Since cash was paid, it must be reduced by a credit.

(i)	Salaries Expense	45,000	
	Cash		45,000
(j)	Utilities Expense	650	
	Cash		650

For transactions (i) and (j), an expense account must be debited to show that expenses have been incurred. Cash must be credited (reduced).

(k)	Dividends	7,500	
	Cash		7,500

Dividends must be debited to show a decrease in equity resulting from a distribution of earnings. Cash must be reduced by a credit.

2. T-accounts with the beginning balances and journal entries posted are shown here. (Note that accounts with more than one entry must be "balanced" by drawing a rule and entering the debit or credit balance below it.)

Cash

Beg. bal.	17,500	(e)	66,500
(a)	30,000	(g)	600
(c)	22,100	(h)	850
(d)	3,500	(i)	45,000
(f)	102,000	(j)	650
		(k)	7,500
Updated bal.	54,000		

Accounts Receivable

Beg. bal.	17,000	(f)	102,000
(c)	102,900		
Updated bal.	17,900		

Property, Plant, and Equipment

Beg. bal.	28,800		
(b)	49,500		
Updated bal.	78,300		

Supplies on Hand

Beg. bal.	1,200		
(g)	600		
Updated bal.	1,800		

Prepaid Building Rental

Beg. bal.	24,000		

Prepaid Advertising

(h)	850		

Accounts Payable

(e)	66,500	Beg. bal.	18,000
		(b)	49,500
		Updated bal.	1,000

Unearned Service Revenue

		(d)	3,500

Capital Stock

		Beg. bal.	54,000
		(a)	30,000
		Updated bal.	84,000

Retained Earnings

		Beg. bal.	16,500

Dividends

(k)	7,500		

Service Revenue

		(c)	125,000

Salaries Expense

(i)	45,000		

Utilities Expense

(j)	650		

3. The balance of each account is entered in a trial balance. Each column in the trial balance is totaled to determine that total debits equal total credits.

Sports Haven Company
Trial Balance
December 31, 2017

	Debits	Credits
Cash	$ 54,000	
Accounts Receivable	17,900	
Property, Plant, and Equipment	78,300	
Supplies on Hand	1,800	
Prepaid Building Rental	24,000	
Prepaid Advertising	850	
Accounts Payable		$ 1,000
Unearned Service Revenue		3,500
Capital Stock		84,000
Retained Earnings		16,500
Dividends	7,500	
Service Revenue		125,000
Salaries Expense	45,000	
Utilities Expense	650	
Totals	$230,000	$230,000

4. The adjusting entries for Sports Haven Company are presented in journal form and explained. Updated T-accounts are provided showing the posting of the adjusting entries.

(l)	Salaries Expense	750	
	Salaries Payable		750

As of December 31, there is an unrecorded liability and expense of $750 for salaries owed to employees. Because the salaries were earned in 2017, the liability and related expense must be recorded in 2017.

(m)	Supplies Expense	1,000	
	Supplies on Hand		1,000

Supplies on Hand (asset) has a debit balance before adjustment of $1,800 [beginning balance of $1,200 plus $600 of supplies purchased during the year, transaction (g)]. Since $800 of supplies are on hand at the end of the year, Supplies on Hand should be reduced (credited) by $1,000. Supplies Expense must be debited to show that $1,000 of supplies were used during the period.

(n)	Advertising Expense	650	
	Prepaid Advertising		650

Prepaid Advertising has a debit balance before adjustment of $850, the total amount paid for advertising during the year [transaction (h)]. This amount includes $400 that was paid for radio advertising throughout December 2017 and January 2018. Only that portion that applies to 2018 should be shown as Prepaid Advertising, $200 ($400 ÷ 2 months), since it is not an expense of the current year. The remainder, $650, is advertising expense for the period. Thus, the asset account, Prepaid Advertising, must be credited for $650, and Advertising Expense must be increased by a debit of $650.

(o)	Building Rent Expense	12,000	
	Prepaid Building Rental.		12,000

The original entry at the end of 2016 was a debit to the asset account, Prepaid Building Rental, and a credit to Cash. An adjusting entry is needed to record rent expense of $12,000 for 2017 ($24,000 ÷ 2 years). The expense account must be debited and the asset account must be reduced by a credit. The remaining $12,000 in Prepaid Building Rental reflects the portion of the total payment for building rent expense in 2018.

(p)	Utilities Expense	150	
	Utilities Payable		150

As of December 31, 2017, there is an unrecorded liability and expense of $150 for utilities. Because the expense was incurred in 2017, an adjusting entry is needed to record the liability and related expense.

(q)	Income Tax Expense	9,720	
	Income Tax Payable		9,720

The remaining adjustment is for income taxes. The difference between total revenues and total expenses is the amount of income before tax, $64,800. This amount is multiplied by the applicable tax rate of 15% to determine income taxes for the period. The expense account is debited to show the income taxes incurred for the year and the liability account is credited to show the obligation to the government.

Cash

Beg. bal.	17,500	(e)	66,500
(a)	30,000	(g)	600
(c)	22,100	(h)	850
(d)	3,500	(i)	45,000
(f)	102,000	(j)	650
		(k)	7,500
Updated bal.	54,000		

Accounts Receivable

Beg. bal.	17,000	(f)	102,000
(c)	102,900		
Updated bal.	17,900		

Property, Plant, and Equipment

Beg. bal.	28,800		
(b)	49,500		
Updated bal.	78,300		

Supplies on Hand

Beg. bal.	1,200	(m)	1,000
(g)	600		
Updated bal.	800		

Prepaid Building Rental

Beg. bal.	24,000	(o)	12,000
Updated bal.	12,000		

Prepaid Advertising

(h)	850	(n)	650
Updated bal.	200		

Accounts Payable

(e)	66,500	Beg. bal.	18,000
		(b)	49,500
		Updated bal.	1,000

Salaries Payable

		(l)	750

Utilities Payable

		(p)	150

Income Tax Payable

		(q)	9,720

Unearned Service Revenue

		(d)	3,500

Capital Stock

		Beg. bal.	54,000
		(a)	30,000
		Updated bal.	84,000

Retained Earnings

		Beg. bal.	16,500

Dividends

(k)	7,500		

Service Revenue

		(c)	125,000

Advertising Expense

(n)	650		

Salaries Expense

(i)	45,000		
(l)	750		
Updated bal.	45,750		

Utilities Expense

(j)	650		
(p)	150		
Updated bal.	800		

Income Tax Expense

(q)	9,720		

Supplies Expense

(m)	1,000		

Building Rent Expense

(o)	12,000		

5. Data for the financial statements may be taken from the adjusted ledger accounts and reported as follows:

Sports Haven Company
Statement of Comprehensive Income
For the Year Ended December 31, 2017

