

CHAPTER 4

Completing the Accounting Cycle

ASSIGNMENT CLASSIFICATION TABLE

<u>Learning Objectives</u>	<u>Questions</u>	<u>Brief Exercises</u>	<u>Do It!</u>	<u>Exercises</u>	<u>A Problems</u>	<u>B Problems</u>
1. Prepare a worksheet.	1, 2, 3, 4, 5	1, 2, 3	1	1, 2, 3, 5, 6, 17	1A, 2A, 3A, 4A, 5A	1B, 2B, 3B, 4B, 5B
2. Explain the process of closing the books.	6, 7, 11, 12	4, 5, 6	2	4, 7, 8, 11, 19	1A, 2A, 3A, 4A, 5A	1B, 2B, 3B, 4B, 5B
3. Describe the content and purpose of a post-closing trial balance.	8, 9	7		4, 7, 8	2A, 3A, 4A, 5A	2B, 3B, 4B, 5B
4. State the required steps in the accounting cycle.	10, 11, 12	8		10, 19	5A	5B
5. Explain the approaches to preparing correcting entries.	13	9		12, 13	6A	
6. Identify the sections of a classified statement of financial position.	14, 15, 16, 17, 18, 19	10, 11	3, 4	3, 9, 14, 15, 16, 17	1A, 2A, 3A, 4A, 5A	1B, 2B, 3B, 4B, 5B
*7. Prepare reversing entries.	10, 20, 21	12		18, 19		

***Note:** All **asterisked** Questions, Exercises, and Problems relate to material contained in the appendix to the chapter.

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Prepare worksheet, financial statements, and adjusting and closing entries.	Simple	40–50
2A	Complete worksheet; prepare financial statements, closing entries, and post-closing trial balance.	Moderate	50–60
3A	Prepare financial statements, closing entries, and post-closing trial balance.	Moderate	40–50
4A	Complete worksheet; prepare classified statement of financial position, adjusting and closing entries, and post-closing trial balance.	Moderate	50–60
5A	Complete all steps in accounting cycle.	Complex	70–90
6A	Analyze errors and prepare correcting entries and trial balance.	Moderate	40–50
1B	Prepare worksheet, financial statements, and adjusting and closing entries.	Simple	40–50
2B	Complete worksheet; prepare financial statements, closing entries, and post-closing trial balance.	Moderate	50–60
3B	Prepare financial statements, closing entries, and post-closing trial balance.	Moderate	40–50
4B	Complete worksheet; prepare classified statement of financial position, adjusting and closing entries, and post-closing trial balance.	Moderate	50–60
5B	Complete all steps in accounting cycle.	Complex	70–90
Comprehensive Problem: Chapters 2 to 4			

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CHAPTER 4
COMPLETING THE ACCOUNTING CYCLE

Number	LO	BT	Difficulty	Time (min.)
BE1	1	K	Simple	2–4
BE2	1	AN	Moderate	6–8
BE3	1	C	Simple	3–5
BE4	2	AP	Simple	3–5
BE5	2	AP	Simple	4–6
BE6	2	AP	Simple	6–8
BE7	3	C	Simple	2–4
BE8	4	K	Simple	3–5
BE9	5	AN	Moderate	4–6
BE10	6	AP	Simple	4–6
BE11	6	C	Simple	3–5
BE12	7	AN	Moderate	4–6
DI1	1	C	Simple	4–6
DI2	2	AP	Simple	2–4
DI3	6	AP	Simple	6–8
DI4	6	C	Simple	4–6
EX1	1	AP	Simple	12–15
EX2	1	AP	Simple	10–12
EX3	1, 6	AP	Simple	12–15
EX4	2, 3	AP	Simple	12–15
EX5	1	AN	Simple	10–12
EX6	1	AN	Moderate	12–15
EX7	2, 3	AP	Simple	8–10
EX8	2, 3	AP	Simple	10–12
EX9	6	AP	Simple	12–15
EX10	4	C	Simple	3–5
EX11	2	AP	Simple	6–8
EX12	5	AN	Moderate	8–10
EX13	5	AN	Moderate	4–6
EX14	6	AP	Moderate	10–12
EX15	6	C	Simple	5–8
EX16	6	AP	Simple	8–10

COMPLETING THE ACCOUNTING CYCLE (Continued)

Number	LO	BT	Difficulty	Time (min.)
EX17	1, 6	AP	Simple	12–15
EX18	7	AN	Moderate	5–7
EX19	2, 4, 7	AN	Moderate	10–12
P1A	1, 2, 6	AN	Simple	40–50
P2A	1-3, 6	AP	Moderate	50–60
P3A	1-3, 6	AP	Moderate	40–50
P4A	1-3, 6	AN	Moderate	50–60
P5A	1-4, 6	AN	Complex	70–90
P6A	5	AN	Moderate	40–50
P1B	1, 2, 6	AN	Simple	40–50
P2B	1-3, 6	AP	Moderate	50–60
P3B	1-3, 6	AP	Moderate	40–50
P4B	1-3, 6	AN	Moderate	50–60
P5B	1-4, 6	AN	Complex	70–90
BYP1	6	AN	Simple	10–12
BYP2	6	AN	Simple	8–10
BYP3	—	E	Simple	10–12
BYP4	6	AN	Moderate	15–20
BYP5	4	C	Simple	15–20
BYP6	—	E	Moderate	10–15

BLOOM'S TAXONOMY TABLE

Correlation Chart between Bloom's Taxonomy, Learning Objectives and End-of-Chapter Exercises and Problems

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Prepare a worksheet.	BE4-1	Q4-1 Q4-2 Q4-3 Q4-4 Q4-5	E4-1 E4-2 E4-3 E4-17 P4-2A	BE4-2 E4-5 E4-6 P4-1A P4-4A	P4-5A P4-1B P4-4B P4-5B	
2. Explain the process of closing the books.	Q4-6 Q4-11 Q4-12	Q4-7	BE4-4 BE4-5 BE4-6 DI4-2 E4-4 E4-7	E4-8 E4-11 P4-2A P4-3A P4-2B P4-3B	P4-5B P4-1A P4-4A P4-5A P4-1B P4-4B	
3. Describe the content and purpose of a post-closing trial balance.		Q4-8 Q4-9 BE4-7	E4-4 E4-7 E4-8 P4-2A	P4-3A P4-2B P4-3B	P4-4A P4-5A P4-5B	
4. State the required steps in the accounting cycle.	Q4-11 Q4-12 BE4-8	Q4-10 E4-10		E4-19 P4-5A P4-5B		
5. Explain the approaches to preparing correcting entries.		Q4-13		BE4-9 E4-12 E4-13 P4-6A		
6. Identify the sections of a classified statement of financial position.	Q4-14 Q4-15 Q4-16	Q4-17 Q4-18 BE4-11 DI4-4 E4-15	Q4-19 BE4-10 DI4-3 E4-3 E4-9 E4-14	P4-1A P4-4A P4-5A P4-1B P4-4B P4-5B		
*7. Prepare reversing entries.		Q4-10 Q4-20		Q4-21 BE4-12	E4-18 E4-19	
Broadening Your Perspective		Communication		Financial Reporting Comparative Analysis Decision Making Across the Organization		Real-World Focus Ethics Case

ANSWERS TO QUESTIONS

1. No. A worksheet is not a permanent accounting record. The use of a worksheet is an optional step in the accounting cycle.
2. The worksheet is merely a device used to make it easier to prepare adjusting entries and the financial statements.
3. The amount shown in the adjusted trial balance column for an account equals the account balance in the ledger after adjusting entries have been journalized and posted.
4. The net income of \$12,000 will appear in the income statement debit column and the statement of financial position credit column. A net loss will appear in the income statement credit column and the statement of financial position debit column.
5. Formal financial statements are needed because the columnar data are not properly arranged and classified for statement purposes. For example, the Dividends account is listed with assets.
6.
 - (1) (Dr) Individual revenue accounts and (Cr) Income Summary.
 - (2) (Dr) Income Summary and (Cr) Individual expense accounts.
 - (3) (Dr) Income Summary and (Cr) Retained Earnings.
 - (4) (Dr) Retained Earnings and (Cr) Dividends.
7. Income Summary is a temporary account that is used in the closing process. The account is debited for expenses and credited for revenues. The difference, either net income or net loss, is then closed to the Retained Earnings account.
8. The post-closing trial balance contains only statement of financial position accounts. Its purpose is to prove the equality of the permanent account balances that are carried forward into the next accounting period.
9. The accounts that will not appear in the post-closing trial balance are: Depreciation Expense; Dividends; and Service Revenue.
10. A reversing entry is the exact opposite, both in amount and in account titles, of an adjusting entry and is made at the beginning of the new accounting period. Reversing entries are an optional step in the accounting cycle.
11. The steps that involve journalizing are: (1) journalize the transactions, (2) journalize the adjusting entries, and (3) journalize the closing entries.
12. The three trial balances are the: (1) trial balance, (2) adjusted trial balance, and (3) post-closing trial balance.
13. Correcting entries differ from adjusting entries because they: (1) are not a required part of the accounting cycle, (2) may be made whenever an error is discovered, and (3) may affect any combination of accounts.

Questions Chapter 4 (Continued)

14. The standard classifications used in a statement of financial position are:

<u>Assets</u>	<u>Equity and Liabilities</u>
Intangible Assets	Equity
Property, Plant, and Equipment	Non-current Liabilities
Long-term Investments	Current Liabilities
Current Assets	

15. The operating cycle of a company is the average time that it takes to purchase inventory, sell it on account, and then collect cash from customers.
16. Current assets are assets that a company expects to convert to cash or use up in one year. Some companies use a period longer than one year to classify assets and liabilities as current because they have an operating cycle longer than one year. Companies usually list current assets in the reverse order in which they expect to convert them into cash.
17. Long-term investments are generally investments in shares and bonds of other companies that are normally held for many years and non-current assets such as land or buildings that a company is not using in its operating activities. Property, plant, and equipment are assets with relatively long useful lives that a company is currently using in operating the business.
18. The two equity accounts and the purpose of each are: (1) **Share Capital—Ordinary** is used to record investments of assets in the business by the owners (shareholders) through share transactions. (2) **Retained Earnings** is used to record net income retained in the business.
19. Samsung's current liabilities at December 31, 2010 and December 31, 2009 were ₩ 39,944,721 million and ₩ 34,204,424 million respectively. Samsung's current liabilities were lower than its current assets in both years.
- *20. After reversing entries have been made, the balances will be Interest Payable, zero balance; Interest Expense, a credit balance.

- *21. (a) Jan. 10 Salaries and Wages Expense 9,200
Cash 9,200

Because of the January 1 reversing entry that credited Salaries and Wages Expense for \$3,500, Salaries and Wages Expense will have a debit balance of \$5,700 which equals the expense for the current period.

- (b) Jan. 10 Salaries and Wages Payable 3,500
Salaries and Wages Expense 5,700
Cash 9,200

Note that Salaries and Wages Expense will again have a debit balance of \$5,700.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 4-1

The steps in using a worksheet are performed in the following sequence: (1) prepare a trial balance on the worksheet, (2) enter adjustment data, (3) enter adjusted balances, (4) extend adjusted balances to appropriate statement columns and (5) total the statement columns, compute net income (loss), and complete the worksheet. Filling in the blanks, the answers are 1, 3, 4, 5, 2.

The solution to BRIEF EXERCISE 4-2 is on page 4-9.

BRIEF EXERCISE 4-3

Account	Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.
Accumulated Depreciation				X
Depreciation Expense	X			
Share Capital—Ordinary				X
Dividends			X	
Service Revenue		X		
Supplies			X	
Accounts Payable				X

BRIEF EXERCISE 4-4

Dec. 31	Service Revenue	47,000	
	Income Summary.....		47,000
31	Income Summary	32,000	
	Salaries and Wages Expense		27,000
	Supplies Expense.....		5,000
31	Income Summary	15,000	
	Retained Earnings		15,000
31	Retained Earnings.....	2,000	
	Dividends		2,000

BRIEF EXERCISE 4-2

KEO COMPANY Worksheet

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Prepaid Insurance	3,000			(a) 1,300	1,700				1,700	
Service Revenue		61,000		(b) 1,100		62,100		62,100		
Salaries and Wages Expense	25,000		(c) 800		25,800		25,800			
Accounts Receivable			(b) 1,100		1,100				1,100	
Salaries and Wages Payable				(c) 800		800				800
Insurance Expense			(a) 1,300		1,300		1,300			

BRIEF EXERCISE 4-5

Salaries and Wages Expense		Income Summary		Service Revenue	
Bal. 27,000	(2) 27,000	(2) 32,000	(1) 47,000	(1) 47,000	Bal. 47,000
		(3) 15,000			
		47,000	47,000		

Supplies Expense		Retained Earnings		Dividends	
Bal. 5,000	(2) 5,000	(4) 2,000	Bal. 30,000	Bal. 2,000	(4) 2,000
			(3) 15,000		
			Bal. 43,000		

BRIEF EXERCISE 4-6

July 31	Service Revenue	19,200	
	Income Summary.....		19,200
31	Income Summary	11,300	
	Salaries and Wages Expense		8,800
	Maintenance and Repairs Expense		2,500

Service Revenue					
Date	Explanation	Ref.	Debit	Credit	Balance
7/31	Balance			19,200	19,200
7/31	Closing entry		19,200		<u>0</u>

Salaries and Wages Expense					
Date	Explanation	Ref.	Debit	Credit	Balance
7/31	Balance		8,800		8,800
7/31	Closing entry			8,800	<u>0</u>

BRIEF EXERCISE 4-6 (Continued)

Maintenance and Repairs Expense					
Date	Explanation	Ref.	Debit	Credit	Balance
7/31	Balance		2,500		2,500
7/31	Closing entry			2,500	<u>0</u>

BRIEF EXERCISE 4-7

The accounts that will appear in the post-closing trial balance are:

Accumulated Depreciation
Share Capital—Ordinary
Supplies
Accounts Payable

BRIEF EXERCISE 4-8

The proper sequencing of the required steps in the accounting cycle is as follows:

1. Analyze business transactions.
2. Journalize the transactions.
3. Post to ledger accounts.
4. Prepare a trial balance.
5. Journalize and post adjusting entries.
6. Prepare an adjusted trial balance.
7. Prepare financial statements.
8. Journalize and post closing entries.
9. Prepare a post-closing trial balance.

