PRACTICE MULTIPLE-CHOICE QUESTIONS

**4-1.** (LO 1)

Which of the following statements is **incorrect**concerning the worksheet?

(a) The worksheet is essentially a working tool of the accountant.

(b) The worksheet is distributed to management and other interested parties.

(c) The worksheet cannot be used as a basis for posting to ledger accounts.

(d) Financial statements can be prepared directly from the worksheet before journalizing and posting the adjusting entries.

**Answer**

(b) The worksheet is distributed to management and other interested parties.

**4-2.** (LO 1)

In a worksheet, net income is entered in the following columns:

(a) income statement (Dr) and statement of financial position (Dr).

(b) income statement (Cr) and statement of financial position (Dr).

(c) income statement (Dr) and statement of financial position (Cr).

(d) income statement (Cr) and statement of financial position (Cr).

**Answer**

(c) income statement (Dr) and statement of financial position (Cr).

**4-3.** (LO 1)

In the unadjusted trial balance of its worksheet for the year ended December 31, 2017, Taitum Company reported Equipment of £120,000. The year-end adjusting entries require an adjustment of £15,000 for depreciation expense for the equipment. After adjustment, the following adjusted amount should be reported:

(a) A debit of £105,000 for Equipment in the statement of financial position column.

(b) A credit of £15,000 for Depreciation Expense—Equipment in the income statement column.

(c) A debit of £120,000 for Equipment in the statement of financial position column.

(d) A debit of £15,000 for Accumulated Depreciation—Equipment in the statement of financial position column.

**Answer**

(c) A debit of £120,000 for Equipment in the statement of financial position column.

**4-4.** (LO 2)

An account that will have a zero balance after closing entries have been journalized and posted is:

(a) Service Revenue.

(b) Supplies.

(c) Prepaid Insurance.

(d) Accumulated Depreciation—Equipment.

**Answer**

(a) Service Revenue.

**4-5.** (LO 2)

When a net loss has occurred, Income Summary is:

(a) debited and Retained Earnings is credited.

(b) credited and Retained Earnings is debited.

(c) debited and Dividends is credited.

(d) credited and Dividends is debited.

**Answer**

(b) credited and Retained Earnings is debited.

**4-6.** (LO 2)

The closing process involves separate entries to close (1) expenses, (2) dividends, (3) revenues, and (4) income summary. The correct sequencing of the entries is:

(a) (4), (3), (2), (1)

(b) (1), (2), (3), (4)

(c) (3), (1), (4), (2)

(d) (3), (2), (1), (4)

**Answer**

(c) (3), (1), (4), (2)

**4-7.** (LO 3)

Which types of accounts will appear in the post-closing trial balance?

(a) Permanent (real) accounts.

(b) Temporary (nominal) accounts.

(c) Accounts shown in the income statement columns of a worksheet.

(d) None of the above.

**Answer**

(a) Permanent (real) accounts.

**4-8.** (LO 4)

All of the following are required steps in the accounting cycle **except**:

(a) journalizing and posting closing entries.

(b) preparing financial statements.

(c) journalizing the transactions.

(d) preparing a worksheet.

**Answer**

(d) preparing a worksheet.

**4-9.** (LO 4)

The proper order of the following steps in the accounting cycle is:

(a) prepare unadjusted trial balance, journalize transactions, post to ledger accounts, journalize and post adjusting entries.

(b) journalize transactions, prepare unadjusted trial balance, post to ledger accounts, journalize and post adjusting entries.

(c) journalize transactions, post to ledger accounts, prepare unadjusted trial balance, journalize and post adjusting entries.

(d) prepare unadjusted trial balance, journalize and post adjusting entries, journalize transactions, post to ledger accounts.

**Answer**

(c) journalize transactions, post to ledger accounts, prepare unadjusted trial balance, journalize and post adjusting entries.

**4-10.** (LO 5)

When Alexander Company purchased supplies worth £500, it incorrectly recorded a credit to Supplies for £5,000 and a debit to Cash for £5,000. Before correcting this error:

(a) Cash is overstated and Supplies is overstated.

(b) Cash is understated and Supplies is understated.

(c) Cash is understated and Supplies is overstated.

(d) Cash is overstated and Supplies is understated.

**Answer**

(d) Cash is overstated and Supplies is understated.

**4-11.** (LO 5)

Cash of NT$3,000 received at the time the service was provided was journalized and posted as a debit to Cash NT$3,000 and a credit to Accounts Receivable NT$3,000. Assuming the incorrect entry is not reversed, the correcting entry is:

(a) debit Service Revenue NT$3,000 and credit Accounts Receivable NT$3,000.

(b) debit Accounts Receivable NT$3,000 and credit Service Revenue NT$3,000.

(c) debit Cash NT$3,000 and credit Service Revenue NT$3,000.

(d) debit Accounts Receivable NT$3,000 and credit Cash NT$3,000.

**Answer**

(b) debit Accounts Receivable NT$3,000 and credit Service Revenue NT$3,000.

**4-12.** (LO 6)

The correct order of presentation in a classified statement of financial position for the following current assets is:

(a) accounts receivable, cash, prepaid insurance, inventories.

(b) cash, inventories, accounts receivable, prepaid insurance.

(c) prepaid insurance, inventories, accounts receivable, cash.

(d) inventories, cash, accounts receivable, prepaid insurance.

**Answer**

(c) prepaid insurance, inventories, accounts receivable, cash.

**4-13.** (LO 6)

A company has purchased a tract of land. It expects to build a production plant on the land in approximately 5 years. During the 5 years before construction, the land will be idle. The land should be reported as:

(a) property, plant, and equipment.

(b) land expense.

(c) a long-term investment.

(d) an intangible asset.

**Answer**

(c) a long-term investment.

**4-14.** (LO 6)

In a classified statement of financial position, assets are usually classified using the following sequence of categories:

(a) current assets; non-current assets; property, plant, and equipment; intangible assets.

(b) tangible assets; property, plant, and equipment; long-term investments; current assets.

(c) current assets; long-term investments; tangible assets; intangible assets.

(d) intangible assets; property, plant, and equipment; long-term investments; current assets.

**Answer**

(d) intangible assets; property, plant, and equipment; long-term investments; current assets.

**4-15.** (LO 6)

Current assets are listed:

(a) by the reverse order of their expected conversion to cash.

(b) by importance.

(c) by longevity.

(d) alphabetically.

**Answer**

(a) by the reverse order of their expected conversion to cash.

**\*4-16.** (LO 7)

On December 31, Frank Voris Company Ltd. correctly made an adjusting entry to recognize €2,000 of accrued salaries payable. On January 8 of the next year, total salaries of €3,400 were paid. Assuming the correct reversing entry was made on January 1, the entry on January 8 will result in a credit to Cash €3,400 and the following debit(s):

(a) Salaries and Wages Payable €1,400 and Salaries and Wages Expense €2,000.

(b) Salaries and Wages Payable €2,000 and Salaries and Wages Expense €1,400.

(c) Salaries and Wages Expense €3,400.

(d) Salaries and Wages Payable €3,400.

**Answer**

(c) Salaries and Wages Expense €3,400.

QUESTIONS

**4-1.** “A worksheet is a permanent accounting record and its use is required in the accounting cycle.” Do you agree? Explain.

**4-2.** Explain the purpose of the worksheet.

**4-3.** What is the relationship, if any, between the amount shown in the adjusted trial balance column for an account and that account's ledger balance?

**4-4.** If a company's revenues are €125,000 and its expenses are €113,000, in which financial statement columns of the worksheet will the net income of €12,000 appear? When expenses exceed revenues, in which columns will the difference appear?

**4-5.** Why is it necessary to prepare formal financial statements if all of the data are in the statement columns of the worksheet?

**4-6.** Identify the account(s) debited and credited in each of the four closing entries, assuming the company has net income for the year.

**4-7.** Describe the nature of the Income Summary account and identify the types of summary data that may be posted to this account.

**4-8.** What are the content and purpose of a post-closing trial balance?

**4-9.** Which of the following accounts would not appear in the post-closing trial balance? Interest Payable; Equipment; Depreciation Expense; Dividends; Unearned Service Revenue; Accumulated Depreciation—Equipment; and Service Revenue.

**4-10.** Distinguish between a reversing entry and an adjusting entry. Are reversing entries required?

**4-11.** Indicate, in the sequence in which they are made, the three required steps in the accounting cycle that involve journalizing.

**4-12.** Identify, in the sequence in which they are prepared, the three trial balances that are often used to report financial information about a company.

**4-13.** How do correcting entries differ from adjusting entries?

**4-14.** What standard classifications are used in preparing a classified statement of financial position?

**4-15.** What is meant by the term “operating cycle”?

**4-16.** Define current assets. What basis is used for arranging individual items within the current assets section?

**4-17.** Distinguish between long-term investments and property, plant, and equipment.

**4-18.** Identify the two equity accounts in a corporation and indicate the purpose of each.

**4-19.** Using TSMC's annual report, determine its current liabilities at December 31, 2013, and December 31, 2012. Were current liabilities higher or lower than current assets in these two years?

**\*4-20.** Triumph Company Ltd. prepares reversing entries. If the adjusting entry for interest payable is reversed, what type of an account balance, if any, will there be in Interest Payable and Interest Expense after the reversing entry is posted?

**\*4-21.** At December 31, accrued salaries payable totaled £3,500. On January 10, total salaries of £9,200 are paid. (a) Assume that reversing entries are made at January 1. Give the January 10 entry, and indicate the Salaries and Wages Expense account balance after the entry is posted. (b) Repeat part (a) assuming reversing entries are not made.

BRIEF EXERCISES

**BE4-1.** *List the steps in preparing a worksheet*.

(LO 1)

The steps in using a worksheet are presented in random order below. List the steps in the proper order by placing numbers 1-5 in the blank spaces.

(a) \_\_\_\_\_\_\_\_ Prepare a trial balance on the worksheet.

(b) \_\_\_\_\_\_\_\_ Enter adjusted balances.

(c) \_\_\_\_\_\_\_\_ Extend adjusted balances to appropriate statement columns.

(d) \_\_\_\_\_\_\_\_ Total the statement columns, compute net income (loss), and complete the worksheet.

(e) \_\_\_\_\_\_\_\_ Enter adjustment data.

**BE4-2.** *Prepare partial worksheet*.

(LO 1)

The ledger of Van Heiden Company, NV includes the following unadjusted balances: Prepaid Insurance €3,000, Service Revenue €61,000, and Salaries and Wages Expense €25,000. Adjusting entries are required for (a) expired insurance €1,300; (b) services provided €1,100, but unbilled and uncollected; and (c) accrued salaries payable €800. Enter the unadjusted balances and adjustments into a worksheet and complete the worksheet for all accounts. (*Note:* You will need to add the following accounts: Accounts Receivable, Salaries and Wages Payable, and Insurance Expense.)

