I. **Review of Key Concepts and Terms:**

A. **The purpose of the worksheet**

1. To show that the accounts of the business are in balance (debits = credits) and to provide, in one location, a systematic and comprehensive reconciliation of the accounts from trial balance to financial statements. The worksheet starts with pre-closing trial balance amounts adding adjusting, closing and reversing entries and produces a post closing trial balance from which the adjusted account balances are placed in the appropriate financial statements (i.e. balance sheet accounts are positioned on the balance sheet and income statement accounts on the income statement).

2. The worksheet is not a formal accounting record such as the journal or the ledger, rather it is a tool used to assist the accountant in the preparation of the Balance Sheet and Income Statement. The primary benefit of the worksheet lies in its ability to demonstrate that the accounts are in balance at the end of the period, through the adjusting process. By demonstrating that the accounts are in balance from the pre-closing trial balance through the adjusting and closing process to the post closing trial balance the worksheet greatly reduces the probability of errors in the financial statements.

B. **Closing Entries**

1. Closing entries are those entries made at the end of the accounting period to close the nominal (income statement) accounts. Because the income statement measures income for a specific period, income statement accounts must start each measurement period with a zero balance. During the accounting period revenues and expenses are recorded in these accounts, and at the end of the period we can deduct the expenses incurred during the period from the revenues earned in order to determine the net income of the period. We call these expense and revenue accounts nominal or temporary because they have balances only during the accounting period and must be eliminated (reduced to zero balance) at the end of the period so that the next measurement period starts with zero balances. This process insures that only the revenues and expenses of a specific period are used to compute the net income of that period.

C. **The Closing Process Demonstrated**

1. Consider the following facts for Shane and Co., CPA's:

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Administrative Expenses</th>
<th>Rent</th>
<th>Miscellaneous Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>$500,000</td>
<td>$120,000</td>
<td>$80,000</td>
<td>$25,000</td>
</tr>
</tbody>
</table>

   **Step 1.** Close the revenue accounts to the expense and revenue summary.

   **Step 2.** Close the expense accounts to the expense and revenue summary.

   **Step 3.** Close the expense and revenue summary (income summary) to the statement of retained earnings (or the balance sheet if no statement of retained earnings is to be produced).

<table>
<thead>
<tr>
<th>Revenue Summary</th>
<th>Expense and Revenue Summary</th>
<th>Retained Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>$500,000</td>
<td>$275,000</td>
<td>$275,000</td>
</tr>
</tbody>
</table>

   Note: Dr side is net loss/Cr side in NI

   Net Loss

   Net Income

**Note:** the expense and revenue summary account is used only to close the nominal accounts at the end of the accounting period. If revenues exceed expenses, the account will have a credit balance representing net income. Alternatively, if expenses exceed revenues, the account will have a debit balance and the debit balance in the account will represent net loss.
D. The Post-Closing Trial Balance

1. The purpose of the Post-closing trial balance is to prove that the accounts remain in balance after the adjusting and closing process. In addition, no nominal (income statement) accounts should appear in the post-closing trial balance because they should have been closed (have zero balance).

E. The Accounting Process Reviewed

1. Steps occurring continuously during the period:
   a. Transactions analyzed and **recorded in the journal**
   b. Transactions are **posted to the ledger**

2. Steps occurring during interim or year-end reporting:
   a. **Pre-closing** trial balance is prepared
   b. **Adjusting entries** are prepared to bring the accounts up to date. Note that adjusting and closing entries made for interim reporting purposes are normally not "booked" i.e. they are not recorded in the ledger. The booking of adjusting and closing entries is normally reserved for the year end adjusting and closing process when a careful review of the entire years activities can be made.
   c. **Post-closing** trial balance is prepared to insure the accounts remain in balance after the adjusting process. Note that during the preparation of interim period financial statements, the closing entries must be reversed in order to continue to accrue revenues and expenses for the remainder of the accounting period.
   d. **Interim financial statements are produced**

3. Steps occurring only at fiscal year end:
   a. **Year end financial statements are produced** and adjusting and closing entries are booked to the ledger.

F. Reversing Entries

1. The purpose of reversing entries is to simplify the subsequent recording of recurring accruals of expense and revenue transactions.

2. Reversing entries are **optional** and are normally made by the accounting staff in an effort to standardize and simplify the work of less skilled bookkeeping personnel.

3. **Reversing entry illustration:** The process involved in utilizing reversing entries is illustrated below;

Assume the following facts:
--LBSU Inc. signed a 1 year office lease on September 15, 19x1 calling for twelve rental payments of $4,000 per month, payable in advance commencing on September 15, 19x1 and ending on August 15, 19x2.

<table>
<thead>
<tr>
<th>Event</th>
<th>Accrued Expense is Reversed</th>
<th>Accrued Expense is not Reversed</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/31/x1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusting entry to accrue rental expense</td>
<td>Rent Exp.......... 2,000</td>
<td>Rent Exp.......... 2,000</td>
</tr>
<tr>
<td></td>
<td>Rent Payable.... 2,000</td>
<td>Rent Payable........ 2,000</td>
</tr>
<tr>
<td>12/31/x1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closing entry to accrue rental expense</td>
<td>Income Summary.... 2,000</td>
<td>Income Summary.... 2,000</td>
</tr>
<tr>
<td></td>
<td>Rent Expense....... 2,000</td>
<td>Rent Expense..... 2,000</td>
</tr>
<tr>
<td>1/1/x1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reversing Entry</td>
<td>Rent Payable..... 2,000</td>
<td>No Entry</td>
</tr>
<tr>
<td></td>
<td>Rent Expense....... 2,000</td>
<td></td>
</tr>
<tr>
<td>1/15/x2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment of Rent</td>
<td>Rent Expense..... 4,000</td>
<td>Rent Exp.......... 2,000</td>
</tr>
<tr>
<td></td>
<td>Cash............. 4,000</td>
<td>Rent Payable...... 2,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cash............. 4,000</td>
</tr>
</tbody>
</table>

Note that the result of the reversing entry is to permit the normal ($4,000 per month) rental expense accrual, whereas without the reversing entry, only the $2,000 applicable to expense in the current period is recognized. **The end result is the same whether or not the reversing entry is made.**

4. Reversing entries can minimize the possibility of errors by allowing bookkeeping personnel to make the same entries each period even when the period does not fall on the accrual date.

**Simple rule for reversing entries:**
--reverse any previous year's adjusting entry to a nominal account that is followed by a cash payment or receipt at the beginning of the subsequent period.
KEY CONCEPT COMPREHENSION

1. The use of the worksheet permits the preparation of the ______ without posting the adjusting entries.
2. The expense accounts are transferred from the adjusted trial balance columns of the worksheet to the ______ columns.
3. The all balance sheet accounts are referred to as ______ accounts.
4. Reversing entries are always required for ______ accounts.
5. A tool for expediting the process of preparing financial statements is called a ______.
6. At the end of an accounting period, the only accounts with balances are the ______ accounts.
7. ______ are required at the end of the accounting period to close the ______ accounts.
8. The accounting cycle ends with the ________.
9. ______ and ______ accounts are closed to the ______ account.

