

ACCRUAL ACCOUNTING CONCEPTS

Summary of Learning Objectives

- 1 Explain the revenue recognition principle and the expense recognition principle.** The revenue recognition principle dictates that companies recognize revenue when a performance obligation has been satisfied. The expense recognition principle dictates that companies recognize expenses in the period when the company makes efforts to generate those revenues.
- 2 Differentiate between the cash basis and the accrual basis of accounting.** Under the cash basis, companies record events only in the periods in which the company receives or pays cash. Accrual-based accounting means that companies record, in the periods in which the events occur, events that change a company's financial statements even if cash has not been exchanged.
- 3 Explain why adjusting entries are needed, and identify the major types of adjusting entries.** Companies make adjusting entries at the end of an accounting period. These entries ensure that companies record revenues in the period in which the performance obligation is satisfied and that companies recognize expenses in the period in which they are incurred. The major types of adjusting entries are prepaid expenses, unearned revenues, accrued revenues, and accrued expenses.
- 4 Prepare adjusting entries for deferrals.** Deferrals are either prepaid expenses or unearned revenues. Companies make adjusting entries for deferrals at the statement date to record the portion of the deferred item that represents the expense incurred or the revenue for services performed in the current accounting period.
- 5 Prepare adjusting entries for accruals.** Accruals are either accrued revenues or accrued expenses. Adjusting entries for accruals record revenues for services performed and expenses incurred in the current accounting period that have not been recognized through daily entries.
- 6 Describe the nature and purpose of the adjusted trial balance.** An adjusted trial balance is a trial balance that shows the balances of all accounts, including those that have been adjusted, at the end of an accounting period. The purpose of an adjusted trial balance is to show the effects of all financial events that have occurred during the accounting period.
- 7 Explain the purpose of closing entries.** One purpose of closing entries is to transfer net income or net loss for the period to Retained Earnings. A second purpose is to "zero-out" all temporary accounts (revenue accounts, expense accounts, and Dividends) so that they start each new period with a zero balance. To accomplish this, companies "close" all temporary accounts at the end of an accounting period. They make separate entries to close revenues and expenses to Income Summary, Income Summary to Retained Earnings, and Dividends to Retained Earnings. Only temporary accounts are closed.
- 8 Describe the required steps in the accounting cycle.** The required steps in the accounting cycle are (a) analyze business transactions, (b) journalize the transactions, (c) post to ledger accounts, (d) prepare a trial balance, (e) journalize and post adjusting entries, (f) prepare an adjusted trial balance, (g) prepare financial statements, (h) journalize and post closing entries, and (i) prepare a post-closing trial balance.
- 9 Understand the causes of differences between net income and net cash provided by operating activities.** Net income is based on accrual accounting, which relies on the adjustment process. Net cash provided by operating activities is determined by adding cash received from operating the business and subtracting cash expended during operations.

Summary of Learning Objective for Appendix 4A

10 Describe the purpose and the basic form of a worksheet. The worksheet is a device to make it easier to prepare adjusting entries and the financial statements. Companies often prepare a worksheet using

a computer spreadsheet. The sets of columns of the worksheet are, from left to right, the unadjusted trial balance, adjustments, adjusted trial balance, income statement, and balance sheet.

Brief Exercises

BE4-1 Transactions that affect earnings do not necessarily affect cash. Identify the effect, if any, that each of the following transactions would have upon cash and net income. The first transaction has been completed as an example.

Identify impact of transactions on cash and net income.

(LO 2, 9), C

	<u>Cash</u>	<u>Net Income</u>
(a) Purchased \$100 of supplies for cash.	-\$100	\$ 0
(b) Recorded an adjusting entry to record use of \$20 of the above supplies.		
(c) Made sales of \$1,300, all on account.		
(d) Received \$800 from customers in payment of their accounts.		
(e) Purchased equipment for cash, \$2,500.		
(f) Recorded depreciation of building for period used, \$600.		

BE4-2 The ledger of Berkman Company includes the following accounts. Explain why each account may require adjustment.

Indicate why adjusting entries are needed.

(LO 3), C

- (a) Prepaid Insurance.
- (b) Depreciation Expense.
- (c) Unearned Service Revenue.
- (d) Interest Payable.

BE4-3 Molina Company accumulates the following adjustment data at December 31. Indicate (1) the type of adjustment (prepaid expense, accrued revenue, and so on) and (2) the status of the accounts before adjustment (overstated or understated).

Identify the major types of adjusting entries.

(LO 3), AN

- (a) Supplies of \$400 are on hand. Supplies account shows \$1,600 balance.
- (b) Services performed but unbilled total \$700.
- (c) Interest of \$300 has accumulated on a note payable.
- (d) Rent collected in advance totaling \$1,100 has been earned.



BE4-4 Foley Advertising Company's trial balance at December 31 shows Supplies \$8,800 and Supplies Expense \$0. On December 31, there are \$1,100 of supplies on hand. Prepare the adjusting entry at December 31 and, using T-accounts, enter the balances in the accounts, post the adjusting entry, and indicate the adjusted balance in each account.

Prepare adjusting entry for supplies.

(LO 4), AP

BE4-5 At the end of its first year, the trial balance of Boyer Company shows Equipment \$22,000 and zero balances in Accumulated Depreciation—Equipment and Depreciation Expense. Depreciation for the year is estimated to be \$2,750. Prepare the adjusting entry for depreciation at December 31, post the adjustments to T-accounts, and indicate the balance sheet presentation of the equipment at December 31.

Prepare adjusting entry for depreciation.

(LO 4), AP

BE4-6 On July 1, 2014, Seng Co. pays \$12,400 to Nance Insurance Co. for a 2-year insurance contract. Both companies have fiscal years ending December 31. For Seng Co., journalize and post the entry on July 1 and the adjusting entry on December 31.

Prepare adjusting entry for prepaid expense.

(LO 4), AP

BE4-7 Using the data in BE4-6, journalize and post the entry on July 1 and the adjusting entry on December 31 for Nance Insurance Co. Nance uses the accounts Unearned Service Revenue and Service Revenue.

Prepare adjusting entry for unearned revenue.

(LO 4), AP

BE4-8 The bookkeeper for Beltran Company asks you to prepare the following accrual adjusting entries at December 31. Use these account titles: Service Revenue, Accounts Receivable, Interest Expense, Interest Payable, Salaries and Wages Expense, and Salaries and Wages Payable.

Prepare adjusting entries for accruals.

(LO 5), AP

- (a) Interest on notes payable of \$300 is accrued.
- (b) Services performed but unbilled totals \$1,700.
- (c) Salaries of \$780 earned by employees have not been recorded.

4 chapter 4 Accrual Accounting Concepts

Analyze accounts in an adjusted trial balance.

(LO 6), AN



Prepare an income statement from an adjusted trial balance.

(LO 6), AP

Prepare a retained earnings statement from an adjusted trial balance.

(LO 6), AP

Identify financial statement for selected accounts.

(LO 6), K

Identify post-closing trial balance accounts.

