

# CHAPTER 4

## Completing the Accounting Cycle

### ASSIGNMENT CLASSIFICATION TABLE

<u>Study Objectives</u>	<u>Questions</u>	<u>Brief Exercises</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, 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	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	1A, 2A, 3A, 4A, 5A	1B, 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 balance sheet.	14, 15, 16, 17, 18	10, 11	3, 9, 14 15, 16, 17	1A, 2A, 3A, 4A, 5A	1B, 2B, 3B, 4B, 5B
*7. Prepare reversing entries.	10, 19, 20	12	18, 19		

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

## ASSIGNMENT CHARACTERISTICS TABLE

<b>Problem Number</b>	<b>Description</b>	<b>Difficulty Level</b>	<b>Time Allotted (min.)</b>
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 balance sheet, 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 balance sheet, 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			

# BLOOM'S TAXONOMY TABLE

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

Study Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Prepare a worksheet.	BE4-1	Q4-1 Q4-2 Q4-3 Q4-4 Q4-5 BE4-3	E4-1 E4-2 E4-3 E4-17 P4-2A P4-3A	BE4-2 P4-3B 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 E4-4 E4-7 E4-8	E4-11 P4-2A P4-3A P4-2B P4-3B P4-1B	P4-4B P4-5B	
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 P4-1A	P4-1B P4-4B 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 balance sheet.	Q4-14 Q4-15 Q4-16	Q4-17 Q4-18 BE4-11 E4-15	BE4-10 E4-3 E4-9 E4-14 E4-16	E4-17 P4-2A P4-3A P4-2B P4-3B	P4-4B P4-5B	
*7. Prepare reversing entries.		Q4-10 Q4-19		Q4-20 BE4-12	E4-18 E4-19	
Broadening Your Perspective		Communication Exploring the Web		Financial Reporting Decision Making Across the Organization Comparative Analysis		All About You Ethics Case Exploring the Web

# 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 balance sheet credit column. A net loss will appear in the income statement credit column and the balance sheet debit column.
5. Formal financial statements are needed because the columnar data are not properly arranged and classified for statement purposes. For example, a drawing 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) Owner's Capital (for net income).  
(4) (Dr) Owner's Capital and (Cr) Owner's Drawing.
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 loss, is then closed to the owner's capital account.
8. The post-closing trial balance contains only balance sheet 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; Jennifer Shaeffer, Drawing; 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 at any time, and (3) may affect any combination of accounts.

**Questions Chapter 4 (Continued)**

14. The standard classifications in a balance sheet are:

<u>Assets</u> Current Assets Long-term Investments Property, Plant, and Equipment Intangible Assets	<u>Liabilities and Owner's Equity</u> Current Liabilities Long-term Liabilities Owner's Equity
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15. A company's operating cycle is the average time required to go from cash to cash in producing revenues. 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 order in which they expect to convert them into cash.

17. Long-term investments are generally investments in stocks and bonds of other companies that are normally held for many years. Property, plant, and equipment are assets with relatively long useful lives that a company is currently using in operating the business.

18. (a) The owner's equity section for a corporation is called **stockholders' equity**.  
 (b) The two accounts and the purpose of each are: (1) **Capital stock** is used to record investments of assets in the business by the owners (stockholders). (2) **Retained earnings** is used to record net income retained in the business.

\*19. After reversing entries have been made, the balances will be Interest Payable, zero balance; Interest Expense, a credit balance.

\*20. (a)

Jan. 10	Salaries Expense .....	8,000	
	Cash .....		8,000

Because of the January 1 reversing entry that credited Salaries Expense for \$3,500, Salaries Expense will have a debit balance of \$4,500 which equals the expense for the current period.

(b)

Jan. 10	Salaries Payable .....	3,500	
	Salaries Expense .....	4,500	
	Cash .....		8,000

Note that Salaries Expense will again have a debit balance of \$4,500.

# 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 4-7.

## BRIEF EXERCISE 4-3

Account	Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.
Accumulated Depreciation				X
Depreciation Expense	X			
N. Batan, Capital				X
N. Batan, Drawing			X	
Service Revenue		X		
Supplies			X	
Accounts Payable				X

## BRIEF EXERCISE 4-4

Dec. 31	Service Revenue .....	50,000	
	Income Summary .....		50,000
31	Income Summary .....	31,000	
	Salaries Expense .....		27,000
	Supplies Expense .....		4,000
31	Income Summary .....	19,000	
	D. Swann, Capital .....		19,000
31	D. Swann, Capital .....	2,000	
	D. Swann, Drawing .....		2,000

**BRIEF EXERCISE 4-2**

**LEY COMPANY**  
Worksheet

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Prepaid Insurance	3,000			(a) 1,200	1,800				1,800	
Service Revenue		58,000		(b) 1,100		59,100	59,100			
Salaries Expense	25,000		(c) 800		25,800		25,800			
Accounts Receivable			(b) 1,100		1,100				1,100	
Salaries Payable				(c) 800		800				800
Insurance Expense			(a) 1,200		1,200		1,200			

**BRIEF EXERCISE 4-5**

Salaries Expense		Income Summary		Service Revenue	
27,000	(2) 27,000	(2) 31,000	(1) 50,000	(1) 50,000	50,000
		(3) 19,000			
		50,000	50,000		

Supplies Expense		D. Swann, Capital		D. Swann, Drawing	
4,000	(2) 4,000	(4) 2,000	30,000	2,000	(4) 2,000
			(3) 19,000		
			Bal. 47,000		

**BRIEF EXERCISE 4-6**

July 31	Green Fee Revenue .....	13,600	
	Income Summary.....		13,600
31	Income Summary .....	10,700	
	Salaries Expense .....		8,200
	Maintenance Expense.....		2,500

**Green Fee Revenue**

Date	Explanation	Ref.	Debit	Credit	Balance
7/31	Balance			13,600	13,600
7/31	Closing entry		13,600		<u>0</u>

**Salaries Expense**

Date	Explanation	Ref.	Debit	Credit	Balance
7/31	Balance		8,200		8,200
7/31	Closing entry			8,200	<u>0</u>



## BRIEF EXERCISE 4-6 (Continued)

<b>Maintenance Expense</b>					
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
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  
N. Batan, Capital  
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.....	780	
	Accounts Receivable .....		780
2.	Accounts Payable (\$1,750 – \$1,570) .....	180	
	Store Supplies .....		180

**BRIEF EXERCISE 4-10**

**DIAZ COMPANY**  
**Partial Balance Sheet**

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

**BRIEF EXERCISE 4-11**

<u>CL</u> Accounts payable	<u>CL</u> Income tax payable
<u>CA</u> Accounts receivable	<u>LTI</u> Investment in long-term bonds
<u>PPE</u> Accumulated depreciation	<u>PPE</u> Land
<u>PPE</u> Building	<u>CA</u> Merchandise inventory
<u>CA</u> Cash	<u>IA</u> Patent
<u>IA</u> Copyrights	<u>CA</u> Supplies

**\*BRIEF EXERCISE 4-12**

Nov. 1	Salaries Payable .....	1,400	
	Salaries Expense .....		1,400

The balances after posting the reversing entry are Salaries Expense (Cr.) \$1,400 and Salaries Payable \$0.

# SOLUTIONS TO EXERCISES

## EXERCISE 4-1

### BRISCOE COMPANY Worksheet For the Month Ended June 30, 2008

Account Titles	Trial Balance		Adjustments		Adj. Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	2,320				2,320				2,320	
Accounts										
Receivable	2,440				2,440				2,440	
Supplies	1,880			1,580	300				300	
Accounts Payable		1,120				1,120				1,120
Unearned										
Revenue		240	140			100				100
Lenny Briscoe,										
Capital		3,600				3,600				3,600
Service Revenue		2,400		140		2,540		2,540		
Salaries Expense	560		280		840		840			
Miscellaneous										
Expense	160				160		160			
Totals	<u>7,360</u>	<u>7,360</u>								
Supplies Expense			1,580		1,580		1,580			
Salaries Payable				280		280				280
Totals			<u>2,000</u>	<u>2,000</u>	<u>7,640</u>	<u>7,640</u>	2,580	2,540	5,060	5,100
Net Loss								40	40	
Totals							<u>2,580</u>	<u>2,580</u>	<u>5,100</u>	<u>5,100</u>

**EXERCISE 4-2**

**GOODE COMPANY  
(Partial) Worksheet  
For the Month Ended April 30, 2008**

<b>Account Titles</b>	<b>Adjusted Trial Balance</b>		<b>Income Statement</b>		<b>Balance Sheet</b>	
	<b>Dr.</b>	<b>Cr.</b>	<b>Dr.</b>	<b>Cr.</b>	<b>Dr.</b>	<b>Cr.</b>
Cash	13,752				13,752	
Accounts Receivable	7,840				7,840	
Prepaid Rent	2,280				2,280	
Equipment	23,050				23,050	
Accum. Depreciation		4,921				4,921
Notes Payable		5,700				5,700
Accounts Payable		5,672				5,672
T. Goode, Capital		30,960				30,960
T. Goode, Drawing	3,650				3,650	
Service Revenue		15,590		15,590		
Salaries Expense	10,840		10,840			
Rent Expense	760		760			
Depreciation Expense	671		671			
Interest Expense	57		57			
Interest Payable		57				57
<b>Totals</b>	<b><u>62,900</u></b>	<b><u>62,900</u></b>	<b><u>12,328</u></b>	<b><u>15,590</u></b>	<b><u>50,572</u></b>	<b><u>47,310</u></b>
<b>Net Income</b>			<b><u>3,262</u></b>			<b><u>3,262</u></b>
<b>Totals</b>			<b><u>15,590</u></b>	<b><u>15,590</u></b>	<b><u>50,572</u></b>	<b><u>50,572</u></b>

**EXERCISE 4-3**

**GOODE COMPANY**  
**Income Statement**  
**For the Month Ended April 30, 2008**

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<b>Revenues</b>		
Service revenue.....		\$15,590
<b>Expenses</b>		
Salaries expense.....	\$10,840	
Rent expense .....	760	
Depreciation expense.....	671	
Interest expense.....	<u>57</u>	
Total expenses.....		<u>12,328</u>
Net income .....		<u>\$ 3,262</u>

**GOODE COMPANY**  
**Owner's Equity Statement**  
**For the Month Ended April 30, 2008**

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T. Goode, Capital, April 1 .....	\$30,960
Add: Net income .....	<u>3,262</u>
	34,222
Less: Drawings.....	<u>3,650</u>
T. Goode, Capital, April 30.....	<u>\$30,572</u>

**GOODE COMPANY**  
**Balance Sheet**  
**April 30, 2008**

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<b>Assets</b>		
<b>Current assets</b>		
Cash .....		\$13,752
Accounts receivable .....		7,840
Prepaid rent .....		<u>2,280</u>
Total current assets .....		23,872
<b>Property, plant, and equipment</b>		
Equipment.....	\$23,050	
Less: Accumulated depreciation.....	<u>4,921</u>	<u>18,129</u>
Total assets.....		<u>\$42,001</u>

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**EXERCISE 4-3 (Continued)**

**GOODE COMPANY**  
**Balance Sheet (Continued)**  
**April 30, 2008**

**Liabilities and Owner's Equity**

<b>Current liabilities</b>		
Notes payable .....		\$ 5,700
Accounts payable .....		5,672
Interest payable .....		<u>57</u>
<b>Total current liabilities</b> .....		<b>11,429</b>
<b>Owner's equity</b>		
T. Goode, Capital .....		<u>30,572</u>
<b>Total liabilities and owner's equity</b> .....		<b><u>\$42,001</u></b>

**EXERCISE 4-4**

<b>(a)</b>	<b>Apr. 30</b>	<b>Service Revenue</b> .....	<b>15,590</b>	
		<b>Income Summary</b> .....		<b>15,590</b>
	<b>30</b>	<b>Income Summary</b> .....	<b>12,328</b>	
		<b>Salaries Expense</b> .....		<b>10,840</b>
		<b>Rent Expense</b> .....		<b>760</b>
		<b>Depreciation Expense</b> .....		<b>671</b>
		<b>Interest Expense</b> .....		<b>57</b>
	<b>30</b>	<b>Income Summary</b> .....	<b>3,262</b>	
		<b>T. Goode, Capital</b> .....		<b>3,262</b>
	<b>30</b>	<b>T. Goode, Capital</b> .....	<b>3,650</b>	
		<b>T. Goode, Drawing</b> .....		<b>3,650</b>

**(b)**

Income Summary				T. Goode, Capital			
(2)	12,328	(1)	15,590	(4)	3,650		30,960
(3)	3,262					(3)	3,262
	15,590		15,590			Bal.	30,572

**EXERCISE 4-4 (Continued)**

(c)

**GOODE COMPANY**  
**Post-Closing Trial Balance**  
**April 30, 2008**

	<b>Debit</b>	<b>Credit</b>
Cash .....	\$13,752	
Accounts Receivable.....	7,840	
Prepaid Rent.....	2,280	
Equipment.....	23,050	
Accumulated Depreciation .....		\$ 4,921
Notes Payable.....		5,700
Accounts Payable.....		5,672
Interest Payable.....		57
T. Goode, Capital .....		<u>30,572</u>
	<u>\$46,922</u>	<u>\$46,922</u>

**EXERCISE 4-5**

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

**EXERCISE 4-5 (Continued)**

(b)	Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.
Accounts Receivable			X	
Prepaid Insurance			X	
Accum. Depreciation				X
Salaries Payable				X
Service Revenue		X		
Salaries Expense	X			
Insurance Expense	X			
Depreciation Expense	X			

**EXERCISE 4-6**

- (a) Accounts Receivable—\$25,000 (\$34,000 – \$9,000).  
 Supplies—\$2,000 (\$7,000 – \$5,000).  
 Accumulated Depreciation—\$22,000 (\$12,000 + \$10,000).  
 Salaries Payable—\$0 No liability recorded until adjustments are made.  
 Insurance Expense—\$6,000 (\$26,000 – \$20,000).  
 Salaries Expense—\$44,000 (\$49,000 – \$5,000).

