

CHAPTER 4

COMPLETING THE ACCOUNTING CYCLE

DISCUSSION QUESTIONS

1. The end-of-period spreadsheet illustrates the flow of accounting information from the unadjusted trial balance into the adjusted trial balance and into the financial statements. In doing so, the spreadsheet illustrates the impact of the adjustments on the financial statements.
2.
 - a. Current assets are composed of cash and other assets that may reasonably be expected to be realized in cash or sold or used up usually within one year or less, through the normal operations of the business.
 - b. Property, plant, and equipment is composed of assets that are used in the business and that are of a permanent or relatively fixed nature. The property, plant, and equipment section may also be described as fixed assets or plant assets. These assets include equipment, machinery, buildings, and land.
3. Current liabilities are liabilities that will be due within a short time (usually one year or less) and that are to be paid out of current assets. Liabilities that will not be due for a comparatively long time (usually more than one year) are called long-term liabilities.
4. Revenue, expense, and drawing accounts are generally referred to as temporary accounts.
5. Closing entries are necessary at the end of an accounting period (1) to transfer the balances in temporary accounts to permanent accounts and (2) to prepare the temporary accounts for use in recording transactions for the next accounting period.
6. Adjusting entries bring the accounts up to date, while closing entries reduce the revenue, expense, and drawing accounts to zero balances for use in recording transactions for the next accounting period.
7. The purpose of the post-closing trial balance is to make sure that the ledger is in balance at the beginning of the next period.
8.
 - a. The financial statements are the most important output of the accounting cycle.
 - b. Yes. All companies have an accounting cycle that begins with analyzing and journalizing transactions and ends with a post-closing trial balance. However, companies may differ in how they implement the steps in the accounting cycle. For example, while most companies use computerized accounting systems, some companies may use manual systems.
9. The natural business year is the fiscal year that ends when business activities have reached the lowest point in the annual operating cycle.
10. All the companies listed are general merchandisers whose busiest time of the year is during the holiday season, which extends through most of December. Traditionally, the lowest point of business activity for general merchandisers will be near the end of January and the beginning of February. Thus, these companies have chosen their natural business year for their fiscal year.

PRACTICE EXERCISES

PE 4-1A

- | | |
|--------------------------------|---------------------|
| 1. Balance sheet | 5. Income statement |
| 2. Income statement | 6. Income statement |
| 3. Statement of owner's equity | 7. Balance sheet |
| 4. Balance sheet | 8. Balance sheet |

PE 4-1B

- | | |
|---------------------|--------------------------------|
| 1. Balance sheet | 5. Balance sheet |
| 2. Balance sheet | 6. Balance sheet |
| 3. Income statement | 7. Statement of owner's equity |
| 4. Income statement | 8. Income statement |

PE 4-2A

GEMINI ADVERTISING SERVICES		
Statement of Owner's Equity		
For the Year Ended December 31, 2018		
Marcie Davies, capital, January 1, 2018		\$618,500
Additional investment during 2018	\$ 40,000	
Net income	92,330	
Withdrawals	(15,000)	
Increase in owner's equity		117,330
Marcie Davies, capital, December 31, 2018		\$735,830

PE 4-2B

GRAB BAG DELIVERY SERVICES		
Statement of Owner's Equity		
For the Year Ended December 31, 2018		
Blake Knudson, capital, January 1, 2018		\$918,000
Net loss	\$(43,500)	
Withdrawals	(15,000)	
Decrease in owner's equity		(58,500)
Blake Knudson, capital, December 31, 2018		\$859,500

PE 4-3A

- | | |
|---------------------------------------|--------------------------|
| 1. Property, plant, and equipment (b) | 5. Current liability (c) |
| 2. Owner's equity (e) | 6. Current asset (a) |
| 3. Long-term liability (d) | 7. Current liability (c) |
| 4. Current asset (a) | 8. Current liability (c) |

PE 4-3B

- | | |
|---------------------------------------|----------------------------|
| 1. Current liability (c) | 5. Owner's equity (e) |
| 2. Current asset (a) | 6. Long-term liability (d) |
| 3. Property, plant, and equipment (b) | 7. Current asset (a) |
| 4. Current asset (a) | 8. Current liability (c) |

PE 4-4A

		Closing Entries			
Dec.	31	Fees Earned	1,878,400		
		Wages Expense		1,415,500	
		Rent Expense		125,000	
		Supplies Expense		30,600	
		Miscellaneous Expense		22,100	
		Kerry Buckner, Capital		285,200	
	31	Kerry Buckner, Capital	80,000		
		Kerry Buckner, Drawing		80,000	

PE 4-4B

		Closing Entries			
Apr.	30	Felix Godwin, Capital		7,100	
		Fees Earned	356,500		
		Wages Expense			283,100
		Rent Expense			56,000
		Supplies Expense			11,500
		Miscellaneous Expense			13,000
	30	Felix Godwin, Capital		10,500	
		Felix Godwin, Drawing			10,500

PE 4-5A

The following two steps are missing: (1) posting the transactions to the ledger and (2) preparing the financial statements. Transactions should be posted to the ledger after step (a). The financial statements should be prepared after step (f).

PE 4-5B

The following two steps are missing: (1) assembling and analyzing adjustment data and (2) journalizing and posting the closing entries. The adjustment data should be assembled and analyzed after step (c). The closing entries should be journalized and posted to the ledger after step (g).

PE 4-6A

a.	2019	2018
Current assets.....	\$2,175,000	\$1,900,000
Current liabilities.....	<u>1,500,000</u>	<u>1,250,000</u>
Working capital.....	<u>\$ 675,000</u>	<u>\$ 650,000</u>
 Current ratio.....	 1.45	 1.52
	(\$2,175,000 ÷ \$1,500,000)	(\$1,900,000 ÷ \$1,250,000)

b. The decrease from 1.52 to 1.45 indicates an unfavorable change.

PE 4-6B

a.	2019	2018
Current assets.....	\$1,586,250	\$1,210,000
Current liabilities.....	<u>705,000</u>	<u>550,000</u>
Working capital.....	<u>\$ 881,250</u>	<u>\$ 660,000</u>
Current ratio.....	2.25	2.20
	(\$1,586,250 ÷ \$705,000)	(\$1,210,000 ÷ \$550,000)

b. The increase from 2.20 to 2.25 indicates a favorable change.

EXERCISES

Ex. 4-1

1. **Income statement: 5, 8, 9**
2. **Statement of owner's equity: 4**
3. **Balance sheet: 1, 2, 3, 6, 7, 10**

Ex. 4-2

- a. **Asset: 1, 2, 5, 6, 10**
- b. **Liability: 9, 11, 12**
- c. **Revenue: 3, 7**
- d. **Expense: 4, 8**

Ex. 4-3

BAMBOO CONSULTING Income Statement For the Year Ended July 31, 2019		
Fees earned		\$348,500
Expenses:		
Salary expense	\$189,000	
Supplies expense	7,500	
Depreciation expense	5,600	
Miscellaneous expense	11,100	
Total expenses		213,200
Net income		\$135,300

BAMBOO CONSULTING Statement of Owner's Equity For the Year Ended July 31, 2019		
Lisa Gooch, capital, August 1, 2018		\$516,700
Net income	\$135,300	
Withdrawals	(25,000)	
Increase in owner's equity		110,300
Lisa Gooch, capital, July 31, 2019		\$627,000

BAMBOO CONSULTING Balance Sheet July 31, 2019		
Assets		
Current assets:		
Cash	\$ 58,000	
Accounts receivable	106,200	
Supplies	4,400	
Total current assets		\$168,600
Property, plant, and equipment:		
Office equipment	\$515,000	
Less accumulated depreciation	33,600	
Total property, plant, and equipment		481,400
Total assets		\$650,000
Liabilities		
Current liabilities:		
Accounts payable	\$ 20,500	
Salaries payable	2,500	
Total liabilities		\$ 23,000
Owner's Equity		
Lisa Gooch, capital		627,000
Total liabilities and owner's equity		\$650,000

Ex. 4-4

ELLIPTICAL CONSULTING		
Income Statement		
For the Year Ended June 30, 2019		
Fees earned		\$60,000
Expenses:		
Salary expense	\$32,375	
Supplies expense	2,100	
Depreciation expense	1,500	
Miscellaneous expense	2,000	
Total expenses		37,975
Net income		\$22,025

ELLIPTICAL CONSULTING		
Statement of Owner's Equity		
For the Year Ended June 30, 2019		
Jayson Neese, capital, July 1, 2018		\$ 82,200
Net income	\$22,025	
Withdrawals	(2,000)	
Increase in owner's equity		20,025
Jayson Neese, capital, June 30, 2019		\$102,225

ELLIPTICAL CONSULTING		
Balance Sheet		
June 30, 2019		
Assets		
Current assets:		
Cash	\$27,000	
Accounts receivable	53,500	
Supplies	900	
Total current assets		\$ 81,400
Property, plant, and equipment:		
Office equipment	\$30,500	
Less accumulated depreciation	6,000	
Total property, plant, and equipment		24,500
Total assets		\$105,900
Liabilities		
Current liabilities:		
Accounts payable	\$ 3,300	
Salaries payable	375	
Total liabilities		\$ 3,675
Owner's Equity		
Jayson Neese, capital		102,225
Total liabilities and owner's equity		\$105,900

Ex. 4-5

LASER MESSENGER SERVICE		
Income Statement		
For the Year Ended April 30, 2019		
Fees earned		\$674,000
Expenses:		
Salaries expense	\$336,900	
Rent expense	60,000	
Utilities expense	41,200	
Depreciation expense	8,650	
Supplies expense	4,100	
Insurance expense	1,500	
Miscellaneous expense	3,650	
Total expenses		456,000
Net income		\$218,000

Ex. 4-6

WHOLISTIC HEALTH SERVICES CO.		
Income Statement		
For the Year Ended February 28, 2019		
Service revenue		\$448,400
Expenses:		
Wages expense	\$360,000	
Rent expense	54,000	
Utilities expense	33,900	
Depreciation expense	7,500	
Insurance expense	3,000	
Supplies expense	2,750	
Miscellaneous expense	8,150	
Total expenses		469,300
Net loss		\$ (20,900)

Ex. 4-7

FEDEX CORPORATION Income Statement For the Year Ended May 31 (in millions)		
Revenues		\$47,453
Expenses:		
Salaries and employee benefits	\$17,110	
Purchased transportation	8,483	
Fuel expense	3,720	
Rentals and landing fees	2,682	
Depreciation expense	2,611	
Maintenance and repairs expense	2,099	
Provision for income taxes	577	
Other expense (revenue) net	9,121	
Total expenses		46,403
Net income		\$ 1,050

Ex. 4-8

APEX SYSTEMS CO. Statement of Owner's Equity For the Year Ended December 31, 2019		
Bart Nesbit, capital, January 1, 2019		\$1,375,000
Net income	\$355,000	
Withdrawals	(90,000)	
Increase in owner's equity		265,000
Bart Nesbit, capital, December 31, 2019		\$1,640,000

Ex. 4-9

RESTORATION ARTS		
Statement of Owner's Equity		
For the Year Ended April 30, 2019		
Doug Stone, capital, May 1, 2018		\$475,500
Net loss	\$(31,200)	
Withdrawals	(5,000)	
Decrease in owner's equity		(36,200)
Doug Stone, capital, April 30, 2019		\$439,300

Ex. 4-10

- a. Current asset: 1, 3, 5, 6
- b. Property, plant, and equipment: 2, 4

Ex. 4-11

Because current liabilities are usually due within one year, \$15,000 ($\$1,250 \times 12$ months) would be reported as a current liability on the balance sheet. The remainder of \$360,000 ($\$375,000 - \$15,000$) would be reported as a long-term liability on the balance sheet.

Ex. 4-12

OPTIMUM WEIGHT LOSS CO.			
Balance Sheet			
November 30, 2019			
Assets			
Current assets:			
Cash*		\$ 37,500	
Accounts receivable		116,750	
Supplies		4,800	
Prepaid insurance		7,200	
Prepaid rent		21,000	
Total current assets			\$187,250
Property, plant, and equipment:			
Land		\$300,000	
Equipment	\$474,150		
Less accumulated depreciation	186,400	287,750	
Total property, plant, and equipment			587,750
Total assets			\$775,000
Liabilities			
Current liabilities:			
Accounts payable		\$ 37,700	
Salaries payable		9,000	
Unearned fees		18,000	
Total liabilities			\$ 64,700
Owner's Equity			
Cheryl Viers, capital			710,300
Total liabilities and owner's equity			\$775,000

*\$37,500 = \$775,000 – \$587,750 – \$21,000 – \$7,200 – \$4,800 – \$116,750

Ex. 4-13

- 1. The date of the statement should be “August 31, 2019” and not “For the Year Ended August 31, 2019.”**
- 2. Accounts payable should be a current liability.**
- 3. Land should be classified as property, plant, and equipment.**
- 4. “Accumulated depreciation” should be deducted from the related fixed asset.**
- 5. An adding error was made in determining the amount of the total property, plant, and equipment.**
- 6. Accounts receivable should be a current asset.**
- 7. Net income should be reported on the income statement and statement of owner's equity.**
- 8. Wages payable should be a current liability.**

A corrected balance sheet would be as follows:

Ex. 4-13 (Concluded)

LABYRINTH SERVICES CO.			
Balance Sheet			
August 31, 2019			
Assets			
Current assets:			
Cash		\$ 18,500	
Accounts receivable		41,400	
Supplies		6,500	
Prepaid insurance		16,600	
Total current assets			\$ 83,000
Property, plant, and equipment:			
Land		\$225,000	
Building	\$400,000		
Less accumulated depreciation	155,000	245,000	
Equipment	\$ 97,000		
Less accumulated depreciation	25,000	72,000	
Total property, plant, and equipment			542,000
Total assets			\$625,000
Liabilities			
Current liabilities:			
Accounts payable		\$ 31,300	
Wages payable		6,500	
Total liabilities			\$ 37,800
Owner's Equity			
Ruben Daniel, capital			587,200
Total liabilities and owner's equity			\$625,000

Ex. 4-14

- d. Depreciation Expense
- e. Fees Earned
- g. Jackie Lindsay, Drawing
- j. Supplies Expense
- l. Wages Expense

Ex. 4-15

\$2,235,000 (\$12,840,000 – \$9,975,000 – \$630,000)

Ex. 4-16

a.	Teresa Schafer, Capital	770,000	
	Teresa Schafer, Drawing		770,000

b. \$1,955,000 (\$1,885,000 + \$3,190,000 – \$2,350,000 – \$770,000)

Ex. 4-17

		Closing Entries	
July	31	Fees Earned	618,200
		Wages Expense	388,400
		Rent Expense	60,000
		Supplies Expense	19,500
		Miscellaneous Expense	6,150
		Marlena Fenton, Capital	144,150
	31	Marlena Fenton, Capital	75,000
		Marlena Fenton, Drawing	75,000

Ex. 4-18

- a. Accounts Receivable
- b. Cash
- e. Doug Woods, Capital
- g. Equipment
- h. Land
- i. Salaries Payable
- j. Unearned Rent

Ex. 4-19

LA CASA SERVICES CO. Post-Closing Trial Balance March 31, 2019		
	Debit Balances	Credit Balances
Cash	46,540	
Accounts Receivable	122,260	
Supplies	4,000	
Equipment	127,200	
Accumulated Depreciation—Equipment		33,600
Accounts Payable		52,100
Salaries Payable		6,400
Unearned Rent		9,000
Sonya Flynn, Capital		198,900
	300,000	300,000

Ex. 4-20

- a. Transactions are analyzed and recorded in the journal (Step 1).
- c. Transactions are posted to the ledger (Step 2).
- b. An unadjusted trial balance is prepared (Step 3).
- d. Adjustment data are assembled and analyzed (Step 4).
- g. An optional end-of-period spreadsheet is prepared (Step 5).
- f. Adjusting entries are journalized and posted to the ledger (Step 6).
- e. An adjusted trial balance is prepared (Step 7).
- i. Financial statements are prepared (Step 8).
- j. Closing entries are journalized and posted to the ledger (Step 9).
- h. A post-closing trial balance is prepared (Step 10).