(LO 7), K

Prepare and post closing entries.

(LO 7), AP

List required steps in the accounting cycle sequence.

(LO 8), K

BE4-9 The trial balance of Goodwin Company includes the following balance sheet accounts. Identify the accounts that might require adjustment. For each account that requires adjustment, indicate (1) the type of adjusting entry (prepaid expenses, unearned revenues, accrued revenues, and accrued expenses) and (2) the related account in the adjusting entry.

- | | |
|---|-------------------------------|
| (a) Accounts Receivable. | (e) Notes Payable. |
| (b) Prepaid Insurance. | (f) Interest Payable. |
| (c) Equipment. | (g) Unearned Service Revenue. |
| (d) Accumulated Depreciation—Equipment. | |

BE4-10 The adjusted trial balance of Ravine Corporation at December 31, 2014, includes the following accounts: Retained Earnings \$17,200; Dividends \$6,000; Service Revenue \$32,000; Salaries and Wages Expense \$14,000; Insurance Expense \$1,800; Rent Expense \$3,900; Supplies Expense \$1,500; and Depreciation Expense \$1,000. Prepare an income statement for the year.

BE4-11 Partial adjusted trial balance data for Ravine Corporation are presented in BE4-10. The balance in Retained Earnings is the balance as of January 1. Prepare a retained earnings statement for the year assuming net income is \$10,400.

BE4-12 The following selected accounts appear in the adjusted trial balance for Baden Company. Indicate the financial statement on which each account would be reported.

- | | |
|------------------------------------|-----------------------|
| (a) Accumulated Depreciation. | (e) Service Revenue. |
| (b) Depreciation Expense. | (f) Supplies. |
| (c) Retained Earnings (beginning). | (g) Accounts Payable. |
| (d) Dividends. | |

BE4-13 Using the data in BE4-12, identify the accounts that would be included in a post-closing trial balance.

BE4-14 The income statement for the Four Oaks Golf Club Inc. for the month ended July 31 shows Service Revenue \$16,000; Salaries and Wages Expense \$8,400; Maintenance and Repairs Expense \$2,500; and Income Tax Expense \$1,000. The statement of retained earnings shows an opening balance for Retained Earnings of \$20,000 and Dividends \$1,300.

- (a) Prepare closing journal entries.
(b) What is the ending balance in Retained Earnings?

BE4-15 The required steps in the accounting cycle are listed in random order below. List the steps in proper sequence.

- Prepare a post-closing trial balance.
- Prepare an adjusted trial balance.
- Analyze business transactions.
- Prepare a trial balance.
- Journalize the transactions.
- Journalize and post closing entries.
- Prepare financial statements.
- Journalize and post adjusting entries.
- Post to ledger accounts.

Do it!

Review

Prepare adjusting entries for deferrals.

(LO 4), AP

Do it! 4-1 The ledger of Columbia, Inc. on March 31, 2014, includes the following selected accounts before adjusting entries.

	Debit	Credit
Supplies	2,500	
Prepaid Insurance	2,400	
Equipment	30,000	
Unearned Service Revenue		10,000

An analysis of the accounts shows the following.

- Insurance expires at the rate of \$300 per month.
- Supplies on hand total \$900.

3. The equipment depreciates \$200 per month.
4. During March, services were performed for two-fifths of the unearned service revenue.

Prepare the adjusting entries for the month of March.

Do it! 4-2 Kathy Gannon is the new owner of Kathy's Computer Services. At the end of July 2014, her first month of ownership, Kathy is trying to prepare monthly financial statements. She has the following information for the month.

Prepare adjusting entries for accruals.

(LO 5), AP

1. At July 31, Kathy owed employees \$1,100 in salaries that the company will pay in August.
2. On July 1, Kathy borrowed \$20,000 from a local bank on a 10-year note. The annual interest rate is 9%.
3. Service revenue unrecorded in July totaled \$1,600.

Prepare the adjusting entries needed at July 31, 2014.

Do it! 4-3 Indicate in which financial statement each of the following adjusted trial balance accounts would be presented.

Prepare financial statements from adjusted trial balance.

(LO 6), C

Service Revenue	Accounts Receivable
Notes Payable	Accumulated Depreciation
Common Stock	Utilities Expense

Do it! 4-4 After closing revenues and expense, Alomar Company shows the following account balances.

Prepare closing entries.

(LO 7), AP

Dividends	\$22,000
Retained Earnings	70,000
Income Summary	36,000 (credit balance)

Prepare the remaining closing entries at December 31.

Exercises

E4-1 The following independent situations require professional judgment for determining when to recognize revenue from the transactions.

Identify point of revenue recognition.

- (a) Southwest Airlines sells you an advance-purchase airline ticket in September for your flight home at Christmas.
- (b) Ultimate Electronics sells you a home theater on a "no money down and full payment in three months" promotional deal.
- (c) The Toronto Blue Jays sell season tickets online to games in the Skydome. Fans can purchase the tickets at any time, although the season doesn't officially begin until April. The major league baseball season runs from April through October.
- (d) You borrow money in August from RBC Financial Group. The loan and the interest are repayable in full in November.
- (e) In August, you order a sweater from Sears using its online catalog. The sweater arrives in September, which you charged to your Sears credit card. You receive and pay the Sears bill in October.

(LO 1), C



Instructions

Identify when revenue should be recognized in each of the above situations.

E4-2 These accounting concepts were discussed in this and previous chapters.

Identify accounting assumptions, principles, and constraint.

(LO 1), K

1. Economic entity assumption.
2. Expense recognition principle.
3. Monetary unit assumption.
4. Periodicity assumption.
5. Historical cost principle.
6. Materiality.
7. Full disclosure principle.
8. Going concern assumption.
9. Revenue recognition principle.
10. Cost constraint.

Instructions

Identify by number the accounting concept that describes each situation below. Do not use a number more than once.

- _____ (a) Is the rationale for why plant assets are not reported at liquidation value. (Do not use the historical cost principle.)
- _____ (b) Indicates that personal and business record-keeping should be separately maintained.
- _____ (c) Ensures that all relevant financial information is reported.
- _____ (d) Assumes that the dollar is the “measuring stick” used to report on financial performance.
- _____ (e) Requires that accounting standards be followed for all items of **significant** size.
- _____ (f) Separates financial information into time periods for reporting purposes.
- _____ (g) Requires recognition of expenses in the same period as related revenues.
- _____ (h) Indicates that fair value changes subsequent to purchase are not recorded in the accounts.

Identify the violated assumption, principle, or constraint.

(LO 1), C

E4-3 Here are some accounting reporting situations.

- (a) Bonilla Company recognizes revenue at the end of the production cycle but before sale. The price of the product, as well as the amount that can be sold, is not certain.
- (b) Barto Company is in its fifth year of operation and has yet to issue financial statements. (Do not use the full disclosure principle.)
- (c) Lopez, Inc. is carrying inventory at its original cost of \$100,000. Inventory has a fair value of \$110,000.
- (d) Ryno Hospital Supply Corporation reports only current assets and current liabilities on its balance sheet. Equipment and bonds payable are reported as current assets and current liabilities, respectively. Liquidation of the company is unlikely.
- (e) Liu Company has inventory on hand that cost \$400,000. Liu reports inventory on its balance sheet at its current fair value of \$425,000.
- (f) Sara Toney, president of Classic Music Company, bought a computer for her personal use. She paid for the computer by using company funds and debited the “Computers” account.

