CHAPTER 4

Completion of the Accounting Cycle

ASSIGNMENT CLASSIFICATION TABLE

Study Objectives	Questions	Brief Exercises	Exercises	Problems Set A	Problems Set B
1. Prepare closing entries and a post-closing trial balance.	1, 2 ,3, 4, 5, 6	1, 2, 3	1, 2, 3, *11	1, 2, 3, *9	1, 2, 3, *9
2. List the steps in the accounting cycle.	7, 8	4,			
3. Prepare correcting entries.	9	5	4	4, 5	4, 5
4. Prepare a classified balance sheet.	10, 11, 12, 13, 14	6, 7	5, 6, 7	2, 3, 6, *9	2, 3, 6, *9
5. Illustrate measures used to evaluate liquidity.	15, 16	8, 9	7, 8	6, 7	6, 7
*6. Prepare a work sheet (Appendix 4A).	*17, *18	*10, *11, *12	*9, *10	*8, *9, *10	*8, *9, *10
*7. Prepare reversing entries (Appendix 4B).	*19, *20	*13, *14	*11, *12	*11, *12	*11, *12

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

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Analyze account data and prepare and post closing entries.	Moderate	15-25
2A	Prepare adjusting entries, adjusted trial balance, financial statements, and closing entries.	Simple	60-70
3A	Prepare financial statements, closing entries, and post-closing trial balance.	Simple	70-80
4A	Analyze errors and prepare corrections.	Simple	70-80
5A	Determine impact of errors on financial statements.	Moderate	40-50
6A	Prepare financial statements and liquidity ratios.	Moderate	30-40
7A	Calculate working capital and current ratio and comment on liquidity.	Moderate	25-30
*8A	Prepare work sheet.	Moderate	50-60
*9A	Prepare work sheet, classified balance sheet, adjusting and closing entries, and post-closing trial balance.	Moderate	70-80
*10A	Use work sheet relationships to determine missing amounts.	Moderate	70-80
*11A	Prepare and post transaction entries, with and without reversing entries.	Moderate	50-60
*12A	Prepare adjusting, reversing and subsequent cash entries.	Simple	40-50
1B	Analyze account data and prepare and post closing entries.	Moderate	15-25
2B	Prepare adjusting entries, adjusted trial balance, financial statements, and closing entries.	Simple	60-70
3B	Prepare financial statements, closing entries, and post-closing trial balance.	Simple	70-80
4B	Analyze errors and prepare corrections.	Simple	70-80
5B	Determine impact of errors on financial statements.	Moderate	40-50

ASSIGNMENT CHARACTERISTICS TABLE (Continued)

Problem Number	Description	Difficulty Level	Time Allotted (min.)
6B	Prepare financial statements and liquidity ratios.	Moderate	30-40
7B	Calculate working capital and current ratio, and comment on liquidity.	Moderate	25-30
*8B	Prepare work sheet.	Moderate	50-60
*9B	Prepare work sheet, classified balance sheet, adjusting and closing entries, and post-closing trial balance.	Moderate	70-80
*10B	Use work sheet relationships to determine missing amounts.	Moderate	70-80
*11B	Prepare and post transaction entries, with and without reversing entries.	Moderate	50-60
*12B	Prepare adjusting, reversing and subsequent cash entries.	Simple	40-50

BLOOM'S TAXONOMY TABLE

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

Study Objective	Knowledge	Comprehension	Application		Analysis	Synthesis	Evaluation
1. Prepare closing entries and a post-closing trial balance	Q4-2 Q4-6	Q4-1 Q4-3 Q4-4 Q4-5 BE4-1	BE4-2 BE4-3 E4-1 E4-2 E4-3 *E4-11 P4-2A P4-3A *P4-9A	P4-2B P4-3B *P4-9B	P4-1A P4-1B		
2. List the steps in the accounting cycle.	Q4-7 BE4-4	Q4-8					
3. Prepare correcting entries.		Q4-9	BE4-5 E4-4 P4-4A P4-5A	P4-4B P4-5B			
4. Prepare a classified balance sheet.	Q4-14 BE4-6 E4-5	Q4-10 Q4-11 Q4-12 Q4-13	BE4-7 E4-6 P4-2A P4-3A P4-6A *P4-9A	P4-2B P4-3B P4-6B *P4-9B	E4-7		
5. Illustrate measures used to evaluate liquidity.	BE4-9	Q4-15 Q4-16	BE4-8 P4-6A	P4-6B	E4-7 E4-8 P4-7A P4-7B		
*6. Prepare a work sheet (Appendix 4A)		*Q4-17 *Q4-18 *BE4-10	*BE4-11 *BE4-12 *P4-8A *P4-9A	*P4-8B *P4-9B	*E4-9 *E4-10 *P4-10A *P4-10B		
*7. Prepare reversing entries (Appendix 4B)		*Q4-19 *Q4-20	*BE4-13 *BE4-14 *E4-11 *E4-12 *P4-11A *P4-12A	*P4-11B *P4-12B			
Broadening Your Perspective	BYP4-3 BYP4-4		Continuing Cookie Chronicles Cumulative Coverage BYP4-1		BYP4-2		BYP4-5

ANSWERS TO QUESTIONS

1. Closing entries are made at the end of an accounting period after preparation of the financial statements to:
   a. transfer revenue, expense, and drawings account balances to the owner's capital account and
   b. reset these temporary accounts to zero.

2. (1) To close revenue accounts (assuming normal balances): Debit Individual revenue accounts and credit Income Summary.
   (2) To close expense accounts (assuming normal balances): Debit Income Summary and credit individual expense accounts.
   (3) To close Income Summary: If the Income summary has a credit balance, debit Income Summary for the balance in its account and credit Owner's Capital. If the Income Summary has a debit balance, credit Income Summary and debit Owner's Capital for the balance in the account.
   (4) To close Drawings: Debit Owner's Capital and credit Owner's Drawings.

3. The Income Summary account is used to avoid having a lot of detailed entries on the permanent owner's capital account. The types of summary data that are posted to this account are the totals of revenue and expense accounts. If an Income Summary account was not used the owner's capital account would be credited when closing the individual revenue accounts and it would be debited when closing the individual expense accounts.

4. The drawings account is not closed with the expense accounts because it is not part of net income. Drawings represent a withdrawal of the owner's capital and are reported on the statement of owner's equity, not the income statement. However, it is also a temporary account and therefore requires a closing entry.

5. The balance in Income Summary, immediately before the final closing entry to transfer the balance to the owner's capital account, should equal the net income (or net loss) reported in the income statement. (2) All temporary accounts (revenues, expenses, owner's drawings, and Income Summary) should have zero balances. (3) The balance in the capital account should equal the ending balance reported in the statement of owner's equity and balance sheet.

6. The post-closing trial balance contains only balance sheet accounts. Its purpose is to prove the equality of the permanent account balances that are carried forward into the next accounting period.

QUESTIONS (Continued)

7. 1. Daily: Analyze transaction and journalize transactions.
   2. Periodic: Post to ledger, prepare a trial balance, journalize and post adjusting entries, prepare an adjusted trial balance, prepare financial statements.
   3. Fiscal year end: Journalize and post closing entries, prepare a post closing trial balance.

8. Yes. The work sheet is a convenient and efficient tool for completing some of the steps (step 4 trial balance, 5 adjusting entries, 6 adjusted trial balance, and 7 financial statements) in the accounting cycle.

9. Correcting entries differ from adjusting entries because they (1) are not a required part of the accounting cycle if no errors have been made, (2) may be made at any time, and (3) may affect any combination of accounts. Adjusting entries are a necessary part of the account cycle, are normally made prior to the preparation of financial statements, and affect both an income statement account and a balance sheet account.

10. Classifying the assets and liabilities on the balance sheet provides users with more information. The classification provides the amount of assets and liabilities that will be realized and that come due in the coming year. This enables users to evaluate the company’s liquidity and solvency. It also provides information on long-term assets and liabilities.

11. Current assets are cash and other resources that are reasonably expected to be realized in cash or sold or consumed in the business within one year of the balance sheet. Current assets are listed in the order of their liquidity.

12. Long-term investments are assets that can be realized in cash; however, the conversion is not expected within one year. They include shares and bonds of other companies. Both property, plant, and equipment, and intangible assets are resources that are used in the business and not intended for resale. The difference between the two is property, plant, and equipment have physical substance while intangibles do not.

QUESTIONS (Continued)

13. The major differences between current liabilities and long-term liabilities are:

Difference	Current Liabilities	Long-term Liabilities
Source of payment.	Existing current assets or other current liabilities.	Other than existing current assets or creating current liabilities.
Time of expected payment	Within one year.	Beyond one year.
Nature of items.	Debts pertaining to the operating cycle and other short-term debts.	Mortgages, bonds and other long-term liabilities.

14. (a) The owner's equity section for a
    (1) proprietorship is called owner’s equity
    (2) partnership is called partners’ equity
    (3) corporation is called shareholders' equity
    (4) income trust is called unitholders’ equity.

    (b) The two accounts and the purpose of each are: (1) Common Shares (or share capital) is used to record investments in the business by the owners (shareholders). (2) Retained Earnings is used to record income retained in the business (that is, the net income earned minus any dividends distributed to the owners).

15. Liquidity is the ability of a company to pay its obligations that become due within the next year. One measure of liquidity is working capital, another is the current ratio.

16. Ratios should never be interpreted without considering certain factors: (1) general economic and industry conditions need to be considered; (2) other specific financial information about the company over time needs to be considered, and (3) the ratios should be compared to the ratios for other companies in the same or related industries.

QUESTIONS (Continued)

*17. To calculate the net income on a worksheet each of the financial statement columns must be totalled. The net income or loss for the period is then found by calculating the difference between the totals of the two income statement columns. If a company has net income the amount is then entered in the income statement debit column and the balance sheet credit column. If the company has a net loss the amount is entered in the credit column on the income statement and in the debit column on the balance sheet.

*18. It is still necessary to journalize and post adjusting entries that have been made on the worksheet because the worksheet is not part of the company's permanent accounting records. The general ledger and journal must contain all of the adjusting data. If this were not done the balance for the start of the next year would be incorrect.

*19. A reversing entry is the exact opposite, both in amount and in account titles, of an adjusting entry for an accrual. Adjusting entries are required, while reversing entries are an optional step in the accounting cycle. In some accounting systems, they simplify the recording of subsequent transactions related to the adjustments.

*20. It is helpful to use reversing entries for accruals because then the payment can be processed in the normal manner without having to check if there has been an accrual, i.e. all cash payments can be debited to the appropriate expense account. Reversing prepayments would not simplify the recording of subsequent transactions, which are required in prepayments. In addition, it is not appropriate to reverse estimates such as amortization.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 4-1

The permanent accounts are:

Accounts payable
Accounts receivable
Income taxes payable
Long-term debt
Prepaid expenses
Property, plant and equipment
Short-term investments

Note that these are all balance sheet accounts.

The temporary accounts are:

Amortization expense
General and operating expenses
Interest on long-term debt expense
Other revenues

Note that these are all income statement accounts.

BRIEF EXERCISE 4-2

(a)

Oct	**31**	**Golf Fees Earned**	**160,000**	
		Income Summary		**160,000**
	31	**Income Summary**	**121,000**	
		Maintenance Expense		**25,000**
		Rent Expense		**12,000**
		Salaries Expense		**84,000**
	31	**Income Summary**	**39,000**	
		N. Mosquera, Capital		**39,000**
	31	**N. Mosquera, Capital**	**48,000**	
		N. Mosquera, Drawings		**48,000**

BRIEF EXERCISE 4-2 (continued)

(b)

Income Summary

121,000	160,000
	39,000
39,000	
0	

N. Mosquera, Capital

	75,000
	39,000
48,000	
	66,000

N. Mosquera, Drawings

48,000	
	48,000
0	

Golf Fees Earned

	160,000
160,000	
	0

Maintenance Expense

25,000	
	25,000
0	

Rent Expense

12,000	
	12,000
0	

Salaries Expense

84,000	
	84,000
0	

BRIEF EXERCISE 4-3

MOSQUERA GOLF CLUB
Post-Closing Trial Balance
October 31, 2008

	Debit	Credit
Cash	$ 8,500	
Prepaid expenses	3,000	
Equipment	85,000	
Accumulated amortization—equipment		$17,000
Accounts payable		12,000
Unearned golf fees		1,500
N. Mosquera, capital		66,000
	$96,500	$96,500

BRIEF EXERCISE 4-4

The proper sequencing of the required steps in the accounting cycle is as follows:

1. Analyze business transactions
2. Journalize the transactions
3. Post to the ledger accounts
4. Prepare a trial balance
5. Journalize and post the adjusting entries
6. Prepare an adjusted trial balance
7. Prepare the financial statements
8. Journalize and post the closing entries
9. Prepare a post-closing trial balance

Filling in the blanks, the answers are 9, 6, 1, 4, 2, 8, 7, 5, 3.

