

# Accounting Cycle Exercises IV

Larry M. Walther; Christopher J. Skousen



Larry M. Walther & Christopher J. Skousen

# Accounting Cycle Exercises IV



Accounting Cycle Exercises IV

1<sup>st</sup> edition

© 2010 Larry M. Walther, Christopher J. Skousen & [bookboon.com](http://bookboon.com)

All material in this publication is copyrighted, and the exclusive property of Larry M. Walther or his licensors (all rights reserved).

ISBN 978-87-7681-644-5

# Contents

|                  |           |
|------------------|-----------|
| <b>Problem 1</b> | <b>7</b>  |
| Worksheet 1 (a)  | 8         |
| Worksheet 1 (b)  | 8         |
| Worksheet 1 (c)  | 9         |
| Solution 1 (a)   | 10        |
| Solution 1 (b)   | 10        |
| Solution 1 (c)   | 12        |
| <br>             |           |
| <b>Problem 2</b> | <b>13</b> |
| Worksheet 2      | 14        |
| Solution 2       | 16        |
| <br>             |           |
| <b>Problem 3</b> | <b>18</b> |
| Worksheet 3 (a)  | 19        |
| Worksheet 3 (b)  | 19        |
| Worksheet 3 (c)  | 21        |

www.sylvania.com

**We do not reinvent  
the wheel we reinvent  
light.**

Fascinating lighting offers an infinite spectrum of possibilities: Innovative technologies and new markets provide both opportunities and challenges. An environment in which your expertise is in high demand. Enjoy the supportive working atmosphere within our global group and benefit from international career paths. Implement sustainable ideas in close cooperation with other specialists and contribute to influencing our future. Come and join us in reinventing light every day.

Light is OSRAM

**OSRAM  
SYLVANIA** 

|                  |           |
|------------------|-----------|
| Solution 3 (a)   | 21        |
| Solution 3 (b)   | 22        |
| Solution 3 (c)   | 23        |
| <b>Problem 4</b> | <b>24</b> |
| Worksheet 4      | 25        |
| Solution 4       | 27        |
| <b>Problem 5</b> | <b>29</b> |
| Worksheet 5      | 30        |
| Solution 5       | 31        |
| <b>Problem 6</b> | <b>32</b> |
| Worksheet 6 (a)  | 33        |
| Worksheet 6 (b)  | 34        |
| Worksheet 6 (c)  | 35        |
| Solution 6 (a)   | 37        |
| Solution 6 (b)   | 38        |
| Solution 6 (c)   | 38        |



Discover the truth at [www.deloitte.ca/careers](http://www.deloitte.ca/careers)

**Deloitte.**

© Deloitte & Touche LLP and affiliated entities.



Click on the ad to read more

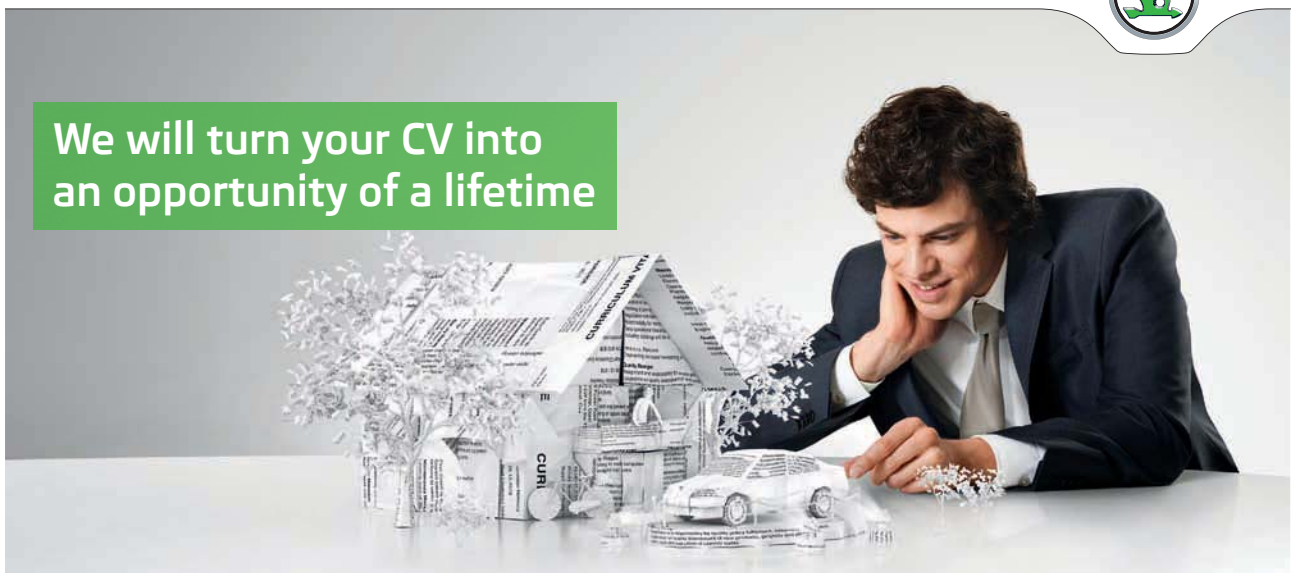
|                  |           |
|------------------|-----------|
| <b>Problem 7</b> | <b>41</b> |
| Worksheet 7 (a)  | 42        |
| Worksheet 7 (b)  | 43        |
| Solution 7 (a)   | 45        |
| Solution 7 (b)   | 46        |
| <br>             |           |
| <b>Problem 8</b> | <b>48</b> |
| Worksheet 8      | 49        |
| Solution 8       | 50        |

SIMPLY CLEVER

ŠKODA



We will turn your CV into  
an opportunity of a lifetime



Do you like cars? Would you like to be a part of a successful brand?  
We will appreciate and reward both your enthusiasm and talent.  
Send us your CV. You will be surprised where it can take you.

Send us your CV on  
[www.employerforlife.com](http://www.employerforlife.com)



Click on the ad to read more

# Problem 1

Alberto Condor has an eye for quality. He recently formed an art gallery where he allows artists to display their artwork for sale. Customers buy the artwork through the gallery, but payments are actually made payable directly to the originating artist. Artists, in turn, pay Albert a 20% commission that is appropriately reflected as revenue of the gallery.

Following is Albert's trial balance after the first year of operation. This trial balance does not reflect the adjustments that are necessary, as described by the additional information.

| <b>ALBERT CONDOR ART GALLERY</b> |                   |                   |
|----------------------------------|-------------------|-------------------|
| <b>Trial Balance</b>             |                   |                   |
| <b>As of December 31, 20X8</b>   |                   |                   |
|                                  | <b>Debits</b>     | <b>Credits</b>    |
| Cash                             | \$ 64,400         | \$ -              |
| Supplies                         | 23,765            | -                 |
| Display equipment                | 52,500            | -                 |
| Loan Payable                     | -                 | 26,250            |
| Capital Stock                    | -                 | 87,500            |
| Revenues                         | -                 | 170,065           |
| Rent Expense                     | 38,500            | -                 |
| Salaries Expense                 | 84,000            | -                 |
| Interest Expense                 | 1,750             | -                 |
| Utilities Expense                | 18,900            | -                 |
|                                  | <u>\$ 283,815</u> | <u>\$ 283,815</u> |

The Display equipment was purchased near the beginning of the year. It has a 5-year life and no salvage value. Its cost should be depreciated equally over its life.

Albert is entitled to receive \$62,650 of commissions for art sold. This revenue has not yet been recorded, but it is fully expected that the artists will soon be making payment.

Supplies on hand at year end were counted, and amount to \$11,900.

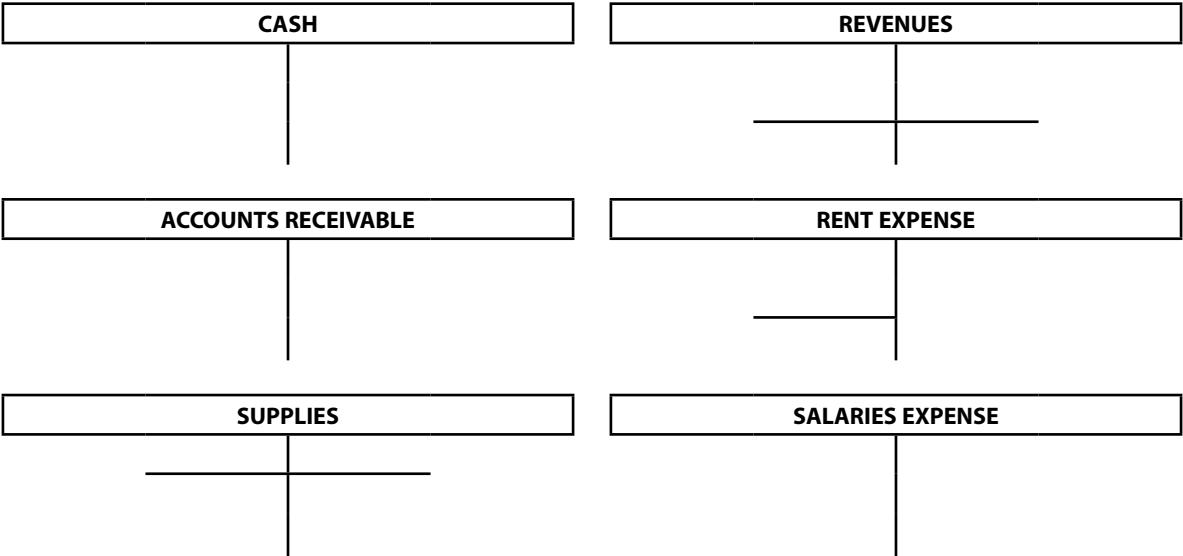
December's rent of \$3,500 has not yet been paid.

