

# Accounting Cycle Exercises

## II

Larry M. Walther; Christopher J. Skousen



Larry M. Walther & Christopher J. Skousen

# Accounting Cycle Exercises II



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1<sup>st</sup> edition

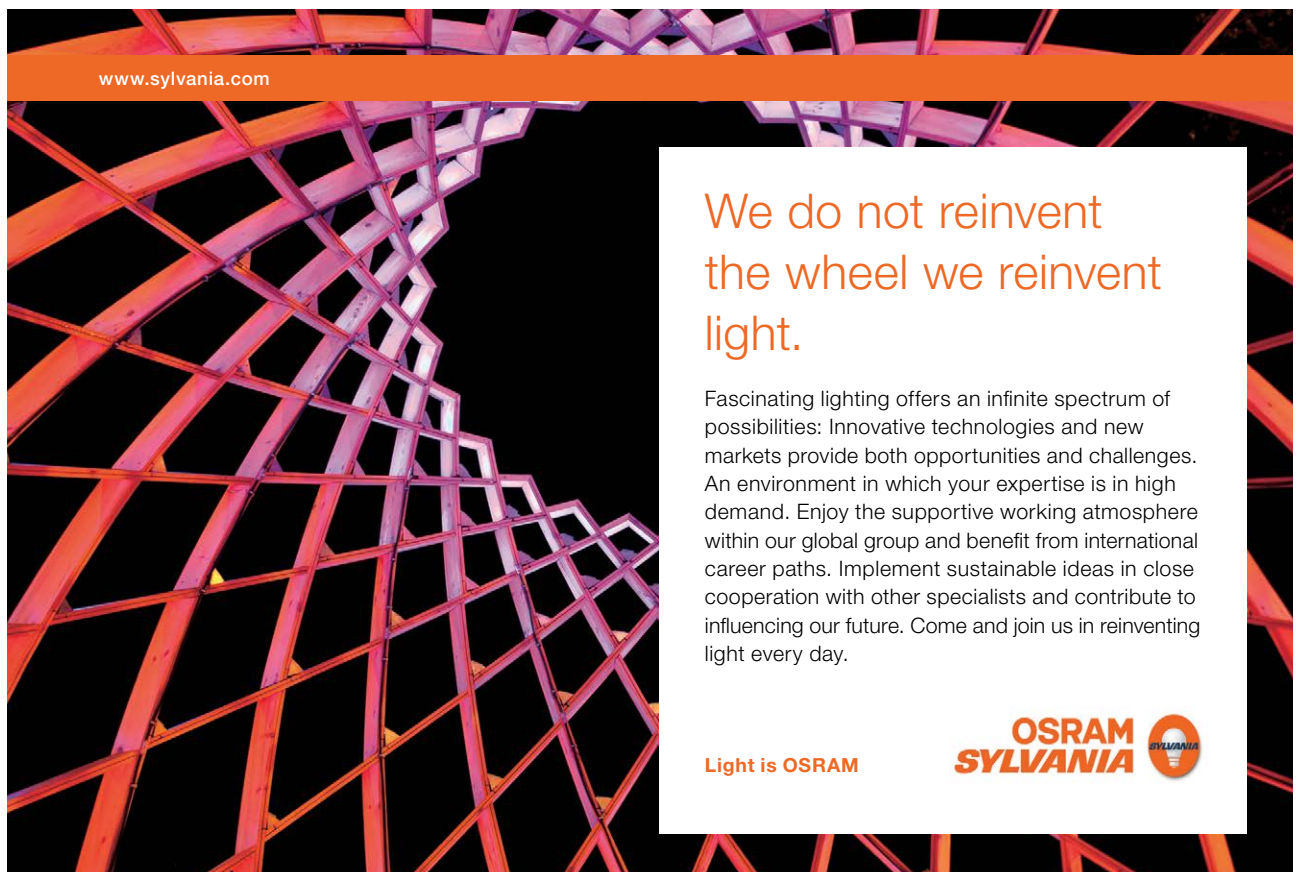
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# Problem 1

“Robert Dennis formed a corporation to provide concrete construction work. His jobs typically involve building parking lots, drives, and foundations. Robert provided the following information about transactions occurring during the first month of operation. Evaluate the transactions and prepare journal entries for this activity.

- Jan. 2, 20X5 Robert Dennis invested \$20,000 cash in the capital stock of the newly formed corporation.
- Jan. 4, 20X5 Purchased equipment on account for \$15,000.
- Jan. 12, 20X5 Received \$30,000 from customers for services rendered.
- Jan. 15, 20X5 Received a bill for construction supplies used in the amount of \$4,000.
- Jan. 18, 20X5 Provided \$6,400 of services on account.
- Jan. 20, 20X5 Paid employees \$4,600 for wages earned.
- Jan. 22, 20X5 Collected 60% of the amount due for the work provided on January 18.
- Jan. 23, 20X5 Paid 40% of the amount due on the equipment purchased on January 4.
- Jan. 25, 20X5 Purchased (and immediately used) construction supplies for cash in the amount of \$1200.
- Jan. 31, 20X5 The company paid Robert Dennis a \$3,000 dividend.

Worksheet 1

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
1-2-X5			
1-4-X5			
1-12-X5			
1-15-X5			
1-18-X5			
1-20-X5			
1-22-X5			
1-23-X5			
1-25-X5			
1-31-X5			



## Solution 1

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
1-2-X5	Cash	20,000	
	Capital Stock		20,000
	<i>Issued stock to Robert Dennis for cash</i>		
1-4-X5	Equipment	15,000	
	Accounts Payable		15,000
	<i>Purchased equipment on account</i>		
1-12-X5	Cash	30,000	
	Revenues		30,000
	<i>Provided services to customers for cash</i>		
1-15-X5	Supplies Expense	4,000	
	Accounts Payable		4,000
	<i>Received bill for cost of supplies</i>		
1-18-X5	Accounts Receivable	6,400	
	Revenues		6,400
	<i>Provided services to customers on account</i>		
1-20-X5	Wage Expense	2,300	
	Cash		2,300
	<i>Paid wages of employees</i>		
1-22-X5	Cash	3,840	
	Accounts Receivable		3,840
	<i>Collected 60% of the amount due from the transaction of Jan. 18 (<math>\\$6,400 \times 60\% = \\$3,840</math>)</i>		
1-23-X5	Accounts Payable	6,000	
	Cash		6,000
	<i>Paid 40% of the amount due for the transaction of Jan. 4 (<math>\\$15,000 \times 40\% = \\$6,000</math>)</i>		

1-25-X5	Supplies Expense	1,200	
	Cash		1,200
	<i>Paid for supplies used</i>		
1-31-X5	Dividends	3,000	
	Cash		3,000
	<i>Paid dividends to Robert Dennis</i>		

## Problem 2

Anthony Moore recently formed an information technology services and consulting firm in England. He was very busy during the first month and has not yet had an opportunity to install his computerized accounting package. But, he did understand the need to keep track of all transactions as they occurred. Following is a manual journal that he maintained for transactions occurring during January. All amounts are in the British Pound.