Service revenue		$125,000
Less operating expenses:		
Salaries expense	$45,750	
Utilities expense	800	
Advertising expense	650	
Supplies expense	1,000	
Building rent expense	12,000	60,200
Income before income tax		$64,800
Income tax expense		9,720
Net income		$55,080
Other comprehensive income		0
Comprehensive income		$55,080
Earnings per share:		
$55,080 ÷ 5,100 shares = $10.8		

Sports Haven Company
Balance Sheet
December 31, 2017

Assets

Cash	$54,000	
Accounts receivable	17,900	
Property, plant, and equipment	78,300	
Supplies on hand	800	
Prepaid building rental	12,000	
Prepaid advertising	200	
Total assets		$163,200

Sports Haven Company
Balance Sheet (Continued)
December 31, 2017

Liabilities and Equity		
Liabilities:		
Accounts payable	$ 1,000	
Salaries payable	750	
Utilities payable	150	
Income tax payable	9,720	
Unearned service revenue	3,500	
Total liabilities		$ 15,120
Equity:		
Capital stock (5,100 shares outstanding)	$84,000	
Retained earnings	64,080*	
Total equity		148,080
Total liabilities and equity		$163,200

*Note that in preparing the balance sheet, net income must be added to the beginning balance in Retained Earnings and dividends must be subtracted ($16,500 + $55,080 – $7,500 = $64,080).

6. The next step is to record the closing entries in the general journal and then post those entries to the general ledger (T-accounts). T-accounts are shown with all previous entries and the closing entries [items (r) and (s)] posted.

The first entry is to close the revenue account and each of the expense accounts. Sales Revenue has a credit balance; it is debited to reduce the balance to zero. The expense accounts are closed by crediting them. The difference in total revenues and total expenses is $55,080 (net income for the period). Net income represents an increase in retained earnings. All of this is captured in the single, compound closing entry(s), as follows:

(r)	Service Revenue	125,000	
	Salaries Expense		45,750
	Utilities Expense		800
	Advertising Expense		650
	Supplies Expense		1,000
	Building Rent Expense		12,000
	Income Tax Expense		9,720
	Retained Earnings		55,080

Second, Dividends, a nominal account, must also be closed to Retained Earnings.

(s)	Retained Earnings	7,500	
	Dividends		7,500

Cash

Beg. bal.	17,500	(e)	66,500
(a)	30,000	(g)	600
(c)	22,100	(h)	850
(d)	3,500	(i)	45,000
(f)	102,000	(j)	650
		(k)	7,500
Updated bal.	54,000		

Accounts Receivable

Beg. bal.	17,000	(f)	102,000
(c)	102,900		
Updated bal.	17,900		

Property, Plant, and Equipment

Beg. bal.	28,800		
(b)	49,500		
Updated bal.	78,300		

Supplies on Hand

Beg. bal.	1,200	(m)	1,000
(g)	600		
Updated bal.	800		

Prepaid Building Rental

Beg. bal.	24,000	(o)	12,000
Updated bal.	12,000		

Prepaid Advertising

(h)	850	(n)	650
Updated bal.	200		

Accounts Payable

(e)	66,500	Beg. bal.	18,000
		(b)	49,500
		Updated bal.	1,000

Salaries Payable

		(l)	750

Utilities Payable

		(p)	150

Income Tax Payable

		(q)	9,720

Unearned Service Revenue

		(d)	3,500

Capital Stock

		Beg. bal.	54,000
		(a)	30,000
		Updated bal.	84,000

Retained Earnings

		Beg. bal.	16,500
(s)	7,500	(r)	55,080
		Updated bal.	64,080

Dividends

(k)	7,500	(s)	7,500

Service Revenue

(r)	125,000	(c)	125,000

Advertising Expense

(n)	650	(r)	650

Salaries Expense

(i)	45,000	(r)	45,750
(l)	750		

Utilities Expense

(j)	650	(r)	800
(p)	150		

Income Tax Expense

(q)	9,720	(r)	9,720

Supplies Expense

(m)	1,000	(r)	1,000

Building Rent Expense

(o)	12,000	(r)	12,000

7. The final (optional) step in the accounting cycle is to prepare a post-closing trial balance. This procedure is a check on the accuracy of the closing process. It is a listing of all ledger account balances at year-end. Note that only real accounts appear because all nominal accounts have been closed to a zero balance in preparation for the next accounting cycle.

Sports Haven Company
Post-Closing Trial Balance
December 31, 2017

	Debits	Credits
Cash	$ 54,000	
Accounts Receivable	17,900	
Property, Plant, and Equipment	78,300	
Supplies on Hand	800	
Prepaid Building Rental	12,000	
Prepaid Advertising	200	
Accounts Payable		$ 1,000
Salaries Payable		750
Utilities Payable		150
Income Tax Payable		9,720
Unearned Service Revenue		3,500
Capital Stock		84,000
Retained Earnings		64,080
Totals	$163,200	$163,200

Put it on Paper

Discussion Questions

1. Why are financial reports prepared on a periodic basis?
2. Distinguish between reporting on a calendar-year and on a fiscal-year basis.
3. When are revenues generally recognized (recorded)?
4. What is the matching principle?
5. Explain why accrual-basis accounting is more appropriate than cash-basis accounting for most businesses.
6. Why are accrual-based financial statements considered somewhat tentative?
7. Why are adjusting entries necessary?
8. Since there are usually no source documents for adjusting entries, how does the accountant know when to make adjusting entries and for what amounts?
9. Identify the two steps involved in the analysis process for preparing adjusting entries and explain why both are necessary.
10. Cash is not one of the accounts increased or decreased in an adjusting entry. Why?
11. Which are prepared first: the year-end financial statements or the general journal adjusting entries? Explain.
12. Distinguish between real and nominal accounts.
13. What is the purpose of closing entries?
14. What is the purpose of the post-closing trial balance? Explain where the information for the post-closing trial balance comes from.

Practice Exercises

PE 4-1
LO 1

Periodic Reporting

Which one of the following statements is true with respect to periodic reporting?

a. All companies are required to have a fiscal year that ends on December 31.
b. The issuance of frequent periodic financial reports reduces the need for accountants to make estimates and judgments.
c. Only large businesses prepare periodic financial statements.
d. Some financial reports may be prepared on a daily basis.
e. The Securities and Exchange Commission (SEC) requires all publicly traded companies in the United States to file monthly financial statements.

PE 4-2
LO 1

Periodic Reporting

Regarding periodic reporting, which of the following statements is **not** correct?

a. Frequent periodic reporting is helpful for providing timely information;
b. Typical fiscal year starts at January 1 and ends at December 31 of the same year;
c. Periodic reporting requires correct recognition of revenue in an accounting period;
d. Because of the going concern assumption, periodic reporting is not necessary.