BRIEF EXERCISE 4-5

(a)

	Assets	Liabilities	Owner's Equity	Revenue	Expenses	Net Income
1.	U	NA	U	U	NA	U
2.	U	U	NA	NA	NA	NA

(b)

1.	Cash	880	
	Service Revenue		880
2.	Office Supplies	1,850	
	Accounts Payable		270
	Equipment		1,580

BRIEF EXERCISE 4-6

1 (a) Supplies
5 (b) Accounts Payable
3 (c) Building
1 (d) Prepaid Insurance
6 (e) Note Payable (due in 5 years)
4 (f) Goodwill
5 (g) Unearned Revenue
1 (h) Accounts Receivable
3 (i) Accumulated Amortization—Building
4 (j) Patents
2 (k) Land Held for Resale
2 (l) Note Receivable (due in 3 years)

BRIEF EXERCISE 4-7

Reuben Company
Balance Sheet (Partial)
December 31, 2008

Current assets	
Cash	$ 18,400
Short-term investments	8,200
Accounts receivable	12,500
Supplies	5,200
Prepaid insurance	3,900
Total current assets	$48,200

BRIEF EXERCISE 4-8

($ in thousands)

Working capital = Current assets - Current liabilities
2008: Working capital = $165,211 – $136,742 = $28,469
2007: Working capital = $190,548 – $72,410 = $118,138

Current ratio = Current assets ÷ Current liabilities
2008: Current ratio = $165,211 ÷ $136,742 = 1.21:1
2007: Current ratio = $190,548 ÷ $72,410 = 2.63:1

Cool Delight's liquidity was weaker in 2008. Working capital decreased in amount, and the current ratio decreased from 2.63:1 to 1.21:1.

BRIEF EXERCISE 4-9

Working capital = Current assets - Current liabilities
Big: Working capital = $1,000,000 - $900,000 = $100,000
Small: Working capital = $200,000 - $100,000 = $100,000

Current ratio = Current assets ÷ Current liabilities
Big: Current ratio = $1,000,000 ÷ $900,000 = 1.11:1
Small: Current ratio = $200,000 ÷ $100,000 = 2.00:1

The working capital is the same for both companies but Small Company's current ratio is much stronger. The current ratio is more relevant.

*BRIEF EXERCISE 4-10

	Income Statement		Balance Sheet	
Account	**Dr.**	**Cr.**	**Dr.**	**Cr.**
Accounts Payable				X
Accounts Receivable			X	
Accumulated Amortization				X
Amortization Expense	X			
H. Khanna, Capital				X
H. Khanna, Drawings			X	
Prepaid Expenses			X	
Rent Expense	X			
Service Revenue		X		
Unearned Service Revenue				X

*BRIEF EXERCISE 4-11

	Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.
Totals	17,450	21,600	29,700	25,550
Net income	4,150			4,150
Totals	21,600	21,600	29,700	29,700

*BRIEF EXERCISE 4-12

	Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.
Totals	35,800	29,750	56,150	62,200
Net loss		6,050	6,050	
Totals	35,800	35,800	62,200	62,200

*BRIEF EXERCISE 4-13

(a)

Nov. 1	Salaries Payable	1,200	
	Salaries Expense.		1,200
	To reverse Oct. 31 accrual.		
4	Salaries Expense	2,000	
	Cash.		2,000
	To record Nov. 4 payment of salary.		

(b)

Salaries Expense

Date		Explanation	Ref.	Debit	Credit	Balance
Oct	31	Balance after closing entries				0
Nov.	1	Reversing entry			1,200	(1,200)
	4	Payment of salary		2,000		800

Salaries Payable

Date		Explanation	Ref.	Debit	Credit	Balance
Oct.	31	Balance				1,200
Nov.	1	Reversing entry		1,200		0

The balances after posting the two entries are a debit of $800 in Salaries Expense and $0 in Salaries Payable.

*BRIEF EXERCISE 4-14

(a)	Jan.	1	Interest Revenue	4,500	
			Interest Receivable...............		4,500
			To record reversing entry.		
		10	Cash	5,000	
			Interest Revenue..................		5,000
			To record interest received.		
(b)	Jan.	10	Cash	5,000	
			Interest Revenue................		500
			Interest Receivable...............		4,500
			To record interest received and reversal of accrual.		

(c) The balance in the accounts will be the same under both approaches.

The interest receivable account will have a zero balance and the interest revenue will have a credit balance of $500.

Under (a) Because of the January 1 reversing entry that debited Interest Revenue for $4,500, Interest Revenue will have a credit balance of $500, which equals the revenue for the current period. Under (b) the interest revenue will be the $500 credited in the journal entry.

SOLUTIONS TO EXERCISES

EXERCISE 4-1

(a)

June	30	Service Revenue	16,100	
		Income Summary...............		16,100
	30	Income Summary	14,100	
		Salaries Expense		9,800
		Supplies Expense		1,300
		Rent Expense.....................		3,000
	30	Income Summary	2,000	
		J. Roth, Capital		2,000
	30	J. Roth, Capital	2,500	
		J. Roth, Drawings		2,500

(b) **The ending balance in J. Roth's Capital account should agree with the capital account balance on the Statement of Owner's Equity and the Balance Sheet.**

EXERCISE 4-2

(a) **GENERAL JOURNAL** J15

Date		Account Titles and Explanation	Debit	Credit
July	31	Service Revenue	73,800	
		Income Summary		73,800
	31	Income Summary	77,850	
		Amortization Expense		2,700
		Salaries Expense		56,050
		Interest Expense		1,350
		Rent Expense		15,900
		Supplies Expense		1,850
	31	D. Rafael, Capital	4,050	
		Income Summary		4,050
	31	D. Rafael, Capital	14,000	
		D. Rafael, Drawings		14,000

EXERCISE 4-2 (Continued)

(a) (Continued)

Cash

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Balance	✓			5,840

Accounts Receivable

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Balance	✓			15,540

Prepaid Expenses

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Balance	✓			1,620

Supplies

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Balance	✓			470

Equipment

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Balance	✓			17,600

Accumulated Amortization—Equipment

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Balance	✓			5,400

Accounts Payable

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Balance	✓			4,245

Interest Payable

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Balance	✓			525

EXERCISE 4-2 (Continued)

(a) (Continued)

Unearned Service Revenue

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Balance	✓			2,750

Notes Payable

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Balance	✓			15,000

D. Rafael, Capital

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Balance	✓			31,200
	31	Closing entry	J15	4,050		27,150
	31	Closing entry	J15	14,000		13,150

D. Rafael, Drawings

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Balance	✓			14,000
	31	Closing entry			14,000	0

Income Summary

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Balance	✓			0
	31	Closing entry	J15		73,800	73,800
	31	Closing entry	J15	77,850		4,050 Dr.
	31	Closing entry	J15		4,050	0

Service Revenue

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Balance	✓			73,800
	31	Closing entry	J15	73,800		0

EXERCISE 4-2 (Continued)

(a) (Continued)

Amortization Expense

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Balance	✓			2,700
	31	Closing entry	J15		2,700	0

Salaries Expense

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Balance	✓			56,050
	31	Closing entry	J15		56,050	0

Interest Expense

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Balance	✓			1,350
	31	Closing entry	J15		1,350	0

Rent Expense

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Balance	✓			15,900
	31	Closing entry	J15		15,900	0

Supplies Expense

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Balance	✓			1,850
	31	Closing entry	J15		1,850	0

EXERCISE 4-2 (Continued)

(b)

RAFAEL COMPANY
Post-Closing Trial Balance
July 31, 2008

	Debit	Credit
Cash	$ 5,840	
Accounts receivable	15,540	
Prepaid expenses	1,620	
Supplies	470	
Equipment	17,600	
Accumulated amortization—equipment		$ 5,400
Accounts payable		4,245
Interest payable		525
Unearned service revenue		2,750
Notes payable		15,000
D. Rafael, capital		13,150
	$41,070	$41,070

EXERCISE 4-3

(a)

Dec.	31	Bowling Revenues	14,180	
		Income Summary...............		14,180
	31	Income Summary	10,830	
		Amortization Expense		7,360
		Insurance Expense		870
		Interest Expense		2,600
	31	Income Summary	3,350	
		T. Bolgos, Capital		3,350
	31	T. Bolgos, Capital...................	10,000	
		T. Bolgos, Drawings		10,000

(b)

Income Summary

Clos.	10,830	Clos.	14,180
		Bal.	3,350
Clos.	3,350		
Bal.	0		

T. Bolgos, Capital

		Bal.	115,000
Clos.	10,000	Clos.	3,350
		Bal.	108,350

T. Bolgos, Drawings

Bal.	10,000		
		Clos.	10,000
Bal.	0		

Bowling Revenues

Clos.	14,180	Bal.	14,180
		Bal.	0

Amortization Expense

Bal.	7,360	Clos.	7,360
Bal.	0		

Insurance Expense

Bal.	870	Clos.	870
Bal.	0		

Interest Expense

Bal.	2,600	Clos.	2,600
Bal.	0		

EXERCISE 4-3 (Continued)

(c)

Summit's Bowl-A-Drome Alley
Post-Closing Trial Balance
December 31, 2008

	Debit	Credit
Cash	$ 17,940	
Accounts receivable	13,880	
Prepaid insurance	4,590	
Supplies	740	
Land	64,000	
Building	128,800	
Accumulated amortization—building		$ 50,600
Equipment	62,400	
Accumulated amortization—equipment		17,770
Accounts payable		12,300
Unearned bowling revenue		950
Interest payable		2,600
Mortgage payable		99,780
T. Bolgos, capital		108,350
	$292,350	$292,350

EXERCISE 4-4

1.	**Accounts Payable ($920 - $290) ....**	**630**	
	Cash..		**630**
2.	**Supplies ....**	**560**	
	Equipment		**56**
	Accounts Payable		**504**
3.	**L. Choi, Drawings.......................................**	**400**	
	Salaries Expense		**400**
4.	**Office Equipment ....**	**1,200**	
	Office Supplies		**1,200**
5.	**Unearned Service Revenue ....**	**175**	
	Service Revenue		**175**

EXERCISE 4-5

Account	**Balance Sheet Classification**
Accounts payable and accrued liabilities	Current Liabilities
Cash and cash equivalents	Current Assets
Employee future benefit obligation	Long-term Liabilities
Goodwill	Intangible Assets
Income taxes payable	Current Liabilities
Income taxes recoverable	Current Assets
Inventories	Current Assets
Long-term debt	Long-term Liabilities
Long-term debt due within one year	Current Liabilities
Long-term lease obligation	Long-term Liabilities
Mortgages and loans receivable	Long-term Assets
Prepaid expenses	Current Assets
Property and equipment	Property, Plant, and Equipment
Receivables	Current Assets
Retained earnings	Shareholder's Equity

EXERCISE 4-6

(a)

RAFAEL COMPANY
Income Statement
Year Ended July 31, 2008

Service revenue		$73,800
Expenses		
Amortization expense	$ 2,700	
Salaries expense	56,050	
Interest expense	1,350	
Rent expense	15,900	
Supplies expense	1,850	
Total expenses		77,850
Net loss		$ 4,050

RAFAEL COMPANY
Statement of Owner's Equity
Year Ended July 31, 2008

D. Rafael, capital, August 1, 2007 ($31,200 – $5,000)		$26,200
Add: Investment		5,000
		31,200
Less: Net loss	$ 4,050	
Drawings	14,000	18,050
D. Rafael, capital, July 31, 2008		$13,150

EXERCISE 4-6 (Continued)

(b)

RAFAEL COMPANY
Balance Sheet
July 31, 2008

Assets

Current assets		
Cash		$ 5,840
Accounts receivable		15,540
Supplies		470
Prepaid expenses		1,620
Total current assets		23,470
Property, plant, and equipment		
Equipment	$17,600	
Less: Accumulated amortization	5,400	12,200
Total assets		$35,670

Liabilities and Owner's Equity

Current liabilities	
Accounts payable	$ 4,245
Interest payable	525
Unearned service revenue	2,750
Total current liabilities	7,520
Long-term liability	
Notes payable	15,000
Total liabilities	22,520
Owner's equity	
D. Rafael, capital	13,150
Total liabilities and owner's equity	$35,670

EXERCISE 4-7

(a)

SUMMIT'S BOWL-A-DROME ALLEY
Income Statement
Year Ended December 31, 2008

Bowling revenue		**$14,180**
Expenses		
Amortization expense	**$7,360**	
Insurance expense	**870**	
Interest expense	**2,600**	
Total expenses		**10,830**
Net income		**$ 3,350**

SUMMIT'S BOWL-A-DROME ALLEY
Statement of Owner's Equity
Year Ended December 31, 2008

T. Bolgos, capital, January 1, 2008	**$115,000**
Add: Net income	**3,350**
	118,350
Less: Drawings	**10,000**
T. Bolgos, capital, December 31, 2008	**$108,350**

EXERCISE 4-7 (Continued)

(a) (Continued)

SUMMIT'S BOWL-A-DROME ALLEY
Balance Sheet
December 31, 2008

Assets			
Current assets			
Cash			$ 17,940
Accounts receivable			13,880
Supplies			740
Prepaid insurance			4,590
Total current assets			37,150
Property, plant, and equipment			
Land		$64,000	
Building	$128,800		
Less: Accumulated amortization	50,600	78,200	
Equipment	$62,400		
Less: Accumulated amortization	17,770	44,630	186,830
Total assets			$223,980

Liabilities and Owner's Equity	
Current liabilities	
Accounts payable	$ 12,300
Interest payable	2,600
Unearned bowling revenue	950
Current portion of mortgage payable	12,750
Total current liabilities	28,600
Long-term liabilities	
Mortgage payable	87,030
Total liabilities	115,630
Owner's equity	
T. Bolgos, capital	108,350
Total liabilities and owner's equity	$223,980

EXERCISE 4-7 (Continued)

(b) Working capital = Current Assets – Current Liabilities
\$8,550 = \$37,150 - \$28,600

Current Ratio = Current Assets ÷ Current Liabilities
1.30:1 = \$37,150 ÷ \$28,600.