Anthony has requested that you prepare a ledger of the company's accounts, and post these transactions to determine the balance of each account. He needs this data in order to begin the process of transitioning to his new computerized accounting system.

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GENERAL JOURNAL			
Date	Accounts	Debit	Credit
2-Jan-05	Cash	3,000,000	
	Capital Stock		3,000,000
	<i>Anthony invested cash in exchange for stock</i>		
4-Jan-05	Equipment	600,000	
	Loan Payable		600,000
	<i>Purchased equipment with proceeds of loan</i>		
6-Jan-05	Accounts Receivable	900,000	
	Revenues		900,000
	<i>Provided services to customers on account</i>		
7-Jan-05	Supplies Expense	30,000	
	Accounts Payable		30,000
	<i>Purchased (on account) and used supplies</i>		
11-Jan-05	Accounts Payable	30,000	
	Cash		30,000
	<i>Paid for purchase of Jan. 7</i>		
15-Jan-05	Wage Expense	300,000	
	Cash		300,000
	<i>Paid employee</i>		
17-Jan-05	Cash	450,000	
	Accounts Receivable		450,000
	<i>Collected partial payment on receivables</i>		
18-Jan-05	Cash	540,000	
	Revenues		540,000
	<i>Provided services to customers for cash</i>		
20-Jan-05	Supplies Expense	60,000	
	Accounts Payable		60,000
	<i>Purchased (on account) and used supplies</i>		

31-Jan-05	Wage Expense	300,000	
	Cash		300,000
	<i>Paid employee</i>		
31-Jan-05	Loan Payable	600,000	
	Interest Expense	6,000	
	Cash		606,000
	<i>Paid off the loan with interest</i>		

## Worksheet 2

CASH				
Date	Description	Debit	Credit	Balance
01-Jan-05	Balance forward	-	-	-
02-Jan-05	Journal Page 1	3,000,000	-	3,000,000

ACCOUNTS RECEIVABLE				
Date	Description	Debit	Credit	Balance
01-Jan-05	Balance forward	-	-	-

EQUIPMENT				
Date	Description	Debit	Credit	Balance
01-Jan-05	Balance forward	-	-	-

ACCOUNTS PAYABLE				
Date	Description	Debit	Credit	Balance
01-Jan-05	Balance forward	-	-	-

LOAN PAYABLE				
Date	Description	Debit	Credit	Balance
01-Jan-05	Balance forward	-	-	-

CAPITAL STOCK				
Date	Description	Debit	Credit	Balance
01-Jan-05	Balance forward	-	-	-

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REVENUES				
Date	Description	Debit	Credit	Balance
01-Jan-05		-	-	-

SUPPLIES EXPENSE				
Date	Description	Debit	Credit	Balance
01-Jan-05		-	-	-

WAGE EXPENSE				
Date	Description	Debit	Credit	Balance
01-Jan-05		-	-	-

INTEREST EXPENSE				
Date	Description	Debit	Credit	Balance
01-Jan-05		-	-	-

## Solution 2

CASH				
Date	Description	Debit	Credit	Balance
01-Jan-05	Balance forward	-	-	-
02-Jan-05	Journal Page 1	3,000,000	-	3,000,000
11-Jan-05	Journal Page 1	-	30,000	2,970,000
15-Jan-05	Journal Page 1	-	300,000	2,670,000
17-Jan-05	Journal Page 2	450,000	-	3,120,000
18-Jan-05	Journal Page 2	540,000	-	3,660,000
31-Jan-05	Journal Page 2	-	300,000	3,360,000
31-Jan-05	Journal Page 2	-	606,000	2,754,000



ACCOUNTS RECEIVABLE				
Date	Description	Debit	Credit	Balance
01-Jan-05	Balance forward	-	-	-
06-Jan-05	Journal Page 1	900,000	-	900,000
17-Jan-05	Journal Page 2	-	450,000	450,000

EQUIPMENT				
Date	Description	Debit	Credit	Balance
01-Jan-05	Balance forward	-	-	-
04-Jan-05	Journal Page 1	600,000	-	600,000

ACCOUNTS PAYABLE				
Date	Description	Debit	Credit	Balance
01-Jan-05	Balance forward	-	-	-
07-Jan-05	Journal Page 1	-	30,000	30,000
11-Jan-05	Journal Page 1	30,000	-	-
20-Jan-05	Journal Page 2	-	60,000	60,000

LOAN PAYABLE				
Date	Description	Debit	Credit	Balance
01-Jan-05	Balance forward	-	-	-
04-Jan-05	Journal Page 1	-	600,000	600,000
31-Jan-05	Journal Page 2	600,000	-	-

CAPITAL STOCK				
Date	Description	Debit	Credit	Balance
01-Jan-05	Balance forward	-	-	-
02-Jan-05	Journal Page 1	-	3,000,000	3,000,000

REVENUES				
Date	Description	Debit	Credit	Balance
01-Jan-05		-	-	-
06-Jan-05	Journal Page 1	-	900,000	900,000
18-Jan-05	Journal Page 2	-	540,000	1,440,000

SUPPLIES EXPENSE				
Date	Description	Debit	Credit	Balance
01-Jan-05		-	-	-
07-Jan-05	Journal Page 1	30,000	-	30,000
20-Jan-05	Journal Page 2	60,000	-	90,000

WAGE EXPENSE				
Date	Description	Debit	Credit	Balance
01-Jan-05		-	-	-
15-Jan-05	Journal Page 1	300,000	-	300,000
31-Jan-05	Journal Page 2	300,000	-	600,000

INTEREST EXPENSE				
Date	Description	Debit	Credit	Balance
01-Jan-05		-	-	-
31-Jan-05	Journal Page 2	6,000	-	6,000

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# Problem 3

The CEO of newly formed TrueTarget printed a copy of the company's general ledger prior to a recent plane flight. She settled into seat 5A next to where you were sitting. Once airborne, she removed the printed "GL" from her brief case and began examining the report. Unfortunately, she realized that her printer had run out of ink on the very last page. She is frustrated because she is not able to determine the company's exact profitability to date, and is on her way to a shareholder meeting where she is to issue a report on the company's progress. She happened to note that you were studying an accounting book, and asked if you might help her.