Filling in the blanks, the answers are 4, 2, 8, 7, 5, 3, 9, 6, 1.

BRIEF EXERCISE 4-9

1.	Service Revenue.....	690	
	Accounts Receivable.....		690
2.	Accounts Payable (€1,850 – €1,580)	270	
	Supplies.....		270

BRIEF EXERCISE 4-10

KREN COMPANY Partial Statement of Financial Position

Current assets		
Prepaid insurance	£ 3,600	
Supplies.....	5,200	
Accounts receivable.....	12,500	
Short-term investments	4,900	
Cash.....	6,700	
Total current assets.....	<u>£32,900</u>	

BRIEF EXERCISE 4-11

<u>CL</u> Accounts payable	<u>CL</u> Income taxes payable
<u>CA</u> Accounts receivable	<u>LTI</u> Debt investments (long-term)
<u>PPE</u> Accum. depreciation—buildings	<u>PPE</u> Land
<u>PPE</u> Buildings	<u>CA</u> Inventory
<u>CA</u> Cash	<u>IA</u> Patents
<u>IA</u> Copyrights	<u>CA</u> Supplies

*BRIEF EXERCISE 4-12

Nov. 1	Salaries and Wages Payable.....	1,680	
	Salaries and Wages Expense.....		1,680

The balances after posting the reversing entry are Salaries and Wages Expense (Cr.) \$1,680 and Salaries and Wages Payable \$0.

SOLUTIONS FOR DO IT! REVIEW EXERCISES

DO IT! 4-1

Income statement debit column—Utilities Expense
 Income statement credit column—Service Revenue
 Statement of financial position debit column—Accounts Receivable
 Statement of financial position credit column—Notes Payable;
 Accumulated Depreciation; Share Capital—Ordinary

DO IT! 4-2

Dec. 31	Income Summary.....	47,000	
	Retained Earnings.....		47,000
Dec. 31	Retained Earnings	15,000	
	Dividends		15,000

DO IT! 4-3

ZERMATT COMPANY Partial Statement of Financial Position December 31, 2014

Property, plant, and equipment		
Equipment	CHF21,700	
Less: Accumulated depreciation— equipment.....	<u>5,200</u>	CHF16,500
Long-term investments		
Investments in ordinary shares.....		6,500
Current assets		
Inventory.....	4,100	
Accounts receivable.....	4,300	
Short-term investments	1,200	
Cash.....	<u>3,900</u>	<u>13,500</u>
Total assets		<u><u>CHF36,500</u></u>

DO IT! 4-4

<u>NA</u>	Interest revenue	<u>E</u>	Share capital—ordinary
<u>CL</u>	Utilities payable	<u>PPE</u>	Accumulated depreciation—
<u>CL</u>	Accounts payable		equipment
<u>CA</u>	Supplies	<u>PPE</u>	Equipment
<u>NCL</u>	Bonds payable	<u>NA</u>	Salaries and wages expense
<u>IA</u>	Trademarks	<u>LTI</u>	Investment in real estate
		<u>CL</u>	Unearned rent revenue

SOLUTIONS TO EXERCISES

EXERCISE 4-1

LIM COMPANY Worksheet For the Month Ended June 30, 2014 (in thousands)

<u>Account Titles</u>	<u>Trial Balance</u>		<u>Adjustments</u>		<u>Adj. Trial Balance</u>		<u>Income Statement</u>		<u>Statement of Financial Position</u>	
	<u>Dr.</u>	<u>Cr.</u>	<u>Dr.</u>	<u>Cr.</u>	<u>Dr.</u>	<u>Cr.</u>	<u>Dr.</u>	<u>Cr.</u>	<u>Dr.</u>	<u>Cr.</u>
Cash	4,020				4,020				4,020	
Accounts Receivable	2,440				2,440				2,440	
Supplies	1,900		(a) 1,400		500				500	
Accounts Payable		1,120				1,120				1,120
Unearned Service Revenue		240	(b) 140			100				100
Share Capital—Ordinary		5,000				5,000				5,000
Service Revenue		3,100	(b) 140			3,240	3,240			
Salaries and Wages Expense	860		(c) 250		1,110		1,110			
Miscellaneous Expense	<u>240</u>				<u>240</u>		<u>240</u>			
Totals	<u>9,460</u>	<u>9,460</u>								
Supplies Expense			(a) 1,400		1,400		1,400			
Salaries and Wages Payable				(c) <u>250</u>		<u>250</u>				<u>250</u>
Totals			<u>1,790</u>	<u>1,790</u>	<u>9,710</u>	<u>9,710</u>	2,750	3,240	6,960	6,470
Net Income							<u>490</u>			<u>490</u>
Totals							<u>3,240</u>	<u>3,240</u>	<u>6,960</u>	<u>6,960</u>

EXERCISE 4-2

ALBANESE COMPANY (Partial) Worksheet For the Month Ended April 30, 2014

Account Titles	Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	7,442				7,442	
Accounts Receivable	7,840				7,840	
Prepaid Rent	2,280				2,280	
Equipment	23,000				23,000	
Accum. Depreciation— Equipment		4,800				4,800
Notes Payable		5,700				5,700
Accounts Payable		5,672				5,672
Share Capital— Ordinary		22,000				22,000
Retained Earnings		4,000				4,000
Dividends	3,000				3,000	
Service Revenue		12,590		12,590		
Salaries and Wages Expense	9,840		9,840			
Rent Expense	760		760			
Depreciation Expense	600		600			
Interest Expense	57		57			
Interest Payable		57				57
Totals	<u>54,819</u>	<u>54,819</u>	<u>11,257</u>	<u>12,590</u>	<u>43,562</u>	<u>42,229</u>
Net Income			<u>1,333</u>			<u>1,333</u>
Totals			<u>12,590</u>	<u>12,590</u>	<u>43,562</u>	<u>43,562</u>

EXERCISE 4-3

ALBANESE COMPANY
Income Statement
For the Month Ended April 30, 2014

Revenues		
Service revenue		€12,590
Expenses		
Salaries and wages expense	€9,840	
Rent expense	760	
Depreciation expense.....	600	
Interest expense	57	
Total expenses		<u>11,257</u>
Net income		<u>€ 1,333</u>

ALBANESE COMPANY
Retained Earnings Statement
For the Month Ended April 30, 2014

Retained Earnings, April 1	€4,000
Add: Net income	<u>1,333</u>
	5,333
Less: Dividends	<u>3,000</u>
Retained Earnings, April 30	<u>€2,333</u>

ALBANESE COMPANY
Statement of Financial Position
April 30, 2014

Assets			
Property, plant, and equipment			
Equipment	€23,000		
Less: Accumulated depreciation—equipment.....	<u>4,800</u>		€18,200
Current assets			
Prepaid rent.....	2,280		
Accounts receivable.....	7,840		
Cash	<u>7,442</u>		<u>17,562</u>
Total assets.....			<u>€35,762</u>

EXERCISE 4-3 (Continued)

ALBANESE COMPANY
Statement of Financial Position (Continued)
April 30, 2014

Equity and Liabilities		
Equity		
Share capital—ordinary	€22,000	
Retained earnings	<u>2,333</u>	€24,333
Current liabilities		
Notes payable	5,700	
Accounts payable	5,672	
Interest payable	<u>57</u>	<u>11,429</u>
Total equity and liabilities		<u>€35,762</u>

EXERCISE 4-4

(a)	Apr. 30	Service Revenue	12,590	
		Income Summary		12,590
	30	Income Summary	11,257	
		Salaries and Wages Expense		9,840
		Rent Expense		760
		Depreciation Expense		600
		Interest Expense		57
	30	Income Summary	1,333	
		Retained Earnings		1,333
	30	Retained Earnings	3,000	
		Dividends		3,000

(b)

Income Summary		Retained Earnings	
11,257	12,590	3,000	Bal. 4,000
1,333			1,333
12,590	12,590		Bal. 2,333

EXERCISE 4-4 (Continued)**(c)**

ALBANESE COMPANY
Post-Closing Trial Balance
April 30, 2014

	<u>Debit</u>	<u>Credit</u>
Cash	€7,442	
Accounts Receivable.....	7,840	
Prepaid Rent.....	2,280	
Equipment	23,000	
Accumulated Depreciation—Equipment		€ 4,800
Notes Payable		5,700
Accounts Payable		5,672
Interest Payable		57
Share Capital—Ordinary		22,000
Retained Earnings		2,333
	<u>€40,562</u>	<u>€40,562</u>

EXERCISE 4-5

(a)	Accounts Receivable.....	600	
	Service Revenue		600
	Insurance Expense	400	
	Prepaid Insurance		400
	Depreciation Expense	900	
	Accumulated Depreciation—Equipment...		900
	Salaries and Wages Expense	500	
	Salaries and Wages Payable.....		500

EXERCISE 4-5 (Continued)

(b)	Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.
Accounts Receivable			X	
Prepaid Insurance			X	
Accum. Depreciation—Equip.				X
Salaries and Wages Payable				X
Service Revenue		X		
Salaries and Wages Expense	X			
Insurance Expense	X			
Depreciation Expense	X			

EXERCISE 4-6

- (a) Accounts Receivable—27,000 (34,000 – 7,000).
 Supplies—2,300 (7,000 – 4,700).
 Accumulated Depreciation—Equipment—22,000 (12,000 + 10,000).
 Salaries and Wages Payable—0 No liability recorded until adjustments are made.
 Insurance Expense—8,000 (26,000 – 18,000).
 Salaries and Wages Expense—44,000 (49,000 – 5,000).

(b)	Accounts Receivable	7,000	
	Service Revenue		7,000
	Insurance Expense	8,000	
	Prepaid Insurance		8,000
	Supplies Expense	4,700	
	Supplies		4,700
	Depreciation Expense	10,000	
	Accumulated Depreciation—Equipment		10,000
	Salaries and Wages Expense	5,000	
	Salaries and Wages Payable		5,000

EXERCISE 4-7

(a)	Service Revenue	4,300	
	Income Summary		4,300
	Income Summary	3,424	
	Salaries and Wages Expense		1,344
	Miscellaneous Expense		180
	Supplies Expense		1,900
	Income Summary	876	
	Retained Earnings		876
	Retained Earnings	600	
	Dividends		600

(b) **LANZA COMPANY**
Post-Closing Trial Balance
For the Month Ended June 30, 2014

<u>Account Titles</u>	<u>Debit</u>	<u>Credit</u>
Cash	R\$3,712	
Accounts Receivable	3,904	
Supplies	480	
Accounts Payable		R\$1,556
Salaries and Wages Payable		344
Unearned Service Revenue		160
Share Capital—Ordinary		4,000
Retained Earnings		2,036
	<u>R\$8,096</u>	<u>R\$8,096</u>

EXERCISE 4-8

(a)

General Journal				J15
Date	Account Titles	Ref.	Debit	Credit
July 31	Service Revenue	400	64,000	
	Rent Revenue	429	6,500	
	Income Summary	350		70,500
31	Income Summary	350	74,300	
	Salaries and Wages Expense	726		55,700
	Utilities Expense	732		14,900
	Depreciation Expense	711		3,700
31	Retained Earnings	320	3,800	
	Income Summary	350		3,800
31	Retained Earnings	320	12,000	
	Dividends	332		12,000

(b)

Retained Earnings					No. 320
Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Balance				20,260
31	Close net loss	J15	3,800		16,460
31	Close dividends	J15	12,000		4,460

Income Summary					No. 350
Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Close revenue	J15		70,500	70,500
31	Close expenses	J15	74,300		(3,800)
31	Close net loss	J15		3,800	0

EXERCISE 4-8 (Continued)**(c)**

ROTH COMPANY
Post-Closing Trial Balance
July 31, 2014

	<u>Debit</u>	<u>Credit</u>
Cash	\$9,840	
Accounts Receivable.....	8,140	
Equipment	15,900	
Accumulated Depreciation—Equipment		\$ 5,400
Accounts Payable.....		2,220
Unearned Rent Revenue		3,800
Share Capital—Ordinary		18,000
Retained Earnings		4,460
	<u>\$33,880</u>	<u>\$33,880</u>

EXERCISE 4-9**(a)**

ROTH COMPANY
Income Statement
For the Year Ended July 31, 2014

Revenues		
Service revenue.....	\$64,000	
Rent revenue	<u>6,500</u>	
Total revenues		\$70,500
Expenses		
Salaries and wages expense.....	55,700	
Utilities expense.....	14,900	
Depreciation expense	<u>3,700</u>	
Total expenses		<u>74,300</u>
Net loss		<u><u>(\$ 3,800)</u></u>

EXERCISE 4-9 (Continued)

ROTH COMPANY
Retained Earnings Statement
For the Year Ended July 31, 2014

Retained Earnings, August 1, 2013.....		\$20,260
Less: Net loss	\$ 3,800	
Dividends	<u>12,000</u>	<u>15,800</u>
Retained Earnings, July 31, 2014		<u>\$ 4,460</u>

(b)

ROTH COMPANY
Statement of Financial Position
July 31, 2014

Assets		
Property, plant, and equipment		
Equipment	\$15,900	
Less: Accumulated depreciation— equipment	<u>5,400</u>	\$10,500
Current assets		
Accounts receivable	8,140	
Cash	<u>9,840</u>	<u>17,980</u>
Total assets		<u>\$28,480</u>
Equity and Liabilities		
Equity		
Share capital—ordinary	\$18,000	
Retained earnings	<u>4,460</u>	\$22,460
Current liabilities		
Accounts payable	2,220	
Unearned rent revenue	<u>3,800</u>	<u>6,020</u>
Total equity and liabilities		<u>\$28,480</u>

EXERCISE 4-10

1. False. *“Analyze business transactions”* is the first step in the accounting cycle.
2. False. Reversing entries are an *optional* step in the accounting cycle.
3. True.
4. True.
5. True.
6. False. Steps 1–3 may occur daily in the accounting cycle. Steps 4–7 are performed on a periodic basis. Steps 8 and 9 are usually prepared only at the end of a company’s annual accounting period.
7. False. The step of *“journalize the transactions”* occurs before the step of *“post to the ledger accounts.”*
8. False. Closing entries are prepared *after* financial statements are prepared.