**BE4-3.** *Identify worksheet columns for selected accounts*.

(LO 1)

The following selected accounts appear in the adjusted trial balance columns of the worksheet for Cesar Company: Accumulated Depreciation; Depreciation Expense; Share Capital—Ordinary; Dividends; Service Revenue; Supplies; and Accounts Payable. Indicate the financial statement column (income statement Dr., statement of financial position Cr., etc.) to which each balance should be extended.

**BE4-4.** *Prepare closing entries from ledger balances*.

(LO 2)

The ledger of Yilmaz Company contains the following balances: Retained Earnings [Turkish lira symbol black.svg](http://zh.wikipedia.org/wiki/%E5%9C%9F%E8%80%B3%E5%85%B6%E9%87%8C%E6%8B%89%E7%AC%A6%E5%8F%B7)30,000; Dividends [Turkish lira symbol black.svg](http://zh.wikipedia.org/wiki/%E5%9C%9F%E8%80%B3%E5%85%B6%E9%87%8C%E6%8B%89%E7%AC%A6%E5%8F%B7)2,000; Service Revenue [Turkish lira symbol black.svg](http://zh.wikipedia.org/wiki/%E5%9C%9F%E8%80%B3%E5%85%B6%E9%87%8C%E6%8B%89%E7%AC%A6%E5%8F%B7)47,000; Salaries and Wages Expense [Turkish lira symbol black.svg](http://zh.wikipedia.org/wiki/%E5%9C%9F%E8%80%B3%E5%85%B6%E9%87%8C%E6%8B%89%E7%AC%A6%E5%8F%B7)27,000; and Supplies Expense [Turkish lira symbol black.svg](http://zh.wikipedia.org/wiki/%E5%9C%9F%E8%80%B3%E5%85%B6%E9%87%8C%E6%8B%89%E7%AC%A6%E5%8F%B7)5,000. Prepare the closing entries at December 31.

**BE4-5.** *Post closing entries; underline and balance T-accounts*.

(LO 2)

Using the data in BE4-4, enter the balances in T-accounts, post the closing entries, and underline and balance the accounts.

**BE4-6.** *Journalize and post closing entries using the three-column form of account*.

(LO 2)

The income statement for Mosquera Golf Club for the month ending July 31 shows Service Revenue €19,200, Salaries and Wages Expense €8,800, Maintenance and Repairs Expense €2,500, and Net Income €7,900. Prepare the entries to close the revenue and expense accounts. Post the entries to the revenue and expense accounts, and complete the closing process for these accounts using the three-column form of account.

**BE4-7.** *Identify post-closing trial balance accounts*.

(LO 3)

Using the data in BE4-3, identify the accounts that would be included in a post-closing trial balance.

**BE4-8.** *List the required steps in the accounting cycle in sequence*.

(LO 4)

The steps in the accounting cycle are listed in random order below. List the steps in proper sequence, assuming no worksheet is prepared, by placing numbers 1-9 in the blank spaces.

(a) \_\_\_\_\_\_\_\_ Prepare a trial balance.

(b) \_\_\_\_\_\_\_\_ Journalize the transactions.

(c) \_\_\_\_\_\_\_\_ Journalize and post closing entries.

(d) \_\_\_\_\_\_\_\_ Prepare financial statements.

(e) \_\_\_\_\_\_\_\_ Journalize and post adjusting entries.

(f) \_\_\_\_\_\_\_\_ Post to ledger accounts.

(g) \_\_\_\_\_\_\_\_ Prepare a post-closing trial balance.

(h) \_\_\_\_\_\_\_\_ Prepare an adjusted trial balance.

(i) \_\_\_\_\_\_\_\_ Analyze business transactions.

**BE4-9.** *Prepare correcting entries*.

(LO 5)

At Rafeul Company SA, the following errors were discovered after the transactions had been journalized and posted. Prepare the correcting entries.

1. A collection on account from a customer for €1,140 was recorded as a debit to Cash €1,140 and a credit to Service Revenue €1,140.

2. The purchase of store supplies on account for €1,580 was recorded as a debit to Supplies €1,850 and a credit to Accounts Payable €1,850.

**BE4-10.** *Prepare the current assets section of a statement of financial position*.

(LO 6)

The statement of financial position debit column of the worksheet for Alvin Company Ltd. includes the following accounts: Accounts Receivable £12,500; Prepaid Insurance £3,600; Cash £6,700; Supplies £5,200; and Short-Term Investments £4,900. Prepare the current assets section of the statement of financial position, listing the accounts in proper sequence.

**BE4-11.** *Classify accounts on statement of financial position*.

(LO 6)

The following are the major statement of financial position classifications:

|  |  |
| --- | --- |
| Intangible assets (IA) | Equity (E) |
| Property, plant, and equipment (PPE) | Non-current liabilities (NCL) |
| Long-term investments (LTI) | Current liabilities (CL) |
| Current assets (CA) |  |

Match each of the following accounts to its proper statement of financial position classification.

\_\_\_\_\_\_\_\_ Accounts payable

\_\_\_\_\_\_\_\_ Accounts receivable

\_\_\_\_\_\_\_\_ Accumulated depreciation—buildings

\_\_\_\_\_\_\_\_ Buildings

\_\_\_\_\_\_\_\_ Cash

\_\_\_\_\_\_\_\_ Copyrights

\_\_\_\_\_\_\_\_ Income taxes payable

\_\_\_\_\_\_\_\_ Debt investment (long-term)

\_\_\_\_\_\_\_\_ Land

\_\_\_\_\_\_\_\_ Inventory

\_\_\_\_\_\_\_\_ Patents

\_\_\_\_\_\_\_\_ Supplies

**\*BE4-12.** *Prepare reversing entries*.

(LO 7)

At October 31, Prasad Company Ltd. made an accrued expense adjusting entry of €1,680 for salaries. Prepare the reversing entry on November 1, and indicate the balances in Salaries and Wages Payable and Salaries and Wages Expense after posting the reversing entry.

**DO IT! REVIEW**

**DO IT! 4-1.** *Prepare a worksheet*.

(LO 1)

Mo Hu is preparing a worksheet. Explain to Mo how she should extend the following adjusted trial balance accounts to the financial statement columns of the worksheet.

|  |  |
| --- | --- |
| Service Revenue | Accounts Receivable |
| Notes Payable | Accumulated Depreciation─Equipment |
| Share Capital—Ordinary | Utilities Expense |

**DO IT! 4-2.** *Prepare closing entries*.

(LO 2)

The worksheet for Olympic Company shows the following in the financial statement columns.

|  |  |
| --- | --- |
| Dividends | £15,000 |
| Share Capital—Ordinary | 70,000 |
| Net Income | 47,000 |

Prepare the closing entries at December 31 that affect equity.

**DO IT! 4-3.** *Prepare correcting entries*.

(LO 5)

Hanson Company has an inexperienced accountant. During the first months on the job, the accountant made the following errors in journalizing transactions. All entries were posted as made.

1. The purchase of supplies for $650 cash was debited to Equipment $210 and credited to Cash $210.

2. A $500 withdrawal of cash for B. Hanson’s personal use was debited to Salaries and Wages Expense $900 and credited to Cash $900.

3. A payment on account of $820 to a creditor was debited to Accounts Payable $280 and credited to Cash $280.

Prepare the correcting entries.

**DO IT! 4-4.** *Match accounts to statement of financial position classifications*.

(LO 6)

The following accounts were taken from the financial statements of Orville Company, OAO.

\_\_\_\_\_\_\_\_ Interest revenue

\_\_\_\_\_\_\_\_ Utilities payable

\_\_\_\_\_\_\_\_ Accounts payable

\_\_\_\_\_\_\_\_ Supplies

\_\_\_\_\_\_\_\_ Bonds payable

\_\_\_\_\_\_\_\_ Trademarks

\_\_\_\_\_\_\_\_ Share capital—ordinary

\_\_\_\_\_\_\_\_ Accumulated depreciation—equipment

\_\_\_\_\_\_\_\_ Equipment

\_\_\_\_\_\_\_\_ Salaries and wages expense

\_\_\_\_\_\_\_\_ Investment in real estate

\_\_\_\_\_\_\_\_ Unearned rent revenue

Match each of the accounts to its proper statement of financial position classification, as shown below. If the item would not appear on a statement of financial position, use “NA.”

|  |  |
| --- | --- |
| Intangible assets (IA) | Equity (E) |
| Property, plant, and equipment (PPE) | Non-current liabilities (NCL) |
| Long-term investments (LTI) | Current liabilities (CL) |
| Current assets (CA) |  |

EXERCISES

**E4-1.** *Complete the worksheet*.

(LO 1)

The trial balance columns of the worksheet for Lim Company Ltd. at June 30, 2017, are shown below (in thousands).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **LIM COMPANY LTD.**  **Worksheet**  **For the Month Ended June 30, 2017** | | | | |
|  |  | **Trial Balance** | | |
| **Account Titles** |  | **Dr.** |  | **Cr.** |
| Cash |  | 4,120 |  |  |
| Accounts Receivable |  | 2,640 |  |  |
| Supplies |  | 1,900 |  |  |
| Accounts Payable |  |  |  | 1,120 |
| Unearned Service Revenue |  |  |  | 240 |
| Share Capital—Ordinary |  |  |  | 5,000 |
| Service Revenue |  |  |  | 3,400 |
| Salaries and Wages Expense |  | 860 |  |  |
| Miscellaneous Expense |  | 240 |  |  |
|  |  | 9,760 |  | 9,760 |

Other data:

1. A physical count reveals HK$500,000 of supplies on hand.

2. HK$100,000 of the unearned revenue is still unearned at month-end.

3. Accrued salaries are HK$250,000.

***Instructions***

Enter the trial balance on a worksheet and complete the worksheet.

**E4-2.** *Complete the worksheet*.

(LO 1)

The adjusted trial balance columns of the worksheet for Albanese Company, SpA are as follows.