Prepare a trial balance from the general ledger, determine the missing amount for salaries expense, and determine the company's profit for its first month.

CASH				
Date	Description	Debit	Credit	Balance
02-Jan-08	Balance forward	-	-	-
03-Jan-08	Journal Page 1	750,000	-	750,000
10-Jan-08	Journal Page 1	-	225,000	525,000
14-Jan-08	Journal Page 1	-	45,000	480,000
18-Jan-08	Journal Page 2	120,000	-	600,000
21-Jan-08	Journal Page 2	-	12,000	588,000
26-Jan-08	Journal Page 2	-	9,000	579,000
31-Jan-08	Journal Page 2	78,000	-	657,000

ACCOUNTS RECEIVABLE				
Date	Description	Debit	Credit	Balance
02-Jan-08	Balance forward	-	-	-
06-Jan-08	Journal Page 1	165,000	-	165,000
18-Jan-08	Journal Page 2	-	120,000	45,000

LAND				
Date	Description	Debit	Credit	Balance
02-Jan-08	Balance forward	-	-	-
10-Jan-08	Journal Page 1	225,000	-	225,000

SALARIES PAYABLE				
Date	Description	Debit	Credit	Balance
02-Jan-08	Balance forward	-	-	-
31-Jan-08	Journal Page 2	-	54,000	54,000

CAPITAL STOCK				
Date	Description	Debit	Credit	Balance
02-Jan-08	Balance forward	-	-	-
03-Jan-08	Journal Page 1	-	750,000	750,000

REVENUES				
Date	Description	Debit	Credit	Balance
02-Jan-08		-	-	-
06-Jan-08	Journal Page 1	-	165,000	165,000
31-Jan-08	Journal Page 2	-	78,000	243,000

SUPPLIES EXPENSE				
Date	Description	Debit	Credit	Balance
02-Jan-08		-	-	-
26-Jan-08	Journal Page 2	9,000	-	9,000

UTILITIES EXPENSE				
Date	Description	Debit	Credit	Balance
02-Jan-08		-	-	-
21-Jan-08	Journal Page 2	12,000	-	12,000

SALARIES EXPENSE				
Date	Description	Debit	Credit	Balance
02-Jan-08		-	-	-
14-Jan-08	Journal Page 1	45,000		
31-Jan-08	Journal Page 2			

## Worksheet 3

	Debits	Credits
Cash	\$ 657,000	
Accounts receivable		
Land		
Salaries payable		
Capital stock		
Revenues		
Supplies expense		
Utilities expense		
Salaries expense		
	\$ 657,000	\$ -

## Solution 3

	Debits	Credits
Cash	\$ 657,000	
Accounts receivable	45,000	
Land	225,000	
Salaries payable		\$ 54,000
Capital stock		750,000
Revenues		243,000
Supplies expense	9,000	
Utilities expense	12,000	
Salaries expense	99,000	
	\$ 1,047,000	\$ 1,047,000

The total salaries expense is \$99,000 – the amount necessary to bring the trial balance into balance. TrueTarget was profitable, because revenues (\$243,000) exceeded expenses (\$9,000 + \$12,000 + \$99,000 = \$40,000).

# Problem 4

The following narratives describe transactions impacting cash, accounts receivable, accounts payable, revenues, and selected expense accounts. Use T-accounts to analyze this activity and determine the ending balances for accounts receivable and accounts payable. At the beginning of the period, accounts receivable totaled \$108,600, while accounts payable totaled \$62,550. The company started the period with \$170,000 in cash.

Transaction #1	Services were provided to customers for cash in the amount of \$30,460.
Transaction #2	Supplies were purchased and used. This purchase occurred on account, in the amount of \$4,800.
Transaction #3	Collections of outstanding receivables occurred in the amount of \$38,820.
Transaction #4	Utilities costs in the amount of \$1,526 were incurred and paid in cash.
Transaction #5	Payments on outstanding accounts payable were made for \$47,800.
Transaction #6	Services were provided to customers on account in the amount of \$97,308.

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Worksheet 4

CASH		REVENUES	
1/1/X1	170,000	15,230	#1
#1	15,230		

ACCOUNTS RECEIVABLE		SUPPLIES EXPENSE	
1/1/X1	108,600		

ACCOUNTS PAYABLE		UTILITIES EXPENSE	
	62,550	1/1/X1	

The T-accounts reveal that ending Accounts Receivable amount to \$ \_\_\_\_\_, and ending Accounts Payable amount to \$ \_\_\_\_\_

Solution 4

CASH		REVENUES	
1/1/X1	170,000	30,460	#1
#1	30,460	97,308	#6
#3	38,820		
	1,526		#4
	47,800		#5



ACCOUNTS RECEIVABLE			
1/1/X1	108,600	38,820	#3
#6	97,308		
	<hr/>		
	205,908	38,820	
	<hr/>		
	<u>167,088</u>		

SUPPLIES EXPENSE	
#2	4,800

ACCOUNTS PAYABLE			
#5	47,800	62,550	1/1/X1
		4,800	#2
	<hr/>		
	47,800	67,350	
	<hr/>		
	<u>19,550</u>		

UTILITIES EXPENSE	
#4	1,526

The T-accounts reveal that ending Accounts Receivable amount to \$167,088, and ending Accounts Payable amount to \$19,550.

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# Problem 5

Monte Ishiola distributes electronic parts. Most transactions with customers are immediately paid with cash or check. But, Monte has five major customers that have established accounts. These approved customers routinely buy on credit. The terms of the credit agreement provide that payment must occur within 30 days, and each customer has a maximum credit limit of \$30,000.

Following is information for May regarding each of the credit customers:

Customer #1	Beginning balance, \$4,209. Purchases on account on May 5, \$21,711. Payment on account on May 17, \$4,209.
Customer #2	Beginning balance, \$15,825. Purchase on account on May 15, \$6,825. Payment on account on May 26, \$12,825.
Customer #3	Beginning balance, \$0. Purchase on account on May 9, \$28,650.
Customer #4	Beginning balance, \$22,671. Purchase on account on May 7, \$6,300. Purchase on account on May 22, \$28,332. Payment on account on May 11, \$22,671.
Customer #5	Beginning balance, \$8,970. Payment on account on May 18, \$8,970.