EXERCISE 4-11

(a)	June 30	Service Revenue	18,100	
		Income Summary		18,100
	30	Income Summary	12,700	
		Salaries and Wages Expense		8,800
		Supplies Expense		900
		Rent Expense		3,000
	30	Income Summary	5,400	
		Retained Earnings		5,400
	30	Retained Earnings	2,200	
		Dividends		2,200

(b)

Income Summary			
June 30	12,700	June 30	18,100
June 30	5,400		
	18,100		18,100

EXERCISE 4-12

(a)	1.	Cash.....	700	
		Equipment.....		700
		Salaries and Wages Expense	700	
		Cash		700
	2.	Service Revenue.....	300	
		Cash		300
		Cash.....	800	
		Accounts Receivable		800
	3.	Accounts Payable.....	670	
		Equipment.....		670
(b)		Equipment	760	
		Accounts Payable		760
	1.	Salaries and Wages Expense	700	
		Equipment		700
	2.	Service Revenue.....	300	
		Cash.....	500	
		Accounts Receivable		800
	3.	Equipment.....	90	
		Accounts Payable		90

EXERCISE 4-13

1.	Accounts Payable (R\$840 – R\$480)	360	
	Cash		360
2.	Supplies.....	380	
	Equipment.....		38
	Accounts Payable		342
3.	Dividends.....	500	
	Salaries and Wages Expense.....		500

EXERCISE 4-14

(a) **REGO BOWLING ALLEY**
Statement of Financial Position
December 31, 2014

Assets			
Property, plant, and equipment			
Land		\$67,000	
Buildings.....	\$128,000		
Less: Acc. depr.—buildings.....	<u>42,600</u>	85,400	
Equipment.....	<u>62,400</u>		
Less: Acc. depr.—equipment....	<u>18,720</u>	<u>43,680</u>	\$196,080
Current assets			
Prepaid insurance		4,680	
Accounts receivable		7,540	
Cash		<u>18,040</u>	<u>30,260</u>
Total assets			<u>\$226,340</u>

EXERCISE 4-14 (Continued)

REGO BOWLING ALLEY Statement of Financial Position (Continued) December 31, 2014

Equity and Liabilities		
Equity		
Share capital—ordinary.....	\$80,000	
Retained earnings (\$28,000 + \$8,440*).....	<u>36,440</u>	\$116,440
Non-current liabilities		
Note payable.....		80,000
Current liabilities		
Current portion of note payable	15,000	
Accounts payable	12,300	
Interest payable.....	<u>2,600</u>	<u>29,900</u>
Total equity and liabilities		<u>\$226,340</u>

*Net income = \$19,180 – \$780 – \$7,360 – \$2,600 = \$8,440

- (b) Current assets exceed current liabilities by only \$360 (\$30,260 – \$29,900). However, approximately 60% of current assets are in the form of cash. The company's liquidity appears to be reasonably good, but some caution is needed.

EXERCISE 4-15

<u>CL</u> Accounts payable	<u>PPE</u> Accumulated depreciation
<u>CA</u> Accounts receivable	<u>PPE</u> Buildings
<u>CA</u> Cash	<u>PPE</u> Land
<u>E</u> Share capital—ordinary	<u>NCL</u> Long-term debt
<u>IA</u> Patents	<u>CA</u> Supplies
<u>CL</u> Salaries and wages payable	<u>PPE</u> Equipment
<u>CA</u> Inventory	<u>CA</u> Prepaid expenses
<u>LTI</u> Investments	

EXERCISE 4-16

SEXTON COMPANY
Statement of Financial Position
December 31, 2014
(in thousands)

Assets		
Property, plant, and equipment		
Equipment.....	£11,500	
Less: Accumulated depreciation— equipment	<u>(4,125)</u>	£ 7,375
Long-term investments		1,200
Current assets		
Prepaid insurance	680	
Inventory	1,256	
Accounts receivable	1,696	
Short-term investments.....	3,619	
Cash	<u>2,668</u>	<u>9,919</u>
Total assets		<u>£18,494</u>
Equity and Liabilities		
Equity		
Share capital—ordinary	£10,000	
Retained earnings	<u>4,750</u>	£14,750
Non-current liabilities		
Long-term debt.....	1,000	
Notes payable (due after 2015)	<u>800</u>	1,800
Current liabilities		
Notes payable due in 2015	500	
Accounts payable	<u>1,444</u>	<u>1,944</u>
Total equity and liabilities		<u>£18,494</u>

EXERCISE 4-17**(a)**

EMJAY COMPANY
Income Statement
For the Year Ended July 31, 2014

Revenues		
Service revenue	\$62,000	
Rent revenue	<u>8,500</u>	
Total revenues		\$70,500
Expenses		
Salaries and wages expense	50,700	
Utilities expense.....	22,600	
Depreciation expense.....	<u>2,500</u>	
Total expense		<u>75,800</u>
Net loss.....		<u>\$ (5,300)</u>

EMJAY COMPANY
Retained Earnings Statement
For the Year Ended July 31, 2014

Retained Earnings, August 1, 2013.....		\$22,700
Less: Net loss	\$5,300	
Dividends	<u>3,000</u>	<u>8,300</u>
Retained Earnings, July 31, 2014.....		<u>\$14,400</u>

EXERCISE 4-17 (Continued)**(b)**

EMJAY COMPANY.
Statement of Financial Position
July 31, 2014

Assets		
Property, plant, and equipment		
Equipment.....	\$30,000	
Less: Accumulated depreciation— equipment	<u>6,000</u>	\$24,000
Current assets		
Accounts receivable	9,180	
Cash	<u>14,200</u>	<u>23,380</u>
Total assets		<u>\$47,380</u>
Equity and Liabilities		
Equity		
Share capital—ordinary	\$25,000	
Retained earnings	<u>14,400</u>	\$39,400
Non-current liabilities		
Note payable.....		1,800
Current liabilities		
Accounts payable	4,100	
Salaries and wages payable.....	<u>2,080</u>	<u>6,180</u>
Total equity and liabilities		<u>\$47,380</u>

***EXERCISE 4-18**

(a)	Dec. 31	Salaries and Wages Expense		
		(R\$9,000 X 4/5).....	7,200	
		Salaries and Wages Payable		7,200
	Jan. 4	Salaries and Wages Payable.....	7,200	
		Salaries and Wages Expense		
		(R\$9,000 X 1/5).....	1,800	
		Cash		9,000
(b)	Dec. 31	Salaries and Wages Expense	7,200	
		Salaries and Wages Payable		7,200
	Jan. 1	Salaries and Wages Payable.....	7,200	
		Salaries and Wages Expense.....		7,200
	Jan. 4	Salaries and Wages Expense	9,000	
		Cash		9,000

***EXERCISE 4-19**

(a)	Dec. 31	Service Revenue	93,800	
		Income Summary		93,800
	31	Income Summary	8,300	
		Interest Expense		8,300
(b)	Jan. 1	Service Revenue	5,000	
		Accounts Receivable		5,000
	1	Interest Payable	1,300	
		Interest Expense		1,300

***EXERCISE 4-19 (Continued)**

(c) & (e)

Accounts Receivable			
Dec. 31	Balance	*19,500	
31	Adjusting	<u>5,000</u>	
		24,500	
			Jan. 1 Reversing 5,000

***(\$24,500 – \$5,000)**

Service Revenue			
Dec. 31	Closing	93,800	Dec. 31 Balance 88,800*
		<u>93,800</u>	31 Adjusting <u>5,000</u>
			93,800
Jan. 1	Reversing	5,000	Jan. 10 5,000

***(\$93,800 – \$5,000)**

Interest Payable			
			Dec. 31 Adjusting 1,300
Jan. 1	Reversing	1,300	

Interest Expense			
Dec. 31	Balance	*7,000	Dec. 31 Closing 8,300
31	Adjusting	<u>1,300</u>	
		8,300	8,300
Jan. 15		3,000	Jan. 1 Reversing 1,300

***(\$8,300 – \$1,300)**

(d)				
		(1)		
Jan. 10	Cash		5,000	
	Service Revenue.....			5,000
		(2)		
15	Interest Expense		3,000	
	Cash.....			3,000

SOLUTIONS TO PROBLEMS

PROBLEM 4-1A

(a) HERCULES POIROT, P.I., INC.

Worksheet

For the Quarter Ended March 31, 2014

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	11,410				11,410				11,410	
Accounts Receivable	5,920		(e) 1,080		7,000				7,000	
Supplies	1,250			(a) 770	480				480	
Prepaid Insurance	2,400			(d) 600	1,800				1,800	
Equipment	30,000				30,000				30,000	
Notes Payable		10,000				10,000				10,000
Accounts Payable		12,350				12,350				12,350
Share Capital—Ordinary		20,000				20,000				20,000
Dividends	600				600				600	
Service Revenue		14,200		(e) 1,080		15,280		15,280		
Salaries and Wages Expense	2,240				2,240		2,240			
Travel Expense	1,300				1,300		1,300			
Rent Expense	1,200				1,200		1,200			
Miscellaneous Expense	230				230		230			
Totals	<u>56,550</u>	<u>56,550</u>								
Supplies Expense			(a) 770		770		770			
Depreciation Expense			(b) 720		720		720			
Accumulated Depreciation—Equipment				(b) 720		720				720
Interest Expense			(c) 300		300		300			
Interest Payable				(c) 300		300				300
Insurance Expense			(d) 600		600		600			
Totals			<u>3,470</u>	<u>3,470</u>	<u>58,650</u>	<u>58,650</u>	<u>7,360</u>	<u>15,280</u>	<u>51,290</u>	<u>43,370</u>
Net Income							<u>7,920</u>			<u>7,920</u>
Totals							<u>15,280</u>	<u>15,280</u>	<u>51,290</u>	<u>51,290</u>

Key: (a) Supplies Used; (b) Depreciation Expensed; (c) Accrued Interest on note; (d) Insurance Expired; (e) Service Revenue

PROBLEM 4-1A (Continued)

(b)

HERCULES POIROT, P.I., INC
Income Statement
For the Quarter Ended March 31, 2014

Revenues		
Service revenue.....		€15,280
Expenses		
Salaries and wages expense.....	€2,240	
Travel expense	1,300	
Rent expense.....	1,200	
Depreciation expense	720	
Insurance expense.....	600	
Supplies expense.....	770	
Interest expense.....	300	
Miscellaneous expense	230	
Total expenses		<u>7,360</u>
Net income		<u>€ 7,920</u>

HERCULES POIROT, P.I., INC.
Retained Earnings Statement
For the Quarter Ended March 31, 2014

Retained Earnings, January 1	€ 0
Add: Net income.....	<u>7,920</u>
	7,920
Less: Dividends	<u>600</u>
Retained Earnings, March 31.....	<u>€7,320</u>

PROBLEM 4-1A (Continued)

HERCULES POIROT, P.I., INC.
Statement of Financial Position
March 31, 2014

Assets			
Property, plant, and equipment			
Equipment	€30,000		
Less: Accumulated depreciation— equipment	<u>720</u>	€29,280	
Current assets			
Prepaid insurance	1,800		
Supplies.....	480		
Accounts receivable.....	7,000		
Cash.....	<u>11,410</u>	<u>20,690</u>	
Total assets		<u>€49,970</u>	
Equity and Liabilities			
Equity			
Share capital—ordinary	€20,000		
Retained earnings	<u>7,320</u>	€27,320	
Current liabilities			
Notes payable	10,000		
Accounts payable.....	12,350		
Interest payable	<u>300</u>	<u>22,650</u>	
Total equity and liabilities		<u>€49,970</u>	
 (c) Mar. 31			
Supplies Expense	770		
Supplies		770	
31			
Depreciation Expense	720		
Accumulated Depreciation— Equipment.....		720	
31			
Interest Expense	300		
Interest Payable.....		300	
31			
Insurance Expense	600		
Prepaid Insurance		600	

PROBLEM 4-1A (Continued)

Mar. 31	Accounts Receivable	1,080	
	Service Revenue		1,080
(d) Mar. 31	Service Revenue.....	15,280	
	Income Summary.....		15,280
31	Income Summary	7,360	
	Travel Expense		1,300
	Salaries and Wages Expense		2,240
	Rent Expense		1,200
	Insurance Expense		600
	Depreciation Expense		720
	Supplies Expense		770
	Interest Expense		300
	Miscellaneous Expense		230
31	Income Summary	7,920	
	Retained Earnings		7,920
31	Retained Earnings.....	600	
	Dividends		600

PROBLEM 4-2A

(a)

WATSON COMPANY
Partial Worksheet
For the Year Ended December 31, 2014

Account		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
No.	Titles	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
101	Cash	17,800				17,800	
112	Accounts Receivable	14,400				14,400	
126	Supplies	2,300				2,300	
130	Prepaid Insurance	4,400				4,400	
157	Equipment	46,000				46,000	
158	Acc. Depr.—Equip.		18,000				18,000
200	Notes Payable		20,000				20,000
201	Accounts Payable		8,000				8,000
212	Salaries and Wages Payable		2,600				2,600
230	Interest Payable		1,000				1,000
311	Share Capital—Ordinary		15,000				15,000
320	Retained Earnings		9,800				9,800
332	Dividends	12,000				12,000	
400	Service Revenue		86,200		86,200		
610	Advertising Expense	10,000		10,000			
631	Supplies Expense	3,700		3,700			
711	Depreciation Expense	6,000		6,000			
722	Insurance Expense	4,000		4,000			
726	Salaries and Wages Expense	39,000		39,000			
905	Interest Expense	1,000		1,000			
	Totals	<u>160,600</u>	<u>160,600</u>	<u>63,700</u>	<u>86,200</u>	<u>96,900</u>	<u>74,400</u>
	Net Income			<u>22,500</u>			<u>22,500</u>
	Totals			<u>86,200</u>	<u>86,200</u>	<u>96,900</u>	<u>96,900</u>