Instructions

For each situation, list the assumption, principle, or constraint that has been violated, if any. (Some were presented in earlier chapters.) List only one answer for each situation.

Convert earnings from cash to accrual basis.

(LO 2, 4, 5, 9), AP

E4-4 Your examination of the records of a company that follows the cash basis of accounting tells you that the company’s reported cash-basis earnings in 2014 are \$33,640. If this firm had followed accrual-basis accounting practices, it would have reported the following year-end balances.

	<u>2014</u>	<u>2013</u>
Accounts receivable	\$3,400	\$2,800
Supplies on hand	1,300	1,460
Unpaid wages owed	2,000	2,400
Other unpaid expenses	1,400	1,100

Instructions

Determine the company’s net earnings on an accrual basis for 2014. Show all your calculations in an orderly fashion.

Determine cash-basis and accrual-basis earnings.

(LO 2, 9), AP



E4-5 In its first year of operations, Ramirez Company recognized \$28,000 in service revenue, \$6,000 of which was on account and still outstanding at year-end. The remaining \$22,000 was received in cash from customers.

The company incurred operating expenses of \$15,800. Of these expenses, \$12,000 were paid in cash; \$3,800 was still owed on account at year-end. In addition, Ramirez prepaid \$2,400 for insurance coverage that would not be used until the second year of operations.

Instructions

- (a) Calculate the first year’s net earnings under the cash basis of accounting, and calculate the first year’s net earnings under the accrual basis of accounting.

- (b) Which basis of accounting (cash or accrual) provides more useful information for decision-makers?

E4-6 Kaffen Company, a ski tuning and repair shop, opened on November 1, 2013. The company carefully kept track of all its cash receipts and cash payments. The following information is available at the end of the ski season, April 30, 2014.

Convert earnings from cash to accrual basis; prepare accrual-based financial statements.

(LO 2, 4, 5, 9), AP



	Cash Receipts	Cash Payments
Issuance of common shares	\$20,000	
Payment to purchase repair shop equipment		\$ 9,200
Rent payments		1,225
Newspaper advertising payment		375
Utility bill payments		970
Part-time helper's wage payments		2,600
Income tax payment		10,000
Cash receipts from ski and snowboard repair services	32,150	
Subtotals	52,150	24,370
Cash balance		27,780
Totals	<u>\$52,150</u>	<u>\$52,150</u>

The repair shop equipment was purchased on November 1 and has an estimated useful life of 4 years. The company rents space at a cost of \$175 per month on a one-year lease. The lease contract requires payment of the first and last months' rent in advance, which was done. The part-time helper is owed \$420 at April 30, 2014, for unpaid wages. At April 30, 2014, customers owe Kaffen Company \$540 for services they have received but have not yet paid for.

Instructions

- (a) Prepare an accrual-basis income statement for the 6 months ended April 30, 2014.
 (b) Prepare the April 30, 2014, classified balance sheet.

E4-7 VidGam, a consulting firm, has just completed its first year of operations. The company's sales growth was explosive. To encourage clients to hire its services, VidGam offered 180-day financing—meaning its largest customers do not pay for nearly 6 months. Because VidGam is a new company, its equipment suppliers insist on being paid cash on delivery. Also, it had to pay up front for 2 years of insurance. At the end of the year, VidGam owed employees for one full month of salaries, but due to a cash shortfall, it promised to pay them the first week of next year.

Identify differences between cash and accrual accounting.

(LO 2, 3, 9), C

Instructions

- (a) Explain how cash and accrual accounting would differ for each of the events listed above and describe the proper accrual accounting.
 (b) Assume that at the end of the year, VidGam reported a favorable net income, yet the company's management is concerned because the company is very short of cash. Explain how VidGam could have positive net income and yet run out of cash.

E4-8 Kwun Company accumulates the following adjustment data at December 31.

Identify types of adjustments and accounts before adjustment.

(LO 3, 4, 5), AN

- (a) Services performed but unbilled totals \$600.
 (b) Store supplies of \$160 are on hand. The supplies account shows a \$1,900 balance.
 (c) Utility expenses of \$275 are unpaid.
 (d) Services performed of \$490 collected in advance.
 (e) Salaries of \$620 are unpaid.
 (f) Prepaid insurance totaling \$400 has expired.

Instructions

For each item, indicate (1) the type of adjustment (prepaid expense, unearned revenue, accrued revenue, or accrued expense) and (2) the status of the accounts before adjustment (overstated or understated).

8 chapter 4 Accrual Accounting Concepts

Prepare adjusting entries
from selected account data.
(LO 4, 5), AP

E4-9 The ledger of Beckett Rental Agency on March 31 of the current year includes the selected accounts below before adjusting entries have been prepared.

	<u>Debit</u>	<u>Credit</u>
Supplies	\$ 3,000	
Prepaid Insurance	3,600	
Equipment	25,000	
Accumulated Depreciation—Equipment		\$ 8,400
Notes Payable		20,000
Unearned Rent Revenue		12,400
Rent Revenue		60,000
Interest Expense	0	
Salaries and Wages Expense	14,000	

An analysis of the accounts shows the following.

1. The equipment depreciates \$280 per month.
2. Half of the unearned rent revenue was earned during the quarter.
3. Interest of \$400 is accrued on the notes payable.
4. Supplies on hand total \$850.
5. Insurance expires at the rate of \$400 per month.

Instructions

Prepare the adjusting entries at March 31, assuming that adjusting entries are made quarterly. Additional accounts are Depreciation Expense, Insurance Expense, Interest Payable, and Supplies Expense.

Prepare adjusting entries.
(LO 4, 5), AP

E4-10 Jim Haught, D.D.S., opened an incorporated dental practice on January 1, 2014. During the first month of operations, the following transactions occurred.

1. Performed services for patients who had dental plan insurance. At January 31, \$760 of such services was completed but not yet billed to the insurance companies.
2. Utility expenses incurred but not paid prior to January 31 totaled \$450.
3. Purchased dental equipment on January 1 for \$80,000, paying \$20,000 in cash and signing a \$60,000, 3-year note payable (interest is paid each December 31). The equipment depreciates \$400 per month. Interest is \$500 per month.
4. Purchased a 1-year malpractice insurance policy on January 1 for \$24,000.
5. Purchased \$1,750 of dental supplies (recorded as increase to Supplies). On January 31, determined that \$550 of supplies were on hand.

Instructions

Prepare the adjusting entries on January 31. Account titles are Accumulated Depreciation—Equipment, Depreciation Expense, Service Revenue, Accounts Receivable, Insurance Expense, Interest Expense, Interest Payable, Prepaid Insurance, Supplies, Supplies Expense, Utilities Expense, and Accounts Payable.