- a) Prepare the necessary adjusting enties as of December 31, 20X8.
- b) Use T-accounts to determine the adjusted balances of the accounts.
- c) Prepare the adjusted trial balance for Amber Nestor.

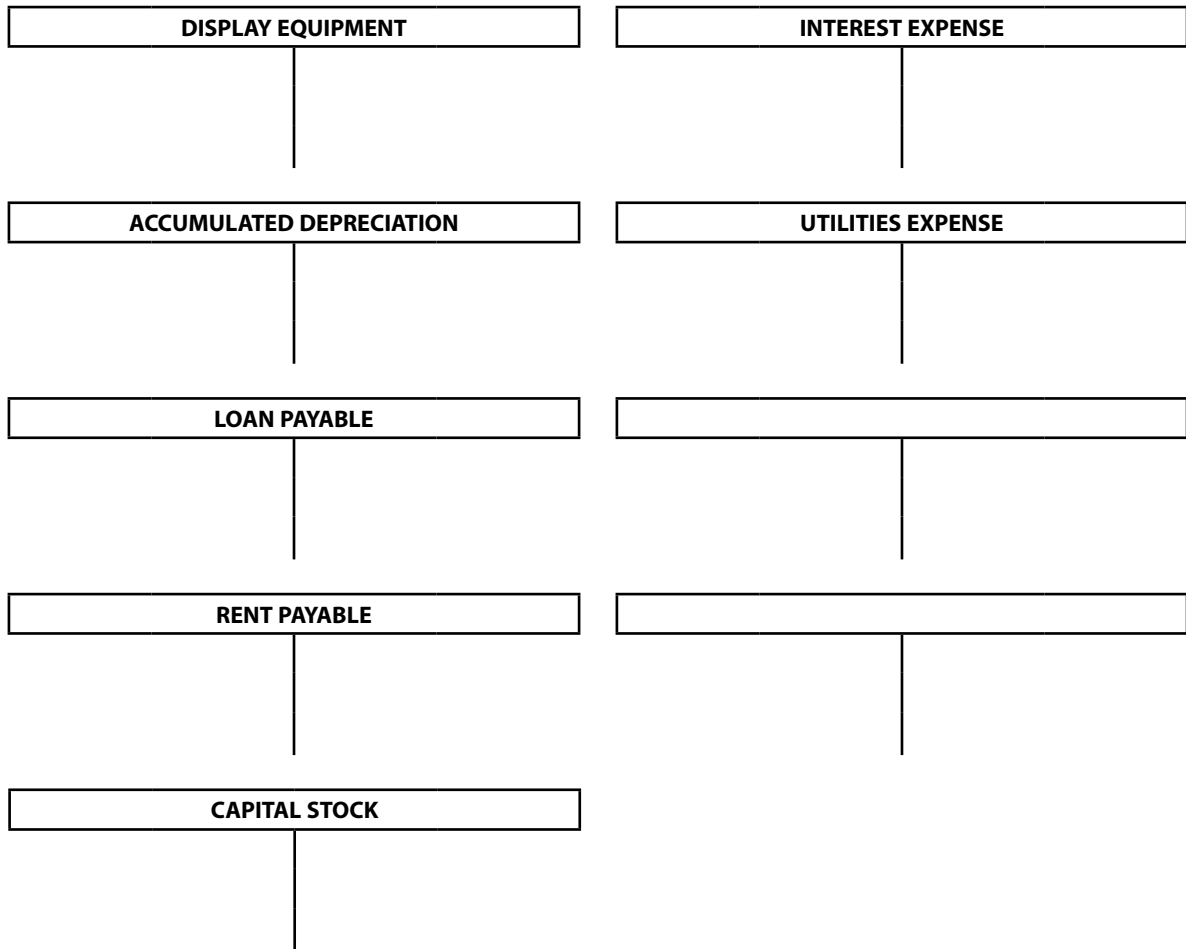
Worksheet 1 (a)

| GENERAL JOURNAL |          |       |        |
|-----------------|----------|-------|--------|
| Date            | Accounts | Debit | Credit |
| Dec. 31         |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
| Dec. 31         |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
| Dec. 31         |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
| Dec. 31         |          |       |        |
|                 |          |       |        |
|                 |          |       |        |

Worksheet 1 (b)







Worksheet 1 (c)

| <b>ALBERT CONDOR ART GALLERY</b> |               |  |                |
|----------------------------------|---------------|--|----------------|
| <b>Adjusted Trial Balance</b>    |               |  |                |
| <b>As of December 31, 20X8</b>   |               |  |                |
|                                  | <b>Debits</b> |  | <b>Credits</b> |
| Cash                             | \$ -          |  | \$ -           |
| Accounts Receivable              | -             |  | -              |
| Supplies                         | -             |  | -              |
| Display equipment                | -             |  | -              |
| Accumulated deprec.              | -             |  | -              |
| Rent Payable                     | -             |  | -              |
| Loan Payable                     | -             |  | -              |
| Capital Stock                    | -             |  | -              |
| Revenues                         | -             |  | -              |
| Rent Expense                     | -             |  | -              |
| Salaries Expense                 | -             |  | -              |
| Interest Expense                 | -             |  | -              |
| Utilities Expense                | -             |  | -              |
|                                  | \$ -          |  | \$ -           |

Solution 1 (a)

| GENERAL JOURNAL |                                       |        |        |
|-----------------|---------------------------------------|--------|--------|
| Date            | Accounts                              | Debit  | Credit |
| Dec. 31         | Depreciation Expense                  | 10,500 |        |
|                 | Accumulated Depreciation              |        | 10,500 |
|                 | <i>To record annual depreciation</i>  |        |        |
| Dec. 31         | Accounts Receivable                   | 62,650 |        |
|                 | Revenues                              |        | 62,650 |
|                 | <i>To record earned revenues</i>      |        |        |
| Dec. 31         | Supplies Expense                      | 11,865 |        |
|                 | Supplies                              |        | 11,865 |
|                 | <i>To record supplies used</i>        |        |        |
| Dec. 31         | Rent Expense                          | 3,500  |        |
|                 | Rent Payable                          |        | 3,500  |
|                 | <i>To record rent due and payable</i> |        |        |

Solution 1 (b)

| CASH |        |
|------|--------|
|      | 64,400 |
|      | 64,400 |

| REVENUES |         |
|----------|---------|
|          | 170,065 |
|          | 62,650  |
|          | 232,715 |

aje #2

| ACCOUNTS RECEIVABLE |        |
|---------------------|--------|
| aje #2              | 62,650 |
|                     | 62,650 |

| RENT EXPENSE |        |
|--------------|--------|
|              | 38,500 |
| aje #4       | 3,500  |
|              | 42,000 |

| SUPPLIES |        |
|----------|--------|
|          | 23,765 |
|          | 11,865 |
|          | 11,900 |

aje #3

| SALARIES EXPENSE |        |
|------------------|--------|
|                  | 84,000 |
|                  | 84,000 |

| DISPLAY EQUIPMENT |        |
|-------------------|--------|
|                   | 52,500 |
|                   | 52,500 |

| INTEREST EXPENSE |       |
|------------------|-------|
|                  | 1,750 |
|                  | 1,750 |

| ACCUMULATED DEPRECIATION |               |
|--------------------------|---------------|
|                          | 10,500 aje #1 |
|                          | 10,500        |

| UTILITIES EXPENSE |        |
|-------------------|--------|
|                   | 18,900 |
|                   | 18,900 |

| LOAN PAYABLE |        |
|--------------|--------|
|              | 26,250 |
|              | 26,250 |

| DEPRECIATION EXPENSE |        |
|----------------------|--------|
| aje #1               | 10,500 |
|                      | 10,500 |

| RENT PAYABLE |              |
|--------------|--------------|
|              | 3,500 aje #4 |
|              | 3,500        |

| SUPPLIES EXPENSE |        |
|------------------|--------|
| aje #3           | 11,865 |
|                  | 11,865 |

| CAPITAL STOCK |        |
|---------------|--------|
|               | 87,500 |
|               | 87,500 |

I joined MITAS because  
I wanted **real responsibility**

The Graduate Programme  
for Engineers and Geoscientists  
[www.discovermitas.com](http://www.discovermitas.com)



**Month 16**

I was a construction supervisor in the North Sea advising and helping foremen solve problems

Real work  
International opportunities  
Three work placements



Click on the ad to read more

## Solution 1 (c)

| <b>ALBERT CONDOR ART GALLERY</b> |                   |                   |
|----------------------------------|-------------------|-------------------|
| <b>Adjusted Trial Balance</b>    |                   |                   |
| <b>As of December 31, 20X8</b>   |                   |                   |
|                                  | <b>Debits</b>     | <b>Credits</b>    |
| Cash                             | \$ 64,400         | \$ -              |
| Accounts Receivable              | 62,650            | -                 |
| Supplies                         | 11,900            | -                 |
| Display equipment                | 52,500            | -                 |
| Accumulated deprec.              | -                 | 10,500            |
| Rent Payable                     | -                 | 3,500             |
| Loan Payable                     | -                 | 26,250            |
| Capital Stock                    | -                 | 87,500            |
| Revenues                         | -                 | 232,715           |
| Rent Expense                     | 42,000            | -                 |
| Salaries Expense                 | 84,000            | -                 |
| Interest Expense                 | 1,750             | -                 |
| Utilities Expense                | 18,900            | -                 |
| Depreciation Expense             | 10,500            | -                 |
| Supplies Expense                 | 11,865            | -                 |
|                                  | <u>\$ 360,465</u> | <u>\$ 360,465</u> |

# Problem 2

Wolfgang Schnitzer is in charge of financial management for Over-Head-Eye Corp. Over-Head-Eye utilizes satellite technology and sophisticated mapping software to alert its customers to trespassing, illegal dumping, and other encroachments on property these customers own around the globe. Customers typically purchase one-year contracts for this service, and the pricing depends on the number and size of sites monitored.