PE 4-3
LO 1

Matching Principle

Which of the following requires that expenses should be matched and recognized in the same period as the related revenue?

a. Cost principle
b. Going concern assumption
c. Matching principle
d. Separate entity concept
e. Cash basis

PE 4-4
LO 1

Cash-Basis Accounting

A lawn care company started business on January 1, 2017. The company billed clients $135,000 for lawn care services completed in 2017. By December 31, the company had received $92,000 cash from customers, with the $43,000 balance expected to be collected in 2018. During 2017, the company paid $73,000 cash for various expenses. At December 31, the company still owed $41,000 for additional expenses incurred that have not yet been paid in cash. These expenses will be paid during January 2018. How much income (or loss) should the company report for 2017? Note: The company computes income using cash-basis accounting.

PE 4-5
LO 1

Accrual-Basis Accounting

Refer to PE 4-4. Compute income (or loss) for 2017 assuming that the company uses accrual-basis accounting.

PE 4-6
LO 2

Unrecorded Receivable: Original Entry

Greg operates a sizeable newspaper delivery service. On the last day of each month, Greg receives a statement from the newspaper publisher detailing how much money Greg earned that month from delivering papers. On the 10th day of the following month, Greg receives the cash for the preceding month's deliveries. On December 10, Greg received $12,300 cash for deliveries made in November. Make the journal entry necessary on Greg's books on December 10 to record the receipt of this cash, assuming that Greg did not make any adjusting entry as of the end of November.

PE 4-7
LO 2

Unrecorded Receivable: Adjusting Entry

Refer to PE 4–6. On December 31, Greg received a statement from the newspaper publisher notifying him that he had earned $13,700 for his December deliveries. Because December 31 is the end of Greg's fiscal year, he makes adjusting entries at that time. Make the following adjusting journal entries necessary on Greg's books:

1. On December 31 to record the $13,700 in delivery revenue earned during December.
2. On January 10 to record the receipt of the $13,700 in cash. Note: When making this entry, don't forget the adjusting entry that was made on December 31.

PE 4-8
LO 2

Unrecorded Liability: Original Entry

On May 1, the company borrowed $50,000 from Bank of Ceita. The loan is for five years and bears an annual interest rate of 12%. Interest on the loan is to be paid in cash each year on April 30; the $50,000 loan amount is to be repaid in full after five years. Make the journal entry necessary on the company's books to record the receipt of this loan on May 1.

PE 4-9
LO 2

Unrecorded Liability: Adjusting Entry

Refer to PE 4-8.

1. Make the adjusting entry necessary on the company's books with respect to the loan on December 31.
2. Make the journal entry necessary on the company's books on the following April 30 to record payment of interest for the first year of the loan. Note: When making this entry, don't forget the adjusting entry that was made on December 31.

PE 4-10
LO 2

Prepaid Expense: Original Entry

On August 1, the company paid $86,400 cash for a four-year insurance policy. The policy went into effect on August 1. Make the journal entry necessary on the company's books to record the payment for the insurance on August 1.

PE 4-11
LO 2

Prepaid Expense: Adjusting Entry

Refer to PE 4–10.

1. Make the adjusting entry necessary on the company's books on December 31 with respect to this insurance policy.
2. Compute the ending balance in the prepaid insurance account. Assume that the balance as of the beginning of the year was $0.

PE 4-12
LO 2

Unearned Revenue: Original Entry

The company provides security services to its clients. On April 1, the company received $270,000 cash for a three-year security contract. The contract went into effect on April 1. Make the journal entry necessary on the company's books to record the receipt of the payment for the contract on April 1.

PE 4-13
LO 2

Unearned Revenue: Adjusting Entry

Refer to PE 4-12.

1. Make the adjusting entry necessary on the company's books on December 31 with respect to this security contract.
2. Compute the ending balance in the unearned security revenue account. Assume that the balance as of the beginning of the year was $0.

PE 4-14
LO 2

Wages Payable: Adjusting Entry and Subsequent Payment

The company pays its employees at the end of Friday for work done during that five-day workweek. Total wages for a week are $13,500. In the current year, December 31 occurred on a Tuesday.

1. Make the adjusting entry necessary on the company's books on December 31 with respect to unpaid employee wages.
2. Make the journal entry necessary on Friday, January 3, of the following year to record the cash payment of wages for the week. Ignore the New Year's holiday season and assume that employees worked each of the five days. Note: When making this entry, don't forget the adjusting entry that was made on December 31.

PE 4-15
LO 2

Supplies: Original Purchase and Adjusting Entry

On January 1, the company had office supplies costing $6,400. On March 23, the company bought additional office supplies costing $9,000. The company paid cash. On December 31, a physical count of office supplies revealed that supplies costing $2,900 remained.

1. Make the journal entry necessary on the company's books on March 23 to record the purchase of office supplies.
2. Make the adjusting entry necessary on December 31 with respect to office supplies.

PE 4-16
LO 3

Preparing an Adjusted Trial Balance

Before any adjusting entries were made, the company prepared the following trial balance as of December 31:

	Debit	Credit
Cash	$ 87,000	
Notes Receivable	144,000	
Prepaid Rent	192,000	
Building	210,000	
Accounts Payable		$165,000
Unearned Fee Revenue		225,000
Capital Stock		200,000
Retained Earnings		90,000
Dividends	22,000	
Fee Revenue		257,000
Wages Expense	229,000	
Utilities Expense	53,000	
Totals	$937,000	$937,000

In order to make the adjusting entries, the following information has been assembled:

a. The notes receivable were issued on June 1. The annual interest rate on the notes is 11%. Interest is to be received each year on May 31; accordingly, no interest has been received.
b. The unearned fee revenue represents cash received in advance on February 1. This $225,000 relates to a three-year contract which began on February 1. It is expected that the fees will be earned evenly over the three-year contract period. As of December 31, no revenue had yet been recognized on this contract.
c. The prepaid rent represents cash paid in advance on October 1. This $192,000 relates to a five-year rental agreement that began on October 1. As of December 31, no expense had yet been recognized in association with this rental agreement.
d. As of December 31, unpaid (and unrecorded) wages totaled $17,000.

1. Prepare the necessary adjusting journal entries.
2. Prepare an adjusted trial balance.

PE 4-17
LO 3

Using an Adjusted Trial Balance to Prepare a Statement of Comprehensive Income

Refer to PE 4-16. Using the adjusted trial balance prepared in part (2), prepare a statement of comprehensive income for the year.

PE 4-18
LO 3

Using an Adjusted Trial Balance to Prepare a Balance Sheet

Refer to PE 4-16. Using the adjusted trial balance prepared in part (2), prepare a balance sheet as of the end of the year. Note: The ending retained earnings balance is equal to the beginning balance plus the amount of net income less the amount of dividends.

PE 4-19
LO 4

Closing Entries: Revenues

Below is a list of accounts with corresponding ending balances.

	Account	Account Balance
a.	Prepaid Insurance	$3,500
b.	Cash	1,650
c.	Service Revenue	6,000
d.	Retained Earnings	5,300
e.	Accounts Payable	$2,300
f.	Capital Stock	1,000
g.	Interest Revenue	100

Prepare one summary entry to close those accounts that should be closed at the end of the year.

