CHAPTER 4
Completion of the Accounting Cycle

ASSIGNMENT CLASSIFICATION TABLE

Study Objectives	Questions	Brief Exercises	Exercises	Problems Set A	Problems Set B
1. Describe the purpose of a work sheet.	1, 2	1			
2. Demonstrate the process of closing the books.	3, 4	2, 3, 4	1, 2, 3, *11	1, 2, 3, 4, *9, *10	1, 2, 3, 4, *9, *10
3. Describe and produce a post-closing trial balance.	5, 6, 7	5	2, 3	1, 4, *10	1, 4, *10
4. State the steps in the accounting cycle.	8, 9	6			
5. Explain and demonstrate the approaches to preparing correcting entries.	10	7	4	5, 6	5, 6
6. Identify and prepare the various sections of a classified balance sheet.	11, 12, 13, 14, 15, 16	8	5, 6, 7	1, 4, 7, *9, *10	1, 4, 7, *9, *10
7. Illustrate measures used to evaluate liquidity.	17	9	7, 8	8	8
*8. Prepare a worksheet (Appendix 4A).	*18	*10, *11	*9, *10	*9, *10, *11	*9, *10, *11
*9. Prepare reversing entries (Appendix 4B).	*19, *20	*12	*11	*12	*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	Prepare financial statements, closing entries, and post-closing trial balance.	Simple	70-80
2A	Prepare closing entries.	Simple	30-40
3A	Analyse account data and prepare closing entries.	Moderate	15-25
4A	Prepare financial statements, closing entries and post-closing trial balance.	Simple	70-80
5A	Analyse errors and prepare corrections.	Moderate	40-50
6A	Determine impact of errors on financial statements.	Moderate	30-40
7A	Identify balance sheet classifications.	Simple	10-15
8A	Calculate working capital and current ratio and comment on liquidity.	Moderate	25-30
*9A	Prepare work sheet, financial statements, and adjusting and closing entries.	Moderate	50-60
*10A	Prepare work sheet, classified balance sheet, adjusting and closing entries, and post-closing trial balance.	Moderate	70-80
*11A	Use work sheet relationships to determine missing amounts.	Moderate	50-60
*12A	Prepare and post subsequent transactions entries, with and without reversing entries.	Simple	40-50
1B	Prepare financial statements, closing entries, and post-closing trial balance.	Simple	70-80
2B	Prepare closing entries.	Simple	30-40
3B	Analyse account data and prepare closing entries.	Moderate	15-25
4B	Prepare financial statements, closing entries and post-closing trial balance.	Simple	70-80
5B	Analyse errors and prepare corrections.	Moderate	40-50
6B	Determine impact of errors on financial statements.	Moderate	30-40
7B	Identify balance sheet classifications.	Simple	10-15
8B	Calculate working capital and current ratio and comment on liquidity.	Moderate	25-30
*9B	Prepare work sheet, financial statements, and adjusting and closing entries.	Moderate	50-60

Problem Number	Description	Difficulty Level	Time Allotted (min.)
*10B	Prepare work sheet, classified balance sheet, adjusting and closing entries, and post-closing trial balance.	Moderate	70-80
*11B	Use work sheet relationships to determine missing amounts.	Moderate	50-60
*12B	Prepare and post subsequent transactions entries, with and without reversing entries.	Simple	40-50
	Cumulative Coverage—Chapters 2 to 4	Moderate	100-120