PROBLEM 4-2A (Continued)

(b)

WATSON COMPANY
Income Statement
For the Year Ended December 31, 2014

Revenues		
Service revenue.....		\$86,200
Expenses		
Salaries and wages expense.....	\$39,000	
Advertising expense	10,000	
Depreciation expense	6,000	
Insurance expense.....	4,000	
Supplies expense.....	3,700	
Interest expense.....	1,000	
Total expenses		<u>63,700</u>
Net income		<u>\$22,500</u>

WATSON COMPANY
Retained Earnings Statement
For the Year Ended December 31, 2014

Retained Earnings, January 1	\$ 9,800
Add: Net income	<u>22,500</u>
	32,300
Less: Dividends	<u>12,000</u>
Retained Earnings, December 31	<u>\$20,300</u>

PROBLEM 4-2A (Continued)

WATSON COMPANY
Statement of Financial Position
December 31, 2014

Assets		
Property, plant, and equipment		
Equipment	\$46,000	
Less: Accumulated depreciation— equipment	<u>18,000</u>	\$28,000
Current assets		
Prepaid insurance	4,400	
Supplies.....	2,300	
Accounts receivable.....	14,400	
Cash.....	<u>17,800</u>	<u>38,900</u>
Total assets		<u>\$66,900</u>
Equity and Liabilities		
Equity		
Share capital—ordinary	\$15,000	
Retained earnings	<u>20,300</u>	\$35,300
Non-current liabilities		
Notes payable (due after 2015).....		15,000
Current liabilities		
Notes payable (due in 2015)	5,000	
Accounts payable.....	8,000	
Salaries and wages payable	2,600	
Interest payable	<u>1,000</u>	<u>16,600</u>
Total equity and liabilities		<u>\$66,900</u>

PROBLEM 4-2A (Continued)

(c)

General Journal				J14
Date	Account Titles	Ref.	Debit	Credit
Dec. 31	Service Revenue	400	86,200	
	Income Summary	350		86,200
31	Income Summary	350	63,700	
	Advertising Expense	610		10,000
	Supplies Expense	631		3,700
	Depreciation Expense	711		6,000
	Insurance Expense	722		4,000
	Salaries and Wages Expense ...	726		39,000
	Interest Expense	905		1,000
31	Income Summary	350	22,500	
	Retained Earnings	320		22,500
31	Retained Earnings.....	320	12,000	
	Dividends.....	332		12,000

(d)

Retained Earnings					No. 320
Date	Explanation	Ref.	Debit	Credit	Balance
	Balance	✓		9,800	9,800
Dec. 31	Closing entry	J14		22,500	32,300
31	Closing entry	J14	12,000		20,300

Dividends					No. 332
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓	12,000		12,000
31	Closing entry	J14		12,000	0

PROBLEM 4-2A (Continued)

Income Summary					No. 350
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Closing entry	J14		86,200	86,200
31	Closing entry	J14	63,700		22,500
31	Closing entry	J14	22,500		0

Service Revenue					No. 400
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓		86,200	86,200
31	Closing entry	J14	86,200		0

Advertising Expense					No. 610
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓	10,000		10,000
31	Closing entry	J14		10,000	0

Supplies Expense					No. 631
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓	3,700		3,700
31	Closing entry	J14		3,700	0

Depreciation Expense					No. 711
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓	6,000		6,000
31	Closing entry	J14		6,000	0

Insurance Expense					No. 722
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓	4,000		4,000
31	Closing entry	J14		4,000	0

PROBLEM 4-2A (Continued)

Salaries and Wages Expense					No. 726
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓	39,000		39,000
31	Closing entry	J14		39,000	0

Interest Expense					No. 905
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓	1,000		1,000
31	Closing entry	J14		1,000	0

(e)

WATSON COMPANY
Post-Closing Trial Balance
December 31, 2014

	Debit	Credit
Cash	\$17,800	
Accounts Receivable.....	14,400	
Supplies.....	2,300	
Prepaid Insurance.....	4,400	
Equipment	46,000	
Accumulated Depreciation—		
Equipment		\$18,000
Notes Payable		20,000
Accounts Payable.....		8,000
Salaries and Wages Payable		2,600
Interest Payable		1,000
Share Capital—Ordinary		15,000
Retained Earnings		20,300
	<u>\$84,900</u>	<u>\$84,900</u>

PROBLEM 4-3A

(a)

HUBBS COMPANY
Income Statement
For the Year Ended December 31, 2014

Revenues		
Service revenue		\$47,000
Expenses		
Salaries and wages expense	\$35,200	
Maintenance and repairs expense	4,100	
Utilities expense	4,000	
Depreciation expense	3,300	
Insurance expense	2,200	
Total expenses		<u>48,800</u>
Net loss		<u><u>\$ (1,800)</u></u>

HUBBS COMPANY
Retained Earnings Statement
For the Year Ended December 31, 2014

Retained Earnings, January 1		\$9,700
Less: Net loss	\$1,800	
Dividends	<u>4,000</u>	<u>5,800</u>
Retained Earnings, December 31		<u><u>\$3,900</u></u>

HUBBS COMPANY
Statement of Financial Position
December 31, 2014

Assets		
Property, plant, and equipment		
Equipment	\$33,000	
Less: Accumulated depreciation— equipment	<u>9,900</u>	\$23,100
Current assets		
Prepaid insurance	1,800	
Accounts receivable	7,500	
Cash	<u>6,200</u>	<u>15,500</u>
Total assets		<u><u>\$38,600</u></u>

PROBLEM 4-3A (Continued)

HUBBS COMPANY
Statement of Financial Position (Continued)
December 31, 2014

Equity and Liabilities			
Equity			
Share capital—ordinary	\$20,000		
Retained earnings	<u>3,900</u>		\$23,900
Current liabilities			
Accounts payable	11,700		
Salaries and wages payable.....	<u>3,000</u>		<u>14,700</u>
Total equity and liabilities			<u>\$38,600</u>

(b)

General Journal				
Date	Account Titles	Ref.	Debit	Credit
Dec. 31	Service Revenue	400	47,000	
	Income Summary	350		47,000
31	Income Summary	350	48,800	
	Maintenance and Repairs			
	Expense	622		4,100
	Depreciation Expense.....	711		3,300
	Insurance Expense	722		2,200
	Salaries and Wages Expense....	726		35,200
	Utilities Expense	732		4,000
31	Retained Earnings.....	320	1,800	
	Income Summary	350		1,800
31	Retained Earnings.....	320	4,000	
	Dividends	332		4,000

PROBLEM 4-3A (Continued)

(c)

Retained Earnings		No. 320
12/31	1,800	1/1 Bal. 9,700
12/31	4,000	
		12/31 Bal. 3,900

Dividends		No. 332
12/31 Bal.	4,000	12/31 4,000

Income Summary		No. 350
12/31	48,800	12/31 47,000
		12/31 1,800
	48,800	48,800

Service Revenue		No. 400
12/31	47,000	12/31 Bal. 47,000

Maintenance and Repairs Expense		No. 622
12/31 Bal.	4,100	12/31 4,100

Depreciation Expense		No. 711
12/31 Bal.	3,300	12/31 3,300

Insurance Expense		No. 722
12/31 Bal.	2,200	12/31 2,200

Salaries and Wages Expense		No. 726
12/31 Bal.	35,200	12/31 35,200

Utilities Expense		No. 732
12/31 Bal.	4,000	12/31 4,000

(d)

HUBBS COMPANY Post-Closing Trial Balance December 31, 2014

	Debit	Credit
Cash	\$ 6,200	
Accounts Receivable	7,500	
Prepaid Insurance	1,800	
Equipment.....	33,000	
Accumulated Depreciation—Equipment.....		\$ 9,900
Accounts Payable		11,700
Salaries and Wages Payable.....		3,000
Share Capital—Ordinary.....		20,000
Retained Earnings.....		3,900
Totals	<u>\$48,500</u>	<u>\$48,500</u>

PROBLEM 4-4A

(a) TERESINA AMUSEMENT PARK
Worksheet
For the Year Ended September 30, 2014

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	34,400				34,400				34,400	
Supplies	18,600				2,200				2,200	
Prepaid Insurance	29,900		(a) 16,400		10,900				10,900	
Land	80,000		(b) 19,000		80,000				80,000	
Equipment	120,000				120,000				120,000	
Accumulated Depreciation—Equipment		36,200		(c) 6,000		42,200				42,200
Accounts Payable		14,600				14,600				14,600
Unearned Ticket Revenue		3,900	(d) 2,900			1,000				1,000
Mortgage Payable		50,000				50,000				50,000
Share Capital—Ordinary		60,000				60,000				60,000
Retained Earnings		36,100				36,100				36,100
Dividends	14,000				14,000			14,000		
Ticket Revenue		277,900		(d) 2,900		280,800		280,800		
Salaries and Wages Expense	98,000				98,000		98,000			
Maintenance and Repairs Expense	30,500				30,500		30,500			
Advertising Expense	9,400				9,400		9,400			
Utilities Expense	16,900				16,900		16,900			
Property Tax Expense	21,000				24,000		24,000			
Interest Expense	6,000		(e) 3,000		8,000		8,000			
Totals	<u>478,700</u>	<u>478,700</u>								
Insurance Expense			(b) 19,000		19,000		19,000			
Supplies Expense			(a) 16,400		16,400		16,400			
Interest Payable				(f) 2,000		2,000				2,000
Depreciation Expense			(c) 6,000		6,000		6,000			
Property Taxes Payable				(e) 3,000		3,000				3,000
Totals	<u>49,300</u>	<u>49,300</u>			<u>489,700</u>	<u>489,700</u>	<u>228,200</u>	<u>280,800</u>	<u>261,500</u>	<u>208,900</u>
Net Income							<u>52,600</u>			<u>52,600</u>
Totals							<u>280,800</u>	<u>280,800</u>	<u>261,500</u>	<u>261,500</u>

Key: (a) Supplies Used; (b) Expired Insurance; (c) Depreciation Expensed; (d) Ticket Revenue Earned; (e) Accrued Property Taxes; (f) Accrued Interest Payable.

PROBLEM 4-4A (Continued)

**(b) TERESINA AMUSEMENT PARK, INC.
Statement of Financial Position
September 30, 2014**

Assets			
Property, plant, and equipment			
Land		R\$80,000	
Equipment	R\$120,000		
Less: Accum. depreciation— equipment.....	42,200	77,800	R\$157,800
Current assets			
Prepaid insurance		10,900	
Supplies.....		2,200	
Cash.....		34,400	47,500
Total assets			<u>R\$205,300</u>
Equity and Liabilities			
Equity			
Share capital—ordinary		R\$60,000	
Retained earnings		74,700*	R\$134,700
Non-current liabilities			
Mortgage payable (due after 2015)			35,000
Current liabilities			
Mortgage payable (due in 2015) .		15,000	
Accounts payable.....		14,600	
Interest payable		2,000	
Property taxes payable		3,000	
Unearned ticket revenue.....		1,000	35,600
Total equity and liabilities			<u>R\$205,300</u>

***R\$36,100 + R\$52,600 – R\$14,000**

PROBLEM 4-4A (Continued)

(c)	Sept. 30	Supplies Expense	16,400	
		Supplies		16,400
	30	Insurance Expense	19,000	
		Prepaid Insurance		19,000
	30	Depreciation Expense	6,000	
		Accumulated Depreciation— Equipment.....		6,000
	30	Unearned Ticket Revenue	2,900	
		Ticket Revenue.....		2,900
	30	Property Tax Expense	3,000	
		Property Taxes Payable.....		3,000
	30	Interest Expense	2,000	
		Interest Payable.....		2,000
(d)	Sept. 30	Ticket Revenue	280,800	
		Income Summary		280,800
	30	Income Summary	228,200	
		Salaries and Wages Expense.....		98,000
		Maintenance and Repairs Expense		30,500
		Insurance Expense		19,000
		Property Tax Expense		24,000
		Supplies Expense		16,400
		Utilities Expense		16,900
		Interest Expense		8,000
		Advertising Expense.....		9,400
		Depreciation Expense.....		6,000
	30	Income Summary	52,600	
		Retained Earnings.....		52,600
	30	Retained Earnings	14,000	
		Dividends		14,000

PROBLEM 4-4A (Continued)

(e) TERESINA AMUSEMENT PARK
Post-Closing Trial Balance
September 30, 2014

	<u>Debit</u>	<u>Credit</u>
Cash	R\$ 34,400	
Supplies	2,200	
Prepaid Insurance	10,900	
Land.....	80,000	
Equipment.....	120,000	
Accumulated Depreciation—Equipment.....		R\$ 42,200
Accounts Payable		14,600
Interest Payable.....		2,000
Property Taxes Payable.....		3,000
Unearned Ticket Revenue		1,000
Mortgage Payable		50,000
Share Capital—Ordinary.....		60,000
Retained Earnings.....		74,700
	<u>R\$247,500</u>	<u>R\$247,500</u>

PROBLEM 4-5A

(a)

General Journal					J1
Date	Account Titles	Ref.	Debit	Credit	
Mar. 1	Cash	101	14,000		
	Share Capital—Ordinary	311		14,000	
1	Equipment.....	157	8,000		
	Cash	101		3,000	
	Accounts Payable	201		5,000	
3	Supplies	126	1,200		
	Accounts Payable	201		1,200	
5	Prepaid Insurance	130	1,800		
	Cash	101		1,800	
14	Accounts Receivable	112	4,800		
	Service Revenue	400		4,800	
18	Accounts Payable	201	2,000		
	Cash	101		2,000	
20	Salaries and Wages Expense.....	726	1,800		
	Cash	101		1,800	
21	Cash	101	1,600		
	Accounts Receivable.....	112		1,600	
28	Accounts Receivable	112	2,500		
	Service Revenue	400		2,500	
31	Gasoline Expense	633	320		
	Cash	101		320	
31	Dividends	332	800		
	Cash	101		800	

PROBLEM 4-5A (Continued)

FRESH STEP CARPET CLEANERS

Worksheet

For the Month Ended March 31, 2014

(b)&(c)

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	5,880				5,880				5,880	
Accounts Receivable	5,700		(a) 750		6,450				6,450	
Supplies	1,200			(d) 950	250				250	
Prepaid Insurance	1,800			(c) 150	1,650				1,650	
Equipment	8,000				8,000				8,000	
Accounts Payable		4,200				4,200				4,200
Share Capital—Ordinary		14,000				14,000				14,000
Dividends	800				800				800	
Service Revenue		7,300		(a) 750		8,050		8,050		
Gasoline Expense	320				320		320			
Salaries and Wages Expense	1,800		(e) 720		2,520		2,520			
Totals	<u>25,500</u>	<u>25,500</u>			<u>27,270</u>	<u>27,270</u>				
Depreciation Expense			(b) 300		300		300			
Accum. Depr.—Equipment				(b) 300		300				300
Insurance Expense			(c) 150		150		150			
Supplies Expense			(d) 950		950		950			
Salaries and Wages Payable				(e) 720		720				720
Totals			<u>2,870</u>	<u>2,870</u>	<u>27,270</u>	<u>27,270</u>	<u>4,240</u>	<u>8,050</u>	<u>23,030</u>	<u>19,220</u>
Net Income							<u>3,810</u>			<u>3,810</u>
Totals							<u>8,050</u>	<u>8,050</u>	<u>23,030</u>	<u>23,030</u>

Key: (a) Service Revenue Earned; (b) Depreciation Expensed; (c) Insurance Expired; (d) Cleaning Supplies Used; (e) Unpaid Salaries.