TRUE OR FALSE

1. Reversing entries are not required for all adjusting entries.
2. The worksheet must always be prepared before the financial statements are prepared.
3. A post-closing trial balance contains only temporary accounts.
4. Temporary accounts have no effect on retained earnings or shareholders' equity.
5. The balance sheet accounts are the only accounts shown in the post-closing trial balance.
6. The use of a worksheet eliminates the necessity of formally closing an organization's books at the end of the fiscal year.
7. The closing of a revenue or expense account brings its balance to zero.
8. Worksheets eliminate the need for entering and posting the adjusting entries in the general journal and the general ledger, respectively.
9. A balance sheet contains only the balances from permanent ("real") accounts.

MULTIPLE CHOICE

1. Factors that shape an accounting information system include the
   a. nature of the business.
   b. size of the firm.
   c. volume of data to be handled.
   d. all of these.
2. Which of the following criteria must be met before an event or item should be recorded for accounting purposes?
   a. The event or item can be measured objectively in financial terms.
   b. The event or item is relevant and reliable.
   c. The event or item is an element.
   d. All of these must be met.
3. Which of the following is a recordable event or item?
   a. Changes in managerial policy
   b. The value of human resources
   c. Changes in personnel
   d. None of these
4. Which of the following is not an internal event?
   a. Depreciation
   b. Using raw materials in the production process
   c. Dividend declaration and subsequent payment
   d. All of these are internal transactions.
5. An accounting record into which the essential facts and figures in connection with all transactions are initially recorded is called the
   a. ledger.
   b. account.
   c. trial balance.
   d. none of these.
6. The debit and credit analysis of a transaction normally takes place
a. before an entry is recorded in a journal.
b. when the entry is posted to the ledger.
c. when the trial balance is prepared.
d. at some other point in the accounting cycle.

*7. Under the cash basis of accounting, revenues are recorded
a. when they are earned and realized.
b. when they are earned and realizable.
c. when they are earned.
d. when they are realized.

*8. When converting from cash basis to accrual basis accounting, which of the following adjustments should be made to cash receipts from customers to determine accrual basis service revenue?
   a. Subtract ending accounts receivable.
   b. Subtract beginning unearned service revenue.
   c. Add ending accounts receivable.
   d. Add cash sales.

*9. When converting from cash basis to accrual basis accounting, which of the following adjustments should be made to cash paid for operating expenses to determine accrual basis operating expenses?
   a. Add beginning accrued liabilities.
   b. Add beginning prepaid expense.
   c. Subtract ending prepaid expense.
   d. Subtract interest expense.

10. A trial balance
   a. proves that debits and credits are equal in the ledger.
   b. supplies a listing of open accounts and their balances that are used in preparing financial statements.
   c. is normally prepared three times in the accounting cycle.
   d. all of these.

11. A trial balance may prove that debits and credits are equal, but
   a. an amount could be entered in the wrong account.
   b. a transaction could have been entered twice.
   c. a transaction could have been omitted.
   d. all of these.

12. Adjusting entries are necessary to
   1. obtain a proper matching of revenue and expense.
   2. achieve an accurate statement of assets and equities.
   3. adjust assets and liabilities to their fair market value.
   a. 1
   b. 2
   c. 3
   d. 1 and 2

13. Why are certain costs of doing business capitalized when incurred and then depreciated or amortized over subsequent accounting cycles?
   a. To reduce the federal income tax liability
   b. To aid management in cash-flow analysis
   c. To match the costs of production with revenues as earned
   d. To adhere to the accounting constraint of conservatism

14. When an item of expense is paid and recorded in advance, it is normally called a(n)
   a. prepaid expense.
   b. accrued expense.
   c. estimated expense.
   d. cash expense.

15. When an item of revenue or expense has been earned or incurred but not yet collected or paid, it is normally called a(n) __________ revenue or expense.
   a. prepaid
   b. adjusted
16. When an item of revenue is collected and recorded in advance, it is normally called a(n) ___________ revenue.
   a. accrued
   b. prepaid
   c. unearned
   d. none of these

17. An accrued expense can best be described as an amount
   a. paid and currently matched with earnings.
   b. paid and not currently matched with earnings.
   c. not paid and not currently matched with earnings.
   d. not paid and currently matched with earnings.

18. If, during an accounting period, an expense item has been incurred and consumed but not yet paid for or recorded, then the end-of-period adjusting entry would involve
   a. a liability account and an asset account.
   b. an asset or contra-asset and an expense account.
   c. a liability account and an expense account.
   d. a receivable account and a revenue account.

19. Which of the following must be considered in estimating depreciation on an asset for an accounting period?
   a. The original cost of the asset
   b. Its useful life
   c. The decline of its fair market value
   d. Both the original cost of the asset and its useful life.

20. Which of the following would not be a correct form for an adjusting entry?
   a. A debit to a revenue and a credit to a liability
   b. A debit to an expense and a credit to a liability
   c. A debit to a liability and a credit to a revenue
   d. A debit to an asset and a credit to a liability

21. Year-end net assets would be overstated and current expenses would be understated as a result of failure to record which of the following adjusting entries?
   a. Expiration of prepaid insurance
   b. Depreciation of fixed assets
   c. Accrued wages payable
   d. All of these

22. A prepaid expense can best be described as an amount
   a. paid and currently matched with revenues.
   b. paid and not currently matched with revenues.
   c. not paid and currently matched with revenues.
   d. not paid and not currently matched with revenues.

23. An accrued revenue can best be described as an amount
   a. collected and currently matched with expenses.
   b. collected and not currently matched with expenses.
   c. not collected and currently matched with expenses.
   d. not collected and not currently matched with expenses.

24. An unearned revenue can best be described as an amount
   a. collected and currently matched with expenses.
   b. collected and not currently matched with expenses.
   c. not collected and currently matched with expenses.
   d. not collected and not currently matched with expenses.

25. Which of the following is a real (permanent) account?
   a. Goodwill
   b. Sales
   c. Accounts Receivable
   d. Both Goodwill and Accounts Receivable

26. Which of the following is a nominal (temporary) account?
   a. Unearned Revenue
   b. Salary Expense
   c. Inventory
   d. Retained Earnings

27. If the inventory account at the end of the year is understated, the effect will be to
   a. overstate the gross profit on sales.
   b. understate the net purchases.
   c. overstate the cost of goods sold.
   d. overstate the goods available for sale.

28. Reversing entries are
1. normally prepared for prepaid, accrued, and estimated items.
2. necessary to achieve a proper matching of revenue and expense.
3. desirable to exercise consistency and establish standardized procedures.

   a. 1
   b. 2
   c. 3
   d. 1 and 2

*29. Adjusting entries that should be reversed include those for prepaid or unearned items that
   a. create an asset or a liability account.
   b. were originally entered in a revenue or expense account.
   c. were originally entered in an asset or liability account.
   d. create an asset or a liability account and were originally entered in a revenue or expense account.