- Prepare a subsidiary accounts receivable ledger account for each of Narayan's customers.
- Prepare the general ledger Accounts Receivable "control" account. Be sure the total in this account reconciles to the sum of the individual balances in the subsidiary ledgers.
- What is the purpose of a subsidiary ledger? What other control accounts might be supported by subsidiary ledgers?
- Review Monte's subsidiary ledgers and identify which customer should be put on credit watch for being delinquent, and which customer has exceeded their credit limit.

## Worksheet 5

- Below are the subsidiary ledgers for each customer (some data is provided):

ACCOUNTS RECEIVABLE				Customer #1
Date	Description	Debit	Credit	Balance
May 1	Balance forward	4,209	-	4,209
May 5	Purchase – Journal page X	21,711	-	25,920
May 17	Payment – Journal page X	-	4,209	21,711

ACCOUNTS RECEIVABLE				Customer #2
Date	Description	Debit	Credit	Balance
May 1	Balance forward	15,825	-	15,825
May 15				
May 26				

ACCOUNTS RECEIVABLE				Customer #3
Date	Description	Debit	Credit	Balance

ACCOUNTS RECEIVABLE				Customer #4
Date	Description	Debit	Credit	Balance

Accounts receivable				Customer #5
Date	Description	Debit	Credit	Balance

b) Below is the general ledger account

ACCOUNTS RECEIVABLE				
Date	Description	Debit	Credit	Balance
01-Jan-05	Balance forward	-	-	51,675
May 5	Purchase – Journal page X	21,711	-	73,386
May 7				

The Accounts Receivable general ledger account balance of \_\_\_\_\_ is in agreement with the sum of the individual subsidiary accounts (\$21,711 + \_\_\_\_\_ + \_\_\_\_\_ = \_\_\_\_\_).

c)


d) Customer # \_\_\_\_\_ is delinquent.

Customer # \_\_\_\_\_'s balance exceeds the \$30,000 credit limit.


Solution 5

a)

ACCOUNTS RECEIVABLE			Customer #1	
Date	Description	Debit	Credit	Balance
May 1	Balance forward	4,209	-	4,209
May 5	Purchase – Journal page X	21,711	-	25,920
May 17	Payment – Journal page X	-	4,209	21,711

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ACCOUNTS RECEIVABLE				Customer #2
Date	Description	Debit	Credit	Balance
May 1	Balance forward	15,825	-	15,825
May 15	Purchase – Journal page X	6,825	-	22,650
May 26	Payment – Journal page X	-	12,825	9,825

ACCOUNTS RECEIVABLE				Customer #3
Date	Description	Debit	Credit	Balance
May 1	Balance forward	-	-	-
May 9	Purchase – Journal page X	28,650	-	28,650

ACCOUNTS RECEIVABLE				Customer #4
Date	Description	Debit	Credit	Balance
May 1	Balance forward	22,671	-	22,671
May 7	Purchase – Journal page X	6,300	-	28,971
May 11	Payment – Journal page X	-	22,671	6,300
May 22	Purchase – Journal page X	28,332	-	34,632

ACCOUNTS RECEIVABLE				Customer #5
Date	Description	Debit	Credit	Balance
May 1	Balance forward	8,970	-	8,970
May 18	Payment – Journal page X	-	8,970	-

b)

ACCOUNTS RECEIVABLE				Customer #2
Date	Description	Debit	Credit	Balance
01-Jan-05	Balance forward	-	-	51,675
May 5	Purchase – Journal page X	21,711	-	73,386
May 7	Purchase – Journal page X	6,300	-	79,686
May 9	Purchase – Journal page X	28,650	-	108,336
May 11	Payment – Journal page X	-	22,671	92,490
May 15	Purchase – Journal page X	6,825	-	115,161
May 17	Payment – Journal page X	-	4,209	88,281
May 18	Payment – Journal page X	-	8,970	79,311
May 22	Purchase – Journal page X	28,332	-	107,643
May 26	Payment – Journal page X	-	12,825	94,818

The Accounts Receivable general ledger account balance of \$94,818 is in agreement with the sum of the individual subsidiary accounts ( $\$21,711 + \$9,825 + \$28,650 + \$34,632 = \$94,818$ ). This is an important reconciliation that should occur on a regular basis. Modern computer systems, including data base driven processes, have greatly reduced the frustration of maintaining subsidiary accounts that synchronize with control accounts.

- c) Subsidiary ledgers provide detailed information about the transactions with specific customers, vendors, and so forth. They enable one to know exactly what comprises a general ledger account balance. This information is very useful for many purposes, including preparing monthly billing statements for specific customers. Subsidiary ledgers might also be maintained for accounts payable, cash (if multiple bank accounts are in use), property assets (to track individual items of equipment in use by the business), capital stock (to track ownership of individual shareholders), and the like.
- d) Customer #2 is delinquent. This customer owed \$15,825 at the beginning of May, but only paid \$12,825 during the month. A portion of the beginning balance has been outstanding for more than the agreed 30-day period. Customer #4's balance exceeds the \$30,000 credit limit.



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- 1<sup>st</sup> place: MSc Financial Economics
- 2<sup>nd</sup> place: MSc Management of Learning
- 2<sup>nd</sup> place: MSc Economics
- 2<sup>nd</sup> place: MSc Econometrics and Operations Research
- 2<sup>nd</sup> place: MSc Global Supply Chain Management and Change

Sources: Keuzegids Master ranking 2013; Elsevier 'Beste Studies' ranking 2012; Financial Times Global Masters in Management ranking 2012

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# Problem 6

June 2	Sudipta Gumm invested \$50,000 cash in the capital stock of the newly formed corporation.
June 3	Hired an administrative assistant, to be paid \$6,000 per month. Leased office space at the rate of \$2,000 per month. Signed a contract with Bangalore to deliver consulting services valued at \$15,000.
June 8	Purchased (and immediately used) office supplies on account for \$1,500.
June 9	Received \$5,000 from Bangalore for work performed to date.
June 15	Paid \$2,400 for travel costs associated with consultation work.
June 16	Provided services on account to Amalga for \$6,000.
June 17	Paid \$3,000 to administrative assistant for salary.
June 23	Billed Wheel for \$8,000 consulting engagement performed.
June 25	The company paid Sudipta Gumm a \$2,000 dividend.
June 26	Collected 50% of the amount due for the billing on June 23.
June 27	Purchased computer furniture for \$8,000, paying \$2,000 down.
June 27	Paid \$1,500 on the open account relating to the June 8 purchase.
June 28	Completed the Bangalore job and billed the remaining amount.
June 30	Paid \$3,000 to administrative assistant for salary.
June 30	Paid rent for June, \$2,000.