(b) Accounts Receivable .....	9,000	
Service Revenue .....		9,000
Insurance Expense .....	6,000	
Prepaid Insurance .....		6,000
Supplies Expense .....	5,000	
Supplies .....		5,000
Depreciation Expense .....	10,000	
Accumulated Depreciation .....		10,000
Salaries Expense .....	5,000	
Salaries Payable .....		5,000



**EXERCISE 4-7**

(a)	Service Revenue .....	4,064	
	Income Summary .....		4,064
	Income Summary .....	3,828	
	Salaries Expense .....		1,344
	Miscellaneous Expense .....		256
	Supplies Expense .....		2,228
	Income Summary .....	236	
	Emil Skoda, Capital .....		236
	Emil Skoda, Capital .....	300	
	Emil Skoda, Drawing .....		300

(b) **EMIL SKODA COMPANY**  
**Post-Closing Trial Balance**  
**For the Month Ended June 30, 2008**

<u>Account Titles</u>	<u>Debit</u>	<u>Credit</u>
Cash .....	\$3,712	
Accounts Receivable .....	3,904	
Supplies .....	480	
Accounts Payable .....		\$1,792
Salaries Payable .....		448
Unearned Revenue .....		160
Emil Skoda, Capital .....		5,696
	<u>\$8,096</u>	<u>\$8,096</u>

**EXERCISE 4-8**

**(a) General Journal**

				J15	
Date	Account Titles	Ref.	Debit	Credit	
July 31	Commission Revenue .....	404	65,000		
	Rent Revenue .....	429	6,500		
	Income Summary .....	350			71,500
31	Income Summary .....	350	74,600		
	Salaries Expense.....	720			55,700
	Utilities Expense.....	732			14,900
	Depreciation Expense.....	711			4,000
31	B. J. Apachi, Capital.....	301	3,100		
	Income Summary .....	350			3,100
31	B. J. Apachi, Capital.....	301	16,000		
	B. J. Apachi, Drawing.....	306			16,000

**(b)**

B. J. Apachi, Capital					No. 301
Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Balance				45,200
31	Close net loss	J15	3,100		42,100
31	Close drawing	J15	16,000		26,100

Income Summary					No. 350
Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Close revenue	J15		71,500	71,500
31	Close expenses	J15	74,600		(3,100)
31	Close net loss	J15		3,100	0

**EXERCISE 4-8 (Continued)**

(c)

**APACHI COMPANY**  
**Post-Closing Trial Balance**  
**July 31, 2008**

	Debit	Credit
Cash .....	\$14,840	
Accounts Receivable.....	8,780	
Equipment.....	15,900	
Accumulated Depreciation .....		\$ 7,400
Accounts Payable.....		4,220
Unearned Rent Revenue.....		1,800
B. J. Apachi, Capital.....		26,100
	\$39,520	\$39,520

**EXERCISE 4-9**

(a)

**APACHI COMPANY**  
**Income Statement**  
**For the Year Ended July 31, 2008**

<b>Revenues</b>		
Commission revenue.....		\$65,000
Rent revenue .....		6,500
Total revenues .....		71,500
<b>Expenses</b>		
Salaries expense.....	\$55,700	
Utilities expense.....	14,900	
Depreciation expense.....	4,000	
Total expenses.....		74,600
Net loss .....		(\$ 3,100)

**APACHI COMPANY**  
**Owner's Equity Statement**  
**For the Year Ended July 31, 2008**

B. J. Apachi, Capital, August 1, 2007 .....		\$45,200
Less: Net loss .....	\$ 3,100	
Drawings.....	16,000	19,100
B. J. Apachi, Capital, July 31, 2008.....		\$26,100

**EXERCISE 4-9 (Continued)**

(b)

**APACHI COMPANY**  
**Balance Sheet**  
**July 31, 2008**

Assets		
<b>Current assets</b>		
Cash.....		\$14,840
Accounts receivable.....		<u>8,780</u>
Total current assets.....		23,620
<b>Property, plant, and equipment</b>		
Equipment .....	\$15,900	
Less: Accumulated depreciation .....	<u>7,400</u>	<u>8,500</u>
Total assets .....		<u>\$32,120</u>
<b>Liabilities and Owner's Equity</b>		
<b>Current liabilities</b>		
Accounts payable .....		\$ 4,220
Unearned rent revenue.....		<u>1,800</u>
Total current liabilities.....		6,020
<b>Owner's equity</b>		
B. J. Apachi, Capital .....		<u>26,100</u>
Total liabilities and owner's equity.....		<u>\$32,120</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.....	15,100	
		Income Summary .....		15,100
	30	Income Summary .....	13,100	
		Salaries Expense.....		8,800
		Supplies Expense .....		1,300
		Rent Expense .....		3,000
	30	Income Summary .....	2,000	
		Nina Cole, Capital.....		2,000
	30	Nina Cole, Capital .....	2,500	
		Nina Cole, Drawing.....		2,500

(b)

Income Summary			
June 30	13,100	June 30	15,100
June 30	2,000		
	15,100		15,100

**EXERCISE 4-12**

(a)	1.	Cash.....	600	
		Equipment .....		600
		Salaries Expense .....	600	
		Cash .....		600
	2.	Service Revenue.....	100	
		Cash .....		100
		Cash.....	1,000	
		Accounts Receivable.....		1,000

**EXERCISE 4-12 (Continued)**

3.	Accounts Payable .....	890	
	Equipment .....		890
	Equipment .....	980	
	Accounts Payable .....		980
(b) 1.	Salaries Expense.....	600	
	Equipment .....		600
2.	Service Revenue .....	100	
	Cash .....	900	
	Accounts Receivable .....		1,000
3.	Equipment .....	90	
	Accounts Payable .....		90

**EXERCISE 4-13**

1.	Accounts Payable (\$630 – \$360) .....	270	
	Cash.....		270
2.	Supplies.....	560	
	Equipment .....		56
	Accounts Payable .....		504
3.	M. Mason, Drawing .....	400	
	Salaries Expense.....		400

**EXERCISE 4-14****(a)****KARR BOWLING ALLEY  
Balance Sheet  
December 31, 2008**

---

<b>Assets</b>			
<b>Current assets</b>			
Cash .....			\$ 18,040
Accounts receivable .....			14,520
Prepaid insurance.....			<u>4,680</u>
<b>Total current assets .....</b>			<b>37,240</b>
<b>Property, plant, and equipment</b>			
Land.....		\$64,000	
Building.....	\$128,800		
Less: Acc. depr.—building .....	<u>42,600</u>	86,200	
Equipment.....	62,400		
Less: Acc. depr.—equipment .....	<u>18,720</u>	<u>43,680</u>	<u>193,880</u>
<b>Total assets.....</b>			<b><u>\$231,120</u></b>

**EXERCISE 4-14 (Continued)**

**KARR BOWLING ALLEY  
Balance Sheet (Continued)  
December 31, 2008**

<b>Liabilities and Owner's Equity</b>	
<b>Current liabilities</b>	
Current portion of note payable .....	\$ 13,900
Accounts payable .....	12,300
Interest payable .....	<u>2,600</u>
Total current liabilities .....	28,800
<b>Long-term liabilities</b>	
Note payable .....	<u>83,880</u>
Total liabilities .....	112,680
<b>Owner's equity</b>	
S. Karr, Capital (\$115,000 + \$3,440*) .....	<u>118,440</u>
Total liabilities and owner's equity .....	<u><u>\$231,120</u></u>

\*Net income = \$14,180 – \$780 – \$7,360 – \$2,600 = \$3,440

(b) Current assets exceed current liabilities by \$8,440 (\$37,240 – \$28,800). In addition, approximately 50% of current assets are in the form of cash. In sum, the company's liquidity appears to be reasonably good.

**EXERCISE 4-15**

- |                                     |                             |
|-------------------------------------|-----------------------------|
| <u>CL</u> Accounts payable          | <u>CA</u> Inventories       |
| <u>CA</u> Accounts receivable       | <u>LTI</u> Investments      |
| <u>PPE</u> Accumulated depreciation | <u>PPE</u> Land             |
| <u>PPE</u> Buildings                | <u>LTL</u> Long-term dept   |
| <u>CA</u> Cash                      | <u>CA</u> Supplies          |
| <u>OE</u> Roberts, Capital          | <u>PPE</u> Office equipment |
| <u>IA</u> Patents                   | <u>CA</u> Prepaid expenses  |
| <u>CL</u> Salaries payable          |                             |



**EXERCISE 4-16**

**R. STEVENS COMPANY**  
**Balance Sheet**  
**December 31, 2008**  
**(in thousands)**

---

<b>Assets</b>		
<b>Current assets</b>		
Cash .....	\$ 2,668	
Short-term investments .....	3,690	
Accounts receivable .....	1,696	
Inventories .....	1,256	
Prepaid expenses .....	<u>880</u>	
Total current assets .....		\$10,190
Long-term investments.....		264
<b>Property, plant, and equipment</b>		
Property, plant, and equipment .....	11,500	
Less: Accumulated depreciation.....	<u>(5,655)</u>	<u>5,845</u>
<b>Total assets .....</b>		<b><u>\$16,299</u></b>
<b>Liabilities and Owner's Equity</b>		
<b>Current liabilities</b>		
Notes payable in 2009 .....	\$ 481	
Accounts payable .....	<u>1,444</u>	
Total current liabilities .....		\$ 1,925
<b>Long-term liabilities</b>		
Long-term debt .....	943	
Notes payable (after 2009) .....	<u>368</u>	
Total long-term liabilities .....		<u>1,311</u>
<b>Total liabilities.....</b>		<b><u>3,236</u></b>
<b>Owner's equity</b>		
R. Stevens, Capital .....	13,063	
Total owner's equity.....		<u>13,063</u>
<b>Total liabilities and owner's equity .....</b>		<b><u>\$16,299</u></b>

**EXERCISE 4-17****(a)**

**B. SNYDER COMPANY**  
**Income Statement**  
**For the Year Ended July 31, 2008**

---

<b>Revenues</b>		
Commission revenue .....	\$61,100	
Rent revenue.....	<u>8,500</u>	
<b>Total revenues.....</b>		<b>\$69,600</b>
<b>Expenses</b>		
Salaries expense .....	51,700	
Utilities expense .....	22,600	
Depreciation expense .....	<u>4,000</u>	
<b>Total expense .....</b>		<b><u>78,300</u></b>
<b>Net loss .....</b>		<b><u>\$ (8,700)</u></b>

**B. SNYDER COMPANY**  
**Owner's Equity Statement**  
**For the Year Ended July 31, 2008**

---

<b>Owner's equity, August 1, 2007.....</b>		<b>\$51,200</b>
<b>Less: Net loss.....</b>	<b>\$8,700</b>	
<b>Drawings .....</b>	<b><u>4,000</u></b>	<b><u>12,700</u></b>
<b>Owner's equity, July 31, 2008 .....</b>		<b><u>\$38,500</u></b>

EXERCISE 4-17 (Continued)

(b)

**B. SNYDER COMPANY**  
**Balance Sheet**  
**July 31, 2008**

---

<b>Assets</b>	
<b>Current assets</b>	
Cash .....	\$24,200
Accounts receivable .....	<u>9,780</u>
<b>Total current assets .....</b>	<b>\$33,980</b>
<b>Property, plant, and equipment</b>	
Equipment .....	18,500
Less: Accumulated depreciation .....	<u>6,000</u>
<b>Total assets .....</b>	<b><u>\$46,480</u></b>
<b>Liabilities and Owner's Equity</b>	
<b>Current liabilities</b>	
Accounts payable .....	\$ 4,100
Salaries payable .....	<u>2,080</u>
<b>Total current liabilities .....</b>	<b>\$ 6,180</b>
<b>Long-term liabilities</b>	
Note payable.....	<u>1,800</u>
<b>Total liabilities.....</b>	<b>7,980</b>
<b>Owner's equity</b>	
B. Snyder, Capital .....	38,500
<b>Total owner's equity .....</b>	<b><u>38,500</u></b>
<b>Total liabilities and owner's equity .....</b>	<b><u>\$46,480</u></b>

---

**\*EXERCISE 4-18**

(a)	Dec. 31	Salaries Expense (\$10,000 X 2/5) .....	4,000	
		Salaries Payable.....		4,000
Jan. 6		Salaries Payable.....	4,000	
		Salaries Expense (\$10,000 X 3/5) .....	6,000	
		Cash .....		10,000
(b)	Dec. 31	Salaries Expense .....	4,000	
		Salaries Payable.....		4,000
Jan. 1		Salaries Payable.....	4,000	
		Salaries Expense .....		4,000
Jan. 6		Salaries Expense .....	10,000	
		Cash .....		10,000