*30. Adjusting entries that should be reversed include
   a. all accrued revenues.
   b. all accrued expenses.
   c. those that debit an asset or credit a liability.
   d. all of these.

Multiple Choice Answers—Conceptual

2. d *7. d 12. d 17. d 22. b 27. c
3. d *8. c 13. c 18. c 23. c *28. c

Solutions to those Multiple Choice questions for which the answer is “none of these.”
3. Many answers are possible.
5. journal.
15. accrued.

MULTIPLE CHOICE—Computational

31. Gomez Company received $7,200 on April 1, 2001 for one year's rent in advance and recorded the transaction with a credit to a nominal account. The December 31, 2001 adjusting entry is
   a. debit Rent Revenue and credit Unearned Rent, $1,800.
   b. debit Rent Revenue and credit Unearned Rent, $5,400.
   c. debit Unearned Rent and credit Rent Revenue, $1,800.
   d. debit Unearned Rent and credit Rent Revenue, $5,400.

32. Forbes Company paid $4,800 on June 1, 2001 for a two-year insurance policy and recorded the entire amount as Insurance Expense. The December 31, 2001 adjusting entry is
   a. debit Insurance Expense and credit Prepaid Insurance, $1,400.
   b. debit Insurance Expense and credit Prepaid Insurance, $3,400.
   c. debit Prepaid Insurance and credit Insurance Expense, $1,400.
   d. debit Prepaid Insurance and credit Insurance Expense, $3,400.

33. Lane Company purchased equipment on November 1, 2001 and gave a 3-month, 9% note with a face value of $30,000. The December 31, 2001 adjusting entry is
   a. debit Interest Expense and credit Interest Payable, $2,700.
   b. debit Interest Expense and credit Interest Payable, $675.
   c. debit Interest Expense and credit Cash, $450.
   d. debit Interest Expense and credit Interest Payable, $450.

34. Green Company's account balances at December 31, 2001 for Accounts Receivable and the related Allowance for Doubtful Accounts are $460,000 debit and $700 credit, respectively. From an aging of accounts receivable, it is estimated that $15,000 of the December 31 receivables will be uncollectible. The necessary adjusting entry would include a credit to the allowance account for
   a. $15,000.
   b. $15,700.
   c. $14,300.
   d. $700.
35. Chen Company's account balances at December 31, 2001 for Accounts Receivable and the Allowance for Doubtful Accounts are $640,000 debit and $1,200 credit. Sales during 2001 were $1,500,000. It is estimated that 1% of sales will be uncollectible. The adjusting entry would include a credit to the allowance account for
a. $16,200.
b. $15,000.
c. $13,800.
d. $6,400.
36. Perez Corporation received cash of $6,000 on August 1, 2001 for one year's rent in advance and recorded the transaction with a credit to Rent Revenue. The December 31, 2001 adjusting entry is
a. debit Rent Revenue and credit Unearned Rent, $2,500.
b. debit Rent Revenue and credit Unearned Rent, $3,500.
c. debit Unearned Rent and credit Rent Revenue, $2,500.
d. debit Cash and credit Unearned Rent, $3,500.
*37. Lane Corporation has an incentive commission plan for its salesmen, entitling them to an additional sales commission when actual quarterly sales exceed budgeted estimates. An analysis of the account "incentive commission expense" for the year ended December 31, 2001, follows:

<table>
<thead>
<tr>
<th>Amount</th>
<th>For Quarter Ended</th>
<th>Date Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>$42,000</td>
<td>December 31, 2000</td>
<td>January 23, 2001</td>
</tr>
<tr>
<td>36,000</td>
<td>March 31, 2001</td>
<td>April 24, 2001</td>
</tr>
<tr>
<td>39,000</td>
<td>June 30, 2001</td>
<td>July 19, 2001</td>
</tr>
<tr>
<td>43,000</td>
<td>September 30, 2001</td>
<td>October 22, 2001</td>
</tr>
</tbody>
</table>

The incentive commission for the quarter ended December 31, 2001, was $35,000. This amount was recorded and paid in January 2002. What amount should Lane report as incentive commission expense for 2001?

a. $160,000.
b. $118,000.
c. $153,000.
d. $195,000.

Use the following information for questions 38 through 40:

The income statement of Carsen Corporation for 2001 included the following items:

- Interest revenue $75,500
- Salaries expense 65,000
- Insurance expense 9,600

The following balances have been excerpted from Carsen Corporation's balance sheets:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2001</th>
<th>December 31, 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued interest receivable</td>
<td>$9,100</td>
<td>$7,500</td>
</tr>
<tr>
<td>Accrued salaries payable</td>
<td>8,900</td>
<td>4,200</td>
</tr>
<tr>
<td>Prepaid insurance</td>
<td>1,100</td>
<td>1,500</td>
</tr>
</tbody>
</table>

*38. The cash received for interest during 2001 was

a. $66,400.
b. $73,900.
c. $75,500.
d. $77,100.

*39. The cash paid for salaries during 2001 was

a. $69,700.
b. $60,300.
c. $60,800.
d. $73,900.

*40. The cash paid for insurance premiums during 2001 was

a. $8,500.
b. $8,100.
c. $10,000.
d. $9,200.

Use the following information for questions 41 through 43:

Poole Company paid or collected during 2001 the following items:

- Insurance premiums paid $12,400
- Interest collected 25,900
- Salaries paid 125,200

The following balances have been excerpted from Poole's balance sheets:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2001</th>
<th>December 31, 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepaid insurance</td>
<td>$1,200</td>
<td>$1,500</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>3,700</td>
<td>2,900</td>
</tr>
<tr>
<td>Salaries payable</td>
<td>12,300</td>
<td>10,600</td>
</tr>
</tbody>
</table>

*41. The insurance expense on the income statement for 2001 was

a. $9,700.
42. The interest revenue on the income statement for 2001 was
   a. $19,300.
   b. $25,100.
   c. $26,700.
   d. $32,500.

43. The salary expense on the income statement for 2001 was
   a. $102,300.
   b. $123,500.
   c. $126,900.
   d. $148,100.

44. Rice Corporation loaned $45,000 to another corporation on December 1, 2001 and received a 3-month, 8% interest-bearing note with a face value of $45,000. What adjusting entry should Rice make on December 31, 2001?
   a. Debit Interest Receivable and credit Interest Revenue, $900.
   b. Debit Cash and credit Interest Revenue, $300.
   c. Debit Interest Receivable and credit Interest Revenue, $300.
   d. Debit Cash and credit Interest Receivable, $900.