Prepare adjusting entries.
(LO 4, 5), AP

E4-11 The unadjusted trial balance for Sierra Corp. is shown in Illustration 4-4 (page 168). Instead of the adjusting entries shown in the text at October 31, assume the following adjustment data.

1. Supplies on hand at October 31 total \$500.
2. Expired insurance for the month is \$100.
3. Depreciation for the month is \$75.
4. As of October 31, services worth \$800 related to the previously recorded unearned revenue had been performed.
5. Services performed but unbilled (and no receivable has been recorded) at October 31 are \$280.
6. Interest expense accrued at October 31 is \$70.
7. Accrued salaries at October 31 are \$1,400.

Instructions

Prepare the adjusting entries for the items above.

E4-12 The income statement of Garska Co. for the month of July shows net income of \$2,000 based on Service Revenue \$5,500; Salaries and Wages Expense \$2,100; Supplies

Prepare a correct income
statement.
(LO 1, 4, 5, 6), AP



Expense \$900; and Utilities Expense \$500. In reviewing the statement, you discover the following:

1. Insurance expired during July of \$350 was omitted.
2. Supplies expense includes \$200 of supplies that are still on hand at July 31.
3. Depreciation on equipment of \$150 was omitted.
4. Accrued but unpaid wages at July 31 of \$360 were not included.
5. Services performed but unrecorded totaled \$700.

Instructions

Prepare a correct income statement for July 2014.

E4-13 This is a partial adjusted trial balance of Barone Company.

BARONE COMPANY
Adjusted Trial Balance
January 31, 2014

	<u>Debit</u>	<u>Credit</u>
Supplies	\$ 700	
Prepaid Insurance	1,560	
Salaries and Wages Payable		\$1,060
Unearned Service Revenue		750
Supplies Expense	950	
Insurance Expense	520	
Salaries and Wages Expense	1,800	
Service Revenue		4,000

Analyze adjusted data.
(LO 1, 4, 5, 6), AN



Instructions

Answer these questions, assuming the year begins January 1.

- (a) If the amount in Supplies Expense is the January 31 adjusting entry, and \$300 of supplies was purchased in January, what was the balance in Supplies on January 1?
- (b) If the amount in Insurance Expense is the January 31 adjusting entry, and the original insurance premium was for 1 year, what was the total premium and when was the policy purchased?
- (c) If \$2,500 of salaries was paid in January, what was the balance in Salaries and Wages Payable at December 31, 2013?
- (d) If \$1,800 was received in January for services performed in January, what was the balance in Unearned Service Revenue at December 31, 2013?

E4-14 A partial adjusted trial balance for Barone Company is given in E4-13.

Prepare closing entries.
(LO 7), AP

Instructions

Prepare the closing entries at January 31, 2014.

E4-15 Selected accounts of Castle Company are shown here.

Journalize basic transactions and adjusting entries.
(LO 4, 5, 6), AN

Supplies Expense			Salaries and Wages Payable		
July 31	750			July 31	1,000
Salaries and Wages Expense			Accounts Receivable		
July 15	1,000		July 31	500	
31	1,000				
Service Revenue			Unearned Service Revenue		
	July 14	3,800	July 31	900	July 1 Bal. 1,500
	31	900			20 600
	31	500			
Supplies					
July 1	Bal. 1,100	July 31	750		
10	200				

Instructions

After analyzing the accounts, journalize (a) the July transactions and (b) the adjusting entries that were made on July 31. (*Hint:* July transactions were for cash.)

E4-16 The trial balances shown below are before and after adjustment for Bere Company at the end of its fiscal year.

Prepare adjusting entries from analysis of trial balance.
(LO 4, 5, 6), AP



BERE COMPANY
Trial Balance
August 31, 2014

	Before Adjustment		After Adjustment	
	Dr.	Cr.	Dr.	Cr.
Cash	\$10,900		\$10,900	
Accounts Receivable	8,800		9,400	
Supplies	2,500		500	
Prepaid Insurance	4,000		2,500	
Equipment	16,000		16,000	
Accumulated Depreciation—Equipment		\$ 3,600		\$ 4,800
Accounts Payable		5,800		5,800
Salaries and Wages Payable		0		1,100
Unearned Rent Revenue		1,800		800
Common Stock		10,000		10,000
Retained Earnings		5,500		5,500
Dividends	2,800		2,800	
Service Revenue		34,000		34,600
Rent Revenue		12,100		13,100
Salaries and Wages Expense	17,000		18,100	
Supplies Expense	0		2,000	
Rent Expense	10,800		10,800	
Insurance Expense	0		1,500	
Depreciation Expense	0		1,200	
	<u>\$72,800</u>	<u>\$72,800</u>	<u>\$75,700</u>	<u>\$75,700</u>

Instructions

Prepare the adjusting entries that were made.

E4-17 The adjusted trial balance for Bere Company is given in E4-16.

Instructions

Prepare the income and retained earnings statements for the year and the classified balance sheet at August 31.

E4-18 The adjusted trial balance for Bere Company is given in E4-16.

Instructions

Prepare the closing entries for the temporary accounts at August 31.

Prepare financial statements from adjusted trial balance.
(LO 6), AP

Prepare closing entries.
(LO 7), AP

Problems: Set A

Record transactions on accrual basis; convert revenue to cash receipts.
(LO 2, 4, 9), AP

P4-1A The following selected data are taken from the comparative financial statements of American Curling Club. The club prepares its financial statements using the accrual basis of accounting.

September 30	2014	2013
Accounts receivable for member dues	\$ 15,000	\$ 19,000
Unearned sales revenue	20,000	23,000
Service revenue (from member dues)	151,000	135,000

Dues are billed to members based upon their use of the club's facilities. Unearned sales revenues arise from the sale of tickets to events, such as the Skins Game.

Instructions

(Hint: You will find it helpful to use T-accounts to analyze the following data. You must analyze these data sequentially, as missing information must first be deduced before moving on. Post your journal entries as you progress, rather than waiting until the end.)

- (a) Prepare journal entries for each of the following events that took place during 2014.
1. Dues receivable from members from 2013 were all collected during 2014.
 2. During 2014, goods were provided for all of the unearned sales revenue at the end of 2013.
 3. Additional tickets were sold for \$44,000 cash during 2014; a portion of these were used by the purchasers during the year. The entire balance remaining in Unearned Sales Revenue relates to the upcoming Skins Game in 2014.
 4. Dues for the 2013–2014 fiscal year were billed to members.
 5. Dues receivable for 2014 (i.e., those billed in item (4) above) were partially collected.
- (b) Determine the amount of cash received by American from the above transactions during the year ended September 30, 2014.

(b) Cash received \$199,000

P4-2A Ken Lumas started his own consulting firm, Lumas Consulting, on June 1, 2014. The trial balance at June 30 is as follows.

