

Exercises

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

The trial balance of Makovic Pest Control Service follows.

Additional information at September 30, 19X6:



- Accrued salary expense, \$200.
- Prepaid rent expired, \$900.
- Supplies used, \$2,250.
- Accrued service revenue, \$210.
- Depreciation, \$40.

Required

Complete Makovic's work sheet for September 19X6.

Makovic Pest Control Service Trial Balance September 30, 19X6			
Cash	\$ 1,560		
Accounts receivable	2,840		
Prepaid rent	1,200		
Supplies	3,390		
Equipment	12,600		
Accumulated depreciation		\$ 2,240	
Accounts payable		1,600	
Salary payable			
Lee Makovic, capital			16,030
Lee Makovic, withdrawals	3,000		
Service revenue		7,300	
Depreciation expense			
Salary expense	1,800		
Rent expense			
Utilities expense	780		
Supplies expense			
Total	<u>\$27,170</u>	<u>\$27,170</u>	

Exercise 4-2 Journalizing adjusting and closing entries (L.O. 3)

Journalize the adjusting and closing entries in Exercise 4-1.

Exercise 4-3 Posting adjusting and closing entries (L.O. 3)

Set up T-accounts for those accounts affected by the adjusting and closing entries in Exercise 4-1. Post the adjusting and closing entries to the accounts, denoting adjustment amounts by Adj., closing amounts by Clo., and balances by Bal. Double rule the accounts with zero balances after closing and show the ending balance in each account.

Exercise 4-4 Preparing a postclosing trial balance (L.O. 3)

Prepare the postclosing trial balance in Exercise 4-1.

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

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	\$119,530	\$119,530



Additional data at May 31, 19X2:

- 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.



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)

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

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

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.

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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 4-4A Completing the accounting cycle (L.O. 3, 4)

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

Required

- Using the Problem 4-3A data, post the adjusting and closing entries to the T-accounts, denoting adjusting amounts by *Adj.*, closing amounts by *Clo.*, and account balances by *Bal.*, as shown in Exhibit 4-9. Double underline all accounts with a zero ending balance.
- Prepare the postclosing trial balance.

Problem 4-5A Completing the accounting cycle (L.O. 3, 4, 6)

The trial balance of Hubby Insurance Agency at October 31, 19X0, and the data needed for the month-end adjustments are as follows:

Adjustment data:

- Prepaid rent still in force at October 31, \$2,000.
- Supplies used during the month, \$570.
- Depreciation on furniture for the month, \$250.
- Depreciation on building for the month, \$280.
- Accrued salary expense at October 31, \$310.
- Unearned commission revenue still unearned at October 31, \$4,700.

Hubby Insurance Agency
Trial Balance
October 31, 19X0

Account Number	Account Title	Debit	Credit
11	Cash	\$ 2,900	
12	Accounts receivable	12,310	
13	Prepaid rent	2,200	
14	Supplies	840	
15	Furniture	26,830	
16	Accumulated depreciation—furniture		\$ 3,400
17	Building	68,300	
18	Accumulated depreciation—building		9,100
21	Accounts payable		7,290
22	Salary payable		
23	Unearned commission revenue		5,300
31	Erin Hubby, capital		85,490
32	Erin Hubby, withdrawals	3,900	
41	Commission revenue		9,560
51	Salary expense	1,840	
52	Rent expense		
53	Utilities expense	530	
54	Depreciation expense—furniture		
55	Depreciation expense—building		
56	Advertising expense	490	
57	Supplies expense		
	Total	<u>\$120,140</u>	<u>\$120,140</u>

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

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	\$ 26,240
Accumulated depreciation—equipment		
Building	36,890	10,500
Accumulated depreciation—building		
Land	28,300	22,690
Accounts payable		
Interest payable		
Wage payable		10,560
Unearned service revenue		22,400
Note payable, long-term		62,130
Peter Ross, capital		
Peter Ross, withdrawals	4,200	17,190
Service revenue		
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	\$171,710	\$171,710

Additional data at July 31, 19X3:

- Accrued wage expense, \$440.
- Supplies on hand, \$14,740.
- Prepaid insurance expired during July, \$500.
- Accrued interest expense, \$180.
- Unearned service revenue earned during July, \$4,770.
- Accrued advertising expense, \$100 (credit Accounts Payable).
- Accrued service revenue, \$1,100.
- Depreciation: equipment, \$130; building, \$270.

Required

Complete Ross's work sheet for July.

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:

- Supplies used during the year, \$3,580.
- Prepaid insurance expired during the year, \$3,100.
- Accrued interest expense, \$680.
- Accrued service revenue, \$940.
- 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:

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

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.