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. Describe the purpose of a work sheet.	BE4-1	Q4-1 Q4-2				
2. Demonstrate the process of closing the books.		Q4-3 Q4-4	BE4-2 BE4-3 BE4-4 E4-1 E4-2 E4-3 *E4-11 P4-1A P4-2A P4-4A *P4-9A *P4-10A P4-1B P4-2B P4-4B *P4-9B *P4-10B	P4-3A P4-3B		
3. Describe and produce a post-closing trial balance.	Q4-6 Q4-7	Q4-5 BE4-5	E4-2 E4-3 P4-1A P4-4A *P4-10A P4-1B P4-4B *P4-10B			
4. State the steps in the accounting cycle.	Q4-9 BE4-6	Q4-8				
5. Explain and demonstrate the approaches to preparing correcting entries.		Q4-10	BE4-7 E4-4	P4-5A P4-6A P4-5B P4-6B		
6. Identify and prepare the various sections of a classified balance sheet.	Q4-11 Q4-12 Q4-16 P4-7A P4-7B	Q4-13 Q4-14 Q4-15	BE4-8 E4-5 E4-6 P4-1A P4-4A *P4-9A *P4-10A P4-1B P4-4B *P4-9B *P4-10B	E4-7		
7. Illustrate measures used to evaluate liquidity.		Q4-17	BE4-9	P4-8A P4-8B E4-7 E4-8		
*8. Prepare a worksheet (Appendix 4A).	*Q4-18	*BE4-11	*BE4-10 *E4-9 *E4-10 *P4-9A *P4-10A *P4-9B *P4-10B	*P4-11A *P4-11B		
*9. Prepare reversing entries (Appendix 4B).		*Q4-19	*Q4-20 *BE4-12 *E4-11	*P4-12A *P4-12B		

Study Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
Broadening Your Perspective			BYP4-4 BYP4-6 Cumulative Coverage	BYP4-1 BYP4-2 BYP4-3 BYP4-5	BYP4-7	BYP4-8

ANSWERS TO QUESTIONS

1. No. A work sheet is not a permanent accounting record. The use of a work sheet is an optional step in the accounting cycle. It is simply a convenient and efficient tool for completing some of the steps in the accounting cycle.

2. Formal financial statements are needed because the columnar data are not properly arranged and classified for statement purposes. For example, a drawings account is listed in the balance sheet debit column with assets, and an accumulated amortization account is listed in the balance sheet credit column with liabilities.

3. Adjusting entries are made prior to preparation of the financial statements to adjust account balances to properly reflect revenue and expenses on an accrual basis. Adjusting entries can affect both temporary and permanent accounts. Closing entries affect only temporary accounts. Closing entries are made at the end of an accounting period after preparation of the financial statements to transfer revenue, expense, and drawings account balances to the owner's capital account and reset these temporary accounts to zero.

4. (1) (Dr) Individual revenue accounts and (Cr) Owner's Capital.
   (2) (Dr) Owner's Capital and (Cr) individual expense accounts.
   (3) (Dr) Owner's Capital and (Cr) Owner's Drawings.

5. 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.

6. The accounts that will not appear in the post-closing trial balance are Amortization Expense; Ben Alschuler, Drawings; and Service Revenue. These are all temporary accounts.

7. The three trial balances are the (1) (unadjusted) trial balance, (2) adjusted trial balance, and (3) post-closing trial balance.

8. **The work sheet affects two steps: (1) journalizing and posting adjusting entries, and (2) preparing financial statements. When a work sheet is used, the financial statements are prepared from the work sheet. In addition, the adjusting entries are usually journalized and posted after the financial statements are prepared.**

9. **The steps that involve journalizing are (1) journalize the transactions, (2) journalize the adjusting entries, and (3) journalize the closing entries.**

10. **Correcting entries differ from adjusting entries because they (1) are not a required part of the accounting cycle, (2) may be made at any time, and (3) may affect any combination of accounts. Adjusting entries affect both an income statement account and a balance sheet account.**

11. **The standard classifications in a balance sheet are:**

    <u>Assets</u>
    Current Assets
    Long-term Investments
    Capital Assets

    <u>Liabilities and Owner's Equity</u>
    Current Liabilities
    Long-term Liabilities
    Owner's Equity

12. **A company's operating cycle is the average time that is required to go from cash to cash in producing revenues.**

13. **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 date or the company's operating cycle, whichever is longer. Current assets are listed in the order of their liquidity.**

14. **Long-term investments are resources that can be realized in cash. However, the conversion into cash is not expected within one year or the operating cycle, whichever is longer. Capital assets are resources of a relatively permanent nature that are being used in the business and not intended for sale.**

15. **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 or the operating cycle.	Beyond one year or the operating cycle.
Nature of items.	Debts pertaining to the operating cycle and other short-term debts.	Mortgages, bonds and other long-term liabilities.