45. At the end of 2001, Drew Company made four adjusting entries for the following items:
   1. Depreciation expense, $25,000.
   2. Expired insurance, $2,200 (originally recorded as prepaid insurance).
   3. Interest payable, $6,000.
   4. Rental revenue receivable, $10,000.
   In the normal situation, to facilitate subsequent entries, the adjusting entry or entries that may be reversed is (are)
   a. Entry No. 3.
   b. Entry No. 4.
   c. Entries No. 3 and No. 4.
   d. Entries No. 2, No. 3, and No. 4.

46. Assuming that the company does not use reversing entries, what entry should be made on April 1, 2001 when the annual interest payment is received?
   a. Cash .................................................................600
   Interest Revenue .................................................. 1,800
   Interest Revenue .................................................. 600
   b. Cash ................................................................. 1,800
   Interest Receivable ............................................. 2,400
   Interest Receivable ............................................. 1,800
   Interest Revenue .................................................. 600
   c. Cash ................................................................. 2,400
   Interest Receivable ............................................. 1,800
   Interest Revenue .................................................. 1,800
   Interest Revenue .................................................. 600
   d. Cash ................................................................. 2,400
   Interest Receivable ............................................. 1,800
   Interest Revenue .................................................. 1,800
   Interest Revenue .................................................. 600

47. Assuming that the company does use reversing entries, what entry should be made on April 1, 2001 when the annual interest payment is received?
   a. Cash .................................................................600
   Interest Revenue .................................................. 1,800
   Interest Revenue .................................................. 600
   b. Cash ................................................................. 1,800
   Interest Receivable ............................................. 2,400
   Interest Receivable ............................................. 1,800
   Interest Revenue .................................................. 600
   c. Cash ................................................................. 2,400
   Interest Receivable ............................................. 1,800
   Interest Receivable ............................................. 1,800
   Interest Revenue .................................................. 600
   d. Cash ................................................................. 2,400
   Interest Receivable ............................................. 1,800
   Interest Receivable ............................................. 1,800
   Interest Revenue .................................................. 600

48. The following information is available concerning the accounts of Franz Company:
   Accounts payable, January 1, 2001 $18,000
   Cash payments on account during 2001 65,000
   Purchase discounts taken during 2001 on 2001 purchases 1,200
   Accounts payable, December 31, 2001 10,000
   Assuming the company records purchases at the gross amounts, the total purchases for 2001 would be
   a. $72,200.
   b. $55,800.
   c. $58,200.
   d. $57,000.

49. The following information is available for Carr Company:
   Payment for goods during 2001 $62,000
   Accounts payable, January 1, 2001 9,000
   Inventory, January 1, 2001 10,400
Accounts payable, December 31, 2001 7,200
Inventory, December 31, 2001 9,700

Cost of goods sold for 2001 is
a. $59,500.
b. $60,900.
c. $67,100.
d. $68,500.

Multiple Choice Answers—Computational
31. a 34. c *37. c *40. d *43. c 46. c *49. b
32. d 35. b *38. b *41. c 44. c 47. d
33. d 36. b *39. b *42. c 45. c *48. c

MULTIPLE CHOICE—CPA Adapted

50. On September 1, 2000, Lett Co. issued a note payable to National Bank in the amount of $750,000, bearing interest at 12%, and payable in three equal annual principal payments of $250,000. On this date, the bank's prime rate was 11%. The first payment for interest and principal was made on September 1, 2001. At December 31, 2001, Lett should record accrued interest payable of
a. $30,000.
b. $27,500.
c. $20,000.
d. $18,333.

51. Denny Co. sells major household appliance service contracts for cash. The service contracts are for a one-year, two-year, or three-year period. Cash receipts from contracts are credited to Unearned Service Revenues. This account had a balance of $900,000 at December 31, 2001 before year-end adjustment. Service contract costs are charged as incurred to the Service Contract Expense account, which had a balance of $225,000 at December 31, 2001.
Service contracts still outstanding at December 31, 2001 expire as follows:
   During 2002 $190,000
   During 2003 285,000
   During 2004 125,000

What amount should be reported as Unearned Service Revenues in Denny's December 31, 2001 balance sheet?
   a. $675,000.
b. $600,000.
c. $375,000.
d. $300,000.

52. In November and December 2001, Lowe Co., a newly organized magazine publisher, received $60,000 for 1,000 three-year subscriptions at $20 per year, starting with the January 2002 issue. Lowe included the entire $60,000 in its 2001 income tax return. What amount should Lowe report in its 2001 income statement for subscriptions revenue?
   a. $0.
b. $3,333.
c. $20,000.
d. $60,000.

53. On June 1, 2001, Mays Corp. loaned Farr $500,000 on a 12% note, payable in five annual installments of $100,000 beginning January 2, 2002. In connection with this loan, Farr was required to deposit $6,000 in a noninterest-bearing escrow account. The amount held in escrow is to be returned to Farr after all principal and interest payments have been made. Interest on the note is payable on the first day of each month beginning July 1, 2001. Farr made timely payments through November 1, 2001. On January 2, 2002, Mays received payment of the first principal installment plus all interest due. At December 31, 2001, Mays' interest receivable on the loan to Farr should be
   a. $0.
b. $5,000.
c. $10,000.
d. $15,000.

54. Baker Corp.'s liability account balances at June 30, 2002 included a 10% note payable in the amount of $1,500,000. The note is dated October 1, 2000 and is payable in three equal annual payments of $500,000 plus interest. The first interest and principal payment was made on October 1, 2001. In Baker's June 30, 2002 balance sheet, what amount should be reported as accrued interest payable for this note?
   a. $112,500.
b. $75,000.
c. $37,500.
55. Cole Co. pays all salaried employees on a biweekly basis. Overtime pay, however, is paid in the next biweekly period. Cole accrues salaries expense only at its December 31 year end. Data relating to salaries earned in December 2001 are as follows:

Last payroll was paid on 12/26/01, for the 2-week period ended 12/26/01.
Overtime pay earned in the 2-week period ended 12/26/01 was $5,000.
Remaining work days in 2001 were December 29, 30, 31, on which days there was no overtime.
The recurring biweekly salaries total $80,000.

Assuming a five-day work week, Cole should record a liability at December 31, 2001 for accrued salaries of

a. $24,000.
b. $29,000.
c. $48,000.
d. $53,000.

56. Yung Corp.'s trademark was licensed to Dent Co. for royalties of 15% of sales of the trademarked items. Royalties are payable semiannually on March 15 for sales in July through December of the prior year, and on September 15 for sales in January through June of the same year. Yung received the following royalties from Dent:

<table>
<thead>
<tr>
<th>Year</th>
<th>March 15</th>
<th>September 15</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$5,000</td>
<td>$7,500</td>
</tr>
<tr>
<td>2001</td>
<td>6,000</td>
<td>8,500</td>
</tr>
</tbody>
</table>

Dent estimated that sales of the trademarked items would total $60,000 for July through December 2001. In Yung's 2001 income statement, the royalty revenue should be

a. $17,500.
b. $19,000.
c. $23,500.
d. $25,000.