PROBLEM 4-5A (Continued)

(a), (e) & (f)

Cash					No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1		J1	14,000		14,000
1		J1		3,000	11,000
5		J1		1,800	9,200
18		J1		2,000	7,200
20		J1		1,800	5,400
21		J1	1,600		7,000
31		J1		320	6,680
31		J1		800	5,880

Accounts Receivable					No. 112
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 14		J1	4,800		4,800
21		J1		1,600	3,200
28		J1	2,500		5,700
31	Adjusting	J2	750		6,450

Supplies					No. 126
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 3		J1	1,200		1,200
31	Adjusting	J2		950	250

Prepaid Insurance					No. 130
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 5		J1	1,800		1,800
31	Adjusting	J2		150	1,650

Equipment					No. 157
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1		J1	8,000		8,000

PROBLEM 4-5A (Continued)
Accumulated Depreciation—Equipment
No. 158

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Adjusting	J2		300	300

Accounts Payable
No. 201

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1		J1		5,000	5,000
3		J1		1,200	6,200
18		J1	2,000		4,200

Salaries and Wages Payable
No. 212

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Adjusting	J2		720	720

Share Capital—Ordinary
No. 311

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1		J1		14,000	14,000

Retained Earnings
No. 320

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 1					0
31	Closing	J3		3,810	3,810
31	Closing	J3	800		3,010

Dividends
No. 332

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31		J1	800		800
31	Closing	J3		800	0

Income Summary
No. 350

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Closing	J3		8,050	8,050
31	Closing	J3	4,240		3,810
31	Closing	J3	3,810		0

PROBLEM 4-5A (Continued)

Service Revenue					No. 400
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 14		J1		4,800	4,800
28		J1		2,500	7,300
31	Adjusting	J2		750	8,050
31	Closing	J3	8,050		0

Gasoline Expense					No. 633
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31		J1	320		320
31	Closing	J3		320	0

Supplies Expense					No. 631
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Adjusting	J2	950		950
31	Closing	J3		950	0

Depreciation Expense					No. 711
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Adjusting	J2	300		300
31	Closing	J3		300	0

Insurance Expense					No. 722
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Adjusting	J2	150		150
31	Closing	J3		150	0

Salaries and Wages Expense					No. 726
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 20		J1	1,800		1,800
31	Adjusting	J2	720		2,520
31	Closing	J3		2,520	0

PROBLEM 4-5A (Continued)

(d) FRESH STEP CARPET CLEANERS
Income Statement
For the Month Ended March 31, 2014

Revenues		
Service revenue		\$8,050
Expenses		
Salaries and wages expense	\$2,520	
Supplies expense	950	
Depreciation expense	300	
Gasoline expense	320	
Insurance expense	150	
Total expenses		<u>4,240</u>
Net income		<u>\$3,810</u>

FRESH STEP CARPET CLEANERS
Retained Earnings Statement
For the Month Ended March 31, 2014

Retained Earnings, March 1	\$ 0
Add: Net income	<u>3,810</u>
	3,810
Less: Dividends	<u>800</u>
Retained Earnings, March 31	<u>\$3,010</u>

FRESH STEP CARPET CLEANERS
Statement of Financial Position
March 31, 2014

Assets		
Property, plant, and equipment		
Equipment	\$ 8,000	
Less: Accumulated depreciation— equipment	<u>300</u>	\$ 7,700

PROBLEM 4-5A (Continued)

FRESH STEP CARPET CLEANERS
Statement of Financial Position (Continued)
March 31, 2014

Assets (Continued)			
Current assets			
Prepaid insurance	1,650		
Supplies	250		
Accounts receivable	6,450		
Cash	<u>5,880</u>	<u>14,230</u>	
Total assets			<u>\$21,930</u>
Equity and Liabilities			
Equity			
Share capital—ordinary	\$14,000		
Retained earnings	<u>3,010</u>		<u>\$17,010</u>
Current liabilities			
Accounts payable	4,200		
Salaries and wages payable.....	<u>720</u>	<u>4,920</u>	
Total equity and liabilities			<u>\$21,930</u>

(e)

General Journal				J2
Date	Account Titles	Ref.	Debit	Credit
Mar. 31	Accounts Receivable.....	112	750	
	Service Revenue	400		750
31	Depreciation Expense	711	300	
	Accumulated Depreciation— Equipment	158		300
31	Insurance Expense	722	150	
	Prepaid Insurance.....	130		150
31	Supplies Expense	631	950	
	Supplies.....	126		950
31	Salaries and Wages Expense	726	720	
	Salaries and Wages Payable ...	212		720

PROBLEM 4-5A (Continued)

(f)

General Journal				J3
Date	Account Titles	Ref.	Debit	Credit
Mar. 31	Service Revenue	400	8,050	
	Income Summary	350		8,050
31	Income Summary	350	4,240	
	Salaries and Wages Expense ...	726		2,520
	Depreciation Expense	711		300
	Insurance Expense	722		150
	Supplies Expense	631		950
	Gasoline Expense	633		320
31	Income Summary	350	3,810	
	Retained Earnings	320		3,810
31	Retained Earnings	320	800	
	Dividends	332		800

(g)

FRESH STEP CARPET CLEANERS
Post-Closing Trial Balance
March 31, 2014

	Debit	Credit
Cash	\$ 5,880	
Accounts Receivable	6,450	
Supplies	250	
Prepaid Insurance	1,650	
Equipment	8,000	
Accumulated Depreciation—Equipment		\$ 300
Accounts Payable		4,200
Salaries and Wages Payable		720
Share Capital—Ordinary		14,000
Retained Earnings		3,010
	<u>\$22,230</u>	<u>\$22,230</u>

PROBLEM 4-6A

(a)

	(1) INCORRECT ENTRY	(2) CORRECT ENTRY	(3) CORRECTING ENTRY
1.	Cash..... 950 Accts. Receivable.....	Cash..... 590 Accts. Receivable.....	Accounts Receivable..... 360 Cash..... 360
2.	Misc. Expense..... 75 Cash	Advertising Expense..... 75 Cash	Advertising Expense 75 Misc. Expense..... 75
3.	Salaries and Wages Expense..... 1,850 Cash	Salaries and Wages Expense..... 1,150 Salaries and Wages Payable 700 Cash	Salaries and Wages Payable 700 Salaries and Wages Expense..... 700
4.	Supplies..... 310 Accounts Payable	Equipment 310 Accounts Payable	Equipment 310 Supplies 310
5.	Equipment..... 152 Cash	Maintenance and Repairs Expense..... 125 Cash	Maintenance and Repairs Expense 125 Cash 27 Equipment..... 152

PROBLEM 4-6A (Continued)**(b)****INFO CABLE
Trial Balance
April 30, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash (£4,100 – £360 + £27)	£ 3,767	
Accounts Receivable (£3,200 + £360)	3,560	
Supplies (£800 – £310)	490	
Equipment (£10,600 + £310 – £152)	10,758	
Accumulated Depreciation—Equipment		£ 1,250
Accounts Payable		2,100
Salaries and Wages Payable (£700 – £700)		0
Unearned Service Revenue		890
Share Capital—Ordinary		10,000
Retained Earnings		2,880
Service Revenue		5,450
Salaries and Wages Expense (£3,300 – £700) ...	2,600	
Advertising Expense (£480 + £75)	555	
Miscellaneous Expense (£290 – £75)	215	
Depreciation Expense	500	
Maintenance and Repairs Expense	125	
	<u>£22,570</u>	<u>£22,570</u>

PROBLEM 4-1B

(a) FIRMAMENT ROOFING Worksheet For the Month Ended March 31, 2014

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	2,720				2,720				2,720	
Accounts Receivable	2,700				2,700				2,700	
Supplies	1,500		(a) 950		550				550	
Equipment	11,000				11,000				11,000	
Accumulated Depreciation—Equipment		1,250		(b) 250		1,500				1,500
Accounts Payable		2,500				2,500				2,500
Unearned Service Revenue		550	(c) 260			290				290
Share Capital—Ordinary		10,000				10,000				10,000
Dividends	1,100				1,100				1,100	
Service Revenue		6,300		(c) 260		6,560				
Salaries and Wages Expense	1,300		(d) 480		1,780		1,780			
Miscellaneous Expense	280				280		280			
Totals	<u>20,600</u>	<u>20,600</u>								
Supplies Expense			(a) 950		950		950			
Depreciation Expense			(b) 250		250		250			
Salaries and Wages Payable				(d) 480		480				480
Totals			<u>1,940</u>	<u>1,940</u>	<u>21,330</u>	<u>21,330</u>	<u>3,260</u>	<u>6,560</u>	<u>18,070</u>	<u>14,770</u>
Net Income							<u>3,300</u>			<u>3,300</u>
Totals							<u>6,560</u>	<u>6,560</u>	<u>18,070</u>	<u>18,070</u>

Key: (a) Supplies Used; (b) Depreciation Expensed; (c) Service Revenue Earned; (d) Salaries Accrued.

PROBLEM 4-1B (Continued)

(b) FIRMAMENT ROOFING
Income Statement
For the Month Ended March 31, 2014

Revenues		
Service revenue		\$6,560
Expenses		
Salaries and wages expense	\$1,780	
Supplies expense	950	
Miscellaneous expense.....	280	
Depreciation expense	250	
Total expenses		<u>3,260</u>
Net income		<u><u>\$3,300</u></u>

FIRMAMENT ROOFING
Retained Earnings Statement
For the Month Ended March 31, 2014

Retained Earnings, March 1	\$ 0
Add: Net income.....	<u>3,300</u>
	3,300
Less: Dividends.....	<u>1,100</u>
Retained Earnings, March 31	<u><u>\$2,200</u></u>

FIRMAMENT ROOFING
Statement of Financial Position
March 31, 2014

Assets		
Property, plant, and equipment		
Equipment	\$11,000	
Less: Accum. depreciation—equipment	<u>1,500</u>	\$ 9,500
Current assets		
Supplies.....	550	
Accounts receivable.....	2,700	
Cash.....	<u>2,720</u>	<u>5,970</u>
Total assets		<u><u>\$15,470</u></u>

PROBLEM 4-1B (Continued)

FIRMAMENT ROOFING
Statement of Financial Position (Continued)
March 31, 2014

Equity and Liabilities			
Equity			
	Share capital—ordinary	\$10,000	
	Retained earnings	<u>2,200</u>	\$12,200
Current liabilities			
	Accounts payable	2,500	
	Salaries and wages payable.....	480	
	Unearned service revenue	<u>290</u>	<u>3,270</u>
	Total equity and liabilities		<u>\$15,470</u>
(c)	Mar. 31	Supplies Expense.....	950
		Supplies.....	950
	31	Depreciation Expense.....	250
		Accumulated Depreciation— Equipment	250
	31	Unearned Service Revenue	260
		Service Revenue	260
	31	Salaries and Wages Expense.....	480
		Salaries and Wages Payable	480
(d)	Mar. 31	Service Revenue.....	6,560
		Income Summary.....	6,560
	31	Income Summary	3,260
		Salaries and Wages Expense	1,780
		Supplies Expense	950
		Depreciation Expense	250
		Miscellaneous Expense	280
	31	Income Summary	3,300
		Retained Earnings	3,300
	31	Retained Earnings.....	1,100
		Dividends	1,100

PROBLEM 4-2B

(a)

EAGLE COMPANY
Partial Worksheet
For the Year Ended December 31, 2014

Account		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
No.	Titles	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
101	Cash	5,300				5,300	
112	Accounts Receivable	10,800				10,800	
126	Supplies	1,500				1,500	
130	Prepaid Insurance	2,000				2,000	
157	Equipment	27,000				27,000	
158	Acc. Depr.—Equip.		5,600				5,600
200	Notes Payable		15,000				15,000
201	Accounts Payable		4,600				4,600
212	Salaries and Wages Payable		2,400				2,400
230	Interest Payable		600				600
311	Share Capital—Ordinary		10,000				10,000
320	Retained Earnings		4,200				4,200
332	Dividends	5,000				5,000	
400	Service Revenue		59,000		59,000		
610	Advertising Expense	8,400		8,400			
631	Supplies Expense	4,000		4,000			
711	Depreciation Expense	5,600		5,600			
722	Insurance Expense	3,200		3,200			
726	Salaries and Wages Expense	28,000		28,000			
905	Interest Expense	600		600			
	Totals	<u>101,400</u>	<u>101,400</u>	<u>49,800</u>	<u>59,000</u>	<u>51,600</u>	<u>42,400</u>
	Net Income			<u>9,200</u>			<u>9,200</u>
	Totals			<u>59,000</u>	<u>59,000</u>	<u>51,600</u>	<u>51,600</u>