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **ALBANESE COMPANY, SpA**  **Worksheet (partial)**  **For the Month Ended April 30, 2017** | | | | | | | | | | | | |
|  |  | **Adjusted**  **Trial Balance** | | |  | **Income**  **Statement** | | |  | **Statement**  **of Financial**  **Position** | | |
| **Account Titles** |  | **Dr.** |  | **Cr.** |  | **Dr.** |  | **Cr.** |  | **Dr.** |  | **Cr.** |
| Cash |  | 7,442 |  |  |  |  |  |  |  |  |  |  |
| Accounts Receivable |  | 7,840 |  |  |  |  |  |  |  |  |  |  |
| Prepaid Rent |  | 2,280 |  |  |  |  |  |  |  |  |  |  |
| Equipment |  | 23,000 |  |  |  |  |  |  |  |  |  |  |
| Accumulated |  |  |  |  |  |  |  |  |  |  |  |  |
| Depreciation—Equip. |  |  |  | 4,800 |  |  |  |  |  |  |  |  |
| Notes Payable |  |  |  | 5,700 |  |  |  |  |  |  |  |  |
| Accounts Payable |  |  |  | 5,672 |  |  |  |  |  |  |  |  |
| Share Capital—Ordinary |  |  |  | 22,000 |  |  |  |  |  |  |  |  |
| Retained Earnings |  |  |  | 4,000 |  |  |  |  |  |  |  |  |
| Dividends |  | 3,000 |  |  |  |  |  |  |  |  |  |  |
| Service Revenue |  |  |  | 12,590 |  |  |  |  |  |  |  |  |
| Salaries and Wages Expense |  | 9,840 |  |  |  |  |  |  |  |  |  |  |
| Rent Expense |  | 760 |  |  |  |  |  |  |  |  |  |  |
| Depreciation Expense |  | 600 |  |  |  |  |  |  |  |  |  |  |
| Interest Expense |  | 57 |  |  |  |  |  |  |  |  |  |  |
| Interest Payable |  |  |  | 57 |  |  |  |  |  |  |  |  |
| Totals |  | 54,819 |  | 54,819 |  |  |  |  |  |  |  |  |

***Instructions***

Complete the worksheet.

**E4-3.** *Prepare financial statements from worksheet*.

(LO 1, 6)

Worksheet data for Albanese Company, SpA are presented in E4-2. No ordinary shares were issued during April.

***Instructions***

Prepare an income statement, a retained earnings statement, and a classified statement of financial position, using euros as the currency.

**E4-4.** *Journalize and post closing entries and prepare a post-closing trial balance*.

(LO 2, 3)

Worksheet data for Albanese Company are presented in E4-2.

***Instructions***

(a) Journalize the closing entries at April 30.

(b) Post the closing entries to Income Summary and Retained Earnings. Use T-accounts.

(c) Prepare a post-closing trial balance at April 30, using euros as the currency.

**E4-5.** *Prepare adjusting entries from a worksheet, and extend balances to worksheet columns*.

(LO 1)

The adjustments columns of the worksheet for Munoz Company SA are shown below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Adjustments** | | |
| **Account Titles** |  | **Debit** |  | **Credit** |
| Accounts Receivable |  | 1,100 |  |  |
| Prepaid Insurance |  |  |  | 400 |
| Accumulated Depreciation—Equipment |  |  |  | 900 |
| Salaries and Wages Payable |  |  |  | 500 |
| Service Revenue |  |  |  | 1,100 |
| Salaries and Wages Expense |  | 500 |  |  |
| Insurance Expense |  | 400 |  |  |
| Depreciation Expense |  | 900 |  |  |
|  |  | 2,900 |  | 2,900 |

***Instructions***

(a) Prepare the adjusting entries.

(b) Assuming the adjusted trial balance amount for each account is normal, indicate the financial statement column to which each balance should be extended.

**E4-6.** *Derive adjusting entries from worksheet data*.

(LO 1)

Selected worksheet data for Zugi Company, SJSC are presented below.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Account Titles** |  | **Trial Balance** | | |  | **Adjusted Trial Balance** | | |
|  |  | **Dr.** |  | **Cr.** |  | **Dr.** |  | **Cr.** |
| Accounts Receivable |  | ? |  |  |  | 34,000 |  |  |
| Prepaid Insurance |  | 26,000 |  |  |  | 18,000 |  |  |
| Supplies |  | 7,000 |  |  |  | ? |  |  |
| Accumulated Depreciation—Equipment |  |  |  | 12,000 |  |  |  | ? |
| Salaries and Wages Payable |  |  |  | ? |  |  |  | 5,000 |
| Service Revenue |  |  |  | 88,000 |  |  |  | 95,000 |
| Insurance Expense |  |  |  |  |  | ? |  |  |
| Depreciation Expense |  |  |  |  |  | 10,000 |  |  |
| Supplies Expense |  |  |  |  |  | 4,700 |  |  |
| Salaries and Wages Expense |  | ? |  |  |  | 49,000 |  |  |

***Instructions***

(a) Fill in the missing amounts.

(b) Prepare the adjusting entries that were made.

**E4-7.** *Prepare closing entries, and prepare a post-closing trial balance*.

(LO 2, 3)

Lanza Company, SA had the following adjusted trial balance.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **LANZA COMPANY, SA**  **Adjusted Trial Balance**  **For the Month Ended June 30, 2017** | | | | |
|  |  | **Adjusted Trial Balance** | | |
| **Account Titles** |  | **Debit** |  | **Credit** |
| Cash |  | R$ 3,712 |  |  |
| Accounts Receivable |  | 2,904 |  |  |
| Supplies |  | 480 |  |  |
| Accounts Payable |  |  |  | R$1,056 |
| Unearned Service Revenue |  |  |  | 160 |
| Share Capital—Ordinary |  |  |  | 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 |
|  |  | R$10,120 |  | R$10,120 |

***Instructions***

(a) Prepare closing entries at June 30, 2017.

(b) Prepare a post-closing trial balance.

**E4-8.** *Journalize and post closing entries, and prepare a post-closing trial balance*.

(LO 2, 3)

Windsor Company, Ltd. ended its fiscal year on July 31, 2017. The company's adjusted trial balance as of the end of its fiscal year is shown below.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **WINDSOR COMPANY, LTD**  **Adjusted Trial Balance**  **July 31, 2017** | | | | | | |
| **N0.** |  | **Account Titles** |  | **Debit** |  | **Credit** |
| 101 |  | Cash |  | £ 9,840 |  |  |
| 112 |  | Accounts Receivable |  | 8,140 |  |  |
| 157 |  | Equipment |  | 15,900 |  |  |
| 159 |  | Accumulated Depreciation—Equip. |  |  |  | £ 5,400 |
| 201 |  | Accounts Payable |  |  |  | 2,220 |
| 208 |  | Unearned Rent Revenue |  |  |  | 3,800 |
| 311 |  | Share Capital—Ordinary |  |  |  | 18,000 |
| 320 |  | Retained Earnings |  |  |  | 20,260 |
| 332 |  | Dividends |  | 12,000 |  |  |
| 400 |  | Service Revenue |  |  |  | 64,000 |
| 429 |  | Rent Revenue |  |  |  | 6,500 |
| 711 |  | Depreciation Expense |  | 3,700 |  |  |
| 726 |  | Salaries and Wages Expense |  | 55,700 |  |  |
| 732 |  | Utilities Expense |  | 14,900 |  |  |
|  |  |  |  | £120,180 |  | £120,180 |

***Instructions***

(a) Prepare the closing entries using page J15.

(b) Post to Retained Earnings and No. 350 Income Summary accounts. (Use the three-column form.)

(c) Prepare a post-closing trial balance at July 31.

**E4-9.** *Prepare financial statements*.

(LO 6)

The adjusted trial balance for Roth Company, Ltd. is presented in E4-8.

***Instructions***

(a) Prepare an income statement and a retained earnings statement for the year.

(b) Prepare a classified statement of financial position at July 31.

**E4-10.** *Answer questions related to the accounting cycle*.

(LO 4)

Juan Aquino has prepared the following list of statements about the accounting cycle.

1. “Journalize the transactions” is the first step in the accounting cycle.

2. Reversing entries are a required step in the accounting cycle.

3. Correcting entries do not have to be part of the accounting cycle.

4. If a worksheet is prepared, some steps of the accounting cycle are incorporated into the worksheet.

5. The accounting cycle begins with the analysis of business transactions and ends with the preparation of a post-closing trial balance.

6. All steps of the accounting cycle occur daily during the accounting period.

7. The step of “post to the ledger accounts” occurs before the step of “journalize the transactions.”

8. Closing entries must be prepared before financial statements can be prepared.

***Instructions***

Identify each statement as true or false. If false, indicate how to correct the statement.

**E4-11.** *Prepare closing entries*.

(LO 2)

Selected accounts for Michelle's Salon SA are presented below. All June 30 postings are from closing entries.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Salaries and Wages Expense** | | | |  | **Service Revenue** | | | |  | **Retained Earnings** | | | |
| 6/10 | 3,200 | 6/30 | 8,800 |  | 6/30 | 18,100 | 6/15 | 9,700 |  | 6/30 | 2,200 | 6/1 | 12,000 |
| 6/28 | 5,600 |  |  |  |  |  | 6/24 | 8,400 |  |  |  | 6/30 | 5,100 |
|  |  |  |  |  |  |  |  |  |  |  |  | Bal. | 14,900 |
|  | | | |  |  | | | |  |  | | | |
| **Supplies Expense** | | | |  | **Rent Expense** | | | |  | **Dividends** | | | |
| 6/12 | 800 | 6/30 | 1,200 |  | 6/1 | 3,000 | 6/30 | 3,000 |  | 6/13 | 1,000 | 6/30 | 2,200 |
| 6/24 | 400 |  |  |  |  |  |  |  |  | 6/25 | 1,200 |  |  |

***Instructions***

(a) Prepare the closing entries that were made.

(b) Post the closing entries to Income Summary.

**E4-12.** *Prepare correcting entries*.

(LO 5)

Karlsen Company, ASA discovered the following errors made in January 2017.

1. A payment of Salaries and Wages Expense of €700 was debited to Equipment and credited to Cash, both for €700.

2. A collection of €800 from a client on account was debited to Cash €300 and credited to Service Revenue €300.

3. The purchase of equipment on account for €760 was debited to Equipment €670 and credited to Accounts Payable €670.

***Instructions***

(a) Correct the errors by reversing the incorrect entry and preparing the correct entry.

(b) Correct the errors without reversing the incorrect entry.

**E4-13.** *Prepare correcting entries*.

(LO 5)

Souza Company, SA has an inexperienced accountant. During the first 2 weeks on the job, the accountant made the following errors in journalizing transactions. All entries were posted as made.

1. A payment on account of R$840 to a creditor was debited to Accounts Payable R$480 and credited to Cash R$480.

2. The purchase of supplies on account for R$380 was debited to Equipment R$38 and credited to Accounts Payable R$38.

3. A R$620 cash dividend was debited to Salaries and Wages Expense R$620 and credited to Cash R$620.

***Instructions***

Prepare the correcting entries.