Pryor consulting uses the following accounts:

Cash  
Accounts Receivable  
Equipment  
Accounts Payable  
Capital Stock  
Revenues  
Salary Expense  
Rent Expense  
Travel Expense  
Supplies Expense  
Dividends

- Journalize the listed transactions.
- Post the transactions to the appropriate general ledger accounts.
- Prepare a trial balance as of June 30.



## Worksheet 6 (a)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
June 2	Cash		
	Capital Stock		
	<i>Sudipta Gumm invested \$50,000 cash in the capital stock of the newly formed corporation.</i>		
	<i>Purchased (and immediately used) office supplies on account for \$1,500.</i>		
	<i>Received \$5,000 from Bangalore for work performed to date.</i>		
	<i>Paid \$2,400 for travel costs associated with consultation work.</i>		
	<i>Provided services on account to Amalga for \$6,000.</i>		
	<i>Paid \$3,000 to administrative assistant for salary.</i>		
	<i>Billed Wheel for \$8,000 consulting engagement performed.</i>		

	<i>The company paid Sudipta Gumm \$2,000 dividend.</i>		
	<i>Collected 50% of the amount due for the billing on June 23.</i>		
	<i>Purchased computer furniture for \$8,000, paying \$2,000 down.</i>		
	<i>Paid \$1,500 on the open account relating to the June 8 purchase.</i>		
	<i>Completed the Bangalore job and billed the remaining amount.</i>		
	<i>Paid \$3,000 to administrative assistant for salary.</i>		
	<i>Paid rent for June, \$2,000.</i>		

Worksheet 6 (b)

CASH				
Date	Description	Debit	Credit	Balance
June 1	Balance forward	-	-	-
	Journal Page 1	50,000	-	50,000

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ACCOUNTS RECEIVABLE				
Date	Description	Debit	Credit	Balance
June 1	Balance forward	-	-	-

EQUIPMENT				
Date	Description	Debit	Credit	Balance
June 1	Balance forward	-	-	-

ACCOUNTS PAYABLE				
Date	Description	Debit	Credit	Balance
June 1	Balance forward	-	-	-

Capital stock				
Date	Description	Debit	Credit	Balance
June 1	Balance forward	-	-	-
	Journal Page 1	-	50,000	50,000

DIVIDENDS				
Date	Description	Debit	Credit	Balance
June 1		-	-	-

REVENUES				
Date	Description	Debit	Credit	Balance
June 1		-	-	-

SALARY EXPENSE				
Date	Description	Debit	Credit	Balance
June 1		-	-	-

RENT EXPENSE				
Date	Description	Debit	Credit	Balance
June 1		-	-	-

TRAVEL EXPENSE				
Date	Description	Debit	Credit	Balance
June 1		-	-	-

SUPPLIES EXPENSE				
Date	Description	Debit	Credit	Balance
June 1		-	-	-

Worksheet 6 (c)

STUDIPTA GUMM CONSULTING	
Trial Balance	
June 30, 20XX	
	Debits      Credits

## Solution 6 (a)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
June 2	Cash	50,000	
	Capital Stock		50,000
	<i>Sudipta Gumm invested \$50,000 cash in the capital stock of the newly formed corporation.</i>		
June 8	Supplies Expense	1,500	
	Accounts Payable		1,500
	<i>Purchased (and immediately used) office supplies on account for \$1,500.</i>		
June 9	Cash	5,000	
	Revenues		5,000
	<i>Received \$5,000 from Bangalore for work performed to date.</i>		
June 15	Travel Expense	2,400	
	Cash		2,400
	<i>Paid \$2,400 for travel costs associated with consultation work.</i>		
June 16	Accounts Receivable	6,000	
	Revenues		6,000
	<i>Provided services on account to Amalga for \$6,000.</i>		
June 17	Salary Expense	3,000	
	Cash		3,000
	<i>Paid \$3,000 to administrative assistant for salary.</i>		
June 23	Accounts Receivable	8,000	
	Revenues		8,000
	<i>Billed Wheel for \$8,000 consulting engagement performed.</i>		

June 25	Dividends	2,000	
	Cash		2,000
	<i>The company paid Sudipta Gumm \$2,000 dividend.</i>		
June 26	Cash	4,000	
	Accounts Receivable		4,000
	<i>Collected 50% of the amount due for the billing on June 23.</i>		
June 27	Equipment	8,000	
	Cash		2,000
	Accounts Payable		6,000
	<i>Purchased computer furniture for \$8,000, paying \$2,000 down.</i>		
June 27	Accounts Receivable	1,500	
	Cash		1,500
	<i>Paid \$1,500 on the open account relating to the June 8 purchase.</i>		
June 28	Accounts Receivable	10,000	
	Revenues		10,000
	<i>Completed the Bangalore job and billed the remaining amount.</i>		
June 30	Salary Expense	1,500	
	Cash		1,500
	<i>Paid \$3,000 to administrative assistant for salary.</i>		
June 30	Rent Expense	1,000	
	Cash		1,000
	<i>Paid rent for June, \$2,000.</i>		

## Solution 6 (b)

CASH				
Date	Description	Debit	Credit	Balance
June 1	Balance forward	-	-	-
June 2	Journal Page 1	50,000	-	50,000
June 9	Journal Page 1	5,000	-	55,000
June 15	Journal Page 1	-	2,400	52,600
June 17	Journal Page 1	-	3,000	49,600
June 25	Journal Page 2	-	2,000	47,600
June 26	Journal Page 2	4,000	-	51,600
June 27	Journal Page 2	-	2,000	49,600
June 27	Journal Page 2	-	1,500	48,100
June 30	Journal Page 3	-	3,000	45,100
June 30	Journal Page 3	-	2,000	43,100

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ACCOUNTS RECEIVABLE				
Date	Description	Debit	Credit	Balance
June 1	Balance forward	-	-	-
June 16	Journal Page 1	6,000	-	6,000
June 23	Journal Page 2	8,000	-	14,000
June 26	Journal Page 2	-	4,000	10,000
June 28	Journal Page 2	10,000	-	20,000

EQUIPMENT				
Date	Description	Debit	Credit	Balance
June 1	Balance forward	-	-	-
June 27	Journal Page 2	8,000	-	8,000