PE 4-20
LO 4

Closing Entries: Expenses
Below is a list of accounts with corresponding ending balances.

	Account	Account Balance
a.	Insurance Expense	$1,300
b.	Cash	7,500
c.	Accounts Receivable	3,500
d.	Advertising Expense	2,500
e.	Interest Payable	$1,500
f.	Building	5,000
g.	Interest Receivable	500

Prepare one summary entry to close those accounts that should be closed at the end of the year.

PE 4-21
LO 4

Closing Entries: Everything
Below is a list of accounts with corresponding ending balances.

	Account	Account Balance
a.	Supplies	$1,800
b.	Dividends	1,200
c.	Service Revenue	9,990
d.	Wages Expense	5,100
e.	Cash	1,900
f.	Utility expense	$3,200
g.	Rent Revenue	925
h.	Retained Earnings (beginning)	1,500

1 Prepare all entries necessary to close those accounts that should be closed at the end of the year.
2 Compute the ending balance in the retained earnings account.

PE 4-22
LO 4

Post-Closing Trial Balance
Refer to PE 4-16. Prepare a post-closing trial balance. For this exercise, ignore the adjustments described in PE 4-16; just use the reported trial balance.

EXERCISES

E 4-1
LO 1

Reporting Income: Cash versus Accrual Accounting
On December 31, 2017, Ryan Stewart completed the first year of operations for his new computer retail store. The following data were obtained from the company's accounting records:

Services to customers	$329,000
Collections from customers	150,560
Interest earned and received on savings accounts	3,500
Wages owed to employees at year-end	3,500
Wages paid to employees	78,000
Utility bill owed: to be paid next month	$ 1,750
Interest due at 12/31 on loan to be paid in March of next year	2,400
Amount paid for one and one-half years' rent, beginning Jan. 1, 2017	36,000
Income taxes owed at year-end	7,000

1. How much net income (loss) should Ryan report for the year ended December 31, 2017, according to (a) cash-basis accounting and (b) accrual-basis accounting?
2. Which basis of accounting provides the better measure of operating results for Ryan?

E 4-2
LO 1

Reporting Income: Cash versus Accrual Accounting

On December 31, 2017, Daniel McGrath completed the first year of operations for his new business. The following data are available from the company's accounting records:

Services to customers	$265,000	Utility bill owed: to be paid next month	1,350
Collections from customers	185,000	Wages paid to employees	$71,000
Interest earned and received on savings accounts	1,100	Wages owed to employees at year-end	3,500
Amount paid on January 1 for one and one-half years' rent	18,000	Interest due at 12/31 on a loan to be paid the middle of next year	950

1. How much net income (loss) should Daniel report for the year ended December 31 according to (a) cash-basis accounting and (b) accrual-basis accounting?
2. Which basis of accounting provides the better measure of operating results for Daniel?

E 4-3
LO 1
LO 2

Identifying Accounting Concepts

A list of accounting concepts is provided below, under which is a list of descriptions of the concepts. Match the description to the concept.

1. ________ Cash-basis accounting
2. ________ Accrual-basis accounting
3. ________ Matching principle
4. ________ Accounting period concept

(a) Monthly and quarterly time periods.
(b) Companies record revenues when they receive cash and record expenses when they pay cash.
(c) Companies recognize revenue when certain criteria are satisfied and record expenses when they are incurred regardless of whether cash is received or paid.
(d) An accounting time period that is one year in length.
(e) Accountants divide the economic life of a business into artificial time periods.
(f) Efforts (expenses) should be matched with accomplishments (revenues).

E 4-4
LO 2

Adjusting Entries: Prepaid Expenses and Unearned Revenues

Kearl Associates is a professional corporation providing management consulting services. The company initially debits assets in recording prepaid expenses and credits liabilities in recording unearned revenues. Give the entry that Kearl would use to record each of the following transactions on the date it occurred. Prepare the adjusting entries needed on December 31, 2017.

1. On July 1, 2017, the company paid a three-year premium of $5,400 on an insurance policy that is effective July 1, 2017, and expires June 30, 2020.
2. On February 1, 2017, Kearl paid its property taxes for the year February 1, 2017, to January 31, 2018. The tax bill was $2,400.
3. On May 1, 2017, the company paid $360 for a three-year subscription to an advertising journal. The subscription starts May 1, 2017, and expires April 30, 2020.
4. Kearl received $3,600 on September 15, 2017, in return for which the company agreed to provide consulting services for 18 months beginning immediately.
5. Kearl rented part of its office space to Davis Realty. Davis paid $900 on November 1, 2017, for the next six months' rent.
6. Kearl loaned $80,000 to a client. On November 1, the client paid $14,400, which represents two years' interest in advance (November 1, 2017, through October 31, 2019).

E 4-5
LO 2

Adjusting Entries: Prepaid Expenses and Unearned Revenues

Masa Company provides computer network consulting services. The company initially debits assets in recording prepaid expenses and credits liabilities in recording unearned revenues. Give the appropriate entry that Masa would use to record each of the following transactions on the date it occurred. Prepare the adjusting entries needed on December 31, 2017. (Round all numbers to the nearest dollar.)

1. On March 15, 2017, Masa received $54,000 for a contract to provide consulting services for 18 months beginning immediately.

2. On April 1, 2017, the company paid $285 for a two-year subscription to a computer networking journal. The subscription starts April 1, 2017, and expires March 31, 2019.
3. On May 1, 2017, Masa paid $7,500 in property taxes for the year May 1, 2017, to April 30, 2018.
4. Masa rented part of its office building to Thinkers Advertising Inc. Thinkers paid $3,350 on August 1, 2017, for the next six months' rent.
5. On September 1, 2017, the company paid a two-year premium of $30,000 on an insurance policy that is effective September 1, 2017, and expires August 31, 2019.
6. Masa loaned $175,000 to a client. On October 1, 2017, the client paid $13,300 for interest in advance (October 1, 2017, to September 30, 2018).

E 4-6
LO 2

Adjusting Entries

Consider the following two independent situations:

1. On June 1, Hatch Company received $4,800 cash for a two-year subscription to its monthly magazine. The term of the subscription begins on June 1. Make the entry to record the receipt of the subscription on June 1. Also make the necessary adjusting entry at December 31. The company uses an account called Unearned Subscription Revenue.
2. Clark Company pays its employees every Friday for a five-day workweek. Salaries of $180,000 are earned equally throughout the week. December 31 of the current year is a Tuesday.
   a. Make the adjusting entry at December 31.
   b. Make the entry to pay the week's salaries on Friday, January 3, of the next year. Assume that all employees are paid for New Year's Day.

