

Problems

(Group A)

~~Problem 4-1A~~ Preparing a work sheet (L.O. 1) **4 AM**

The trial balance of Agape Counseling Center at May 31, 19X2, follows:

Agape Counseling Center
Trial Balance
May 31, 19X2

Cash	\$ 1,670	
Notes receivable	10,340	
Interest receivable		
Supplies	560	
Prepaid insurance	1,790	
Furniture	27,410	
Accumulated depreciation—furniture		\$ 1,480
Building	55,900	
Accumulated depreciation—building		33,560
Land	13,700	
Accounts payable		14,730
Interest payable		
Salary payable		
Unearned service revenue		6,800
Note payable, long-term		18,700
Rex Jennings, capital		34,290
Rex Jennings, withdrawals	3,800	
Service revenue		9,970
Interest revenue		
Depreciation expense—furniture		
Depreciation expense—building		
Salary expense	2,170	
Insurance expense		
Interest expense		
Utilities expense	490	
Property tax expense	640	
Advertising expense	1,060	
Supplies expense		
Total	<u>\$119,530</u>	<u>\$119,530</u>

- Accrued salary expense, \$600.
- Supplies on hand, \$410.
- Prepaid insurance expired during May, \$390.
- Accrued interest expense, \$220.
- Unearned service revenue earned during May, \$4,400.
- Accrued advertising expense, \$60 (credit Accounts Payable).
- Accrued interest revenue, \$170.
- Depreciation: furniture, \$380; building, \$160.

Required

Complete Agape's work sheet for May.

4AM

Problem 4.2A

Preparing financial statements from an adjusted trial balance; journalizing the adjusting and closing entries (L.O. 3, 6)



The adjusted trial balance of Lopez Tailoring Service at April 30, 19X2, the end of the company's fiscal year, follows:

Lopez Tailoring Service Adjusted Trial Balance April 30, 19X2			
Cash	\$	2,370	
Accounts receivable		25,740	
Supplies		3,690	
Prepaid insurance		2,290	
Equipment		63,930	
Accumulated depreciation—equipment			\$ 28,430
Building		74,330	
Accumulated depreciation—building			18,260
Accounts payable			19,550
Interest payable			2,280
Wage payable			830
Unearned service revenue			3,660
Note payable, long-term			69,900
Maria Lopez, capital			46,200
Maria Lopez, withdrawals	47,500		
Service revenue			99,550
Depreciation expense—equipment		6,700	
Depreciation expense—building		3,210	
Wage expense		29,800	
Insurance expense		5,370	
Interest expense		8,170	
Utilities expense		5,670	
Property tax expense		3,010	
Supplies expense		6,880	
Total	\$288,660	\$288,660	

Adjusting data at April 30, 19X2, which have all been incorporated into the trial balance figures above:

- Supplies used during the year, \$6,880.
- Prepaid insurance expired during the year, \$5,370.
- Accrued interest expense, \$2,280.

- d. Accrued service revenue, \$2,200.
- e. Depreciation for the year: equipment, \$6,700; building, \$3,210.
- f. Accrued wage expense, \$830.
- g. Unearned service revenue earned during the year, \$5,180.

Required

1. Journalize the adjusting and closing entries.
2. Prepare Lopez's income statement and statement of owner's equity for the year ended April 30, 19X2, and the classified balance sheet on that date. Use the account format for the balance sheet.
3. Compute Lopez's current ratio and debt ratio at April 30, 19X2. One year ago the current ratio stood at 1.21, and the debt ratio was .82. Did Lopez's ability to pay debts improve or deteriorate during 19X2?

Problem 4-3A Taking the accounting cycle through the closing entries (L.O. 3, 4) 4AM

The unadjusted T-accounts of Dave Laufenberg, M.D., at December 31, 19X2, and the related year-end adjustment data follow:

Cash		Accounts Receivable		Supplies	
Bal. 8,000		Bal. 44,000		Bal. 6,000	
Equipment		Accumulated Depreciation		Accounts Payable	
Bal. 57,000			Bal. 12,000		Bal. 4,000
Salary Payable		Unearned Service Revenue		Note Payable Long-Term	
			Bal. 2,000		Bal. 40,000
Dave Laufenberg, Capital		Dave Laufenberg, Withdrawals		Service Revenue	
	Bal. 41,000	Bal. 54,000			Bal. 133,000
Salary Expense		Supplies Expense		Depreciation Expense	
Bal. 36,000					
Interest Expense		Rent Expense		Insurance Expense	
Bal. 5,000		Bal. 12,000		Bal. 10,000	

Adjustment data at December 31, 19X2, include:

- a. Supplies on hand, \$2,000.
- b. Depreciation for the year, \$6,000.
- c. Accrued salary expense, \$3,000.
- d. Accrued service revenue, \$4,000.
- e. Unearned service revenue earned during the year, \$2,000.

Required

1. Write the trial balance on a work sheet and complete the work sheet. Key each adjusting entry by the letter corresponding to the data given.
2. Prepare the income statement, the statement of owner's equity, and the classified balance sheet in account format.
3. Journalize the adjusting and closing entries.

d. The accountant failed to make the following adjusting entries at February 28:

- (1) Accrued service revenue, \$700
- (2) Insurance expense, \$460
- (3) Accrued interest expense on a note payable, \$520
- (4) Depreciation of equipment, \$3,300
- (5) Earned service revenue that had been collected in advance, \$2,700

Compute the overall net income effect of these omissions.

e. Record each of the adjusting entries identified in item d.

f. The revenue and expense accounts after the adjusting entries had been posted were Service Revenue, \$95,330; Wage Expense, \$29,340; Depreciation Expense, \$6,180; Interest Expense, \$4,590; Utilities Expense, \$1,620; and Insurance Expense, \$740. Two balances prior to closing were Eva Polanski, Capital, \$75,150; and Eva Polanski, Drawing, \$48,000. Journalize the closing entries.