Ex. 4-21

a.	December 31	
	Year 2	Year 1
Current assets.....	\$1,498,763	\$1,549,399
Current liabilities.....	<u>478,810</u>	<u>421,627</u>
Working capital.....	<u>\$1,019,953</u>	<u>\$1,127,772</u>
Current ratio.....	3.13	3.67
	(\$1,498,763 ÷ \$478,810)	(\$1,549,399 ÷ \$421,627)

- b. Under Armour’s working capital decreased by \$107,819 (\$1,019,953 – \$1,127,772) in Year 2. The current ratio decreased to 3.13 in Year 2. A current ratio of 3.13 still indicates a strong liquidity position. Thus, short-term creditors should not be concerned about receiving payment from Under Armour.

Ex. 4-22

a.	Year 2	Year 1
Current assets.....	\$4,352,700	\$4,168,700
Current liabilities.....	<u>3,653,500</u>	<u>3,038,700</u>
Working capital.....	<u>\$ 699,200</u>	<u>\$1,130,000</u>
Current ratio.....	1.19	1.37
	(\$4,352,700 ÷ \$3,653,500)	(\$4,168,700 ÷ \$3,038,700)

- b. Starbucks’ working capital declined (decreased) from Year 1 to Year 2 by \$430,800 (\$699,200 – \$1,130,000). Starbucks’ current ratio also declined (decreased) from 1.37 in Year 1 to 1.19 in Year 2. The decline in working capital and current ratio indicate a concern for short-term creditors; however, Starbucks is still in a strong liquidity position.

Appendix 1 Ex. 4-23

- | | |
|------|-------|
| 1. i | 6. f |
| 2. a | 7. j |
| 3. g | 8. e |
| 4. d | 9. h |
| 5. c | 10. b |

Appendix 1 Ex. 4-24

ALERT SECURITY SERVICES CO.						
End-of-Period Spreadsheet (Work Sheet)						
For the Year Ended October 31, 2019						
Account Title	Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash	12				12	
Accounts Receivable	90		(a) 13		103	
Supplies	8			(b) 4	4	
Prepaid Insurance	12			(c) 10	2	
Land	190				190	
Equipment	50				50	
Accumulated Depreciation—Equipment		4		(d) 3		7
Accounts Payable		36				36
Wages Payable		0		(e) 1		1
Brenda Schultz, Capital		260				260
Brenda Schultz, Drawing	8				8	
Fees Earned		200		(a) 13		213
Wages Expense	110		(e) 1		111	
Rent Expense	12				12	
Insurance Expense	0		(c) 10		10	
Utilities Expense	6				6	
Supplies Expense	0		(b) 4		4	
Depreciation Expense	0		(d) 3		3	
Miscellaneous Expense	2				2	
Totals	500	500	31	31	517	517

Appendix 1 Ex. 4-25

ALERT SECURITY SERVICES CO.						
End-of-Period Spreadsheet (Work Sheet)						
For the Year Ended October 31, 2019						
Account Title	Adjusted Trial Balance		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash	12				12	
Accounts Receivable	103				103	
Supplies	4				4	
Prepaid Insurance	2				2	
Land	190				190	
Equipment	50				50	
Accumulated Depreciation—Equipment		7				7
Accounts Payable		36				36
Wages Payable		1				1
Brenda Schultz, Capital		260				260
Brenda Schultz, Drawing	8				8	
Fees Earned		213		213		
Wages Expense	111		111			
Rent Expense	12		12			
Insurance Expense	10		10			
Utilities Expense	6		6			
Supplies Expense	4		4			
Depreciation Expense	3		3			
Miscellaneous Expense	2		2			
Totals	517	517	148	213	369	304
Net income (loss)			65			65
			213	213	369	369

Appendix 1 Ex. 4-26

ALERT SECURITY SERVICES CO.		
Income Statement		
For the Year Ended October 31, 2019		
Fees earned		\$213
Expenses:		
Wages expense	\$111	
Rent expense	12	
Insurance expense	10	
Utilities expense	6	
Supplies expense	4	
Depreciation expense	3	
Miscellaneous expense	2	
Total expenses		148
Net income		\$ 65

ALERT SECURITY SERVICES CO.		
Statement of Owner's Equity		
For the Year Ended October 31, 2019		
Brenda Schultz, capital, November 1, 2018		\$260
Net income	\$65	
Withdrawals	(8)	
Increase in owner's equity		57
Brenda Schultz, capital, October 31, 2019		\$317

Appendix 1 Ex. 4-26 (Concluded)

ALERT SECURITY SERVICES CO.			
Balance Sheet			
October 31, 2019			
Assets			
Current assets:			
Cash		\$ 12	
Accounts receivable		103	
Supplies		4	
Prepaid insurance		2	
Total current assets			\$121
Property, plant, and equipment:			
Land		\$190	
Equipment	\$50		
Less accumulated depreciation	7	43	
Total property, plant, and equipment			233
Total assets			\$354
Liabilities			
Current liabilities:			
Accounts payable		\$ 36	
Wages payable		1	
Total liabilities			\$ 37
Owner's Equity			
Brenda Schultz, capital			317
Total liabilities and owner's equity			\$354

Appendix 1 Ex. 4-27

2019		Adjusting Entries		
Oct.	31	Accounts Receivable	13	
		Fees Earned		13
		Accrued fees.		
	31	Supplies Expense	4	
		Supplies		4
		Supplies used (\$8 – \$4).		
	31	Insurance Expense	10	
		Prepaid Insurance		10
		Insurance expired.		
	31	Depreciation Expense	3	
		Accumulated Depreciation—Equipment		3
		Equipment depreciation.		
	31	Wages Expense	1	
		Wages Payable		1
		Accrued wages.		

Appendix 1 Ex. 4-28

2019		Closing Entries		
Oct.	31	Fees Earned	213	
		Wages Expense		111
		Rent Expense		12
		Insurance Expense		10
		Utilities Expense		6
		Supplies Expense		4
		Depreciation Expense		3
		Miscellaneous Expense		2
		Brenda Schultz, Capital		65
	31	Brenda Schultz, Capital	8	
		Brenda Schultz, Drawing		8

Appendix 2 Ex. 4-29

a.	Jan.	1	Wages Payable	5,500	
			Wages Expense		5,500
b.	Jan.	6	Wages Expense	61,375	
			Cash		61,375
c.	Jan.	6	Wages Expense	55,875	
			Wages Payable	5,500	
			Cash		61,375
d. \$55,875 (\$61,375 – \$5,500)					

Appendix 2 Ex. 4-30

a.	(1)	Dec.	31	Sales Salaries Expense.....	7,050	
				Salaries Payable.....		7,050
				Accrued salaries (\$2,350 × 3 days).		
	(2)		31	Accounts Receivable.....	51,300	
				Fees Earned.....		51,300
				Accrued fees earned.		
b.	(1)	Jan.	1	Salaries Payable.....	7,050	
				Sales Salaries Expense.....		7,050
				Reversing entry.		
	(2)		1	Fees Earned.....	51,300	
				Accounts Receivable.....		51,300
				Reversing entry.		

Appendix 2 Ex. 4-31

a.	(1)	June	30	Wages Expense.....	13,200	
				Wages Payable.....		13,200
				Accrued salaries (\$13,200 × 1 day).		
	(2)		30	Accounts Receivable.....	25,000	
				Fees Earned.....		25,000
				Accrued fees earned.		
b.	(1)	July	1	Wages Payable.....	13,200	
				Wages Expense.....		13,200
				Reversing entry.		
	(2)		1	Fees Earned.....	25,000	
				Accounts Receivable.....		25,000
				Reversing entry.		

Appendix 2 Ex. 4-32

a.		
(1)	Payment (last payday in year)	
(2)	Adjusting (accrual of wages at end of year)	
(3)	Closing	
(4)	Reversing	
(5)	Payment (first payday in following year)	
b.		
(1)	Wages Expense.....	15,400
	Cash.....	
	Paid wages.	15,400
(2)	Wages Expense.....	9,250
	Wages Payable.....	
	Accrued wages.	9,250
(3)	D. Bower, Capital.....	809,250
	Wages Expense.....	
	Closing entry.	809,250
(4)	Wages Payable.....	9,250
	Wages Expense.....	
	Reversing entry.	9,250
(5)	Wages Expense.....	14,800
	Cash.....	
	Paid wages.	14,800

Appendix 2 Ex. 4-33

a.		
(1)	Payment (last payday in year)	
(2)	Adjusting (accrual of wages at end of year)	
(3)	Closing	
(4)	Reversing	
(5)	Payment (first payday in following year)	
b.		
(1)	Salaries Expense.....	22,000
	Cash.....	
	Paid salaries.	22,000
(2)	Salaries Expense.....	13,200
	Salaries Payable.....	
	Accrued salaries.	13,200
(3)	J. McHenry, Capital.....	1,213,200
	Salaries Expense.....	
	Closing entry.	1,213,200
(4)	Salaries Payable.....	13,200
	Salaries Expense.....	
	Reversing entry.	13,200
(5)	Salaries Expense.....	24,000
	Cash.....	
	Paid salaries.	24,000

PROBLEMS

Prob. 4-1A

1.

BEACON SIGNALS COMPANY		
Income Statement		
For the Year Ended December 31, 2019		
Revenues:		
Fees earned	\$401,200	
Rent revenue	1,300	
Total revenues		\$402,500
Expenses:		
Salaries and wages expense	\$168,000	
Advertising expense	21,700	
Utilities expense	11,400	
Depreciation expense—building	9,000	
Repairs expense	8,850	
Depreciation expense—equipment	4,500	
Insurance expense	3,000	
Supplies expense	2,250	
Miscellaneous expense	4,350	
Total expenses		233,050
Net income		\$169,450

2.

BEACON SIGNALS COMPANY		
Statement of Owner's Equity		
For the Year Ended December 31, 2019		
Sarah Colin, capital, January 1, 2019		\$238,100
Net income for the year	\$169,450	
Withdrawals	(10,000)	
Increase in owner's equity		159,450
Sarah Colin, capital, December 31, 2019		\$397,550

Prob. 4-1A (Continued)

3.

BEACON SIGNALS COMPANY			
Balance Sheet			
December 31, 2019			
Assets			
Current assets:			
Cash		\$ 13,000	
Accounts receivable		53,000	
Prepaid insurance		1,200	
Supplies		750	
Total current assets			\$ 67,950
Property, plant, and equipment:			
Land		\$ 98,000	
Building	\$500,000		
Less accumulated depreciation	264,300	235,700	
Equipment	\$121,900		
Less accumulated depreciation	104,600	17,300	
Total property, plant, and equipment			351,000
Total assets			\$418,950
Liabilities			
Current liabilities:			
Accounts payable		\$ 15,700	
Salaries and wages payable		4,900	
Unearned rent		800	
Total liabilities			\$ 21,400
Owner's Equity			
Sarah Colin, capital			397,550
Total liabilities and owner's equity			\$418,950

Prob. 4-1A (Concluded)

2019		Closing Entries			
Dec.	31	Fees Earned		401,200	
		Rent Revenue		1,300	
		Salaries and Wages Expense			168,000
		Advertising Expense			21,700
		Utilities Expense			11,400
		Depreciation Expense—Building			9,000
		Repairs Expense			8,850
		Depreciation Expense—Equipment			4,500
		Insurance Expense			3,000
		Supplies Expense			2,250
		Miscellaneous Expense			4,350
		Sarah Colin, Capital			169,450
	31	Sarah Colin, Capital		10,000	
		Sarah Colin, Drawing			10,000

BEACON SIGNALS COMPANY		
Post-Closing Trial Balance		
December 31, 2019		
	Debit Balances	Credit Balances
Cash	13,000	
Accounts Receivable	53,000	
Prepaid Insurance	1,200	
Supplies	750	
Land	98,000	
Building	500,000	
Accumulated Depreciation—Building		264,300
Equipment	121,900	
Accumulated Depreciation—Equipment		104,600
Accounts Payable		15,700
Salaries and Wages Payable		4,900
Unearned Rent		800
Sarah Colin, Capital		397,550
	787,850	787,850

Prob. 4-2A

1.