**\*EXERCISE 4-19**

(a)	Dec. 31	Commission Revenue.....	92,000	
		Income Summary.....		92,000
31		Income Summary.....	7,800	
		Interest Expense .....		7,800
(b)	Jan. 1	Commission Revenue.....	4,500	
		Accounts Receivable.....		4,500
1		Interest Payable .....	1,500	
		Interest Expense .....		1,500

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

**(c) & (e)**

Accounts Receivable			
Dec. 31	Balance	*19,500	
	31 Adjusting	<u>4,500</u>	
		<u>24,000</u>	
			Jan. 1 Reversing 4,500

\*( $\$24,000 - \$4,500$ )

Commission Revenue			
Dec. 31	Closing	92,000	Dec. 31 Balance 87,500*
		<u>92,000</u>	31 Adjusting <u>4,500</u>
			<u>92,000</u>
Jan. 1	Reversing	4,500	Jan. 10 4,500

\*( $\$92,000 - \$4,500$ )

Interest Payable			
			Dec. 31 Adjusting 1,500
Jan. 1	Reversing	1,500	

Interest Expense			
Dec. 31	Balance	*6,300	Dec. 31 Closing 7,800
	31 Adjusting	<u>1,500</u>	
		<u>7,800</u>	<u>7,800</u>
Jan. 15		2,500	Jan. 1 Reversing 1,500

\*( $\$7,800 - \$1,500$ )

(d)		(1)		
Jan. 10	Cash.....		4,500	
	Commission Revenue.....			4,500
		(2)		
15	Interest Expense.....		2,500	
	Cash.....			2,500

# SOLUTIONS TO PROBLEMS

## PROBLEM 4-1A

(a) **THOMAS MAGNUM P.I.**  
Worksheet

For the Quarter Ended March 31, 2008

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	11,400				11,400				11,400	
Accounts Receivable	5,620		(e) 530		6,150				6,150	
Supplies	1,050		(a) 670		380				380	
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
T. Magnum, Capital		20,000				20,000				20,000
T. Magnum, Drawing	600				600				600	
Service Revenue		13,620		(e) 530		14,150		14,150		
Salaries Expense	2,200				2,200		2,200			
Travel Expense	1,300				1,300		1,300			
Rent Expense	1,200				1,200		1,200			
Miscellaneous Expense	200				200		200			
<b>Totals</b>	<b>55,970</b>	<b>55,970</b>								
Supplies Expense			(a) 670		670		670			
Depreciation Expense			(b) 1,000		1,000		1,000			
Accumulated Depreciation				(b) 1,000		1,000				1,000
Interest Expense			(c) 300		300		300			300
Interest Payable				(c) 300		300				300
Insurance Expense			(d) 600		600		600			
<b>Totals</b>			<b>3,100</b>	<b>3,100</b>	<b>57,800</b>	<b>57,800</b>	<b>7,470</b>	<b>14,150</b>	<b>50,330</b>	<b>43,650</b>
<b>Net Income</b>							<b>6,680</b>			<b>6,680</b>
<b>Totals</b>							<b>14,150</b>	<b>14,150</b>	<b>50,330</b>	<b>50,330</b>

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

**PROBLEM 4-1A (Continued)**

**(b)**

**THOMAS MAGNUM P.I.  
Income Statement  
For the Quarter Ended March 31, 2008**

---

<b>Revenues</b>		
Service revenue.....		<b>\$14,150</b>
<b>Expenses</b>		
Salaries expense.....	<b>\$2,200</b>	
Travel expense.....	<b>1,300</b>	
Rent expense.....	<b>1,200</b>	
Depreciation expense.....	<b>1,000</b>	
Supplies expense .....	<b>670</b>	
Insurance expense .....	<b>600</b>	
Interest expense.....	<b>300</b>	
Miscellaneous expense .....	<b>200</b>	
Total expenses.....		<u><b>7,470</b></u>
<b>Net income .....</b>		<u><b>\$ 6,680</b></u>

**THOMAS MAGNUM P.I.  
Owner's Equity Statement  
For the Quarter Ended March 31, 2008**

---

<b>T. Magnum, Capital, January 1 .....</b>		<b>\$ 0</b>
<b>Add: Investment by owner .....</b>	<b>\$20,000</b>	
<b>Net income .....</b>	<u><b>6,680</b></u>	<b>26,680</b>
<b>Less: Drawings.....</b>		<u><b>600</b></u>
<b>T. Magnum, Capital, March 31 .....</b>		<u><b>\$26,080</b></u>

**PROBLEM 4-1A (Continued)**

**THOMAS MAGNUM P.I.  
Balance Sheet  
March 31, 2008**

Assets		
<b>Current assets</b>		
Cash.....		\$11,400
Accounts receivable.....		6,150
Supplies.....		380
Prepaid insurance.....		<u>1,800</u>
Total current assets.....		19,730
<b>Property, plant, and equipment</b>		
Equipment .....	\$30,000	
Less: Accumulated depreciation .....	<u>1,000</u>	<u>29,000</u>
Total assets .....		<u>\$48,730</u>
<b>Liabilities and Owner's Equity</b>		
<b>Current liabilities</b>		
Notes payable.....		\$10,000
Accounts payable .....		12,350
Interest payable .....		<u>300</u>
Total current liabilities.....		22,650
<b>Owner's equity</b>		
T. Magnum, Capital .....		<u>26,080</u>
Total liabilities and owner's equity .....		<u>\$48,730</u>

(c)	Mar. 31	Supplies Expense .....	670	
		Supplies .....		670
	31	Depreciation Expense .....	1,000	
		Accumulated Depreciation .....		1,000
	31	Interest Expense .....	300	
		Interest Payable.....		300
	31	Insurance Expense.....	600	
		Prepaid Insurance.....		600



**PROBLEM 4-1A (Continued)**

Mar. 31	Accounts Receivable.....	530	
	Service Revenue .....		530
(d) Mar. 31	Service Revenue .....	14,150	
	Income Summary.....		14,150
31	Income Summary.....	7,470	
	Travel Expense.....		1,300
	Salaries Expense .....		2,200
	Rent Expense.....		1,200
	Insurance Expense.....		600
	Depreciation Expense .....		1,000
	Supplies Expense.....		670
	Interest Expense .....		300
	Miscellaneous Expense.....		200
31	Income Summary.....	6,680	
	T. Magnum, Capital .....		6,680
31	T. Magnum, Capital .....	600	
	T. Magnum, Drawing.....		600

**PROBLEM 4-2A**

**(a) PORTER COMPANY**  
**Partial Worksheet**  
**For the Year Ended December 31, 2008**

Account		Adjusted Trial Balance		Income Statement		Balance Sheet	
		Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
101	Cash	18,800				18,800	
112	Accounts Receivable	16,200				16,200	
126	Supplies	2,300				2,300	
130	Prepaid Insurance	4,400				4,400	
151	Office Equipment	44,000				44,000	
152	Acc. Depr.—Off. Equip.		20,000				20,000
200	Notes Payable		20,000				20,000
201	Accounts Payable		8,000				8,000
212	Salaries Payable		2,600				2,600
230	Interest Payable		1,000				1,000
301	B. Porter, Capital		36,000				36,000
306	B. Porter, Drawing	12,000				12,000	
400	Service Revenue		77,800		77,800		
610	Advertising Expense	12,000		12,000			
631	Supplies Expense	3,700		3,700			
711	Depreciation Expense	8,000		8,000			
722	Insurance Expense	4,000		4,000			
726	Salaries Expense	39,000		39,000			
905	Interest Expense	1,000		1,000			
	<b>Totals</b>	<u>165,400</u>	<u>165,400</u>	<u>67,700</u>	<u>77,800</u>	<u>97,700</u>	<u>87,600</u>
	<b>Net Income</b>			<u>10,100</u>			<u>10,100</u>
	<b>Totals</b>			<u>77,800</u>	<u>77,800</u>	<u>97,700</u>	<u>97,700</u>

**PROBLEM 4-2A (Continued)**

**(b)**

**PORTER COMPANY**  
**Income Statement**  
**For the Year Ended December 31, 2008**

---

<b>Revenues</b>		
Service revenue.....		<b>\$77,800</b>
<b>Expenses</b>		
Salaries expense.....	<b>\$39,000</b>	
Advertising expense.....	<b>12,000</b>	
Depreciation expense.....	<b>8,000</b>	
Insurance expense.....	<b>4,000</b>	
Supplies expense.....	<b>3,700</b>	
Interest expense.....	<b>1,000</b>	
Total expenses.....		<u><b>67,700</b></u>
Net income.....		<u><b>\$10,100</b></u>

**PORTER COMPANY**  
**Owner's Equity Statement**  
**For the Year Ended December 31, 2008**

---

B. Porter, Capital, January 1.....	<b>\$36,000</b>
Add: Net income.....	<u><b>10,100</b></u>
	<b>46,100</b>
Less: Drawings.....	<u><b>12,000</b></u>
B. Porter, Capital, December 31.....	<u><b>\$34,100</b></u>

**PROBLEM 4-2A (Continued)**

**PORTER COMPANY  
Balance Sheet  
December 31, 2008**

---

<b>Assets</b>	
<b>Current assets</b>	
Cash.....	\$18,800
Accounts receivable.....	16,200
Supplies.....	2,300
Prepaid insurance.....	<u>4,400</u>
<b>Total current assets.....</b>	<b>41,700</b>
<b>Property, plant, and equipment</b>	
Office equipment.....	\$44,000
Less: Accumulated depreciation.....	<u>20,000</u>
<b>Total assets.....</b>	<b><u>\$65,700</u></b>
<b>Liabilities and Owner's Equity</b>	
<b>Current liabilities</b>	
Notes payable.....	\$10,000
Accounts payable.....	8,000
Salaries payable.....	2,600
Interest payable.....	<u>1,000</u>
<b>Total current liabilities.....</b>	<b>21,600</b>
<b>Long-term liabilities</b>	
Notes payable.....	<u>10,000</u>
<b>Total liabilities.....</b>	<b>31,600</b>
<b>Owner's equity</b>	
B. Porter, Capital.....	<u>34,100</u>
<b>Total liabilities and owner's equity.....</b>	<b><u>\$65,700</u></b>

**PROBLEM 4-2A (Continued)**

(c)

**General Journal**

**J14**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
<b>Dec. 31</b>	<b>Service Revenue .....</b>	<b>400</b>	<b>77,800</b>	
	<b>Income Summary .....</b>	<b>350</b>		<b>77,800</b>
<b>31</b>	<b>Income Summary .....</b>	<b>350</b>	<b>67,700</b>	
	<b>Advertising Expense .....</b>	<b>610</b>		<b>12,000</b>
	<b>Supplies Expense .....</b>	<b>631</b>		<b>3,700</b>
	<b>Depreciation Expense .....</b>	<b>711</b>		<b>8,000</b>
	<b>Insurance Expense .....</b>	<b>722</b>		<b>4,000</b>
	<b>Salaries Expense .....</b>	<b>726</b>		<b>39,000</b>
	<b>Interest Expense .....</b>	<b>905</b>		<b>1,000</b>
<b>31</b>	<b>Income Summary .....</b>	<b>350</b>	<b>10,100</b>	
	<b>B. Porter, Capital .....</b>	<b>301</b>		<b>10,100</b>
<b>31</b>	<b>B. Porter, Capital .....</b>	<b>301</b>	<b>12,000</b>	
	<b>B. Porter, Drawing .....</b>	<b>306</b>		<b>12,000</b>

(d)

**B. Porter, Capital**

**No. 301**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Jan. 31</b>	<b>Balance</b>	<b>✓</b>		<b>36,000</b>	<b>36,000</b>
<b>Dec. 31</b>	<b>Closing entry</b>	<b>J14</b>		<b>10,100</b>	<b>46,100</b>
<b>31</b>	<b>Closing entry</b>	<b>J14</b>	<b>12,000</b>		<b>34,100</b>

**B. Porter, Drawing**

**No. 306**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Dec. 31</b>	<b>Balance</b>	<b>✓</b>	<b>12,000</b>		<b>12,000</b>
<b>31</b>	<b>Closing entry</b>	<b>J14</b>		<b>12,000</b>	<b>0</b>

**PROBLEM 4-2A (Continued)**

<b>Income Summary</b>					<b>No. 350</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Dec. 31	Closing entry	J14		77,800	77,800
31	Closing entry	J14	67,700		10,100
31	Closing entry	J14	10,100		0

<b>Service Revenue</b>					<b>No. 400</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Dec. 31	Balance	✓		77,800	77,800
31	Closing entry	J14	77,800		0

<b>Advertising Expense</b>					<b>No. 610</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Dec. 31	Balance	✓	12,000		12,000
31	Closing entry	J14		12,000	0

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

<b>Depreciation Expense</b>					<b>No. 711</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Dec. 31	Balance	✓	8,000		8,000
31	Closing entry	J14		8,000	0

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

**PROBLEM 4-2A (Continued)**

<b>Salaries Expense</b>					<b>No. 726</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Dec. 31	Balance	✓	39,000		39,000
31	Closing entry	J14		39,000	0

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

(e)

**PORTER COMPANY**  
**Post-Closing Trial Balance**  
**December 31, 2008**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$18,800	
Accounts Receivable.....	16,200	
Supplies .....	2,300	
Prepaid Insurance .....	4,400	
Office Equipment .....	44,000	
Accumulated Depreciation—Office Equipment .....		\$20,000
Notes Payable .....		20,000
Accounts Payable.....		8,000
Salaries Payable.....		2,600
Interest Payable.....		1,000
B. Porter, Capital.....		34,100
	<u>\$85,700</u>	<u>\$85,700</u>