PROBLEM 4-2B (Continued)

(b)

EAGLE COMPANY
Income Statement
For the Year Ended December 31, 2014

Revenues		
Service revenue.....		£59,000
Expenses		
Salaries and wages expense.....	£28,000	
Advertising expense	8,400	
Depreciation expense	5,600	
Supplies expense.....	4,000	
Insurance expense.....	3,200	
Interest expense.....	600	
Total expenses		<u>49,800</u>
Net income		<u>£ 9,200</u>

EAGLE COMPANY
Retained Earnings Statement
For the Year Ended December 31, 2014

Retained Earnings, January 1	£4,200
Add: Net income	<u>9,200</u>
	13,400
Less: Dividends	<u>5,000</u>
Retained Earnings, December 31	<u>£8,400</u>

PROBLEM 4-2B (Continued)

EAGLE COMPANY
Statement of Financial Position
December 31, 2014

Assets		
Property, plant, and equipment		
Equipment	£27,000	
Less: Accumulated depreciation— equipment.....	<u>5,600</u>	£21,400
Current assets		
Prepaid insurance	2,000	
Supplies.....	1,500	
Accounts receivable.....	10,800	
Cash.....	<u>5,300</u>	<u>19,600</u>
Total assets		<u>£41,000</u>
Equity and Liabilities		
Equity		
Share capital—ordinary	£10,000	
Retained earnings	<u>8,400</u>	£18,400
Non-current liabilities		
Notes payable (due after 2015).....		12,000
Current liabilities		
Notes payable (due in 2015)	3,000	
Accounts payable.....	4,600	
Salaries and wages payable	2,400	
Interest payable	<u>600</u>	<u>10,600</u>
Total equity and liabilities		<u>£41,000</u>

PROBLEM 4-2B (Continued)

(c)

General Journal				J14
Date	Account Titles	Ref.	Debit	Credit
Dec. 31	Service Revenue	400	59,000	
	Income Summary	350		59,000
31	Income Summary	350	49,800	
	Advertising Expense	610		8,400
	Supplies Expense	631		4,000
	Depreciation Expense	711		5,600
	Insurance Expense	722		3,200
	Salaries and Wages Expense ...	726		28,000
	Interest Expense	905		600
31	Income Summary	350	9,200	
	Retained Earnings	320		9,200
31	Retained Earnings.....	320	5,000	
	Dividends.....	332		5,000

(d)

Retained Earnings					No. 320
Date	Explanation	Ref.	Debit	Credit	Balance
Jan. 1	Balance	✓		4,200	4,200
Dec. 31	Closing entry	J14		9,200	13,400
31	Closing entry	J14	5,000		8,400

Dividends					No. 332
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓	5,000		5,000
31	Closing entry	J14		5,000	0

PROBLEM 4-2B (Continued)

Income Summary

No. 350

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Closing entry	J14		59,000	59,000
	31	Closing entry	J14	49,800		9,200
	31	Closing entry	J14	9,200		0

Service Revenue

No. 400

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓		59,000	59,000
	31	Closing entry	J14	59,000		0

Advertising Expense

No. 610

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓	8,400		8,400
	31	Closing entry	J14		8,400	0

Supplies Expense

No. 631

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓	4,000		4,000
	31	Closing entry	J14		4,000	0

Depreciation Expense

No. 711

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓	5,600		5,600
	31	Closing entry	J14		5,600	0

Insurance Expense

No. 722

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓	3,200		3,200
	31	Closing entry	J14		3,200	0

PROBLEM 4-2B (Continued)

Salaries and Wages Expense					No. 726
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓	28,000		28,000
31	Closing entry	J14		28,000	0

Interest Expense					No. 905
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓	600		600
31	Closing entry	J14		600	0

(e) **EAGLE COMPANY**
Post-Closing Trial Balance
December 31, 2014

	Debit	Credit
Cash	£ 5,300	
Accounts Receivable.....	10,800	
Supplies.....	1,500	
Prepaid Insurance.....	2,000	
Equipment	27,000	
Accumulated Depreciation—		
Equipment		£ 5,600
Notes Payable		15,000
Accounts Payable.....		4,600
Salaries and Wages Payable		2,400
Interest Payable		600
Share Capital—Ordinary		10,000
Retained Earnings		8,400
Totals	<u>£46,600</u>	<u>£46,600</u>

PROBLEM 4-3B

(a)

LATHROP COMPANY
Income Statement
For the Year Ended December 31, 2014

Revenues		
Service revenue		\$56,000
Expenses		
Salaries and wages expense	\$27,000	
Depreciation expense	3,000	
Insurance expense	1,800	
Maintenance and repairs expense	1,600	
Utilities expense	1,400	
Total expenses		<u>34,800</u>
Net income		<u>\$21,200</u>

LATHROP COMPANY
Retained Earnings Statement
For the Year Ended December 31, 2014

Retained Earnings, January 1	\$16,400
Add: Net income	<u>21,200</u>
	37,600
Less: Dividends	<u>8,000</u>
Retained Earnings, December 31	<u>\$29,600</u>

LATHROP COMPANY
Statement of Financial Position
December 31, 2014

Assets			
Property, plant, and equipment			
Equipment	\$28,000		
Less: Accumulated depreciation— equipment	<u>4,500</u>		\$23,500
Current assets			
Prepaid insurance	2,800		
Accounts receivable	10,800		
Cash	<u>8,900</u>		<u>22,500</u>
Total assets			<u>\$46,000</u>

PROBLEM 4-3B (Continued)

LATHROP COMPANY
Statement of Financial Position (Continued)
December 31, 2014

Equity and Liabilities		
Equity		
Share capital—ordinary	\$12,000	
Retained earnings	<u>29,600</u>	\$41,600
Current liabilities		
Accounts payable	2,000	
Salaries and wages payable.....	<u>2,400</u>	<u>4,400</u>
Total equity and liabilities		<u>\$46,000</u>

(b)

General Journal				
Date	Account Titles	Ref.	Debit	Credit
Dec. 31	Service Revenue	400	56,000	
	 Income Summary	350		56,000
31	Income Summary	350	34,800	
	 Maintenance and Repairs			
	 Expense	622		1,600
	 Depreciation Expense.....	711		3,000
	 Insurance Expense	722		1,800
	 Salaries and Wages Expense....	726		27,000
	 Utilities Expense	732		1,400
31	Income Summary	350	21,200	
	 Retained Earnings.....	320		21,200
31	Retained Earnings.....	320	8,000	
	 Dividends	332		8,000

PROBLEM 4-3B (Continued)

(c)

Retained Earnings		No. 320
12/31	8,000	1/1 Bal. 16,400
		12/31 21,200
		12/31 Bal. 29,600

Dividends		No. 332
12/31 Bal.	8,000	12/31 8,000

Income Summary		No. 350
12/31	34,800	12/31 56,000
12/31	21,200	
	56,000	56,000

Service Revenue		No. 400
12/31	56,000	12/31 Bal. 56,000

Maintenance and Repairs		Expense	No. 622
12/31 Bal.	1,600	12/31	1,600

Depreciation Expense		No. 711
12/31 Bal.	3,000	12/31 3,000

Insurance Expense		No. 722
12/31 Bal.	1,800	12/31 1,800

Salaries and Wages		Expense	No. 726
12/31 Bal.	27,000	12/31	27,000

Utilities Expense		No. 732
12/31 Bal.	1,400	12/31 1,400

(d)

LATHROP COMPANY Post-Closing Trial Balance December 31, 2014

	Debit	Credit
Cash	\$ 8,900	
Accounts Receivable	10,800	
Prepaid Insurance	2,800	
Equipment.....	28,000	
Accumulated Depreciation—Equipment.....		\$ 4,500
Accounts Payable		2,000
Salaries and Wages Payable		2,400
Share Capital—Ordinary.....		12,000
Retained Earnings.....		29,600
Totals	<u>\$50,500</u>	<u>\$50,500</u>

PROBLEM 4-4B

(a) CARROLL MANAGEMENT SERVICES INC.
Worksheet
For the Year Ended December 31, 2014

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	13,800				13,800				13,800	
Accounts Receivable	26,300				26,300				26,300	
Prepaid Insurance	3,600			(a) 1,800	1,800				1,800	
Land	67,000				67,000				67,000	
Buildings	127,000				127,000				127,000	
Equipment	59,000				59,000				59,000	
Accounts Payable		12,500				12,500				12,500
Unearned Rent Revenue		8,000	(c) 4,500			3,500				3,500
Mortgage Payable		120,000				120,000				120,000
Share Capital—Ordinary		80,000				80,000				80,000
Retained Earnings		54,000				54,000				54,000
Dividends	16,000				16,000				16,000	
Service Revenue		90,700				90,700		90,700		
Rent Revenue		26,000	(c) 4,500			30,500		30,500		
Salaries and Wages Expense	42,000				42,000		42,000			
Advertising Expense	17,500				17,500		17,500			
Utilities Expense	19,000				19,000		19,000			
Totals	<u>391,200</u>	<u>391,200</u>								
Insurance Expense			(a) 1,800		1,800		1,800			
Depr. Expense			(b) 6,600		6,600		6,600			
Accum. Depr.—Buildings				(b) 3,000		3,000				3,000
Accum. Depr.—Equipment				(b) 3,600		3,600				3,600
Interest Expense			(d) 9,600		9,600		9,600			
Interest Payable				(d) 9,600		9,600				
Totals			<u>22,500</u>	<u>22,500</u>	<u>407,400</u>	<u>407,400</u>	<u>96,500</u>	<u>121,200</u>	<u>310,900</u>	<u>9,600</u>
Net Income							<u>24,700</u>		<u>286,200</u>	
Totals							<u>121,200</u>	<u>121,200</u>	<u>310,900</u>	<u>310,900</u>

Key: (a) Expired Insurance; (b) Depreciation Expense—Buildings and Equipment; (c) Rent Revenue Earned; (d) Accrued Interest Payable.

PROBLEM 4-4B (Continued)

**(b) CARROLL MANAGEMENT SERVICES INC.
Statement of Financial Position
December 31, 2014**

Assets			
Property, plant, and equipment			
Land		£ 67,000	
Buildings	£127,000		
Less: Accumulated depreciation—buildings ...	<u>3,000</u>	124,000	
Equipment	59,000		
Less: Accumulated depreciation—equipment ..	<u>3,600</u>	<u>55,400</u>	£246,400
Current assets			
Prepaid insurance		1,800	
Accounts receivable.....		26,300	
Cash.....		<u>13,800</u>	<u>41,900</u>
Total assets			<u>£288,300</u>
Equity and Liabilities			
Equity			
Share capital—ordinary		£80,000	
Retained earnings		<u>62,700*</u>	£142,700
Non-current liabilities			
Mortgage payable (due after 2015)			95,000
Current liabilities			
Mortgage payable (due in 2015)		25,000	
Accounts payable.....		12,500	
Interest payable		9,600	
Unearned rent revenue		<u>3,500</u>	<u>50,600</u>
Total equity and liabilities			<u>£288,300</u>

***£54,000 + £24,700 – £16,000**

PROBLEM 4-4B (Continued)

(c)	Dec. 31	Insurance Expense	1,800	
		Prepaid Insurance		1,800
	31	Depreciation Expense.....	6,600	
		Accumulated Depreciation—		
		Buildings		3,000
		Accumulated Depreciation—		
		Equipment.....		3,600
	31	Unearned Rent Revenue.....	4,500	
		Rent Revenue		4,500
	31	Interest Expense	9,600	
		Interest Payable.....		9,600
(d)	Dec. 31	Service Revenue	90,700	
		Rent Revenue	30,500	
		Income Summary		121,200
	31	Income Summary	96,500	
		Salaries and Wages Expense.....		42,000
		Advertising Expense.....		17,500
		Interest Expense.....		9,600
		Utilities Expense.....		19,000
		Depreciation Expense.....		6,600
		Insurance Expense.....		1,800
	31	Income Summary	24,700	
		Retained Earnings.....		24,700
	31	Retained Earnings.....	16,000	
		Dividends		16,000

PROBLEM 4-4B (Continued)

(e) CARROLL MANAGEMENT SERVICES INC.
Post-Closing Trial Balance
December 31, 2014

	<u>Debit</u>	<u>Credit</u>
Cash	£ 13,800	
Accounts Receivable	26,300	
Prepaid Insurance	1,800	
Land.....	67,000	
Buildings.....	127,000	
Accumulated Depreciation—Buildings		£ 3,000
Equipment.....	59,000	
Accumulated Depreciation—Equipment.....		3,600
Accounts Payable		12,500
Interest Payable.....		9,600
Unearned Rent Revenue.....		3,500
Mortgage Payable		120,000
Share Capital—Ordinary.....		80,000
Retained Earnings.....		62,700
	<u>£294,900</u>	<u>£294,900</u>

PROBLEM 4-5B

(a)

General Journal					J1
Date		Account Titles	Ref.	Debit	Credit
July 1		Cash	101	20,000	
		Share capital—ordinary	311		20,000
	1	Equipment	157	12,000	
		Cash	101		4,000
		Accounts Payable	201		8,000
	3	Supplies	126	2,100	
		Accounts Payable	201		2,100
	5	Prepaid Insurance	130	1,800	
		Cash	101		1,800
	12	Accounts Receivable	112	5,900	
		Service Revenue	400		5,900
	18	Accounts Payable	201	2,900	
		Cash	101		2,900
	20	Salaries and Wages Expense	726	4,500	
		Cash	101		4,500
	21	Cash	101	4,400	
		Accounts Receivable	112		4,400
	25	Accounts Receivable	112	8,000	
		Service Revenue	400		8,000
	31	Gasoline Expense	633	350	
		Cash	101		350
	31	Dividends	332	1,200	
		Cash	101		1,200

PROBLEM 4-5B (Continued)

(b) & (c) BRENNAN'S CLEANING SERVICE Worksheet For the Month Ended July 31, 2014

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	9,650				9,650				9,650	
Accounts Receivable	9,500		(a) 3,300		12,800				12,800	
Supplies	2,100			(d) 1,500	600				600	
Prepaid Insurance	1,800			(c) 150	1,650				1,650	
Equipment	12,000				12,000				12,000	
Accounts Payable		7,200				7,200				7,200
Share Capital—Ordinary		20,000				20,000				20,000
Dividends	1,200				1,200				1,200	
Service Revenue		13,900		(a) 3,300		17,200		17,200		
Gasoline Expense	350				350		350			
Salaries and Wages Expense	4,500		(e) 2,200		6,700		6,700			
Totals	<u>41,100</u>	<u>41,100</u>								
Depreciation Expense			(b) 500		500		500			
Accum. Depr.—Equipment				(b) 500		500				500
Insurance Expense			(c) 150		150		150			
Supplies Expense			(d) 1,500		1,500		1,500			
Salaries and Wages Payable				(e) 2,200		2,200				2,200
Totals			<u>7,650</u>	<u>7,650</u>	<u>47,100</u>	<u>47,100</u>	<u>9,200</u>	<u>17,200</u>	<u>37,900</u>	<u>29,900</u>
Net Income							<u>8,000</u>			<u>8,000</u>
Totals							<u>17,200</u>	<u>17,200</u>	<u>37,900</u>	<u>37,900</u>

Key: (a) Service Revenue Earned; (b) Depreciation Expense; (c) Insurance Expired; (d) Cleaning Supplies Used; (e) Unpaid Salaries.