FINDERS INVESTIGATIVE SERVICES		
Income Statement		
For the Year Ended June 30, 2019		
Revenues:		
Service fees	\$718,000	
Rent revenue	12,000	
Total revenues		\$730,000
Expenses:		
Salaries expense	\$522,100	
Rent expense	48,000	
Supplies expense	10,800	
Depreciation expense—building	8,750	
Utilities expense	7,150	
Repairs expense	3,000	
Insurance expense	2,500	
Miscellaneous expense	6,200	
Total expenses		608,500
Net income		\$121,500

FINDERS INVESTIGATIVE SERVICES		
Statement of Owner's Equity		
For the Year Ended June 30, 2019		
Stacy Tanner, capital, July 1, 2018		\$373,800
Net income for the year	\$121,500	
Withdrawals	(12,000)	
Increase in owner's equity		109,500
Stacy Tanner, capital, June 30, 2019		\$483,300

Prob. 4-2A (Continued)

FINDERS INVESTIGATIVE SERVICES			
Balance Sheet			
June 30, 2019			
Assets			
Current assets:			
Cash		\$28,000	
Accounts receivable		69,600	
Supplies		4,600	
Prepaid insurance		2,500	
Total current assets			\$104,700
Property, plant, and equipment:			
Building	\$439,500		
Less accumulated depreciation	44,200		
Total property, plant, and building			395,300
Total assets			\$500,000
Liabilities			
Current liabilities:			
Accounts payable		\$11,700	
Salaries payable		3,000	
Unearned rent		2,000	
Total liabilities			\$ 16,700
Owner's Equity			
Stacy Tanner, capital			483,300
Total liabilities and owner's equity			\$500,000

Prob. 4-2A (Concluded)

2019		Closing Entries			
June	30	Service Fees		718,000	
		Rent Revenue		12,000	
		Salaries Expense			522,100
		Rent Expense			48,000
		Supplies Expense			10,800
		Depreciation Expense—Building			8,750
		Utilities Expense			7,150
		Repairs Expense			3,000
		Insurance Expense			2,500
		Miscellaneous Expense			6,200
		Stacy Tanner, Capital			121,500
	30	Stacy Tanner, Capital		12,000	
		Stacy Tanner, Drawing			12,000

3. \$(18,000) net loss (\$30,000 – \$12,000). The \$30,000 decrease is caused by the \$(12,000) withdrawals and an \$(18,000) net loss.

Prob. 4-3A
1., 3., and 6.

Cash					
June	30	Bal.	11,000		
Laundry Supplies					
June	30	Bal.	<u>21,500</u>	June	30
		Adj.	3,600		
		Bal.	<u>17,900</u>		
Prepaid Insurance					
June	30	Bal.	<u>9,600</u>	June	30
		Adj.	3,900		
		Bal.	<u>5,700</u>		
Laundry Equipment					
June	30	Bal.	232,600		
Accumulated Depreciation					
				June	30
				Bal.	125,400
				30	
				Adj.	<u>6,500</u>
				30	
				Adj. Bal.	131,900
Accounts Payable					
				June	30
				Bal.	11,800
Wages Payable					
				June	30
				Adj.	1,100
Sophie Perez, Capital					
June	30	Clos.	10,000	June	30
			<u> </u>		
				Bal.	105,600
				30	
				Clos.	<u>10,700</u>
				30	
				Bal.	106,300
Sophie Perez, Drawing					
June	30	Bal.	10,000	June	30
				Clos.	10,000

Prob. 4-3A (Continued)

Laundry Revenue						
June	30	Clos.	232,200	June	30 Bal.	232,200

Wages Expense						
June	30	Bal.	125,200	June	30 Clos.	126,300
	30	Adj.	1,100			
	30	Adj. Bal.	126,300			

Rent Expense						
June	30	Bal.	40,000	June	30 Clos.	40,000

Utilities Expense						
June	30	Bal.	19,700	June	30 Clos.	19,700

Laundry Supplies Expense						
June	30	Adj.	17,900	June	30 Clos.	17,900

Depreciation Expense						
June	30	Adj.	6,500	June	30 Clos.	6,500

Insurance Expense						
June	30	Adj.	5,700	June	30 Clos.	5,700

Miscellaneous Expense						
June	30	Bal.	5,400	June	30 Clos.	5,400

Prob. 4-3A (Continued)
2. Optional (Appendix)

EPICENTER LAUNDRY											
End-of-Period Spreadsheet (Work Sheet)											
For the Year Ended June 30, 2019											
Account Title	Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet		
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	
Cash	11,000				11,000				11,000		
Laundry Supplies	21,500		(a) 17,900		3,600				3,600		
Prepaid Insurance	9,600		(b) 5,700		3,900				3,900		
Laundry Equipment	232,600				232,600				232,600		
Accum. Depreciation		125,400		(c) 6,500		131,900				131,900	
Accounts Payable		11,800				11,800				11,800	
Wages Payable				(d) 1,100		1,100				1,100	
Sophie Perez, Capital		105,600				105,600				105,600	
Sophie Perez, Drawing	10,000				10,000				10,000		
Laundry Revenue		232,200				232,200		232,200			
Wages Expense	125,200		(d) 1,100		126,300		126,300				
Rent Expense	40,000				40,000		40,000				
Utilities Expense	19,700				19,700		19,700				
Laundry Supplies Exp.			(a) 17,900		17,900		17,900				
Depreciation Expense			(c) 6,500		6,500		6,500				
Insurance Expense			(b) 5,700		5,700		5,700				
Miscellaneous Expense	5,400				5,400		5,400				
	475,000	475,000	31,200	31,200	482,600	482,600	221,500	232,200	261,100	250,400	
Net income							10,700		10,700		
							232,200	232,200	261,100	261,100	

Prob. 4-3A (Continued)

3.		Adjusting Entries			
2019					
June	30	Laundry Supplies Expense	17,900		
		Laundry Supplies		17,900	
		Supplies used (\$21,500 – \$3,600).			
	30	Insurance Expense	5,700		
		Prepaid Insurance		5,700	
		Insurance expired.			
	30	Depreciation Expense	6,500		
		Accumulated Depreciation		6,500	
		Equipment depreciation.			
	30	Wages Expense	1,100		
		Wages Payable		1,100	
		Accrued wages.			

4.			EPICENTER LAUNDRY Adjusted Trial Balance June 30, 2019	
	Debit Balances	Credit Balances		
Cash	11,000			
Laundry Supplies	3,600			
Prepaid Insurance	3,900			
Laundry Equipment	232,600			
Accumulated Depreciation		131,900		
Accounts Payable		11,800		
Wages Payable		1,100		
Sophie Perez, Capital		105,600		
Sophie Perez, Drawing	10,000			
Laundry Revenue		232,200		
Wages Expense	126,300			
Rent Expense	40,000			
Utilities Expense	19,700			
Laundry Supplies Expense	17,900			
Depreciation Expense	6,500			
Insurance Expense	5,700			
Miscellaneous Expense	5,400			
	482,600	482,600		

Prob. 4-3A (Continued)

5.

EPICENTER LAUNDRY		
Income Statement		
For the Year Ended June 30, 2019		
Laundry revenue		\$232,200
Expenses:		
Wages expense	\$126,300	
Rent expense	40,000	
Utilities expense	19,700	
Laundry supplies expense	17,900	
Depreciation expense	6,500	
Insurance expense	5,700	
Miscellaneous expense	5,400	
Total expenses		221,500
Net income		\$ 10,700

EPICENTER LAUNDRY		
Statement of Owner's Equity		
For the Year Ended June 30, 2019		
Sophie Perez, capital, July 1, 2018		\$105,600
Net income for the year	\$ 10,700	
Withdrawals	(10,000)	
Increase in owner's equity		700
Sophie Perez, capital, June 30, 2019		\$106,300

Prob. 4-3A (Continued)

EPICENTER LAUNDRY		
Balance Sheet		
June 30, 2019		
Assets		
Current assets:		
Cash	\$ 11,000	
Laundry supplies	3,600	
Prepaid insurance	3,900	
Total current assets		\$ 18,500
Property, plant, and equipment:		
Laundry equipment	\$232,600	
Less accumulated depreciation	131,900	
Total property, plant, and equipment		100,700
Total assets		\$119,200
Liabilities		
Current liabilities:		
Accounts payable	\$ 11,800	
Wages payable	1,100	
Total liabilities		\$ 12,900
Owner's Equity		
Sophie Perez, capital		106,300
Total liabilities and owner's equity		\$119,200

Prob. 4-3A (Concluded)

		Closing Entries		
2019				
June	30	Laundry Revenue	232,200	
		Wages Expense		126,300
		Rent Expense		40,000
		Utilities Expense		19,700
		Laundry Supplies Expense		17,900
		Depreciation Expense		6,500
		Insurance Expense		5,700
		Miscellaneous Expense		5,400
		Sophie Perez, Capital		10,700
	30	Sophie Perez Capital	10,000	
		Sophie Perez, Drawing		10,000

EPICENTER LAUNDRY Post-Closing Trial Balance June 30, 2019		
	Debit Balances	Credit Balances
Cash	11,000	
Laundry Supplies	3,600	
Prepaid Insurance	3,900	
Laundry Equipment	232,600	
Accumulated Depreciation		131,900
Accounts Payable		11,800
Wages Payable		1,100
Sophie Perez, Capital		106,300
	251,100	251,100

Prob. 4-4A
1., 3., and 6.

Account: **Cash** Account No. **11**

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Mar.	31	Balance			12,000	

Account: **Supplies** Account No. **13**

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Mar.	31	Balance			30,000	
	31	Adjusting		22,500	7,500	

Account: **Prepaid Insurance** Account No. **14**

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Mar.	31	Balance			3,600	
	31	Adjusting		1,800	1,800	

Account: **Equipment** Account No. **16**

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Mar.	31	Balance			110,000	

Account: **Accumulated Depreciation—Equipment** Account No. **17**

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Mar.	31	Balance				25,000
	31	Adjusting		8,350		33,350

Account: **Trucks** Account No. **18**

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Mar.	31	Balance			60,000	

Prob. 4-4A (Continued)

Account: Accumulated Depreciation—Trucks Account No. 19

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Mar.	31	Balance	✓			15,000
	31	Adjusting	26	6,200		21,200

Account: Accounts Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Mar.	31	Balance	✓			4,000

Account: Wages Payable Account No. 22

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Mar.	31	Adjusting	26	600		600

Account: Kaya Tarango, Capital Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Mar.	31	Balance	✓			96,000
	31	Closing	27	51,150		147,150
	31	Closing	27	15,000		132,150

Account: Kaya Tarango, Drawing Account No. 32

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Mar.	31	Balance	✓		15,000	
	31	Closing	27	15,000	—	—

Prob. 4-4A (Continued)

Account: Service Revenue Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Mar.	31	Balance	✓			160,000
	31	Closing	27	160,000	—	—

Account: Wages Expense Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Mar.	31	Balance	✓		45,000	
	31	Adjusting	26	600	45,600	
	31	Closing	27	45,600	—	—

Account: Supplies Expense Account No. 52

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Mar.	31	Adjusting	26	22,500	22,500	
	31	Closing	27	22,500	—	—

Account: Rent Expense Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Mar.	31	Balance	✓		10,600	
	31	Closing	27	10,600	—	—

Account: Truck Expense Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Mar.	31	Balance	✓		9,000	
	31	Closing	27	9,000	—	—

Prob. 4-4A (Continued)

Account: Depreciation Expense—Equipment Account No. 55

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Mar.	31	Adjusting	26	8,350		8,350
	31	Closing	27		8,350	—

Account: Depreciation Expense—Trucks Account No. 56

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Mar.	31	Adjusting	26	6,200		6,200
	31	Closing	27		6,200	—

Account: Insurance Expense Account No. 57

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Mar.	31	Adjusting	26	1,800		1,800
	31	Closing	27		1,800	—

Account: Miscellaneous Expense Account No. 59

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Mar.	31	Balance	✓			4,800
	31	Closing	27		4,800	—

Prob. 4-4A (Continued)
2. Optional (Appendix)

LAKOTA FREIGHT CO.											
End-of-Period Spreadsheet (Work Sheet)											
For the Year Ended March 31, 2019											
Account Title	Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet		
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	
Cash	12,000				12,000				12,000		
Supplies	30,000		(a) 22,500		7,500				7,500		
Prepaid Insurance	3,600		(b) 1,800		1,800				1,800		
Equipment	110,000				110,000				110,000		
Accum. Depr.—Equip.		25,000		(c) 8,350		33,350				33,350	
Trucks	60,000				60,000				60,000		
Accum. Depr.—Trucks		15,000		(d) 6,200		21,200				21,200	
Accounts Payable		4,000				4,000				4,000	
Wages Payable				(e) 600		600				600	
Kaya Tarango, Capital		96,000				96,000				96,000	
Kaya Tarango, Drawing	15,000				15,000				15,000		
Service Revenue		160,000				160,000		160,000			
Wages Expense	45,000		(e) 600		45,600		45,600				
Supplies Expense			(a) 22,500		22,500		22,500				
Rent Expense	10,600				10,600		10,600				
Truck Expense	9,000				9,000		9,000				
Depr. Exp.—Equipment			(c) 8,350		8,350		8,350				
Depr. Exp.—Trucks			(d) 6,200		6,200		6,200				
Insurance Expense			(b) 1,800		1,800		1,800				
Miscellaneous Expense	4,800				4,800		4,800				
	300,000	300,000	39,450	39,450	315,150	315,150	108,850	160,000	206,300	155,150	
Net income							51,150		51,150		
							160,000	160,000	206,300	206,300	

Prob. 4-4A (Continued)

3.

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Date		Post. Ref.	Debit	Credit
2019		Adjusting Entries		
Mar.	31	Supplies Expense	52	22,500
		Supplies		22,500
		Supplies used (\$30,000 – \$7,500).		
	31	Insurance Expense	57	1,800
		Prepaid Insurance	14	1,800
		Insurance expired.		
	31	Depreciation Expense—Equipment	55	8,350
		Accumulated Depr.—Equipment	17	8,350
		Equipment depreciation.		
	31	Depreciation Expense—Trucks	56	6,200
		Accumulated Depr.—Trucks	19	6,200
		Truck depreciation.		
	31	Wages Expense	51	600
		Wages Payable	22	600
		Accrued wages.		

Prob. 4-4A (Continued)

4.

LAKOTA FREIGHT CO.			
Adjusted Trial Balance			
March 31, 2019			
	Account No.	Debit Balances	Credit Balances
Cash	11	12,000	
Supplies	13	7,500	
Prepaid Insurance	14	1,800	
Equipment	16	110,000	
Accumulated Depreciation—Equipment	17		33,350
Trucks	18	60,000	
Accumulated Depreciation—Trucks	19		21,200
Accounts Payable	21		4,000
Wages Payable	22		600
Kaya Tarango, Capital	31		96,000
Kaya Tarango, Drawing	32	15,000	
Service Revenue	41		160,000
Wages Expense	51	45,600	
Supplies Expense	52	22,500	
Rent Expense	53	10,600	
Truck Expense	54	9,000	
Depreciation Expense—Equipment	55	8,350	
Depreciation Expense—Trucks	56	6,200	
Insurance Expense	57	1,800	
Miscellaneous Expense	59	4,800	
		315,150	315,150

Prob. 4-4A (Continued)

5.