LUMAS CONSULTING
Trial Balance
June 30, 2014

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 6,850	
Accounts Receivable	7,000	
Supplies	2,000	
Prepaid Insurance	2,880	
Equipment	15,000	
Accounts Payable		\$ 4,230
Unearned Service Revenue		5,200
Common Stock		22,000
Service Revenue		8,300
Salaries and Wages Expense	4,000	
Rent Expense	2,000	
	<u>\$39,730</u>	<u>\$39,730</u>

Prepare adjusting entries, post to ledger accounts, and prepare adjusted trial balance.

(LO 4, 5, 6), AP



In addition to those accounts listed on the trial balance, the chart of accounts for Lumas also contains the following accounts: Accumulated Depreciation—Equipment, Salaries and Wages Payable, Depreciation Expense, Insurance Expense, Utilities Expense, and Supplies Expense.

Other data:

1. Supplies on hand at June 30 total \$720.
2. A utility bill for \$180 has not been recorded and will not be paid until next month.
3. The insurance policy is for a year.
4. Services were performed for \$4,100 of unearned service revenue by the end of the month.
5. Salaries of \$1,250 are accrued at June 30.
6. The equipment has a 5-year life with no salvage value and is being depreciated at \$250 per month for 60 months.
7. Invoices representing \$3,900 of services performed during the month have not been recorded as of June 30.

(b) Service rev. \$16,300

(c) Tot. trial balance \$45,310

Instructions

- (a) Prepare the adjusting entries for the month of June.
- (b) Post the adjusting entries to the ledger accounts. Enter the totals from the trial balance as beginning account balances. (Use T-accounts.)
- (c) Prepare an adjusted trial balance at June 30, 2014.

Prepare adjusting entries, adjusted trial balance, and financial statements.

(LO 4, 5, 6, 7), AP

P4-3A The Solo Hotel opened for business on May 1, 2014. Here is its trial balance before adjustment on May 31.



SOLO HOTEL
Trial Balance
May 31, 2014

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 2,500	
Supplies	2,600	
Prepaid Insurance	1,800	
Land	15,000	
Buildings	70,000	
Equipment	16,800	
Accounts Payable		\$ 4,700
Unearned Rent Revenue		3,300
Mortgage Payable		36,000
Common Stock		60,000
Rent Revenue		9,000
Salaries and Wages Expense	3,000	
Utilities Expense	800	
Advertising Expense	500	
	<u>\$113,000</u>	<u>\$113,000</u>

Other data:

- Insurance expires at the rate of \$450 per month.
- A count of supplies shows \$1,050 of unused supplies on May 31.
- Annual depreciation is \$3,600 on the building and \$3,000 on equipment.
- The mortgage interest rate is 6%. (The mortgage was taken out on May 1.)
- Unearned rent of \$2,500 has been earned.
- Salaries of \$900 are accrued and unpaid at May 31.

Instructions

(c) Rent revenue	\$11,500
Tot. adj. trial balance	\$114,630
(d) Net income	\$3,570

- Journalize the adjusting entries on May 31.
- Prepare a ledger using T-accounts. Enter the trial balance amounts and post the adjusting entries.
- Prepare an adjusted trial balance on May 31.
- Prepare an income statement and a retained earnings statement for the month of May and a classified balance sheet at May 31.
- Identify which accounts should be closed on May 31.

Prepare adjusting entries and financial statements; identify accounts to be closed.

(LO 4, 5, 6, 7), AP

GLS

P4-4A Wolf Creek Golf Inc. was organized on July 1, 2014. Quarterly financial statements are prepared. The trial balance and adjusted trial balance on September 30 are shown here.

WOLF CREEK GOLF INC.
Trial Balance
September 30, 2014

	<u>Unadjusted</u>		<u>Adjusted</u>	
	<u>Dr.</u>	<u>Cr.</u>	<u>Dr.</u>	<u>Cr.</u>
Cash	\$ 6,700		\$ 6,700	
Accounts Receivable	400		1,000	
Supplies	1,200		180	
Prepaid Rent	1,800		900	
Equipment	15,000		15,000	
Accumulated Depreciation—Equipment				\$ 350
Notes Payable		\$ 5,000		5,000
Accounts Payable		1,070		1,070
Salaries and Wages Payable				600
Interest Payable				50
Unearned Rent Revenue		1,000		800
Common Stock		14,000		14,000
Retained Earnings		0		0
Dividends	600		600	

Service Revenue		14,100		14,700
Rent Revenue		700		900
Salaries and Wages Expense	8,800		9,400	
Rent Expense	900		1,800	
Depreciation Expense			350	
Supplies Expense			1,020	
Utilities Expense	470		470	
Interest Expense			50	
	<u>\$35,870</u>	<u>\$35,870</u>	<u>\$37,470</u>	<u>\$37,470</u>

Instructions

- Journalize the adjusting entries that were made.
- Prepare an income statement and a retained earnings statement for the 3 months ending September 30 and a classified balance sheet at September 30.
- Identify which accounts should be closed on September 30.
- If the note bears interest at 12%, how many months has it been outstanding?

(b) Net income	\$2,510
Tot. assets	\$23,430

P4-5A A review of the ledger of Dempsey Company at December 31, 2014, produces these data pertaining to the preparation of annual adjusting entries.

Prepare adjusting entries.
(LO 4, 5), AP

- Prepaid Insurance \$15,200. The company has separate insurance policies on its buildings and its motor vehicles. Policy B4564 on the building was purchased on July 1, 2013, for \$9,600. The policy has a term of 3 years. Policy A2958 on the vehicles was purchased on January 1, 2014, for \$7,200. This policy has a term of 18 months.
- Unearned Rent Revenue \$429,000. The company began subleasing office space in its new building on November 1. At December 31, the company had the following rental contracts that are paid in full for the entire term of the lease.

2. Rent revenue	\$84,000
-----------------	----------

<u>Date</u>	<u>Term (in months)</u>	<u>Monthly Rent</u>	<u>Number of Leases</u>
Nov. 1	9	\$5,000	5
Dec. 1	6	\$8,500	4

- Notes Payable \$40,000. This balance consists of a note for 6 months at an annual interest rate of 7%, dated October 1.
- Salaries and Wages Payable \$0. There are eight salaried employees. Salaries are paid every Friday for the current week. Five employees receive a salary of \$600 each per week, and three employees earn \$700 each per week. Assume December 31 is a Wednesday. Employees do not work weekends. All employees worked the last 3 days of December.

Instructions

Prepare the adjusting entries at December 31, 2014.

P4-6A Astromech Travel Court was organized on July 1, 2013, by Jessica Browning. Jessica is a good manager but a poor accountant. From the trial balance prepared by a part-time bookkeeper, Jessica prepared the following income statement for her fourth quarter, which ended June 30, 2014.