57. At December 31, 2001, Ann’s Boutique had 1,000 gift certificates outstanding, which had been sold to customers during 2001 for $50 each. Ann’s operates on a gross margin of 60% of its sales. What amount of revenue pertaining to the 1,000 outstanding gift certificates should be deferred at December 31, 2001?

a. $0.
b. $20,000.
c. $30,000.
d. $50,000.

58. Compared to the accrual basis of accounting, the cash basis of accounting overstates income by the net increase during the accounting period of the

<table>
<thead>
<tr>
<th>Accounts Receivable</th>
<th>Accrued Expenses Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. No</td>
<td>No</td>
</tr>
<tr>
<td>b. No</td>
<td>Yes</td>
</tr>
<tr>
<td>c. Yes</td>
<td>No</td>
</tr>
<tr>
<td>d. Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

59. Hall Corp. reported revenue of $1,100,000 in its accrual basis income statement for the year ended June 30, 2001. Additional information was as follows:

| Accounts receivable June 30, 2000 | $250,000 |
| Accounts receivable June 30, 2001 | 530,000  |
| Uncollectible accounts written off during the fiscal year | 13,000 |

Under the cash basis, Hall should report revenue of

a. $587,000.
b. $600,000.
c. $807,000.
d. $833,000.

60. Jim Vance, M.D., keeps his accounting records on the cash basis. During 2001, Dr. Vance collected $150,000 from his patients. At December 31, 2000, Dr. Vance had accounts receivable of $25,000. At December 31, 2001, Dr. Vance had accounts receivable of $35,000 and unearned revenue of $5,000. On the accrual basis, how much was Dr. Vance’s patient service revenue for 2001?

a. $125,000.
b. $155,000.
c. $160,000.
d. $165,000.
PROBLEM 1
(Worksheet preparation)

The following accounts and balances have been taken from the trial balance of Marlin Inc. at the company's year-end, March 31, 19X3 before the adjusting entries have been made:

Cash                                $  12,600  
Accounts Receivable     2,500  
Prepaid Insurance        840  
Prepaid Rent       1,400  
Supplies              650  
Equipment      4,500  
Truck     10,800  
Accounts Payable    3,440  
Loans Payable     4,500  
Unearned Revenue       800  
Common Stock    10,000  
Retained Earnings  1,200  
Service Fees Revenue 16,500  
Advertising Expense  600  
Interest Expense   200  
Miscellaneous Expense  550  
Salaries Expense      1,800  

An analysis of Marlin Inc. records discloses the following information:

a. The prepaid insurance is for a 2-year policy from April 1, 19X2.

b. There were $180-worth of supplies on hand on March 31, 19X3.

c. During the year Marlin completed work worth $600, for which payment had been recorded as unearned revenue.

d. On April 1, 19X2 the company paid one year's rent in advance.

e. The truck was purchased on May 1, 19X2 with a 3-year life and no salvage value. It is company policy to depreciate all assets in the month of use if it is used before the 15th of the month.

f. The equipment was purchased on April 6, 19X2 and was put into operation on April 21, 19X2. It has an estimated life of 5 years and no salvage value.

g. The company collected $850 from customers for work to be completed in July 19X3. The bookkeeper incorrectly credited this payment to Rental Revenue.

Required:
1. Set up a worksheet and enter the given information from the unadjusted March 31, 19X3 trial balance.
2. Enter all the adjustments on the worksheet.
3. Complete the worksheet; extend the adjusted trial balance to the income statement and the balance sheet columns.
PROBLEM 2 (Financial statement preparation from the worksheet)

Charter Investments Inc. has just prepared its trial balance for the year ended December 19X2.

Charter Investments Inc.
TRIAL BALANCE
December 31, 19X2

<table>
<thead>
<tr>
<th>Account Title</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$3,600</td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>2,200</td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>860</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>32,000</td>
<td></td>
</tr>
<tr>
<td>Rental Buildings</td>
<td>150,000</td>
<td></td>
</tr>
<tr>
<td>Furniture</td>
<td>12,500</td>
<td></td>
</tr>
<tr>
<td>Office Equipment</td>
<td>7,000</td>
<td></td>
</tr>
<tr>
<td>Accumulated Depreciation-Rental Buildings</td>
<td>$31,000</td>
<td></td>
</tr>
<tr>
<td>Accumulated Depreciation-Furniture</td>
<td>1,875</td>
<td></td>
</tr>
<tr>
<td>Accumulated Depreciation-Office Equipment</td>
<td>1,760</td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>4,870</td>
<td></td>
</tr>
<tr>
<td>Mortgage Payable</td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td>Common Stock</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>11,500</td>
<td></td>
</tr>
<tr>
<td>Rental Revenue</td>
<td>58,790</td>
<td></td>
</tr>
<tr>
<td>Advertising Expense</td>
<td>1,300</td>
<td></td>
</tr>
<tr>
<td>Depreciation Expense-Rental Buildings</td>
<td>11,000</td>
<td></td>
</tr>
<tr>
<td>Depreciation Expense-Furniture</td>
<td>1,375</td>
<td></td>
</tr>
<tr>
<td>Depreciation Expense-Office Equipment</td>
<td>1,210</td>
<td></td>
</tr>
<tr>
<td>Insurance Expense</td>
<td>3,600</td>
<td></td>
</tr>
<tr>
<td>Interest Expense</td>
<td>10,500</td>
<td></td>
</tr>
<tr>
<td>Rent Expense</td>
<td>6,600</td>
<td></td>
</tr>
<tr>
<td>Supplies Used</td>
<td>6,200</td>
<td></td>
</tr>
<tr>
<td>Utilities Expense</td>
<td>1,400</td>
<td></td>
</tr>
<tr>
<td>Wages Expense</td>
<td>8,450</td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>$259,795</td>
<td>$259,795</td>
</tr>
</tbody>
</table>

Supplementary information concerning the adjustments to be made are as follows:

a. A $3,600 insurance premium was paid on March 1, 19X2 for 2-year comprehensive coverage on the rental properties. The entire premium was debited to Insurance Expense.

b. The depreciation expense is $1,235 ($110 for office equipment, $125 for furniture, and $1,000 for the rental buildings).

c. December's rent of $600 has not been paid.

d. An inventory count of supplies on hand at the end of December was taken; $250-worth of supplies were found to be still on hand.

e. Monthly adjusting entries were prepared to the end of November.

Required:
1. Set up a worksheet and enter the given information from the trial balance.
2. Enter all adjustments on the worksheet.
3. Complete the worksheet as shown in the text.
PROBLEM 3 (Worksheet, financial statement preparations, closing entries, and reversing entries)

The following accounts and balances have been taken from the general ledger trial balance of Wangor Repairs Inc. as at September 30, 19X2 after its first year of operation but before any adjusting entries have been made for the year.