**E4-14.** *Prepare a classified statement of financial position*.

(LO 6)

The adjusted trial balance for Patel Bowling Alley Ltd. at December 31, 2017, contains the following accounts.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Debit** |  |  | **Credit** |
| Buildings | £128,000 |  | Share Capital—Ordinary | £ 80,000 |
| Accounts Receivable | 7,540 |  | Retained Earnings | 28,000 |
| Prepaid Insurance | 4,680 |  | Accumulated Depreciation—Buildings | 42,600 |
| Cash | 18,040 |  | Accounts Payable | 12,300 |
| Equipment | 62,400 |  | Notes Payable | 95,000 |
| Land | 67,000 |  | Accumulated Depreciation—Equipment | 18,720 |
| Insurance Expense | 780 |  | Interest Payable | 2,600 |
| Depreciation Expense | 7,360 |  | Service Revenue | 19,180 |
| Interest Expense | 2,600 |  |  | £298,400 |
|  | £298,400 |  |  |  |

***Instructions***

(a) Prepare a classified statement of financial position; assume that £15,000 of the note payable will be paid in 2018.

(b) Comment on the liquidity of the company.

**E4-15.** *Classify accounts on statement of financial position*.

(LO 6)

The following are the major statement of financial position classifications.

|  |  |
| --- | --- |
| Intangible assets (IA) | Equity (E) |
| Property, plant, and equipment (PPE) | Non-current liabilities (NCL) |
| Long-term investments (LTI) | Current liabilities (CL) |
| Current assets (CA) |  |

***Instructions***

Classify each of the following accounts taken from Geraldo Company's statement of financial position.

\_\_\_\_\_\_\_\_ Accounts payable \_\_\_\_\_\_\_\_ Accumulated depreciation

\_\_\_\_\_\_\_\_ Accounts receivable \_\_\_\_\_\_\_\_ Buildings

\_\_\_\_\_\_\_\_ Cash \_\_\_\_\_\_\_\_ Land

\_\_\_\_\_\_\_\_ Share capital—ordinary \_\_\_\_\_\_\_\_ Long-term debt

\_\_\_\_\_\_\_\_ Patents \_\_\_\_\_\_\_\_ Supplies

\_\_\_\_\_\_\_\_ Salaries and wages payable \_\_\_\_\_\_\_\_ Equipment

\_\_\_\_\_\_\_\_ Inventory \_\_\_\_\_\_\_\_ Prepaid expenses

\_\_\_\_\_\_\_\_ Investments

**E4-16.** *Prepare a classified statement of financial position*.

(LO 6)

The following items were taken from the financial statements of Sexton Company. (All amounts are in thousands.)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Long-term debt | £ 1,000 |  | Accumulated depreciation—equip. | £ 4,125 |
| Prepaid insurance | 680 |  | Accounts payable | 1,444 |
| Equipment | 11,500 |  | Notes payable (due after 2018) | 800 |
| Long-term investments | 1,200 |  | Share capital—ordinary | 10,000 |
| Short-term investments | 3,619 |  | Retained earnings | 4,750 |
| Notes payable (due in 2018) | 500 |  | Accounts receivable | 1,696 |
| Cash | 2,668 |  | Inventory | 1,256 |

***Instructions***

Prepare a classified statement of financial position in good form as of December 31, 2017.

**E4-17.** *Prepare financial statements*.

(LO 1, 6)

These financial statement items are for Van Dijk Company NV at year-end, July 31, 2017.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Salaries and wages payable | $ 2,040 |  | Notes payable (long-term) | $ 1,800 |
| Salaries and wages expense | 50,700 |  | Cash | 14,200 |
| Utilities expense | 22,600 |  | Accounts receivable | 9,240 |
| Equipment | 30,000 |  | Accumulated depreciation—equip. | 6,000 |
| Accounts payable | 4,100 |  | Dividends | 3,000 |
| Service revenue | 62,000 |  | Depreciation expense | 2,400 |
| Rent revenue | 8,500 |  | Retained earnings (beginning |  |
| Share capital—ordinary | 25,000 |  | of the year) | 22,700 |

***Instructions***

(a) Prepare an income statement and a retained earnings statement for the year.

(b) Prepare a classified statement of financial position at July 31.

**\*E4-18.** *Use reversing entries*.

(LO 7)

Ronaldo Company SA pays salaries of R$9,000 every Monday for the preceding 5-day week (Monday through Friday). Assume December 31 falls on a Thursday, so Ronaldo's employees have worked 4 days without being paid.

***Instructions***

(a) Assume the company does not use reversing entries. Prepare the December 31 adjusting entry and the entry on Monday, January 4, when Ronaldo pays the payroll.

(b) Assume the company does use reversing entries. Prepare the December 31 adjusting entry, the January 1 reversing entry, and the entry on Monday, January 4, when Ronaldo pays the payroll.

**\*E4-19.** *Prepare closing and reversing entries*.

(LO 2, 4, 7)

On December 31, the adjusted trial balance of Select Employment Agency shows the following selected data.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Accounts Receivable | NT$720,000 |  | Service Revenue | NT$2,820,000 |
| Interest Expense | 249,000 |  | Interest Payable | 39,000 |

Analysis shows that adjusting entries were made to (1) accrue NT$153,000 of service revenue and (2) accrue NT$39,000 interest expense.

***Instructions***

(a) Prepare the closing entries for the temporary accounts shown above at December 31.

(b) Prepare the reversing entries on January 1.

(c) Post the entries in (a) and (b). Underline and balance the accounts. (Use T-accounts.)

(d) Prepare the entries to record (1) the collection of the accrued revenue on January 10 and (2) the payment of all interest due (NT$90,000) on January 15.

(e) Post the entries in (d) to the temporary accounts.

PROBLEMS: SET A AND PROBLEMS: SET B

**P4-1A** *Prepare worksheet, financial statements, and adjusting and closing entries*.

(LO 1, 2, 6)

Hercules Poirot began operations as a private investigator on January 1, 2017. The trial balance columns of the worksheet for Hercules Poirot, P.I., SA at March 31 are as follows.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **HERCULES POIROT, P.I., SA**  **Worksheet**  **For the Quarter Ended March 31, 2017** | | | | |
|  |  | **Trial Balance** | | |
| **Account Titles** |  | **Dr.** |  | **Cr.** |
| Cash |  | 11,410 |  |  |
| Accounts Receivable |  | 5,920 |  |  |
| Supplies |  | 1,250 |  |  |
| Prepaid Insurance |  | 2,400 |  |  |
| Equipment |  | 15,000 |  |  |
| Notes Payable |  |  |  | 10,000 |
| Accounts Payable |  |  |  | 7,350 |
| Share Capital—Ordinary |  |  |  | 14,000 |
| Dividends |  | 600 |  |  |
| Service Revenue |  |  |  | 10,200 |
| Salaries and Wages Expense |  | 2,240 |  |  |
| Travel Expense |  | 1,300 |  |  |
| Rent Expense |  | 1,200 |  |  |
| Miscellaneous Expense |  | 230 |  |  |
|  |  | 41,550 |  | 41,550 |

Other data:

1. Supplies on hand total €500.

2. Depreciation is €680 per quarter.

3. Interest accrued on 6-month note payable, issued January 1, €300.

4. Insurance expires at the rate of €200 per month.

5. Services provided but unbilled at March 31 total €1,080.

***Instructions***

(a) Enter the trial balance on a worksheet and complete the worksheet.

Adjusted trial balance €5843,610

(b) Prepare an income statement and a retained earnings statement for the quarter and a classified statement of financial position at March 31.

Net income €7,9203,980

Total assets €35,030

(c) Journalize the adjusting entries from the adjustments columns of the worksheet.

(d) Journalize the closing entries from the financial statement columns of the worksheet.

**P4-2A** *Complete worksheet; prepare financial statements, closing entries, and post-closing trial balance*.

(LO 1, 2, 3, 6)

The adjusted trial balance columns of the worksheet for Watson Company Ltd. are as follows.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Watson Company**  **Worksheet**  **For the Year Ended December 31, 2017** | | | | | | |
| **Account** |  |  |  | **Adjusted**  **Trial Balance** | | |
| **No.** |  | **Account Titles** |  | **Dr.** |  | **Cr.** |
| 101 |  | Cash |  | 17,800 |  |  |
| 112 |  | Accounts Receivable |  | 14,400 |  |  |
| 126 |  | Supplies |  | 2,300 |  |  |
| 130 |  | Prepaid Insurance |  | 4,400 |  |  |
| 157 |  | Equipment |  | 46,000 |  |  |
| 158 |  | Accumulated Depreciation—Equipment |  |  |  | 18,000 |
| 200 |  | Notes Payable |  |  |  | 20,000 |
| 201 |  | Accounts Payable |  |  |  | 8,000 |
| 212 |  | Salaries and Wages Payable |  |  |  | 2,600 |
| 230 |  | Interest Payable |  |  |  | 1,000 |
| 311 |  | Share Capital—Ordinary |  |  |  | 15,000 |
| 320 |  | Retained Earnings |  |  |  | 9,800 |
| 332 |  | Dividends |  | 12,000 |  |  |
| 400 |  | Service Revenue |  |  |  | 86,200 |
| 610 |  | Advertising Expense |  | 10,000 |  |  |
| 631 |  | Supplies Expense |  | 3,700 |  |  |
| 711 |  | Depreciation Expense |  | 6,000 |  |  |
| 722 |  | Insurance Expense |  | 4,000 |  |  |
| 726 |  | Salaries and Wages Expense |  | 39,000 |  |  |
| 905 |  | Interest Expense |  | 1,000 |  |  |
|  |  | Totals |  | 160,600 |  | 160,600 |

***Instructions***

(a) Complete the worksheet by extending the balances to the financial statement columns.

Net income £22,500

(b) Prepare an income statement, a retained earnings statement, and a classified statement of financial position (amounts in U.S. dollars). (*Note:* £5,000 of the notes payable become due in 2018.)

Current assets £38,900

Current liabilities £16,600

(c) Prepare the closing entries. Use J14 for the journal page.

(d) Post the closing entries. Use the three-column form of account. Income Summary is account No. 350.

(e) Prepare a post-closing trial balance.