Prepare adjusting entries and a corrected income statement.
(LO 4, 5), AN

ASTROMECH TRAVEL COURT
Income Statement
For the Quarter Ended June 30, 2014

Revenues		
Rent revenue		\$212,000
Operating expenses		
Advertising expense	\$ 3,800	
Salaries and wages expense	80,500	
Utilities expense	900	
Depreciation expense	2,700	
Maintenance and repairs expense	4,300	
Total operating expenses		<u>92,200</u>
Net income		<u>\$119,800</u>

Jessica suspected that something was wrong with the statement because net income had never exceeded \$30,000 in any one quarter. Knowing that you are an experienced accountant, she asks you to review the income statement and other data.

You first look at the trial balance. In addition to the account balances reported above in the income statement, the trial balance contains the following additional selected balances at June 30, 2014.

Supplies	\$ 8,200
Prepaid Insurance	14,400
Notes Payable	14,000

You then make inquiries and discover the following.

1. Travel court rental revenues include advanced rental payments received for summer occupancy, in the amount of \$57,000.
2. There were \$1,800 of supplies on hand at June 30.
3. Prepaid insurance resulted from the payment of a one-year policy on April 1, 2014.
4. The mail in July 2014 brought the following bills: advertising for the week of June 24, \$110; repairs made June 18, \$4,450; and utilities for the month of June, \$215.
5. There are three employees who receive wages that total \$300 per day. At June 30, four days' wages have been incurred but not paid.
6. The note payable is a 6% note dated May 1, 2014, and due on July 31, 2014.
7. Income tax of \$13,400 for the quarter is due in July but has not yet been recorded.

Instructions

(b) Net income

\$33,285

- (a) Prepare any adjusting journal entries required at June 30, 2014.
- (b) Prepare a correct income statement for the quarter ended June 30, 2014.
- (c) Explain to Jessica the generally accepted accounting principles that she did not recognize in preparing her income statement and their effect on her results.

Journalize transactions and follow through accounting cycle to preparation of financial statements.

(LO 4, 5, 6), AP



P4-7A On November 1, 2014, the following were the account balances of Rijo Equipment Repair.

	Debit		Credit
Cash	\$ 2,790	Accumulated Depreciation—Equipment	\$ 500
Accounts Receivable	2,910	Accounts Payable	2,300
Supplies	1,120	Unearned Service Revenue	400
Equipment	10,000	Salaries and Wages Payable	620
		Common Stock	10,000
		Retained Earnings	3,000
	<u>\$16,820</u>		<u>\$16,820</u>

During November, the following summary transactions were completed.

- Nov. 8 Paid \$1,220 for salaries due employees, of which \$600 is for November and \$620 is for October salaries payable.
- 10 Received \$1,800 cash from customers in payment of account.
- 12 Received \$3,700 cash for services performed in November.
- 15 Purchased store equipment on account \$3,600.
- 17 Purchased supplies on account \$1,300.
- 20 Paid creditors \$2,500 of accounts payable due.
- 22 Paid November rent \$480.
- 25 Paid salaries \$1,000.
- 27 Performed services on account worth \$900 and billed customers.
- 29 Received \$750 from customers for services to be provided in the future.

Adjustment data:

1. Supplies on hand are valued at \$1,100.
2. Accrued salaries payable are \$480.
3. Depreciation for the month is \$250.
4. Services were performed to satisfy \$500 of unearned service revenue.

Instructions

- (a) Enter the November 1 balances in the ledger accounts. (Use T-accounts.)
- (b) Journalize the November transactions.

- (c) Post to the ledger accounts. Use Service Revenue, Depreciation Expense, Supplies Expense, Salaries and Wages Expense, and Rent Expense.
- (d) Prepare a trial balance at November 30.
- (e) Journalize and post adjusting entries.
- (f) Prepare an adjusted trial balance.
- (g) Prepare an income statement and a retained earnings statement for November and a classified balance sheet at November 30.

(f) Cash	\$3,840
Tot. adj. trial balance	\$24,680
(g) Net income	\$970

P4-8A Mike Greenberg opened Clean Window Washing Inc. on July 1, 2014. During July, the following transactions were completed.

- July 1 Issued 12,000 shares of common stock for \$12,000 cash.
- 1 Purchased used truck for \$8,000, paying \$2,000 cash and the balance on account.
- 3 Purchased cleaning supplies for \$900 on account.
- 5 Paid \$1,800 cash on a 1-year insurance policy effective July 1.
- 12 Billed customers \$3,700 for cleaning services.
- 18 Paid \$1,000 cash on amount owed on truck and \$500 on amount owed on cleaning supplies.
- 20 Paid \$2,000 cash for employee salaries.
- 21 Collected \$1,600 cash from customers billed on July 12.
- 25 Billed customers \$2,500 for cleaning services.
- 31 Paid \$290 for maintenance of the truck during month.
- 31 Declared and paid \$600 cash dividend.

The chart of accounts for Clean Window Washing contains the following accounts: Cash, Accounts Receivable, Supplies, Prepaid Insurance, Equipment, Accumulated Depreciation—Equipment, Accounts Payable, Salaries and Wages Payable, Common Stock, Retained Earnings, Dividends, Income Summary, Service Revenue, Maintenance and Repairs Expense, Supplies Expense, Depreciation Expense, Insurance Expense, Salaries and Wages Expense.

Instructions

- (a) Journalize the July transactions.
- (b) Post to the ledger accounts. (Use T-accounts.)
- (c) Prepare a trial balance at July 31.
- (d) Journalize the following adjustments.
 - (1) Services performed but unbilled and uncollected at July 31 were \$1,700.
 - (2) Depreciation on equipment for the month was \$180.
 - (3) One-twelfth of the insurance expired.
 - (4) An inventory count shows \$320 of cleaning supplies on hand at July 31.
 - (5) Accrued but unpaid employee salaries were \$400.
- (e) Post adjusting entries to the T-accounts.
- (f) Prepare an adjusted trial balance.
- (g) Prepare the income statement and a retained earnings statement for July and a classified balance sheet at July 31.
- (h) Journalize and post closing entries and complete the closing process.
- (i) Prepare a post-closing trial balance at July 31.

(f) Cash	\$5,410
(g) Tot. assets	\$21,500

Problems: Set B

P4-1B The following data are taken from the comparative balance sheets of Golfview Inn, which prepares its financial statements using the accrual basis of accounting.

December 31	2014	2013
Accounts receivable for member fees	\$18,000	\$20,000
Unearned service revenue	17,000	10,000

Fees are billed to members based upon their use of the club's facilities. Unearned service revenues arise from the sale of gift certificates, which members can apply to their future use of club facilities. The 2014 income statement for the club showed that service revenue of \$190,000 was recognized during the year.

Record transactions on accrual basis; convert revenue to cash receipts.
(LO 2, 4, 9), AP

Instructions

(Hint: You will find it helpful to use T-accounts to analyze these data.)

- (a) Prepare journal entries for each of the following events that took place during 2014.
1. Fees receivable from 2013 were all collected during 2014.
 2. Gift certificates outstanding at the end of 2013 were all redeemed during 2014.
 3. An additional \$40,000 worth of gift certificates were sold during 2014; a portion of these were used by the recipients during the year; the remainder were still outstanding at the end of 2014.
 4. Fees for 2014 were billed to members.
 5. Fees receivable for 2014 (i.e., those billed in item (4) above) were partially collected.