E 4-7
LO 2

Adjusting Entries

Consider the following items for Trigo Rock Inc.:

1. On July 1 of the current year, Trigo Rock borrowed $225,000 at 8% interest. As of December 31, no interest expense has been recognized.
2. On September 1 of the current year, Trigo Rock rented to another company some excess space in one of its buildings. Trigo Rock received $21,000 cash on September 1. The rental period extends for six months, starting on September 1. Trigo Rock credited the account Unearned Rent Revenue upon receipt of the rent paid in advance.
3. At the beginning of the year, Trigo Rock had $1,005 of supplies on hand. During the year, another $4,300 of supplies were purchased for cash and recorded in the asset account Office Supplies. At the end of the year, Trigo Rock determined that $1,320 of supplies remained on hand.
4. On February 1 of the current year, Trigo Rock loaned Nopal Company $90,000 at 7% interest. The loan amount, plus accrued interest, will be repaid in one year.

For each of the items, make the appropriate adjusting journal entry, if any, necessary in Trigo Rock's books as of December 31.

E 4-8
LO 2

Adjusting Entries

Davis Company opened a Web page design business on January 1 of the current year. The following information relates to Davis Company's operations during the current year:

1. On February 1, Davis Company rented a new office. Before moving in, it prepaid a year's rent of $24,000 cash.
2. On March 31, Davis Company borrowed $50,000 from a local bank at 15%. The loan is to be repaid, with interest, after one year. As of December 31, no interest payments had yet been made.
3. Davis Company bills some of its customers in advance for its design services. During the year, Davis received $60,000 cash in advance from its customers. As of December 31, Davis's accountant determined that 40% of that amount had not yet been earned.
4. On June 15, Davis Company purchased $1,400 of supplies for cash. On September 14, Davis made another cash purchase of $1,100. As of December 31, Davis's accountant determined that $1,700 of supplies had been used during the year.
5. Before closing its books, Davis Company found a bill for $800 from a freelance programmer who had done work for the company in November. Davis had not yet recorded anything in its books with respect to this bill. Davis plans to pay the bill in January of next year.

For each of the items, make the initial entry, where appropriate, to record the transaction and, if necessary, the adjusting entry at December 31.

E 4-9 LO 2

Adjusting Entries

Wallin Enterprises disclosed the following information on December 31, 2017 (before any adjusting entries were made):

1. In June, Wallin purchased an insurance premium for $54,000 for the 18 months beginning July 1, 2017.
2. On November 1, Wallin received $12,000 from Judy Phan for six months of rent beginning on November 1.
3. On February 1, Wallin borrowed $50,000 at 10% interest. Wallin has not recognized any interest expense this year.
4. On October 1, Wallin loaned Chris Spiker $15,000 at 12% interest. No interest revenue has been collected or recorded.

For each item listed, prepare the necessary adjusting entries to be made on December 31, 2017.

E 4-10 LO 2

Adjusting Entries

Consider the following information related to the Gold Medal Company:

1. At the beginning of the year, the company had $245 in supplies on hand. During the year, the company purchased $1,950 in supplies. At the end of the year, the company had $760 in supplies on hand.
2. The company pays its employees on the 15th of each month. The monthly payroll (ignoring payroll taxes) is $38,000.
3. On November 1, the company received a $42,000 check for services. The transaction was recorded as unearned revenue. By year-end, the Gold Medal Company had completed one-fourth of the required work related to this service. Gold Medal expects to complete the rest of the work within the first two months of the next year.
4. On December 15, Gold Medal paid $5,600 for factory rental related to January of the next year.

For each item listed, prepare the necessary adjusting entries to be made on December 31.

E 4-11 LO 2

Analysis of Accounts

Answer the following questions:

1. If office supplies on hand amounted to $2,750 at the beginning of the period and total purchases of office supplies during the period amounted to $14,200, determine the ending balance of office supplies on hand if office supplies expense for the period amounted to $13,225.
2. If beginning and ending accounts receivable were $76,000 and $82,000, respectively, and total sales made on account for the period amounted to $174,000, determine the amount of cash collections from customers on account for the period.
3. Assume all rent revenues are received in advance and accounted for as unearned rent, and beginning and ending balances of unearned rent are $8,000 and $9,500, respectively. If total rent revenue for the period amounts to $23,000, determine the amount of rent collections in advance for the period.

E 4-12 LO 2

Identifying Types of Adjustments and Account Relationships

Orwell Company Ltd. accumulates the following adjustment data at December 31.

1. Services provided but not recorded total €1,420.
2. Supplies of €300 have been used.
3. Utility expenses of €225 are unpaid.
4. Unearned service revenue of €260 is recognized for services performed.
5. Salaries of €800 are unpaid.
6. Prepaid insurance totaling €380 has expired.

Required:

For each of the above items indicate the following:

1. The type of adjustment (prepaid expense, unearned revenue, accrued revenue, or accrued expense).
2. The status of the related accounts before adjustment (overstatement or understatement).

E 4-13
LO 3

Classifying Account Balances

For each of the following accounts, indicate whether it would be found in the statement of comprehensive income or in the balance sheet.

1. Cash
2. Salaries Expense
3. Prepaid Salaries
4. Retained Earnings
5. Office Supplies Expense
6. Accounts Receivable
7. Maintenance Expense
8. Interest Receivable
9. Capital Stock
10. Accounts Payable
11. Buildings
12. Mortgage Payable
13. Interest Expense
14. Accounts Payable
15. Notes Receivable
16. Office Supplies
17. Service Revenue
18. Insurance Expense
19. Machinery
20. Land
21. Salaries Payable
22. Prepaid Insurance
23. Notes Payable
24. Dividends

E 4-14
LO 3

Preparing Financial Statements from Adjusted Trial Balance

The trial balances after adjustment for BUNNY Company at the end of its fiscal year are presented below.

BUNNY COMPANY
Adjusted Trial Balance
December31, 2017

	Dr.	Cr.
Cash	$10,400	
Accounts Receivable	10,000	
Supplies	700	
Prepaid Insurance	2,500	
Equipment	14,000	
Accumulated Depreciation—Equipment		$4,900
Accounts Payable		5,800
Salaries and Wages Payable		1,100
Unearned Rent Revenue		800
Capital Stock		12,000
Retained Earnings		3,600
Service Revenue		35,200
Rent Revenue		11,700
Salaries and Wages Expense	18,100	
Supplies Expense	1,600	
Rent Expense	15,000	
Insurance Expense	1,500	
Depreciation Expense	1,300	
	$75,100	$75,100

Required:

Prepare the statement of comprehensive income and the statement of retained earnings for the year 2017 and the balance sheet as of December 31, 2017. Assume that other comprehensive income is zero.

E 4-15
LO 4

Real and Nominal Accounts

Classify each of the following accounts as either a real account (R) or a nominal account (N):

1. Cash
2. Service Revenue
3. Accounts Receivable
4. Prepaid Insurance
5. Capital Stock
6. Retained Earnings
7. Insurance Expense
8. Salaries Payable
9. Interest Expense
10. Insurance Premiums Payable
11. Salaries Expense
12. Accounts Payable
13. Prepaid Salaries
14. Utilities Expense
15. Notes Payable
16. Property Tax Expense
17. Rent Expense
18. Interest Payable
19. Income Taxes Payable
20. Dividends
21. Buildings
22. Office Supplies
23. Income Tax Expense

E 4-16
LO 4

Closing Entry

The statement of comprehensive income for Basket Weavers Inc. for the year ended June 30, 2017, is provided.