Mr. Schnitzer desires to review financial reports – an income statement, statement of retained earnings, and balance sheet. Prepare these reports from the following adjusted trial balance. Mr. Schnitzer needs this information for internal review purposes, and does not require a classified balance sheet. The operating data relate to the full year, and the blank worksheet already includes partial data.

| <b>OVER-HEAD-EYE CORPORATION</b> |                      |                      |
|----------------------------------|----------------------|----------------------|
| <b>Adjusted Trial Balance</b>    |                      |                      |
| <b>As of December 31, 20X0</b>   |                      |                      |
|                                  | <b>Debits</b>        | <b>Credits</b>       |
| Cash                             | \$ 2,502,663         | \$ -                 |
| Accounts Receivable              | 1,037,727            | -                    |
| Prepaid Expenses                 | 137,361              | -                    |
| Supplies                         | 199,995              | -                    |
| Satellite equipment              | 9,027,000            | -                    |
| Accumulated deprec.              | -                    | 3,666,597            |
| Accounts Payable                 | -                    | 1,632,570            |
| Unearned Revenues                | -                    | 1,365,000            |
| Loan Payable                     | -                    | 3,000,000            |
| Capital Stock                    | -                    | 1,680,000            |
| Retained earnings, Jan. 1        | -                    | 686,676              |
| Dividends                        | 150,000              | -                    |
| Revenues                         | -                    | 7,120,206            |
| Selling Expenses                 | 1,429,335            | -                    |
| Interest Expense                 | 240,000              | -                    |
| Salaries Expenses                | 2,033,001            | -                    |
| Maintenance and supplies expense | 668,967              | -                    |
| Depreciation expense             | 1,725,000            | -                    |
|                                  | <u>\$ 19,151,049</u> | <u>\$ 19,151,049</u> |

Worksheet 2

| OVER-HEAD-EYE CORPORATION |      |
|---------------------------|------|
| Income Statement          |      |
| <b>Revenues</b>           |      |
| Services to customers     | \$ - |
| <b>Expenses</b>           |      |
|                           | \$ - |
|                           | -    |
|                           | -    |
|                           | -    |
|                           | -    |
|                           | -    |
| <b>Net income</b>         | \$ - |

**ie** business school

#1 EUROPEAN BUSINESS SCHOOL  
FINANCIAL TIMES 2013

**#gobeyond**

**MASTER IN MANAGEMENT**

**Because achieving your dreams is your greatest challenge.** IE Business School's Master in Management taught in English, Spanish or bilingually, trains young high performance professionals at the beginning of their career through an innovative and stimulating program that will help them reach their full potential.

- Choose your area of specialization.
- Customize your master through the different options offered.
- Global Immersion Weeks in locations such as London, Silicon Valley or Shanghai.

*Because you change, we change with you.*

www.ie.edu/master-management | mim.admissions@ie.edu |



| <b>OVER-HEAD-EYE CORPORATION</b>      |      |
|---------------------------------------|------|
| <b>Statement of Retained Earnings</b> |      |
| Beginning retained earnings           | \$ - |
| Plus: Net income                      | -    |
|                                       | \$ - |
|                                       | -    |
|                                       | \$ - |

| <b>OVER-HEAD-EYE CORPORATION</b> |      |
|----------------------------------|------|
| <b>Balance Sheet</b>             |      |
| <b>Assets</b>                    |      |
|                                  | \$ - |
|                                  | -    |
|                                  | -    |
|                                  | -    |
| Satellite equipment              | \$ - |
| Less: Accumulated depreciation   | -    |
|                                  | -    |
| Total assets                     | \$ - |
| <b>Liabilities</b>               |      |
|                                  | \$ - |
|                                  | -    |
|                                  | -    |
|                                  | -    |
| Total liabilities                | \$ - |
| <b>Stockholders' equity</b>      |      |
|                                  | \$ - |
|                                  | -    |
|                                  | -    |
| Total stockholders' equity       | -    |
| Total liabilities and equity     | \$ - |

## Solution 2

| <b>OVER-HEAD-EYE CORPORATION</b>             |              |                     |
|--|--------------|---------------------|
| <b>Income Statement</b>                      |              |                     |
| <b>For the Year Ending December 31, 20X0</b> |              |                     |
| <b>Revenues</b>                              |              |                     |
| Services to customers                        |              | \$ 7,120,206        |
| <b>Expenses</b>                              |              |                     |
| Selling                                      | \$ 1,429,335 |                     |
| Interest                                     | 240,000      |                     |
| Salaries                                     | 2,033,001    |                     |
| Maintenance and supplies                     | 668,967      |                     |
| Depreciation                                 | 1,725,000    | 6,096,303           |
| <b>Net income</b>                            |              | <b>\$ 1,023,903</b> |

“I studied English for 16 years but...  
...I finally learned to speak it in just six lessons”  
Jane, Chinese architect

ENGLISH OUT THERE

Click to hear me talking before and after my unique course download



| <b>OVER-HEAD-EYE CORPORATION</b>             |    |           |
|--|----|-----------|
| <b>Statement of Retained Earnings</b>        |    |           |
| <b>For the Year Ending December 31, 20X0</b> |    |           |
| Beginning retained earnings                  | \$ | 686,676   |
| Plus: Net income                             |    | 1,023,903 |
|  | \$ | 1,710,579 |
| Less: Dividends                              |    | 150,000   |
| Ending retained earnings                     | \$ | 1,560,579 |

| <b>OVER-HEAD-EYE CORPORATION</b> |             |              |
|----------------------------------|-------------|--------------|
| <b>Balance Sheet</b>             |             |              |
| <b>December 31, 20X0</b>         |             |              |
| <b>Assets</b>                    |             |              |
| Cash                             | \$          | 2,502,663    |
| Accounts receivable              |             | 1,037,727    |
| Prepaid expenses                 |             | 137,361      |
| Supplies                         |             | 199,995      |
| Satellite equipment              | \$          | 9,027,000    |
| Less: Accumulated depreciation   | (3,666,597) | 5,360,403    |
| Total assets                     |             | \$ 9,238,149 |
| <b>Liabilities</b>               |             |              |
| Accounts payable                 | \$          | 1,632,570    |
| Unearned revenues                |             | 1,365,000    |
| Loan payable                     |             | 3,000,000    |
| Total liabilities                |             | \$ 5,997,570 |
| <b>Stockholders' equity</b>      |             |              |
| Capital stock                    | \$          | 1,680,000    |
| Retained earnings                |             | 1,560,579    |
| Total stockholders' equity       |             | 3,240,579    |
| Total liabilities and equity     |             | \$ 9,238,149 |

# Problem 3

Beaver Lodge prepared the following adjusted trial balance on December 31, 20X7. The company has completed preparation of financial statements and is now ready to prepare closing entries.

| <b>BEAVER LODGE</b>            |                     |                     |
|--------------------------------|---------------------|---------------------|
| <b>Adjusted Trial Balance</b>  |                     |                     |
| <b>As of December 31, 20X7</b> |                     |                     |
|                                | <b>Debits</b>       | <b>Credits</b>      |
| Cash                           | \$ 80,100           | \$ -                |
| Accounts Receivable            | 53,325              | -                   |
| Supplies                       | 16,875              | -                   |
| Equipment                      | 732,825             | -                   |
| Accumulated deprec.            | -                   | 90,900              |
| Accounts Payable               | -                   | 78,300              |
| Loan Payable                   | -                   | 225,000             |
| Capital Stock                  | -                   | 180,000             |
| Retained earnings              | -                   | 157,500             |
| Dividends                      | 45,000              | -                   |
| Revenues                       | -                   | 1,076,400           |
| Rent Expense                   | 270,000             | -                   |
| Salaries Expense               | 530,100             | -                   |
| Supplies Expenses              | 40,500              | -                   |
| Interest Expenses              | 16,650              | -                   |
| Depreciation expense           | 22,725              | -                   |
|                                | <u>\$ 1,808,100</u> | <u>\$ 1,808,100</u> |

- Prepare the necessary closing entries.
- Use T-accounts to determine the post-closing balances of the accounts.
- Prepare the post-closing trial balance.