Accounts Payable $3,950
Accounts Receivable 4,200
Advertising Expense 1,650
Cash 1,850
Common Stock 12,000
Equipment 9,500
Furniture and Fixtures 3,500
Insurance Expense 960
Miscellaneous Expense 1,700
Notes Receivable 4,000
Office Supplies Used 600
Rent Expense 3,380
Repair Supplies Used 1,170
Salaries Expense 5,450
Truck 12,000
Utilities Expense 680

Additional information:

a. Asset Estimated Useful Life Salvage Value
   Furniture and Fixtures 5 years $440
   Equipment 10 years 1,500
   Truck 3 years 1,500

All assets were purchased on October 1, 19X1
b. The company paid a $600 advertising bill in August for television and radio ads to begin in November 19X2.

c. Wangor Repairs Inc. was required to pay the last month's rent at the time of signing a 5-year lease.

d. A physical inventory taken September 30 showed that office supplies on hand totalled $120 and repair supplies on hand were $360.

e. The insurance premium of $960 paid in October 19X1 was for a 2-year policy.

f. The company billed and included in revenue $700 for work to be completed in November 19X2.

Required:
1. Prepare a worksheet to reflect the appropriate adjustments
2. Prepare all three financial statements.
3. Prepare the necessary closing entries in general journal form.
4. Prepare a post-closing trial balance.
5. Prepare the reversing entries required at the beginning of the next accounting period.

PROBLEM 4-4 (Preparation of closing entries)

An alphabetical listing of the account balance of Toker Management Services after its second complete year of operations is shown below. All necessary adjustments as of December 31 have been recorded and posted.

Accounts Payable $2,501 Miscellaneous Expense $450
Accounts Receivable 6,582 Prepaid Insurance 1,770
Advertising Expense 2,000 Rent Expense 3,850
Cash 4,375 Salaries Expense 23,235
Common Stock 10,000 Supplies 1,470
Insurance Expense 3,000 Supplies Used 1,969
Management Fees Earned 38,800 Utilities Expense 2,600

Required:
Prepare all necessary general journal entries to close the books at December 31. Explanation lines may be omitted.
### SOLUTIONS

**Key Concept Comprehension**

1. financial statement
2. income statement
3. permanent
4. mixed income statement accounts
5. worksheet
6. balance sheet accounts
7. Closing entries / temporary accounts
8. post-closing trial balance
9. Revenue / expense / Income Summary

**True or False Questions**


**SOLUTION TO PROBLEM 1**

Marlin Inc.

WORKSHEET

For the Year Ended March 31, 19X3

<table>
<thead>
<tr>
<th>Account Title</th>
<th>Dr Balance</th>
<th>CR</th>
<th>Adjustments</th>
<th>Dr Balance</th>
<th>CR</th>
<th>Adjusted Income</th>
<th>Statement</th>
<th>Retained Earnings</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>12,600</td>
<td></td>
<td></td>
<td>12,600</td>
<td></td>
<td></td>
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<td></td>
<td>a</td>
<td>2,500</td>
<td></td>
<td></td>
<td>2,500</td>
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<td></td>
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<tr>
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<td>420</td>
<td></td>
<td></td>
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<td>Prepaid Rent</td>
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<td>(1,400)</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
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<td>(470)</td>
<td>180</td>
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<td>Equipment</td>
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<td>0</td>
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<tr>
<td>Truck</td>
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<tr>
<td>Unearned Revenue</td>
<td>(800)</td>
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<td>(850)</td>
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<td></td>
<td>(1,050)</td>
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</tr>
<tr>
<td>Loans Payable</td>
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<td>c</td>
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</tr>
<tr>
<td>Common Stock</td>
<td>(10,000)</td>
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<td>d</td>
<td>(10,000)</td>
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<td></td>
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<td></td>
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<tr>
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<td>0</td>
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</tr>
<tr>
<td>Service Fees Rev</td>
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<td>(650)</td>
<td>(6,250)</td>
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<td></td>
<td>(16,250)</td>
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<td>Advertising Exp</td>
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</tr>
<tr>
<td>Interest Exp</td>
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<td>Misc. Exp</td>
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</tr>
<tr>
<td>Salaries Exp</td>
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<td>1,800</td>
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<td></td>
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</tr>
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<td>Balance</td>
<td>36,440</td>
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<td></td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance Exp</td>
<td>a 420</td>
<td></td>
<td></td>
<td>0 420</td>
<td></td>
<td></td>
<td>0</td>
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<td></td>
</tr>
<tr>
<td>Supplies Exp</td>
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<td></td>
<td>0 470</td>
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<td></td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rent Exp</td>
<td>d 1,400</td>
<td></td>
<td></td>
<td>0 1,400</td>
<td></td>
<td></td>
<td>0</td>
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<td></td>
</tr>
<tr>
<td>Depreciation Exp-</td>
<td>e 3,300</td>
<td></td>
<td></td>
<td>0 3,300</td>
<td></td>
<td></td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Truck</td>
<td>f 825</td>
<td></td>
<td></td>
<td>0 825</td>
<td></td>
<td></td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accum Deprec. Truck</td>
<td>g 3,300</td>
<td></td>
<td></td>
<td>0 3,300</td>
<td></td>
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<td>0 825</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Balance</td>
<td>7,865</td>
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<td></td>
<td>16,250</td>
<td></td>
<td></td>
<td>9,565</td>
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</tr>
<tr>
<td>Net Income</td>
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<td>(16,250)</td>
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<td></td>
<td>7,885</td>
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<td></td>
</tr>
<tr>
<td>Ret Earnings (EOY)</td>
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<td></td>
<td></td>
<td>31,000</td>
<td></td>
<td></td>
<td>7,885</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Calculation of adjustments:

a. Insurance Expense: $840/2 years = $420 per year
b. Supplies Used: Purchases - Inventory = Amount Used = $650 - $180 = $470
c. Depreciation Expense-Truck: $10,800 cost/36 months (expected life) = $300/month x 11 months (period of use) = $3,300
d. Depreciation Expense-Equipment: $4,500 cost/60 months (expected life) = $75/month x 11 months (period of use) = $825
### SOLUTION TO PROBLEM 2

Charter Investments Inc.