<b>PROBLEM 4-3A</b>
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(a) **WOODS COMPANY**  
**Income Statement**  
**For the Year Ended December 31, 2008**

<hr/>		
<b>Revenues</b>		
Service revenue .....		\$44,000
<b>Expenses</b>		
Salaries expense .....	\$35,200	
Repair expense .....	5,400	
Utilities expense .....	4,000	
Depreciation expense .....	2,800	
Insurance expense.....	<u>1,200</u>	
Total expenses .....		<u>48,600</u>
Net loss.....		<u>\$ (4,600)</u>

**WOODS COMPANY**  
**Owner's Equity Statement**  
**For the Year Ended December 31, 2008**

<hr/>		
S. Woods, Capital, January 1 .....		\$30,000
Add: Additional investment by owner .....		<u>4,000</u>
		34,000
Less: Net loss.....	\$4,600	
Drawings .....	<u>7,200</u>	<u>11,800</u>
S. Woods, Capital, December 31 .....		<u>\$22,200</u>

**WOODS COMPANY**  
**Balance Sheet**  
**December 31, 2008**

<hr/>		
<b>Assets</b>		
<b>Current assets</b>		
Cash.....		\$ 8,200
Accounts receivable.....		7,500
Prepaid insurance .....		<u>1,800</u>
Total current assets.....		17,500
<b>Property, plant, and equipment</b>		
Equipment .....	\$28,000	
Less: Accumulated depreciation .....	<u>8,600</u>	<u>19,400</u>
Total assets .....		<u>\$36,900</u>



**PROBLEM 4-3A (Continued)**

**WOODS COMPANY**  
**Balance Sheet (Continued)**  
**December 31, 2008**

Liabilities and Owner's Equity	
<b>Current liabilities</b>	
Accounts payable .....	\$11,700
Salaries payable .....	<u>3,000</u>
Total current liabilities .....	14,700
<b>Owner's equity</b>	
S. Woods, Capital .....	<u>22,200</u>
Total liabilities and owner's equity .....	<u>\$36,900</u>

**(b) General Journal**

Date	Account Titles	Ref.	Debit	Credit
Dec. 31	Service Revenue .....	400	44,000	
	Income Summary .....	350		44,000
31	Income Summary .....	350	48,600	
	Repair Expense.....	622		5,400
	Depreciation Expense .....	711		2,800
	Insurance Expense .....	722		1,200
	Salaries Expense.....	726		35,200
	Utilities Expense.....	732		4,000
31	S. Woods, Capital .....	301	4,600	
	Income Summary .....	350		4,600
31	S. Woods, Capital .....	301	7,200	
	S. Woods, Drawing .....	306		7,200

**PROBLEM 4-3A (Continued)**

(c)

S. Woods, Capital		No. 301	
12/31	4,600	12/31 Bal.	34,000
12/31	7,200		
		12/31 Bal.	22,200

S. Woods, Drawing		No. 306	
12/31 Bal.	7,200	12/31	7,200

Income Summary		No. 350	
12/31	48,600	12/31	44,000
		12/31	4,600
	48,600		48,600

Service Revenue		No. 400	
12/31	44,000	12/31 Bal.	44,000

Repair Expense		No. 622	
12/31 Bal.	5,400	12/31	5,400

Depreciation Expense		No. 711	
12/31 Bal.	2,800	12/31	2,800

Insurance Expense		No. 722	
12/31 Bal.	1,200	12/31	1,200

Salaries 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)

**WOODS COMPANY**  
**Post-Closing Trial Balance**  
**December 31, 2008**

	Debit	Credit
Cash.....	\$ 8,200	
Accounts Receivable .....	7,500	
Prepaid Insurance .....	1,800	
Equipment .....	28,000	
Accumulated Depreciation.....		\$ 8,600
Accounts Payable .....		11,700
Salaries Payable .....		3,000
S. Woods, Capital.....		22,200
<b>Totals</b>	<b>\$45,500</b>	<b>\$45,500</b>

**PROBLEM 4-4A**

**DISNEY AMUSEMENT PARK**  
Worksheet  
For the Year Ended September 30, 2008

(a)

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	41,400				41,400				41,400	
Supplies	18,600		(a) 17,400		1,200				1,200	
Prepaid Insurance	31,900		(b) 23,000		8,900				8,900	
Land	80,000				80,000				80,000	
Equipment	120,000				120,000				120,000	
Accumulated Depreciation		36,200		(c) 6,000		42,200				42,200
Accounts Payable		14,600				14,600				14,600
Unearned Admissions Revenue		3,700	(d) 1,700			2,000				2,000
Mortgage Note Payable		50,000				50,000				50,000
L. Disney, Capital		109,700				109,700				109,700
L. Disney, Drawing	14,000				14,000				14,000	
Admissions Revenue		277,500		(d) 1,700		279,200		279,200		
Salaries Expense	105,000				105,000		105,000			
Repair Expense	30,500				30,500		30,500			
Advertising Expense	9,400				9,400		9,400			
Utilities Expense	16,900				16,900		16,900			
Property Taxes Expense	18,000		(e) 3,000		21,000		21,000			
Interest Expense	6,000		(f) 4,000		10,000		10,000			
<b>Totals</b>	<u>491,700</u>	<u>491,700</u>								
Insurance Expense			(b) 23,000		23,000		23,000			
Supplies Expense			(a) 17,400		17,400		17,400			
Interest Payable				(f) 4,000		4,000				4,000
Depreciation Expense			(c) 6,000		6,000		6,000			
Property Taxes Payable			(e) 3,000		3,000		3,000			3,000
<b>Totals</b>			<u>55,100</u>	<u>55,100</u>	<u>504,700</u>	<u>504,700</u>	<u>239,200</u>	<u>279,200</u>	<u>265,500</u>	<u>225,500</u>
Net Income							<u>40,000</u>			<u>40,000</u>
<b>Totals</b>							<u>279,200</u>	<u>279,200</u>	<u>265,500</u>	<u>265,500</u>

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

**PROBLEM 4-4A (Continued)**

**(b) DISNEY AMUSEMENT PARK  
Balance Sheet  
September 30, 2008**

<b>Assets</b>			
<b>Current assets</b>			
Cash.....			\$ 41,400
Supplies .....			1,200
Prepaid insurance.....			<u>8,900</u>
<b>Total current assets .....</b>			<b>51,500</b>
<b>Property, plant, and equipment</b>			
Land.....		\$80,000	
Equipment .....	\$120,000		
Less: Accum. depreciation.....	<u>42,200</u>	<u>77,800</u>	<u>157,800</u>
<b>Total assets.....</b>			<b><u>\$209,300</u></b>
<b>Liabilities and Owner's Equity</b>			
<b>Current liabilities</b>			
<b>Current maturity of mortgage</b>			
note payable.....			\$ 10,000
Accounts payable .....			14,600
Interest payable .....			4,000
Property taxes payable .....			3,000
<b>Unearned admissions</b>			
revenue .....			<u>2,000</u>
<b>Total current liabilities.....</b>			<b>33,600</b>
<b>Long-term liabilities</b>			
Mortgage note payable.....			<u>40,000</u>
<b>Total liabilities .....</b>			<b>73,600</b>
<b>Owner's equity</b>			
<b>L. Disney, Capital</b>			
(\$109,700 + \$40,000 – \$14,000) .....			<u>135,700</u>
<b>Total liabilities and</b>			
<b>owner's equity .....</b>			<b><u>\$209,300</u></b>

**PROBLEM 4-4A (Continued)**

<b>(c)</b>	<b>Sept. 30</b>	<b>Supplies Expense.....</b>	<b>17,400</b>	
		<b>Supplies .....</b>		<b>17,400</b>
	<b>30</b>	<b>Insurance Expense .....</b>	<b>23,000</b>	
		<b>Prepaid Insurance .....</b>		<b>23,000</b>
	<b>30</b>	<b>Depreciation Expense .....</b>	<b>6,000</b>	
		<b>Accumulated Depreciation .....</b>		<b>6,000</b>
	<b>30</b>	<b>Unearned Admissions Revenue .....</b>	<b>1,700</b>	
		<b>Admissions Revenue .....</b>		<b>1,700</b>
	<b>30</b>	<b>Property Taxes Expense .....</b>	<b>3,000</b>	
		<b>Property Taxes Payable.....</b>		<b>3,000</b>
	<b>30</b>	<b>Interest Expense .....</b>	<b>4,000</b>	
		<b>Interest Payable .....</b>		<b>4,000</b>
<b>(d)</b>	<b>Sept. 30</b>	<b>Admissions Revenue .....</b>	<b>279,200</b>	
		<b>Income Summary.....</b>		<b>279,200</b>
	<b>30</b>	<b>Income Summary.....</b>	<b>239,200</b>	
		<b>Salaries Expense .....</b>		<b>105,000</b>
		<b>Repair Expense .....</b>		<b>30,500</b>
		<b>Insurance Expense.....</b>		<b>23,000</b>
		<b>Property Taxes Expense .....</b>		<b>21,000</b>
		<b>Supplies Expense.....</b>		<b>17,400</b>
		<b>Utilities Expense .....</b>		<b>16,900</b>
		<b>Interest Expense .....</b>		<b>10,000</b>
		<b>Advertising Expense .....</b>		<b>9,400</b>
		<b>Depreciation Expense .....</b>		<b>6,000</b>
	<b>30</b>	<b>Income Summary.....</b>	<b>40,000</b>	
		<b>L. Disney, Capital.....</b>		<b>40,000</b>
	<b>30</b>	<b>L. Disney, Capital.....</b>	<b>14,000</b>	
		<b>L. Disney, Drawing .....</b>		<b>14,000</b>

**PROBLEM 4-4A (Continued)**

**(e) DISNEY AMUSEMENT PARK  
Post-Closing Trial Balance  
September 30, 2008**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 41,400	
Supplies .....	1,200	
Prepaid Insurance.....	8,900	
Land.....	80,000	
Equipment .....	120,000	
Accumulated Depreciation .....		\$ 42,200
Accounts Payable .....		14,600
Interest Payable.....		4,000
Property Taxes Payable.....		3,000
Unearned Admissions Revenue .....		2,000
Mortgage Note Payable.....		50,000
L. Disney, Capital .....		135,700
	<u>\$251,500</u>	<u>\$251,500</u>

<b>PROBLEM 4-5A</b>
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(a)

**General Journal**

Date	Account Titles and Explanation	Ref.	Debit	Credit
Mar. 1	Cash .....	101	10,000	
	L. Eddy, Capital .....	301		10,000
1	Equipment.....	157	6,000	
	Cash .....	101		3,000
	Accounts Payable.....	201		3,000
3	Cleaning Supplies .....	128	1,200	
	Accounts Payable.....	201		1,200
5	Prepaid Insurance .....	130	1,200	
	Cash .....	101		1,200
14	Accounts Receivable .....	112	4,800	
	Service Revenue .....	400		4,800
18	Accounts Payable .....	201	2,000	
	Cash .....	101		2,000
20	Salaries Expense.....	726	1,800	
	Cash .....	101		1,800
21	Cash.....	101	1,400	
	Accounts Receivable.....	112		1,400
28	Accounts Receivable .....	112	2,500	
	Service Revenue .....	400		2,500
31	Gas & Oil Expense .....	633	200	
	Cash .....	101		200
31	L. Eddy, Drawing.....	306	700	
	Cash .....	101		700

J1

**PROBLEM 4-5A (Continued)**

**(b) & (c) EDDY'S CARPET CLEANERS**

**Worksheet**

**For the Month Ended March 31, 2008**

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	2,500				2,500				2,500	
Accounts Receivable	5,900		(a) 700		6,600				6,600	
Cleaning Supplies	1,200			(d) 800	400				400	
Prepaid Insurance	1,200			(c) 100	1,100				1,100	
Equipment	6,000				6,000				6,000	
Accounts Payable		2,200				2,200				2,200
L. Eddy, Capital		10,000				10,000				10,000
L. Eddy, Drawing	700				700				700	
Service Revenue		7,300		(a) 700		8,000		8,000		
Gas & Oil Expense	200				200		200			
Salaries Expense	1,800		(e) 500		2,300		2,300			
<b>Totals</b>	<u>19,500</u>	<u>19,500</u>			<u>20,950</u>	<u>20,950</u>	<u>250</u>	<u>250</u>	<u>17,300</u>	<u>2,200</u>
Depreciation Expense			(b) 250		250		250			
Accum. Depr.—Equipment				(b) 250		250				250
Insurance Expense			(c) 100		100		100			
Cleaning Supplies Expense			(d) 800		800		800			
Salaries Payable				(e) 500		500				500
<b>Totals</b>			<u>2,350</u>	<u>2,350</u>	<u>20,950</u>	<u>20,950</u>	<u>3,650</u>	<u>8,000</u>	<u>17,300</u>	<u>12,950</u>
Net Income							<u>4,350</u>			<u>4,350</u>
<b>Totals</b>							<u>8,000</u>	<u>8,000</u>	<u>17,300</u>	<u>17,300</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)

<b>Cash</b>					<b>No. 101</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 1		J1	10,000		10,000
1		J1		3,000	7,000
5		J1		1,200	5,800
18		J1		2,000	3,800
20		J1		1,800	2,000
21		J1	1,400		3,400
31		J1		200	3,200
31		J1		700	2,500