Post-closing trial balance £84,900

**P4-3A** *Prepare financial statements, closing entries, and post-closing trial balance*.

(LO 1, 2, 3, 6)

The completed financial statement columns of the worksheet for Rahim Company Ltd. are as follow.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **RAHIM COMPANT, LTD.**  **Worksheet**  **For the Year Ended December 31, 2017** | | | | | | | | | | |
| **Account** |  |  |  | **Income**  **Statement** | | |  | **Statement of**  **Financial**  **Position** | | |
| **No.** |  | **Account Titles** |  | **Dr.** |  | **Cr.** |  | **Dr.** |  | **Cr.** |
| 101 |  | Cash |  |  |  |  |  | 6,200 |  |  |
| 112 |  | Accounts Receivable |  |  |  |  |  | 7,500 |  |  |
| 130 |  | Prepaid Insurance |  |  |  |  |  | 600 |  |  |
| 157 |  | Equipment |  |  |  |  |  | 33,000 |  |  |
| 158 |  | Accumulated Depreciation—Equip. |  |  |  |  |  |  |  | 9,900 |
| 201 |  | Accounts Payable |  |  |  |  |  |  |  | 10,700 |
| 212 |  | Salaries and Wages Payable |  |  |  |  |  |  |  | 3,000 |
| 311 |  | Share Capital—Ordinary |  |  |  |  |  |  |  | 20,000 |
| 320 |  | Retained Earnings |  |  |  |  |  |  |  | 9,700 |
| 332 |  | Dividends |  |  |  |  |  | 4,000 |  |  |
| 400 |  | Service Revenue |  |  |  | 47,000 |  |  |  |  |
| 622 |  | Maintenance and Repairs |  | 4,100 |  |  |  |  |  |  |
| 711 |  | Depreciation Expense |  | 3,300 |  |  |  |  |  |  |
| 722 |  | Insurance Expense |  | 2,400 |  |  |  |  |  |  |
| 726 |  | Salaries and Wages |  | 35,200 |  |  |  |  |  |  |
| 732 |  | Utilities Expense |  | 4,000 |  |  |  |  |  |  |
|  |  | Total |  | 49,000 |  | 47,000 |  | 51,300 |  | 53,300 |
|  |  | Net Loss |  |  |  | 2,000 |  | 2,000 |  |  |
|  |  |  |  | 49,000 |  | 49,000 |  | 53,300 |  | 53,300 |

***Instructions***

(a) Prepare an income statement, a retained earnings statement, and a classified statement of financial position (amounts in euros).

Net loss €2,000

Ending retained earnings €3,700

Total assets €37,400

(b) Prepare the closing entries.

(c) Post the closing entries, and underline and balance the accounts. (Use T-accounts.) Income Summary is account No. 350.

(d) Prepare a post-closing trial balance.

Post-closing trial balance €47,300

**P4-4A** *Complete worksheet; prepare classified statement of financial position, adjusting and closing entries, and post-closing trial balance*.

(LO 1, 2, 3, 6)

Teresina Amusement Park, SA has a fiscal year ending on September 30. Selected data from the September 30 worksheet are presented below.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **TERESINA AMUSEMENT PARK, SA**  **Worksheet**  **For the Year Ended September 30, 2017** | | | | | | | |
|  | **Trial Balance** | | |  | **Adjusted**  **Trial Balance** | | |
|  | **Dr.** |  | **Cr.** |  | **Dr.** |  | **Cr.** |
| Cash | 34,400 |  |  |  | 34,400 |  |  |
| Supplies | 18,600 |  |  |  | 2,200 |  |  |
| Prepaid Insurance | 29,900 |  |  |  | 10,900 |  |  |
| Land | 80,000 |  |  |  | 80,000 |  |  |
| Equipment | 120,000 |  |  |  | 120,000 |  |  |
| Accumulated Depreciation—Equip. |  |  | 36,200 |  |  |  | 42,,200 |
| Accounts Payable |  |  | 14,600 |  |  |  | 14,600 |
| Unearned Ticket Revenue |  |  | 3,900 |  |  |  | 1,000 |
| Mortgage Payable |  |  | 50,000 |  |  |  | 50,000 |
| Share Capital—Ordinary |  |  | 60,000 |  |  |  | 60,000 |
| Retained Earnings |  |  | 36,100 |  |  |  | 36,100 |
| Dividends | 14,000 |  |  |  | 14,000 |  |  |
| Ticket Revenue |  |  | 277,900 |  |  |  | 280,800 |
| Salaries and Wages Expense | 98,000 |  |  |  | 98,000 |  |  |
| Maintenance and Repairs Expense | 30,500 |  |  |  | 30,500 |  |  |
| Advertising Expense | 9,400 |  |  |  | 9,400 |  |  |
| Utilities Expense | 16,900 |  |  |  | 16,900 |  |  |
| Property Tax Expense | 21,000 |  |  |  | 24,000 |  |  |
| Interest Expense | 6,000 |  |  |  | 8,000 |  |  |
| Totals | 478,700 |  | 478,700 |  |  |  |  |
| Insurance Expense |  |  |  |  | 19,000 |  |  |
| Supplies Expense |  |  |  |  | 16,400 |  |  |
| Interest Payable |  |  |  |  |  |  | 2,000 |
| Depreciation Expense |  |  |  |  | 6,000 |  |  |
| Property Taxes Payable |  |  |  |  |  |  | 3,000 |
| Totals |  |  |  |  | 489,700 |  | 489,700 |

***Instructions***

(a) Prepare a complete worksheet.

Net income R$52,600

(b) Prepare a classified statement of financial position (amounts in Brazilian reais). (*Note:* R$15,000 of the mortgage note payable is due for payment in the next fiscal year.)

Total current assets R$47,500

(c) Journalize the adjusting entries using the worksheet as a basis.

(d) Journalize the closing entries using the worksheet as a basis.

(e) Prepare a post-closing trial balance.

Post-closing trial balance R$247,500

**P4-5A** *Complete all steps inaccounting cycle*.

(LO 1, 2, 3, 4, 6)

Zoe Parker opened Fresh Step Carpet Cleaners, Ltd. on March 1. During March, the following transactions were completed.

Mar. 1 Shareholders invested £14,000 cash in the business in exchange for ordinary shares.

1 Purchased used truck for £10,000, paying £3,000 cash and the balance on account.

3 Purchased cleaning supplies for £1,200 on account.

5 Paid £1,800 cash on one-year insurance policy effective March 1.

14 Billed customers £4,500 for cleaning services.

18 Paid £1,500 cash on amount owed on truck and £500 on amount owed on cleaning supplies.

20 Paid £1,800 cash for employee salaries.

21 Collected £1,600 cash from customers billed on March 14.

28 Billed customers £2,500 for cleaning services.

31 Paid £320 for the monthly gasoline bill for the truck.

31 Declared and paid £800 cash dividends.

The chart of accounts for Fresh Step Carpet Cleaners, Ltd. contains the following accounts: No. 101 Cash, No. 112 Accounts Receivable, No. 126 Supplies, No. 130 Prepaid Insurance, No. 157 Equipment, No. 158 Accumulated Depreciation—Equipment, No. 201 Accounts Payable, No. 212 Salaries and Wages Payable, No. 311 Share Capital—Ordinary, No. 320 Retained Earnings, No. 332 Dividends, No. 350 Income Summary, No. 400 Service Revenue, No. 633 Gasoline Expense, No. 631 Supplies Expense, No. 711 Depreciation Expense, No. 722 Insurance Expense, and No. 726 Salaries and Wages Expense.

***Instructions***

(a) Journalize and post the March transactions. Use page J1 for the journal and the three-column form of account.

(b) Prepare a trial balance at March 31 on a worksheet.

Trial balance £27,200

(c) Enter the following adjustments on the worksheet and complete the worksheet.

1. Unbilled revenue for services performed at March 31 was £1,000.

2. Depreciation on equipment for the month was £300.

3. One-twelfth of the insurance expired.

4. An inventory count shows £250 of cleaning supplies on hand at March 31.

5. Accrued but unpaid employee salaries were £690.

Adjusted trial balance £29,190

(d) Prepare the income statement and a retained earnings statement for March and a classified statement of financial position at March 31.

Net income £3,790

Total assets £23,880

(e) Journalize and post adjusting entries. Use page J2 for the journal.

(f) Journalize and post closing entries and complete the closing process. Use page J3 for the journal.

(g) Prepare a post-closing trial balance at March 31.

Post-closing trial balance £24,180

**P4-6A** *Analyze errors and prepare correcting entries and trial balance*.

(LO 5)

Sara Yu, CA, was retained by Info Cable to prepare financial statements for April 2017. Yu accumulated all the ledger balances per Info's records and found the following.

|  |  |  |  |
| --- | --- | --- | --- |
| **INFO CABLE, LTD.**  **Trial Balance**  **April 30, 2017** | | | |
|  | **Debit** |  | **Credit** |
| Cash | £ 4,100 |  |  |
| Accounts Receivable | 3,200 |  |  |
| Supplies | 800 |  |  |
| Equipment | 10,600 |  |  |
| Accumulated Depreciation—Equip. |  |  | £ 1,250 |
| Accounts Payable |  |  | 2,100 |
| Salaries and Wages Payable |  |  | 700 |
| Unearned Service Revenue |  |  | 890 |
| Share Capital—Ordinary |  |  | 10,000 |
| Retained Earnings |  |  | 2,880 |
| Service Revenue |  |  | 5,450 |
| Salaries and Wages Expense | 3,300 |  |  |
| Advertising Expense | 480 |  |  |
| Miscellaneous Expense | 290 |  |  |
| Depreciation Expense | 500 |  |  |
|  | £23,270 |  | £23,270 |

Sara Yu reviewed the records and found the following errors.

1. Cash received from a customer on account was recorded as £950 instead of £590.

2. A payment of £75 for advertising expense was entered as a debit to Miscellaneous Expense £75 and a credit to Cash £75.

3. The first salary payment this month was for £1,850, which included £700 of salaries payable on March 31. The payment was recorded as a debit to Salaries and Wages Expense £1,850 and a credit to Cash £1,850. (No reversing entries were made on April 1.)

4. The purchase on account of a printer costing £310 was recorded as a debit to Supplies and a credit to Accounts Payable for £310.

5. A cash payment of repair expense on equipment for £125 was recorded as a debit to Equipment £152 and a credit to Cash £152.

***Instructions***

(a) Prepare an analysis of each error showing (1) the incorrect entry, (2) the correct entry, and (3) the correcting entry. Items 4 and 5 occurred on April 30, 2017.

(b) Prepare a correct trial balance.

Trial balance £22,570

**Problems: Set B**

**P4-1B** *Prepare worksheet, financial statements, and adjusting and closing entries*.

(LO 1, 2, 6)

The trial balance columns of the worksheet for Firmament Roofing at March 31, 2017, are as follows.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **FIRMAMENT ROOFING, LTD**  **Worksheet**  **For the Month Ended March 31, 2017** | | | | |
|  |  | **Trial Balance** | | |
| **Account Titles** |  | **Dr.** |  | **Cr.** |
| Cash |  | 2,720 |  |  |
| Accounts Receivable |  | 2,700 |  |  |
| Supplies |  | 1,500 |  |  |
| Equipment |  | 11,000 |  |  |
| Accumulated Depreciation—Equipment |  |  |  | 1,250 |
| Accounts Payable |  |  |  | 2,500 |
| Unearned Service Revenue |  |  |  | 650 |
| Share Capital—Ordinary |  |  |  | 10,000 |
| Dividends |  | 1,100 |  |  |
| Service Revenue |  |  |  | 6,300 |
| Salaries and Wages Expense |  | 1,300 |  |  |
| Miscellaneous Expense |  | 380 |  |  |
|  |  | 20,700 |  | 20,700 |

Other data:

1. A physical count reveals only £550 of roofing supplies on hand.

2. Depreciation for March is £250.

3. Unearned revenue amounted to £220 at March 31.

4. Accrued salaries are £420.

***Instructions***

(a) Enter the trial balance on a worksheet and complete the worksheet.