LAKOTA FREIGHT CO.		
Income Statement		
For the Year Ended March 31, 2019		
Service revenue		\$160,000
Expenses:		
Wages expense	\$45,600	
Supplies expense	22,500	
Rent expense	10,600	
Truck expense	9,000	
Depreciation expense—equipment	8,350	
Depreciation expense—trucks	6,200	
Insurance expense	1,800	
Miscellaneous expense	4,800	
Total expenses		108,850
Net income		\$ 51,150

LAKOTA FREIGHT CO.		
Statement of Owner's Equity		
For the Year Ended March 31, 2019		
Kaya Tarango, capital, April 1, 2018		\$ 96,000
Net income for the year	\$ 51,150	
Withdrawals	(15,000)	
Increase in owner's equity		36,150
Kaya Tarango, capital, March 31, 2019		\$132,150

Prob. 4-4A (Continued)

LAKOTA FREIGHT CO.			
Balance Sheet			
March 31, 2019			
Assets			
Current assets:			
Cash		\$12,000	
Supplies		7,500	
Prepaid insurance		1,800	
Total current assets			\$ 21,300
Property, plant, and equipment:			
Equipment	\$110,000		
Less accumulated depreciation	33,350	\$76,650	
Trucks	\$ 60,000		
Less accumulated depreciation	21,200	38,800	
Total property, plant, and equipment			115,450
Total assets			\$136,750
Liabilities			
Current liabilities:			
Accounts payable		\$ 4,000	
Wages payable		600	
Total liabilities			\$ 4,600
Owner's Equity			
Kaya Tarango, capital			132,150
Total liabilities and owner's equity			\$136,750

Prob. 4-4A (Concluded)

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Date		Post. Ref.	Debit	Credit
2019		Closing Entries		
Mar.	31	Service Revenue	41	160,000
		Wages Expense	51	45,600
		Supplies Expense	52	22,500
		Rent Expense	53	10,600
		Truck Expense	54	9,000
		Depreciation Expense—Equipment	55	8,350
		Depreciation Expense—Trucks	56	6,200
		Insurance Expense	57	1,800
		Miscellaneous Expense	59	4,800
		Kaya Tarango, Capital	31	51,150
	31	Kaya Tarango, Capital	31	15,000
		Kaya Tarango, Drawing	32	15,000

7.

LAKOTA FREIGHT CO.			
Post-Closing Trial Balance			
March 31, 2019			
	Account No.	Debit Balances	Credit Balances
Cash	11	12,000	
Supplies	13	7,500	
Prepaid Insurance	14	1,800	
Equipment	16	110,000	
Accumulated Depreciation—Equipment	17		33,350
Trucks	18	60,000	
Accumulated Depreciation—Trucks	19		21,200
Accounts Payable	21		4,000
Wages Payable	22		600
Kaya Tarango, Capital	31		132,150
		191,300	191,300

Prob. 4-5A

1. and 2.

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Date		Post. Ref.	Debit	Credit
2019				
July	1	Cash	11	19,000
		Accounts Receivable	12	22,300
		Supplies	14	3,800
		Office Equipment	18	8,900
		Jolene Upton, Capital	31	54,000
	1	Prepaid Rent	15	6,000
		Cash	11	6,000
	2	Prepaid Insurance	16	4,500
		Cash	11	4,500
	4	Cash	11	8,000
		Unearned Fees	23	8,000
	5	Office Equipment	18	5,100
		Accounts Payable	21	5,100
	6	Cash	11	12,750
		Accounts Receivable	12	12,750
	10	Miscellaneous Expense	59	500
		Cash	11	500
	12	Accounts Payable	21	3,000
		Cash	11	3,000
	12	Accounts Receivable	12	14,200
		Fees Earned	41	14,200
	14	Salary Expense	51	1,500
		Cash	11	1,500

Prob. 4-5A (Continued)

JOURNAL

Date			Post. Ref.	Debit	Credit
2019					
July	17	Cash	11	10,400	
		Fees Earned	41		10,400
	18	Supplies	14	1,000	
		Cash	11		1,000
	20	Accounts Receivable	12	9,000	
		Fees Earned	41		9,000
	24	Cash	11	8,500	
		Fees Earned	41		8,500
	26	Cash	11	12,000	
		Accounts Receivable	12		12,000
	27	Salary Expense	51	1,500	
		Cash	11		1,500
	29	Miscellaneous Expense	59	325	
		Cash	11		325
	31	Miscellaneous Expense	59	675	
		Cash	11		675
	31	Cash	11	7,100	
		Fees Earned	41		7,100
	31	Accounts Receivable	12	5,500	
		Fees Earned	41		5,500
	31	Jolene Upton, Drawing	32	20,000	
		Cash	11		20,000

Prob. 4-5A (Continued)
2., 6., and 9.

Account: **Cash** Account No. **11**

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1	1	19,000		19,000	
	1	1		6,000	13,000	
	2	1		4,500	8,500	
	4	1	8,000		16,500	
	6	1	12,750		29,250	
	10	1		500	28,750	
	12	1		3,000	25,750	
	14	1		1,500	24,250	
	17	2	10,400		34,650	
	18	2		1,000	33,650	
	24	2	8,500		42,150	
	26	2	12,000		54,150	
	27	2		1,500	52,650	
	29	2		325	52,325	
	31	2		675	51,650	
	31	2	7,100		58,750	
	31	2		20,000	38,750	

Account: **Accounts Receivable** Account No. **12**

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1	1	22,300		22,300	
	6	1		12,750	9,550	
	12	1	14,200		23,750	
	20	2	9,000		32,750	
	26	2		12,000	20,750	
	31	2	5,500		26,250	

Account: **Supplies** Account No. **14**

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1	1	3,800		3,800	
	18	2	1,000		4,800	
	31	3		1,950	2,850	

Prob. 4-5A (Continued)

Account: Prepaid Rent Account No. 15

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1	1	6,000		6,000	
	31	Adjusting		2,000	4,000	

Account: Prepaid Insurance Account No. 16

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	2	1	4,500		4,500	
	31	Adjusting		375	4,125	

Account: Office Equipment Account No. 18

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1	1	8,900		8,900	
	5		5,100		14,000	

Account: Accumulated Depreciation—Office Equipment Account No. 19

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	31	Adjusting		400		400

Account: Accounts Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	5	1		5,100		5,100
	12	1	3,000			2,100

Account: Salaries Payable Account No. 22

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	31	Adjusting		140		140

Prob. 4-5A (Continued)

Account: Unearned Fees Account No. 23

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	4	1		8,000		8,000
	31	Adjusting	5,000			3,000

Account: Jolene Upton, Capital Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1	1		54,000		54,000
	31	Closing		50,335		104,335
	31	Closing	20,000			84,335

Account: Jolene Upton, Drawing Account No. 32

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	31		20,000		20,000	
	31	Closing		20,000	—	—

Account: Fees Earned Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	12	1		14,200		14,200
	17	2		10,400		24,600
	20	2		9,000		33,600
	24	2		8,500		42,100
	31	2		7,100		49,200
	31	2		5,500		54,700
	31	Adjusting		5,000		59,700
	31	Closing	59,700		—	—

Prob. 4-5A (Continued)

Account: Salary Expense Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	14	1	1,500		1,500	
	27	2	1,500		3,000	
	31	3	140		3,140	
	31	4		3,140		
					—	—

Account: Rent Expense Account No. 52

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	31	3	2,000		2,000	
	31	4		2,000		
					—	—

Account: Supplies Expense Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	31	3	1,950		1,950	
	31	4		1,950		
					—	—

Account: Depreciation Expense Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	31	3	400		400	
	31	4		400		
					—	—

Account: Insurance Expense Account No. 55

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	31	3	375		375	
	31	4		375		
					—	—

Prob. 4-5A (Continued)

Account: Miscellaneous ExpenseAccount No. 59

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	10	1	500		500	
	29	2	325		825	
	31	2	675		1,500	
	31	Closing		1,500	—	—

3.

GOURMET CONSULTING			
Unadjusted Trial Balance			
July 31, 2019			
	Account No.	Debit Balances	Credit Balances
Cash	11	38,750	
Accounts Receivable	12	26,250	
Supplies	14	4,800	
Prepaid Rent	15	6,000	
Prepaid Insurance	16	4,500	
Office Equipment	18	14,000	
Accumulated Depreciation—Office Equipment	19		0
Accounts Payable	21		2,100
Salaries Payable	22		0
Unearned Fees	23		8,000
Jolene Upton, Capital	31		54,000
Jolene Upton, Drawing	32	20,000	
Fees Earned	41		54,700
Salary Expense	51	3,000	
Rent Expense	52	0	
Supplies Expense	53	0	
Depreciation Expense	54	0	
Insurance Expense	55	0	
Miscellaneous Expense	59	1,500	
		118,800	118,800

Prob. 4-5A (Continued)
5. Optional (Appendix)

GOURMET CONSULTING											
End-of-Period Spreadsheet (Work Sheet)											
For the Month Ended July 31, 2019											
Account Title	Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet		
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	
Cash	38,750				38,750				38,750		
Accounts Receivable	26,250				26,250				26,250		
Supplies	4,800			(b) 1,950	2,850				2,850		
Prepaid Rent	6,000			(e) 2,000	4,000				4,000		
Prepaid Insurance	4,500			(a) 375	4,125				4,125		
Office Equipment	14,000				14,000				14,000		
Accum. Depreciation				(c) 400		400				400	
Accounts Payable		2,100				2,100				2,100	
Salaries Payable				(d) 140		140				140	
Unearned Fees		8,000	(f) 5,000			3,000				3,000	
Jolene Upton, Capital		54,000				54,000				54,000	
Jolene Upton, Drawing	20,000				20,000				20,000		
Fees Earned		54,700		(f) 5,000		59,700		59,700			
Salary Expense	3,000		(d) 140			3,140	3,140				
Rent Expense			(e) 2,000			2,000	2,000				
Supplies Expense			(b) 1,950			1,950	1,950				
Depreciation Expense			(c) 400			400	400				
Insurance Expense			(a) 375			375	375				
Miscellaneous Expense	1,500					1,500	1,500				
	118,800	118,800	9,865	9,865	119,340	119,340	9,365	59,700	109,975	59,640	
Net income							50,335			50,335	
							59,700	59,700	109,975	109,975	

Prob. 4-5A (Continued)

6.

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Date			Post. Ref.	Debit	Credit
2019		Adjusting Entries			
July	31	Insurance Expense	55	375	
		Prepaid Insurance	16		375
		Insurance expired.			
	31	Supplies Expense	53	1,950	
		Supplies	14		1,950
		Supplies used (\$4,800 – \$2,850).			
	31	Depreciation Expense	54	400	
		Accumulated Depreciation	19		400
		Equipment depreciation.			
	31	Salary Expense	51	140	
		Salaries Payable	22		140
		Accrued salaries.			
	31	Rent Expense	52	2,000	
		Prepaid Rent	15		2,000
		Rent expired.			
	31	Unearned Fees	23	5,000	
		Fees Earned	41		5,000
		Unearned fees earned (\$8,000 – \$3,000).			

Prob. 4-5A (Continued)

7.

GOURMET CONSULTING			
Adjusted Trial Balance			
July 31, 2019			
	Account No.	Debit Balances	Credit Balances
Cash	11	38,750	
Accounts Receivable	12	26,250	
Supplies	14	2,850	
Prepaid Rent	15	4,000	
Prepaid Insurance	16	4,125	
Office Equipment	18	14,000	
Accumulated Depreciation—Office Equipment	19		400
Accounts Payable	21		2,100
Salaries Payable	22		140
Unearned Fees	23		3,000
Jolene Upton, Capital	31		54,000
Jolene Upton, Drawing	32	20,000	
Fees Earned	41		59,700
Salary Expense	51	3,140	
Rent Expense	52	2,000	
Supplies Expense	53	1,950	
Depreciation Expense	54	400	
Insurance Expense	55	375	
Miscellaneous Expense	59	1,500	
		119,340	119,340

Prob. 4-5A (Continued)

8.

GOURMET CONSULTING		
Income Statement		
For the Month Ended July 31, 2019		
Fees earned		\$59,700
Expenses:		
Salary expense	\$3,140	
Rent expense	2,000	
Supplies expense	1,950	
Depreciation expense	400	
Insurance Expense	375	
Miscellaneous expense	1,500	
Total expenses		9,365
Net income		\$50,335

GOURMET CONSULTING		
Statement of Owner's Equity		
For the Month Ended July 31, 2019		
Jolene Upton, capital, July 1, 2019		\$ 0
Investments during month	\$ 54,000	
Net income	50,335	
Withdrawals	(20,000)	
Increase in owner's equity		84,335
Jolene Upton, capital, July 31, 2019		\$84,335

Prob. 4-5A (Continued)

GOURMET CONSULTING		
Balance Sheet		
July 31, 2019		
Assets		
Current assets:		
Cash	\$38,750	
Accounts receivable	26,250	
Supplies	2,850	
Prepaid rent	4,000	
Prepaid insurance	4,125	
Total current assets		\$75,975
Property, plant, and equipment:		
Office equipment	\$14,000	
Less accumulated depreciation	400	
Total property, plant, and equipment		13,600
Total assets		\$89,575
Liabilities		
Current liabilities:		
Accounts payable	\$ 2,100	
Salaries payable	140	
Unearned fees	3,000	
Total liabilities		\$ 5,240
Owner's Equity		
Jolene Upton, capital		84,335
Total liabilities and owner's equity		\$89,575

Prob. 4-5A (Concluded)

9.

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Date		Post. Ref.	Debit	Credit
2019		Closing Entries		
July	31	Fees Earned	41	59,700
		Salary Expense	51	3,140
		Rent Expense	52	2,000
		Supplies Expense	53	1,950
		Depreciation Expense	54	400
		Insurance Expense	55	375
		Miscellaneous Expense	59	1,500
		Jolene Upton, Capital	31	50,335
	31	Jolene Upton, Capital	31	20,000
		Jolene Upton, Drawing	32	20,000

10.

GOURMET CONSULTING			
Post-Closing Trial Balance			
July 31, 2019			
	Account No.	Debit Balances	Credit Balances
Cash	11	38,750	
Accounts Receivable	12	26,250	
Supplies	14	2,850	
Prepaid Rent	15	4,000	
Prepaid Insurance	16	4,125	
Office Equipment	18	14,000	
Accumulated Depreciation—Office Equipment	19		400
Accounts Payable	21		2,100
Salaries Payable	22		140
Unearned Fees	23		3,000
Jolene Upton, Capital	31		84,335
		89,975	89,975

Prob. 4-1B

1.

LAST CHANCE COMPANY		
Income Statement		
For the Year Ended June 30, 2019		
Revenues:		
Fees earned	\$283,750	
Rent revenue	3,000	
Total revenues		\$286,750
Expenses:		
Salaries and wages expense	\$147,000	
Advertising expense	86,800	
Utilities expense	30,000	
Travel expense	18,750	
Depreciation expense—equipment	4,550	
Depreciation expense—building	3,000	
Supplies expense	1,500	
Insurance expense	1,300	
Miscellaneous expense	5,875	
Total expenses		298,775
Net loss		\$ (12,025)

2.