<b>Accounts Receivable</b>					<b>No. 112</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 14		J1	4,800		4,800
21		J1		1,400	3,400
28		J1	2,500		5,900
31	Adjusting	J2	700		6,600

<b>Cleaning Supplies</b>					<b>No. 128</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 3		J1	1,200		1,200
31	Adjusting	J2		800	400

<b>Prepaid Insurance</b>					<b>No. 130</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 5		J1	1,200		1,200
31	Adjusting	J2		100	1,100

<b>Equipment</b>					<b>No. 157</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 1		J1	6,000		6,000

**PROBLEM 4-5A (Continued)**

**Accumulated Depreciation—Equipment**

**No. 158**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 31	Adjusting	J2		250	250

**Accounts Payable**

**No. 201**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 1		J1		3,000	3,000
3		J1		1,200	4,200
18		J1	2,000		2,200

**Salaries Payable**

**No. 212**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 31	Adjusting	J2		500	500

**L. Eddy, Capital**

**No. 301**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 1		J1		10,000	10,000
31	Closing	J3		4,350	14,350
31	Closing	J3	700		13,650

**L. Eddy, Drawing**

**No. 306**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 31		J1	700		700
31	Closing	J3		700	0

**Income Summary**

**No. 350**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 31	Closing	J3		8,000	8,000
31	Closing	J3	3,650		4,350
31	Closing	J3	4,350		0

**PROBLEM 4-5A (Continued)**

<b>Service Revenue</b>					<b>No. 400</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 14		J1		4,800	4,800
28		J1		2,500	7,300
31	Adjusting	J2		700	8,000
31	Closing	J3	8,000		0

<b>Gas &amp; Oil Expense</b>					<b>No. 633</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 31		J1	200		200
31	Closing	J3		200	0

<b>Cleaning Supplies Expense</b>					<b>No. 634</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 31	Adjusting	J2	800		800
31	Closing	J3		800	0

<b>Depreciation Expense</b>					<b>No. 711</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 31	Adjusting	J2	250		250
31	Closing	J3		250	0

<b>Insurance Expense</b>					<b>No. 722</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 31	Adjusting	J2	100		100
31	Closing	J3		100	0

<b>Salaries Expense</b>					<b>No. 726</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 20		J1	1,800		1,800
31	Adjusting	J2	500		2,300
31	Closing	J3		2,300	0

**PROBLEM 4-5A (Continued)**

**(d) EDDY'S CARPET CLEANERS  
Income Statement  
For the Month Ended March 31, 2008**

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<b>Revenues</b>		
Service revenue .....		<b>\$8,000</b>
<b>Expenses</b>		
Salaries expense .....	<b>\$2,300</b>	
Cleaning supplies expense.....	<b>800</b>	
Depreciation expense.....	<b>250</b>	
Gas & oil expense .....	<b>200</b>	
Insurance expense .....	<b>100</b>	
Total expenses.....		<u><b>3,650</b></u>
Net income .....		<u><b>\$4,350</b></u>

**EDDY'S CARPET CLEANERS  
Owner's Equity Statement  
For the Month Ended March 31, 2008**

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L. Eddy, Capital, March 1 .....		<b>\$ 0</b>
Add: Investments.....	<b>\$10,000</b>	
Net income .....	<u><b>4,350</b></u>	<u><b>14,350</b></u>
		<b>14,350</b>
Less: Drawings.....		<u><b>700</b></u>
L. Eddy, Capital, March 31 .....		<u><b>\$13,650</b></u>

**EDDY'S CARPET CLEANERS  
Balance Sheet  
March 31, 2008**

---

<b>Assets</b>		
<b>Current assets</b>		
Cash.....		<b>\$ 2,500</b>
Accounts receivable .....		<b>6,600</b>
Cleaning supplies .....		<b>400</b>
Prepaid insurance.....		<u><b>1,100</b></u>
Total current assets .....		<b>10,600</b>

**PROBLEM 4-5A (Continued)**

**EDDY'S CARPET CLEANERS**  
**Balance Sheet (Continued)**  
**March 31, 2008**

Assets (Continued)		
Property, plant, and equipment		
Equipment.....	\$6,000	
Less: Accumulated depreciation .....	250	5,750
Total assets .....		<b>\$16,350</b>
Liabilities and Owner's Equity		
Current liabilities		
Accounts payable.....		\$ 2,200
Salaries payable.....		500
Total current liabilities .....		2,700
Owner's equity		
L. Eddy, Capital .....		13,650
Total liabilities and owner's equity.....		<b>\$16,350</b>

(e)

**General Journal**

				J2
Date	Account Titles and Explanation	Ref.	Debit	Credit
Mar. 31	Accounts Receivable.....	112	700	
	Service Revenue .....	400		700
31	Depreciation Expense .....	711	250	
	Accumulated Depreciation— Equipment .....	158		250
31	Insurance Expense.....	722	100	
	Prepaid Insurance .....	130		100
31	Cleaning Supplies Expense.....	634	800	
	Cleaning Supplies .....	128		800
31	Salaries Expense.....	726	500	
	Salaries Payable .....	212		500

**PROBLEM 4-5A (Continued)**

**(f) General Journal**

**J3**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
<b>Mar. 31</b>	<b>Service Revenue .....</b>	<b>400</b>	<b>8,000</b>	
	<b>Income Summary .....</b>	<b>350</b>		<b>8,000</b>
<b>31</b>	<b>Income Summary .....</b>	<b>350</b>	<b>3,650</b>	
	<b>Salaries Expense .....</b>	<b>726</b>		<b>2,300</b>
	<b>Depreciation Expense .....</b>	<b>711</b>		<b>250</b>
	<b>Insurance Expense .....</b>	<b>722</b>		<b>100</b>
	<b>Cleaning Supplies Expense .....</b>	<b>634</b>		<b>800</b>
	<b>Gas &amp; Oil Expense .....</b>	<b>633</b>		<b>200</b>
<b>31</b>	<b>Income Summary .....</b>	<b>350</b>	<b>4,350</b>	
	<b>L. Eddy, Capital .....</b>	<b>301</b>		<b>4,350</b>
<b>31</b>	<b>L. Eddy, Capital .....</b>	<b>301</b>	<b>700</b>	
	<b>L. Eddy, Drawing .....</b>	<b>306</b>		<b>700</b>

**(g) EDDY'S CARPET CLEANERS  
Post-Closing Trial Balance  
March 31, 2008**

	<b>Debit</b>	<b>Credit</b>
<b>Cash .....</b>	<b>\$ 2,500</b>	
<b>Accounts Receivable .....</b>	<b>6,600</b>	
<b>Cleaning Supplies .....</b>	<b>400</b>	
<b>Prepaid Insurance .....</b>	<b>1,100</b>	
<b>Equipment .....</b>	<b>6,000</b>	
<b>Accumulated Depreciation—Equipment .....</b>		<b>\$ 250</b>
<b>Accounts Payable .....</b>		<b>2,200</b>
<b>Salaries Payable .....</b>		<b>500</b>
<b>L. Eddy, Capital .....</b>		<b>13,650</b>
	<b><u>\$16,600</u></b>	<b><u>\$16,600</u></b>

**PROBLEM 4-6A**

(a)

	(1) INCORRECT ENTRY	(2) CORRECT ENTRY	(3) CORRECTING ENTRY
1.	Cash ..... 960 Accts. Receivable .....	Cash ..... 690 Accts. Receivable .....	Accounts Receivable ..... 270 Cash ..... 270
2.	Misc. Expense ..... 65 Cash ..... 65	Advertising Expense ..... 65 Cash ..... 65	Advertising Expense ..... 65 Misc. Expense ..... 65
3.	Salaries Expense ..... 1,900 Cash ..... 1,900	Salaries Expense ..... 1,200 Salaries Payable ..... 700 Cash ..... 1,900	Salaries Payable ..... 700 Salaries Expense ..... 700
4.	Supplies ..... 290 Accounts Payable .....	Equipment ..... 290 Accounts Payable .....	Equipment ..... 290 Supplies ..... 290
5.	Equipment ..... 59 Cash ..... 59	Repair Expense ..... 95 Cash ..... 95	Repair Expense ..... 95 Cash ..... 36 Equipment ..... 59

**PROBLEM 4-6A (Continued)**

**(b)**

**FOX CABLE  
Trial Balance  
April 30, 2008**

	<b>Debit</b>	<b>Credit</b>
Cash (\$4,100 – \$270 – \$36).....	\$ 3,794	
Accounts Receivable (\$3,200 + \$270) .....	3,470	
Supplies (\$800 – \$290) .....	510	
Equipment (\$10,600 + \$290 – \$59).....	10,831	
Accumulated Depreciation .....		\$ 1,350
Accounts Payable.....		2,100
Salaries Payable (\$700 – \$700).....		0
Unearned Revenue .....		890
A. Manion, Capital.....		12,900
Service Revenue .....		5,450
Salaries Expense (\$3,300 – \$700) .....	2,600	
Advertising Expense (\$600 + \$65).....	665	
Miscellaneous Expense (\$290 – \$65) .....	225	
Repair Expense.....	95	
Depreciation Expense .....	500	
	<b>\$22,690</b>	<b>\$22,690</b>



**PROBLEM 4-1B**

**EVERLAST ROOFING  
Worksheet**

For the Month Ended March 31, 2008

(a)

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	2,500				2,500				2,500	
Accounts Receivable	1,800				1,800				1,800	
Roofing Supplies	1,100			(a) 860	240				240	
Equipment	6,000				6,000				6,000	
Accumulated Depreciation		700		(b) 200		900				900
Accounts Payable		1,400				1,400				1,400
Unearned Revenue		300	(c) 170			130				130
J. Watt, Capital		7,000				7,000				7,000
J. Watt, Drawing	600				600				600	
Service Revenue		3,500		(c) 170		3,670		3,670		
Salaries Expense	700		(d) 350		1,050		1,050			
Miscellaneous Expense	200				200		200			
<b>Totals</b>	<u>12,900</u>	<u>12,900</u>			<u>13,450</u>	<u>13,450</u>			<u>11,140</u>	<u>350</u>
Supplies Expense			(a) 860		860		860			
Depreciation Expense			(b) 200		200		200			
Salaries Payable				(d) 350		350				350
<b>Totals</b>			<u>1,580</u>	<u>1,580</u>	<u>13,450</u>	<u>13,450</u>	<u>2,310</u>	<u>3,670</u>	<u>11,140</u>	<u>9,780</u>
<b>Net Income</b>							<u>1,360</u>			<u>1,360</u>
<b>Totals</b>							<u>3,670</u>	<u>3,670</u>	<u>11,140</u>	<u>11,140</u>

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

**PROBLEM 4-1B (Continued)**

**(b) EVERLAST ROOFING  
Income Statement  
For the Month Ended March 31, 2008**

<hr/>		
<b>Revenues</b>		
Service revenue .....		<b>\$3,670</b>
<b>Expenses</b>		
Salaries expense .....	<b>\$1,050</b>	
Supplies expense .....	<b>860</b>	
Depreciation expense .....	<b>200</b>	
Miscellaneous expense .....	<b>200</b>	
Total expenses .....		<b><u>2,310</u></b>
<b>Net income .....</b>		<b><u>\$1,360</u></b>

**EVERLAST ROOFING  
Owner's Equity Statement  
For the Month Ended March 31, 2008**

<hr/>	
<b>J. Watt, Capital, March 1 .....</b>	<b>\$7,000</b>
<b>Add: Net income .....</b>	<b><u>1,360</u></b>
	<b>8,360</b>
<b>Less: Drawings .....</b>	<b><u>600</u></b>
<b>J. Watt, Capital, March 31 .....</b>	<b><u>\$7,760</u></b>

**EVERLAST ROOFING  
Balance Sheet  
March 31, 2008**

<hr/>		
<b>Assets</b>		
<b>Current assets</b>		
Cash .....		<b>\$2,500</b>
Accounts receivable .....		<b>1,800</b>
Roofing supplies .....		<b><u>240</u></b>
Total current assets .....		<b>4,540</b>
<b>Property, plant, and equipment</b>		
Equipment .....	<b>\$6,000</b>	
Less: Accum. depreciation—equipment .....	<b><u>900</u></b>	<b><u>5,100</u></b>
Total assets .....		<b><u>\$9,640</u></b>

**PROBLEM 4-1B (Continued)**

**EVERLAST ROOFING  
Balance Sheet (Continued)  
March 31, 2008**

Liabilities and Owner's Equity			
<b>Current liabilities</b>			
	Accounts payable.....		\$1,400
	Salaries payable.....		350
	Unearned revenue.....		<u>130</u>
	<b>Total current liabilities.....</b>		<b>1,880</b>
<b>Owner's equity</b>			
	J. Watt, Capital.....		<u>7,760</u>
	<b>Total liabilities and owner's equity.....</b>		<b><u>\$9,640</u></b>
(c)	Mar. 31	Supplies Expense.....	860
		Roofing Supplies.....	860
	31	Depreciation Expense.....	200
		Accumulated Depreciation.....	200
	31	Unearned Revenue.....	170
		Service Revenue.....	170
	31	Salaries Expense.....	350
		Salaries Payable.....	350
(d)	Mar. 31	Service Revenue.....	3,670
		Income Summary.....	3,670
	31	Income Summary.....	2,310
		Salaries Expense.....	1,050
		Supplies Expense.....	860
		Depreciation Expense.....	200
		Miscellaneous Expense.....	200
	31	Income Summary.....	1,360
		J. Watt, Capital.....	1,360
	31	J. Watt, Capital.....	600
		J. Watt, Drawing.....	600