16. **(a) The owner's equity section for a corporation is called shareholders' 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).

17. **Liquidity is the ability of a company to meet its obligation as they become due. One measure of liquidity is working capital.**

***18.** **The net income of $9,000 will appear in the income statement debit column and the balance sheet credit column. A net loss will appear in the income statement credit column and the balance sheet debit column.**

***19.** **A reversing entry is the exact opposite, both in amount and in account titles, of an adjusting entry. 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.** **(a)**

Jan. 1	**Interest Payable**	**4,500**	
	Interest Expense		**4,500**
	To record reversing entry.		
Jan. 10	**Interest Expense**	**5,000**	
	Cash		**5,000**
	To record interest payment.		

Because of the January 1 reversing entry that credited Interest Expense for $4,500, Interest Expense will have a debit balance of $500 which equals the expense for the current period.

(b)

Jan. 10	**Interest Payable**	**4,500**	
	Interest Expense	**500**	
	Cash		**5,000**
	To record interest payment and reversal of accrual.		

Note that Interest Expense will again have a debit balance of $500.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 4-1

1. Prepare a trial balance on the work sheet
2. Enter adjustment data
3. Enter adjusted balances
4. Enter adjusted balances in appropriate statement columns
5. Total the statement columns, calculate net income (loss), and enter it on the work sheet.

Filling in the blanks provided, the correct answers are 5, 2, 1, 3, 4.

BRIEF EXERCISE 4-2

Dec.	31	Service Revenue	50,000	
		T. Khalifa, Capital		50,000
	31	T. Khalifa, Capital	30,000	
		Salaries Expense		26,000
		Supplies Expense		4,000
	31	T. Khalifa, Capital	2,000	
		T. Khalifa, Drawings		2,000

Ending capital balance is $30,000 + $50,000 - $30,000 - $2,000 = $48,000

BRIEF EXERCISE 4-3

T. Khalifa, Capital

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance				30,000
	31	Closing entry			50,000	80,000
	31	Closing entry		30,000		50,000
	31	Closing entry		2,000		48,000

T. Khalifa, Drawings

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance				2,000
	31	Closing entry			2,000	0

Service Revenue

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance				50,000
	31	Closing entry		50,000		0

Salaries Expense

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance				26,000
	31	Closing entry			26,000	0

Supplies Expense

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance				4,000
	31	Closing entry			4,000	0

BRIEF EXERCISE 4-4

July	31	Green Fees Earned	26,000	
		Members, Capital..		26,000
July	31	Members, Capital	10,700	
		Salaries Expense..		8,200
		Maintenance Expense.....................................		2,500

Members, Capital

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Balance				50,000
	31	Closing entry			26,000	76,000
	31	Closing entry		10,700		65,300

Green Fees Earned

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Balance				26,000
	31	Closing entry		26,000		0

Salaries Expense

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Balance				8,200
	31	Closing entry			8,200	0

Maintenance Expense

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Balance				2,500
	31	Closing entry			2,500	0

BRIEF EXERCISE 4-5

The accounts that will appear in the post-closing trial balance are:

Accounts Payable
Accounts Receivable
Capital Assets
Cash
Long-term Debt
Prepaid Expenses

Note that these are all balance sheet accounts.

BRIEF EXERCISE 4-6

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

1. **Analyse 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 4-7

(a)

	Assets	Liabilities	Equity	Revenue	Expense	NI
1.	O	NA	O	O	NA	O
2.	U	U	NA	NA	NA	NA

(b)

1.	Service Revenue	780	
	Accounts Receivable		780
2.	Store Supplies	1,730	
	Equipment		1,370
	Accounts Payable		360

BRIEF EXERCISE 4-8

Reuben Company
Balance Sheet (Partial)
December 31, 2002

Current assets	
Cash	$18,400
Short-term investments	8,200
Accounts receivable	12,500
Supplies	5,200
Prepaid insurance	3,600
Total current assets	$47,900