LAST CHANCE COMPANY		
Statement of Owner's Equity		
For the Year Ended June 30, 2019		
Tami Garrigan, capital, July 1, 2018		\$361,300
Net loss for the year	\$(12,025)	
Withdrawals	(20,000)	
Decrease in owner's equity		(32,025)
Tami Garrigan, capital, June 30, 2019		\$329,275

Prob. 4-1B (Continued)

3.

LAST CHANCE COMPANY			
Balance Sheet			
June 30, 2019			
Assets			
Current assets:			
Cash		\$ 5,100	
Accounts receivable		26,500	
Prepaid insurance		2,300	
Supplies		525	
Total current assets			\$ 34,425
Property, plant, and equipment:			
Land		\$ 80,000	
Building	\$340,000		
Less accumulated depreciation	193,000	147,000	
Equipment	\$140,000		
Less accumulated depreciation	59,000	81,000	
Total property, plant, and equipment			308,000
Total assets			\$342,425
Liabilities			
Current liabilities:			
Accounts payable		\$ 9,750	
Salaries and wages payable		1,900	
Unearned rent		1,500	
Total liabilities			\$ 13,150
Owner's Equity			
Tami Garrigan, capital			329,275
Total liabilities and owner's equity			\$342,425

Prob. 4-1B (Concluded)

2019		Closing Entries			
June	30	Fees Earned		283,750	
		Rent Revenue		3,000	
		Tami Garrigan, Capital		(12,025)	
		Salaries and Wages Expense			147,000
		Advertising Expense			86,800
		Utilities Expense			30,000
		Travel Expense			18,750
		Depreciation Expense—Equipment			4,550
		Depreciation Expense—Building			3,000
		Supplies Expense			1,500
		Insurance Expense			1,300
		Miscellaneous Expense			5,875
	30	Tami Garrigan, Capital		20,000	
		Tami Garrigan, Drawing			20,000

LAST CHANCE COMPANY		
Post-Closing Trial Balance		
June 30, 2019		
	Debit Balances	Credit Balances
Cash	5,100	
Accounts Receivable	26,500	
Prepaid Insurance	2,300	
Supplies	525	
Land	80,000	
Building	340,000	
Accumulated Depreciation—Building		193,000
Equipment	140,000	
Accumulated Depreciation—Equipment		59,000
Accounts Payable		9,750
Salaries and Wages Payable		1,900
Unearned Rent		1,500
Tami Garrigan, Capital		329,275
	594,425	594,425

Prob. 4-2B

1.

THE GORMAN GROUP		
Income Statement		
For the Year Ended October 31, 2019		
Revenues:		
Service fees	\$468,000	
Rent revenue	5,000	
Total revenues		\$473,000
Expenses:		
Salaries expense	\$291,000	
Depreciation expense—equipment	17,500	
Rent expense	15,500	
Supplies expense	9,000	
Utilities expense	8,500	
Depreciation expense—buildings	6,600	
Repairs expense	3,450	
Insurance expense	3,000	
Miscellaneous expense	5,450	
Total expenses		360,000
Net income		\$113,000

THE GORMAN GROUP		
Statement of Owner's Equity		
For the Year Ended October 31, 2019		
Nicole Gorman, capital, November 1, 2018		\$220,000
Net income for the year	\$113,000	
Withdrawals	(20,000)	
Increase in owner's equity		93,000
Nicole Gorman, capital, October 31, 2019		\$313,000

Prob. 4-2B (Continued)

THE GORMAN GROUP			
Balance Sheet			
October 31, 2019			
Assets			
Current assets:			
Cash		\$ 11,000	
Accounts receivable		28,150	
Supplies		6,350	
Prepaid insurance		9,500	
Total current assets			\$ 55,000
Property, plant, and equipment:			
Land		\$ 75,000	
Buildings	\$250,000		
Less accumulated depreciation	117,200	132,800	
Equipment	\$240,000		
Less accumulated depreciation	151,700	88,300	
Total property, plant, and equipment			296,100
Total assets			\$351,100
Liabilities			
Current liabilities:			
Accounts payable		\$ 33,300	
Salaries payable		3,300	
Unearned rent		1,500	
Total liabilities			\$ 38,100
Owner's Equity			
Nicole Gorman, capital			313,000
Total liabilities and owner's equity			\$351,100

Prob. 4-2B (Concluded)

2.

2019		Closing Entries		
Oct.	31	Service Fees	468,000	
		Rent Revenue	5,000	
		Salaries Expense		291,000
		Depreciation Expense—Equipment		17,500
		Rent Expense		15,500
		Supplies Expense		9,000
		Utilities Expense		8,500
		Depreciation Expense—Buildings		6,600
		Repairs Expense		3,450
		Insurance Expense		3,000
		Miscellaneous Expense		5,450
		Nicole Gorman, Capital		113,000
	31	Nicole Gorman, Capital	20,000	
		Nicole Gorman, Drawing		20,000

3. \$135,000 (\$115,000 + \$20,000) net income. The \$115,000 increase is caused by the net income of \$135,000 less the \$20,000 withdrawals.

Prob. 4-3B
1., 3., and 6.

Cash			
Aug. 31	Bal.	3,800	

Laundry Supplies			
Aug. 31	Bal.	<u>9,000</u>	Aug. 31 Adj. <u>7,000</u>
	31 Adj. Bal.	2,000	

Prepaid Insurance			
Aug. 31	Bal.	<u>6,000</u>	Aug. 31 Adj. <u>5,300</u>
	31 Adj. Bal.	700	

Laundry Equipment			
Aug. 31	Bal.	180,800	

Accumulated Depreciation			
			Aug. 31 Bal. 49,200
			31 Adj. <u>8,150</u>
			31 Adj. Bal. 57,350

Accounts Payable			
			Aug. 31 Bal. 7,800

Wages Payable			
			Aug. 31 Adj. 2,200

Bobbi Downey, Capital			
Aug. 31	Clos.	2,400	Aug. 31 Bal. 95,000
		—	31 Clos. <u>27,350</u>
			31 Bal. 119,950

Bobbi Downey, Drawing			
Aug. 31	Bal.	2,400	Aug. 31 Clos. 2,400

Prob. 4-3B (Continued)

Laundry Revenue					
Aug. 31	Clos.	248,000	Aug. 31	Bal.	248,000

Wages Expense					
Aug. 31	Bal.	135,800	Aug. 31	Clos.	138,000
	31	Adj.			
		<u>2,200</u>			<u> </u>
	31	Adj. Bal.			
		138,000			

Rent Expense					
Aug. 31	Bal.	43,200	Aug. 31	Clos.	43,200

Utilities Expense					
Aug. 31	Bal.	16,000	Aug. 31	Clos.	16,000

Depreciation Expense					
Aug. 31	Adj.	8,150	Aug. 31	Clos.	8,150

Laundry Supplies Expense					
Aug. 31	Adj.	7,000	Aug. 31	Clos.	7,000

Insurance Expense					
Aug. 31	Adj.	5,300	Aug. 31	Clos.	5,300

Miscellaneous Expense					
Aug. 31	Bal.	3,000	Aug. 31	Clos.	3,000

Prob. 4-3B (Continued)

2. Optional (Appendix)

LA MESA LAUNDRY											
End-of-Period Spreadsheet (Work Sheet)											
For the Year Ended August 31, 2019											
Account Title	Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet		
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	
Cash	3,800				3,800				3,800		
Laundry Supplies	9,000			(c) 7,000	2,000				2,000		
Prepaid Insurance	6,000			(d) 5,300	700				700		
Laundry Equipment	180,800				180,800				180,800		
Accum. Depreciation		49,200		(b) 8,150		57,350				57,350	
Accounts Payable		7,800				7,800				7,800	
Wages Payable		95,000		(a) 2,200		2,200				2,200	
Bobbi Downey, Capital						95,000				95,000	
Bobbi Downey, Drawing	2,400				2,400				2,400		
Laundry Revenue		248,000				248,000		248,000			
Wages Expense	135,800		(a) 2,200		138,000		138,000				
Rent Expense	43,200				43,200		43,200				
Utilities Expense	16,000				16,000		16,000				
Depreciation Expense			(b) 8,150		8,150		8,150				
Laundry Supplies Exp.			(c) 7,000		7,000		7,000				
Insurance Expense			(d) 5,300		5,300		5,300				
Miscellaneous Expense	3,000				3,000		3,000				
	400,000	400,000	22,650	22,650	410,350	410,350	220,650	248,000	189,700	162,350	
Net income							27,350			27,350	
							248,000	248,000	189,700	189,700	

Prob. 4-3B (Continued)

		Adjusting Entries			
2019					
Aug.	31	Wages Expense		2,200	
		Wages Payable			2,200
		Accrued wages.			
	31	Depreciation Expense		8,150	
		Accumulated Depreciation			8,150
		Equipment depreciation.			
	31	Laundry Supplies Expense		7,000	
		Laundry Supplies			7,000
		Supplies used (\$9,000 – \$2,000).			
	31	Insurance Expense		5,300	
		Prepaid Insurance			5,300
		Insurance expired.			

LA MESA LAUNDRY Adjusted Trial Balance August 31, 2019		
	Debit Balances	Credit Balances
Cash	3,800	
Laundry Supplies	2,000	
Prepaid Insurance	700	
Laundry Equipment	180,800	
Accumulated Depreciation		57,350
Accounts Payable		7,800
Wages Payable		2,200
Bobbi Downey, Capital		95,000
Bobbi Downey, Drawing	2,400	
Laundry Revenue		248,000
Wages Expense	138,000	
Rent Expense	43,200	
Utilities Expense	16,000	
Depreciation Expense	8,150	
Laundry Supplies Expense	7,000	
Insurance Expense	5,300	
Miscellaneous Expense	3,000	
	410,350	410,350

Prob. 4–3B (Continued)

5.

LA MESA LAUNDRY		
Income Statement		
For the Year Ended August 31, 2019		
Laundry revenue		\$248,000
Expenses:		
Wages expense	\$138,000	
Rent expense	43,200	
Utilities expense	16,000	
Depreciation expense	8,150	
Laundry supplies expense	7,000	
Insurance expense	5,300	
Miscellaneous expense	3,000	
Total expenses		220,650
Net income		\$ 27,350

LA MESA LAUNDRY		
Statement of Owner's Equity		
For the Year Ended August 31, 2019		
Bobbi Downey, capital, September 1, 2018		\$ 95,000
Net income for the year	\$27,350	
Withdrawals	(2,400)	
Increase in owner's equity		24,950
Bobbi Downey, capital, August 31, 2019		\$119,950

Prob. 4-3B (Continued)

LA MESA LAUNDRY		
Balance Sheet		
August 31, 2019		
Assets		
Current assets:		
Cash	\$ 3,800	
Laundry supplies	2,000	
Prepaid insurance	700	
Total current assets		\$ 6,500
Property, plant, and equipment		
Laundry equipment	\$180,800	
Less accumulated depreciation	57,350	
Total property, plant, and equipment		123,450
Total assets		\$129,950
Liabilities		
Current liabilities:		
Accounts payable	\$ 7,800	
Wages payable	2,200	
Total liabilities		\$ 10,000
Owner's Equity		
Bobbi Downey, capital		119,950
Total liabilities and owner's equity		\$129,950

Prob. 4-3B (Concluded)

6.

		Closing Entries			
2019					
Aug.	31	Laundry Revenue		248,000	
		Wages Expense			138,000
		Rent Expense			43,200
		Utilities Expense			16,000
		Depreciation Expense			8,150
		Laundry Supplies Expense			7,000
		Insurance Expense			5,300
		Miscellaneous Expense			3,000
		Bobbi Downey, Capital			27,350
	31	Bobbi Downey, Capital		2,400	
		Bobbi Downey, Drawing			2,400

7.

LA MESA LAUNDRY Post-Closing Trial Balance August 31, 2019		
	Debit Balances	Credit Balances
Cash	3,800	
Laundry Supplies	2,000	
Prepaid Insurance	700	
Laundry Equipment	180,800	
Accumulated Depreciation		57,350
Accounts Payable		7,800
Wages Payable		2,200
Bobbi Downey, Capital		119,950
	187,300	187,300

Prob. 4-4B

1., 3., and 6.

Account: Cash Account No. 11

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Jan.	31	Balance			13,100	

Account: Supplies Account No. 13

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Jan.	31	Balance			8,000	
	31	Adjusting		5,150	2,850	

Account: Prepaid Insurance Account No. 14

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Jan.	31	Balance			7,500	
	31	Adjusting		3,150	4,350	

Account: Equipment Account No. 16

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Jan.	31	Balance			113,000	

Account: Accumulated Depreciation—Equipment Account No. 17

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Jan.	31	Balance				12,000
	31	Adjusting		5,250		17,250

Account: Trucks Account No. 18

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Jan.	31	Balance			90,000	

Prob. 4-4B (Continued)

Account: Accumulated Depreciation—Trucks Account No. 19

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Jan.	31	Balance	✓			27,100
	31	Adjusting	26	4,000		31,100

Account: Accounts Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Jan.	31	Balance	✓			4,500

Account: Wages Payable Account No. 22

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Jan.	31	Adjusting	26	900		900

Account: Jeanne McQuay, Capital Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Jan.	31	Balance	✓			126,400
	31	Closing	27	46,150		172,550
	31	Closing	27	3,000		169,550

Account: Jeanne McQuay, Drawing Account No. 32

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Jan.	31	Balance	✓		3,000	
	31	Closing	27	3,000	—	—

Prob. 4-4B (Continued)

Account: Service Revenue Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Jan.	31	Balance				155,000
	31	Closing	155,000		—	—

Account: Wages Expense Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Jan.	31	Balance			72,000	
	31	Adjusting	900		72,900	
	31	Closing		72,900	—	—

Account: Rent Expense Account No. 52

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Jan.	31	Balance			7,600	
	31	Closing		7,600	—	—

Account: Truck Expense Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Jan.	31	Balance			5,350	
	31	Closing		5,350	—	—

Prob. 4-4B (Continued)

Account: Depreciation Expense—Equipment Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Jan. 31	Adjusting	26	5,250		5,250	
	31 Closing	27		5,250	—	—

Account: Supplies Expense Account No. 55

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Jan. 31	Adjusting	26	5,150		5,150	
	31 Closing	27		5,150	—	—

Account: Depreciation Expense—Trucks Account No. 56

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Jan. 31	Adjusting	26	4,000		4,000	
	31 Closing	27		4,000	—	—

Account: Insurance Expense Account No. 57

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Jan. 31	Adjusting	26	3,150		3,150	
	31 Closing	27		3,150	—	—

Account: Miscellaneous Expense Account No. 59

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Jan. 31	Balance	✓			5,450	
	31 Closing	27		5,450	—	—