Worksheet 3 (a)

| GENERAL JOURNAL |  |       |        |
|-----------------|--|-------|--------|
| Date            | Accounts   | Debit | Credit |
| Dec. 31         |  |       |        |
|                 |  |       |        |
|                 | <i>To close the revenue account to Income Summary</i>  |       |        |
| Dec. 31         |  |       |        |
|                 |  |       |        |
|                 |  |       |        |
|                 |  |       |        |
|                 |  |       |        |
|                 | <i>To close the expense accounts to Income Summary</i> |       |        |
| Dec. 31         |  |       |        |
|                 |  |       |        |
|                 | <i>To close Income Summary to retained earnings</i>    |       |        |
| Dec. 31         |  |       |        |
|                 |  |       |        |
|                 | <i>To close dividends</i>                              |       |        |

Worksheet 3 (b)

|   |                         |  |   |  |  |
|---|-------------------------|--|---|--|--|
| <b>CASH</b>   | <b>DIVIDENDS</b>        |  |   |  |  |
| <table border="1" style="width: 100%; height: 40px;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%;"></td> </tr> </table> |                         |  | <table border="1" style="width: 100%; height: 40px;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%;"></td> </tr> </table> |  |  |
|   |                         |  |   |  |  |
|   |                         |  |   |  |  |
| <table border="1" style="width: 100%; height: 40px;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%;"></td> </tr> </table> |                         |  | <table border="1" style="width: 100%; height: 40px;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%;"></td> </tr> </table> |  |  |
|   |                         |  |   |  |  |
|   |                         |  |   |  |  |
| <b>ACCOUNTS RECEIVABLE</b>  | <b>REVENUES</b>         |  |   |  |  |
| <table border="1" style="width: 100%; height: 40px;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%;"></td> </tr> </table> |                         |  | <table border="1" style="width: 100%; height: 40px;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%;"></td> </tr> </table> |  |  |
|   |                         |  |   |  |  |
|   |                         |  |   |  |  |
| <b>SUPPLIES</b>   | <b>RENT EXPENSE</b>     |  |   |  |  |
| <table border="1" style="width: 100%; height: 40px;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%;"></td> </tr> </table> |                         |  | <table border="1" style="width: 100%; height: 40px;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%;"></td> </tr> </table> |  |  |
|   |                         |  |   |  |  |
|   |                         |  |   |  |  |
| <b>EQUIPMENT</b>  | <b>SALARIES EXPENSE</b> |  |   |  |  |
| <table border="1" style="width: 100%; height: 40px;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%;"></td> </tr> </table> |                         |  | <table border="1" style="width: 100%; height: 40px;"> <tr> <td style="width: 50%;"></td> <td style="width: 50%;"></td> </tr> </table> |  |  |
|   |                         |  |   |  |  |
|   |                         |  |   |  |  |

| ACCUMULATED DEPRECIATION |  |
|--------------------------|--|
|                          |  |
|                          |  |
|                          |  |

| SUPPLIES EXPENSE |  |
|------------------|--|
|                  |  |
|                  |  |
|                  |  |

closing

| ACCOUNTS PAYABLE |  |
|------------------|--|
|                  |  |
|                  |  |
|                  |  |

| INTEREST EXPENSE |  |
|------------------|--|
|                  |  |
|                  |  |
|                  |  |

closing

| LOAN PAYABLE |  |
|--------------|--|
|              |  |
|              |  |
|              |  |

| DEPRECIATION EXPENSE |  |
|----------------------|--|
|                      |  |
|                      |  |
|                      |  |

closing

| CAPITAL STOCK |  |
|---------------|--|
|               |  |
|               |  |
|               |  |

| INCOME SUMMARY |  |
|----------------|--|
|                |  |
|                |  |
|                |  |

closing

closing

| RETAINED EARNINGS |  |
|-------------------|--|
|                   |  |
|                   |  |
|                   |  |

closing

closing

Excellent Economics and Business programmes at:



university of  
 groningen



**“The perfect start  
 of a successful,  
 international career.”**

**CLICK HERE**  
 to discover why both socially  
 and academically the University  
 of Groningen is one of the best  
 places for a student to be

[www.rug.nl/feb/education](http://www.rug.nl/feb/education)



## Worksheet 3 (c)

| <b>BEAVER LODGE</b>               |               |                |  |
|-----------------------------------|---------------|----------------|--|
| <b>Post-Closing Trial Balance</b> |               |                |  |
| <b>As of December 31, 20X7</b>    |               |                |  |
|                                   | <u>Debits</u> | <u>Credits</u> |  |
|                                   | \$ -          | \$ -           |  |
|                                   | -             | -              |  |
|                                   | -             | -              |  |
|                                   | -             | -              |  |
|                                   | -             | -              |  |
|                                   | -             | -              |  |
|                                   | -             | -              |  |
|                                   | -             | -              |  |
|                                   | -             | -              |  |
|                                   | <u>\$ -</u>   | <u>\$ -</u>    |  |

## Solution 3 (a)

| <b>GENERAL JOURNAL</b> |  |              |               |
|------------------------|--|--------------|---------------|
| <b>Date</b>            | <b>Accounts</b>  | <b>Debit</b> | <b>Credit</b> |
| Dec. 31                | Revenues   | 1,076,400    |               |
|                        | Income Summary   |              | 1,076,400     |
|                        | <i>To close the revenue account to Income Summary</i>  |              |               |
| Dec. 31                | Income Summary   | 879,975      |               |
|                        | Rent Expense   |              | 270,000       |
|                        | Salaries Expense                                       |              | 530,100       |
|                        | Supplies Expense                                       |              | 40,500        |
|                        | Interest Expense                                       |              | 16,650        |
|                        | Depreciation Expense                                   |              | 22,725        |
|                        | <i>To close the expense accounts to Income Summary</i> |              |               |
| Dec. 31                | Income Summary   | 196,425      |               |
|                        | Retained Earnings                                      |              | 196,425       |
|                        | <i>To close Income Summary to retained earnings</i>    |              |               |
| Dec. 31                | Retained Earnings                                      | 45,000       |               |
|                        | Dividends  |              | 45,000        |
|                        | <i>To close dividends</i>                              |              |               |

Solution 3 (b)

| CASH |               |
|------|---------------|
|      | 80,100        |
|      | <u>80,100</u> |

| DIVIDENDS |               |         |
|-----------|---------------|---------|
|           | 45,000        | 45,000  |
|           | <u>45,000</u> | closing |
|           | 0             |         |
|           | <u>0</u>      |         |

| ACCOUNTS RECEIVABLE |               |
|---------------------|---------------|
|                     | 53,325        |
|                     | <u>53,325</u> |

| REVENUES |                  |           |
|----------|------------------|-----------|
| closing  | 1,076,400        | 1,076,400 |
|          | <u>1,076,400</u> | 0         |
|          | 0                |           |
|          | <u>0</u>         |           |

| SUPPLIES |               |
|----------|---------------|
|          | 16,875        |
|          | <u>16,875</u> |

| RENT EXPENSE |                |         |
|--------------|----------------|---------|
|              | 270,000        | 270,000 |
|              | <u>270,000</u> | closing |
|              | 0              |         |
|              | <u>0</u>       |         |

| EQUIPMENT |                |
|-----------|----------------|
|           | 732,825        |
|           | <u>732,825</u> |

| SALARIES EXPENSE |                |         |
|------------------|----------------|---------|
|                  | 530,100        | 530,100 |
|                  | <u>530,100</u> | closing |
|                  | 0              |         |
|                  | <u>0</u>       |         |

| ACCUMULATED DEPRECIATION |               |
|--------------------------|---------------|
|                          | 90,900        |
|                          | <u>90,900</u> |

| SUPPLIES EXPENSE |               |         |
|------------------|---------------|---------|
|                  | 40,500        | 40,500  |
|                  | <u>40,500</u> | closing |
|                  | 0             |         |
|                  | <u>0</u>      |         |

| ACCOUNTS PAYABLE |               |
|------------------|---------------|
|                  | 78,300        |
|                  | <u>78,300</u> |

| INTEREST EXPENSE |               |         |
|------------------|---------------|---------|
|                  | 16,650        | 16,650  |
|                  | <u>16,650</u> | closing |
|                  | 0             |         |
|                  | <u>0</u>      |         |

| LOAN PAYABLE |                |
|--------------|----------------|
|              | 225,000        |
|              | <u>225,000</u> |

| DEPRECIATION EXPENSE |               |         |
|----------------------|---------------|---------|
|                      | 22,725        | 22,725  |
|                      | <u>22,725</u> | closing |
|                      | 0             |         |
|                      | <u>0</u>      |         |

| CAPITAL STOCK |                |
|---------------|----------------|
|               | 180,000        |
|               | <u>180,000</u> |

| INCOME SUMMARY |                |                  |         |
|----------------|----------------|------------------|---------|
| closing        | 879,975        | 1,076,400        | closing |
| closing        | 196,425        |                  |         |
|                | <u>879,975</u> | <u>1,076,400</u> |         |
|                | 0              | 0                |         |
|                | <u>0</u>       | <u>0</u>         |         |

| RETAINED EARNINGS |               |                |         |
|-------------------|---------------|----------------|---------|
| closing           | 45,000        | 157,500        |         |
|                   |               | 196,425        | closing |
|                   | <u>45,000</u> | <u>353,925</u> |         |
|                   |               | 308,925        |         |
|                   | <u>45,000</u> | <u>308,925</u> |         |

## Solution 3 (c)

| <b>BEAVER LODGE</b>               |                   |    |                |
|-----------------------------------|-------------------|----|----------------|
| <b>Post-Closing Trial Balance</b> |                   |    |                |
| <b>As of December 31, 20X7</b>    |                   |    |                |
|                                   | <b>Debits</b>     |    | <b>Credits</b> |
| Cash                              | \$ 80,100         | \$ | -              |
| Accounts receivable               | \$ 53,325         |    | -              |
| Supplies                          | \$ 16,875         |    | -              |
| Equipment                         | \$ 732,825        |    | -              |
| Accumulated depreciation          | -                 |    | 90,000         |
| Accounts payable                  | -                 |    | 78,300         |
| Loan payable                      | -                 |    | 225,000        |
| Capital stock                     | -                 |    | 180,000        |
| Retained earnings                 | -                 |    | 308,925        |
|                                   | <u>\$ 883,125</u> | \$ | <u>883,125</u> |

## American online LIGS University

is currently enrolling in the  
Interactive Online **BBA, MBA, MSc,**  
**DBA and PhD** programs:

- ▶ enroll **by September 30th, 2014** and
- ▶ **save up to 16%** on the tuition!
- ▶ pay in 10 installments / 2 years
- ▶ Interactive **Online** education
- ▶ visit [www.ligsuniversity.com](http://www.ligsuniversity.com) to  
find out more!

Note: LIGS University is not accredited by any nationally recognized accrediting agency listed by the US Secretary of Education. More info [here](#).



# Problem 4

Elements is an upscale university housing complex providing all the amenities of private townhouse living, and a full service 24-hour cafeteria for busy students. Prior to recording any adjusting entries for 20X8, Elements has incurred and recorded total salary expense of \$2,625,000 and total rental revenue of \$14,400,000.