**PROBLEM 4-2B**

**(a) SPARKS COMPANY**  
**Partial Worksheet**  
**For the Year Ended December 31, 2008**

Account		Adjusted Trial Balance		Income Statement		Balance Sheet	
No.	Titles	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
101	Cash	11,600				11,600	
112	Accounts Receivable	15,400				15,400	
126	Supplies	2,000				2,000	
130	Prepaid Insurance	2,800				2,800	
151	Office Equipment	34,000				34,000	
152	Acc. Depr.—Off. Equip.		8,000				8,000
200	Notes Payable		20,000				20,000
201	Accounts Payable		9,000				9,000
212	Salaries Payable		3,500				3,500
230	Interest Payable		800				800
301	B. Sparks, Capital		25,000				25,000
306	B. Sparks, Drawing	10,000				10,000	
400	Service Revenue		85,000		85,000		
610	Advertising Expense	12,000		12,000			
631	Supplies Expense	5,700		5,700			
711	Depreciation Expense	8,000		8,000			
722	Insurance Expense	5,000		5,000			
726	Salaries Expense	44,000		44,000			
905	Interest Expense	800		800			
	<b>Totals</b>	<b><u>151,300</u></b>	<b><u>151,300</u></b>	<b><u>75,500</u></b>	<b><u>85,000</u></b>	<b><u>75,800</u></b>	<b><u>66,300</u></b>
	<b>Net Income</b>			<b><u>9,500</u></b>			<b><u>9,500</u></b>
	<b>Totals</b>			<b><u>85,000</u></b>	<b><u>85,000</u></b>	<b><u>75,800</u></b>	<b><u>75,800</u></b>

**PROBLEM 4-2B (Continued)**

**(b)**

**SPARKS COMPANY**  
**Income Statement**  
**For the Year Ended December 31, 2008**

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<b>Revenues</b>		
Service revenue .....		<b>\$85,000</b>
<b>Expenses</b>		
Salaries expense.....	<b>\$44,000</b>	
Advertising expense.....	<b>12,000</b>	
Depreciation expense .....	<b>8,000</b>	
Supplies expense .....	<b>5,700</b>	
Insurance expense .....	<b>5,000</b>	
Interest expense.....	<b>800</b>	
Total expenses .....		<u><b>75,500</b></u>
<b>Net income.....</b>		<u><b>\$ 9,500</b></u>

**SPARKS COMPANY**  
**Owner's Equity Statement**  
**For the Year Ended December 31, 2008**

---

<b>B. Sparks, Capital, January 1 .....</b>	<b>\$25,000</b>
<b>Add: Net income.....</b>	<u><b>9,500</b></u>
	<b>34,500</b>
<b>Less: Drawings .....</b>	<u><b>10,000</b></u>
<b>B. Sparks, Capital, December 31 .....</b>	<u><b>\$24,500</b></u>

**PROBLEM 4-2B (Continued)**

**SPARKS COMPANY**  
**Balance Sheet**  
**December 31, 2008**

---

<b>Assets</b>		
<b>Current assets</b>		
Cash.....		\$11,600
Accounts receivable .....		15,400
Supplies .....		2,000
Prepaid insurance.....		<u>2,800</u>
Total current assets .....		<b>31,800</b>
<b>Property, plant, and equipment</b>		
Office equipment.....	\$34,000	
Less: Accumulated depreciation .....	<u>8,000</u>	<u>26,000</u>
Total assets.....		<b><u>\$57,800</u></b>
 <b>Liabilities and Owner's Equity</b> 		
<b>Current liabilities</b>		
Notes payable.....		\$10,000
Accounts payable .....		9,000
Salaries payable .....		3,500
Interest payable .....		<u>800</u>
Total current liabilities.....		<b>23,300</b>
<b>Long-term liabilities</b>		
Notes payable.....		<u>10,000</u>
Total liabilities .....		<b>33,300</b>
<b>Owner's equity</b>		
B. Sparks, Capital .....		<u>24,500</u>
Total liabilities and owner's equity .....		<b><u>\$57,800</u></b>

**PROBLEM 4-2B (Continued)**

(c)

**General Journal**

				J14
<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
Dec. 31	Service Revenue.....	400	85,000	
	Income Summary.....	350		85,000
31	Income Summary .....	350	75,500	
	Advertising Expense .....	610		12,000
	Supplies Expense.....	631		5,700
	Depreciation Expense.....	711		8,000
	Insurance Expense.....	722		5,000
	Salaries Expense .....	726		44,000
	Interest Expense .....	905		800
31	Income Summary .....	350	9,500	
	B. Sparks, Capital .....	301		9,500
31	B. Sparks, Capital.....	301	10,000	
	B. Sparks, Drawing.....	306		10,000

(d)

<b>B. Sparks, Capital</b>					No. 301
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Jan. 1	Balance	✓		25,000	25,000
Dec. 31	Closing entry	J14		9,500	34,500
31	Closing entry	J14	10,000		24,500

<b>B. Sparks, Drawing</b>					No. 306
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Dec. 31	Balance	✓	10,000		10,000
31	Closing entry	J14		10,000	0

**PROBLEM 4-2B (Continued)****Income Summary****No. 350**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Dec. 31	Closing entry	J14		85,000	85,000
31	Closing entry	J14	75,500		9,500
31	Closing entry	J14	9,500		0

**Service Revenue****No. 400**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Dec. 31	Balance	✓		85,000	85,000
31	Closing entry	J14	85,000		0

**Advertising Expense****No. 610**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Dec. 31	Balance	✓	12,000		12,000
31	Closing entry	J14		12,000	0

**Supplies Expense****No. 631**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Dec. 31	Balance	✓	5,700		5,700
31	Closing entry	J14		5,700	0

**Depreciation Expense****No. 711**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Dec. 31	Balance	✓	8,000		8,000
31	Closing entry	J14		8,000	0

**Insurance Expense****No. 722**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Dec. 31	Balance	✓	5,000		5,000
31	Closing entry	J14		5,000	0



**PROBLEM 4-2B (Continued)**

<b>Salaries Expense</b>					<b>No. 726</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Dec. 31	Balance	✓	44,000		44,000
31	Closing entry	J14		44,000	0

<b>Interest Expense</b>					<b>No. 905</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Dec. 31	Balance	✓	800		800
31	Closing entry	J14		800	0

(e)

**SPARKS COMPANY**  
**Post-Closing Trial Balance**  
**December 31, 2008**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$11,600	
Accounts Receivable.....	15,400	
Supplies .....	2,000	
Prepaid Insurance .....	2,800	
Office Equipment.....	34,000	
Accumulated Depreciation—Office Equipment .....		\$ 8,000
Notes Payable.....		20,000
Accounts Payable.....		9,000
Salaries Payable .....		3,500
Interest Payable .....		800
B. Sparks, Capital .....		24,500
<b>Totals</b>	<u>\$65,800</u>	<u>\$65,800</u>

**PROBLEM 4-3B**

(a) **MOLINDA COMPANY**  
**Income Statement**  
**For the Year Ended December 31, 2008**

<hr/>		
<b>Revenues</b>		
Service revenue .....		\$69,000
<b>Expenses</b>		
Salaries expense .....	\$37,000	
Depreciation expense .....	2,600	
Insurance expense .....	2,200	
Repair expense .....	2,000	
Utilities expense .....	<u>1,700</u>	
Total expenses .....		<u>45,500</u>
Net income .....		<u>\$23,500</u>

**MOLINDA COMPANY**  
**Owner's Equity Statement**  
**For the Year Ended December 31, 2008**

<hr/>	
Ann Molinda, Capital, January 1 .....	\$36,000
Add: Net income .....	<u>23,500</u>
	59,500
Less: Drawings .....	<u>14,000</u>
Ann Molinda, Capital, December 31 .....	<u>\$45,500</u>

**MOLINDA COMPANY**  
**Balance Sheet**  
**December 31, 2008**

<hr/>		
<b>Assets</b>		
<b>Current assets</b>		
Cash .....		\$22,400
Accounts receivable .....		13,500
Prepaid insurance .....		<u>3,500</u>
Total current assets .....		39,400
<b>Property, plant, and equipment</b>		
Equipment .....	\$26,000	
Less: Accumulated depreciation .....	<u>5,600</u>	<u>20,400</u>
Total assets .....		<u>\$59,800</u>

**PROBLEM 4-3B (Continued)**

**MOLINDA COMPANY  
Balance Sheet (Continued)  
December 31, 2008**

Liabilities and Owner's Equity	
<b>Current liabilities</b>	
Accounts payable.....	\$11,300
Salaries payable.....	<u>3,000</u>
Total current liabilities .....	14,300
<b>Owner's equity</b>	
Ann Molinda, Capital .....	<u>45,500</u>
Total liabilities and owner's equity.....	<u>\$59,800</u>

**(b) General Journal**

Date	Account Titles and Explanation	Ref.	Debit	Credit
Dec. 31	Service Revenue.....	400	69,000	
	Income Summary.....	350		69,000
31	Income Summary.....	350	45,500	
	Repair Expense .....	622		2,000
	Depreciation Expense .....	711		2,600
	Insurance Expense.....	722		2,200
	Salaries Expense .....	726		37,000
	Utilities Expense .....	732		1,700
31	Income Summary.....	350	23,500	
	Ann Molinda, Capital.....	301		23,500
31	Ann Molinda, Capital .....	301	14,000	
	Ann Molinda, Drawing .....	306		14,000

**PROBLEM 4-3B (Continued)**

(c)

Ann Molinda, Capital		No. 301	
12/31	14,000	1/1 Bal.	36,000
		12/31	23,500
		12/31 Bal.	45,500

Repair Expense		No. 622	
12/31 Bal.	2,000	12/31	2,000

Depreciation Expense		No. 711	
12/31 Bal.	2,600	12/31	2,600

Ann Molinda, Drawing		No. 306	
12/31 Bal.	14,000	12/31	14,000

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

Income Summary		No. 350	
12/31	45,500	12/31	69,000
12/31	23,500		
	69,000		69,000

Salaries Expense		No. 726	
12/31 Bal.	37,000	12/31	37,000

Service Revenue		No. 400	
12/31	69,000	12/31 Bal.	69,000

Utilities Expense		No. 732	
12/31 Bal.	1,700	12/31	1,700

(d)

**MOLINDA COMPANY**  
**Post-Closing Trial Balance**  
**December 31, 2008**

	Debit	Credit
Cash .....	\$22,400	
Accounts Receivable .....	13,500	
Prepaid Insurance .....	3,500	
Equipment .....	26,000	
Accumulated Depreciation .....		\$ 5,600
Accounts Payable .....		11,300
Salaries Payable .....		3,000
Ann Molinda, Capital .....		45,500
<b>Totals</b>	<b>\$65,400</b>	<b>\$65,400</b>

**PROBLEM 4-4B**

**PETTENGILL MANAGEMENT SERVICES**  
Worksheet  
For the Year Ended December 31, 2008

(a)

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	11,500				11,500				11,500	
Accounts Receivable	23,600				23,600				23,600	
Prepaid Insurance	3,100		(a) 1,700		1,400				1,400	
Land	56,000				56,000				56,000	
Building	106,000				106,000				106,000	
Equipment	49,000				49,000				49,000	
Accounts Payable		10,400				10,400				10,400
Unearned Rent Revenue		5,000	(d) 2,200			2,800				2,800
Mortgage Note Payable		100,000				100,000				100,000
G. Pettengill, Capital		120,000				120,000				120,000
G. Pettengill, Drawing	18,000				18,000				18,000	
Service Revenue		75,600				75,600		75,600		
Rent Revenue		24,000	(d) 2,200			26,200		26,200		
Salaries Expense	35,000				35,000			35,000		
Advertising Expense	17,000				17,000			17,000		
Utilities Expense	15,800				15,800			15,800		
<b>Totals</b>	<u>335,000</u>	<u>335,000</u>			<u>335,000</u>	<u>335,000</u>				
Insurance Expense			(a) 1,700		1,700			1,700		
Depr. Expense—Building			(b) 2,500		2,500			2,500		
Accum. Depr.—Building						2,500				2,500
Depr. Expense—Equipment			(c) 3,900		3,900			3,900		
Accum. Depr.—Equipment						3,900				3,900
Interest Expense			(e) 9,000		9,000			9,000		
Interest Payable						9,000				9,000
<b>Totals</b>			<u>19,300</u>	<u>19,300</u>	<u>350,400</u>	<u>350,400</u>		<u>84,900</u>	<u>101,800</u>	<u>265,500</u>
Net Income								<u>16,900</u>		<u>16,900</u>
<b>Totals</b>								<u>101,800</u>	<u>101,800</u>	<u>265,500</u>

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

PROBLEM 4-4B (Continued)

(b) **PETTENGILL MANAGEMENT SERVICES**  
**Balance Sheet**  
**December 31, 2008**