Prob. 4-4B (Continued)
2. Optional (Appendix)

RECESSIVE INTERIORS											
End-of-Period Spreadsheet (Work Sheet)											
For the Year Ended January 31, 2019											
Account Title	Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet		
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	
Cash	13,100				13,100				13,100		
Supplies	8,000		(a) 5,150		2,850				2,850		
Prepaid Insurance	7,500		(b) 3,150		4,350				4,350		
Equipment	113,000				113,000				113,000		
Accum. Depr.—Equipment		12,000		(c) 5,250		17,250				17,250	
Trucks	90,000				90,000				90,000		
Accum. Depr.—Trucks		27,100		(d) 4,000		31,100				31,100	
Accounts Payable		4,500				4,500				4,500	
Wages Payable				(e) 900		900				900	
Jeanne McQuay, Capital		126,400				126,400				126,400	
Jeanne McQuay, Drawing	3,000				3,000				3,000		
Service Revenue		155,000				155,000		155,000			
Wages Expense	72,000		(e) 900		72,900		72,900				
Rent Expense	7,600				7,600		7,600				
Truck Expense	5,350				5,350		5,350				
Depr. Exp.—Equipment			(c) 5,250		5,250		5,250				
Supplies Expense			(a) 5,150		5,150		5,150				
Depr. Exp.—Trucks			(d) 4,000		4,000		4,000				
Insurance Expense			(b) 3,150		3,150		3,150				
Miscellaneous Expense	5,450				5,450		5,450				
	325,000	325,000	18,450	18,450	335,150	335,150	108,850	155,000	226,300	180,150	
Net income							46,150		46,150		
							155,000	155,000	226,300	226,300	

Prob. 4-4B (Continued)

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Date			Post. Ref.	Debit	Credit
2019		Adjusting Entries			
Jan.	31	Supplies Expense	55	5,150	
		Supplies	13		5,150
		Supplies used (\$8,000 – \$2,850).			
	31	Insurance Expense	57	3,150	
		Prepaid Insurance	14		3,150
		Insurance expired.			
	31	Depreciation Expense—Equipment	54	5,250	
		Accumulated Depr.—Equipment	17		5,250
		Equipment depreciation.			
	31	Depreciation Expense—Trucks	56	4,000	
		Accumulated Depr.—Trucks	19		4,000
		Truck depreciation.			
	31	Wages Expense	51	900	
		Wages Payable	22		900
		Accrued wages.			

Prob. 4-4B (Continued)

4.

RECESSIVE INTERIORS			
Adjusted Trial Balance			
January 31, 2019			
	Account No.	Debit Balances	Credit Balances
Cash	11	13,100	
Supplies	13	2,850	
Prepaid Insurance	14	4,350	
Equipment	16	113,000	
Accumulated Depreciation—Equipment	17		17,250
Trucks	18	90,000	
Accumulated Depreciation—Trucks	19		31,100
Accounts Payable	21		4,500
Wages Payable	22		900
Jeanne McQuay, Capital	31		126,400
Jeanne McQuay, Drawing	32	3,000	
Service Revenue	41		155,000
Wages Expense	51	72,900	
Rent Expense	52	7,600	
Truck Expense	53	5,350	
Depreciation Expense—Equipment	54	5,250	
Supplies Expense	55	5,150	
Depreciation Expense—Trucks	56	4,000	
Insurance Expense	57	3,150	
Miscellaneous Expense	59	5,450	
		335,150	335,150

Prob. 4-4B (Continued)

5.

RECESSIVE INTERIORS		
Income Statement		
For the Year Ended January 31, 2019		
Service revenue		\$155,000
Expenses:		
Wages expense	\$72,900	
Rent expense	7,600	
Truck expense	5,350	
Depreciation expense—equipment	5,250	
Supplies expense	5,150	
Depreciation expense—trucks	4,000	
Insurance expense	3,150	
Miscellaneous expense	5,450	
Total expenses		108,850
Net income		\$ 46,150

RECESSIVE INTERIORS		
Statement of Owner's Equity		
For the Year Ended January 31, 2019		
Jeanne McQuay, capital, February 1, 2018		\$126,400
Net income for the year	\$46,150	
Withdrawals	(3,000)	
Increase in owner's equity		43,150
Jeanne McQuay, capital, January 31, 2019		\$169,550

Prob. 4-4B (Continued)

RECESSIVE INTERIORS			
Balance Sheet			
January 31, 2019			
Assets			
Current assets:			
Cash		\$13,100	
Supplies		2,850	
Prepaid insurance		4,350	
Total current assets			\$ 20,300
Property, plant, and equipment:			
Equipment	\$113,000		
Less accumulated depreciation	17,250	\$95,750	
Trucks	\$ 90,000		
Less accumulated depreciation	31,100	58,900	
Total property, plant, and equipment			154,650
Total assets			\$174,950
Liabilities			
Current liabilities:			
Accounts payable		\$ 4,500	
Wages payable		900	
Total liabilities			\$ 5,400
Owner's Equity			
Jeanne McQuay, capital			169,550
Total liabilities and owner's equity			\$174,950

Prob. 4-4B (Concluded)

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Date		Post. Ref.	Debit	Credit
2019		Closing Entries		
Jan.	31	Service Revenue	41	155,000
		Wages Expense	51	72,900
		Rent Expense	52	7,600
		Truck Expense	53	5,350
		Depreciation Expense—Equipment	54	5,250
		Supplies Expense	55	5,150
		Depreciation Expense—Trucks	56	4,000
		Insurance Expense	57	3,150
		Miscellaneous Expense	59	5,450
		Jeanne McQuay, Capital	31	46,150
	31	Jeanne McQuay, Capital	31	3,000
		Jeanne McQuay, Drawing	32	3,000

7.

RECESSIVE INTERIORS Post-Closing Trial Balance January 31, 2019			
	Account No.	Debit Balances	Credit Balances
Cash	11	13,100	
Supplies	13	2,850	
Prepaid Insurance	14	4,350	
Equipment	16	113,000	
Accumulated Depreciation—Equipment	17		17,250
Trucks	18	90,000	
Accumulated Depreciation—Trucks	19		31,100
Accounts Payable	21		4,500
Wages Payable	22		900
Jeanne McQuay, Capital	31		169,550
		223,300	223,300

Prob. 4-5B

1. and 2.

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Date		Post. Ref.	Debit	Credit
2019				
Apr.	1			
		11	20,000	
		12	14,700	
		14	3,300	
		18	12,000	
		31		50,000
	1			
		15	6,000	
		11		6,000
	2			
		16	4,200	
		11		4,200
	4			
		11	9,400	
		23		9,400
	5			
		18	8,000	
		21		8,000
	6			
		11	11,700	
		12		11,700
	10			
		59	350	
		11		350
	12			
		21	6,400	
		11		6,400
	12			
		12	21,900	
		41		21,900
	14			
		51	1,650	
		11		1,650

Prob. 4-5B (Continued)

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Date		Post. Ref.	Debit	Credit
2019				
Apr. 17	Cash	11	6,600	
	Fees Earned	41		6,600
	18			
	Supplies	14	725	
	Cash	11		725
	20			
	Accounts Receivable	12	16,800	
	Fees Earned	41		16,800
	24			
	Cash	11	4,450	
	Fees Earned	41		4,450
	26			
	Cash	11	26,500	
	Accounts Receivable	12		26,500
	27			
	Salary Expense	51	1,650	
	Cash	11		1,650
	29			
	Miscellaneous Expense	59	540	
	Cash	11		540
	30			
	Miscellaneous Expense	59	760	
	Cash	11		760
	30			
	Cash	11	5,160	
	Fees Earned	41		5,160
	30			
	Accounts Receivable	12	2,590	
	Fees Earned	41		2,590
	30			
	Jeff Horton, Drawing	32	18,000	
	Cash	11		18,000

Prob. 4-5B (Continued)

2., 6., and 9.

Account: **Cash** Account No. **11**

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr. 1		1	20,000		20,000	
	1	1		6,000	14,000	
	2	1		4,200	9,800	
	4	1	9,400		19,200	
	6	1	11,700		30,900	
	10	1		350	30,550	
	12	1		6,400	24,150	
	14	1		1,650	22,500	
	17	2	6,600		29,100	
	18	2		725	28,375	
	24	2	4,450		32,825	
	26	2	26,500		59,325	
	27	2		1,650	57,675	
	29	2		540	57,135	
	30	2		760	56,375	
	30	2	5,160		61,535	
	30	2		18,000	43,535	

Account: **Accounts Receivable** Account No. **12**

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr. 1		1	14,700		14,700	
	6	1		11,700	3,000	
	12	1	21,900		24,900	
	20	2	16,800		41,700	
	26	2		26,500	15,200	
	30	2	2,590		17,790	

Account: **Supplies** Account No. **14**

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr. 1		1	3,300		3,300	
	18	2	725		4,025	
	30	3	Adjusting	2,800	1,225	

Prob. 4-5B (Continued)

Account: Prepaid Rent Account No. 15

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr. 1		1	6,000		6,000	
30	Adjusting	3		2,000	4,000	

Account: Prepaid Insurance Account No. 16

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr. 2		1	4,200		4,200	
30	Adjusting	3		350	3,850	

Account: Office Equipment Account No. 18

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr. 1		1	12,000		12,000	
5		1	8,000		20,000	

Account: Accumulated Depreciation—Office Equipment Account No. 19

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr. 30	Adjusting	3		400		400

Account: Accounts Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr. 5		1		8,000		8,000
12		1	6,400			1,600

Account: Salaries Payable Account No. 22

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr. 30	Adjusting	3		275		275

Prob. 4-5B (Continued)

Account: Unearned Fees Account No. 23

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr. 4		1		9,400		9,400
30	Adjusting	3	7,050			2,350

Account: Jeff Horton, Capital Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr. 1		1		50,000		50,000
30	Closing	4		53,775		103,775
30	Closing	4	18,000			85,775

Account: Jeff Horton, Drawing Account No. 32

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr. 30		2	18,000		18,000	
30	Closing	4		18,000	—	—

Account: Fees Earned Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr. 12		1		21,900		21,900
17		2		6,600		28,500
20		2		16,800		45,300
24		2		4,450		49,750
30		2		5,160		54,910
30		2		2,590		57,500
30	Adjusting	3		7,050		64,550
30	Closing	4	64,550		—	—

Prob. 4-5B (Continued)

Account: Salary Expense Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr. 14		1	1,650		1,650	
	27	2	1,650		3,300	
	30	3	275		3,575	
	30	4		3,575	—	—

Account: Supplies Expense Account No. 52

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr. 30	Adjusting	3	2,800		2,800	
	30	4		2,800	—	—

Account: Rent Expense Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr. 30	Adjusting	3	2,000		2,000	
	30	4		2,000	—	—

Account: Depreciation Expense Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr. 30	Adjusting	3	400		400	
	30	4		400	—	—

Account: Insurance Expense Account No. 55

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr. 30	Adjusting	3	350		350	
	30	4		350	—	—

Prob. 4-5B (Continued)

Account: Miscellaneous Expense Account No. 59

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
Apr. 10		1	350		350	
	29	2	540		890	
	30	2	760		1,650	
	30	Closing		1,650	—	—

3.

ROSEBUD CONSULTING Unadjusted Trial Balance April 30, 2019			
	Account No.	Debit Balances	Credit Balances
Cash	11	43,535	
Accounts Receivable	12	17,790	
Supplies	14	4,025	
Prepaid Rent	15	6,000	
Prepaid Insurance	16	4,200	
Office Equipment	18	20,000	
Accumulated Depreciation—Office Equipment	19		0
Accounts Payable	21		1,600
Salaries Payable	22		0
Unearned Fees	23		9,400
Jeff Horton, Capital	31		50,000
Jeff Horton, Drawing	32	18,000	
Fees Earned	41		57,500
Salary Expense	51	3,300	
Supplies Expense	52	0	
Rent Expense	53	0	
Depreciation Expense	54	0	
Insurance Expense	55	0	
Miscellaneous Expense	59	1,650	
		118,500	118,500

Prob. 4-5B (Continued)
5. Optional (Appendix)

ROSEBUD CONSULTING											
End-of-Period Spreadsheet (Work Sheet)											
For the Month Ended April 30, 2019											
Account Title	Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet		
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	
Cash	43,535				43,535				43,535		
Accounts Receivable	17,790				17,790				17,790		
Supplies	4,025			(b) 2,800	1,225				1,225		
Prepaid Rent	6,000			(e) 2,000	4,000				4,000		
Prepaid Insurance	4,200			(a) 350	3,850				3,850		
Office Equipment	20,000				20,000				20,000		
Accum. Depreciation				(c) 400		400				400	
Accounts Payable		1,600				1,600				1,600	
Salaries Payable				(d) 275		275				275	
Unearned Fees		9,400	(f) 7,050			2,350				2,350	
Jeff Horton, Capital		50,000				50,000				50,000	
Jeff Horton, Drawing	18,000				18,000				18,000		
Fees Earned		57,500		(f) 7,050		64,550		64,550			
Salary Expense	3,300		(d) 275		3,575		3,575				
Supplies Expense			(b) 2,800		2,800		2,800				
Rent Expense			(e) 2,000		2,000		2,000				
Depreciation Expense			(c) 400		400		400				
Insurance Expense			(a) 350		350		350				
Miscellaneous Expense	1,650				1,650		1,650				
	118,500	118,500	12,875	12,875	119,175	119,175	10,775	64,550	108,400	54,625	
Net income							53,775		53,775		
							64,550	64,550	108,400	108,400	

Prob. 4-5B (Continued)

6.

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Date		Post. Ref.	Debit	Credit
2019				
			Adjusting Entries	
Apr.	30			
		55	350	
		16		350
			Insurance Expense	
			Prepaid Insurance	
			Insurance expired.	
	30	52	2,800	
		14		2,800
			Supplies Expense	
			Supplies	
			Supplies used (\$4,025 – \$1,225).	
	30	54	400	
		19		400
			Depreciation Expense	
			Accumulated Depreciation	
			Equipment depreciation.	
	30	51	275	
		22		275
			Salary Expense	
			Salaries Payable	
			Accrued salaries.	
	30	53	2,000	
		15		2,000
			Rent Expense	
			Prepaid Rent	
			Rent expired.	
	30	23	7,050	
		41		7,050
			Unearned Fees	
			Fees Earned	
			Unearned fees earned	
			(\$9,400 – \$2,350).	

Prob. 4-5B (Continued)

7.