(b) Cash received \$199,000

- (b) Determine the amount of cash received by the club with respect to fees during 2014.

Prepare adjusting entries, post to ledger accounts, and prepare an adjusted trial balance.

(LO 4, 5, 6), AP

P4-2B Pat Okendo started her own consulting firm, Okendo Consulting, on May 1, 2014. The trial balance at May 31 is as shown on the next page.

OKENDO CONSULTING**Trial Balance
May 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 7,500	
Accounts Receivable	3,000	
Supplies	2,500	
Prepaid Insurance	3,600	
Equipment	12,000	
Accounts Payable		\$ 3,500
Unearned Service Revenue		4,000
Common Stock		19,100
Service Revenue		7,500
Salaries and Wages Expense	4,000	
Rent Expense	1,500	
	<u>\$34,100</u>	<u>\$34,100</u>

In addition to those accounts listed on the trial balance, the chart of accounts for Okendo Consulting also contains the following accounts: Accumulated Depreciation—Equipment, Salaries and Wages Payable, Depreciation Expense, Insurance Expense, Utilities Expense, and Supplies Expense.

Other data:

1. \$1,000 of supplies have been used during the month.
2. Utility costs incurred but not paid are \$300.
3. The insurance policy is for 3 years.
4. \$1,500 of the balance in the Unearned Service Revenue account remains unearned at the end of the month.
5. Assume May 31 is a Tuesday and employees are paid on Fridays. Okendo Consulting has two employees that are paid \$600 each for a 5-day work week.
6. The equipment has a 5-year life with no salvage value and is being depreciated at \$200 per month for 60 months.
7. Invoices representing \$1,500 of services performed during the month have not been recorded as of May 31.

Instructions

- (a) Prepare the adjusting entries for the month of May.
- (b) Post the adjusting entries to the ledger accounts. Enter the totals from the trial balance as beginning account balances. (Use T-accounts.)
- (c) Prepare an adjusted trial balance at May 31, 2014.

(c) Tot. trial balance \$36,580

Prepare adjusting entries, adjusted trial balance, and financial statements.

(LO 4, 5, 6, 7), AP



P4-3B Death Valley Resort opened for business on June 1 with eight air-conditioned units. Its trial balance before adjustment on August 31 is presented here.

DEATH VALLEY RESORT
Trial Balance
August 31, 2014

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 24,600	
Supplies	4,300	
Prepaid Insurance	5,400	
Land	40,000	
Buildings	132,000	
Equipment	36,000	
Accounts Payable		\$ 6,500
Unearned Rent Revenue		6,800
Mortgage Payable		120,000
Common Stock		100,000
Dividends	5,000	
Rent Revenue		80,000
Salaries and Wages Expense	53,000	
Utilities Expense	9,400	
Maintenance and Repairs Expense	3,600	
	<u>\$313,300</u>	<u>\$313,300</u>

Other data:

- Insurance expires at the rate of \$500 per month.
- A count of supplies on August 31 shows \$900 of supplies on hand.
- Annual depreciation is \$6,600 on buildings and \$4,000 on equipment.
- Unearned rent of \$4,000 was earned prior to August 31.
- Salaries of \$600 were unpaid at August 31.
- Rentals of \$1,600 were due from tenants at August 31. (Use Accounts Receivable.)
- The mortgage interest rate is 6% per year. (The mortgage was taken out August 1.)

Instructions

- Journalize the adjusting entries on August 31 for the 3-month period June 1–August 31.
- Prepare a ledger using T-accounts. Enter the trial balance amounts and post the adjusting entries.
- Prepare an adjusted trial balance on August 31.
- Prepare an income statement and a retained earnings statement for the 3 months ended August 31 and a classified balance sheet as of August 31.
- Identify which accounts should be closed on August 31.

(c) Tot. adj. trial balance	\$318,750
(d) Net income	\$ 10,850

P4-4B AbDulla Advertising Agency was founded by Miriam AbDulla in January 2009. Presented here are both the adjusted and unadjusted trial balances as of December 31, 2014.

Prepare adjusting entries and financial statements; identify accounts to be closed.

(LO 4, 5, 6, 7), AP



ABDULLA ADVERTISING AGENCY
Trial Balance
December 31, 2014

	<u>Unadjusted</u>		<u>Adjusted</u>	
	<u>Dr.</u>	<u>Cr.</u>	<u>Dr.</u>	<u>Cr.</u>
Cash	\$ 11,000		\$ 11,000	
Accounts Receivable	16,000		19,000	
Supplies	9,400		7,000	
Prepaid Insurance	3,350		1,790	
Equipment	60,000		60,000	
Accumulated Depreciation—Equipment		\$ 25,000		\$ 30,000
Notes Payable		8,000		8,000
Accounts Payable		2,000		2,000
Interest Payable		0		560
Unearned Service Revenue		5,000		3,100

	Unadjusted		Adjusted	
	Dr.	Cr.	Dr.	Cr.
Salaries and Wages Payable		0		820
Common Stock		20,000		20,000
Retained Earnings		5,500		5,500
Dividends	10,000		10,000	
Service Revenue		57,600		62,500
Salaries and Wages Expense	9,000		9,820	
Insurance Expense			1,560	
Interest Expense			560	
Depreciation Expense			5,000	
Supplies Expense			2,400	
Rent Expense	4,350		4,350	
	<u>\$123,100</u>	<u>\$123,100</u>	<u>\$132,480</u>	<u>\$132,480</u>

Instructions

- (a) Journalize the annual adjusting entries that were made.
- (b) Prepare an income statement and a retained earnings statement for the year ended December 31, and a classified balance sheet at December 31.
- (c) Identify which accounts should be closed on December 31.
- (d) If the note has been outstanding 10 months, what is the annual interest rate on that note?
- (e) If the company paid \$10,000 in salaries in 2014, what was the balance in Salaries and Wages Payable on December 31, 2013?

Prepare adjusting entries.
(LO 4, 5), AP

P4-5B A review of the ledger of Garner Company at December 31, 2014, produces these data pertaining to the preparation of annual adjusting entries.

- Prepaid Insurance \$16,400. The company has separate insurance policies on its buildings and its motor vehicles. Policy B4564 on the building was purchased on January 1, 2013, for \$11,400. The policy has a term of 3 years. Policy A2958 on the vehicles was purchased on July 1, 2014, for \$8,800. This policy has a term of 2 years.
- Unearned Rent Revenue \$450,000. The company began subleasing office space in its new building on November 1. At December 31, the company had the following rental contracts that are paid in full for the entire term of the lease.

2. Rent revenue \$90,000

Date	Term (in months)	Monthly Rent	Number of Leases
Nov. 1	9	\$6,000	5
Dec. 1	6	\$7,500	4

- Notes Payable \$20,000. This balance consists of a note for 8 months at an annual interest rate of 9%, dated August 1.
- Salaries and Wages Payable \$0. There are six salaried employees. Salaries are paid every Friday for the current week. Four employees receive a salary of \$480 each per week, and two employees earn \$600 each per week. December 31 is a Thursday. Employees do not work weekends. All employees worked the last 4 days of December.