PROBLEM 4-5B (Continued)

(a), (e) & (f)

Cash					No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
July 1		J1	20,000		20,000
1		J1		4,000	16,000
5		J1		1,800	14,200
18		J1		2,900	11,300
20		J1		4,500	6,800
21		J1	4,400		11,200
31		J1		350	10,850
31		J1		1,200	9,650

Accounts Receivable					No. 112
Date	Explanation	Ref.	Debit	Credit	Balance
July 12		J1	5,900		5,900
21		J1		4,400	1,500
25		J1	8,000		9,500
31	Adjusting	J2	3,300		12,800

Supplies					No. 126
Date	Explanation	Ref.	Debit	Credit	Balance
July 3		J1	2,100		2,100
31	Adjusting	J2		1,500	600

Prepaid Insurance					No. 130
Date	Explanation	Ref.	Debit	Credit	Balance
July 5		J1	1,800		1,800
31	Adjusting	J2		150	1,650

Equipment					No. 157
Date	Explanation	Ref.	Debit	Credit	Balance
July 1		J1	12,000		12,000

PROBLEM 4-5B (Continued)
Accumulated Depreciation—Equipment
No. 158

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2		500	500

Accounts Payable
No. 201

Date	Explanation	Ref.	Debit	Credit	Balance
July 1		J1		8,000	8,000
3		J1		2,100	10,100
18		J1	2,900		7,200

Salaries and Wages Payable
No. 212

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2		2,200	2,200

Share Capital—Ordinary
No. 311

Date	Explanation	Ref.	Debit	Credit	Balance
July 1		J1		20,000	20,000

Retained Earnings
No. 320

Date	Explanation	Ref.	Debit	Credit	Balance
July 1					
31	Closing	J3		8,000	8,000
31	Closing	J3	1,200		6,800

Dividends
No. 332

Date	Explanation	Ref.	Debit	Credit	Balance
July 31		J1	1,200		1,200
31	Closing	J3		1,200	0

Income Summary
No. 350

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Closing	J3		17,200	17,200
31	Closing	J3	9,200		8,000
31	Closing	J3	8,000		0

PROBLEM 4-5B (Continued)

Service Revenue					No. 400
Date	Explanation	Ref.	Debit	Credit	Balance
July 12		J1		5,900	5,900
25		J1		8,000	13,900
31	Adjusting	J2		3,300	17,200
31	Closing	J3	17,200		0

Gasoline Expense					No. 633
Date	Explanation	Ref.	Debit	Credit	Balance
July 31		J1	350		350
31	Closing	J3		350	0

Supplies Expense					No. 631
Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2	1,500		1,500
31	Closing	J3		1,500	0

Depreciation Expense					No. 711
Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2	500		500
31	Closing	J3		500	0

Insurance Expense					No. 722
Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2	150		150
31	Closing	J3		150	0

Salaries and Wages Expense					No. 726
Date	Explanation	Ref.	Debit	Credit	Balance
July 20		J1	4,500		4,500
31	Adjusting	J2	2,200		6,700
31	Closing	J3		6,700	0

PROBLEM 4-5B (Continued)

(d) BRENNAN'S CLEANING SERVICE
Income Statement
For the Month Ended July 31, 2014

Revenues		
Service revenue		\$17,200
Expenses		
Salaries and wages expense	\$6,700	
Supplies expense	1,500	
Depreciation expense	500	
Gasoline expense	350	
Insurance expense	150	
Total expenses		<u>9,200</u>
Net income		<u>\$ 8,000</u>

BRENNAN'S CLEANING SERVICE
Retained Earnings Statement
For the Month Ended July 31, 2014

Retained Earnings, July 1	\$ 0
Add: Net income	<u>8,000</u>
	8,000
Less: Dividends	<u>1,200</u>
Retained Earnings, July 31	<u>\$ 6,800</u>

BRENNAN'S CLEANING SERVICE
Statement of Financial Position
July 31, 2014

Assets		
Property, plant, and equipment		
Equipment	\$ 12,000	
Less: Accumulated depreciation— equipment	<u>500</u>	\$ 11,500

PROBLEM 4-5B (Continued)

BRENNAN'S CLEANING SERVICE
Statement of Financial Position (Continued)
July 31, 2014

Assets (Continued)			
Current assets			
Prepaid insurance	1,650		
Supplies	600		
Accounts receivable	12,800		
Cash	<u>9,650</u>	<u>24,700</u>	
Total assets			<u>\$36,200</u>
Equity and Liabilities			
Equity			
Share capital—ordinary	\$20,000		
Retained earnings	<u>6,800</u>	<u>\$26,800</u>	
Current liabilities			
Accounts payable	7,200		
Salaries and wages payable.....	<u>2,200</u>	<u>9,400</u>	
Total equity and liabilities			<u>\$36,200</u>

(e)

General Journal				J2
Date	Account Titles	Ref.	Debit	Credit
July 31	Accounts Receivable.....	112	3,300	
	Service Revenue	400		3,300
31	Depreciation Expense	711	500	
	Accumulated Depreciation— Equipment	158		500
31	Insurance Expense	722	150	
	Prepaid Insurance.....	130		150
31	Supplies Expense	631	1,500	
	Supplies.....	126		1,500
31	Salaries and Wages Expense	726	2,200	
	Salaries and Wages Payable ...	212		2,200

PROBLEM 4-5B (Continued)

(f) General Journal

J3

Date	Account Titles	Ref.	Debit	Credit
July 31	Service Revenue	400	17,200	
	Income Summary	350		17,200
31	Income Summary	350	9,200	
	Salaries and Wages Expense ...	726		6,700
	Depreciation Expense	711		500
	Insurance Expense	722		150
	Supplies Expense	631		1,500
	Gasoline Expense	633		350
31	Income Summary	350	8,000	
	Retained Earnings	320		8,000
31	Retained Earnings	320	1,200	
	Dividends	332		1,200

**(g) BRENNAN'S CLEANING SERVICE
Post-Closing Trial Balance
July 31, 2014**

	Debit	Credit
Cash	\$ 9,650	
Accounts Receivable	12,800	
Supplies	600	
Prepaid Insurance	1,650	
Equipment	12,000	
Accumulated Depreciation—Equipment		\$ 500
Accounts Payable		7,200
Salaries and Wages Payable		2,200
Share Capital—Ordinary		20,000
Retained Earnings		6,800
	<u>\$36,700</u>	<u>\$36,700</u>

COMPREHENSIVE PROBLEM: CHAPTERS 2 TO 4

(a)

General Journal					J1
Date	Account Titles and Explanation	Ref.	Debit	Credit	
July 1	Cash	101	15,000		
	Share Capital—Ordinary	311		15,000	
1	Equipment	157	10,000		
	Cash	101		3,000	
	Accounts Payable	201		7,000	
3	Supplies	126	1,700		
	Accounts Payable	201		1,700	
5	Prepaid Insurance	130	1,800		
	Cash	101		1,800	
12	Accounts Receivable	112	4,200		
	Service Revenue	400		4,200	
18	Accounts Payable	201	1,400		
	Cash	101		1,400	
20	Salaries and Wages Expense	726	1,900		
	Cash	101		1,900	
21	Cash	101	2,400		
	Accounts Receivable	112		2,400	
25	Accounts Receivable	112	2,100		
	Service Revenue	400		2,100	
31	Gasoline Expense	633	400		
	Cash	101		400	
31	Dividends	332	500		
	Cash	101		500	

COMPREHENSIVE PROBLEM (Continued)

(b) & (c) **MARY'S MAIDS CLEANING SERVICE**
Worksheet
For the Month Ended July 31, 2014

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	8,400				8,400				8,400	
Accounts Receivable	3,900		(a) 1,300		5,200				5,200	
Supplies	1,700			(d) 1,420	280				280	
Prepaid Insurance	1,800			(c) 150	1,650				1,650	
Equipment	10,000				10,000				10,000	
Accounts Payable		7,300				7,300				7,300
Share Capital—Ordinary		15,000				15,000				15,000
Dividends	500				500				500	
Service Revenue		6,300		(a) 1,300		7,600		7,600		
Gasoline Expense	400				400		400			
Salaries and Wages Expense	1,900		(e) 630		2,530		2,530			
Total	28,600	28,600								
Depreciation Expense			(b) 200		200		200			200
Accum. Depr.—Equipment				(b) 200		200				
Insurance Expense			(c) 150		150		150			
Supplies Expense			(d) 1,420		1,420		1,420			
Salaries and Wages Payable				(e) 630		630				630
Totals			3,700	3,700	30,730	30,730	4,700	7,600	26,030	23,130
Net Income							2,900			2,900
Totals							7,600	7,600	26,030	26,030

Key: (a) Service Revenue; (b) Depreciation Expense; (c) Insurance Expired; (d) Cleaning Supplies Used; (e) Unpaid Salaries.

COMPREHENSIVE PROBLEM (Continued)

(a), (e) & (f)

Cash					No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
July 1		J1	15,000		15,000
1		J1		3,000	12,000
5		J1		1,800	10,200
18		J1		1,400	8,800
20		J1		1,900	6,900
21		J1	2,400		9,300
31		J1		400	8,900
31		J1		500	8,400

Accounts Receivable					No. 112
Date	Explanation	Ref.	Debit	Credit	Balance
July 12		J1	4,200		4,200
21		J1		2,400	1,800
25		J1	2,100		3,900
31	Adjusting	J2	1,300		5,200

Supplies					No. 126
Date	Explanation	Ref.	Debit	Credit	Balance
July 3		J1	1,700		1,700
31	Adjusting	J2		1,420	280

Prepaid Insurance					No. 130
Date	Explanation	Ref.	Debit	Credit	Balance
July 5		J1	1,800		1,800
31	Adjusting	J2		150	1,650

Equipment					No. 157
Date	Explanation	Ref.	Debit	Credit	Balance
July 1		J1	10,000		10,000

COMPREHENSIVE PROBLEM (Continued)

Accumulated Depreciation—Equipment

No. 158

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2		200	200

Accounts Payable

No. 201

Date	Explanation	Ref.	Debit	Credit	Balance
July 1		J1		7,000	7,000
3		J1		1,700	8,700
18		J1	1,400		7,300

Salaries and Wages Payable

No. 212

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2		630	630

Share Capital—Ordinary

No. 311

Date	Explanation	Ref.	Debit	Credit	Balance
July 1		J1		15,000	15,000

Retained Earnings

No. 320

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Closing	J3		2,900	2,900
31	Closing	J3	500		2,400

Dividends

No. 332

Date	Explanation	Ref.	Debit	Credit	Balance
July 31		J1	500		500
31	Closing	J3		500	0

Income Summary

No. 350

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Closing	J3		7,600	7,600
31	Closing	J3	4,700		2,900
31	Closing	J3	2,900		0

COMPREHENSIVE PROBLEM (Continued)

Service Revenue					No. 400
Date	Explanation	Ref.	Debit	Credit	Balance
July 12		J1		4,200	4,200
25		J1		2,100	6,300
31	Adjusting	J2		1,300	7,600
31	Closing	J3	7,600		0

Gasoline Expense					No. 633
Date	Explanation	Ref.	Debit	Credit	Balance
July 31		J1	400		400
31	Closing	J3		400	0

Supplies Expense					No. 631
Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2	1,420		1,420
31	Closing	J3		1,420	0

Depreciation Expense					No. 711
Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2	200		200
31	Closing	J3		200	0

Insurance Expense					No. 722
Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2	150		150
31	Closing	J3		150	0

Salaries and Wages Expense					No. 726
Date	Explanation	Ref.	Debit	Credit	Balance
July 20		J1	1,900		1,900
31	Adjusting	J2	630		2,530
31	Closing	J3		2,530	0

COMPREHENSIVE PROBLEM (Continued)

(d) **MARY'S MAIDS CLEANING SERVICE**
Income Statement
For the Month Ended July 31, 2014

Revenues		
Service revenue		\$7,600
Expenses		
Salaries and wages expense	\$2,530	
Supplies expense	1,420	
Gasoline expense	400	
Depreciation expense	200	
Insurance expense	150	
Total expenses		<u>4,700</u>
Net income		<u>\$2,900</u>

MARY'S MAIDS CLEANING SERVICE
Retained Earnings Statement
For the Month Ended July 31, 2014