Almost 50% of current assets are in the form of cash. The company's liquidity appears to be reasonably good.

EXERCISE 4-8

(a) Working Capital = Current Assets - Current Liabilities

2005: \$17,192,000 - \$4,639,000 = \$12,553,000
2004: \$20,842,000 - \$4,996,000 = \$15,846,000
2003: \$42,523,000 - \$7,132,000 = \$35,391,000

Current Ratio = Current Assets ÷ Current Liabilities

2005: \$17,192,000 ÷ \$4,639,000 = 3.71:1
2004: \$20,842,000 ÷ \$4,996,000 = 4.17:1
2003: \$42,523,000 ÷ \$7,132,000 = 5.96:1

(b) Based on the both working capital and the current ratios Theratechnologies' liquidity in 2005 is below that of 2004 and 2003, with 2003 being the best year. However, it is still a very positive ratio, with sufficient current assets to cover current liabilities.

*EXERCISE 4-9

KWOK YUEN HO COMPANY
Work Sheet
Month Ended April 30, 2008

	Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
Account Titles	**Dr.**	**Cr.**	**Dr.**	**Cr.**	**Dr.**	**Cr.**	**Dr.**	**Cr.**	**Dr.**	**Cr.**
Cash	14,770				14,770				14,770	
Accounts receivable	8,230		(1) 720		8,950				8,950	
Prepaid rent	3,050			(2) 610	2,440				2,440	
Equipment	23,040				23,040				23,040	
Accum. amort.–equip.		4,480		(3) 640		5,120				5,120
Accounts payable		5,670				5,670				5,670
Notes payable		11,600				11,600				11,600
Interest payable				(4) 58		58				58
K. Ho, capital		28,960				28,960				28,960
K. Ho, drawings	3,650				3,650				3,650	
Service revenue		11,870		(1) 720		12,590		12,590		
Salaries expense	9,840				9,840		9,840			
Rent expense			(2) 610		610		610			
Amortization expense			(3) 640		640		640			
Interest expense			(4) 58		58		58			
Totals	62,580	62,580	2,028	2,028	63,998	63,998	11,148	12,590	52,850	51,408
Net Income							1,442			1,442
Totals							12,590	12,590	52,850	52,850

*EXERCISE 4-10

(a) (1) Accounts Receivable: $27,000 ($34,000 – $7,000 increase in Service Revenue ($95,000 – $88,000)).

(2) Salaries Expense: $44,000 ($49,000 – $5,000 increase in Salaries Payable).

(3) Supplies: $3,000 ($7,000 – $4,000 in Supplies Expense).

(4) Insurance Expense: $7,000 ($25,000 – $18,000 decrease in Prepaid Insurance).

(5) Accumulated Amortization: $22,000 ($12,000 + $10,000 Amortization Expense).

(b)

(1)	Accounts Receivable	7,000	
	Service Revenue		7,000
(2)	Salaries Expense	5,000	
	Salaries Payable		5,000
(3)	Supplies Expense	4,000	
	Supplies		4,000
(4)	Insurance Expense	7,000	
	Prepaid Insurance		7,000
(5)	Amortization Expense	10,000	
	Accumulated Amortization		10,000

*EXERCISE 4-11

(a)

(1)	Dec. 31	Accounts Receivable	4,400	
		Commission Revenue		4,400
	31	Interest Expense	1,550	
		Interest Payable		1,550
(2)	Dec. 31	Commission Revenue	96,400	
		Income Summary		96,400
	31	Income Summary	9,300	
		Interest Expense		9,300
	31	Income Summary	87,100	
		I. Masterson, Capital		87,100
(b)	Jan. 1	Commission Revenue	4,400	
		Accounts Receivable		4,400
	1	Interest Payable	1,550	
		Interest Expense		1,550
(c)	Jan. 10	Cash	6,000	
		Commission Revenue		6,000
	31	Interest Expense	2,235	
		Cash		2,235

*EXERCISE 4-11 (Continued)

(a), (b) and (c)

Cash

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	10			6,000		6,000
	31				2,235	3,765

Accounts Receivable

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Unadjusted balance				24,000
	31	Adjusting entry		4,400		28,400
Jan.	1	Reversing entry			4,400	24,000

Interest Payable

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Unadjusted balance				0
	31	Adjusting entry			1,550	1,550
Jan.	1	Reversing entry		1,550		0

I. Masterson, Capital

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Unadjusted balance				48,000
	31	Closing entry			87,100	135,100

Income Summary

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Closing entry			96,400	96,400
	31	Closing entry		9,300		87,100
	31	Closing entry		87,100		0

*EXERCISE 4-11 (Continued)

(a), (b), and (c) (Continued)

Commission Revenue

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Unadjusted balance				92,000
	31	Adjusting entry			4,400	96,400
	31	Closing entry		96,400		0
Jan.	1	Reversing entry		4,400		4,400Dr.
	10				6,000	1,600

Interest Expense

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Unadjusted balance				7,750
	31	Adjusting entry		1,550		9,300
	31	Closing entry			9,300	0
Jan.	1	Reversing entry			1,550	1,550Cr.
	31			2,235		685

*EXERCISE 4-12

(a) It would be useful to prepare reversing entries for adjustment 1, 4, and 6.

(b)

(1)	**May**	**1**	**Property Management Revenue..**	**600**	
			Accounts Receivable		**600**
(4)	**May**	**1**	**Interest payable............................**	**545**	
			Interest expense......................		**545**
(6)	**May**	**1**	**Property Tax Payable...................**	**3,912**	
			Property Tax Expense.............		**3,912**

(c) Reversing entries are useful for these adjustments because it simplifies the recording of future transactions. The entire later payment can be debited to the expense account and credited to the revenue account. You will not have to remember what has gone before. The use of reversing entries does not change the amounts reported in the financial statements. It simply makes it easier to record future transactions.

SOLUTIONS TO PROBLEMS

PROBLEM 4-1A

(a)

Account	Normal Balance
Other Revenue	Credit
Repair Service Expense	Debit
Repair Service Revenue	Credit
R. Laporte, Drawings	Debit
R. Laporte, Capital	Credit
Other Expenses	Debit
Income Summary	Credit (Net income); Debit (Net loss)

(b)

Repair Service Revenue	180,000	
Other Revenue	35,000	
Income Summary		215,000
Income Summary	155,000	
Repair Service Expense		125,000
Other Expenses		30,000
Income Summary	60,000	
R. Laporte, Capital		60,000
R. Laporte, Capital	50,000	
R. Laporte, Drawings		50,000

(c)

Income Summary

Debit	Credit
155,000	215,000
	Bal. 60,000
60,000	
	Bal. 0

PROBLEM 4-2A

(a) GENERAL JOURNAL

Date	Account Titles and Explanation	Debit	Credit
Sept. 30	Accounts Receivable	1,150	
	Service Revenue		1,150
30	Insurance Expense ($4,140 x 8/12)	2,760	
	Prepaid Insurance		2,760
30	Supplies Expense ($3,780 – $960)	2,820	
	Supplies		2,820
30	Amortization Expense	7,200	
	Accumulated Amortization —Building		2,450
	Accumulated Amortization —Equipment		4,750
30	Salaries Expense	1,075	
	Salaries Payable		1,075
30	Interest Expense	525	
	Interest Payable ($105,000 x 6% x 1/12)		525
30	Unearned Revenue	1,710	
	Service Revenue		1,710

PROBLEM 4-2A (Continued)

(b)

EDGE SPORTS REPAIR SHOP
Adjusted Trial Balance
September 30, 2008

Account Titles	Debit	Credit
Cash	$ 10,470	
Accounts receivable ($1,450 + $1,150)	2,600	
Prepaid insurance ($4,140 – $2,760)	1,380	
Supplies ($3,780 – $2,820)	960	
Land	55,000	
Building	98,000	
Accumulated amortization—building ($17,150 + $2,450)		$ 19,600
Equipment	38,000	
Accumulated amortization—equipment ($9,500 + $4,750)		14,250
Accounts payable		4,300
Unearned revenue ($2,280 – $1,710)		570
Salaries payable ($0 + $1,075)		1,075
Interest payable ($0 + $525)		525
Mortgage payable		105,000
L. Bachchan, capital		60,000
L. Bachchan, drawings	93,525	
Service revenue ($198,450 + $1,150 + $1,710)		201,310
Salaries expense ($75,900 + $1,075)	76,975	
Utilities expense	11,100	
Interest expense ($5,315 + $525)	5,840	
Insurance expense	2,760	
Supplies expense	2,820	
Amortization expense	7,200	
	$406,630	$406,630

PROBLEM 4-2A (Continued)

(c)

EDGE SPORTS REPAIR SHOP
Income Statement
Year Ended September 30, 2008

Service revenue		$201,310
Expenses		
Salaries expense	$76,975	
Utilities expense	11,100	
Interest expense	5,840	
Insurance expense	2,760	
Supplies expense	2,820	
Amortization expense	7,200	
Total expenses		106,695
Net income		$ 94,615

EDGE SPORTS REPAIR SHOP
Statement of Owner's Equity
Year Ended September 30, 2008

L. Bachchan, capital, October 1, 2007 ($60,000 - $4,000)		$56,000
Add: Investment	$ 4,000	
Net income	94,615	98,615
		154,615
Less: Drawings		93,525
L. Bachchan, capital, September 30, 2008		$61,090

PROBLEM 4-2A (Continued)

(c) (Continued)

EDGE SPORTS REPAIR SHOP
Balance Sheet
September 30, 2008

Assets			
Current assets			
Cash			$ 10,470
Accounts receivable			2,600
Prepaid insurance			1,380
Supplies			960
Total current assets			15,410
Property, plant, and equipment			
Land		$55,000	
Building	$98,000		
Less: Accumulated amortization	19,600	78,400	
Equipment	$38,000		
Less: Accumulated amortization	14,250	23,750	157,150
Total assets			$172,560
Liabilities and Owner's Equity			
Current liabilities			
Accounts payable			$ 4,300
Salaries payable			1,075
Interest payable			525
Unearned revenue			570
Current portion of mortgage payable			5,400
Total current liabilities			11,870
Long-term liabilities			
Mortgage payable			99,600
Total liabilities			111,470
Owner's equity			
L. Bachchan, capital			61,090
Total liabilities and owner's equity			$172,560

PROBLEM 4-2A (Continued)

(d) GENERAL JOURNAL

Date	Account Titles and Explanation	Debit	Credit
Sept. 30	Service Revenue	201,310	
	Income Summary		201,310
30	Income Summary	106,695	
	Salaries Expense		76,975
	Utilities Expense		11,100
	Interest Expense		5,840
	Insurance Expense		2,760
	Supplies Expense		2,820
	Amortization Expense		7,200
30	Income Summary	94,615	
	L. Bachchan, Capital		94,615
30	L. Bachchan, Capital	93,525	
	L. Bachchan, Drawings		93,525

PROBLEM 4-3A

(a)

ZAZU PITS RAISIN COMPANY
Income Statement
Year Ended December 31, 2008

Revenues		
Service revenue		$73,500
Expenses		
Salaries expense	$47,040	
Amortization expense	5,800	
Utilities expense	5,280	
Interest expense	12,870	
Insurance expense	1,200	
Supplies expense	3,420	
Total expenses		75,610
Net loss		$ 2,110

ZAZU PITS RAISIN COMPANY
Statement of Owner's Equity
Year Ended December 31, 2008

P. Zazu, capital, January 1, 2008 ($58,500 - $4,500)		$54,000
Add: Investment		4,500
		58,500
Less: Net loss	$2,110	
Drawings	7,200	9,310
P. Zazu, capital, December 31, 2008		$49,190

PROBLEM 4-3A (Continued)

(a) (Continued)