(Group B)

Problem 4-1B Preparing a work sheet (L.O. 1)

4 AM

The trial balance of Ross Family Painting Contractors at July 31, 19X3 appears below.

Ross Family Painting Contractors
Trial Balance
July 31, 19X3

Cash	\$ 4,200	
Accounts receivable	37,820	
Supplies	17,660	
Prepaid insurance	2,300	
Equipment	32,690	
Accumulated depreciation—equipment		\$ 26,240
Building	36,890	
Accumulated depreciation—building		10,500
Land	28,300	
Accounts payable		22,690
Interest payable		
Wage payable		
Unearned service revenue		10,560
Note payable, long-term		22,400
Peter Ross, capital		62,130
Peter Ross, withdrawals	4,200	
Service revenue		17,190
Depreciation expense—equipment		
Depreciation expense—building		
Wage expense	6,200	
Insurance expense		
Interest expense		
Utilities expense	270	
Property tax expense	840	
Advertising expense	340	
Supplies expense		
Total	<u>\$171,710</u>	<u>\$171,710</u>

Additional data at July 31, 19X3:

- a. Accrued wage expense, \$440.
- b. Supplies on hand, \$14,740.
- c. Prepaid insurance expired during July, \$500.
- d. Accrued interest expense, \$180.
- e. Unearned service revenue earned during July, \$4,770.
- f. Accrued advertising expense, \$100 (credit Accounts Payable).
- g. Accrued service revenue, \$1,100.
- h. Depreciation: equipment, \$430; building, \$270.

Required

Complete Ross's work sheet for July.

4 AM

Problem 4-2B Preparing financial statements from an adjusted trial balance; journalizing the adjusting and closing entries (L.O. 3, 6)



The adjusted trial balance of Federal Security Couriers at June 30, 19X1, the end of the company's fiscal year, follows:

Federal Security Couriers Adjusted Trial Balance June 30, 19X1		
Cash	\$ 18,350	
Accounts receivable	26,470	
Supplies	1,290	
Prepaid insurance	1,700	
Equipment	55,800	
Accumulated depreciation—equipment		\$ 16,480
Building	144,900	
Accumulated depreciation—building		16,850
Accounts payable		36,900
Interest payable		1,490
Wage payable		770
Unearned service revenue		2,300
Note payable, long-term		97,000
Ramon DeSoto, capital		67,390
Ramon DeSoto, withdrawals	45,300	
Service revenue		108,360
Depreciation expense—equipment	6,300	
Depreciation expense—building	3,470	
Wage expense	18,800	
Insurance expense	3,100	
Interest expense	11,510	
Utilities expense	4,300	
Property tax expense	2,670	
Supplies expense	3,580	
Total	<u>\$347,540</u>	<u>\$347,540</u>

Adjusting data at June 30, 19X1, which have all been incorporated into the trial balance figures above:

- a. Supplies used during the year, \$3,580.
- b. Prepaid insurance expired during the year, \$3,100.
- c. Accrued interest expense, \$680.
- d. Accrued service revenue, \$940.
- e. Depreciation for the year: equipment, \$6,300; building, \$3,470.

- f. Accrued wage expense, \$770.
- g. Unearned service revenue earned during the year, \$6,790.

Required

1. Journalize the adjusting and closing entries.
2. Prepare Federal's income statement and statement of owner's equity for the year ended June 30, 19X1, and the classified balance sheet on that date. Use the account format for the balance sheet.
3. Compute Federal's current ratio and debt ratio at June 30, 19X1. One year ago the current ratio stood at 1.01, and the debt ratio was .71. Did Federal's ability to pay debts improve or deteriorate during 19X1?

Problem 4-3B *Taking the accounting cycle through the closing entries (L.O. 3, 4)*

The unadjusted T-accounts of Christine Cancia, Psychologist, at December 31, 19X2, and the related year-end adjustment data follow:

Cash		Accounts Receivable		Supplies	
Bal. 7,000		Bal. 38,000		Bal. 9,000	
Equipment		Accumulated Depreciation		Accounts Payable	
Bal. 95,000			Bal. 36,000		Bal. 8,000
Salary Payable		Unearned Service Revenue		Note Payable, Long-Term	
			Bal. 5,000		Bal. 60,000
Christine Cancia, Capital		Christine Cancia, Withdrawals		Service Revenue	
	Bal. 24,000	Bal. 62,000			Bal. 159,000
Salary Expense		Supplies Expense		Depreciation Expense	
Bal. 53,000					
Interest Expense		Rent Expense		Insurance Expense	
Bal. 6,000		Bal. 15,000		Bal. 7,000	

Adjustment data at December 31, 19X2, include:

- a. Supplies on hand, \$1,000.
- b. Depreciation for the year, \$9,000.
- c. Accrued salary expense, \$2,000.
- d. Accrued service revenue, \$1,000.
- e. Unearned service revenue earned during the year, \$5,000.

Required

1. Write the trial balance on a work sheet, and complete the work sheet. Key each adjusting entry by the letter corresponding to the data given.
2. Prepare the income statement, the statement of owner's equity, and the classified balance sheet in account format.
3. Journalize the adjusting and closing entries.

Problem 4-4B *Completing the accounting cycle (L.O. 3, 4)*

This problem should be used only in conjunction with Problem 4-3B. It completes the accounting cycle by posting to T-accounts and preparing the post-closing trial balance.