Adjusted trial balance £21,370

(b) Prepare an income statement and a retained earnings statement for the month of March and a classified statement of financial position at March 31. Ordinary shares were issued in exchange for £10,000 cash at the beginning of March.

Net income £3,430

Total assets £15,470

(c) Journalize the adjusting entries from the adjustments columns of the worksheet.

(d) Journalize the closing entries from the financial statement columns of the worksheet.

**P4-2B** *Complete worksheet; prepare financial statements, closing entries, and post-closing trial balance*.

(LO 1, 2, 3, 6)

The adjusted trial balance columns of the worksheet for Bleecker Street, Ltd., owned by Raymond Pearson, are as follows.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **BLEECKER STREET, LTD**  **Worksheet**  **For the Year Ended December 31, 2017** | | | | | | |
| **Account** |  |  |  | **Adjusted**  **Trial Balance** | | |
| **No.** |  | **Account Titles** |  | **Dr.** |  | **Cr.** |
| 101 |  | Cash |  | 5,300 |  |  |
| 112 |  | Accounts Receivable |  | 10,800 |  |  |
| 126 |  | Supplies |  | 1,500 |  |  |
| 130 |  | Prepaid Insurance |  | 2,000 |  |  |
| 157 |  | Equipment |  | 27,000 |  |  |
| 158 |  | Accumulated Depreciation—Equipment |  |  |  | 5,600 |
| 200 |  | Notes Payable |  |  |  | 15,000 |
| 201 |  | Accounts Payable |  |  |  | 4,600 |
| 212 |  | Salaries and Wages Payable |  |  |  | 2,400 |
| 230 |  | Interest Payable |  |  |  | 600 |
| 311 |  | Share Capital—Ordinary |  |  |  | 10,000 |
| 320 |  | Retained Earnings |  |  |  | 4,200 |
| 332 |  | Dividends |  | 5,000 |  |  |
| 400 |  | Service Revenue |  |  |  | 59,000 |
| 610 |  | Advertising Expense |  | 8,400 |  |  |
| 631 |  | Supplies Expense |  | 4,000 |  |  |
| 711 |  | Depreciation Expense |  | 5,600 |  |  |
| 722 |  | Insurance Expense |  | 3,200 |  |  |
| 726 |  | Salaries and Wages Expense |  | 28,000 |  |  |
| 905 |  | Interest Expense |  | 600 |  |  |
|  |  | Totals |  | 101,400 |  | 101,400 |

***Instructions***

(a) Complete the worksheet by extending the balances to the financial statement columns.

Net income £9,200

(b) Prepare an income statement, a retained earnings statement, and a classified statement of financial position (amounts in British pounds). (*Note:* £3,000 of the notes payable become due in 2018.)

Current assets £19,600;

Current liabilities £10,600

(c) Prepare the closing entries. Use J14 for the journal page.

(d) Post the closing entries. Use the three-column form of account. Income Summary is No. 350.

(e) Prepare a post-closing trial balance.

Post-closing trial balance £46,600

**P4-3B** *Prepare financial statements, closing entries, and post-closing trial balance*.

(LO 1, 2, 3, 6)

The completed financial statement columns of the worksheet for Yulon Company, Ltd. are as follows.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **YULON COMPANY, LTD.**  **Worksheet**  **For the Year Ended December 31, 2017** | | | | | | | | | | |
| **Account** |  |  |  | **Income**  **Statement** | | |  | **Statement of**  **Financial**  **Position** | | |
| **No.** |  | **Account Titles** |  | **Dr.** |  | **Cr.** |  | **Dr.** |  | **Cr.** |
| 101 |  | Cash |  |  |  |  |  | 267,000 |  |  |
| 112 |  | Accounts Receivable |  |  |  |  |  | 324,000 |  |  |
| 130 |  | Prepaid Insurance |  |  |  |  |  | 84,000 |  |  |
| 157 |  | Equipment |  |  |  |  |  | 840,000 |  |  |
| 158 |  | Accumulated Depreciation—Equip. |  |  |  |  |  |  |  | 180,000 |
| 201 |  | Accounts Payable |  |  |  |  |  |  |  | 60,000 |
| 212 |  | Salaries and Wages Payable |  |  |  |  |  |  |  | 66,000 |
| 311 |  | Share Capital—Ordinary |  |  |  |  |  |  |  | 360,000 |
| 320 |  | Retained Earnings |  |  |  |  |  |  |  | 430,800 |
| 332 |  | Dividends |  |  |  |  |  | 210,000 |  |  |
| 400 |  | Service Revenue |  |  |  | 1,680,000 |  |  |  |  |
| 622 |  | Maintenance and Repairs Expense |  | 48,000 |  |  |  |  |  |  |
| 711 |  | Depreciation Expense |  | 90,000 |  |  |  |  |  |  |
| 722 |  | Insurance Expense |  | 64,800 |  |  |  |  |  |  |
| 726 |  | Salaries and Wages Expense |  | 810,000 |  |  |  |  |  |  |
| 732 |  | Utilities Expense |  | 39,000 |  |  |  |  |  |  |
|  |  | Total |  | 1,051,800 |  | 1,680,000 |  | 1,725,000 |  | 1,096,800 |
|  |  | Net Income |  | 628,200 |  |  |  |  |  | 628,200 |
|  |  |  |  | 1,680,000 |  | 1,680,000 |  | 1,725,000 |  | 1,725,000 |

***Instructions***

(a) Prepare an income statement, a retained earnings statement, and a classified statement of financial position (amounts in Taiwan, new dollars).

Ending retained earnings NT$849,000;

Total current assets NT$675,000

(b) Prepare the closing entries.

(c) Post the closing entries, and underline and balance the accounts. (Use T-accounts.) Income Summary is account No. 350.

(d) Prepare a post-closing trial balance.

Post-closing trial balance NT$1,515,000

**P4-4B** *Complete worksheet; prepare classified statement of financial position, adjusting and closing entries, and post-closing trial balance*.

(LO 1, 2, 3, 6)

Carroll Management Services, Ltd. began business on January 1, 2017, with a capital investment of £120,000. The company manages condominiums for owners (Service Revenue) and rents space in its own office building (Rent Revenue). The trial balance and adjusted trial balance columns of the worksheet at the end of the first year are as follows.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **CARROLL MANAGEMENT SERVICES, LTD.**  **Worksheet**  **For the Year Ended December 31, 2017** | | | | | | | | |
|  |  | **Trial Balance** | | |  | **Adjusted**  **Trial Balance** | | |
| **Account Titles** |  | **Dr.** |  | **Cr.** |  | **Dr.** |  | **Cr.** |
| Cash |  | 13,800 |  |  |  | 13,800 |  |  |
| Accounts Receivable |  | 26,300 |  |  |  | 26,300 |  |  |
| Prepaid Insurance |  | 3,600 |  |  |  | 1,800 |  |  |
| Land |  | 67,000 |  |  |  | 67,000 |  |  |
| Buildings |  | 127,000 |  |  |  | 127,000 |  |  |
| Equipment |  | 59,000 |  |  |  | 59,000 |  |  |
| Accounts Payable |  |  |  | 12,500 |  |  |  | 12,500 |
| Unearned Rent Revenue |  |  |  | 8,000 |  |  |  | 3,500 |
| Mortgage Payable |  |  |  | 120,000 |  |  |  | 120,000 |
| Share Capital—Ordinary |  |  |  | 80,000 |  |  |  | 80,000 |
| Retained Earnings |  |  |  | 54,000 |  |  |  | 54,000 |
| Dividends |  | 16,000 |  |  |  | 16,000 |  |  |
| Service Revenue |  |  |  | 90,700 |  |  |  | 90,700 |
| Rent Revenue |  |  |  | 26,000 |  |  |  | 30,500 |
| Salaries and Wages Expense |  | 42,000 |  |  |  | 42,000 |  |  |
| Advertising Expense |  | 17,500 |  |  |  | 17,500 |  |  |
| Utilities Expense |  | 19,000 |  |  |  | 19,000 |  |  |
| Totals |  | 391,200 |  | 391,200 |  |  |  |  |
| Insurance Expense |  |  |  |  |  | 1,800 |  |  |
| Depreciation Expense |  |  |  |  |  | 6,600 |  |  |
| Accumulated Depreciation—Buildings |  |  |  |  |  |  |  | 3,000 |
| Accumulated Depreciation—Equipment |  |  |  |  |  |  |  | 3,600 |
| Interest Expense |  |  |  |  |  | 9,600 |  |  |
| Interest Payable |  |  |  |  |  |  |  | 9,600 |
| Totals |  |  |  |  |  | 407,400 |  | 407,400 |

***Instructions***

(a) Prepare a complete worksheet.

Net income £24,700

(b) Prepare a classified statement of financial position. (*Note:* £25,000 of the mortgage note payable is due for payment next year.)

Total current assets £41,900

(c) Journalize the adjusting entries.

(d) Journalize the closing entries.

(e) Prepare a post-closing trial balance.

Post-closing trial balance £294,900

**P4-5B** *Complete all steps in accounting cycle*.

(LO 1, 2, 3, 4, 6)

Lori Callebaut opened Callebaut Cleaning Service, AG on July 1, 2017. During July the following transactions were completed.

July 1 Shareholders invested €20,000 cash in the business in exchange for ordinary shares.

1 Purchased used truck for €12,000, paying €4,000 cash and the balance on account.

3 Purchased cleaning supplies for €2,100 on account.

5 Paid €1,800 cash on one-year insurance policy effective July 1.

12 Billed customers €5,900 for cleaning services.

18 Paid €1,500 cash on amount owed on truck and €1,400 on amount owed on cleaning supplies.

20 Paid €4,500 cash for employee salaries.

21 Collected €4,400 cash from customers billed on July 12.

25 Billed customers €8,000 for cleaning services.

31 Paid €350 for the monthly gasoline bill for the truck.

31 Declared and paid a €1,200 cash dividend.

The chart of accounts for Brennan's Cleaning Service contains the following accounts: No. 101 Cash, No. 112 Accounts Receivable, No. 126 Supplies, No. 130 Prepaid Insurance, No. 157 Equipment, No. 158 Accumulated Depreciation—Equipment, No. 201 Accounts Payable, No. 212 Salaries and Wages Payable, No. 311 Share Capital—Ordinary, No. 320 Retained Earnings, No. 332 Dividends, No. 350 Income Summary, No. 400 Service Revenue, No. 633 Gasoline Expense, No. 631 Supplies Expense, No. 711 Depreciation Expense, No. 722 Insurance Expense, and No. 726 Salaries and Wages Expense.