ACCOUNTS PAYABLE				
Date	Description	Debit	Credit	Balance
June 1	Balance forward	-	-	-
June 8	Journal Page 1	-	1,500	1,500
June 27	Journal Page 2	-	6,000	7,500
June 27	Journal Page 2	1,500	-	6,000

CAPITAL STOCK				
Date	Description	Debit	Credit	Balance
June 1	Balance forward	-	-	-
June 2	Journal Page 1	-	50,000	50,000

DIVIDENDS				
Date	Description	Debit	Credit	Balance
June 1		-	-	-
June 25	Journal Page 2	2,000	-	2,000

REVENUES				
Date	Description	Debit	Credit	Balance
June 1		-	-	-
June 9	Journal Page 1	-	5,000	5,000
June 16	Journal Page 1	-	6,000	11,000
June 23	Journal Page 2	-	8,000	19,000
June 28	Journal Page 2	-	10,000	29,000

<b>SALARY EXPENSE</b>				
<b>Date</b>	<b>Description</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
June 1		-	-	-
June 17	Journal Page 1	3,000	-	3,000
June 30	Journal Page 3	3,000	-	6,000

<b>RENT EXPENSE</b>				
<b>Date</b>	<b>Description</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
June 1		-	-	-
June 30	Journal Page 3	2,000	-	2,000

<b>TRAVEL EXPENSE</b>				
<b>Date</b>	<b>Description</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
June 1		-	-	-
June 15	Journal Page 1	2,400	-	2,400

<b>SUPPLIES EXPENSE</b>				
<b>Date</b>	<b>Description</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
June 1		-	-	-
June 8	Journal Page 1	1,500	-	1,500

## Solution 6 (c)

<b>STUDIPTA GUMM CONSULTING</b>		
<b>Trial Balance</b>		
<b>June 30, 20XX</b>		
	<b>Debits</b>	<b>Credits</b>
Cash	\$ 43,100	\$ -
Accounts Receivable	20,000	-
Equipment	8,000	-
Accounts Payable	-	6,000
Capital Stock	-	50,000
Revenues	-	29,000
Salary Expense	6,000	-
Rent Expense	2,000	-
Travel Expense	2,400	-
Supplies Expense	1,500	-
Dividends	2,000	-
	<u>\$ 85,000</u>	<u>\$ 85,000</u>

# Problem 7

Hagen Corporation opened the year 20X6, with the following trial balance information:

	Debits	Credits
Cash	\$ 100,000	\$ 0
Accounts Receivable	300,000	0
Land	600,000	0
Accounts Payable	-	\$ 240,000
Loan Payable	-	120,000
Capital Stock	-	200,000
Retained Earnings	-	440,000
Dividends	-	-
Revenues	-	-
Salaries Expense	-	-
Rent Expense	-	-
Supplies Expense	-	-
Interest Expense	-	-
	\$ 1,000,000	\$ 1,000,000

**January's transactions are listed below:**

- Jan. 2            Collected \$40,000 on an open account receivable.
- Jan. 3            Purchased additional tract of land for \$80,000 cash.
- Jan. 5            Provided services on account to a customer for \$60,000.
- Jan. 7            Borrowed \$48,000 on a term loan payable.
- Jan. 11           Paid salaries of \$12,000.
- Jan. 12           Provided services to customers for cash, \$44,000.
- Jan. 15           Purchased (and used) office supplies on account, \$8,000.
- Jan. 17           The company paid shareholders a \$10,000 dividend.
- Jan. 20           Paid rent of \$6,800.
- Jan. 23           Paid salaries of \$16,000.
- Jan. 24           Paid \$64,000 on the open accounts payable.
- Jan. 29           Collected \$200,000 on accounts receivable.
- Jan. 31           Repaid loans of \$88,000.
- Jan. 31           Paid interest on loans of \$2,400.



ACCOUNTS PAYABLE				
Date	Description	Debit	Credit	Balance
Jan. 1	Balance forward	-	-	240,000

LOAN PAYABLE				
Date	Description	Debit	Credit	Balance
Jan. 1	Balance forward	-	-	120,000

CAPITAL STOCK				
Date	Description	Debit	Credit	Balance
Jan. 1	Balance forward	-	-	200,000

RETAINED EARNINGS				
Date	Description	Debit	Credit	Balance
Jan. 1	Balance forward	-	-	440,000

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DIVIDENDS				
Date	Description	Debit	Credit	Balance
Jan. 1		-	-	-

REVENUES				
Date	Description	Debit	Credit	Balance
Jan. 1		-	-	-

SALARIES EXPENSE				
Date	Description	Debit	Credit	Balance
Jan. 1		-	-	-

SUPPLIES EXPENSE				
Date	Description	Debit	Credit	Balance
Jan. 1		-	-	-

RENT EXPENSE				
Date	Description	Debit	Credit	Balance
Jan. 1		-	-	-

INTEREST EXPENSE				
Date	Description	Debit	Credit	Balance
Jan. 1		-	-	-

Worksheet (b)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Jan. 2			
Jan. 3			
Jan. 5			
Jan. 7			
Jan. 11			
Jan. 12			
Jan. 15			
Jan. 17			

Jan. 20			
Jan. 23			
Jan. 24			
Jan. 29			
Jan. 31			
Jan. 31			



Worksheet 7 (d)

<b>HAGEN CORPORATION</b>		
<b>Trial Balance</b>		
<b>January 31, 20X6</b>		
	<b>Debits</b>	<b>Credits</b>
Cash	\$ -	\$ -
Accounts Receivable		
Land		
Accounts Payable		
Loan Payable		
Capital Stock		
Retained Earnings		
Revenues		104,000
Salaries Expense	28,000	
Supplies Expense	8,000	
Rent Expense	6,800	
Interest Expense	2,400	
Dividends	10,000	-
	<b>\$ 55,200</b>	<b>\$ 104,000</b>

Worksheet 7 (e)

<b>HAGEN CORPORATION</b>	
<b>Income Statement</b>	
<b>For the Month Ending January 31, 20X6</b>	
<b>Revenues</b>	
Services to customers	
<b>Expenses</b>	
Salaries	
Supplies	
Rent	
Interest	
<b>Net income</b>	_____

<b>HAGEN CORPORATION</b> <b>Statement of Retained Earnings</b> <b>For the Month Ending January 31, 20X6</b>	
Beginning retained earnings	
Plus: Net income	_____
Less: Dividends	_____
Ending retained earnings	=====