Basket Weavers Inc.
Statement of Comprehensive Income
For the Year Ended June 30, 2017

Service revenue	$ 867,650
Operating expenses	(650,000)
Income before income tax	$ 217,650
Income tax expense	(76,178)
Net income	$ 141,472
Other comprehensive income	0
Comprehensive income	$ 141,472

1. Prepare a journal entry to close the accounts to Retained Earnings.
2. What problem may arise in closing the accounts if the information from the statement of comprehensive income is used?

E 4-17
LO 4

Closing Entries

Christopher, Inc., reports the following numbers for 2017:

Christopher, Inc.
Statement of Comprehensive Income
For the Year Ended December 31, 2017

Service Revenue	$ 215,890
Insurance expense	(3,000)
Administrative expense	(100,000)
Income before income tax	$ 112,890
Income tax expense	(30,100)
Net income	$ 82,790

Prepare journal entries to close the revenue and expense accounts to the retained earnings account.

E 4-18
LO 4

Closing Entries

The following information relates to the Wycherly Company:

Wycherly Company
Statement of Comprehensive Income
For the Year Ended December 31, 2017

Service revenue	$ 906,000
Interest revenue	23,000
Net revenue	$ 929,000
Salaries expense	(450,000)
Utilities expense	(140,000)
Income before income tax	$ 339,000
Income tax expense	(135,600)
Net income	$ 203,400
Other comprehensive income	0
Comprehensive income	$ 203,400

Prepare journal entries to close the revenue and expense accounts to the retained earnings account.

E 4-19
LO 4

Closing Dividends and Preparing a Post-Closing Trial Balance

A listing of account balances taken from the adjusted ledger account balances of Contemporary Literature Enterprises shows the following:

Cash	$ 63,710	Salaries Payable	$ 27,100
Accounts Receivable	154,230	Taxes Payable	36,990
Prepaid Insurance	10,070	Unearned Rent	18,400
Land	430,800	Mortgage Payable	190,500
Accounts Payable	68,540	Capital Stock	130,000
Notes Payable	92,000	Dividends	55,000
		Retained Earnings	150,280

All revenue and expense accounts have been closed to Retained Earnings. Dividends has not yet been closed.

1. Prepare the closing entry for Dividends.
2. Prepare a post-closing trial balance for December 31, 2017.

E 4-20
LO 4

Closing Dividends and Preparing a Post-Closing Trial Balance

Below is a listing of account balances taken from the adjusted ledger account balances of Jolley Manufacturing Corporation.

Cash	$ 16,400	Income Taxes Payable	$ 7,000
Accounts Receivable	23,500	Mortgage Payable	82,500
Prepaid Advertising	4,000	Notes Payable	23,000
Building	181,000	Unearned Rent	4,200
Land	45,000	Capital Stock	80,000
Accounts Payable	24,000	Dividends	14,800
Wages Payable	8,000	Retained Earnings	56,000

All revenues and expense accounts have been closed to Retained Earnings. Dividends has not yet been closed.

1. Prepare the closing entry for Dividends.
2. Prepare a post-closing trial balance for December 31, 2017.

PROBLEMS

P 4-1
LO 1

Cash- and Accrual-Basis Accounting

In the course of your examination of the books and records of Karen Company, you find the following data:

Salaries earned by employees in 2017	$ 61,000
Salaries paid in 2017	53,000
Total service revenue in 2017	327,000
Cash collected from providing services in 2017	352,000
Utilities expense incurred in 2017	7,500
Utility bills paid in 2017	6,300
Tax assessment for 2017	6,210
Taxes paid in 2017	5,930
Rent expense for 2017	36,000
Rent paid in 2017	41,000

Required:

1. Compute Karen's net income for 2017 using cash-basis accounting.
2. Compute Karen's net income for 2017 using accrual-basis accounting.
3. **Interpretive Question:** Why is accrual-basis accounting normally used? Can you see any opportunities for improperly reporting income under cash-basis accounting? Explain.

P 4-2 LO 2

Adjusting Entries

The information presented below is for Sponge Bob, Inc.

a. Salaries for the period December 26, 2017, through December 31, 2017, amounted to $17,840 and have not been recorded or paid. (Ignore payroll taxes.)
b. Interest of $5,225 is payable for three months on an 11%, $190,000 loan and has not been recorded.
c. Rent of $36,000 was paid for six months in advance on December 1 and debited to Prepaid Rent.
d. Rent of $76,000 was credited to an unearned revenue account when received. Of this amount, $42,100 is still unearned at year-end.
e. The expired portion of an insurance policy is $2,400. Prepaid Insurance was originally debited.
f. Interest revenue of $400 from a $4,000 note has been earned but not collected or recorded.

Required:

Prepare the adjusting entries that should be made on December 31, 2017. (Omit explanations.)

P 4-3 LO 2

Adjusting Entries

The information presented below is for Susan's Sweet Shop.

a. Interest of $9,600 is payable for September 2017 through December 2017 on a 9%, $320,000 loan and has not been recorded.
b. Rent of $93,500 was credited to an unearned revenue account when received. Of this amount, $42,250 is still unearned at year-end.
c. Interest revenue of $9,450 from a $105,000 note has been earned but not collected or recorded.
d. The expired portion of an insurance policy is $4,960. Prepaid Insurance was originally debited.
e. Rent of $30,000 was paid for six months in advance on November 15, 2017, and debited to Prepaid Rent.
f. Salaries for the period December 26, 2017, to December 31, 2017, amounted to $15,300 and have not been recorded or paid. (Ignore payroll taxes.)

Required:

Prepare the adjusting entries that should be made on December 31, 2017. (Omit explanations.)

P 4-4 LO 2

Year-End Analysis of Accounts

An analysis of cash records and account balances of Wells, Inc., for 2017 is as follows:

	Account Balances Jan. 1, 2017	Account Balances Dec. 31, 2017	Cash Received or Paid in 2017
Wages Payable	$2,600	$3,400	
Unearned Rent	4,500	5,000	
Prepaid Insurance	200	120	
Paid for wages			$30,000
Received for rent			15,000
Paid for insurance			720

Required:

Determine the amounts that should be included on the 2017 statement of comprehensive income for (1) wages expense, (2) rent revenue, and (3) insurance expense.

P 4-5 LO 2 LO 3

Preparing Adjusting Entries, Posting, and Preparing Adjusted Trial Balance, and Financial Statements

SKYLINE Inc. opened for business on June 1, 2017. Its trial balance before adjustment on June 30 is as follows.