ZAZU PITS RAISIN COMPANY
Balance Sheet
December 31, 2008

Assets			
Current assets			
Cash			$ 8,400
Accounts receivable			7,500
Prepaid insurance			1,800
Supplies			570
Total current assets			18,270
Property, plant, and equipment			
Land		$102,500	
Building	$150,000		
Less: Accumulated amortization	24,000	126,000	
Equipment	$ 28,000		
Less: Accumulated amortization	8,400	19,600	248,100
Total assets			$266,370
Liabilities and Owner's Equity			
Current liabilities			
Accounts payable			$ 12,740
Salaries payable			2,850
Interest payable			1,400
Unearned revenue			2,190
Current portion of mortgage payable			3,000
Total current liabilities			22,180
Long-term liability			
Mortgage payable			195,000
Total liabilities			217,180
Owner's equity			
P. Zazu, capital			49,190
Total liabilities and owner's equity			$266,370

PROBLEM 4-3A (Continued)

(b) **GENERAL JOURNAL** **J14**

Date		Account Titles and Explanation	Debit	Credit
Dec.	31	Service Revenue	73,500	
		Income Summary		73,500
	31	Income Summary	75,610	
		Salaries Expense		47,040
		Amortization Expense...................		5,800
		Utilities Expense		5,280
		Interest Expense		12,870
		Insurance Expense		1,200
		Supplies Expense		3,420
	31	P. Zazu, Capital	2,110	
		Income Summary		2,110
	31	P. Zazu, Capital	7,200	
		P. Zazu, Drawings		7,200

PROBLEM 4-3A (Continued)

(c)

Income Summary

	73,500
75,610	2,110
0	

P. Zazu, Capital

	58,500
2,110	
7,200	
	49,190

P. Zazu, Drawings

7,200	
	7,200
0	

Service Revenue

	73,500
73,500	
	0

Supplies Expense

3,420	
	3,420
0	

Amortization Expense

5,800	
	5,800
0	

Insurance Expense

1,200	
	1,200
0	

Salaries Expense

47,040	
	47,040
0	

Utilities Expense

5,280	
	5,280
0	

Interest Expense

12,870	
	12,870
0	

PROBLEM 4-3A (Continued)

(d)

ZAZU PITS RAISIN COMPANY
Post-Closing Trial Balance
December 31, 2008

	Debit	Credit
Cash	$ 8,400	
Accounts receivable	7,500	
Prepaid insurance	1,800	
Supplies	570	
Land	102,500	
Building	150,000	
Accumulated amortization—building		$ 24,000
Equipment	28,000	
Accumulated amortization—equipment		8,400
Accounts payable		12,740
Salaries payable		2,850
Interest payable		1,400
Unearned revenue		2,190
Mortgage payable		198,000
P. Zazu, capital		49,190
Totals	$298,770	$298,770

PROBLEM 4-4A

(a)

	(1) INCORRECT ENTRY			(2) CORRECT ENTRY			(3) CORRECTING ENTRY		
1.	Cash	670		Cash	760		Cash	90	
	Accounts Receivable		670	Accounts Receivable		760	Accounts Receivable		90
2.	Supplies	900		Equipment	900		Equipment	900	
	Accounts Receivable		900	Accounts Payable		900	Accounts Receivable	900	
							Supplies		900
							Accounts Payable		900
3.	No entry			Amortization expense	15		Amortization expense	15	
				Accumulated Amortization		15	Accumulated Amortization		15
4.	Misc. Expense	50		Advertising Expense	75		Advertising Expense	75	
	Cash		50	Cash		75	Cash		25
							Misc. Expense		50
5.	Salaries Expense	2,000		Salaries Expense	1,250		Salaries Payable	750	
	Cash		2,000	Salaries Payable	750		Salaries Expense		750
				Cash		2,000			

PROBLEM 4-4A (Continued)

(a) Continued

(1) INCORRECT ENTRY			(2) CORRECT ENTRY			(3) CORRECTING ENTRY		
6. Equipment	101		Repair Expense	110		Repair Expense	110	
Cash		101	Cash		110	Equipment		101
						Cash		9
7. Salary Expense	1,800		H. Maurice, Drawings	1,800		H. Maurice, Drawings	1,800	
Cash		1,800	Cash		1,800	Salary Expense		1,800
8. No entry			Rent Expense	1,150		Rent Expense	1,150	
			Cash		1,150	Cash		1,150

PROBLEM 4-4A (Continued)

(b)

INTERACTIVE COMPUTER REPAIR
Trial Balance
March 31, 2008

	Debit	Credit
Cash ($7,400 + $90 - $25 - $9 - $1,150)	$ 6,306	
Accounts receivable ($3,600 - $90 + $900)	4,410	
Supplies ($1,100 - $900)	200	
Equipment ($11,400 + $900 - $101)	12,199	
Accumulated amortization ($5,795 + $15)		$ 5,810
Accounts payable ($3,000 + $900)		3,900
Salaries payable ($750 - $750)		0
Unearned revenue		935
H. Maurice, capital		12,725
H. Maurice, drawings ($0 + $1,800)	1,800	
Service revenue		6,450
Salaries expense ($5,100 - $750 - $1,800)	2,550	
Advertising expense ($600 + $75)	675	
Miscellaneous expense ($210 - $50)	160	
Amortization expense ($95 + $15)	110	
Repair expense ($150 + $110)	260	
Rent expense ($0 + $1,150)	1,150	
	$29,820	$29,820

PROBLEM 4-5A

(a)

	Income Statement			Balance Sheet		
Item	Revenue	Expenses	Net Income	Assets	Liabilities	Owner's Equity
1.	NE	O $700	U $ 700	U $700	NE	U $700
2.	NE	NE	NE	O $600	O $600	NE
3.	O $350	NE	O $350	O $350	NE	O $350
4.	NE	O $270	U $270	U $270	NE	U $270
5.	U $80	NE	U $80	U$80	NE	U $80
6.	U $750	U $750	NE	NE	NE	NE
7.	NE	NE	NE	U $500	U $500	NE
8.	O $300	NE	O $300	NE	U $300	O $300
9.	NE	O$950	U$950	NE	NE	NE
(b) Total	U $180	O$1,170	U$1,350	U $600	U $200	U $400

Note that the accounting equations stay in balance, in the total row. Revenues (U$180) – Expenses (O$1,170) = Net Income (U$1,350). Assets (U $600) = Liabilities (U$200) + Owner's Equity (U$400). The difference in net income (U $ 1,350) and the owner's equity (U $400) is item 9 which does result in an understatement of income but no net effect on owner's equity.

PROBLEM 4-6A

(a)

MATRIX CONSULTING SERVICES
Income Statement
Year Ended March 31, 2008

Revenues		
Service revenue	$79,800	
Interest revenue	600	$80,400
Expenses		
Advertising expense	$12,000	
Amortization expense	6,000	
Insurance expense	4,000	
Interest expense	2,000	
Salaries expense	45,000	
Supplies expense	3,700	
Total expenses		72,700
Net income		$ 7,700

MATRIX CONSULTING SERVICES
Statement of Owner's Equity
Year Ended March 31, 2008

N. Anderson, capital, April 1, 2007 ($41,000 - $3,600)		$37,400
Add: Investment	$3,600	
Net income	7,700	11,300
		48,700
Less: Drawings		12,000
N. Anderson, capital, March 31, 2008		$36,700

PROBLEM 4-6A (Continued)

(a) (Continued)

MATRIX CONSULTING SERVICES
Balance Sheet
March 31, 2008

Assets		
Current assets		
Cash		$ 4,600
Short-term investments		4,000
Accounts receivable		7,400
Interest receivable		800
Note receivable		10,000
Prepaid insurance		4,400
Supplies		2,300
Total current assets		33,500
Property, plant, and equipment		
Computer equipment	$44,000	
Less: Accumulated amortization	18,000	26,000
Intangible asset		
Patent		16,000
Total assets		$75,500
Liabilities and Owner's Equity		
Current liabilities		
Accounts payable		$ 8,000
Salaries payable		2,600
Interest payable		1,000
Unearned revenue		1,200
Current portion of note payable		10,000
Total current liabilities		22,800
Long-term liabilities		
Notes payable ($26,000 - $10,000)		16,000
Total liabilities		38,800
Owner's equity		
N. Anderson, capital		36,700
Total liabilities and owner's equity		$75,500

PROBLEM 4-6A (Continued)

(b)

	2008	2007
Working Capital	**\$33,500 - \$22,800 = \$10,700**	**\$30,700 - \$15,950 = \$14,750**
Current Ratio	**\$33,500 ÷ \$22,800 = 1.47:1**	**\$30,700 ÷ \$15,950 = 1.92:1**

Working capital is positive for 2008 and 2007 and the current ratios are both greater than 1, which indicates the company can meet its currently maturing obligations. There was a decline in both ratios from 2007 to 2008; indicating a weakening in the company's liquidity from 2007 to 2008.

PROBLEM 4-7A

(a)

	2005	2004	2003
Working Capital	**$12,770,157 – $3,895,903 = $8,874,254**	**$9,947,060 – $4,014,186 = $5,932,874**	**$10,006,747 – $4,958,338 = $5,048,409**
Current Ratio	**$12,770,157 ÷ $3,895,903 = 3.28:1**	**$9,947,060 ÷ $4,014,186 = 2.48:1**	**$10,006,747 ÷ $4,958,338 = 2.02:1**

(b) **Working capital is positive for 2003 through 2005 and the current ratios are all greater than 1, which indicates the company can meet its currently maturing obligations. There was a significant improvement in both ratios from 2003 to 2005; and, the company's liquidity has improved from 2003 to 2005.**

*PROBLEM 4-8A

Edge Sports Repair Shop
Worksheet
Year Ended September 30, 2008

Account Titles	Trial Balance Debit	Trial Balance Credit	Adjustments Debit	Adjustments Credit	Adjusted Trial Balance Debit	Adjusted Trial Balance Credit	Income Statement Debit	Income Statement Credit	Balance Sheet Debit	Balance Sheet Credit
Cash	10,470				10,470				10,470	
Accounts receivable	1,450		(1) 1,150		2,600				2,600	
Prepaid insurance	4,140			(2) 2,760	1,380				1,380	
Supplies	3,780			(3) 2,820	960				960	
Land	55,000				55,000				55,000	
Building	98,000				98,000				98,000	
Accum. amort.–bldg		17,150		(4) 2,450		19,600				19,600
Equipment	38,000				38,000				38,000	
Accum.amort.– equip.		9,500		(4) 4,750		14,250				14,250
Accounts payable		4,300				4,300				4,300
Unearned revenue		2,280	(7) 1,710			570				570
Salaries payable				(5) 1,075		1,075				1,075
Interest payable				(6) 525		525				525

*PROBLEM 4-8A (Continued)

	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
Account Titles	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Mortgage payable		105,000				105,000				105,000
L. Bachchan, capital		60,000				60,000				60,000
L. Bachchan, drawings	93,525				93,525				93,525	
Service revenue		198,450		(1) 1,150 (7) 1,710		201,310		201,310		
Salaries expense	75,900		(5) 1,075		76,975		76,975			
Utilities expense	11,100				11,100		11,100			
Interest expense	5,315		(6) 525		5,840		5,840			
Insurance expense			(2) 2,760		2,760		2,760			
Supplies expense			(3) 2,820		2,820		2,820			
Amort. expense			(4) 7,200		7,200		7,200			
Totals	396,680	396,680	17,240	17,240	406,630	406,630	106,695	201,310	299,935	205,320
Net income							94,615			94,615
Totals							201,310	201,310	299,935	299,935

*PROBLEM 4-9A

(a)

KUMAR MANAGEMENT SERVICES
Work Sheet
Year Ended December 31, 2008

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash	12,550				12,550				12,550	
Accts. rec.	23,600		(a) 1,500		25,100				25,100	
Supplies	3,150			(b) 2,460	690				690	
Prepaid insur.	3,100			(c) 1,700	1,400				1,400	
Land	58,000				58,000				58,000	
Building	112,500				112,500				112,500	
Accum. amort. —building		22,500		(d) 2,500		25,000				25,000
Equipment	51,000				51,000				51,000	
Accum. amort. —equipment		17,000		(d) 4,250		21,250				21,250
Accts payable		10,640		(e) 700		11,340				11,340
Sal. payable				(f) 845		845				845
Int. payable				(g) 1,250		1,250				1,250
Unearned rent revenue		5,000	(h) 1,900			3,100				3,100
Mort. payable		100,000				100,000				100,000

*PROBLEM 4-9A (Continued)
(a) (Continued)

Account Titles	Trial Balance Debit	Trial Balance Credit	Adjustments Debit	Adjustments Credit	Adjusted Trial Balance Debit	Adjusted Trial Balance Credit	Income Statement Debit	Income Statement Credit	Balance Sheet Debit	Balance Sheet Credit
M. Kumar, cap.		113,150				113,150				113,150
M. Kumar, draw.	28,500				28,500				28,500	
Service rev.		66,100		(a) 1,500		67,600		67,600		
Rent rev.		24,000		(h) 1,900		25,900		25,900		
Salaries exp.	38,675		(f) 845		39,520		39,520			
Utilities exp.	15,800		(e) 700		16,500		16,500			
Prop. tax exp	5,265				5,265		5,265			
Insurance exp.			(c) 1,700		1,700		1,700			
Interest exp.	6,250		(g) 1,250		7,500		7,500			
Amort. exp.			(d) 6,750		6,750		6,750			
Supplies exp.			(b) 2,460		2,460		2,460			
Totals	358,390	358,390	17,105	17,105	369,435	369,435	79,695	93,500	289,740	275,935
Net income							13,805			13,805
Totals							93,500	93,500	289,740	289,740