<b>HAGEN CORPORATION</b> <b>Balance Sheet</b> <b>January 31, 20X6</b>	
<b>Assets</b>	
Cash	
Accounts receivable	
Land	
Total assets	=====
<b>Liabilities</b>	
Accounts payable	
Loan payable	_____
Total liabilities	_____
<b>Stockholders' equity</b>	
Capital stock	
Retained earnings	_____
Total stockholders' equity	_____
Total liabilities and equity	=====

Solution 7 (a)

CASH				
Date	Description	Debit	Credit	Balance
Jan. 1	Balance forward	-	-	100,000
Jan. 2	Journal Page 1	40,000	-	140,000
Jan. 3	Journal Page 1	-	80,000	60,000
Jan. 7	Journal Page 1	48,000	-	108,000
Jan. 11	Journal Page 1	-	12,000	96,000
Jan. 12	Journal Page 1	44,000	-	140,000
Jan. 17	Journal Page 2	-	10,000	130,000
Jan. 20	Journal Page 2	-	6,800	123,200
Jan. 23	Journal Page 2	-	16,000	107,200
Jan. 24	Journal Page 2	-	64,000	43,200
Jan. 29	Journal Page 2	200,000	-	243,200
Jan. 31	Journal Page 3	-	88,000	155,200
Jan. 31	Journal Page 3	-	2,400	152,800

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ACCOUNTS RECEIVABLE				
Date	Description	Debit	Credit	Balance
Jan. 1	Balance forward	-	-	300,000
Jan. 2	Journal Page 1	-	40,000	260,000
Jan. 5	Journal Page 1	60,000	-	320,000
Jan. 29	Journal Page 2	-	200,000	120,000

LAND				
Date	Description	Debit	Credit	Balance
Jan. 1	Balance forward	-	-	600,000
Jan. 3	Journal Page 1	80,000	-	680,000

ACCOUNTS PAYABLE				
Date	Description	Debit	Credit	Balance
Jan. 1	Balance forward	-	-	240,000
Jan. 15	Journal Page 2	-	8,000	248,000
Jan. 24	Journal Page 2	64,000	-	184,000

LOAN PAYABLE				
Date	Description	Debit	Credit	Balance
Jan. 1	Balance forward	-	-	120,000
Jan. 7	Journal Page 1	-	48,000	168,000
Jan. 31	Journal Page 3	88,000	-	80,000

CAPITAL STOCK				
Date	Description	Debit	Credit	Balance
Jan. 1	Balance forward	-	-	200,000

RETAINED EARNINGS				
Date	Description	Debit	Credit	Balance
Jan. 1	Balance forward	-	-	440,000

DIVIDENDS				
Date	Description	Debit	Credit	Balance
Jan. 1		-	-	-
Jan. 17	Journal Page 2	10,000	-	10,000

REVENUES				
Date	Description	Debit	Credit	Balance
Jan. 1		-	-	-
Jan. 5	Journal Page 1	-	60,000	60,000
Jan. 12	Journal Page 1	-	44,000	104,000

SALARIES EXPENSE				
Date	Description	Debit	Credit	Balance
Jan. 1		-	-	-
Jan. 11	Journal Page 1	12,000	-	12,000
Jan. 23	Journal Page 2	16,000	-	28,000

SUPPLIES EXPENSE				
Date	Description	Debit	Credit	Balance
Jan. 1		-	-	-
Jan. 15	Journal Page 2	8,000	-	8,000

RENT EXPENSE				
Date	Description	Debit	Credit	Balance
Jan. 1		-	-	-
Jan. 20	Journal Page 2	6,800	-	6,800

INTEREST EXPENSE				
Date	Description	Debit	Credit	Balance
Jan. 1		-	-	-
Jan. 31	Journal Page 3	2,400	-	2,400

## Solution 7 (b)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Jan. 2	Cash ✓	40,000	
	Accounts Receivable ✓		40,000
	<i>Collected \$40,000 on an open account receivable.</i>		
Jan. 3	Land ✓	80,000	
	Cash ✓		80,000
	<i>Purchased additional tract of land for \$80,000 cash.</i>		
Jan. 5	Accounts Receivable ✓	60,000	
	Revenues ✓		60,000
	<i>Provided services on account to a customer for \$60,000.</i>		
Jan. 7	Cash ✓	48,000	
	Loan Payable ✓		48,000
	<i>Borrowed \$48,000 on a term loan payable.</i>		
Jan. 11	Salaries Expense ✓	12,000	
	Cash ✓		12,000
	<i>Paid salaries of \$12,000.</i>		
Jan. 12	Cash ✓	44,000	
	Revenues ✓		44,000
	<i>Provided services to customers for cash, \$44,000.</i>		
Jan. 15	Supplies Expense ✓	8,000	
	Accounts Payable ✓		8,000
	<i>Purchased (and used) office supplies on account, \$8,000.</i>		
Jan. 17	Dividends ✓	10,000	
	Cash ✓		10,000
	<i>The company paid shareholders a \$10,000 dividend.</i>		

Jan. 20	Rent Expense	√	6,800	
	Cash	√		6,800
	<i>Paid rent of \$6,800.</i>			
Jan. 23	Salaries Expense	√	16,000	
	Cash	√		16,000
	<i>Paid salaries of \$16,000.</i>			
Jan. 24	Accounts Payable	√	64,000	
	Cash	√		64,000
	<i>Paid \$64,000 on the open accounts payable.</i>			
Jan. 29	Cash	√	200,000	
	Accounts Receivable	√		200,000
	<i>Collected \$200,000 on accounts receivable.</i>			
Jan. 31	Loan Payable	√	88,000	
	Cash	√		88,000
	<i>Repaid loans of \$88,000.</i>			
Jan. 31	Interest Expense	√	2,400	
	Cash	√		2,400
	<i>Paid interest on loans of \$2,400.</i>			

Solution 7 (d)

<b>HAGEN CORPORATION</b>		
<b>Trial Balance</b>		
<b>January 31, 20X6</b>		
	<b>Debits</b>	<b>Credits</b>
Cash	\$ 152,800	\$ -
Accounts Receivable	120,000	-
Land	680,000	-
Accounts Payable	-	184,000
Loan Payable	-	80,000
Capital Stock	-	200,000
Retained Earnings	-	440,000
Revenues	-	104,000
Salaries Expense	28,000	-
Supplies Expense	8,000	-
Rent Expense	6,800	-
Interest Expense	2,400	-
Dividends	10,000	-
	<b>\$ 1,008,000</b>	<b>\$ 1,008,000</b>