SKYLINE Inc. Trial Balance May 31, 2017		
	Debit	**Credit**
Cash	$ 19,600	
Supplies	3,300	
Prepaid Insurance	6,000	
Land	25,000	
Building	125,000	
Equipment	26,000	
Accounts Payable		$ 6,500
Unearned Rent Revenue		7,400
Mortgage Payable		80,000
Capital Stock		100,000
Dividends	5,000	
Rent Revenue		80,000
Maintenance and Repairs Expense	3,600	
Salaries and Wages Expense	51,000	
Utilities Expense	9,400	
	$273,900	$273,900

Other data:

1. Insurance expires at the rate of $400 per month.
2. A count on August 31 shows $900 of supplies on hand.
3. Annual depreciation is $4,500 on buildings and $2,400 on equipment.
4. Unearned rent revenue of $4,100 was recognized for services performed prior to August 31.
5. Salaries of $400 were unpaid on August 31.
6. Rentals of $3,700 were due from tenants on August 31. (Use Accounts Receivable.)
7. The mortgage interest rate is 9% per year. (The mortgage was taken out on August 1.)

Required:

1. Journalize the adjusting entries on August 31 for the 3-month period from June 1 to August 31.
2. Prepare an adjusted trial balance on August 31.
3. Prepare a statement of comprehensive income and a statement of retained earnings for the 3 months ending August 31 and a balance sheet as of August 31.

P 4-6
LO 4

Account Classifications and Debit-Credit Relationships

Using the format provided, for each account identify (1) whether the account is a balance sheet (B/S) or a statement of comprehensive income (S/CI) account; (2) whether it is an asset (A), a liability (L), an equity (OE), a revenue (R), or an expense (E) account; (3) whether the account is a real or a nominal account; (4) whether the account will be “closed” or left “open” at year-end; and (5) whether the account normally has a debit or a credit balance. The following example is provided:

Account Title	(1) B/S or S/CI	(2) A, L, OE, R, E	(3) Real or Nominal	(4) Closed or Open	(5) Debit/Credit
Cash	B/S	A	Real	Open	Debit

1. Accounts Receivable
2. Accounts Payable
3. Prepaid Insurance
4. Mortgage Payable
5. Rent Expense
6. Service Revenue
7. Dividends
8. Capital Stock
9. Retained Earnings
10. Prepaid Rent
11. Supplies on Hand
12. Utilities Expense
13. Income Taxes Payable
14. Interest Revenue
15. Notes Payable
16. Income Tax Expense
17. Wages Payable
18. Unearned Rent Revenue
19. Land
20. Unearned Consulting Fees
21. Interest Receivable
22. Consulting Fee

P 4-7
LO 4

Closing Entries

The statement of comprehensive income for Joe's Asphalt, Inc., for the year ended December 31, 2017, is as follows:

Joe's Asphalt, Inc.
Statement of Comprehensive Income
For the Year Ended December 31, 2017

Service revenue		$178,000
Less expenses:		
Salaries expense	$144,000	
Interest expense	10,500	
Office supplies expense	7,640	
Insurance expense	9,860	
Property tax expense	22,400	
Total expenses		194,400
Net loss		$(16,400)

Required:

Dividends of $36,000 were paid on December 30, 2017.

1. Give the entry required on December 31, 2017, to properly close the statement of comprehensive income accounts.
2. Give the entry required to close the dividends account at December 31, 2017.

P 4-8
LO 4

Closing Entries

The statement of comprehensive income for Squared Carpentry, Inc., for the year ended December 31, 2017, is as follows:

Squared Carpentry, Inc.
Statement of Comprehensive Income
For the Year Ended December 31, 2017

Service revenue		$276,100
Less expenses:		
Wages expense	$102,750	
Utilities expense	4,890	
Insurance expense	6,930	
Property tax expense	10,510	
Rent expense	49,000	
Advertising expense	15,640	
Interest expense	9,800	
Total expenses		199,520
Net income		$ 76,580
Other comprehensive income		1,420
Comprehensive income		$ 78,000

Dividends of $18,600 were paid on December 30, 2017.

Required:

1. Give the entry required on December 31, 2017, to properly close the statement of comprehensive income accounts.
2. Give the entry required to close the dividends account at December 31, 2017.

P 4-9
LO 4

Preparing Closing Entries, and Preparing Post-Closing Trial Balance

SORA Company had the following adjusted trial balance.

SORA COMPANY
Adjusted Trial Balance
For the Month Ended June 30, 2017

Account Titles	Adjusted Trial Balance Debit	Adjusted Trial Balance Credit
Cash	$ 3,712	
Accounts Receivable	2,904	
Supplies	480	
Accounts Payable		$ 1,056
Unearned Service Revenue		160
Capital Stock		3,000
Retained Earnings		1,360
Dividends	300	
Service Revenue		4,300
Salaries and Wages Expense	1,344	
Miscellaneous Expense	180	
Supplies Expense	1,200	
Salaries and Wages Payable		244
	$10,120	$10,120

Required:

1. Prepare closing entries at June 30, 2017.
2. Prepare a post-closing trial balance.

P 4-10
LO 2
LO 4

Unifying Concepts: Adjusting and Closing Entries

The unadjusted and adjusted trial balances of White Company as of December 31, 2017, are presented below.

White Company
Trial Balance
December 31, 2017

	Unadjusted		Adjusted	
	Debits	**Credits**	**Debits**	**Credits**
Cash	$ 21,250		$ 21,250	
Accounts Receivable	11,250		11,250	
Supplies on Hand	5,195		3,895	
Prepaid Rent	17,545		7,545	
Prepaid Insurance	1,985		1,100	
Buildings (net)	95,000		95,000	
Land	45,720		45,720	
Accounts Payable		$ 9,350		$ 9,350
Wages Payable				5,700
Income Taxes Payable				580
Interest Payable		450		1,050
Notes Payable		65,000		65,000
Capital Stock		84,320		84,320
Consulting Fees Earned		142,380		142,380
Wages Expense	92,335		98,035	
Rent Expense			10,000	
Interest Expense	3,500		4,100	
Insurance Expense	585		1,470	
Supplies Expenses	4,365		5,665	
Income Tax Expense	2,770		3,350	
Totals	$301,500	$301,500	$308,380	$308,380

Required:

1. Prepare the journal entries that are required to adjust the accounts at December 31, 2017.
2. Prepare the journal entry that is required to close the accounts at December 31, 2017.

P 4-11
LO 3
LO 4

Unifying Concepts: Analysis of Accounts

The bookkeeper for Davey James Company accidentally pressed the wrong computer key and erased the amount of Retained Earnings. You have been asked to analyze the following data and provide some key numbers for the board of directors meeting, which is to take place in 30 minutes. With the exception of Retained Earnings, the following account balances are available at December 31, 2017.