Key: (a) Service revenue accrued \$25,100 - \$23,600 - \$1,500
(b) Supplies used \$3,150 - \$690 = \$2,460
(c) Expired insurance \$3,100 - \$1,400 = \$1,700
(d) Amortization expense—building \$25,000 - \$22,500 = \$2,500
+ Amortization expense—equipment \$21,250 - \$17,000 = \$4,250 \$6,750
(e) Utilities expense accrued \$11,340 - \$10,640 = \$700
(f) Salaries accrued \$845
(g) Interest expense accrued \$1,250
(h) Rent revenue earned \$5,000 - \$3,100 = \$1,900

***PROBLEM 4-9A (Continued)**
(b)

KUMAR MANAGEMENT SERVICES
Balance Sheet
December 31, 2008

Assets

Current assets			
Cash			$ 12,550
Accounts receivable			25,100
Supplies			690
Prepaid insurance			1,400
Total current assets			39,740
Property, plant, and equipment			
Land		$58,000	
Building	$112,500		
Less: Accumulated amortization	25,000	87,500	
Equipment	$ 51,000		
Less: Accumulated amortization	21,250	29,750	175,250
Total assets			$214,990

Liabilities and Owner's Equity

Current liabilities	
Accounts payable	$ 11,340
Salaries payable	845
Interest payable	1,250
Unearned rent revenue	3,100
Current maturity of long-term debt	10,000
Total current liabilities	26,535
Long-term liabilities	
Mortgage payable	90,000
Total liabilities	116,535
Owner's equity	
M. Kumar, capital ($113,150 + $13,805 – $28,500)	98,455
Total liabilities and shareholder’s equity	$214,990

*PROBLEM 4-9A (Continued)

(c)

Dec.	**31**	**Accounts Receivable**	**1,500**	
		Service Revenue		**1,500**
	31	**Supplies Expense**	**2,460**	
		Supplies		**2,460**
	31	**Insurance Expense**	**1,700**	
		Prepaid Insurance		**1,700**
	31	**Amortization Expense**	**6,750**	
		Accumulated Amortization —Building		**2,500**
		Accumulated Amortization —Equipment		**4,250**
	31	**Utilities Expense**	**700**	
		Accounts Payable		**700**
	31	**Salaries Expense**	**845**	
		Salaries Payable		**845**
	31	**Interest Expense**	**1,250**	
		Interest Payable		**1,250**
	31	**Unearned Rent Revenue**	**1,900**	
		Rent Revenue		**1,900**

*PROBLEM 4-9A (Continued)

(d)

Dec.	31	Service Revenue	67,600	
		Rent Revenue	25,900	
		Income Summary		93,500
	31	Income Summary	79,695	
		Salaries Expense		39,520
		Utilities Expense		16,500
		Property tax Expense		5,265
		Insurance Expense		1,700
		Interest Expense		7,500
		Amortization Expense		6,750
		Supplies Expense		2,460
	31	Income Summary	13,805	
		M. Kumar, Capital		13,805
	31	M. Kumar, Capital	28,500	
		M. Kumar, Drawings		28,500

*PROBLEM 4-9A (Continued)

(e)

KUMAR MANAGEMENT SERVICES
Post-Closing Trial Balance
December 31, 2008

	Debit	Credit
Cash	$ 12,550	
Accounts receivable	25,100	
Supplies	690	
Prepaid insurance	1,400	
Land	58,000	
Building	112,500	
Accumulated amortization—building		$ 25,000
Equipment	51,000	
Accumulated amortization—equipment		21,250
Accounts payable		11,340
Salaries payable		845
Interest payable		1,250
Unearned rent revenue		3,100
Mortgage payable		100,000
M. Kumar, capital		98,455
	$261,240	$261,240

*PROBLEM 4-10A

(a)	**950**	**(n)**	**2,790**
(b)	**1,860**	**(o)**	**300**
(c)	**1,280**	**(p)**	**900**
(d)	**2,190**	**(q)**	**4,700**
(e)	**150**	**(r)**	**600**
(f)	**600**	**(s)**	**300**
(g)	**300**	**(t)**	**900**
(h)	**900**	**(u)**	**4,700**
(i)	**900**	**(v)**	**4,700**
(j)	**210**	**(w)**	**5,175**
(k)	**300**	**(x)**	**13,390**
(l)	**700**	**(y)**	**475**
(m)	**500**	**(z)**	**2,115**

*PROBLEM 4-11A

(a) Assuming the company does not use reversing entries:

1.	Cash	5,550	
	Rent Revenue		1,850
	Rent Receivable		3,700
	Property Tax Expense	5,250	
	Property Taxes Payable	3,150	
	Cash		8,400
	Insurance Expense	5,250	
	Prepaid Insurance		5,250
	Alternatively, this could be treated as a year-end adjustment.		
	Prepaid Insurance	9,000	
	Cash		9,000
	Unearned Service Revenue	25,000	
	Cash	390,000	
	Service Revenue		415,000

*PROBLEM 4-11A (Continued)

(a) (Continued)

2.

Rent Receivable

Debit	Credit
Dec. 31 Bal. 3,700	
	3,700
0	

Prepaid Insurance

Debit	Credit
Dec. 31 Bal. 5,250	
	5,250
9,000	
9,000	

Property Taxes Payable

Debit	Credit
3,150	Dec. 31 Bal. 3,150
	0

Unearned Service Revenue

Debit	Credit
25,000	Dec. 31 Bal. 25,000
	0

Rent Revenue

Debit	Credit
	1,850

Property Tax Expense

Debit	Credit
5,250	

Service Revenue

Debit	Credit
	415,000

Insurance Expense

Debit	Credit
5,250	

*PROBLEM 4-11A (Continued)

(b) Assuming that reversing entries are used for accruals:

		Debit	Credit
1.	Rent Revenue	3,700	
	Rent Receivable		3,700
	Property Taxes Payable	3,150	
	Property Tax Expense		3,150
2.	Cash	5,550	
	Rent Revenue		5,550
	Property Tax Expense	8,400	
	Cash		8,400
	Insurance Expense	5,250	
	Prepaid Insurance		5,250
	Alternatively, this could be treated as a year-end adjustment.		
	Prepaid Insurance	9,000	
	Cash		9,000
	Unearned Service Revenue	25,000	
	Cash	390,000	
	Service Revenue		415,000

***PROBLEM 4-11A (Continued)**

(b) (Continued)

3.

Rent Receivable

Dec. 31 Bal.	3,700	Jan. 1	3,700
	0		

Prepaid Insurance

Dec. 31 Bal.	5,250		
			5,250
	9,000		
	9,000		

Property Taxes Payable

Jan. 1	3,150	Dec. 31 Bal.	3,150
			0

Unearned Service Revenue

	25,000	Dec. 31 Bal.	25,000
			0

Rent Revenue

Jan. 1	3,700		
			5,550
			1,850

Property Tax Expense

		Jan. 1	3,150
	8,400		
	5,250		

Service Revenue

			415,000

Insurance Expense

	5,250		

(c) **All of the account balances in (b) are the same as they were in (a). Reversing entries can be useful because they simplify the recording of cash transactions after the fiscal year end. It is not necessary to look at the previous year's adjusting entries to decide how to record a cash transaction after the year end.**

*PROBLEM 4-12A

(a)

Apr.	30	Accounts Receivable	775	
		Game Fee Revenue		775
	30	Supplies Expense ($3,370 – $540)	2,830	
		Supplies		2,830
	30	Amortization Expense ($135,000 ÷ 10)	13,500	
		Accumulated Amortization —equipment		13,500
	30	Salaries Expense	720	
		Salaries Payable		720
	30	Interest Expense ($85,000 x 6% x 1/12)	425	
		Interest Payable		425
	30	Unearned Game Fee Revenue	1,475	
		Game Fee Revenue		1,475

(b)

May	1	Game Fee Revenue	775	
		Accounts Receivable		775
	1	Salaries Payable	720	
		Salaries Expense		720
	1	Interest Payable	425	
		Interest Expense		425

***PROBLEM 4-12A (Continued)**

(c)

May	10	Salaries Expense	2,785	
		Cash		2,785
	17	Cash ($1,150 + $775)	1,925	
		Game Fee Revenue		1,925
June	30	Interest Expense ($85,000 x 6% x 3/12)	1,275	
		Cash		1,275

(d)

May	10	Salaries Expense	2,065	
		Salaries Payable	720	
		Cash		2,785
	17	Cash	1,925	
		Accounts Receivable		775
		Game Fee Revenue		1,150
June	30	Interest Expense ($85,000 x 6% x 2/12)	850	
		Interest Payable	425	
		Cash		1,275

PROBLEM 4-1B

(a)

Professional Fees Earned	275,000	
Other Revenue	20,000	
Income Summary		295,000
Income Summary	165,000	
Operating Expenses		145,000
Other Expenses		20,000
Income Summary	130,000	
J. Lecoure, Capital		130,000
J. Lecoure, Capital	125,000	
J. Lecoure, Drawings		125,000

(b)

Income Summary

		295,000
165,000		
	Bal.	130,000
130,000		
	Bal.	0

PROBLEM 4-2B

(a) GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit
Jan.	31	Accounts Receivable	1,550	
		Service Revenue		1,550
	31	Insurance Expense ($4,020 x 10/12) .	3,350	
		Prepaid Insurance		3,350
	31	Supplies Expense ($5,240 - $670).....	4,570	
		Supplies		4,570
	31	Amortization Expense	3,800	
		Accumulated Amortization—		
		Building ($90,000 ÷ 45)..................		2,000
		Accumulated Amortization—		
		Equipment ($27,000 ÷ 15).............		1,800
	31	Salaries Expense	1,325	
		Salaries Payable		1,325
	31	Interest Expense ($102,000 x 7% x 1/12)	595	
		Interest Payable		595
	31	Unearned Revenue	1,700	
		Service Revenue		1,700

PROBLEM 4-2B (Continued)

(b)

CAMPUS CYCLE SHOP
Adjusted Trial Balance
January 31, 2008

	Debit	Credit
Cash	$ 8,200	
Accounts receivable ($1,630 + $1,550)	3,180	
Prepaid insurance ($4,020 - $3,350)	670	
Supplies ($5,240 - $4,570)	670	
Land	50,000	
Building	90,000	
Accumulated amortization—building ($11,000 + $2,000)		$ 13,000
Equipment	27,000	
Accumulated amortization—equipment ($4,500 + $1,800)		6,300
Accounts payable		4,000
Salaries payable		1,325
Interest payable		595
Unearned revenue ($1,950 - $1,700)		250
Mortgage payable		102,000
K. Dude, capital		66,000
K. Dude, drawings	101,100	
Service revenue ($231,065 + $1,550 + $1,700)		234,315
Salaries expense ($115,200 + $1,325)	116,525	
Utilities expense	12,000	
Interest expense ($6,125 + $595)	6,720	
Insurance expense	3,350	
Supplies expense	4,570	
Amortization expense	3,800	
	$427,785	$427,785

PROBLEM 4-2B (Continued)

(c)

CAMPUS CYCLE SHOP
Income Statement
Year Ended January 31, 2008

Service revenue		$234,315
Expenses		
Salaries expense	$116,525	
Utilities expense	12,000	
Interest expense	6,720	
Insurance expense	3,350	
Supplies expense	4,570	
Amortization expense	3,800	
Total expenses		146,965
Net income		$ 87,350

CAMPUS CYCLE SHOP
Statement of Owner's Equity
Year Ended January 31, 2008

K. Dude, capital, February 1, 2007 ($66,000 - $3,000)		$ 63,000
Add: Investment	$ 3,000	
Net income	87,350	90,350
		153,350
Less: Drawings		101,100
K. Dude, capital, January 31, 2008		$ 52,250

PROBLEM 4-2B (Continued)

(c) (Continued)

CAMPUS CYCLE SHOP
Balance Sheet
January 31, 2008

Assets			
Current assets			
Cash			$ 8,200
Accounts receivable			3,180
Prepaid insurance			670
Supplies			670
Total current assets			12,720
Property, plant, and equipment			
Land		$50,000	
Building	$90,000		
Less: Accumulated amortization	13,000	77,000	
Equipment	$27,000		
Less: Accumulated amortization	6,300	20,700	147,700
Total assets			$160,420
Liabilities and Owner's Equity			
Current liabilities			
Accounts payable			$ 4,000
Salaries payable			1,325
Interest payable			595
Unearned revenue			250
Current portion of mortgage payable			4,500
Total current liabilities			10,670
Long-term liabilities			
Mortgage payable			97,500
Total liabilities			108,170
Owner's equity			
K. Dude, capital			52,250
Total liabilities and owner's equity			$160,420

PROBLEM 4-2B (Continued)