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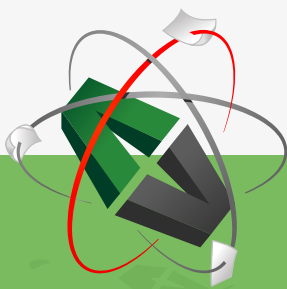
## Solution 7 (e)

<b>HAGEN CORPORATION</b>		
<b>Income Statement</b>		
<b>For the Month Ending January 31, 20X6</b>		
<b>Revenues</b>		
Services to customers		\$ 104,000
<b>Expenses</b>		
Salaries	\$ 28,000	
Supplies	8,000	
Rent	6,800	
Interest	2,400	45,200
<b>Net income</b>		<u>\$ 58,800</u>

<b>HAGEN CORPORATION</b>		
<b>Statement of Retained Earnings</b>		
<b>For the Month Ending January 31, 20X6</b>		
Beginning retained earnings	\$ 440,000	
Plus: Net income		58,800
	<u>\$ 498,800</u>	
Less: Dividends		10,000
Ending retained earnings	<u>\$ 488,800</u>	

<b>HAGEN CORPORATION</b>			
<b>Balance Sheet</b>			
<b>January 31, 20X6</b>			
<b>Assets</b>			
Cash		\$	152,800
Accounts receivable			120,000
Land			680,000
Total assets		\$	952,800
<b>Liabilities</b>			
Accounts payable	\$	184,000	
Loan payable		80,000	
Total liabilities		\$	264,000
<b>Stockholders' equity</b>			
Capital stock	\$	200,000	
Retained earnings		488,800	
Total stockholders' equity			688,800
Total liabilities and equity		\$	952,800

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# Problem 8

Mont Blanc Corporation is a small business operating in a state where a tax on income is contrary to the state's constitution. In an effort to raise revenue, the state has imposed a tax on business receipts for services provided to customers (total revenues, whether collected during the period or not). The tax is equal to 1% of revenues in excess of \$300,000.

Mont Blanc prepared its state tax return by adding up the total deposits to the company's bank account during the year. Total deposits were \$1,240,000, and the company paid taxes of \$9,400 ( $(\$1,240,000 - \$300,000) \times 1\%$ ).

Assume you are an auditor for the state, and Mont Blanc has been randomly selected for a routine review. You immediately find that the company does not maintain a typical journal/ledger system, and is fundamentally clueless about proper accounting procedures.

You have discovered the following limited information as part of your examination:

- Fact 1 Total deposits included \$450,000 that resulted from issuing shares to stockholders.
- Fact 2 The total deposits included \$75,000 of interest income on investments.
- Fact 3 The total deposits included \$2,700 that was the result of a bank error. The bank subsequently discovered the error, and removed the funds from Moncrief's account.
- Fact 4 Mont Blanc provides some services for cash, and portions of that money are never deposited to a bank. The company maintains a cash receipts book and you have determined that \$74,100 was collected from customers but never deposited.
- Fact 5 Bank deposits during the period included a \$3,600 refund check from a vendor relating to an overpayment for supplies.
- Fact 6 The company deposits included \$42,000 that was the result of a refund of an overpayment of federal income taxes.
- Fact 7 During the year, Mont Blanc collected a customer deposit toward a future contract. This \$30,000 advance was deposited and subsequently refunded when both parties mutually agreed to cancel the contract.
- Fact 8 Mont Blanc has many customers for which services are provided on account. As of the beginning of the year, the balance due from customers was \$390,000. By the end of the year, accounts receivable had grown to \$1,170,000. Mont Blanc has never experienced a problem with non-payment, and all customers pay their accounts in full within 90 days of a transaction.

- a) Prepare an analysis to determine the correct amount of revenue for purposes of computing the tax.
- b) Prepare journal entries for the “revenue” cycle, as well as the other cash items described.
- c) Prepare a general ledger account supporting the revenue calculation.

Worksheet 8 (a)

a)

Gross receipts as reported	\$ 3,720,000
Fact 1: Remove stockholder investments	(450,000)
Fact 2:	
Fact 3:	
Fact 4:	
Fact 5:	
Fact 6:	
Fact 7:	
Fact 8:	
Fact 8:	
Corrected gross receipts	

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## Worksheet 8 (c)

REVENUES				
Date	Description	Debit	Credit	Balance
	Balance forward	-	-	-
		-	-	-
		-	-	-
		-	-	-

## Solution 8 (a)

- a) The following schedule reveals the corrected revenue calculations. Mont Blanc owes an additional \$2,508 in gross receipts tax  $((\$3,970,800 - \$3,720,000) \times 1\%)$ .

Gross receipts as reported	\$	3,720,000
Fact 1: Remove stockholder investments		(450,000)
Fact 2: Remove interest income		(75,000)
Fact 3: Remove deposit error		(2,700)
Fact 4: Add cash revenues never deposited		74,100
Fact 5: Remove refund included in revenues		(3,600)
Fact 6: Remove tax refund deposit		(42,000)
Fact 7: Remove customer deposit refunded		(30,000)
Fact 8: Subtract collections of beginning receivables		(390,000)
Fact 8: Add services provided on account not yet collected		1,170,000
Corrected gross receipts	\$	3,970,800

b)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Fact 1	Cash	450,000	
	Capital Stock		450,000
	<i>Record stockholder investment</i>		
Fact 2	Cash	75,000	
	Interest Revenue		75,000
	<i>Record interest earnings</i>		
Fact 3	No entry		
	<i>Bank error only</i>		



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Fact 4	Cash	74,100	
	Revenues		74,100
	<i>Record service provided for cash</i>		
Fact 5	Cash	36,000	
	Supplies Expense		36,000
	<i>Reduce supplies for refund</i>		
Fact 6	Cash	42,000	
	Tax Expense		42,000
	<i>Reduce taxes for refund</i>		
Fact 7	<i>No net adjustment needed</i>		
Fact 8	Cash	390,000	
	Accounts Receivable		390,000
	<i>Record collection of receivables</i>		
Fact 8	Accounts Receivable	1,170,000	
	Revenues		1,170,000
	<i>Services provided on account</i>		
Balance	Cash	2,726,700	
	Revenues		2,726,700
	<i>All other revenues (\$3,970,800 - \$74,100 - \$1,170,000 = \$2,726,700)</i>		

## Solution 8 (c)

REVENUES				
Date	Description	Debit	Credit	Balance
	Balance forward	-	-	-
	Fact 4	-	74,100	74,100
	Fact 8	-	1,170,000	1,244,100
	Balance	-	2,726,700	3,970,800