Retained Earnings, July 1	\$ 0
Add: Net income	<u>2,900</u>
	2,900
Less: Dividends	<u>500</u>
Retained Earnings, July 31	<u>\$2,400</u>

COMPREHENSIVE PROBLEM (Continued)

MARY'S MAIDS CLEANING SERVICE Statement of Financial Position July 31, 2011

Assets		
Property, plant, and equipment		
Equipment.....	\$10,000	
Less: Accumulated depreciation— equipment.....	<u>200</u>	\$ 9,800
Current assets		
Prepaid insurance	1,650	
Supplies	280	
Accounts receivable	5,200	
Cash	<u>8,400</u>	<u>15,530</u>
Total assets		<u>\$25,330</u>
Equity and Liabilities		
Equity		
Share capital—ordinary	\$15,000	
Retained earnings	<u>2,400</u>	\$17,400
Current liabilities		
Accounts payable	7,300	
Salaries and wages payable.....	<u>630</u>	<u>7,930</u>
Total equity and liabilities		<u>\$25,330</u>

COMPREHENSIVE PROBLEM (Continued)**(e)**

General Journal				J2
Date	Account Titles	Ref.	Debit	Credit
July 31	Accounts Receivable	112	1,300	
	Service Revenue.....	400		1,300
31	Depreciation Expense.....	711	200	
	Accumulated Depreciation— Equipment.....	158		200
31	Insurance Expense.....	722	150	
	Prepaid Insurance	130		150
31	Supplies Expense.....	631	1,420	
	Supplies	126		1,420
31	Salaries and Wages Expense.....	726	630	
	Salaries and Wages Payable	212		630

(f)

General Journal				J3
Date	Account Titles	Ref.	Debit	Credit
July 31	Service Revenue.....	400	7,600	
	Income Summary	350		7,600
31	Income Summary	350	4,700	
	Salaries and Wages Expense...	726		2,530
	Depreciation Expense.....	711		200
	Insurance Expense.....	722		150
	Supplies Expense.....	631		1,420
	Gasoline Expense	633		400
31	Income Summary	350	2,900	
	Retained Earnings.....	320		2,900
31	Retained Earnings.....	320	500	
	Dividends	332		500

COMPREHENSIVE PROBLEM (Continued)

(g)

MARY'S MAIDS CLEANING SERVICE Post-Closing Trial Balance July 31, 2014

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 8,400	
Accounts Receivable.....	5,200	
Supplies.....	280	
Prepaid Insurance.....	1,650	
Equipment	10,000	
Accumulated Depreciation—Equipment		\$ 200
Accounts Payable.....		7,300
Salaries and Wages Payable		630
Share Capital—Ordinary		15,000
Retained Earnings		<u>2,400</u>
	<u>\$25,530</u>	<u>\$25,530</u>

(a)

COOKIE CREATIONS
Income Statement
For the Two Months Ended December 31, 2014

Revenues		
Service revenue.....		\$4,515
Expenses		
Supplies expense.....	\$1,025	
Salaries and wages expense.....	1,006	
Advertising expense	165	
Utilities expense	125	
Insurance expense	110	
Depreciation expense	40	
Interest expense	15	
Total expenses.....		<u>2,486</u>
Net income		<u>\$2,029</u>

COOKIE CREATIONS
Retained Earnings Statement
For the Two Months Ended December 31, 2014

Retained earnings, November 1	\$ 0
Add: Net income	<u>2,029</u>
	2,029
Less: Dividends	<u>500</u>
Retained earnings, December 31	<u>\$1,529</u>

CCC4 (Continued)

(a) (Continued)

COOKIE CREATIONS
Statement of Financial Position
December 31, 2014

Assets			
Property, plant, and equipment			
Equipment	\$1,200		
Less: Accumulated depreciation—equipment	<u>40</u>		\$1,160
Current assets			
Prepaid insurance	1,210		
Supplies	350		
Accounts receivable	875		
Cash	<u>1,180</u>		
Total current assets			<u>3,615</u>
Total assets			<u>\$4,775</u>
Equity and Liabilities			
Equity			
Share Capital—Ordinary	\$ 800		
Retained earnings	<u>1,529</u>		\$2,329
Non-current liabilities			
Interest payable	\$ 15		
Notes payable	<u>2,000</u>		
Total non-current liabilities		2,015	
Current liabilities			
Accounts payable	75		
Salaries and wages payable	56		
Unearned service revenue	<u>300</u>		
Total current liabilities		<u>431</u>	
Total liabilities			<u>2,446</u>
Total equity and liabilities			<u>\$4,775</u>

CCC4 (Continued)

(b)		GENERAL JOURNAL		J4
Date	Account Titles	Debit	Credit	
2014				
Dec. 31	Service Revenue	4,515		
	Income Summary		4,515	
31	Income Summary	2,486		
	Salaries and Wages Expense.....		1,006	
	Utilities Expense		125	
	Advertising Expense.....		165	
	Supplies Expense		1,025	
	Insurance Expense		110	
	Depreciation Expense.....		40	
	Interest Expense		15	
31	Income Summary	2,029		
	Retained Earnings.....		2,029	
31	Retained Earnings	500		
	Dividends		500	

CCC4 (Continued)

(c)

COOKIE CREATIONS
Post-Closing Trial Balance
December 31, 2014

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash	\$1,180	
Accounts Receivable	875	
Supplies	350	
Prepaid Insurance	1,210	
Equipment	1,200	
Accumulated Depreciation—Equipment		\$ 40
Accounts Payable		75
Salaries and Wages Payable		56
Unearned Service Revenue		300
Interest Payable		15
Notes Payable		2,000
Share Capital—Ordinary		800
Retained Earnings		1,529
	<u>\$4,815</u>	<u>\$4,815</u>

- (a) Total current assets were ~~₩~~61,402,589 million at December 31, 2010, and ~~₩~~54,211,297 million at December 31, 2009.
- (b) No. Current assets are normally listed in reverse order of liquidity. Samsung's current assets are listed in order of liquidity.
- (c) The asset classifications are: (1) current assets, and non-current assets.
- (d) Cash equivalents are investments with original maturities of 3 months or less that Samsung does not intend to rollover beyond three months.
- (e) Total current liabilities were ~~₩~~39,944,721 million at December 31, 2010, and ~~₩~~34,204,424 million at December 31, 2009.

(a)	Nestlé (in millions)	Zetar (in thousands)
1. Total current assets	CHF38,997	£45,670
2. Net property, plant & equipment	21,438	16,583
3. Total current liabilities	30,146	40,474
4. Total equity	62,598	46,287

- (b)** Current assets are cash and other resources that are reasonably expected to be realized in cash or sold or consumed within one year or the company's operating cycle, whichever is longer. Current liabilities are obligations that are reasonably expected to be paid from existing current assets or through the creation of other current liabilities.

Nestlé's current assets were 29.4% greater than its current liabilities, while Zetar's current assets were 12.8% greater than its current liabilities. From this information, it appears that Nestlé is in a better liquidity position than Zetar.

The solution is dependent upon the companies chosen by the student.

(a)

EVERCLEAN JANITORIAL SERVICE
Statement of Financial Position
December 31, 2014

Assets			
Property, plant, and equipment			
Equipment			
(\$22,000 + \$4,000)	\$26,000		
Less: Accum. depreciation—equipment			
(\$4,000 + \$2,000)	<u>6,000</u>	\$20,000	
Delivery trucks (\$34,000 + \$5,000) ..	39,000		
Less: Accum. depreciation—delivery trucks			
(\$5,000 + \$5,000)	<u>10,000</u>	<u>29,000</u>	\$49,000
Current assets			
Prepaid insurance (\$4,800 X 2/3)		3,200	
Supplies			
(\$5,200 – \$3,100)		2,100	
Accounts receivable			
(\$9,000 + \$3,900)		12,900	
Cash		<u>5,500</u>	<u>23,700</u>
Total assets			<u>\$72,700</u>
Equity and Liabilities			
Equity			
Share capital—ordinary	\$30,000		
Retained earnings	<u>14,330*</u>	\$44,330	
Non-current liabilities			
Notes payable, due July 1, 2016			15,000
Current liabilities			
Notes payable due within one year	10,000		
Accounts payable (\$1,500 + \$620)	2,120		
Interest payable (\$25,000 X 10% X 6/12)	<u>1,250</u>	<u>13,370</u>	
Total equity and liabilities			<u>\$72,700</u>

BYP 4-4 (Continued)

EVERCLEAN JANITORIAL SERVICE
Statement of Financial Position (Continued)
December 31, 2014

*Retained earnings balance as reported.....		\$24,000
Add: Earned but unbilled fees		<u>3,900</u>
		27,900
Less: Janitorial supplies used.....	\$3,100	
Insurance expired (\$4,800 X 1/3)	1,600	
Depreciation (\$2,000 + \$5,000)	7,000	
Expenses incurred but unpaid	620	
Interest accrued	<u>1,250</u>	
Total		<u>13,570</u>
Retained earnings balance as adjusted.....		<u>\$14,330</u>

- (b) Everclean Janitorial Service met the terms of the bank loan because current assets exceed current liabilities by \$10,330 (\$23,700 – \$13,370) at December 31, 2014.

MEMO

To: Accounting Instructor

From: Student

Re: Accounting Cycle

The required steps in the accounting cycle, in the order in which they should be completed, are:

- 1. Analyze business transactions.**
- 2. Journalize the transactions.**
- 3. Post to ledger accounts.**
- 4. Prepare a trial balance.**
- 5. Journalize and post adjusting entries.**
- 6. Prepare an adjusted trial balance.**
- 7. Prepare financial statements.**
- 8. Journalize and post closing entries.**
- 9. Prepare a post-closing trial balance.**

The optional steps in the accounting cycle include preparing a worksheet and preparing reversing entries. If a worksheet is prepared, it is done after step 3 above, and it includes steps 4 and 6. The worksheet is a form used to make it easier to prepare adjusting entries and financial statements. If reversing entries are prepared, they are journalized and posted after step 9, at the beginning of the next accounting period. A reversing entry is the exact opposite of a previously recorded adjusting entry and simplifies the recording of subsequent transactions.

- (a) The stakeholders in this case are:**
- ▶ **You, as controller.**
 - ▶ **Phil McNally, president.**
 - ▶ **Users of the company's financial statements.**
- (b) The ethical issue is the continued circulation of significantly misstated financial statements. As controller, you have just issued misleading financial statements. You have acted ethically by telling the company's president. The president has reacted unethically by allowing the misleading financial statements to continue to circulate.**
- (c) As controller, you should impress upon the president the consequences of having those misleading financial statements be detected by some user or securities regulator. Also stress upon him that you have a professional obligation to correct the statements or to resign.**

GAAP EXERCISES

GAAP 4-1

The statement of financial position required under IFRS and the balance sheet prepared under GAAP usually present the same information regarding a company's assets, liabilities, and equity at a point in time. IFRS does not dictate a specific order but most companies list non-current items before current. Differences in ordering are:

IFRS	GAAP
Statement of Financial Position presentation	Balance Sheet presentation
Non-current assets	Current assets
Current assets	Non-current assets
Equity	Current liabilities
Non-current liabilities	Non-current liabilities
Current liabilities	Stockholders' equity

Under GAAP, current assets are usually listed in the order of liquidity.

GAAP 4-2

GAAP uses the term balance sheet rather than statement of financial position.

GAAP 4-3

DIAZ COMPANY Partial Balance Sheet

Current assets	
Cash	\$ 15,400
Short-term investments	6,700
Accounts receivable	12,500
Supplies	5,200
Prepaid insurance	3,600
Total	<u>\$43,400</u>

ZURICH COMPANY
Partial Balance Sheet
December 31, 2014

Current assets		
Cash	\$ 13,100	
Short-term investments	120	
Accounts receivable	4,300	
Inventories	<u>2,700</u>	\$20,220
Long-term investments		
Investments in stock.....		6,500
Property, plant and equipment		
Equipment.....	21,700	
Less: Accumulated depreciation— equipment	<u>5,700</u>	<u>16,000</u>
Total assets		<u>\$42,720</u>

GAAP 4-5

(a) **REGO BOWLING ALLEY**
Balance Sheet
December 31, 2014

Assets			
Current assets			
Cash		\$18,040	
Accounts receivable		7,540	
Prepaid insurance		<u>4,680</u>	\$30,260
Property, plant, and equipment			
Land		67,000	
Buildings	\$128,000		
Less: Acc. depr.—buildings	<u>42,600</u>	85,400	
Equipment	62,400		
Less: Acc. depr.—equipment	<u>18,720</u>	<u>43,680</u>	<u>196,080</u>
Total assets			<u>\$226,340</u>

Liabilities and Stockholders' Equity			
Current liabilities			
Current portion of notes payable	\$ 13,900		
Accounts payable	12,300		
Interest payable	<u>2,600</u>	\$28,800	
Long-term liabilities			
Notes payable		<u>81,100</u>	
Total liabilities			\$109,900
Stockholders' equity			
Common stock		90,000	
Retained earnings (\$22,000 + \$4,440*)....		<u>26,440</u>	<u>116,440</u>
Total liabilities and stockholders' equity			<u>\$226,340</u>

*Net income = \$15,180 – \$780 – \$7,360 – \$2,600 = \$4,440

GAAP 4-6

It is possible to compare liquidity and solvency for companies using different currencies. The ratios that are used to do so, such as the current ratio and debt to total assets, indicate relative amounts of assets and liabilities rather than absolute monetary values.

GAAP FINANCIAL REPORTING PROBLEM

GAAP 4-7

- (a) Tootsie Roll's total current assets at December 31, 2010 were \$ 237,591 thousand and at December 31, 2009 were \$ 211,878 thousand.
- (b) Yes, under GAAP current assets are listed in the order of their liquidity.
- (c) Tootsie Roll's assets are classified as current assets, property, plant and equipment, and other assets.
- (d) Tootsie Roll's total current liabilities at December 31, 2010 were \$ 58,505 thousand and at December 31, 2009 were \$ 56,066 thousand.