---

<b>Assets</b>			
<b>Current assets</b>			
Cash .....			\$ 11,500
Accounts receivable .....			23,600
Prepaid insurance .....			<u>1,400</u>
<b>Total current assets .....</b>			<b>36,500</b>
<b>Property, plant, and equipment</b>			
Land .....		\$ 56,000	
Building.....	\$106,000		
Less: Accumulated depreciation—building .....	<u>2,500</u>	103,500	
Equipment.....	49,000		
Less: Accumulated depreciation—equipment .....	<u>3,900</u>	<u>45,100</u>	<u>204,600</u>
<b>Total assets .....</b>			<b><u>\$241,100</u></b>
<b>Liabilities and Owner's Equity</b>			
<b>Current liabilities</b>			
Current maturity of mortgage note payable .....			\$ 10,000
Accounts payable.....			10,400
Interest payable.....			9,000
Unearned rent revenue .....			<u>2,800</u>
<b>Total current liabilities .....</b>			<b>32,200</b>
<b>Long-term liabilities</b>			
Mortgage note payable .....			<u>90,000</u>
<b>Total liabilities.....</b>			<b>122,200</b>
<b>Owner's equity</b>			
G. Pettengill, Capital (\$120,000 – \$18,000 + \$16,900).....			<u>118,900</u>
<b>Total liabilities and owner's equity .....</b>			<b><u>\$241,100</u></b>

**PROBLEM 4-4B (Continued)**

(c)	Dec. 31	Insurance Expense.....	1,700	
		Prepaid Insurance .....		1,700
	31	Depreciation Expense—Building .....	2,500	
		Accumulated Depreciation— Building .....		2,500
	31	Depreciation Expense—Equipment .....	3,900	
Accumulated Depreciation— Equipment .....			3,900	
31	Unearned Rent Revenue .....	2,200		
	Rent Revenue.....		2,200	
31	Interest Expense .....	9,000		
	Interest Payable.....		9,000	
(d)	Dec. 31	Service Revenue .....	75,600	
		Rent Revenue.....	26,200	
		Income Summary.....		101,800
	31	Income Summary.....	84,900	
		Salaries Expense .....		35,000
		Advertising Expense .....		17,000
		Interest Expense .....		9,000
		Utilities Expense .....		15,800
		Depreciation Expense— Equipment .....		3,900
		Depreciation Expense— Building .....		2,500
Insurance Expense.....		1,700		
31	Income Summary.....	16,900		
	G. Pettengill, Capital .....		16,900	
31	G. Pettengill, Capital .....	18,000		
	G. Pettengill, Drawing.....		18,000	

**PROBLEM 4-4B (Continued)**

**(e) PETTENGILL MANAGEMENT SERVICES  
Post-Closing Trial Balance  
December 31, 2008**

---

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 11,500	
Accounts Receivable.....	23,600	
Prepaid Insurance .....	1,400	
Land .....	56,000	
Building.....	106,000	
Accumulated Depreciation—Building .....		\$ 2,500
Equipment.....	49,000	
Accumulated Depreciation—Equipment .....		3,900
Accounts Payable.....		10,400
Interest Payable .....		9,000
Unearned Rent Revenue .....		2,800
Mortgage Note Payable .....		100,000
G. Pettengill, Capital .....		118,900
	<u>\$247,500</u>	<u>\$247,500</u>



<b>PROBLEM 4-5B</b>
---------------------

(a)

**General Journal**

				<b>J1</b>
<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
July 1	Cash .....	101	12,000	
	Lee Choi, Capital .....	301		12,000
1	Equipment.....	157	6,000	
	Cash.....	101		3,000
	Accounts Payable .....	201		3,000
3	Cleaning Supplies .....	128	1,300	
	Accounts Payable .....	201		1,300
5	Prepaid Insurance .....	130	2,400	
	Cash.....	101		2,400
12	Accounts Receivable.....	112	2,500	
	Service Revenue.....	400		2,500
18	Accounts Payable.....	201	1,800	
	Cash.....	101		1,800
20	Salaries Expense .....	726	1,200	
	Cash.....	101		1,200
21	Cash .....	101	1,400	
	Accounts Receivable .....	112		1,400
25	Accounts Receivable.....	112	5,000	
	Service Revenue.....	400		5,000
31	Gas & Oil Expense .....	633	200	
	Cash.....	101		200
31	Lee Choi, Drawing .....	306	900	
	Cash.....	101		900

**PROBLEM 4-5B (Continued)**

**(b) & (c)** **CHOI'S WINDOW WASHING**  
Worksheet

For the Month Ended July 31, 2008

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	3,900				3,900		3,900		3,900	
Accounts Receivable	6,100		(a) 1,500		7,600		7,600		7,600	
Cleaning Supplies	1,300			(d) 900	400	900	400	900	400	
Prepaid Insurance	2,400			(c) 200	2,200	200	2,200	200	2,200	
Equipment	6,000				6,000		6,000		6,000	
Accounts Payable		2,500				2,500				2,500
Lee Choi, Capital		12,000				12,000				12,000
Lee Choi, Drawing	900				900		900		900	
Service Revenue		7,500		(a) 1,500		9,000		9,000		
Gas & Oil Expense	200				200		200	200		
Salaries Expense	1,200		(e) 600		1,800		1,800	1,800		
<b>Totals</b>	<u>22,000</u>	<u>22,000</u>			<u>24,400</u>	<u>24,400</u>	<u>24,400</u>	<u>24,400</u>	<u>21,000</u>	<u>3,400</u>
Depreciation Expense			(b) 300		300		300	300		300
Accum. Depr.—Equipment				(b) 300		300				
Insurance Expense			(c) 200		200		200	200		
Cleaning Supplies Expense			(d) 900		900		900	900		
Salaries Payable				(e) 600		600				600
<b>Totals</b>			<u>3,500</u>	<u>3,500</u>	<u>24,400</u>	<u>24,400</u>	<u>3,400</u>	<u>9,000</u>	<u>21,000</u>	<u>15,400</u>
<b>Net Income</b>							<u>5,600</u>			<u>5,600</u>
<b>Totals</b>							<u>9,000</u>	<u>9,000</u>	<u>21,000</u>	<u>21,000</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)

		<b>Cash</b>			<b>No. 101</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 1		J1	12,000		12,000
1		J1		3,000	9,000
5		J1		2,400	6,600
18		J1		1,800	4,800
20		J1		1,200	3,600
21		J1	1,400		5,000
31		J1		200	4,800
31		J1		900	3,900

		<b>Accounts Receivable</b>			<b>No. 112</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 12		J1	2,500		2,500
21		J1		1,400	1,100
25		J1	5,000		6,100
31	Adjusting	J2	1,500		7,600

		<b>Cleaning Supplies</b>			<b>No. 128</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 3		J1	1,300		1,300
31	Adjusting	J2		900	400

		<b>Prepaid Insurance</b>			<b>No. 130</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 5		J1	2,400		2,400
31	Adjusting	J2		200	2,200

		<b>Equipment</b>			<b>No. 157</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 1		J1	6,000		6,000

**PROBLEM 4-5B (Continued)**

**Accumulated Depreciation—Equipment**

**No. 158**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 31	Adjusting	J2		300	300

**Accounts Payable**

**No. 201**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 1		J1		3,000	3,000
3		J1		1,300	4,300
18		J1	1,800		2,500

**Salaries Payable**

**No. 212**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 31	Adjusting	J2		600	600

**Lee Choi, Capital**

**No. 301**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 1		J1		12,000	12,000
31	Closing	J3		5,600	17,600
31	Closing	J3	900		16,700

**Lee Choi, Drawing**

**No. 306**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 31		J1	900		900
31	Closing	J3		900	0

**Income Summary**

**No. 350**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 31	Closing	J3		9,000	9,000
31	Closing	J3	3,400		5,600
31	Closing	J3	5,600		0

**PROBLEM 4-5B (Continued)**

<b>Service Revenue</b>					<b>No. 400</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 12		J1		2,500	2,500
25		J1		5,000	7,500
31	Adjusting	J2		1,500	9,000
31	Closing	J3	9,000		0

<b>Gas &amp; Oil Expense</b>					<b>No. 633</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 31		J1	200		200
31	Closing	J3		200	0

<b>Cleaning Supplies Expense</b>					<b>No. 634</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 31	Adjusting	J2	900		900
31	Closing	J3		900	0

<b>Depreciation Expense</b>					<b>No. 711</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 31	Adjusting	J2	300		300
31	Closing	J3		300	0

<b>Insurance Expense</b>					<b>No. 722</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 31	Adjusting	J2	200		200
31	Closing	J3		200	0

<b>Salaries Expense</b>					<b>No. 726</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 20		J1	1,200		1,200
31	Adjusting	J2	600		1,800
31	Closing	J3		1,800	0

**PROBLEM 4-5B (Continued)**

**(d) CHOI'S WINDOW WASHING  
Income Statement  
For the Month Ended July 31, 2008**

<hr/>		
<b>Revenues</b>		
Service revenue.....		\$9,000
<b>Expenses</b>		
Salaries expense.....	\$1,800	
Cleaning supplies expense .....	900	
Depreciation expense.....	300	
Gas & oil expense.....	200	
Insurance expense .....	<u>200</u>	
Total expenses .....		<u>3,400</u>
<b>Net income .....</b>		<u>\$5,600</u>

**CHOI'S WINDOW WASHING  
Owner's Equity Statement  
For the Month Ended July 31, 2008**

<hr/>		
Lee Choi, Capital, July 1.....		\$ 0
<b>Add: Investments .....</b>	<b>\$12,000</b>	
Net income.....	<u>5,600</u>	<u>17,600</u>
		17,600
<b>Less: Drawings .....</b>		<u>900</u>
<b>Lee Choi, Capital, July 31 .....</b>		<u>\$16,700</u>

**CHOI'S WINDOW WASHING  
Balance Sheet  
July 31, 2008**

<hr/>		
<b>Assets</b>		
<b>Current assets</b>		
Cash .....		\$3,900
Accounts receivable .....		7,600
Cleaning supplies.....		400
Prepaid insurance .....		<u>2,200</u>
Total current assets .....		<u>14,100</u>

**PROBLEM 4-5B (Continued)**

**CHOI'S WINDOW WASHING  
Balance Sheet (Continued)  
July 31, 2008**

Assets (Continued)		
<b>Property, plant, and equipment</b>		
Equipment .....	\$6,000	
Less: Accumulated depreciation .....	300	5,700
Total assets .....		<b>\$19,800</b>
Liabilities and Owner's Equity		
<b>Current liabilities</b>		
Accounts payable .....		\$ 2,500
Salaries payable .....		600
Total current liabilities .....		3,100
<b>Owner's equity</b>		
Lee Choi, Capital .....		16,700
Total liabilities and owner's equity .....		<b>\$19,800</b>

(e)

**General Journal**

Date	Account Titles and Explanation	Ref.	Debit	J2 Credit
July 31	Accounts Receivable.....	112	1,500	
	Service Revenue.....	400		1,500
31	Depreciation Expense .....	711	300	
	Accumulated Depreciation— Equipment.....	158		300
31	Insurance Expense.....	722	200	
	Prepaid Insurance .....	130		200
31	Cleaning Supplies Expense .....	634	900	
	Cleaning Supplies .....	128		900
31	Salaries Expense .....	726	600	
	Salaries Payable .....	212		600

**PROBLEM 4-5B (Continued)**

**(f) General Journal**

**J3**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
<b>July 31</b>	<b>Service Revenue .....</b>	<b>400</b>	<b>9,000</b>	
	<b>Income Summary .....</b>	<b>350</b>		<b>9,000</b>
<b>31</b>	<b>Income Summary .....</b>	<b>350</b>	<b>3,400</b>	
	<b>Salaries Expense .....</b>	<b>726</b>		<b>1,800</b>
	<b>Depreciation Expense .....</b>	<b>711</b>		<b>300</b>
	<b>Insurance Expense .....</b>	<b>722</b>		<b>200</b>
	<b>Cleaning Supplies Expense .....</b>	<b>634</b>		<b>900</b>
	<b>Gas &amp; Oil Expense .....</b>	<b>633</b>		<b>200</b>
<b>31</b>	<b>Income Summary .....</b>	<b>350</b>	<b>5,600</b>	
	<b>Lee Choi, Capital .....</b>	<b>301</b>		<b>5,600</b>
<b>31</b>	<b>Lee Choi, Capital .....</b>	<b>301</b>	<b>900</b>	
	<b>Lee Choi, Drawing .....</b>	<b>306</b>		<b>900</b>

**(g) CHOI'S WINDOW WASHING  
Post-Closing Trial Balance  
July 31, 2008**

	<b>Debit</b>	<b>Credit</b>
<b>Cash .....</b>	<b>\$ 3,900</b>	
<b>Accounts Receivable .....</b>	<b>7,600</b>	
<b>Cleaning Supplies .....</b>	<b>400</b>	
<b>Prepaid Insurance .....</b>	<b>2,200</b>	
<b>Equipment .....</b>	<b>6,000</b>	
<b>Accumulated Depreciation—Equipment .....</b>		<b>\$ 300</b>
<b>Accounts Payable .....</b>		<b>2,500</b>
<b>Salaries Payable .....</b>		<b>600</b>
<b>Lee Choi, Capital .....</b>		<b>16,700</b>
	<b><u>\$20,100</u></b>	<b><u>\$20,100</u></b>



**COMPREHENSIVE PROBLEM: CHAPTERS 2 TO 4**

(a)