Instructions

Prepare the adjusting entries at December 31, 2014.

Prepare adjusting entries and
a corrected income statement.
(LO 4, 5), AN

P4-6B Tutors-Plus Test Prep was organized on May 1, 2013, by Jan Cooper. Jan is a good manager but a poor accountant. From the trial balance prepared by a part-time bookkeeper, Jan prepared the following income statement for her fourth quarter, which ended April 30, 2014.

TUTORS-PLUS TEST PREP
Income Statement
For the Quarter Ended April 30, 2014

Revenues	
Service revenue	\$240,000
Operating expenses	
Advertising expense	\$ 6,400
Salaries and wages expense	92,000

Utilities expense	1,300	
Depreciation expense	2,400	
Maintenance and repairs expense	<u>1,700</u>	
Total operating expenses		<u>103,800</u>
Net income		<u>\$136,200</u>

Jan suspected that something was wrong with the statement because net income had never exceeded \$40,000 in any one quarter. Knowing that you are an experienced accountant, she asks you to review the income statement and other data.

You first look at the trial balance. In addition to the account balances reported above in the income statement, the ledger contains the following additional selected balances at April 30, 2014.

Supplies	\$ 9,800
Prepaid Insurance	12,000
Notes Payable	15,000

You then make inquiries and discover the following.

1. Service revenue includes advance payments received for summer classes, in the amount of \$75,000.
2. There were \$2,600 of supplies on hand at April 30.
3. Prepaid insurance resulted from the payment of a one-year policy on February 1, 2014.
4. The mail in May 2014 brought the following bills: advertising for the week of April 24, \$80; repairs made April 18, \$2,560; and utilities for the month of April, \$530.
5. There are six employees who receive wages that total \$1,380 per day. At April 30, three days' wages have been incurred but not paid.
6. The note payable is a 8% note dated February 1, 2014, and due on May 31, 2014.
7. Income tax of \$15,200 for the quarter is due in May but has not yet been recorded.

Instructions

- (a) Prepare any adjusting journal entries required as at April 30, 2014.
- (b) Prepare a correct income statement for the quarter ended April 30, 2014.
- (c) Explain to Jan the generally accepted accounting principles that she did not recognize in preparing her income statement and their effect on her results.

(b) Net income \$28,190

P4-7B On August 1, 2014, the following were the account balances of D&D Repair Services.

	<u>Debit</u>		<u>Credit</u>
Cash	\$ 6,040	Accumulated Depreciation—Equipment	\$ 600
Accounts Receivable	2,910	Accounts Payable	2,300
Supplies	1,030	Unearned Service Revenue	1,260
Equipment	10,000	Salaries and Wages Payable	1,420
		Common Stock	10,000
		Retained Earnings	4,400
	<u>\$19,980</u>		<u>\$19,980</u>

Journalize transactions and follow through accounting cycle to preparation of financial statements.

(LO 4, 5, 6), AP



During August, the following summary transactions were completed.

- Aug. 5 Received \$1,200 cash from customers in payment of account.
- 10 Paid \$3,120 for salaries due employees, of which \$1,700 is for August and \$1,420 is for July salaries payable.
- 12 Received \$2,800 cash for services performed in August.
- 15 Purchased store equipment on account \$2,000.
- 17 Purchased supplies on account \$860.
- 20 Paid creditors \$2,000 of accounts payable due.
- 22 Paid August rent \$380.
- 25 Paid salaries \$2,900.
- 27 Performed services worth \$3,130 on account and billed customers.
- 29 Received \$780 from customers for services to be provided in the future.

Adjustment data:

1. Supplies on hand are valued at \$960.
2. Accrued salaries payable are \$1,540.
3. Depreciation for the month is \$320.
4. Services were performed to satisfy \$800 of unearned service revenue.

Instructions

- (a) Enter the August 1 balances in the ledger accounts. (Use T-accounts.)
- (b) Journalize the August transactions.
- (c) Post to the ledger accounts. Use Service Revenue, Depreciation Expense, Supplies Expense, Salaries and Wages Expense, and Rent Expense.
- (d) Prepare a trial balance at August 31.
- (e) Journalize and post adjusting entries.
- (f) Prepare an adjusted trial balance.
- (g) Prepare an income statement and a retained earnings statement for August and a classified balance sheet at August 31.

(f) Cash	\$2,420
Tot. adj. trial balance	\$27,990
(g) Net loss	\$1,040

Complete all steps in accounting cycle.

(LO 4, 5, 6, 7, 8), AP



P4-8B Geog Lav opened Geog Cleaners on March 1, 2014. During March, the following transactions were completed.

- | | | |
|------|----|--|
| Mar. | 1 | Issued 10,000 shares of common stock for \$15,000 cash. |
| | 1 | Purchased used truck for \$8,000, paying \$3,000 cash and the balance on account. |
| | 3 | Purchased cleaning supplies for \$2,000 on account. |
| | 5 | Paid \$2,400 cash on a 6-month insurance policy effective March 1. |
| | 14 | Billed customers \$3,700 for cleaning services. |
| | 18 | Paid \$1,500 cash on amount owed on truck and \$500 on amount owed on cleaning supplies. |
| | 20 | Paid \$1,750 cash for employee salaries. |
| | 21 | Collected \$1,600 cash from customers billed on March 14. |
| | 28 | Billed customers \$4,200 for cleaning services. |
| | 31 | Paid \$350 for gas and oil used in truck during month (use Maintenance and Repairs Expense). |
| | 31 | Declared and paid a \$900 cash dividend. |

The chart of accounts for Geog Cleaners contains the following accounts: Cash, Accounts Receivable, Supplies, Prepaid Insurance, Equipment, Accumulated Depreciation—Equipment, Accounts Payable, Salaries and Wages Payable, Common Stock, Retained Earnings, Dividends, Income Summary, Service Revenue, Maintenance and Repairs Expense, Supplies Expense, Depreciation Expense, Insurance Expense, Salaries and Wages Expense.

Instructions

- (a) Journalize the March transactions.
- (b) Post to the ledger accounts. (Use T-accounts.)
- (c) Prepare a trial balance at March 31.
- (d) Journalize the following adjustments.
 1. Services performed but unbilled at March 31 was \$200.
 2. Depreciation on equipment for the month was \$250.
 3. One-sixth of the insurance expired.
 4. An inventory count shows \$280 of cleaning supplies on hand at March 31.
 5. Accrued but unpaid employee salaries were \$1,080.
- (e) Post adjusting entries to the T-accounts.
- (f) Prepare an adjusted trial balance.
- (g) Prepare the income statement and a retained earnings statement for March and a classified balance sheet at March 31.
- (h) Journalize and post closing entries and complete the closing process.
- (i) Prepare a post-closing trial balance at March 31.

(f) Tot. adj. trial balance	\$29,430
(g) Tot. assets	\$22,730