***Instructions***

(a) Journalize and post the July transactions. Use page J1 for the journal and the three-column form of account.

(b) Prepare a trial balance at July 31 on a worksheet.

Trial balance €42,500

(c) Enter the following adjustments on the worksheet and complete the worksheet.

1. Services provided but unbilled and uncollected at July 31 were €3,300.

2. Depreciation on equipment for the month was €500.

3. One-twelfth of the insurance expired.

4. An inventory count shows €560 of cleaning supplies on hand at July 31.

5. Accrued but unpaid employee salaries were €2,200.

Adjusted trial balance €48,500

(d) Prepare the income statement and retained earnings statement for July and a classified statement of financial position at July 31, 2017.

Net income €9,160;

Total assets €37,360

(e) Journalize and post adjusting entries. Use page J2 for the journal.

(f) Journalize and post closing entries and complete the closing process. Use page J3 for the journal.

(g) Prepare a post-closing trial balance at July 31.

Post-closing trial balance €37,860

COMPREHENSIVE PROBLEM: CHAPTERS 2 TO 4

**4-CP4** Tara Harris opened Tara's Maids Cleaning Service, Ltd. on July 1, 2017. During July, the company completed the following transactions.

July 1 Shareholders invested £15,000 cash in the business in exchange for ordinary shares.

1 Purchased a used truck for £10,000, paying £3,000 cash and the balance on account.

3 Purchased cleaning supplies for £1,700 on account.

5 Paid £1,800 on a one-year insurance policy, effective July 1.

12 Billed customers £4,200 for cleaning services.

18 Paid £1,000 of amount owed on truck, and £400 of amount owed on cleaning supplies.

20 Paid £1,900 for employee salaries.

21 Collected £2,400 from customers billed on July 12.

25 Billed customers £2,100 for cleaning services.

31 Paid gasoline for the month on the truck, £400.

31 Declared and paid a £500 cash dividend.

The chart of accounts for Tara's Maids Cleaning Service contains the following accounts: No. 101 Cash, No. 112 Accounts Receivable, No. 126 Supplies, No. 130 Prepaid Insurance, No. 157 Equipment, No. 158 Accumulated Depreciation—Equipment, No. 201 Accounts Payable, No. 212 Salaries and Wages Payable, No. 311 Share Capital—Ordinary, No. 320 Retained Earnings, No. 332 Dividends, No. 350 Income Summary, No. 400 Service Revenue, No. 633 Gasoline Expense, No. 631 Supplies Expense, No. 711 Depreciation Expense, No. 722 Insurance Expense, and No. 726 Salaries and Wages Expense.

***Instructions***

(a) Journalize and post the July transactions. Use page J1 for the journal.

(b) Prepare a trial balance at July 31 on a worksheet.

Trial balance totals £28,600

(c) Enter the following adjustments on the worksheet, and complete the worksheet.

1. Unbilled fees for services performed at July 31 were £1,300.

2. Depreciation on equipment for the month was £200.

3. One-twelfth of the insurance expired.

4. An inventory count shows £280 of cleaning supplies on hand at July 31.

5. Accrued but unpaid employee salaries were £630.

(d) Prepare the income statement and retained earnings statement for July, and a classified statement of financial position at July 31, 2017.

Net income £2,900

Total assets £25,330

(e) Journalize and post the adjusting entries. Use page J2 for the journal.

(f) Journalize and post the closing entries, and complete the closing process. Use page J3 for the journal.

(g) Prepare a post-closing trial balance at July 31.

Trial balance totals £25,530

MATCHA CREATIONS

(*Note*: This is a continuation of the Matcha Creations problem from Chapter 1-3.)

**MC4**Mei-ling had a very busy December. At the end of the month, after journalizing and posting the December transactions and adjusting entries, Mei-ling prepared the following adjusted trial balance.

|  |  |  |  |
| --- | --- | --- | --- |
| **Matcha Creations**  **Adjusted Trial Balance**  **December 31, 2017** | | | |
|  | **Debit** |  | **Credit** |
| Cash | NT$1,180 |  |  |
| Accounts Receivable | 875 |  |  |
| Supplies | 350 |  |  |
| Prepaid Insurance | 1,210 |  |  |
| Equipment | 1,200 |  |  |
| Accumulated Depreciation—Equipment |  |  | NT$ 40 |
| Accounts Payable |  |  | 75 |
| Salaries and Wages Payable |  |  | 56 |
| Unearned Service Revenue |  |  | 300 |
| Notes Payable |  |  | 2000 |
| Interest Payable |  |  | 15 |
| Share Capital—Ordinary |  |  | 800 |
| Dividends | 500 |  |  |
| Service Revenue |  |  | 4,515 |
| Salaries and Wages Expense | 1,006 |  |  |
| Utilities Expense | 125 |  |  |
| Advertising Expense | 165 |  |  |
| Supplies Expense | 1,025 |  |  |
| Depreciation Expense | 40 |  |  |
| Insurance Expense | 110 |  |  |
| Interest Expense | 15 |  |  |
|  | NT$7,801 |  | NT$7,801 |

***Instructions***

Using the information in the adjusted trial balance, do the following.

(a) Prepare an income statement and a retained earnings statement for the 2 months ended December 31, 2017, and a classified statement of financial position at December 31, 2017. The note payable has a stated interest rate of 6%, and the principal and interest are due on November 16, 2019.

(b) Mei-ling has decided that her year-end will be December 31, 2017. Prepare closing entries as of December 31, 2017.

(c) Prepare a post-closing trial balance.

**Broadening Your Perspective**

Financial Reporting and Analysis

**BYP4-1. Financial Reporting Problem: TSMC, Ltd. (TWN)**

The financial statements of TSMC are presented in Appendix A at the end of this textbook. The company’s complete annual report, including the notes to the financial statements, is available in the Investors section of the company's website, *www.tsmc.com*.

***Instructions***

Answer the questions below using the statement of financial position and the notes to consolidated financial statements section.

(a) What were TSMC's total current assets at December 31, 2013, and December 31, 2012?

(b) Are assets that TSMC included under current assets listed in proper order? Explain.

(c) How are TSMC's assets classified?

(d) What are “cash equivalents”?

(e) What were TSMC's total current liabilities at December 31, 2013, and December 31, 2012?

**BYP4-2. Comparative Analysis Problem: Nestlé SA (CHE) vs. Petra Foods Ltd. (SGP)**

Nestlé's financial statements are presented in Appendix B. Financial statements for Petra Foods are presented in Appendix C.

***Instructions***

(a) Based on the information contained in these financial statements, determine each of the following for Nestlé and Petra Foods at December 31, 2013

1. Total current assets.

2. Net amount of property, plant, and equipment (land, buildings, and equipment).

3. Total current liabilities.

4. Total equity.

(b) What conclusions concerning the companies' respective financial positions can be drawn from the companies' current assets and current liabilities?

**BYP4-3. Real-World Focus**

Numerous companies have established home pages on the Internet, e.g., Capt'n Eli Root Beer Company *(www.captneli.com/rootbeer.php)* and Kodak *(www.kodak.com)*.

***Instructions***

Examine the home pages of any two companies and answer the following questions.

(a) What type of information is available?

(b) Is any accounting-related information presented?

(c) Would you describe the home page as informative, promotional, or both? Why?

Critical Thinking

**BYP4-4. Decision-Making Across the Organization**

Everclean Janitorial Service, Ltd. was started 2 years ago by Lauren Baird. Because business has been exceptionally good, Lauren decided on July 1, 2017, to expand operations by acquiring an additional truck and hiring two more assistants. To finance the expansion, Lauren obtained on July 1, 2017, a £25,000, 10% bank loan, payable £10,000 on July 1, 2018, and the balance on July 1, 2019. The terms of the loan require the borrower to have £10,000 more current assets than current liabilities at December 31, 2017. If these terms are not met, the bank loan will be refinanced at 15% interest. At December 31, 2017, the accountant for Everclean Janitorial Service prepared the statement of financial position shown below.

Lauren presented the statement of financial position to the bank's loan officer on January 2, 2018, confident that the company had met the terms of the loan. The loan officer was not impressed. She said, “We need financial statements audited by a public accountant.” A public accountant was hired and immediately realized that the statement of financial position had been prepared from a trial balance and not from an adjusted trial balance. The adjustment data at the statement of financial position date consisted of the following.

1. Unbilled janitorial services performed were £3,900.

2. Janitorial supplies on hand were £2,100.

3. Prepaid insurance was a 3-year policy dated January 1, 2017.

4. December expenses incurred but unpaid at December 31, £620.

5. Interest on the bank loan was not recorded.

6. The amounts for property, plant, and equipment presented in the statement of financial position were reported net of accumulated depreciation (cost less accumulated depreciation). These amounts were £4,000 for cleaning equipment and £5,000 for delivery trucks as of January 1, 2017. Depreciation for 2017 was £2,000 for cleaning equipment and £5,000 for delivery trucks.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **EVERCLEAN JANITORIAL SERVICE**  **Statement of Financial Position**  **December 31, 2017** | | | | | | | | | | |
| **Assets** | | | |  | **Equity and Liabilities** | | | | | |
|  |  |  | |  |  |  | |  | | |
| Property, plant, and equipment | | |  |  | Equity | |  | |  |  |
| Equipment (net) | | | £22,000 |  | Share capital—ordinary | | £30,000 | |  |  |
| Delivery trucks (net) | | | 34,000 |  | Retained earnings | | 24,000 | |  | £54,000 |
| Total property, plant, and equipment | | | 56,000 |  | Non-current liability | |  | |  |  |
| Current assets | | |  |  | Notes payable | |  | |  | 15,000 |
| Prepaid insurance | | | 4,800 |  | Current liabilities | |  | |  |  |
| Supplies | | | 5,200 |  | Notes payable | | 10,000 | |  |  |
| Accounts receivable | | | 9,000 |  | Accounts payable | | 1,500 | |  | 11,500 |
| Cash | | | 5,500 |  | Total equity and liabilities | |  | |  | £80,500 |
| Total assets | | | £80,500 |  |  | |  | |  |  |

***Instructions***

With the class divided into groups, answer the following.

(a) Prepare a correct statement of financial position.

(b) Were the terms of the bank loan met? Explain.