Cash	$ 61,000	Accounts Receivable	$ 49,000
Furniture (net)	40,000	Inventory	160,000
Accounts Payable	120,000	Notes Payable	250,000
Land	260,000	Supplies on Hand	10,000
Buildings (net)	240,000	Capital Stock	300,000
Service Revenue	195,000	Dividends	20,000
Salaries Expense	50,000	Retained Earnings	?

Required:

1. Compute the amount of total assets at December 31, 2017.
2. Compute the amount of net income for the year ended December 31, 2017.
3. After all closing entries are made, what is the amount of Retained Earnings at December 31, 2017?
4. What was the beginning retained earnings balance at January 1, 2017?

P 4-12
LO 5

Unifying Concepts: Analysis and Correction of Errors

At the end of November 2017, the general ledger of Peacock Clothing Company showed the following amounts:

Assets	$103,070
Liabilities	53,300
Equity	76,300

The company's bookkeeper is new on the job and does not have much accounting experience. Because the bookkeeper has made numerous errors, total assets do not equal liabilities plus equity. The following is a list of errors made.

a. Credit sales of services of $23,400 were posted to the general ledger as $32,400. The accounts receivable were posted correctly.
b. Supplies of $14,800 were purchased on account and received before the end of November, but no entry to record the purchase was made until December.
c. November salaries payable of $4,000 were not recorded until paid in December.
d. Common stock was issued for $25,000 and credited to Accounts Payable.
e. Equipment purchased for $42,030 was incorrectly posted to the asset account as $24,500. No error was made in the liability account.

Required:

Determine the correct balances of assets, liabilities, and equity at the end of November.

P 4-13
LO 5

Unifying Concepts: The Accounting Cycle

The post-closing trial balance of Anderson Company at December 31, 2017, is shown here.

Anderson Company
Post-Closing Trial Balance
December 31, 2017

	Debits	Credits
Cash	$ 15,000	
Accounts Receivable	20,000	
Land	180,000	
Accounts Payable		$ 25,000
Notes Payable		35,000
Capital Stock		125,000
Retained Earnings		30,000
Totals	$215,000	$215,000

During 2017, Anderson Company had the following transactions:

a. Equipment purchases were $80,000, all on credit.
b. An additional $10,000 of capital stock was issued for cash.
c. Services were provided for $180,000; $100,000 was on credit and the balance was by cash.
d. The notes were paid, including $7,000 interest.
e. $105,000 was collected from customers.
f. $95,000 was paid to reduce accounts payable.
g. Salaries expense was $30,000, all paid in cash.
h. A $10,000 cash dividend was declared and paid.

Required:

1. Prepare journal entries to record each of the 2017 transactions.
2. Set up T-accounts with the proper balances at January 1, 2017, and post the journal entries to the T-accounts.
3. Prepare a statement of comprehensive income for the year ended December 31, 2017, and a balance sheet as of that date. Also prepare a statement of retained earnings.
4. Prepare the entries necessary to close the nominal accounts, including Dividends.
5. Post the closing entries to the ledger accounts [label (i) and (j)] and prepare a post-closing trial balance at December 31, 2017.

Analytical Assignments

AA 4-1

Discussion

Using Financial Statements for Investment Decisions

Several doctors are considering the purchase of a small real estate business as an investment. Because you have some training in the accounting cycle, they have hired you to review the real estate company's accounting records and to prepare a balance sheet and a statement of comprehensive income for their use. In analyzing various business documents, you verify the following data.

The account balances at the beginning of the current year were as follows:

Cash in Bank	$ 7,800
Notes Receivable (from Current Owner)	10,000
Supplies on Hand	750
Prepaid Office Rent	4,500
Accounts Payable	450
Equity	22,600

During the current year, the following summarized transactions took place:

a. The owner paid $1,200 to the business to cover the interest on the note receivable ($10,000 × 0.12 × 1 year). Nothing was paid on the principal.

b. Real estate commissions earned during the year totaled $45,500. Of this amount, $1,000 has not been received by year-end.
c. The company purchased $500 of supplies during the year. A count at year-end shows $300 worth still on hand.
d. The $4,500 paid for office rental was for 18 months, beginning in January of this year.
e. Utilities paid during the year amounted to $1,500.
f. During the year, $400 of accounts payable were paid; the balance in Accounts Payable at year-end is $300, with the adjustment being debited to Miscellaneous Office Expense.
g. The owner paid himself $1,500 a month as a salary and paid a part-time secretary $2,400 for the year. (Ignore payroll taxes.)

Prepare a balance sheet and a statement of comprehensive income for the real estate business. Does the business appear profitable? Does the balance sheet raise any questions or concerns? What other information might the doctors want to consider in making this investment decision?

AA 4-2

Discussion

Accounting and Ethical Issues Involving the Closing Process

Silva and Juanita Rodriquez are the owners of Year-Round Landscape, Inc., a small landscape and yard service business in southern California. The business is three years old and has grown significantly, especially during the past year. To sustain this growth, Year-Round Landscape must expand operations.

While in the past, the Rodriquezes have been able to secure funds for the business from personal resources, they must now seek a bank loan. To satisfy bank requirements, Year-Round Landscape must provide a set of financial statements, including comparative statements of comprehensive income showing the growth in earnings over the past three years.

In analyzing the records, Silva notices that the nominal accounts have not yet been closed for this year. Furthermore, Silva is aware of a major contract that is to be signed on January 3, only three days after the December 31 year-end for the business. Silva estimates that this contract will increase current year earnings by 20% and suggests that the closing process be delayed one week so that this major contract can be included in this year's operating results.

What accounting issues are involved in this case? What are the ethical issues?

AA 4-3

Real Company Analysis

Home Depot

Selected financial statement information for Home Depot is given in the table below. Using this information, answer the following questions:

(all numbers in millions)
Retained earnings balance — 2/3/13 $20,038 million

	Net Income	Dividends
For year ended February 2, 2014	$5,385	$2,243
For year ended February 1, 2015	6,345	2,530
For year ended January 31, 2016	7,009	3,031

1. Compute Home Depot's retained earnings balance at the end of each year.
2. Divide dividends by net income for each year. The result is termed the "dividend payout ratio." Did Home Depot's dividend payout ratio increase or decrease over time?

AA 4-4

Ethics

Do Two Wrongs Make a Right?

Jex Varner, chief financial officer of Wyndam, Inc., is involved in a meeting with the firm's newly hired external auditors, Ernst & Price. The external auditors have noted several adjusting entries that they believe should be reflected in the current period's financial statements. Specifically, there are questions regarding $400,000 of cash that has been received (and recorded as revenue) but not yet earned. The auditors feel that this amount should be recognized as a liability.

Jex counters that the firm's policy has always been to recognize revenue when the cash is received. He states that $350,000 of cash was received in December of last year, earned in January, and no adjustment was made. To be consistent, he continues, he doesn't believe any adjustments should be made this year.

As a member of the external auditing team, do you agree with Jex's reasoning? If you think that an adjustment needs to be made, what journal entry would you propose? What should be done about the $350,000 that has been earned this year even though the cash was received last year?