ROSEBUD CONSULTING			
Adjusted Trial Balance			
April 30, 2019			
	Account No.	Debit Balances	Credit Balances
Cash	11	43,535	
Accounts Receivable	12	17,790	
Supplies	14	1,225	
Prepaid Rent	15	4,000	
Prepaid Insurance	16	3,850	
Office Equipment	18	20,000	
Accumulated Depreciation—Office Equipment	19		400
Accounts Payable	21		1,600
Salaries Payable	22		275
Unearned Fees	23		2,350
Jeff Horton, Capital	31		50,000
Jeff Horton, Drawing	32	18,000	
Fees Earned	41		64,550
Salary Expense	51	3,575	
Supplies Expense	52	2,800	
Rent Expense	53	2,000	
Depreciation Expense	54	400	
Insurance Expense	55	350	
Miscellaneous Expense	59	1,650	
		119,175	119,175

Prob. 4-5B (Continued)

8.

ROSEBUD CONSULTING		
Income Statement		
For the Month Ended April 30, 2019		
Fees earned		\$64,550
Expenses:		
Salary expense	\$3,575	
Supplies expense	2,800	
Rent expense	2,000	
Depreciation expense	400	
Insurance expense	350	
Miscellaneous expense	1,650	
Total expenses		10,775
Net income		\$53,775

ROSEBUD CONSULTING		
Statement of Owner's Equity		
For the Month Ended April 30, 2019		
Jeff Horton, capital, April 1, 2019		\$ 0
Investment during month	\$ 50,000	
Net income	53,775	
Withdrawals	(18,000)	
Increase in owner's equity		85,775
Jeff Horton, capital, April 30, 2019		\$85,775

Prob. 4-5B (Continued)

ROSEBUD CONSULTING		
Balance Sheet		
April 30, 2019		
Assets		
Current assets:		
Cash	\$43,535	
Accounts receivable	17,790	
Supplies	1,225	
Prepaid rent	4,000	
Prepaid insurance	3,850	
Total current assets		\$70,400
Property, plant, and equipment:		
Office equipment	\$20,000	
Less accumulated depreciation	400	
Total property, plant, and equipment		19,600
Total assets		\$90,000
Liabilities		
Current liabilities:		
Accounts payable	\$ 1,600	
Salaries payable	275	
Unearned fees	2,350	
Total liabilities		\$ 4,225
Owner's Equity		
Jeff Horton, capital		85,775
Total liabilities and owner's equity		\$90,000

Prob. 4-5B (Concluded)

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Date		Post. Ref.	Debit	Credit
2019		Closing Entries		
Apr. 30	Fees Earned	41	64,550	
	Salary Expense	51		3,575
	Supplies Expense	52		2,800
	Rent Expense	53		2,000
	Depreciation Expense	54		400
	Insurance Expense	55		350
	Miscellaneous Expense	59		1,650
	Jeff Horton, Capital	31		53,775
	30 Jeff Horton, Capital	31	18,000	
	Jeff Horton, Drawing	32		18,000

10.

ROSEBUD CONSULTING			
Post-Closing Trial Balance			
April 30, 2019			
	Account No.	Debit Balances	Credit Balances
Cash	11	43,535	
Accounts Receivable	12	17,790	
Supplies	14	1,225	
Prepaid Rent	15	4,000	
Prepaid Insurance	16	3,850	
Office Equipment	18	20,000	
Accumulated Depreciation—Office Equipment	19		400
Accounts Payable	21		1,600
Salaries Payable	22		275
Unearned Fees	23		2,350
Jeff Horton, Capital	31		85,775
		90,400	90,400

CHAPTER 4 Completing the Accounting Cycle
CONTINUING PROBLEM

1. Optional (Appendix)

PS MUSIC											
End-of-Period Spreadsheet (Work Sheet)											
For the Two Months Ended July 31, 2019											
Account Title	Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet		
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	
Cash	9,945				9,945				9,945		
Accounts Receivable	2,750		(a) 1,400		4,150				4,150		
Supplies	1,020			(b) 745	275				275		
Prepaid Insurance	2,700			(c) 225	2,475				2,475		
Office Equipment	7,500				7,500				7,500		
Accr. Depr.—Off. Equip.				(d) 50		50				50	
Accounts Payable		8,350				8,350				8,350	
Wages Payable				(f) 140		140				140	
Unearned Revenue		7,200	(e) 3,600			3,600				3,600	
Peyton Smith, Capital		9,000				9,000				9,000	
Peyton Smith, Drawing	1,750				1,750				1,750		
Fees Earned		16,200		(a) 1,400		21,200		21,200			
				(e) 3,600							
Music Expense	3,610				3,610			3,610			
Wages Expense	2,800		(f) 140		2,940			2,940			
Office Rent Expense	2,550				2,550			2,550			
Advertising Expense	1,500				1,500			1,500			
Equip. Rent Expense	1,375				1,375			1,375			
Utilities Expense	1,215				1,215			1,215			
Supplies Expense	180		(b) 745		925			925			
Insurance Expense			(c) 225		225			225			
Depreciation Expense			(d) 50		50			50			
Miscellaneous Expense	1,855				1,855			1,855			
	40,750	40,750	6,160	6,160	42,340	42,340		16,245	21,200	21,140	
Net income								4,955		4,955	
								21,200	21,200	26,095	
										26,095	

Continuing Problem (Continued)

2.

PS MUSIC		
Income Statement		
For the Two Months Ended July 31, 2019		
Fees earned		\$21,200
Expenses:		
Music expense	\$3,610	
Wages expense	2,940	
Office rent expense	2,550	
Advertising expense	1,500	
Equipment rent expense	1,375	
Utilities expense	1,215	
Supplies expense	925	
Insurance expense	225	
Depreciation expense	50	
Miscellaneous expense	1,855	
Total expenses		16,245
Net income		\$ 4,955

PS MUSIC		
Statement of Owner's Equity		
For the Two Months Ended July 31, 2019		
Peyton Smith, capital, June 1, 2019		\$ 0
Investments during the two months	\$ 9,000	
Net income	4,955	
Withdrawals	(1,750)	
Increase in owner's equity		12,205
Peyton Smith, capital, July 31, 2019		\$12,205

Continuing Problem (Continued)

PS MUSIC		
Balance Sheet		
July 31, 2019		
Assets		
Current assets:		
Cash	\$9,945	
Accounts receivable	4,150	
Supplies	275	
Prepaid insurance	2,475	
Total current assets		\$16,845
Property, plant, and equipment:		
Office equipment	\$7,500	
Less accumulated depreciation	50	
Total property, plant, and equipment		7,450
Total assets		\$24,295
Liabilities		
Current liabilities:		
Accounts payable	\$8,350	
Wages payable	140	
Unearned revenue	3,600	
Total liabilities		\$12,090
Owner's Equity		
Peyton Smith, capital		12,205
Total liabilities and owner's equity		\$24,295

Continuing Problem (Continued)

3.

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Date			Post. Ref.	Debit	Credit
2019		Closing Entries			
July	31	Fees Earned	41	21,200	
		Wages Expense	50		2,940
		Office Rent Expense	51		2,550
		Equipment Rent Expense	52		1,375
		Utilities Expense	53		1,215
		Music Expense	54		3,610
		Advertising Expense	55		1,500
		Supplies Expense	56		925
		Insurance Expense	57		225
		Depreciation Expense	58		50
		Miscellaneous Expense	59		1,855
		Peyton Smith, Capital	31		4,955
	31	Peyton Smith, Capital	31	1,750	
		Peyton Smith, Drawing	32		1,750

Continuing Problem (Continued)

Account: Cash Account No. 11

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1 Balance	✓			3,920	
	1	1	5,000		8,920	
	1	1		1,750	7,170	
	1	1		2,700	4,470	
	2	1	1,000		5,470	
	3	1	7,200		12,670	
	3	1		250	12,420	
	4	1		900	11,520	
	8	1		200	11,320	
	11	1	1,000		12,320	
	13	1		700	11,620	
	14	1		1,200	10,420	
	16	2	2,000		12,420	
	21	2		620	11,800	
	22	2		800	11,000	
	23	2	750		11,750	
	27	2		915	10,835	
	28	2		1,200	9,635	
	29	2		540	9,095	
	30	2	500		9,595	
	31	2	3,000		12,595	
	31	2		1,400	11,195	
	31	2		1,250	9,945	

Account: Accounts Receivable Account No. 12

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1 Balance	✓			1,000	
	2	1		1,000	—	—
	23	2	1,750		1,750	
	30	2	1,000		2,750	
	31 Adjusting	3	1,400		4,150	

Continuing Problem (Continued)

Account: Supplies Account No. 14

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1 Balance	✓			170	
	18	2	850		1,020	
	31 Adjusting	3		745	275	

Account: Prepaid Insurance Account No. 15

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1	1	2,700		2,700	
	31 Adjusting	3		225	2,475	

Account: Office Equipment Account No. 17

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	5	1	7,500		7,500	

Account: Accumulated Depreciation—Office Equipment Account No. 18

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	31 Adjusting	3		50		50

Account: Accounts Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1 Balance	✓				250
	3	1	250		—	—
	5	1		7,500		7,500
	18	2		850		8,350

Continuing Problem (Continued)

Account: Wages Payable Account No. 22

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	31	Adjusting		140		140

Account: Unearned Revenue Account No. 23

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	3			7,200		7,200
	31	Adjusting	3,600			3,600

Account: Peyton Smith, Capital Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1	Balance	✓			4,000
	1			5,000		9,000
	31	Closing	4	4,955		13,955
	31	Closing	4	1,750		12,205

Account: Peyton Smith, Drawing Account No. 32

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2016						
July	1	Balance	✓		500	
	31		1,250		1,750	
	31	Closing	4	1,750	—	—

Continuing Problem (Continued)

Account: Fees Earned Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1 Balance	✓				6,200
	11	1		1,000		7,200
	16	2		2,000		9,200
	23	2		2,500		11,700
	30	2		1,500		13,200
	31	2		3,000		16,200
	31 Adjusting	3		1,400		17,600
	31 Adjusting	3		3,600		21,200
	31 Closing	4	21,200		—	—

Account: Wages Expense Account No. 50

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1 Balance	✓			400	
	14	1	1,200		1,600	
	28	2	1,200		2,800	
	31 Adjusting	3	140		2,940	
	31 Closing	4		2,940	—	—

Account: Office Rent Expense Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1 Balance	✓			800	
	1	1	1,750		2,550	
	31 Closing	4		2,550	—	—

Account: Equipment Rent Expense Account No. 52

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1 Balance	✓			675	
	13	1	700		1,375	
	31 Closing	4		1,375	—	—

Continuing Problem (Continued)

Account: Utilities Expense Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1 Balance	✓			300	
	27	2	915		1,215	
	31 Closing	4		1,215	—	—

Account: Music Expense Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1 Balance	✓			1,590	
	21	2	620		2,210	
	31	2	1,400		3,610	
	31 Closing	4		3,610	—	—

Account: Advertising Expense Account No. 55

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1 Balance	✓			500	
	8	1	200		700	
	22	2	800		1,500	
	31 Closing	4		1,500	—	—

Account: Supplies Expense Account No. 56

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1 Balance	✓			180	
	31 Adjusting	3	745		925	
	31 Closing	4		925	—	—

Continuing Problem (Continued)

Account: Insurance Expense Account No. 57

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	31	Adjusting	3	225	225	
	31	Closing	4	225	—	—

Account: Depreciation Expense Account No. 58

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	31	Adjusting	3	50	50	
	31	Closing	4	50	—	—

Account: Miscellaneous Expense Account No. 59

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
July	1	Balance	✓		415	
	4		1	900	1,315	
	29		2	540	1,855	
	31	Closing	4	1,855	—	—

Continuing Problem (Concluded)

4.

PS MUSIC			
Post-Closing Trial Balance			
July 31, 2019			
	Account No.	Debit Balances	Credit Balances
Cash	11	9,945	
Accounts Receivable	12	4,150	
Supplies	14	275	
Prepaid Insurance	15	2,475	
Office Equipment	17	7,500	
Accumulated Depreciation—Office Equipment	18		50
Accounts Payable	21		8,350
Wages Payable	22		140
Unearned Revenue	23		3,600
Peyton Smith, Capital	31		12,205
		24,345	24,345

COMPREHENSIVE PROBLEM 1

1. and 2.

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Date		Post. Ref.	Debit	Credit
2019				
May	3	Cash	4,500	
		Unearned Fees		4,500
	5	Cash	2,450	
		Accounts Receivable		2,450
	9	Miscellaneous Expense	225	
		Cash		225
	13	Accounts Payable	640	
		Cash		640
	15	Accounts Receivable	9,180	
		Fees Earned		9,180
	16	Salary Expense	630	
		Salaries Payable	120	
		Cash		750
	17	Cash	8,360	
		Fees Earned		8,360

Comp. Prob. 1 (Continued)

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Date			Post. Ref.	Debit	Credit
2019					
May	20	Supplies	14	735	
		Accounts Payable	21		735
	21	Accounts Receivable	12	4,820	
		Fees Earned	41		4,820
	9				
	25	Cash	11	7,900	
		Fees Earned	41		7,900
	27	Cash	11	9,520	
		Accounts Receivable	12		9,520
	28	Salary Expense	51	750	
		Cash	11		750
	30	Miscellaneous Expense	59	260	
		Cash	11		260
	31	Miscellaneous Expense	59	810	
		Cash	11		810
	31	Cash	11	3,300	
		Fees Earned	41		3,300
	31	Accounts Receivable	12	2,650	
		Fees Earned	41		2,650
	31	Kelly Pitney, Drawing	32	10,500	
		Cash	11		10,500

Comp. Prob. 1 (Continued)

2., 6., and 9.