**BYP4-5. Communication Activity**

The accounting cycle is important in understanding the accounting process.

***Instructions***

Write a memo to your instructor that lists the steps of the accounting cycle in the order they should be completed. End with a paragraph that explains the optional steps in the cycle.

**BYP4-6.** **Ethics Case**

As the controller of Take No Prisoners Perfume Company, SA, you discover a misstatement that overstated net income in the prior year's financial statements. The misleading financial statements appear in the company's annual report which was issued to banks and other creditors less than a month ago. After much thought about the consequences of telling the president, Fabien LaRue, about this misstatement, you gather your courage to inform him. Fabien says, “Hey! What they don't know won't hurt them. But, just so we set the record straight, we'll adjust this year's financial statements for last year's misstatement. We can absorb that misstatement better in this year than in last year anyway! Just don't make such a mistake again.”

***Instructions***

(a) Who are the stakeholders in this situation?

(b) What are the ethical issues in this situation?

(c) What would you do as a controller in this situation?

A LOOK at U.S. GAAP

The classified statement of financial position, although generally required internationally, contains certain variations in format when reporting under GAAP.

**Key Points**

* In general, GAAP follows the similar guidelines as this textbook for presenting items in the current asset section, except that under GAAP items are listed in order of liquidity, while under IFRS they are often listed in reverse order of liquidity. For example, under GAAP cash is listed first, but under IFRS it is listed last.
* Both GAAP and IFRS are increasing the use of fair value to report assets. However, at this point IFRS has adopted it more broadly. As examples, under IFRS companies can apply fair value to property, plant, and equipment; natural resources; and in some cases intangible assets.

**Similarities**

* + Both IFRS and GAAP require disclosures about (1) accounting policies followed, (2) judgments that management has made in the process of applying the entity's accounting policies, and (3) the key assumptions and estimation uncertainty that could result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.
  + Comparative prior-period information must be presented and financial statements must be prepared annually.

**Differences**

* + IFRS officially uses the term *statement of financial position* in its literature, while in the United States it is often referred to as the *balance sheet*.
  + IFRS requires that specific items be reported on the statement of financial position, whereas no such general standard exists in GAAP. However, under GAAP, public companies must follow U.S. Securities and Exchange Commission (SEC) regulations, which require specific line items as well. In addition, specific GAAP standards mandate certain forms of reporting statement of financial position information. The SEC guidelines are more detailed than IFRS.
  + While IFRS companies often report non-current assets before current assets in their statements of financial position, this is never seen under GAAP. Also, some IFRS companies report the subtotal “net assets,” which equals total assets minus total liabilities. This practice is also not seen under GAAP.
  + A key difference in valuation is that under IFRS, companies, under certain conditions, can report property, plant, and equipment at cost or at fair value, whereas under GAAP this practice is not allowed.
  + GAAP has many differences in terminology from what are shown in your textbook. For example, in the sample balance sheet (statement of financial position) illustrated below, notice in the investment category that shares are called stock. Also note that Share Capital—Ordinary is referred to as Common Stock. In addition, the format used for statement of financial position presentation is often different between GAAP and IFRS.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **FRANKLIN CORPORATION**  Balance Sheet  October 31, 2017 | | | | | | | | |
| **Assets** | | | | | | | | |
|  | |  |  | | | | | |
| **Current assets** | | |  |  |  | |  |  |
| Cash | | |  |  | $6,600 | |  |  |
| Short-term investments | | |  |  | 2,000 | |  |  |
| Accounts receivable | | |  |  | 7,000 | |  |  |
| Notes receivable | | |  |  | 1,000 | |  |  |
| Inventory | | |  |  | 3,000 | |  |  |
| Supplies | | |  |  | 2,100 | |  |  |
| Prepaid insurance | | |  |  | 400 | |  |  |
| Total current assets | | |  |  |  | |  | $22,100 |
| **Long-term investments** | | |  |  |  | |  |  |
| Investment in stock of Walters Corp. | | |  |  | 5,200 | |  |  |
| Investment in real estate | | |  |  | 2,000 | |  | 7,200 |
| **Property, plant, and equipment** | | |  |  |  | |  |  |
| Land | | |  |  | 10,000 | |  |  |
| Equipment | | | $24,000 |  |  | |  |  |
| Less: Accumulated depreciation─ | | |  |  |  | |  |  |
| equipment | | | 5,000 |  | 19,000 | |  | 29,000 |
| **Intangible assets** | | |  |  |  | |  |  |
| Patents | | |  |  |  | |  | 3,100 |
| Total assets | | |  |  |  | |  | $61,400 |
|  | | |  |  |  | |  |  |
| **Liabilities and Stockholders’ Equity** | | | | | | | | |
|  |  | | | | |  | | |
| **Current liabilities** | | |  |  |  | |  |  |
| Note payable | | |  |  | $11,000 | |  |  |
| Accounts payable | | |  |  | 2,100 | |  |  |
| Salaries and wages payable | | |  |  | 1,600 | |  |  |
| Unearned service revenue | | |  |  | 900 | |  |  |
| Interest payable | | |  |  | 450 | |  |  |
| Total current liabilities | | |  |  |  | |  | $16,050 |
| **Long-term liabilities** | | |  |  |  | |  |  |
| Mortgage payable | | |  |  | 10,000 | |  |  |
| Notes payable | | |  |  | 1,300 | |  |  |
| Total long-term liabilities | | |  |  |  | |  | 11,300 |
| Total liabilities | | |  |  |  | |  | 27,350 |
| **Stockholders’ equity** | | |  |  |  | |  |  |
| Common stock | | |  |  | 20,000 | |  |  |
| Retained earnings | | |  |  | 14,050 | |  |  |
| Total stockholders’ equity | | |  |  |  | |  | 34,050 |
| Total liabilities and stockholders’ equity | | |  |  |  | |  | $61,400 |

**Looking to the Future**

The IASB and the FASB are working on a project to converge their standards related to financial statement presentation. A key feature of the proposed framework is that each of the statements will be organized in the same format, to separate an entity's financing activities from its operating and investing activities and, further, to separate financing activities into transactions with owners and creditors. Thus, the same classifications used in the statement of financial position would also be used in the income statement and the statement of cash flows.

**GAAP Practice**

**GAAP Self-Test Questions**

**1.** Which of the following statements is **false**?

(a) Assets equals liabilities plus stockholders' equity.

(b) Under IFRS, companies sometimes net liabilities against assets to report “net assets.”

(c) The FASB and IASB are working on a joint conceptual framework project.

(d) Under GAAP, the statement of financial position is usually referred to as the statement of assets and equity.

**Answer**

(d) Under GAAP, the statement of financial position is usually referred to as the statement of assets and equity.

**2.** A company has purchased a tract of land and expects to build a production plant on the land in approximately 5 years. During the 5 years before construction, the land will be idle. Under GAAP, the land should be reported as:

(a) land expense.

(b) property, plant, and equipment.

(c) an intangible asset.

(d) a long-term investment.

**Answer**

(d) a long-term investment.

**3.** Current assets under GAAP are listed generally:

(a) by importance.

(b) in the reverse order of their expected conversion to cash.

(c) by order of liquidity.

(d) alphabetically.

**Answer**

(c) by order of liquidity.

**4.** Companies that use GAAP:

(a) may report all their assets on their balance sheets at fair value.

(b) often offset assets against liabilities and show net assets and net liabilities on their balance sheets, rather than the underlying detailed line items.

(c) generally report current assets before non-current assets on their balance sheets.

(d) do not have any guidelines as to what should be reported on their balance sheets.

**Answer**

(c) generally report current assets before non-current assets on their balance sheets.

**5.** Companies that follow GAAP to prepare a balance sheet generally use the following order of classification:

(a) current assets, long-term assets, current liabilities, long-term liabilities, stockholders' equity.

(b) long-term assets, long-term liabilities, current assets, current liabilities, stockholders' equity.

(c) long-term assets, current assets, stockholders' equity, long-term liabilities, current liabilities.

(d) stockholders' equity, long-term assets, current assets, long-term liabilities, current liabilities.

**Answer**

(a) current assets, long-term assets, current liabilities, long-term liabilities, stockholders' equity.

**GAAP Exercises**

**GAAP4-1.** In what ways does the format of a statement of financial of position under IFRS often differ from a balance sheet presented under GAAP?

**GAAP4-2.** What term is commonly used under GAAP in reference to the statement of financial position?

**GAAP4-3.** The balance sheet for Diaz Company includes the following accounts: Accounts Receivable $12,500; Prepaid Insurance $3,600; Cash $15,400; Supplies $5,200; and Short-Term Investments $6,700. Prepare the current assets section of the balance sheet, listing the accounts in proper sequence using GAAP.

**GAAP4-4.** Zurich Company recently received the following information related to the company's December 31, 2017, balance sheet.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Inventories | $ 2,700 |  | Short-term investments | $ 120 |
| Cash | 13,100 |  | Accumulated depreciation— |  |
| Equipment | 21,700 |  | equipment | 5,700 |
| Investments in stocks |  |  | Accounts receivable | 4,300 |
| (long-term) | 6,500 |  |  |  |

Prepare the assets section of the company's classified balance sheet using GAAP.

**GAAP4-5.** The following information is available for Rego Bowling Alley at December 31, 2017.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Buildings | $128,000 |  | Common Stock | $90,000 |
| Accounts Receivable | 7,540 |  | Retained Earnings | 22,000 |
| Prepaid Insurance | 4,680 |  | Accumulated Depreciation—Buildings | 42,600 |
| Cash | 18,040 |  | Accounts Payable | 12,300 |
| Equipment | 62,400 |  | Notes Payable | 95,000 |
| Land | 67,000 |  | Accumulated Depreciation—Equipment | 18,720 |
| Insurance Expense | 780 |  | Interest Payable | 2,600 |
| Depreciation Expense | 7,360 |  | Service Revenue | 15,180 |
| Interest Expense | 2,600 |  |  |  |

Prepare a classified balance sheet; assume that $13,900 of the notes payable will be paid in 2018 using GAAP.

**GAAP4-6.** Brian Hopkins is interested in comparing the liquidity and solvency of a U.S. software company with a Chinese competitor. Is this possible if the two companies report using different currencies?

**GAAP Financial Reporting Problem: Apple Inc. (USA)**

**GAAP4-7.** The financial statements of Apple are presented in Appendix D. The company's complete annual report, including the notes to its financial statements, is available at *http://investor.apple.com*.

(a) What were Apple's total current assets at December 31, 2013 and December 31, 2012?

(b) Are the assets included in current assets listed in the proper order? Explain.

(c) How are Apple's assets classified?

(d) What were Apple's current liabilities at December 31, 2013, and December 31, 2012?