#### WORKSHEET

For the Year Ended December 31,19X2

<table>
<thead>
<tr>
<th>Account Title</th>
<th>Trial Balance</th>
<th>Adjustments</th>
<th>Adjusted Trial Balance</th>
<th>Income Statement</th>
<th>Retained Earnings</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dr</td>
<td>CR</td>
<td>Dr</td>
<td>CR</td>
<td>Dr</td>
<td>CR</td>
</tr>
<tr>
<td>Cash</td>
<td>3,600</td>
<td>0</td>
<td>3,600</td>
<td>0</td>
<td>3,600</td>
<td>0</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>2,200</td>
<td>0</td>
<td>2,200</td>
<td>0</td>
<td>2,200</td>
<td>0</td>
</tr>
<tr>
<td>Supplies</td>
<td>860</td>
<td>d</td>
<td>250</td>
<td>0</td>
<td>250</td>
<td>0</td>
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<tr>
<td>Land</td>
<td>32,000</td>
<td>0</td>
<td>32,000</td>
<td>0</td>
<td>32,000</td>
<td>0</td>
</tr>
<tr>
<td>Rental Building</td>
<td>150,00</td>
<td>0</td>
<td>150,00</td>
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<td></td>
</tr>
<tr>
<td>Furniture</td>
<td>12,500</td>
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<td>12,500</td>
<td>0</td>
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<td></td>
</tr>
<tr>
<td>Office Equipment</td>
<td>7,000</td>
<td>0</td>
<td>7,000</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A/D Rental Building</td>
<td>(31,000)</td>
<td>b</td>
<td>0</td>
<td>(32,000)</td>
<td>0</td>
<td>(32,000)</td>
</tr>
<tr>
<td>A/D Furniture</td>
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<td>(125)</td>
<td>0</td>
<td>(2,000)</td>
<td>0</td>
</tr>
<tr>
<td>A/D Office Equip</td>
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<td>(110)</td>
<td>0</td>
<td>(1,870)</td>
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</tr>
<tr>
<td>Accounts Payable</td>
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<td>(4,870)</td>
<td>0</td>
<td>(4,870)</td>
<td>0</td>
</tr>
<tr>
<td>Mortgage Payable</td>
<td>(100,000)</td>
<td>0</td>
<td>(100,000)</td>
<td>0</td>
<td>(100,000)</td>
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<tr>
<td>Common Stock</td>
<td>(50,000)</td>
<td>0</td>
<td>(50,000)</td>
<td>0</td>
<td>(50,000)</td>
<td>0</td>
</tr>
<tr>
<td>Retained Earnings (BOY)</td>
<td>(11,500)</td>
<td>0</td>
<td>(11,500)</td>
<td>0</td>
<td>(11,500)</td>
<td>0</td>
</tr>
<tr>
<td>Rental Revenue</td>
<td>(58,790)</td>
<td>0</td>
<td>(58,790)</td>
<td>0</td>
<td>(58,790)</td>
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<td>Advt Exp</td>
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<td>0</td>
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<tr>
<td>Depr. Exp. Rental</td>
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<td>0</td>
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<tr>
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<tr>
<td>Equip</td>
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<td>b</td>
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<tr>
<td>Insurance Exp</td>
<td>3,600</td>
<td>a</td>
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<tr>
<td>Rent Expense</td>
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<td>c</td>
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<td>Utilities Exp</td>
<td>6,200</td>
<td>d</td>
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<td>0</td>
<td>1,400</td>
<td>0</td>
<td>1,400</td>
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<tr>
<td>Prepaid Insurance</td>
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<td>0</td>
<td>2,100</td>
<td>0</td>
<td>2,100</td>
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</tr>
<tr>
<td>Rent payable</td>
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<td>c</td>
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<td>0</td>
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<td>0</td>
<td>6,810</td>
<td>0</td>
<td>6,810</td>
<td>0</td>
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<tr>
<td>Ret Earnings (EOY)</td>
<td>58,790</td>
<td>0</td>
<td>58,790</td>
<td>0</td>
<td>58,790</td>
<td>0</td>
</tr>
</tbody>
</table>

Calculation of adjustments:

a. **Unexpired Insurance**: $3,600 policy cost/24 months (term of the policy) = $150/month x 14 months = $2,100

d. **Supplies**: Beginning Balance $860 less Ending Balance $250 = Supplies used $610
**SOLUTION TO PROBLEM 3**

Wangor Repairs Inc.

**WORKSHEET**

For the Year Ended September 30, 19X2

<table>
<thead>
<tr>
<th>Account Title</th>
<th>Trial Balance</th>
<th>Adjustments</th>
<th>Adjusted Trial Balance</th>
<th>Income Statement</th>
<th>Retained Earnings</th>
<th>Balance Sheet</th>
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<tbody>
<tr>
<td>Cash</td>
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<td>4,200</td>
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<tr>
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<td></td>
<td>4,000</td>
<td>4,000</td>
<td>0</td>
<td></td>
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<td>Furniture and Fixtures</td>
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<td>3,500</td>
<td>3,500</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
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<td></td>
<td>9,500</td>
<td>9,500</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Truck</td>
<td>12,000</td>
<td></td>
<td>12,000</td>
<td>12,000</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>(3,950)</td>
<td></td>
<td>(3,950)</td>
<td>(3,950)</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>(BOY)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advertising Expense</td>
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<td>(600)</td>
<td>1,050</td>
<td>1,050</td>
<td>0</td>
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<tr>
<td>Insurance Expense</td>
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<td>(480)</td>
<td>480</td>
<td>480</td>
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<tr>
<td>Misc. Exp</td>
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<td></td>
<td>1,700</td>
<td>1,700</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Office Supplies Used</td>
<td>600</td>
<td>(120)</td>
<td>480</td>
<td>480</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Rent Exp</td>
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<td></td>
<td>5,450</td>
<td>5,450</td>
<td>0</td>
<td></td>
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<tr>
<td>Utilities Exp</td>
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<td></td>
<td>680</td>
<td>680</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Dep Exp.--</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furn/Fixture</td>
<td>612</td>
<td></td>
<td>612</td>
<td>612</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Depr Exp-Equip</td>
<td>800</td>
<td></td>
<td>800</td>
<td>800</td>
<td>0</td>
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<tr>
<td>Depr Exp-Truck</td>
<td>3,500</td>
<td></td>
<td>3,500</td>
<td>3,500</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Accum Depr-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Furn/Fixture</td>
<td>(612)</td>
<td></td>
<td>0 (612)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accum Depr-Equip</td>
<td>(800)</td>
<td></td>
<td>0 (800)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accum Depr-Truck</td>
<td>(3,500)</td>
<td></td>
<td>0 (3,500)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid Advt</td>
<td>600</td>
<td></td>
<td>600</td>
<td>600</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td>480</td>
<td></td>
<td>480</td>
<td>480</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Prepaid Rent</td>
<td>260</td>
<td></td>
<td>260</td>
<td>260</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Unearned Refeue</td>
<td>(700)</td>
<td></td>
<td>0 (700)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office Supplies</td>
<td>120</td>
<td></td>
<td>120</td>
<td>120</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Repair Supplies</td>
<td>360</td>
<td></td>
<td>360</td>
<td>360</td>
<td>0</td>
<td></td>
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<tr>
<td>Balance</td>
<td>7,432</td>
<td>55,55</td>
<td>55,552</td>
<td>18,68</td>
<td>36,87</td>
<td>21,562</td>
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<tr>
<td>Net Income</td>
<td>33,990</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Ret Earnings (EOY)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Calculation of Adjustments:**

a. **Depreciation Expense-Furniture & Fixtures:** $3,500 cost - $440 salvage value = $3,060/5 years (expected life) = $612/year
b. **Depreciation Expense-Equipment:** $9,500 cost - $1,500 salvage value = $8,000/10 years (expected life) = $800/year
c. **Depreciation Expense-Truck:** $12,000 cost - $1,500 salvage value = $10,500/3 years (expected life) = $3,500/year - used for the entire year
d. **Rent Expense:** $3,380 shown in the expense account/13 months paid = $260/month x 12 months = $3,120
e. **Insurance Expense:** $390 policy cost/2 years (term of the policy) = $480/year

(4-3 Requirement 2: Preparation of Financial Statements)

Wangor Repairs Inc.