As of December 31, 20X8, the company owes \$45,000 of additional salaries to employees, and accrued rent due from residents amounts to \$300,000.

On January 10, 20X9, Traditions paid salaries of \$120,000 covering the amount due as of December 31, as well as additional amounts relating to 20X9.

On January 15, 20X9, Traditions received rental payments for \$750,000 covering the rents due as due of December 31, 20X8, and additional amounts relating to the first half of January, 20X9.

- a) Prepare the necessary year-end adjusting entries for salaries and rent.
- b) Determine the total salaries expense and total rent revenue for 20X4.
- c) Assuming the company uses reversing entries, prepare necessary reversals for early 20X5.
- d) Assuming the company used reversing entries, prepare entries for January 10 and 15, 20X5.
- e) Assuming the company does **not** use reversing entries, prepare entries for January 10 and 15, 20X5.
- f) Show how 20X5 salaries expense and rent revenue will be the same, whether reversing entries are used or not.



Worksheet 4

| GENERAL JOURNAL |          |       |        |
|-----------------|----------|-------|--------|
| Date            | Accounts | Debit | Credit |
| a) Dec. 31      |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
| Dec. 31         |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
| b)              |          |       |        |
|                 |          |       |        |
| c) Jan. 1       |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
| Jan. 1          |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
| d) Jan. 10      |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
| Jan. 15         |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
| e) Jan. 10      |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |

|         |  |  |  |
|---------|--|--|--|
| Jan. 15 |  |  |  |
|         |  |  |  |
|         |  |  |  |
|         |  |  |  |
|         |  |  |  |
| f)      |  |  |  |

.....Alcatel-Lucent 

[www.alcatel-lucent.com/careers](http://www.alcatel-lucent.com/careers)

**What if you could build your future and create the future?**

One generation's transformation is the next's status quo. In the near future, people may soon think it's strange that devices ever had to be "plugged in." To obtain that status, there needs to be "The Shift".



 [Click on the ad to read more](#)

## Solution 4

| GENERAL JOURNAL |   |  |         |
|-----------------|---|--|---------|
| Date            | Accounts  | Debit                                  | Credit  |
| a)              | Dec. 31   | Salaries Expense                       | 45,000  |
|                 |   | Salaries Payable                       | 45,000  |
|                 |   | <i>To record accrued salaries</i>      |         |
|                 | Dec. 31   | Rent Receivable                        | 300,000 |
|                 |   | Rent Revenues                          | 300,000 |
|                 |   | <i>To record accrued rent revenue</i>  |         |
| b)              | Total salaries are \$2,580,000 (\$2,625,000 + \$45,000)       |  |         |
|                 | Total rent revenue is \$14,100,000 (\$14,400,000 + \$300,000) |  |         |
| c)              | Jan. 1  | Salaries Payable                       | 45,000  |
|                 |   | Salaries Expense                       | 45,000  |
|                 |   | <i>To reverse accrued salaries</i>     |         |
|                 | Jan. 1  | Rent Revenues                          | 300,000 |
|                 |   | Rent Receivable                        | 300,000 |
|                 |   | <i>To reverse accrued rent revenue</i> |         |
| d)              | Jan. 10   | Salaries Expense                       | 120,000 |
|                 |   | Cash                                   | 120,000 |
|                 |   | <i>To record payment of salaries</i>   |         |
|                 | Jan. 15   | Cash                                   | 750,000 |
|                 |   | Rent Revenues                          | 750,000 |
|                 |   | <i>To record collection of rent</i>    |         |
| e)              | Jan. 10   | Salaries Expense                       | 75,000  |
|                 |   | Salaries Payable                       | 45,000  |
|                 |   | Cash                                   | 120,000 |
|                 |   | <i>To record payment of salaries</i>   |         |

|         |                                     |         |         |
|---------|-------------------------------------|---------|---------|
| Jan. 15 | Cash                                | 750,000 |         |
|         | Rent Receivable                     |         | 300,000 |
|         | Rent Revenues                       |         | 450,000 |
|         | <i>To record collection of rent</i> |         |         |
|         |                                     |         |         |

- f) Salaries expense without reversing entries of \$75,000 (see entry (e)) equals the results from (c) and (d) with reversing entries (\$120,000 – \$45,000).
- Rent revenues without reversing entries of \$450,000 (see entry (e)) equals the results from (c) and (d) with reversing entries (\$750,000 – \$300,000).



Join the best at  
**the Maastricht University  
 School of Business and  
 Economics!**

**Top master's programmes**

- 33<sup>rd</sup> place Financial Times worldwide ranking: MSc International Business
- 1<sup>st</sup> place: MSc International Business
- 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

**Maastricht University is the best specialist university in the Netherlands**  
 (Elsevier)

**Visit us and find out why we are the best!**  
**Master's Open Day: 22 February 2014**

[www.mastersopenday.nl](http://www.mastersopenday.nl)



# Problem 5

Dingane Ndubizu owns a diamond mining business in South Africa. He is interested in attracting additional investors to obtain financing for planned expansion. Some potential investors have expressed a concern that money is really being sought to address liquidity problems being faced by Dingane's company.

To alleviate this concern Dingane provided the following complete list of assets and liabilities of the company. The currency unit is the South African Rand. Use this information to determine the company's current assets, current liabilities, working capital, current ratio, and quick ratio. Based on your calculations, does it appear that the company is experiencing liquidity problems?

|                                |             |
|--------------------------------|-------------|
| Accumulated Depreciation       | R 7,995,750 |
| Prepaid Rent                   | 80,150      |
| Note Payable (due in 3 months) | 175,000     |
| Accounts Receivable            | 819,000     |
| Accounts Payable               | 446,250     |
| Patent                         | 5,250,000   |
| Cash                           | 1,382,500   |
| Supplies                       | 235,900     |
| Unearned Revenues              | 232,750     |
| Equipment                      | 15,360,800  |
| Interest Payable               | 78,750      |
| Loan Payable (due in 3 years)  | 2,625,000   |

Worksheet 5

|                                |             | Current Assets | Quick Assets | Current Liabilities |
|--------------------------------|-------------|----------------|--------------|---------------------|
| Accumulated Depreciation       | R 7,995,750 |                |              |                     |
| Prepaid Rent                   | 80,150      |                |              |                     |
| Note Payable (due in 3 months) | 175,000     |                |              |                     |
| Accounts Receivable            | 819,000     |                |              |                     |
| Accounts Payable               | 446,250     |                |              |                     |
| Patent                         | 5,250,000   |                |              |                     |
| Cash                           | 1,382,500   |                |              |                     |
| Supplies                       | 235,900     |                |              |                     |
| Unearned Revenues              | 232,750     |                |              |                     |
| Equipment                      | 15,360,800  |                |              |                     |
| Interest Payable               | 78,750      |                |              |                     |
| Loan Payable (due in 3 years)  | 2,625,000   |                |              |                     |

**Empowering People. Improving Business.**

BI Norwegian Business School is one of Europe's largest business schools welcoming more than 20,000 students. Our programmes provide a stimulating and multi-cultural learning environment with an international outlook ultimately providing students with professional skills to meet the increasing needs of businesses.

BI offers four different two-year, full-time Master of Science (MSc) programmes that are taught entirely in English and have been designed to provide professional skills to meet the increasing need of businesses. The MSc programmes provide a stimulating and multi-cultural learning environment to give you the best platform to launch into your career.

- MSc in Business
- MSc in Financial Economics
- MSc in Strategic Marketing Management
- MSc in Leadership and Organisational Psychology

**BI NORWEGIAN BUSINESS SCHOOL**

EFMD **EQUIS ACCREDITED**

[www.bi.edu/master](http://www.bi.edu/master)



**Working Capital:****Current Ratio:****Quick Ratio:****Solution 5**

|                                |             | Current Assets     | Quick Assets       | Current Liabilities |
|--------------------------------|-------------|--------------------|--------------------|---------------------|
| Accumulated Depreciation       | R 7,995,750 |                    |                    |                     |
| Prepaid Rent                   | 80,150      | R 80,150           |                    |                     |
| Note Payable (due in 3 months) | 175,000     |                    |                    | R 175,000           |
| Accounts Receivable            | 819,000     | 819,000            | R 819,000          |                     |
| Accounts Payable               | 446,250     |                    |                    | 446,250             |
| Patent                         | 5,250,000   |                    |                    |                     |
| Cash                           | 1,382,500   | 1,382,500          | 1,382,500          |                     |
| Supplies                       | 235,900     | 235,900            |                    |                     |
| Unearned Revenues              | 232,750     |                    |                    | 232,750             |
| Equipment                      | 15,360,800  |                    |                    |                     |
| Interest Payable               | 78,750      |                    |                    | 78,750              |
| Loan Payable (due in 3 years)  | 2,625,000   |                    |                    |                     |
|                                |             | <u>R 2,517,550</u> | <u>R 2,201,500</u> | <u>R 932,750</u>    |

**Working Capital:**

|                           |                    |
|---------------------------|--------------------|
| Current assets            | R 2,517,550        |
| Less: Current liabilities | <u>932,750</u>     |
|                           | <u>R 1,584,800</u> |

**Current Ratio:**

$$\text{Current assets} \div \text{Current liabilities} \quad R 2,517,550 \div R 932,750 = 2.70$$

**Quick Ratio:**

$$\text{Quick assets} \div \text{Current liabilities} \quad R 2,201,500 \div R 932,750 = 2.36$$

The ratios do not seem to indicate a liquidity problem. Current assets are almost 3× current liabilities, and a large portion of those assets are in highly liquid items such as cash and receivables.