(d) GENERAL JOURNAL

Date		Account Titles and Explanation	Debit	Credit
Jan	31	Service Revenue	234,315	
		Income Summary		234,315
	31	Income Summary	146,965	
		Salaries Expense		116,525
		Utilities Expense		12,000
		Interest Expense		6,720
		Insurance Expense		3,350
		Supplies Expense		4,570
		Amortization Expense		3,800
	31	Income Summary	87,350	
		K. Dude, Capital		87,350
	31	K. Dude, Capital	101,100	
		K. Dude, Drawings		101,100

PROBLEM 4-3B

(a)

RAISIN OATMEAL COMPANY
Income Statement
Year Ended December 31, 2008

Revenues		
Service revenue		$139,800
Expenses		
Advertising expense	$ 2,400	
Amortization expense	10,300	
Utilities expense	2,175	
Interest expense	4,155	
Insurance expense	8,400	
Salaries expense	32,100	
Supplies expense	2,170	
Total expenses		61,700
Net income		$ 78,100

RAISIN OATMEAL COMPANY
Statement of Owner's Equity
Year Ended December 31, 2008

R. Ospina, capital, January 1, 2008	$137,500
Add: Investment	2,500
Net income	78,100
	218,100
Less: Drawings	59,200
R. Ospina, capital, December 31, 2008	$158,900

PROBLEM 4-3B (Continued)

(a) (Continued)

RAISIN OATMEAL COMPANY
Balance Sheet
December 31, 2008

Assets			
Current assets			
Cash			$ 6,185
Accounts receivable			13,500
Prepaid insurance			3,500
Supplies			1,140
Total current assets			24,325
Property, plant, and equipment			
Land		$ 46,800	
Building	$187,580		
Less: Accumulated amortization	37,520	150,060	
Equipment	$26,000		
Less: Accumulated amortization	5,600	20,400	217,260
Total assets			$241,585
Liabilities and Owner's Equity			
Current liabilities			
Accounts payable			$ 13,220
Salaries payable			3,000
Interest payable			350
Unearned revenue			2,190
Current portion mortgage payable			7,500
Total current liabilities			26,260
Long-term liability			
Notes payable			56,425
Total liabilities			82,685
Owner's equity			
R. Ospina, capital			158,900
Total liabilities and owner's equity			$241,585

PROBLEM 4-3B (Continued)

(b) GENERAL JOURNAL J14

Date		Account Titles and Explanation	Debit	Credit
Dec.	31	Service Revenue	139,800	
		Income Summary		139,800
	31	Income Summary	61,700	
		Advertising Expense		2,400
		Amortization Expense		10,300
		Utilities Expense		2,175
		Interest Expense		4,155
		Insurance Expense		8,400
		Salaries Expense		32,100
		Supplies Expense		2,170
	31	Income Summary	78,100	
		R. Ospina, Capital		78,100
	31	R. Ospina, Capital	59,200	
		R. Ospina, Drawings		59,200

PROBLEM 4-3B (Continued)

(c)

Income Summary

	139,800
61,700	
78,100	
0	

R. Ospina, Capital

	140,000
	78,100
59,200	
	158,900

R.Ospina, Drawings

59,200	
	59,200
0	

Service Revenue

	139,800
139,800	
	0

Interest Expense

4,155	
	4,155
0	

Advertising Expense

2,400	
	2,400
0	

Insurance Expense

8,400	
	8,400
0	

Amortization Expense

10,300	
	10,300
0	

Salaries Expense

32,100	
	32,100

Utilities Expense

2,175	
	2,175
0	

Supplies Expense

2, 170	
	2,170
0	

PROBLEM 4-3B (Continued)

(d)

RAISIN OATMEAL COMPANY
Post-Closing Trial Balance
December 31, 2008

	Debit	Credit
Cash	$ 6,185	
Accounts receivable	13,500	
Prepaid insurance	3,500	
Supplies	1,140	
Land	46,800	
Building	187,580	
Accumulated amortization—building		$ 37,520
Equipment	26,000	
Accumulated amortization—equipment		5,600
Accounts payable		13,220
Salaries payable		3,000
Interest payable		350
Unearned revenue		2,190
Notes payable		63,925
R. Ospina, capital		158,900
Totals	$284,705	$284,705

PROBLEM 4-4B

(a)

	(1) INCORRECT ENTRY			(2) CORRECT ENTRY			(3) CORRECTING ENTRY		
1.	Cash	690		Cash	580		Accounts Receivable	110	
	Accounts Receivable		690	Accounts Receivable		580	Cash		110
2.	Supplies	3,240		Equipment	3,240		Equipment	3,240	
	Accounts Payable		3,240	Accounts Payable		3,240	Supplies		3,240
3.	No entry			Amortization Expense	270		Amortization Expense	270	
				Accum. Amortization		270	Accum. Amortization		270
4.	Advertising Expense	45		Misc. Expense	145		Miscellaneous Expense	145	
	Cash		45	Cash		145	Advertising Expense		45
							Cash		100
5.	Salaries Expense	1,900		Salaries Expense	1,400		Salaries Payable	500	
	Cash		1,900	Salaries Payable	500		Salaries Expense		500
				Cash		1,900			
6.	Equipment	126		Repair Expense	126		Repair Expense	126	
	Cash		126	Cash		126	Equipment		126

PROBLEM 4-4B (Continued)

(a) Continued

(1) INCORRECT ENTRY			(2) CORRECT ENTRY			(3) CORRECTING ENTRY		
7. Salary Expense	2,200		S. Morris, Drawings	2,200		S. Morris Drawings	2,200	
Cash		2,200	Cash		2,200	Salary Expense		2,200
8. No entry			Rent Expense	950		Rent Expense	950	
			Cash		950	Cash		950

PROBLEM 4-4B (Continued)

(b)

CAMPUS DVD REPAIR
Trial Balance
April 30, 2008

	Debit	Credit
Cash ($4,960 - $110 - $100 - $950)	$ 3,800	
Accounts receivable ($3,200 + $110)	3,310	
Supplies ($3,800 - $3,240)	560	
Equipment ($10,926 + $3,240 - $126)	14,040	
Accumulated amortization ($2,925 + $270)		$ 3,195
Accounts payable		2,100
Salaries payable ($500 - $500)		0
Unearned revenue		590
S. Morris, capital		16,900
S. Morris, drawings ($0 + $2,200)	2,200	
Service revenue		6,886
Salaries expense ($6,000 - $500 - $2,200)	3,300	
Advertising expense ($400 - $45)	355	
Miscellaneous expense ($290 + $145)	435	
Amortization expense ($225 + $270)	495	
Repair expense ($100 + $126)	226	
Rent expense ($0 + $950)	950	
	$29,671	$29,671

PROBLEM 4-5B

(a)

	Income Statement			Balance Sheet		
Item	**Revenue**	**Expenses**	**Net Income**	**Assets**	**Liabilities**	**Owner's Equity**
1.	NE	U $500	O $500	NE	U $500	O $500
2.	NE	O $300	U $300	U $300	NE	U $300
3.	NE	NE	NE	U $450	NE	NE
4.	NE	U $72	O $72	NE	NE	O $72
5.	U $580	NE	U $580	U $580	NE	U $580
6.	NE	U $1,200	O $1,200	NE	U $1,200	O $1,200
7.	NE	NE	NE	U $250	NE	NE
8.	O $300	NE	O $300	NE	U $300	O $300
(b) Totals	U $280	U $1,472	O $1,192	U $1,580	U $2,000	O $1,192

Note that the balance sheet totals do not balance (U $1,580 $\neq$ U $2,000 + O $1,192) because of one-sided posting errors that were made in items 3, 4, and 7 above.

PROBLEM 4-6B

(a)

CORMIER COMPANY
Income Statement
Year Ended December 31, 2008

Revenues		
Service revenue	$92,000	
Interest revenue	600	$92,600
Expenses		
Amortization expense	$ 8,000	
Insurance expense	5,000	
Interest expense	1,800	
Rent expense	14,000	
Salaries expense	38,100	
Total expenses		66,900
Net income		$25,700

CORMIER COMPANY
Statement of Owner's Equity
Year Ended December 31, 2008

P. Cormier, capital, January 1, 2008 ($32,800 - $3,200)		$29,600
Add: Investment	$ 3,200	
Net income	25,700	28,900
		58,500
Less: Drawings		10,000
P. Cormier, capital, December 31, 2008		$48,500

PROBLEM 4-6B (Continued)

(a) (Continued)

CORMIER COMPANY
Balance Sheet
December 31, 2008

Assets		
Current assets		
Cash		$ 6,200
Short-term investments		4,500
Accounts receivable		7,200
Interest receivable		600
Prepaid insurance		2,800
Supplies		2,000
Total current assets		23,300
Long-term Investment		
Note receivable		7,500
Property, plant, and equipment		
Office equipment	$34,000	
Less: Accumulated amortization	8,000	26,000
Intangible asset		
Patent		22,000
Total assets		$78,800
Liabilities and Owner's Equity		
Current liabilities		
Notes payable		$ 4,000
Accounts payable		6,000
Salaries payable		3,500
Interest payable		800
Unearned revenue		2,000
Total current liabilities		16,300
Long-term liabilities		
Notes payable		14,000
Total liabilities		30,300
Owner's equity		
P. Cormier, capital		48,500
Total liabilities and owner's equity		$78,800

PROBLEM 4-6B (Continued)

(b)

	2008	2007
Working Capital	**$23,300 - $16,300 = $7,000**	**$17,400 - $22,300 = ($4,900)**
Current Ratio	**$23,300 ÷ $16,300 = 1.43:1**	**$17,400 ÷ $22,300 = 0.78:1**

The working capital and current ratios both show an improvement in 2008 over 2007. In 2007, the working capital was negative and the current ratio less than 1, indicating that the company did not have sufficient current assets to cover current liabilities. In 2008, the company had a positive working capital amount of $7,000 and a current ratio of greater than 1. Cormier Company's liquidity has improved.

PROBLEM 4-7B

(a)

	2005	2004	2003
Working Capital	**\$97,998 - \$71,887 = \$26,111**	**\$90,574 - \$60,823 = \$29,751**	**\$73,118 - \$55,512 = \$17,606**
Current Ratio	**\$97,998 ÷ \$71,887 = 1.36:1**	**\$90,574 ÷ \$60,823 = 1.49:1**	**\$73,118 ÷ \$55,512 = 1.32:1**

(b) Working capital is positive for all years and the current ratios are all greater than 1, which indicates the company can meet its currently maturing obligations. There was a decline in both ratios from 2004 to 2005; indicating a weakening in the company's liquidity from 2004 to 2005. However, both the working capital and the current ratio increased from 2003 to 2004, and the 2005 amounts are still both better than 2003.

*PROBLEM 4-8B

CAMPUS CYCLE SHOP
Work Sheet
Year Ended January 31, 2008

Account Titles	Trial Balance Debit	Trial Balance Credit	Adjustments Debit	Adjustments Credit	Adjusted Trial Balance Debit	Adjusted Trial Balance Credit	Income Statement Debit	Income Statement Credit	Balance Sheet Debit	Balance Sheet Credit
Cash	8,200				8,200				8,200	
Accounts receivable	1,630		(1) 1,550		3,180				3,180	
Prepaid insurance	4,020			(2) 3,350	670				670	
Supplies	5,240			(3) 4,570	670				670	
Land	50,000				50,000				50,000	
Building	90,000				90,000				90,000	
Accum. amort.—building		11,000		(4) 2,000		13,000				13,000
Equipment	27,000				27,000				27,000	
Accum. amort.—equipment		4,500		(4) 1,800		6,300				6,300
Accounts payable		4,000				4,000				4,000
Salaries payable				(5) 1,325		1,325				1,325

*PROBLEM 4-8B (Continued)

Account Titles	Trial Balance Debit	Trial Balance Credit	Adjustments Debit	Adjustments Credit	Adjusted Trial Balance Debit	Adjusted Trial Balance Credit	Income Statement Debit	Income Statement Credit	Balance Sheet Debit	Balance Sheet Credit
Interest payable				(6) 595		595				595
Unearned revenue		1,950	(7) 1,700			250				250
Mortgage payable		102,000				102,000				102,000
K. Dude, capital		66,000				66,000				66,000
K. Dude, drawings	101,100				101,100				101,100	
Service revenue		231,065		(1) 1,550 (7) 1,700		234,315		234,315		
Salaries exp.	115,200		(5) 1,325		116,525		116,525			
Utilities exp.	12,000				12,000		12,000			
Interest exp.	6,125		(6) 595		6,720		6,720			
Insurance exp.			(2) 3,350		3,350		3,350			
Supplies exp.			(3) 4,570		4,570		4,570			
Amort. exp.			(4) 3,800		3,800		3,800			
Totals	420,515	420,515	16,890	16,890	427,785	427,785	146,965	234,315	280,820	193,470
Net income							87,350			87,350
Totals							234,315	234,315	280,820	280,820

*PROBLEM 4-9B

(a)