**General Journal**

				<b>J1</b>
<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
July 1	Cash .....	101	14,000	
	Julie Molony, Capital .....	301		14,000
1	Equipment.....	157	10,000	
	Cash .....	101		3,000
	Accounts Payable.....	201		7,000
3	Cleaning Supplies .....	128	800	
	Accounts Payable.....	201		800
5	Prepaid Insurance .....	130	1,800	
	Cash .....	101		1,800
12	Accounts Receivable.....	112	3,800	
	Service Revenue .....	400		3,800
18	Accounts Payable.....	201	1,400	
	Cash .....	101		1,400
20	Salaries Expense .....	726	1,600	
	Cash .....	101		1,600
21	Cash .....	101	1,400	
	Accounts Receivable.....	112		1,400
25	Accounts Receivable.....	112	1,500	
	Service Revenue .....	400		1,500
31	Gas & Oil Expense .....	633	400	
	Cash .....	101		400
31	Julie Molony, Drawing.....	306	600	
	Cash .....	101		600

# COMPREHENSIVE PROBLEM (Continued)

**JULIE'S MAIDS CLEANING SERVICE**  
Worksheet  
For the Month Ended July 31, 2008

(b) & (c)

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	6,600				6,600				6,600	
Accounts Receivable	3,900		(a) 1,300		5,200				5,200	
Cleaning Supplies	800			(d) 700	100				100	
Prepaid Insurance	1,800			(c) 150	1,650				1,650	
Equipment	10,000				10,000				10,000	
Accounts Payable		6,400				6,400				6,400
Julie Molony, Capital		14,000				14,000				14,000
Julie Molony, Drawing	600				600				600	
Service Revenue		5,300		(a) 1,300		6,600		6,600		
Gas & Oil Expense	400				400		400			
Salaries Expense	1,600		(e) 500		2,100		2,100			
<b>Total</b>	<u>25,700</u>	<u>25,700</u>								
Depreciation Expense			(b) 200		200		200			200
Accum. Depr.—Equipment				(b) 200		200				
Insurance Expense			(c) 150		150		150			
Cleaning Supplies Expense			(d) 700		700		700			
Salaries Payable				(e) 500		500				500
<b>Totals</b>			<u>2,850</u>	<u>2,850</u>	<u>27,700</u>	<u>27,700</u>	<u>3,550</u>	<u>6,600</u>	<u>24,150</u>	<u>21,100</u>
<b>Net Income</b>							<u>3,050</u>			<u>3,050</u>
<b>Totals</b>							<u>6,600</u>	<u>6,600</u>	<u>24,150</u>	<u>24,150</u>

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	14,000		14,000
1		J1		3,000	11,000
5		J1		1,800	9,200
18		J1		1,400	7,800
20		J1		1,600	6,200
21		J1	1,400		7,600
31		J1		400	7,200
31		J1		600	6,600

Accounts Receivable					No. 112
Date	Explanation	Ref.	Debit	Credit	Balance
July 12		J1	3,800		3,800
21		J1		1,400	2,400
25		J1	1,500		3,900
31	Adjusting	J2	1,300		5,200

Cleaning Supplies					No. 128
Date	Explanation	Ref.	Debit	Credit	Balance
July 3		J1	800		800
31	Adjusting	J2		700	100

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**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 31	Adjusting	J2		200	200

**Accounts Payable**

**No. 201**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 1		J1		7,000	7,000
3		J1		800	7,800
18		J1	1,400		6,400

**Salaries Payable**

**No. 212**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 31	Adjusting	J2		500	500

**Julie Molony, Capital**

**No. 301**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 1		J1		14,000	14,000
31	Closing	J3		3,050	17,050
31	Closing	J3	600		16,450

**Julie Molony, Drawing**

**No. 306**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 31		J1	600		600
31	Closing	J3		600	0

**Income Summary**

**No. 350**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
July 31	Closing	J3		6,600	6,600
31	Closing	J3	3,550		3,050
31	Closing	J3	3,050		0

## COMPREHENSIVE PROBLEM (Continued)

Service Revenue					No. 400
Date	Explanation	Ref.	Debit	Credit	Balance
July 12		J1		3,800	3,800
25		J1		1,500	5,300
31	Adjusting	J2		1,300	6,600
31	Closing	J3	6,600		0

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

Cleaning Supplies Expense					No. 634
Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2	700		700
31	Closing	J3		700	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 Expense					No. 726
Date	Explanation	Ref.	Debit	Credit	Balance
July 20		J1	1,600		1,600
31	Adjusting	J2	500		2,100
31	Closing	J3		2,100	0

**COMPREHENSIVE PROBLEM (Continued)**

**(d) JULIE'S MAIDS CLEANING SERVICE  
Income Statement  
For the Month Ended July 31, 2008**

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<b>Revenues</b>		
Service revenue.....		<b>\$6,600</b>
<b>Expenses</b>		
Salaries expense.....	<b>\$2,100</b>	
Cleaning supplies expense .....	<b>700</b>	
Gas & oil expense.....	<b>400</b>	
Depreciation expense.....	<b>200</b>	
Insurance expense .....	<b>150</b>	
Total expenses .....		<u><b>3,550</b></u>
<b>Net income .....</b>		<u><b>\$3,050</b></u>

**JULIE'S MAIDS CLEANING SERVICE  
Statement of Owner's Equity  
For the Month Ended July 31, 2008**

---

Julie Molony, Capital, July 1 .....		<b>\$ 0</b>
<b>Add: Investments .....</b>	<b>\$14,000</b>	
<b>Net income.....</b>	<u><b>3,050</b></u>	<u><b>17,050</b></u>
		<b>17,050</b>
<b>Less: Drawings .....</b>		<u><b>600</b></u>
<b>Julie Molony, Capital, July 31.....</b>		<u><b>\$16,450</b></u>

COMPREHENSIVE PROBLEM (Continued)

JULIE'S MAIDS CLEANING SERVICE

Balance Sheet

July 31, 2008

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<b>Assets</b>	
<b>Current assets</b>	
Cash.....	\$ 6,600
Accounts receivable.....	5,200
Cleaning supplies .....	100
Prepaid insurance .....	<u>1,650</u>
<b>Total current assets.....</b>	<b>13,550</b>
<b>Capital assets</b>	
Equipment .....	\$10,000
Less: Accumulated depreciation .....	<u>200</u>
<b>Total assets .....</b>	<b><u>\$23,350</u></b>
<b>Liabilities and Owner's Equity</b>	
<b>Current liabilities</b>	
Accounts payable .....	\$ 6,400
Salaries payable .....	<u>500</u>
<b>Total current liabilities.....</b>	<b>6,900</b>
<b>Owner's equity</b>	
Julie Molony, Capital.....	<u>16,450</u>
<b>Total liabilities and owner's equity .....</b>	<b><u>\$23,350</u></b>

**COMPREHENSIVE PROBLEM (Continued)**

(e) General Journal

J2

Date	Account Titles and Explanation	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	Cleaning Supplies Expense.....	634	700	
	Cleaning Supplies .....	128		700
31	Salaries Expense.....	726	500	
	Salaries Payable.....	212		500

(f) General Journal

J3

Date	Account Titles and Explanation	Ref.	Debit	Credit
July 31	Service Revenue.....	400	6,600	
	Income Summary.....	350		6,600
31	Income Summary .....	350	3,550	
	Salaries Expense .....	726		2,100
	Depreciation Expense .....	711		200
	Insurance Expense.....	722		150
	Cleaning Supplies Expense .....	634		700
	Gas & Oil Expense .....	633		400
31	Income Summary .....	350	3,050	
	Julie Molony, Capital .....	301		3,050
31	Julie Molony, Capital.....	301	600	
	Julie Molony, Drawing.....	306		600



**COMPREHENSIVE PROBLEM (Continued)**

**(g)**

**JULIE'S MAIDS CLEANING SERVICE**  
**Post-Closing Trial Balance**  
**July 31, 2008**

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	<u>Debit</u>	<u>Credit</u>
Cash.....	\$ 6,600	
Accounts Receivable .....	5,200	
Cleaning Supplies .....	100	
Prepaid Insurance .....	1,650	
Equipment .....	10,000	
Accumulated Depreciation—Equipment .....		\$ 200
Accounts Payable .....		6,400
Salaries Payable .....		500
Julie Molony, Capital.....		16,450
	<u>\$23,550</u>	<u>\$23,550</u>

- (a) Total current assets were \$10,454 million at December 31, 2005, and \$8,639 million at December 25, 2004.**
- (b) Current assets are properly listed in the order of liquidity. As you will learn in the next chapter, inventory is considered to be less liquid than receivables. Thus, it is listed below receivables and before prepaid expenses and other current assets.**
- (c) The asset classifications are similar to the text: (1) current assets, (2) property, plant, and equipment, (3) intangible assets, and (4) investments.**
- (d) Cash equivalents are investments with original maturities of 3 months or less that PepsiCo does not intend to rollover beyond three months.**
- (e) Total current liabilities were \$9,406 million at December 31, 2005, and \$6,752 million at December 25, 2004.**

(a)	(in millions)	PepsiCo	Coca-Cola
1.	Total current assets	10,454	10,250
2.	Net property, plant & equipment	8,681	5,786
3.	Total current liabilities	9,406	9,836
4.	Total stockholders' (shareholders') equity	14,251*	16,355

\*(\$31,727 – \$17,476)

- (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.

In both PepsiCo and Coca-Cola's case, current assets were slightly greater than current liabilities. From this information, it appears that both are in approximately the same liquidity position.

Coca-Cola's stockholders' equity represents a larger percentage of total assets 55.6%  $\left(\frac{\$16,355}{\$29,427}\right)$  than PepsiCo's 44.9%  $\left(\frac{\$14,251}{\$31,727}\right)$ . As a result, Coca-Cola has less debt relative to its total assets than PepsiCo. It therefore appears that Coca-Cola is less likely to default on a debt obligation.

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

(a) **WHITEGLOVES JANITORIAL SERVICE**  
**Balance Sheet**  
**December 31, 2008**

<b>Assets</b>			
<b>Current assets</b>			
Cash.....			\$ 6,500
Accounts receivable (\$9,000 + \$3,700).....			12,700
Janitorial supplies (\$5,200 – \$2,700).....			2,500
Prepaid insurance (\$4,800 X 2/3).....			<u>3,200</u>
<b>Total current assets</b> .....			<b>24,900</b>
<b>Property, plant, and equipment</b>			
Cleaning equipment (\$22,000 + \$4,000).....	\$26,000		
Less: Accum. depreciation— cleaning 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>	<u>49,000</u>
<b>Total assets</b> .....			<b><u>\$73,900</u></b>
<b>Liabilities and Owner's Equity</b>			
<b>Current liabilities</b>			
Notes payable due within one year.....			\$10,000
Accounts payable (\$2,500 + \$500).....			3,000
Interest payable (\$25,000 X 10% X 6/12).....			<u>1,250</u>
<b>Total current liabilities</b> .....			<b>14,250</b>
<b>Long-term liabilities</b>			
Notes payable, due July 1, 2010.....			<u>15,000</u>
<b>Total liabilities</b> .....			<b>29,250</b>
<b>Owner's equity</b>			
Nancy Kohl, Capital.....			<u>44,650*</u>
<b>Total liabilities and owner's equity</b> .....			<b><u>\$73,900</u></b>

**BYP 4-4 (Continued)**

**WHITEGLOVES JANITORIAL SERVICE**  
**Balance Sheet (Continued)**  
**December 31, 2008**

---

<b>*Capital balance as reported.....</b>		<b>\$54,000</b>
<b>Add: Earned but unbilled fees.....</b>		<u><b>3,700</b></u>
		<b>57,700</b>
<b>Less: Janitorial supplies used .....</b>	<b>\$2,700</b>	
<b>Insurance expired (\$4,800 X 1/3).....</b>	<b>1,600</b>	
<b>Depreciation (\$2,000 + \$5,000).....</b>	<b>7,000</b>	
<b>Expenses incurred but unpaid .....</b>	<b>500</b>	
<b>Interest accrued.....</b>	<u><b>1,250</b></u>	
<b>Total.....</b>		<u><b>13,050</b></u>
<b>Capital balance as adjusted .....</b>		<u><b>\$44,650</b></u>

**(b) Whitegloves Janitorial Service met the terms of the bank loan because current assets exceed current liabilities by \$10,650 (\$24,900 – \$14,250) at December 31, 2008.**

## 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.**
  - ▶ **Jerry McNabb, 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 the SEC (if you are a public company). Also stress upon him that you have a professional obligation to correct the statements or to resign.**



The following is a personal balance sheet using the classified presentation. Note that the earnings from the part-time job as well as the tuition costs are not listed since neither of those items is an asset, liability, or equity item.

### Assets

#### Current assets

Cash.....	\$1,200	
Money market account.....	1,800	
Certificate of deposit.....	3,000	
Accounts receivable from brother.....	<u>300</u>	
Total current assets.....		\$ 6,300

#### Property, plant, and equipment

Automobile.....	7,000	
Video and stereo equipment.....	1,250	
Home computer.....	<u>800</u>	<u>9,050</u>
Total assets.....		<u>\$15,350</u>

### Liabilities and Owner's Equity

#### Current liabilities

Current portion of automobile loan.....	\$1,500	
Current portion of credit card payable.....	<u>150</u>	
Total current liabilities.....		\$ 1,650

#### Long-term liabilities

Automobile loan.....	4,000	
Student loan.....	5,000	
Credit card payable.....	<u>1,650</u>	
Total long-term liabilities.....		<u>10,650</u>
Total liabilities.....		12,300

#### Owner's equity

M. Y. Own, Capital (\$15,350 – \$12,300).....		<u>3,050</u>
Total liabilities and owner's equity.....		<u>\$15,350</u>