# Problem 6

McComick Corporation prepared the following preliminary trial balance. The trial balance and other information was evaluated by Darren Anderson, CPA. Darren has returned a list of proposed adjustments that are necessary to facilitate preparation of correct financial statements for the year ending December 31, 20X8.

| <b>MCCORMICK CORPORATION</b>   |                     |                     |
|--------------------------------|---------------------|---------------------|
| <b>Trial Balance</b>           |                     |                     |
| <b>As of December 31, 20X8</b> |                     |                     |
|                                | <b>Debits</b>       | <b>Credits</b>      |
| Cash                           | \$ 91,620           | \$ -                |
| Accounts Receivable            | 135,000             | -                   |
| Supplies                       | 21,000              | -                   |
| Equipment                      | 733,500             | -                   |
| Accumulated Deprec.            | -                   | 139,500             |
| Accounts Payable               | -                   | 38,100              |
| Unearned Revenue               | -                   | 93,750              |
| Notes Payable                  | -                   | 240,000             |
| Capital Stock                  | -                   | 300,000             |
| Retained Earnings, Jan. 1      | -                   | 189,600             |
| Dividends                      | 36,000              | -                   |
| Revenues                       | -                   | 869,400             |
| Wages Expense                  | 643,800             | -                   |
| Utilities Expenses             | 26,100              | -                   |
| Selling Expenses               | 124,830             | -                   |
| Depreciation Expenses          | 36,000              | -                   |
| Interest expense               | 22,500              | -                   |
|                                | <u>\$ 1,870,350</u> | <u>\$ 1,870,350</u> |



Worksheet 6 (a)

| GENERAL JOURNAL |          |       |        |
|-----------------|----------|-------|--------|
| Date            | Accounts | Debit | Credit |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |

Worksheet 6 (b)

| McCORMICK CORPORATION                |                     |                     |             |             |             |             |
|--------------------------------------|---------------------|---------------------|-------------|-------------|-------------|-------------|
| Worksheet for Adjusted Trial Balance |                     |                     |             |             |             |             |
| December 31, 20X8                    |                     |                     |             |             |             |             |
|                                      | Debits              | Debits              | Debits      | Debits      | Debits      | Debits      |
| Cash                                 | \$ 91,620           | \$ -                | \$ -        | \$ -        | \$ -        | \$ -        |
| Accounts Receivable                  | 135,000             | -                   | -           | -           | -           | -           |
| Supplies                             | 21,000              | -                   | -           | -           | -           | -           |
| Equipment                            | 733,500             | -                   | -           | -           | -           | -           |
| Accumulated Deprec.                  | -                   | 139,500             | -           | -           | -           | -           |
| Accounts Payable                     | -                   | 38,100              | -           | -           | -           | -           |
| Utilities Payable                    | -                   | -                   | -           | -           | -           | -           |
| Wages Payable                        | -                   | -                   | -           | -           | -           | -           |
| Unearned Revenue                     | -                   | 93,750              | -           | -           | -           | -           |
| Notes Payable                        | -                   | 240,000             | -           | -           | -           | -           |
| Capital Stock                        | -                   | 300,000             | -           | -           | -           | -           |
| Retained Earnings, Jan. 1            | -                   | 189,600             | -           | -           | -           | -           |
| Dividends                            | 36,000              | -                   | -           | -           | -           | -           |
| Revenues                             | -                   | 869,400             | -           | -           | -           | -           |
| Wages Expense                        | 643,800             | -                   | -           | -           | -           | -           |
| Utilities Expense                    | 26,100              | -                   | -           | -           | -           | -           |
| Selling Expenses                     | 124,830             | -                   | -           | -           | -           | -           |
| Depreciation Expenses                | 36,000              | -                   | -           | -           | -           | -           |
| Supplies Expenses                    | -                   | -                   | -           | -           | -           | -           |
| Interest expense                     | 22,500              | -                   | -           | -           | -           | -           |
|                                      | <u>\$ 1,870,350</u> | <u>\$ 1,870,350</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

# Need help with your dissertation?

Get in-depth feedback & advice from experts in your topic area. Find out what you can do to improve the quality of your dissertation!

Get Help Now




Go to [www.helpmyassignment.co.uk](http://www.helpmyassignment.co.uk) for more info




 Click on the ad to read more

Worksheet 6 (c)

| <b>McCORMICK CORPORATION</b>                 |           |          |
|--|-----------|----------|
| <b>Income Statement</b>                      |           |          |
| <b>For the Year Ending December 31, 20X8</b> |           |          |
| <b>Revenues</b>                              |           |          |
| Services to customers                        | \$        | -        |
| <b>Expenses</b>                              |           |          |
| Wages  | \$        | -        |
| Utilities                                    | -         | -        |
| Selling                                      | -         | -        |
| Depreciation                                 | -         | -        |
| Supplies                                     | -         | -        |
| Interest                                     | -         | -        |
| <b>Net income</b>                            | <u>\$</u> | <u>-</u> |

| <b>McCORMICK CORPORATION</b>                 |             |
|--|-------------|
| <b>Statement of Retained Earnings</b>        |             |
| <b>For the Year Ending December 31, 20X8</b> |             |
| Beginning retained earnings                  | \$ -        |
| Plus: Net income                             | <u>-</u>    |
|  | \$ -        |
| Less: Dividends                              | -           |
| Ending retained earnings                     | <u>\$ -</u> |

| <b>McCORMICK CORPORATION</b>           |    |   |      |
|--|----|---|------|
| <b>Balance Sheet</b>                   |    |   |      |
| <b>December 31, 20X8</b>               |    |   |      |
| <b>Assets</b>                          |    |   |      |
| <b>Current assets</b>                  |    |   |      |
| Cash                                   | \$ | - |      |
| Accounts receivable                    |    | - |      |
| Supplies                               |    | - | \$ - |
|  |    |   |      |
| <b>Property, plant &amp; equipment</b> |    |   |      |
| Equipment                              | \$ | - |      |
| Less: Accumulated depreciation         |    | - | -    |
|  |    |   |      |
| Total assets                           |    |   | \$ - |
| <b>Liabilities</b>                     |    |   |      |
| <b>Current liabilities</b>             |    |   |      |
| Accounts payable                       | \$ | - |      |
| Utilities payable                      |    | - |      |
| Wages payable                          |    | - |      |
| Unearned revenue                       |    | - | \$ - |
|  |    |   |      |
| <b>Long-term liabilities</b>           |    |   |      |
| Notes payable                          |    |   | -    |
| Total liabilities                      |    |   | \$ - |
| <b>Stockholders' equity</b>            |    |   |      |
| Capital stock                          | \$ | - |      |
| Retained earnings                      |    | - |      |
|  |    |   |      |
| Total stockholders' equity             |    |   | -    |
| Total liabilities and equity           |    |   | \$ - |

d)

## Solution 6 (a)

| GENERAL JOURNAL |   |        |        |
|-----------------|---|--------|--------|
| Date            | Accounts  | Debit  | Credit |
| Dec. 31         | Unearned Revenue  | 37,500 |        |
|                 | Revenues  |        | 37,500 |
|                 | <i>To adjust Unearned Revenue for portion earned (\$93,750 X 40%)</i> |        |        |
| Dec. 31         | Supplies Expense  | 12,000 |        |
|                 | Supplies  |        | 12,000 |
|                 | <i>To record supplies used (\$21,000 - \$9,000 = \$12,000)</i>        |        |        |
| Dec. 31         | Utilities Expense   | 4,500  |        |
|                 | Utilities Payable   |        | 4,500  |
|                 | <i>To record accrued utilities</i>                                    |        |        |
| Dec. 31         | Wages Expense   | 11,700 |        |
|                 | Wages Payable   |        | 11,700 |
|                 | <i>To record accrued wages</i>  |        |        |
| Dec. 31         | Depreciation Expense  | 9,300  |        |
|                 | Accumulated Depreciation  |        | 9,300  |
|                 | <i>To record depreciation expense</i>                                 |        |        |

## Solution 6 (b)

| <b>McCORMICK CORPORATION</b>                |                     |                     |                   |                   |                     |                     |
|---|---------------------|---------------------|-------------------|-------------------|---------------------|---------------------|
| <b>Worksheet for Adjusted Trial Balance</b> |                     |                     |                   |                   |                     |                     |
| <b>December 31, 20X8</b>                    |                     |                     |                   |                   |                     |                     |
|   | <b>Debits</b>       | <b>Debits</b>       | <b>Debits</b>     | <b>Debits</b>     | <b>Debits</b>       | <b>Debits</b>       |
| Cash  | \$ 91,620           | \$ -                | \$ -              | \$ -              | \$ 91,620           | \$ -                |
| Accounts Receivable                         | 135,000             | -                   | -                 | -                 | 135,000             | -                   |
| Supplies                                    | 21,000              | -                   | -                 | 36,000            | (15,000)            | -                   |
| Equipment                                   | 733,500             | -                   | -                 | -                 | 733,500             | -                   |
| Accumulated Deprec.                         | -                   | 139,500             | -                 | 27,900            | -                   | 167,400             |
| Accounts Payable                            | -                   | 38,100              | -                 | -                 | -                   | 38,100              |
| Utilities Payable                           | -                   | -                   | -                 | 13,500            | -                   | 13,500              |
| Wages Payable                               | -                   | -                   | -                 | 35,100            | -                   | 35,100              |
| Unearned Revenue                            | -                   | 93,750              | 112,500           | -                 | -                   | (18,750)            |
| Notes Payable                               | -                   | 240,000             | -                 | -                 | -                   | 240,000             |
| Capital Stock                               | -                   | 300,000             | -                 | -                 | -                   | 300,000             |
| Retained Earnings, Jan. 1                   | -                   | 189,600             | -                 | -                 | -                   | 189,600             |
| Dividends                                   | 36,000              | -                   | -                 | -                 | 36,000              | -                   |
| Revenues                                    | -                   | 869,400             | -                 | 112,500           | -                   | 981,900             |
| Wages Expense                               | 643,800             | -                   | 35,100            | -                 | 678,900             | -                   |
| Utilities Expense                           | 26,100              | -                   | 13,500            | -                 | 39,600              | -                   |
| Selling Expenses                            | 124,830             | -                   | -                 | -                 | 124,830             | -                   |
| Depreciation Expenses                       | 36,000              | -                   | 27,900            | -                 | 63,900              | -                   |
| Supplies Expenses                           | -                   | -                   | 36,000            | -                 | 36,000              | -                   |
| Interest expense                            | 22,500              | -                   | -                 | -                 | 22,500              | -                   |
|   | <u>\$ 1,870,350</u> | <u>\$ 1,870,350</u> | <u>\$ 225,000</u> | <u>\$ 225,000</u> | <u>\$ 1,946,850</u> | <u>\$ 1,946,850</u> |