WATER WORLD PARK
Work Sheet
Year Ended September 30, 2008

Account Titles	Trial Balance Debit	Trial Balance Credit	Adjustments Debit	Adjustments Credit	Adjusted Trial Balance Debit	Adjusted Trial Balance Credit	Income Statement Debit	Income Statement Credit	Balance Sheet Debit	Balance Sheet Credit
Cash	11,770				11,770				11,770	
Accounts receivable			(a) 1,250		1,250				1,250	
Supplies	18,600			(b)17,400	1,200				1,200	
Prepaid insurance	31,900			(d)28,000	3,900				3,900	
Land	80,000				80,000				80,000	
Building	480,000				480,000				480,000	
Accum. amort—building		120,000		(c)16,000		136,000				136,000
Equipment	120,000				120,000				120,000	
Accum. amort—equipment		44,000		(c) 8,000		52,000				52,000
Accounts payable		14,600		(e) 1,250		15,850				15,850
Wages payable				(f) 2,960		2,960				2,960

*PROBLEM 4-9B (Continued)
(a) (continued)

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Int. payable				(g) 2,040		2,040				2,040
Unearned admission rev.		3,700	(h) 3,000			700				700
Mort. payable		350,000				350,000				350,000
M. Berge, cap.		159,700				159,700				159,700
M. Berge, draw.	14,000				14,000				14,000	
Admission rev.		250,070		(h) 3,000		253,070		253,070		
Concession rev.		16,720		(a) 1,250		17,970		17,970		
Wages exp.	123,000		(f) 2,960		125,960		125,960			
Repairs exp.	30,500		(e) 1,250		31,750		31,750			
Advertising exp.	9,660				9,660		9,660			
Utilities exp.	16,900				16,900		16,900			
Insurance exp.			(d)28,000		28,000		28,000			
Interest exp.	22,460		(g) 2,040		24,500		24,500			
Amort. exp.			(c)24,000		24,000		24,000			
Supplies exp.			(b)17,400		17,400		17,400			
Totals	958,790	958,790	79,900	79,900	990,290	990,290	278,170	271,040	712,120	719,250
Net loss								7,130	7,130	
Totals							278,170	278,170	719,250	719,250

Key: (a) Accrued concession revenue, (b) Supplies Used, (c) Amortization Expensed, (d) Prepaid Insurance expired, (e) Repairs Expense accrued, (f) Wages accrued, (g) Accrued Interest Payable, (h) Admission Revenue Earned

*PROBLEM 4-9B (Continued)

(b)

WATER WORLD PARK
Balance Sheet
September 30, 2008

Assets			
Current assets			
Cash			$ 11,770
Accounts receivable			1,250
Supplies			1,200
Prepaid insurance			3,900
Total current assets			18,120
Property, plant, and equipment			
Land		$ 80,000	
Building	$480,000		
Less: Accumulated amortization	136,000	344,000	
Equipment	$120,000		
Less: Accumulated amortization	52,000	68,000	492,000
Total assets			$510,120
Liabilities and Owner's Equity			
Current liabilities			
Accounts payable			$ 15,850
Wages payable			2,960
Interest payable			2,040
Unearned admission revenue			700
Mortgage payable—current portion			50,000
Total current liabilities			71,550
Long-term liabilities			
Mortgage payable			300,000
Total liabilities			371,550
Owner's equity			
M. Berge, capital ($159,700 - $7,130 - $14,000)			138,570
Total liabilities and shareholder’s equity			$510,120

***PROBLEM 4-9B (Continued)**

(c)

Sept.	30	Accounts Receivable	1,250	
		Concession Revenue		1,250
	30	Supplies Expense	17,400	
		Supplies		17,400
	30	Amortization Expense	24,000	
		Accumulated Amortization —Building		16,000
		Accumulated Amortization —Equipment		8,000
	30	Insurance Expense	28,000	
		Prepaid Insurance		28,000
	30	Repairs Expense	1,250	
		Accounts Payable		1,250
	30	Wages Expense	2,960	
		Wages Payable		2,960
	30	Interest Expense	2,040	
		Interest Payable		2,040
	30	Unearned Admission Revenue	3,000	
		Admission Revenue		3,000

*PROBLEM 4-9B (Continued)

(d)

Sept.	30	Admission Revenue	253,070	
		Concession Revenue	17,970	
		Income Summary		271,040
	30	Income Summary	278,170	
		Wages Expense		125,960
		Repairs Expense		31,750
		Advertising Expense		9,660
		Utilities Expense		16,900
		Insurance Expense		28,000
		Interest Expense		24,500
		Amortization Expense		24,000
		Supplies Expense		17,400
	30	M. Berge, Capital	7,130	
		Income Summary		7,130
	30	M. Berge, Capital	14,000	
		M. Berge, Drawings		14,000

*PROBLEM 4-9B (Continued)

(e)

WATER WORLD PARK
Post-Closing Trial Balance
September 30, 2008

	Debit	Credit
Cash	$ 11,770	
Accounts receivable	1,250	
Supplies	1,200	
Prepaid Insurance	3,900	
Land	80,000	
Building	480,000	
Accumulated amortization—building		$136,000
Equipment	120,000	
Accumulated amortization—equipment		52,000
Accounts payable		15,850
Wages payable		2,960
Interest payable		2,040
Unearned admission revenue		700
Mortgage payable		350,000
M. Berge, capital		138,570
	$698,120	$698,120

*PROBLEM 4-10B

(a)	1,200	(n)	2,000
(b)	1,800	(o)	250
(c)	900	(p)	1,050
(d)	1,500	(q)	7,050
(e)	600	(r)	500
(f)	500	(s)	250
(g)	250	(t)	1,050
(h)	1,050	(u)	7,050
(i)	1,050	(v)	7,050
(j)	150	(w)	7,050
(k)	250	(x)	1,200
(l)	1,050	(y)	13,250
(m)	900	(z)	3,400

*PROBLEM 4-11B

(a) Assuming the company does not use reversing entries:

1.	Wages Expense	57,000	
	Wages Payable	28,000	
	Cash		85,000
	Cash	2,000	
	Interest Revenue		500
	Interest Receivable		1,500
	Insurance Expense	5,000	
	Prepaid Insurance		5,000
	Alternatively, this could be treated as a year-end adjustment.		
	Prepaid Insurance	15,000	
	Cash		15,000
	Unearned Service Revenue	15,000	
	Cash	175,000	
	Service Revenue		190,000

*PROBLEM 4-11B (Continued)

(a) (Continued)

2.

Wages Payable

Debit	Credit
	Dec. 31
28,000	Bal. 28,000
	0

Wages Expense

Debit	Credit
57,000	
57,000	

Interest Receivable

Debit	Credit
Dec. 31	
Bal. 1,500	1,500
0	

Interest Revenue

Debit	Credit
	500
	500

Prepaid Insurance

Debit	Credit
Dec. 31	
Bal. 5,000	5,000
15,000	
15,000	

Insurance Expense

Debit	Credit
5,000	
5,000	

Unearned Service Revenue

Debit	Credit
	Dec. 31
	Bal. 15,000
15,000	
	0

Service Revenue

Debit	Credit
	190,000
	190,000

*PROBLEM 4-11B (Continued)

(b) Assuming that reversing entries are used for accruals:

1.	Wages Payable	28,000	
	Wages Expense		28,000
	Interest Revenue	1,500	
	Interest Receivable		1,500
2.	Wages Expense	85,000	
	Cash		85,000
	Cash	2,000	
	Interest Revenue		2,000
	Insurance Expense	5,000	
	Prepaid Insurance		5,000
	Alternatively, this could be treated as a year-end adjustment.		
	Prepaid Insurance	15,000	
	Cash		15,000
	Unearned Service Revenue	15,000	
	Cash	175,000	
	Service Revenue		190,000

*PROBLEM 4-11B (Continued)

(b) (Continued)

3.

Wages Payable

	Dec. 31
28,000	Bal. 28,000
	0

Wages Expense

	28,000
85,000	
57,000	

Interest Receivable

Dec. 31	
Bal. 1,500	1,500
0	

Interest Revenue

1,500	
	2,000
	500

Prepaid Insurance

Dec. 31	
Bal. 5,000	5,000
15,000	
15,000	

Insurance Expense

5,000	
5,000	

Unearned Service Revenue

	Dec. 31
	Bal. 15,000
15,000	
	0

Service Revenue

	190,000
	190,000

(c) All of the account balances in (b) are the same as they were in (a). Reversing entries can be useful because they simplify the recording of cash transactions after the fiscal year end. It is not necessary to look at the previous year's adjusting entries to decide how to record a cash transaction after the year end.

*PROBLEM 4-12B

(a)

May	31	Accounts Receivable	1,050	
		Game Fee Revenue...........................		1,050
	31	Supplies Expense ($2,810 – $950).........	1,860	
		Supplies..		1,860
	31	Amortization Expense ($128,000 ÷ 10)..	12,800	
		Accumulated Amortization................		12,800
	31	Salaries Expense...................................	910	
		Salaries Payable		910
	31	Interest Expense ($60,000 x 6.5% x 2/12)	650	
		Interest Payable		650
		Unearned Game Fee Revenue..............	950	
		Game Fee Revenue...........................		950

(b)

Jun.	1	Game Fee Revenue	1,050	
		Accounts Receivable.........................		1,050
	1	Salaries Payable	910	
		Salaries Expense		910
	1	Interest Payable......................................	650	
		Interest Expense		650

*PROBLEM 4-12B (Continued)

(c)

June	**19**	**Cash**	**1,820**	
		Game Fee Revenue		**1,820**
	10	**Salaries Expense**	**1,980**	
		Cash		**1,980**
	30	**Interest Expense ($60,000 x 6.5% x 3/12)**	**975**	
		Cash		**975**

(d)

June	**19**	**Cash**	**1,820**	
		Accounts Receivable		**1,050**
		Game Fee Revenue		**770**
	10	**Salaries Expense**	**1,070**	
		Salaries Payable	**910**	
		Cash		**1,980**
	30	**Interest Expense**	**325**	
		Interest Payable	**650**	
		Cash ($60,000 x 6.5% x 3/12)		**975**

CONTINUING COOKIE CHRONICLE

(a)

COOKIE CREATIONS
Income Statement
Two Months Ended December 31, 2007

Revenues		
Teaching revenue		$4,315
Expenses		
Salaries expense	$ 856	
Telephone expense	125	
Advertising supplies expense	165	
Baking supplies expense	1,025	
Amortization expense	43	
Insurance expense	110	
Interest expense	15	
Total expenses		2,339
Net income		$1,976

COOKIE CREATIONS
Statement of Owner's Equity
Two Months Ended December 31, 2007

N. Koebel, capital, November 1	$ 900
Add: Net income	1,976
	2,876
Less: Drawings	500
N. Koebel, capital, December 31	$2,376

CONTINUING COOKIE CHRONICLE (Continued)

(a) (Continued)

COOKIE CREATIONS
Balance Sheet
December 31, 2007

Assets

Current assets		
Cash		$1,130
Accounts receivable		875
Baking supplies		350
Prepaid insurance		1,210
Total current assets		3,565
Property, plant, and equipment		
Baking equipment	$1,300	
Less: Accumulated amortization	43	1,257
Total assets		$4,822

Liabilities and Owner's Equity

Current liabilities	
Accounts payable	$ 75
Salaries payable	56
Unearned revenue	300
Total current liabilities	431
Long-term liabilities	
Interest payable	15
Notes payable	2,000
Total long-term liabilities	2,015
Total liabilities	2,446
Owner's equity	
N Koebel, capital	2,376
Total liabilities and owner's equity	$4,822

CONTINUING COOKIE CHRONICLE (Continued)

(b) GENERAL JOURNAL J4

Date		Account Titles and Explanation	Debit	Credit
2007				
Dec.	31	Teaching Revenue	4,315	
		Income Summary		4,315
	31	Income Summary	2,339	
		Salaries Expense		856
		Telephone Expense		125
		Advertising Supplies Expense		165
		Baking Supplies Expense		1,025
		Amortization Expense		43
		Insurance Expense		110
		Interest Expense		15
	31	Income Summary	1,976	
		N. Koebel, Capital		1,976
	31	N. Koebel, Capital	500	
		N. Koebel, Drawings		500

CONTINUING COOKIE CHRONICLE (Continued)

(c)

COOKIE CREATIONS
Post-Closing Trial Balance
December 31, 2007

Account	Debit	Credit
Cash	$1,130	
Accounts receivable	875	
Baking supplies	350	
Prepaid insurance	1,210	
Baking equipment	1,300	
Accumulated amortization—baking equipment		$ 43
Accounts payable		75
Salaries payable		56
Unearned revenue		300
Interest payable		15
Note payable		2,000
N. Koebel, capital		2,376
	$4,865	$4,865