**INCOME STATEMENT**

For the Year Ended September 30, 19X2

**REPAIR REVENUE** $33,990

**EXPENSES**

- Advertising Expense $1,050
- Depreciation Expense-Furniture & Fixtures 612
- Depreciation Expense-Equipment 800
- Depreciation Expense-Truck 3,500
- Insurance Expense 480
- Miscellaneous Expense 1,700
- Office Supplies Used 480

**Note also** how the nominal accounts are all in the income statement and the real accounts flow to the balance sheet and retained earnings statement.
<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent Expense</td>
<td>3,120</td>
</tr>
<tr>
<td>Repair Supplies Used</td>
<td>810</td>
</tr>
<tr>
<td>Salaries Expense</td>
<td>5,450</td>
</tr>
<tr>
<td>Utilities Expense</td>
<td>680</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>18,682</strong></td>
</tr>
<tr>
<td>**Net Income *</td>
<td><strong>$15,308</strong></td>
</tr>
</tbody>
</table>

* Carry net inc. figure to the statement of retained earnings
(Problem 3 Requirement 2: Preparation of Financial Statements continued)

Wangor Repairs Inc.
STATEMENT OF RETAINED EARNINGS
For the Year Ended September 30, 19X2

Balance (Oct. 1, 19X1) -0-
Add: Net Income for the year $ 15,308
Balance (Sep. 30, 19X2) ** $ 15,308

** Carry Retained Earnings balance September 30 to the balance sheet

Wangor Repairs Inc.
BALANCE SHEET
At September 30, 19X2

Assets
Cash $ 1,850
Accounts Receivable 4,200
Notes Receivable 4,000
Prepaid Advertising 600
Prepaid Insurance 480
Prepaid Rent 260
Office Supplies 120
Repair Supplies 360
Furniture and Fixtures $ 3,500
Less: Accumulated Depreciation 612 2,888
Equipment $ 9,500
Less: Accumulated Depreciation 800 8,700
Truck $ 12,000
Less: Accumulated Depreciation 3,500 8,500
Total Assets $ 31,958

Liabilities and Shareholders' Equity
Accounts Payable $ 3,950
Unearned Revenue 700
Total Liabilities $ 4,650

Common Stock $ 12,000
Retained Earnings 15,308
Total Shareholders' Equity 27,308
Total Liabilities and Shareholders' Equity $ 31,958

(Problem 3 Requirement 3: Preparation of Closing entries in general journal format)

GENERAL JOURNAL

Date Description
Sep. 30 Repair Revenue 33,990
Income Summary 33,990
To close revenue account balance.

Sep. 30 Income Summary 18,682
Advertising Expense 1,050
Depreciation Expense-Furniture and Fixtures 612
Depreciation Expense-Equipment 800
Depreciation Expense-Truck 3,500
Insurance Expense 480
Miscellaneous Expense Office 1,700
Supplies Used 480
Rent Expense 3,120
Repair Supplies Used 810
Salaries Expense 5,450
Utilities Expense 680
To close expense account balances.

Sep. 30 Income Summary 15,308
Retained Earnings 15,308
To close Income Summary account.

Note that these are closing entries, which means we are closing the accounts to the expense and revenue summary.
Wangor Repairs Inc.

POST-CLOSING TRIAL BALANCE
September 30, 19X2

<table>
<thead>
<tr>
<th>Account Title</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$1,850</td>
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</tr>
<tr>
<td>Accounts Receivable</td>
<td>4,200</td>
<td></td>
</tr>
<tr>
<td>Notes Receivable</td>
<td>4,000</td>
<td></td>
</tr>
<tr>
<td>Prepaid Advertising</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td>480</td>
<td></td>
</tr>
<tr>
<td>Prepaid Rent</td>
<td>260</td>
<td></td>
</tr>
<tr>
<td>Office Supplies</td>
<td>120</td>
<td></td>
</tr>
<tr>
<td>Repair Supplies</td>
<td>360</td>
<td></td>
</tr>
<tr>
<td>Furniture and Fixtures</td>
<td>3,500</td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>9,500</td>
<td></td>
</tr>
<tr>
<td>Truck</td>
<td>12,000</td>
<td></td>
</tr>
<tr>
<td>Accum. Depreciation-Furniture and Fixtures</td>
<td>$612</td>
<td></td>
</tr>
<tr>
<td>Accum. Depreciation-Equipment</td>
<td></td>
<td>800</td>
</tr>
<tr>
<td>Accum. Depreciation-Truck</td>
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<tr>
<td>Accounts Payable</td>
<td></td>
<td>3,950</td>
</tr>
<tr>
<td>Unearned Revenue</td>
<td></td>
<td>700</td>
</tr>
<tr>
<td>Common Stock</td>
<td></td>
<td>12,000</td>
</tr>
<tr>
<td>Retained Earnings</td>
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<td>15,308</td>
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<tr>
<td><strong>Totals</strong></td>
<td><strong>$36,870</strong></td>
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GENERAL JOURNAL

<table>
<thead>
<tr>
<th>Journal No.</th>
<th>Description</th>
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<tbody>
<tr>
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<td>Prepaid Advertising</td>
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</tr>
<tr>
<td>d.</td>
<td>Office Supplies Used</td>
<td>120</td>
</tr>
<tr>
<td></td>
<td>Repair Supplies Used</td>
<td>360</td>
</tr>
<tr>
<td></td>
<td>Office Supplies</td>
<td>120</td>
</tr>
<tr>
<td></td>
<td>Repair Supplies</td>
<td>360</td>
</tr>
<tr>
<td>e.</td>
<td>Insurance Expense</td>
<td>480</td>
</tr>
<tr>
<td></td>
<td>Prepaid Insurance</td>
<td>480</td>
</tr>
<tr>
<td>f.</td>
<td>Unearned Revenue</td>
<td>700</td>
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<tr>
<td></td>
<td>Repair Revenue</td>
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</table>

SOLUTION TO PROBLEM 4

GENERAL JOURNAL

<table>
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<td>Dec. 31</td>
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<td>Income Summary</td>
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<tr>
<td>Dec. 31</td>
<td>Income Summary</td>
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</tr>
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<td></td>
<td>Insurance Expense</td>
<td>3,000</td>
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<tr>
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<td>Miscellaneous Expense</td>
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<tr>
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<td>Salaries Expense</td>
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<td>Supplies Used</td>
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<td>Utilities Expense</td>
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<td>Dec. 31</td>
<td>Income Summary</td>
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<td>Retained Earnings</td>
<td>1,696</td>
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