## Solution 6 (c)

| <b>McCORMICK CORPORATION</b>                 |                  |
|--|------------------|
| <b>Income Statement</b>                      |                  |
| <b>For the Year Ending December 31, 20X8</b> |                  |
| <b>Revenues</b>                              |                  |
| Services to customers                        | \$ 981,900       |
| <b>Expenses</b>                              |                  |
| Wages  | \$ 678,900       |
| Utilities                                    | 39,600           |
| Selling                                      | 124,830          |
| Depreciation                                 | 63,900           |
| Supplies                                     | 36,000           |
| Interest                                     | 22,500           |
|  | <u>965,730</u>   |
| <b>Net income</b>                            | <u>\$ 16,170</u> |

| <b>McCORMICK CORPORATION</b>                 |    |         |
|--|----|---------|
| <b>Statement of Retained Earnings</b>        |    |         |
| <b>For the Year Ending December 31, 20X8</b> |    |         |
| Beginning retained earnings                  | \$ | 189,600 |
| Plus: Net income                             |    | 16,170  |
|  | \$ | 205,770 |
| Less: Dividends                              |    | 36,000  |
| Ending retained earnings                     | \$ | 169,770 |

**Brain power**

By 2020, wind could provide one-tenth of our planet's electricity needs. Already today, SKF's innovative know-how is crucial to running a large proportion of the world's wind turbines.

Up to 25 % of the generating costs relate to maintenance. These can be reduced dramatically thanks to our systems for on-line condition monitoring and automatic lubrication. We help make it more economical to create cleaner, cheaper energy out of thin air.

By sharing our experience, expertise, and creativity, industries can boost performance beyond expectations. Therefore we need the best employees who can meet this challenge!

The Power of Knowledge Engineering

Plug into The Power of Knowledge Engineering.  
Visit us at [www.skf.com/knowledge](http://www.skf.com/knowledge)

**SKF**

| <b>McCORMICK CORPORATION</b>           |    |           |            |
|--|----|-----------|------------|
| <b>Balance Sheet</b>                   |    |           |            |
| <b>December 31, 20X8</b>               |    |           |            |
| <b>Assets</b>                          |    |           |            |
| <b>Current assets</b>                  |    |           |            |
| Cash                                   | \$ | 91,620    |            |
| Accounts receivable                    |    | 135,000   |            |
| Supplies                               |    | (15,000)  | \$ 211,620 |
|  |    |           |            |
| <b>Property, plant &amp; equipment</b> |    |           |            |
| Equipment                              | \$ | 733,500   |            |
| Less: Accumulated depreciation         |    | (167,400) | 566,100    |
|  |    |           |            |
| Total assets                           |    |           | \$ 777,720 |
| <b>Liabilities</b>                     |    |           |            |
| <b>Current liabilities</b>             |    |           |            |
| Accounts payable                       | \$ | 38,100    |            |
| Utilities payable                      |    | 13,500    |            |
| Wages payable                          |    | 35,100    |            |
| Unearned revenue                       |    | (18,750)  | \$ 67,950  |
|  |    |           |            |
| <b>Long-term liabilities</b>           |    |           |            |
| Notes payable                          |    |           | 240,000    |
| Total liabilities                      |    |           | \$ 307,950 |
| <b>Stockholders' equity</b>            |    |           |            |
| Capital stock                          | \$ | 300,000   |            |
| Retained earnings                      |    | 169,770   |            |
|  |    |           |            |
| Total stockholders' equity             |    |           | 469,770    |
| Total liabilities and equity           |    |           | \$ 777,720 |

- d) It is true that the adjustments produce no change in net income. The increase in revenues of \$37,500 is exactly offset by the increase in expenses (\$12,000 + \$4,500 + \$11,700 + \$9,300 = \$37,500). However, the individual accounts would not be correct if the adjustments were not made. It is important that all information be correct, and the adjustments should be recorded.



# Problem 7

Examine the following trial balances, before and after adjustment:

| <b>YORKSHIRE CONSULTING CORPORATION</b>         |                     |                     |                     |                     |
|---|---------------------|---------------------|---------------------|---------------------|
| <b>Trial Balance and Adjusted Trial Balance</b> |                     |                     |                     |                     |
| <b>As of December 31, 20X9</b>                  |                     |                     |                     |                     |
|   | <b>Debits</b>       | <b>Debits</b>       | <b>Debits</b>       | <b>Debits</b>       |
| Cash  | \$ 667,560          | \$ -                | \$ 667,560          | \$ -                |
| Accounts Receivable                             | 350,616             | -                   | 430,616             | -                   |
| Supplies  | 35,968              | -                   | 18,000              | -                   |
| Prepaid Rent                                    | 24,000              | -                   | 8,000               | -                   |
| Equipment                                       | 582,800             | -                   | 582,800             | -                   |
| Accumulated Deprec.                             | -                   | 150,640             | -                   | 178,640             |
| Accounts Payable                                | -                   | 54,360              | -                   | 54,360              |
| Wages Payable                                   | -                   | -                   | -                   | 18,000              |
| Interest Payable                                | -                   | -                   | -                   | 6,000               |
| Unearned Revenue                                | -                   | 72,000              | -                   | 48,000              |
| Notes Payable                                   | -                   | 200,000             | -                   | 200,000             |
| Capital Stock                                   | -                   | 900,000             | -                   | 900,000             |
| Retained Earnings, Jan. 1                       | -                   | 356,476             | -                   | 356,476             |
| Dividends                                       | 160,000             | -                   | 160,000             | -                   |
| Revenues  | -                   | 1,337,960           | -                   | 1,441,960           |
| Wages Expense                                   | 1,104,492           | -                   | 1,122,492           | -                   |
| Rent Expenses                                   | 132,000             | -                   | 148,000             | -                   |
| Depreciation Expenses                           | -                   | -                   | 28,000              | -                   |
| Supplies Expenses                               | -                   | -                   | 17,968              | -                   |
| Interest expense                                | 14,000              | -                   | 20,000              | -                   |
|   | <u>\$ 3,071,436</u> | <u>\$ 3,071,436</u> | <u>\$ 3,203,436</u> | <u>\$ 3,203,436</u> |

- Determine and record the apparent adjusting entries in journal entry format.
- Prepare an income statement for the year ending December 31, 20X9.
- Prepare a statement of retained earnings for the year ending December 31, 20X9.
- Prepare a classified balance sheet as of December 31, 20X9.

Worksheet 7 (a)

| GENERAL JOURNAL |          |       |        |
|-----------------|----------|-------|--------|
| Date            | Accounts | Debit | Credit |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |

Worksheet 7 (b)

| YORKSHIRE CONSULTING CORPORATION      |      |      |
|---------------------------------------|------|------|
| Income Statement                      |      |      |
| For the Year Ending December 31, 20X9 |      |      |
| <b>Revenues</b>                       |      |      |
| Services to customers                 |      | \$ - |
| <b>Expenses</b>                       |      |      |
| Wages                                 | \$ - |      |
| Rent                                  | -    |      |
| Depreciation                          | -    |      |
| Supplies                              | -    |      |
| Interest                              | -    | -    |
| <b>Net income</b>                     |      | \$ - |

What do you want to do?

No matter what you want out of your future career, an employer with a broad range of operations in a load of countries will always be the ticket. Working within the Volvo Group means more than 100,000 friends and colleagues in more than 185 countries all over the world. We offer graduates great career opportunities – check out the Career section at our web site [www.volvogroup.com](http://www.volvogroup.com). We look forward to getting to know you!