CUMULATIVE COVERAGE–CHAPTERS 2 TO 4

(a) GENERAL JOURNAL J1

Date		Account Titles and Explanation	Debit	Credit
July	1	Cash	14,000	
		L. Chan, Capital		14,000
	1	Equipment	26,400	
		Cash		6,400
		Note Payable		20,000
	3	Cleaning Supplies	850	
		Accounts Payable		850
	5	Prepaid Insurance	1,800	
		Cash		1,800
	12	Accounts Receivable	3,800	
		Cleaning Revenue		3,800
	18	Accounts Payable	400	
		Cash		400
	20	Salaries Expense	1,600	
		Cash		1,600
	21	Cash	1,400	
		Accounts Receivable		1,400
	25	Accounts Receivable	3,000	
		Cleaning Revenue		3,000

CUMULATIVE COVERAGE—CHAPTERS 2 TO 4 (Continued)

(a) (Continued)

July	31	Gas & Oil Expense	350	
		Cash		350
	31	L. Chan, Drawings	1,600	
		Cash		1,600

(a), (c), and (f)

Cash

Date		Explanation	Ref.	Debit	Credit	Balance
July	1		J1	14,000		14,000
	1		J1		6,400	7,600
	5		J1		1,800	5,800
	18		J1		400	5,400
	20		J1		1,600	3,800
	21		J1	1,400		5,200
	31		J1		350	4,850
	31		J1		1,600	3,250

Accounts Receivable

Date		Explanation	Ref.	Debit	Credit	Balance
July	12		J1	3,800		3,800
	21		J1		1,400	2,400
	25		J1	3,000		5,400
	31	Adjusting	J2	1,500		6,900

CUMULATIVE COVERAGE—CHAPTERS 2 TO 4 (Continued)

(a), (c) and (f) (Continued)

Cleaning Supplies

Date	Explanation	Ref.	Debit	Credit	Balance
July 3		J1	850		850
31	Adjusting	J2		475	375

Prepaid Insurance

Date	Explanation	Ref.	Debit	Credit	Balance
July 5		J1	1,800		1,800
31	Adjusting	J2		150	1,650

Equipment

Date	Explanation	Ref.	Debit	Credit	Balance
July 1		J1	26,400		26,400

Accumulated Amortization—Equipment

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2		550	550

CUMULATIVE COVERAGE—CHAPTERS 2 TO 4 (Continued)

(a), (c) and (f) (Continued)

Accounts Payable

Date	Explanation	Ref.	Debit	Credit	Balance
July 3		J1		850	850
18		J1	400		450

Salaries Payable

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2		400	400

Interest Payable

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Adjusting	J2		100	100

Note Payable

Date	Explanation	Ref.	Debit	Credit	Balance
July 1		J1		20,000	20,000

CUMULATIVE COVERAGE—CHAPTERS 2 TO 4 (Continued)

(a), (c) and (f) (Continued)

L. Chan, Capital

Date		Explanation	Ref.	Debit	Credit	Balance
July	1		J1		14,000	14,000
	31	Closing	J3		4,675	18,675
	31	Closing	J3	1,600		17,075

L. Chan, Drawings

Date		Explanation	Ref.	Debit	Credit	Balance
July	31		J1	1,600		1,600
	31	Closing	J3		1,600	0

Income Summary

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Closing	J3		8,300	8,300
	31	Closing	J3	3,625		4,625
	31	Closing	J3	4,675		0

Cleaning Revenue

Date		Explanation	Ref.	Debit	Credit	Balance
July	12		J1		3,800	3,800
	25		J1		3,000	6,800
	31	Adjusting	J2		1,500	8,300
	31	Closing	J3	8,300		0

CUMULATIVE COVERAGE—CHAPTERS 2 TO 4 (Continued)

(a), (c) and (f) (Continued)

Gas & Oil Expense

Date		Explanation	Ref.	Debit	Credit	Balance
July	31		J1	350		350
	31	Closing	J3		350	0

Salaries Expense

Date		Explanation	Ref.	Debit	Credit	Balance
July	20		J1	1,600		1,600
	31	Adjusting	J2	400		2,000
	31	Closing	J3		2,000	0

Cleaning Supplies Expense

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Adjusting	J2	475		475
	31	Closing	J3		475	0

Amortization Expense

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Adjusting	J2	550		550
	31	Closing	J3		550	0

CUMULATIVE COVERAGE—CHAPTERS 2 TO 4 (Continued)

(a), (c) and (f) (Continued)

Insurance Expense

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Adjusting	J2	150		150
	31	Closing	J3		150	0

Interest Expense

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Adjusting	J2	100		100
	31	Closing	J3		100	0

(b)

LEE'S WINDOW WASHING
Trial Balance
July 31, 2008

	Debit	Credit
Cash	$ 3,250	
Accounts receivable	5,400	
Cleaning supplies	850	
Prepaid insurance	1,800	
Equipment	26,400	
Accounts payable		$ 450
Note payable		20,000
L. Chan, capital		14,000
L. Chan, drawings	1,600	
Cleaning revenue		6,800
Gas & oil expense	350	
Salaries expense	1,600	
Totals	$41,250	$41,250

CUMULATIVE COVERAGE—CHAPTERS 2 TO 4 (Continued)

(c) GENERAL JOURNAL J2

Date		Account Titles and Explanation	Debit	Credit
July	31	Accounts Receivable	1,500	
		Cleaning Revenue		1,500
	31	Amortization Expense	550	
		Accumulated Amortization —Equipment		550
		($26,400 ÷ 4 years) × 1/12		
	31	Insurance Expense	150	
		Prepaid Insurance		150
		($1,800 ÷ 12)		
	31	Cleaning Supplies Expense	475	
		Cleaning Supplies		475
		($850 - $375)		
	31	Salaries Expense	400	
		Salaries Payable		400
	31	Interest Expense	100	
		Interest Payable		100
		($20,000 × 6% × 1/12)		

CUMULATIVE COVERAGE—CHAPTERS 2 TO 4 (Continued)

(d)

LEE'S WINDOW WASHING
Adjusted Trial Balance
July 31, 2008

	Debit	Credit
Cash	$ 3,250	
Accounts receivable	6,900	
Cleaning supplies	375	
Prepaid insurance	1,650	
Equipment	26,400	
Accumulated amortization—equipment		$ 550
Accounts payable		450
Salaries payable		400
Interest payable		100
Note payable		20,000
L. Chan, capital		14,000
L. Chan, drawings	1,600	
Cleaning revenue		8,300
Gas & oil expense	350	
Salaries expense	2,000	
Cleaning supplies expense	475	
Amortization expense	550	
Insurance expense	150	
Interest expense	100	
Totals	$43,800	$43,800

CUMULATIVE COVERAGE—CHAPTERS 2 TO 4 (Continued)

(e)

LEE'S WINDOW WASHING
Income Statement
Month Ended July 31, 2008

Revenues		
Cleaning revenue		$8,300
Expenses		
Gas & oil expense	$ 350	
Salaries expense	2,000	
Cleaning supplies expense	475	
Amortization expense	550	
Insurance expense	150	
Interest expense	100	
Total expenses		3,625
Net income		$4,675

LEE'S WINDOW WASHING
Statement of Owner's Equity
Month Ended July 31, 2008

L. Chan, capital, July 1		$ 0
Add: Investments	$14,000	
Net income	4,675	18,675
		18,675
Less: Drawings		1,600
L. Chan, capital, July 31		$17,075

CUMULATIVE COVERAGE—CHAPTERS 2 TO 4 (Continued)

(e) (Continued)

LEE'S WINDOW WASHING
Balance Sheet
July 31, 2008

Assets

Current assets		
Cash		$ 3,250
Accounts receivable		6,900
Cleaning supplies		375
Prepaid insurance		1,650
Total current assets		12,175
Property, plant, and equipment		
Equipment	$26,400	
Less: Accumulated amortization	550	25,850
Total assets		$38,025

Liabilities and Owner's Equity

Current liabilities	
Accounts payable	$ 450
Salaries payable	400
Interest payable	100
Note payable, current portion	5,000
Total current liabilities	5,950
Long term liabilities	
Note payable	15,000
Total Liabilities	20,950
Owner's equity	
L. Chan, capital	17,075
Total liabilities and owner's equity	$38,025

CUMULATIVE COVERAGE—CHAPTERS 2 TO 4 (Continued)

(f) GENERAL JOURNAL J3

Date		Account Titles and Explanation	Debit	Credit
July	31	Cleaning Revenue	8,300	
		Income Summary		8,300
	31	Income Summary	3,625	
		Gas & Oil Expense		350
		Salaries Expense		2,000
		Cleaning Supplies Expense		475
		Amortization Expense		550
		Insurance Expense		150
		Interest Expense		100
	31	Income Summary	4,675	
		Lee Chan, Capital		4,675
	31	Lee Chan, Capital	1,600	
		Lee Chan, Drawings		1,600

CUMULATIVE COVERAGE—CHAPTERS 2 TO 4 (Continued)

(g)

LEE'S WINDOW WASHING
Post-Closing Trial Balance
July 31, 2008

	Debit	Credit
Cash	$ 3,250	
Accounts receivable	6,900	
Cleaning supplies	375	
Prepaid insurance	1,650	
Equipment	26,400	
Accumulated amortization—equipment		$ 550
Accounts payable		450
Salaries payable		400
Interest payable		100
Note payable		20,000
L. Chan, capital		17,075
	$38,575	$38,575

BYP 4-1 FINANCIAL REPORTING PROBLEM

(a) Forzani's balance sheet is classified based on the liquidity of the assets and liabilities. Classifications include current and long term assets, current and long term liabilities and shareholders' equity.

(b) The current assets are listed in the order of liquidity and capital assets are shown in total before intangibles and other assets. Current liabilities appear to be listed in order of currency and long-term liabilities are listed before deferred items and future income taxes.

(c) Working capital = Current assets - Current liabilities

2006: \$368,842,000 - \$249,428,000 = \$119,414,000
2005: \$366,247,000 - \$239,819,000 = \$126,428,000

Current ratio = Current assets ÷ Current liabilities

2006: \$368,842,000 ÷ \$249,428,000 = 1.48:1
2005: \$366,247,000 ÷ \$239,819,000 = 1.53:1

Working capital and current ratio weakened slightly in 2006.

BYP 4-2 INTERPRETING FINANCIAL STATEMENTS

(a) ($ in US millions)
Overall increase ($10,048 - $7,387) ÷ $7,387 = 36%
Average increase per year 36% ÷ 4 = 9.0%

(b) Gap's liquidity improved every year with the exception of 2005. Working capital and current ratio both provide a good indication of liquidity. Working capital provides more information in that it provides the dollar value. The change in the liquidity during the period could be explained by general economic conditions or by opening or closing of stores.

(c) Creditors lend money to companies with the expectation that they will be repaid at a specified point in time in the future. In 2003 to 2005, the current ratio is more than 2 to 1 and the amount of working capital has been improving. There was one year in the five year period from 2001 to 2005 when the company had a working capital deficiency and a current ratio of less than 1. When the current ratio is less than 1, it indicates the company may have difficulty meeting its current commitments without obtaining additional financing. This may cause some concern with creditors but the overall positive trend and current strong liquidity should alleviate any concerns.

(d) As a creditor in this situation I would request information on the company's plans for the upcoming year – such as a cash forecast. I would also ask for an explanation as to why it was negative.

BYP 4-3 COLLABORATIVE LEARNING ACTIVITY

All of the material supplementing the collaborative learning activity, including a suggested solution, can be found in the Collaborative Learning section of the Instructor Resources site accompanying this textbook.

BYP 4-4 COMMUNICATION ACTIVITY

MEMO

To: Friend

From: A. Student

Re: Steps in the Accounting Cycle

The required steps in the accounting cycle, in the order in which they should be completed, are:

1. **Analyze business transactions.**
2. **Journalize the transactions.**
3. **Post to the ledger accounts.**
4. **Prepare a trial balance.**
5. **Journalize and post the adjusting entries.**
6. **Prepare an adjusted trial balance.**
7. **Prepare the financial statements.**
8. **Journalize and post the closing entries.**
9. **Prepare a post-closing trial balance.**

The optional steps in the accounting cycle include preparing a work sheet and preparing reversing entries. If a work sheet is prepared, it is done after step 3 above, and it includes steps 4 and 6. The work sheet is a form used to make it easier to prepare the adjusting entries and financial statements. If reversing entries are prepared, they are journalized and posted after step 9, at the beginning of the next accounting period. A reversing entry is the exact opposite of a previously recorded adjusting entry, and simplifies the recording of subsequent transactions.

BYP 4-5 ETHICS CASE

(a) The stakeholders in this case are:

You, as controller.
Eddy Lieman, president.
Users of the company's financial statements (particularly the banks and other creditors to whom the statements were issued).

(b) The main ethical issue is the continued circulation of significantly misstated financial statements. As controller, you have just issued misleading financial statements. You have acted ethically by telling the company's president. The president has reacted unethically by allowing the misleading financial statements to continue to circulate.

A second issue is the proposal to compensate for the original misstatement by "adjusting" (misstating) the current year's financial statement.

(c) As controller, you should impress upon the president the consequences of having those misleading financial statements detected by some user or the regulatory body (especially if you are a public company). Also stress upon him that you have a professional obligation to correct the statements or to resign.

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