Account: Cash Account No. 11

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
May 1	Balance	✓			22,100	
3		5	4,500		26,600	
5		5	2,450		29,050	
9		5		225	28,825	
13		5		640	28,185	
16		5		750	27,435	
17		5	8,360		35,795	
25		6	7,900		43,695	
27		6	9,520		53,215	
28		6		750	52,465	
30		6		260	52,205	
31		6		810	51,395	
31		6	3,300		54,695	
31		6		10,500	44,195	

Account: Accounts Receivable Account No. 12

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
May 1	Balance	✓			3,400	
5		5		2,450	950	
15		5	9,180		10,130	
21		6	4,820		14,950	
27		6		9,520	5,430	
31		6	2,650		8,080	

Account: Supplies Account No. 14

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
May 1	Balance	✓			1,350	
20		6	735		2,085	
31	Adjusting	7		1,370	715	

Comp. Prob. 1 (Continued)

Account: Prepaid Rent Account No. 15

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
May	1 Balance	✓			3,200	
	31 Adjusting	7		1,600	1,600	

Account: Prepaid Insurance Account No. 16

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
May	1 Balance	✓			1,500	
	31 Adjusting	7		275	1,225	

Account: Office Equipment Account No. 18

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
May	1 Balance	✓			14,500	

Account: Accumulated Depreciation—Office Equipment Account No. 19

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
May	1 Balance	✓				330
	31 Adjusting	7		330		660

Account: Accounts Payable Account No. 21

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
May	1 Balance	✓				800
	13	5	640			160
	20	6		735		895

Account: Salaries Payable Account No. 22

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
May	1 Balance	✓				120
	16	5	120			—
	31 Adjusting	7		325		325

Comp. Prob. 1 (Continued)

Account: Unearned Fees Account No. 23

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
May	1 Balance	✓				2,500
	3	5		4,500		7,000
	31 Adjusting	7	3,790			3,210

Account: Kelly Pitney, Capital Account No. 31

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
May	1 Balance	✓				42,300
	31 Closing	8		33,425		75,725
	31 Closing	8	10,500			65,225

Account: Kelly Pitney, Drawing Account No. 32

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
May	31	6	10,500		10,500	
	31 Closing	8		10,500	—	—

Account: Fees Earned Account No. 41

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
May	15	5		9,180		9,180
	17	5		8,360		17,540
	21	6		4,820		22,360
	25	6		7,900		30,260
	31	6		3,300		33,560
	31	6		2,650		36,210
	31 Adjusting	7		3,790		40,000
	31 Closing	8	40,000		—	—

Comp. Prob. 1 (Continued)

Account: Salary Expense Account No. 51

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
May	16	5	630		630	
	28	6	750		1,380	
	31	7	325		1,705	
	31	8		1,705	—	—

Account: Rent Expense Account No. 52

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
May	31	7	1,600		1,600	
	31	8		1,600	—	—

Account: Supplies Expense Account No. 53

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
May	31	7	1,370		1,370	
	31	8		1,370	—	—

Account: Depreciation Expense Account No. 54

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
May	31	7	330		330	
	31	8		330	—	—

Account: Insurance Expense Account No. 55

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
May	31	7	275		275	
	31	8		275	—	—

Comp. Prob. 1 (Continued)

Account: Miscellaneous Expense Account No. 59

Date	Item	Post. Ref.	Debit	Credit	Balance	
					Debit	Credit
2019						
May	9	5	225		225	
	30	6	260		485	
	31	6	810		1,295	
	31	Closing		1,295	—	—

3.

KELLY CONSULTING Unadjusted Trial Balance May 31, 2019			
	Account No.	Debit Balances	Credit Balances
Cash	11	44,195	
Accounts Receivable	12	8,080	
Supplies	14	2,085	
Prepaid Rent	15	3,200	
Prepaid Insurance	16	1,500	
Office Equipment	18	14,500	
Accumulated Depreciation—Office Equipment	19		330
Accounts Payable	21		895
Salaries Payable	22		0
Unearned Fees	23		7,000
Kelly Pitney, Capital	31		42,300
Kelly Pitney, Drawing	32	10,500	
Fees Earned	41		36,210
Salary Expense	51	1,380	
Rent Expense	52	0	
Supplies Expense	53	0	
Depreciation Expense	54	0	
Insurance Expense	55	0	
Miscellaneous Expense	59	1,295	
		86,735	86,735

Comp. Prob. 1 (Continued)
5. Optional (Appendix)

KELLY CONSULTING											
End-of-Period Spreadsheet (Work Sheet)											
For the Month Ended May 31, 2019											
Account Title	Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet		
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	
Cash	44,195				44,195				44,195		
Accounts Receivable	8,080				8,080				8,080		
Supplies	2,085			(b) 1,370	715				715		
Prepaid Rent	3,200			(e) 1,600	1,600				1,600		
Prepaid Insurance	1,500			(a) 275	1,225				1,225		
Office Equipment	14,500				14,500				14,500		
Accum. Depreciation		330		(c) 330		660				660	
Accounts Payable		895				895				895	
Salaries Payable				(d) 325		325				325	
Unearned Fees		7,000	(f) 3,790			3,210				3,210	
Kelly Pitney, Capital		42,300				42,300				42,300	
Kelly Pitney, Drawing	10,500				10,500				10,500		
Fees Earned		36,210		(f) 3,790		40,000		40,000			
Salary Expense	1,380		(d) 325		1,705		1,705				
Rent Expense			(e) 1,600		1,600		1,600				
Supplies Expense			(b) 1,370		1,370		1,370				
Depreciation Expense			(c) 330		330		330				
Insurance Expense			(a) 275		275		275				
Miscellaneous Expense	1,295				1,295		1,295				
	86,735	86,735	7,690	7,690	87,390	87,390	6,575	40,000	80,815	47,390	
Net income							33,425			33,425	
							40,000	40,000	80,815	80,815	

Comp. Prob. 1 (Continued)

6.

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Date			Post. Ref.	Debit	Credit
2019		Adjusting Entries			
May	31	Insurance Expense	55	275	
		Prepaid Insurance	16		275
		Insurance expired.			
	31	Supplies Expense	53	1,370	
		Supplies	14		1,370
		Supplies used (\$2,085 – \$715).			
	31	Depreciation Expense	54	330	
		Accumulated Depreciation	19		330
		Equipment depreciation.			
	31	Salary Expense	51	325	
		Salaries Payable	22		325
		Accrued salaries.			
	31	Rent Expense	52	1,600	
		Prepaid Rent	15		1,600
		Rent expired.			
	31	Unearned Fees	23	3,790	
		Fees Earned	41		3,790
		Unearned fees (\$7,000 – \$3,210).			

Comp. Prob. 1 (Continued)

7.

KELLY CONSULTING			
Adjusted Trial Balance			
May 31, 2019			
	Account No.	Debit Balances	Credit Balances
Cash	11	44,195	
Accounts Receivable	12	8,080	
Supplies	14	715	
Prepaid Rent	15	1,600	
Prepaid Insurance	16	1,225	
Office Equipment	18	14,500	
Accumulated Depreciation—Office Equipment	19		660
Accounts Payable	21		895
Salaries Payable	22		325
Unearned Fees	23		3,210
Kelly Pitney, Capital	31		42,300
Kelly Pitney, Drawing	32	10,500	
Fees Earned	41		40,000
Salary Expense	51	1,705	
Rent Expense	52	1,600	
Supplies Expense	53	1,370	
Depreciation Expense	54	330	
Insurance Expense	55	275	
Miscellaneous Expense	59	1,295	
		87,390	87,390

Comp. Prob. 1 (Continued)

8.

KELLY CONSULTING		
Income Statement		
For the Month Ended May 31, 2019		
Fees earned		\$40,000
Expenses:		
Salary expense	\$1,705	
Rent expense	1,600	
Supplies expense	1,370	
Depreciation expense	330	
Insurance expense	275	
Miscellaneous expense	1,295	
Total expenses		6,575
Net income		\$33,425

KELLY CONSULTING		
Statement of Owner's Equity		
For the Month Ended May 31, 2019		
Kelly Pitney, capital, May 1, 2019		\$42,300
Net income for the month	\$ 33,425	
Withdrawals	(10,500)	
Increase in owner's equity		22,925
Kelly Pitney, capital, May 31, 2019		\$65,225

Comp. Prob. 1 (Continued)

KELLY CONSULTING		
Balance Sheet		
May 31, 2019		
Assets		
Current assets:		
Cash	\$44,195	
Accounts receivable	8,080	
Supplies	715	
Prepaid rent	1,600	
Prepaid insurance	1,225	
Total current assets		\$55,815
Property, plant, and equipment:		
Office equipment	\$14,500	
Less accumulated depreciation	660	
Total property, plant, and equipment		13,840
Total assets		\$69,655
Liabilities		
Current liabilities:		
Accounts payable	\$ 895	
Salaries payable	325	
Unearned fees	3,210	
Total liabilities		\$ 4,430
Owner's Equity		
Kelly Pitney, capital		65,225
Total liabilities and owner's equity		\$69,655

Comp. Prob. 1 (Concluded)

9.

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Date		Post. Ref.	Debit	Credit
2019	Closing Entries			
May	31	Fees Earned	41	40,000
		Salary Expense	51	1,705
		Rent Expense	52	1,600
		Supplies Expense	53	1,370
		Depreciation Expense	54	330
		Insurance Expense	55	275
		Miscellaneous Expense	59	1,295
		Kelly Pitney, Capital	31	33,425
	31	Kelly Pitney, Capital	31	10,500
		Kelly Pitney, Drawing	32	10,500

10.

KELLY CONSULTING			
Post-Closing Trial Balance			
May 31, 2019			
	Account No.	Debit Balances	Credit Balances
Cash	11	44,195	
Accounts Receivable	12	8,080	
Supplies	14	715	
Prepaid Rent	15	1,600	
Prepaid Insurance	16	1,225	
Office Equipment	18	14,500	
Accumulated Depreciation—Office Equipment	19		660
Accounts Payable	21		895
Salaries Payable	22		325
Unearned Fees	23		3,210
Kelly Pitney, Capital	31		65,225
		70,315	70,315

CASES & PROJECTS**CP 4-1**

1. **No. By knowingly recording a personal loan as a normal account receivable, Manny is reporting financial information that does not accurately reflect the company's financial position. Specifically, the company is reporting a noncurrent asset (a loan) as a current asset (an account receivable). This may lead the bank to incorrectly expect this amount to be converted to cash in the near term, which may impact its loan decision. Manny is demonstrating a failure of individual character and is acting unethically.**
2. **The users who rely upon this financial information, such as potential investors and creditors, will be affected, because the company's balance sheet will not be a faithful representation of the entity's economic activity and financial position.**

CP 4-2

Solutions to this activity will vary according to the companies selected by the students.

CP 4-3

**To: Daniel Nat
From: A+ Student
Re: Balance Sheet Presentation**

The balance sheet describes the financial condition of the company as of a given date and is useful in assessing the company's financial soundness and liquidity. For balance sheet information to be useful, it must be presented in a consistent manner and in conformity with generally accepted accounting principles (GAAP). I have reviewed the December 31, 2018, balance sheet of the Asheville Company and have identified several presentation errors that limit its usefulness. These errors include incorrectly presenting accounts payable and Daniel Nat, Capital as assets and incorrectly reporting equipment as a liability. In addition, the order of the assets and liabilities reported on the balance sheet is incorrect.

The assets section of the balance sheet should have separate sections for current assets and property, plant, and equipment, and assets should be presented in the order in which they will be converted into cash or used in operations. Cash is presented as the first item in the current assets section, followed by accounts receivable. Land and equipment should be presented under the subheading property, plant, and equipment. The company has two liabilities that should be presented in the balance sheet as liabilities: accounts payable and wages payable. In addition, the balance sheet should include an owner's equity section below liabilities. This section should include Daniel Nat, capital, \$235,000.

Presuming that the amounts recorded in the accounts are accurately reported, a correctly presented balance sheet follows.

CP 4-3 (Concluded)

ASHEVILLE COMPANY		
Balance Sheet		
For the Year Ended December 31, 2018		
Assets		
Current assets:		
Cash	\$ 10,000	
Accounts receivable	12,500	
Total current assets		\$ 22,500
Property, plant, and equipment:		
Land	\$100,000	
Equipment	125,000	
Total property, plant, and equipment		225,000
Total assets		\$247,500
Liabilities		
Current liabilities:		
Accounts payable	\$ 10,000	
Wages payable	2,500	
Total liabilities		\$ 12,500
Owner's Equity		
Daniel Nat, capital		235,000
Total liabilities and owner's equity		\$247,500

CP 4-4

1.
 - (a) With the decreasing cost of computers and related software, Main Street Co. may find it desirable to computerize its financial reporting system. In many cases, the computerization of a manual accounting system reduces the overall cost of the accounting function.
 - (b) A computerized accounting system would allow for eliminating the end-of-period spreadsheet, and thus, financial statements could be prepared with “a push of a button.” However, adjustment data would still need to be recorded at the end of the accounting period before the financial statements could be prepared.
 - (c) In designing a computerized financial reporting (accounting) system, proper accounting principles, concepts, and procedures must be followed. At a minimum, basic controls such as the use of the double-entry accounting system should be included. For example, debits must equal credits for all transactions, and assets must equal liabilities plus owner’s equity. In addition, the system should be designed to detect obvious errors, such as a credit (minus) balance for Supplies or Prepaid Insurance. In other words, to design an adequate financial reporting system, a computer programmer must have a thorough understanding of accounting and the accounting cycle.
Note: Numerous accounting software packages, similar to the Cengage Learning General Ledger Software accompanying this text, are available. Therefore, it would probably be better for Main Street Co. to purchase existing accounting software rather than try to design its own.
2. Supplies cannot have a credit balance, because the supplies account is an asset account. A business cannot have a “negative” asset. Thus, the only way a credit balance could have occurred in Supplies is the result of an error in recording one or more transactions.

CP 4-5

1. **A set of financial statements provides useful information concerning the economic condition of a company. For example, the balance sheet describes the financial condition of the company as of a given date and is useful in assessing the company's financial soundness and liquidity. The income statement describes the results of operations for a period and indicates the profitability of the company. The statement of owner's equity describes the changes in the owner's interest in the company for a period of time. Each of these statements is useful in evaluating whether to extend credit to the company.**
2. **The following adjustments might be necessary before an accurate set of financial statements could be prepared:**

No supplies expense is shown. The supplies account should be adjusted for the supplies used during the year.

No depreciation expense or accumulated depreciation is shown for the building or equipment accounts. An adjusting entry should be prepared for depreciation expense on each of these assets.

An inquiry should be made as to whether any accrued expenses, such as wages or utilities, exist at the end of the year.

An inquiry should be made as to whether any prepaid expenses, such as rent or insurance, exist at the end of the year.

An inquiry should be made as to whether the owner withdrew any funds from the company during the year. No drawing account is shown in the "Statement of Accounts."

The following items should be relabeled for greater clarity:

- Billings Due from Others—Accounts Receivable**
- Amounts Owed to Others—Accounts Payable**
- Investment in Business—Joan Whalen, Capital**
- Other Expenses—Miscellaneous Expense**

***Note to Instructors:* The preceding items are not intended to include all adjustments that might exist in the Statement of Accounts. The possible adjustments listed include only items that have been covered in Chapters 1–4. For example, uncollectible accounts expense (discussed in a later chapter) is not mentioned.**

CP 4-5 (Concluded)

- 3. In general, the decision to extend a loan is based on an assessment of the profitability and riskiness of the loan. Although the financial statements provide useful data for this purpose, other factors such as the following might also be significant:**

The due date and payment terms of the loan.

Security for the loan. For example, whether Joan Whalen is willing to pledge personal assets (collateral) in support of the loan will affect the riskiness of the loan.

The intended use of the loan. For example, if the loan is to purchase real estate (possibly for a future building site), the real estate could be used as security for the loan.

The projected profitability of the company.