**VOLVO**  
AB Volvo (publ)  
[www.volvogroup.com](http://www.volvogroup.com)

VOLVO TRUCKS | RENAULT TRUCKS | MACK TRUCKS | VOLVO BUSES | VOLVO CONSTRUCTION EQUIPMENT | VOLVO PENTA | VOLVO AERO | VOLVO IT  
VOLVO FINANCIAL SERVICES | VOLVO 3P | VOLVO POWERTRAIN | VOLVO PARTS | VOLVO TECHNOLOGY | VOLVO LOGISTICS | BUSINESS AREA ASIA



| <b>YORKSHIRE CONSULTING CORPORATION</b>      |                    |
|--|--------------------|
| <b>Statement of Retained Earnings</b>        |                    |
| <b>For the Year Ending December 31, 20X9</b> |                    |
| Beginning retained earnings                  | \$ -               |
| Plus: Net income                             | -                  |
|  | <u>\$ -</u>        |
| Less: Dividends                              | -                  |
| Ending retained earnings                     | <u><u>\$ -</u></u> |

| <b>YORKSHIRE CONSULTING CORPORATION</b> |                             |
|---|-----------------------------|
| <b>Balance Sheet</b>                    |                             |
| <b>December 31, 20X9</b>                |                             |
| <b>Assets</b>                           |                             |
| <b>Current assets</b>                   |                             |
| Cash                                    | \$ -                        |
| Accounts receivable                     | -                           |
| Supplies                                | -                           |
| Prepaid rent                            | - \$ -                      |
|   | <u>                    </u> |
| <b>Property, plant &amp; equipment</b>  |                             |
| Equipment                               | \$ -                        |
| Less: Accumulated depreciation          | - -                         |
|   | <u>                    </u> |
| Total assets                            | <u><u>\$ -</u></u>          |
| <b>Liabilities</b>                      |                             |
| <b>Current liabilities</b>              |                             |
| Accounts payable                        | \$ -                        |
| Wages payable                           | -                           |
| Interest payable                        | -                           |
| Unearned revenue                        | - \$ -                      |
|   | <u>                    </u> |
| <b>Long-term liabilities</b>            |                             |
| Notes payable                           | -                           |
| Total liabilities                       | <u>\$ -</u>                 |
| <b>Stockholders' equity</b>             |                             |
| Capital stock                           | \$ -                        |
| Retained earnings                       | -                           |
|   | <u>                    </u> |
| Total stockholders' equity              | <u>-</u>                    |
| Total liabilities and equity            | <u><u>\$ -</u></u>          |

## Solution 7 (a)

| GENERAL JOURNAL |   |        |        |
|-----------------|---|--------|--------|
| Date            | Accounts  | Debit  | Credit |
| Dec. 31         | Accounts Receivable   | 80,000 |        |
|                 | Revenues  |        | 80,000 |
|                 | <i>To record earned revenues and related receivable</i>                                     |        |        |
| Dec. 31         | Supplies Expense  | 17,968 |        |
|                 | Supplies  |        | 17,968 |
|                 | <i>To record supplies used<br/>(\$35,968 - \$18,000 = \$17,968)</i>                         |        |        |
| Dec. 31         | Rent Expense  | 16,000 |        |
|                 | Prepaid Rent  |        | 16,000 |
|                 | <i>To record expired rent</i>   |        |        |
| Dec. 31         | Depreciation Expense  | 28,000 |        |
|                 | Accumulated Depreciation  |        | 28,000 |
|                 | <i>To record depreciation expense</i>   |        |        |
| Dec. 31         | Wages Expense   | 18,000 |        |
|                 | Wages Payable   |        | 18,000 |
|                 | <i>To record accrued wages</i>  |        |        |
| Dec. 31         | Interest Expense  | 6,000  |        |
|                 | Interest Payable  |        | 6,000  |
|                 | <i>To record accrued interest</i>   |        |        |
| Dec. 31         | Unearned Revenue  | 24,000 |        |
|                 | Revenues  |        | 24,000 |
|                 | <i>To record earned portion of customer<br/>prepayment (\$72,000 - \$48,000 = \$24,000)</i> |        |        |

## Solution 7 (b)

| <b>YORKSHIRE CONSULTING CORPORATION</b>      |              |                   |
|--|--------------|-------------------|
| <b>Income Statement</b>                      |              |                   |
| <b>For the Year Ending December 31, 20X9</b> |              |                   |
| <b>Revenues</b>                              |              |                   |
| Services to customers                        |              | \$ 1,441,960      |
| <b>Expenses</b>                              |              |                   |
| Wages  | \$ 1,122,492 |                   |
| Rent   | 148,000      |                   |
| Depreciation                                 | 28,000       |                   |
| Supplies                                     | 17,968       |                   |
| Interest                                     | 20,000       | 1,336,460         |
| <b>Net income</b>                            |              | <u>\$ 105,500</u> |

| <b>YORKSHIRE CONSULTING CORPORATION</b>      |                   |
|--|-------------------|
| <b>Statement of Retained Earnings</b>        |                   |
| <b>For the Year Ending December 31, 20X9</b> |                   |
| Beginning retained earnings                  | \$ 356,476        |
| Plus: Net income                             | 105,500           |
|  | <u>\$ 461,976</u> |
| Less: Dividends                              | 160,000           |
| Ending retained earnings                     | <u>\$ 301,976</u> |

| <b>YORKSHIRE CONSULTING CORPORATION</b> |            |              |
|---|------------|--------------|
| <b>Balance Sheet</b>                    |            |              |
| <b>December 31, 20X9</b>                |            |              |
| <b>Assets</b>                           |            |              |
| <b>Current assets</b>                   |            |              |
| Cash                                    | \$ 667,560 |              |
| Accounts receivable                     | 430,616    |              |
| Supplies                                | 18,000     |              |
| Prepaid rent                            | 8,000      | \$ 1,124,176 |
|   |            |              |
| <b>Property, plant &amp; equipment</b>  |            |              |
| Equipment                               | \$ 582,800 |              |
| Less: Accumulated depreciation          | (178,640)  | 404,160      |
|   |            |              |
| Total assets                            |            | \$ 1,528,336 |
| <b>Liabilities</b>                      |            |              |
| <b>Current liabilities</b>              |            |              |
| Accounts payable                        | \$ 54,360  |              |
| Wages payable                           | 18,000     |              |
| Interest payable                        | 6,000      |              |
| Unearned revenue                        | 48,000     | \$ 126,360   |
|   |            |              |
| <b>Long-term liabilities</b>            |            |              |
| Notes payable                           |            | 200,000      |
|   |            |              |
| Total liabilities                       |            | \$ 326,360   |
| <b>Stockholders' equity</b>             |            |              |
| Capital stock                           | \$ 900,000 |              |
| Retained earnings                       | 301,976    |              |
|   |            |              |
| Total stockholders' equity              |            | 1,201,976    |
| Total liabilities and equity            |            | \$ 1,528,336 |

# Problem 8

Use this randomly arranged data to prepare a classified balance sheet for Wylfa Corporation as of December 31, 20X8. Some of the accounts do not belong in the balance sheet, and 20% of the loan payable matures each June 30.

|                                      |             |
|--------------------------------------|-------------|
| Capital Stock                        | \$2,265,000 |
| Patent                               | 825,000     |
| Accumulated depreciation (equipment) | (1,432,962) |
| Building                             | 5,972,328   |
| Land held for speculation            | 468,294     |
| Dividends                            | 150,000     |
| Cash                                 | 547,035     |
| Retained earnings                    | 1,940,976   |
| Accounts receivable                  | 170,298     |
| Accounts payable                     | 234,033     |
| Income tax expense                   | 370,002     |
| Prepaid insurance                    | 11,649      |
| Accumulated depreciation (building)  | (2,966,331) |

**gaiteye**  
Challenge the way we run

**EXPERIENCE THE POWER OF FULL ENGAGEMENT...**

**RUN FASTER.  
RUN LONGER..  
RUN EASIER...**

**READ MORE & PRE-ORDER TODAY  
WWW.GAITEYE.COM**



|                              |           |
|------------------------------|-----------|
| Loan payable                 | 3,000,000 |
| Equipment                    | 2,663,655 |
| Land                         | 836,370   |
| Interest payable             | 93,351    |
| Inventories                  | 363,024   |
| Cash value of life insurance | 75,000    |

Worksheet 8

|  |
|--|
| <b>WYLFA CORPORATION</b><br><b>Balance Sheet</b><br><b>December 31, 20X8</b> |
| <b>Assets</b>  |
| <b>Liabilities</b>   |

## Solution 8

| <b>Wylfa CORPORATION</b>               |              |              |              |
|--|--------------|--------------|--------------|
| <b>Balance Sheet</b>                   |              |              |              |
| <b>December 31, 20X8</b>               |              |              |              |
| <b>Assets</b>                          |              |              |              |
| <b>Current assets</b>                  |              |              |              |
| Cash                                   |              | \$ 547,035   |              |
| Accounts receivable                    |              | 170,298      |              |
| Inventories                            |              | 363,024      |              |
| Prepaid insurance                      |              | 11,649       | \$ 1,092,006 |
|  |              |              |              |
| <b>Long-term Investments</b>           |              |              |              |
| Cash value of life insurance           |              | \$ 75,000    |              |
| Land held for speculation              |              | 468,294      | 543,294      |
|  |              |              |              |
| <b>Property, plant &amp; equipment</b> |              |              |              |
| Land                                   |              | \$ 836,370   |              |
| Building                               | \$ 5,972,328 |              |              |
| Less: Accumulated depreciation         | (2,966,331)  | 3,005,997    |              |
|  |              |              |              |
| Equipment                              | \$ 2,663,655 |              |              |
| Less: Accumulated depreciation         | (1,432,962)  | 1,230,693    | 5,073,060    |
|  |              |              |              |
| <b>Intangible assets</b>               |              |              |              |
| Patent                                 |              |              | 825,000      |
|  |              |              |              |
| Total assets                           |              |              | \$ 7,533,360 |
| <b>Liabilities</b>                     |              |              |              |
| <b>Current liabilities</b>             |              |              |              |
| Accounts payable                       |              | \$ 234,033   |              |
| Interest payable                       |              | 93,351       |              |
| Current portion of loan payable        |              | 600,000      | \$ 927,384   |
|  |              |              |              |
| <b>Long-term liabilities</b>           |              |              |              |
| Loan payable                           |              |              | 2,400,000    |
|  |              |              |              |
| Total liabilities                      |              |              | \$ 3,327,384 |
| <b>Stockholders' equity</b>            |              |              |              |
| Capital stock                          |              | \$ 2,265,000 |              |
| Retained earnings                      |              | 1,940,976    |              |
|  |              |              |              |
| Total stockholders' equity             |              |              | 4,205,976    |
|  |              |              |              |
| Total liabilities and equity           |              |              | \$7,533,360  |