BRIEF EXERCISE 4-9

(a) Working capital = Current assets - Current liabilities
($1,926,000) = $42,918,000 - $44,844,000

(b) Current ratio:

$$\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{\$42{,}918{,}000}{\$44{,}844{,}000} = 0.96{:}1$$

*BRIEF EXERCISE 4-10

COULOMBE COMPANY
Work Sheet

Account Titles	Trial Balance Dr.	Trial Balance Cr.	Adjustments Dr.	Adjustments Cr.	Adjusted Trial Balance Dr.	Adjusted Trial Balance Cr.	Income Statement Dr.	Income Statement Cr.	Balance Sheet Dr.	Balance Sheet Cr.
Prepaid Insurance	4,000			(1) 1,200	2,800				2,800	
Service Revenue		58,000		(2) 900		58,900		58,900		
Salaries Expense	25,000		(3) 800		25,800		25,800			
Accounts Receivable			(2) 900		900				900	
Salaries Payable				(3) 800		800				800
Insurance Expense			(1) 1,200		1,200		1,200			

*BRIEF EXERCISE 4-11

	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	
Service Revenue		X		

*BRIEF EXERCISE 4-12

Nov. 1	Salaries Payable	800	
	Salaries Expense		800
	To reverse Oct. 31 accrual.		

The balances after posting the reversing entry are a credit of $800 in Salaries Expense and $0 in Salaries Payable.

SOLUTIONS TO EXERCISES

EXERCISE 4-1

(a) June	30	Service Revenue..	15,600	
		B. Eden, Capital		15,600
	30	B. Eden, Capital	12,800	
		Salaries Expense.....................................		7,800
		Supplies Expense....................................		1,500
		Rent Expense...		3,500
	30	B. Eden, Capital	2,500	
		B. Eden, Drawings...................................		2,500

(b) The ending balance in B. Eden'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	Ref.	Debit	Credit
July 31	Commission Revenue	404	63,100	
	Rent Revenue	429	6,500	
	R. Rafael, Capital	301		69,600
31	R. Rafael, Capital	301	74,600	
	Amortization Expense	711		4,000
	Salaries Expense	720		55,700
	Rent Expense	729		14,900
31	R. Rafael, Capital	301	14,000	
	R. Rafael, Drawings	306		14,000

Cash **No. 101**

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Balance	✓			14,940

Accounts Receivable **No. 112**

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Balance	✓			8,780

Equipment **No. 157**

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Balance	✓			15,900

EXERCISE 4-2 (Continued)

(a) (Continued)

Accumulated Amortization — No. 167

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

Accounts Payable — No. 201

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Balance	✓			6,220

Unearned Rent Revenue — No. 208

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Balance	✓			1,800

R. Rafael, Capital — No. 301

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Balance	✓			45,200
31	Closing entry	J15		69,600	114,800
31	Closing entry	J15	74,600		40,200
31	Closing entry	J15	14,000		26,200

R. Rafael, Drawings — No. 306

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

Commission Revenue — No. 404

Date	Explanation	Ref.	Debit	Credit	Balance
July 31	Balance	✓			63,100
31	Closing entry	J15	63,100		0

EXERCISE 4-2 (Continued)

(a) (Continued)

Rent Revenue — No. 429

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Balance	✓			6,500
	31	Closing entry	J15	6,500		0

Amortization Expense — No. 711

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Balance	✓			4,000
	31	Closing entry	J15		4,000	0

Salaries Expense — No. 720

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Balance	✓			55,700
	31	Closing entry	J15		55,700	0

Rent Expense — No. 729

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Balance	✓			14,900
	31	Closing entry	J15		14,900	0

EXERCISE 4-2 (Continued)

(b)

RAFAEL COMPANY
Post-Closing Trial Balance
July 31, 2003

	Debit	Credit
Cash	$14,940	
Accounts Receivable	8,780	
Equipment	15,900	
Accumulated Amortization		$ 5,400
Accounts Payable		6,220
Unearned Rent Revenue		1,800
R. Rafael, Capital		26,200
	$39,620	$39,620

EXERCISE 4-3

(a)

Apr.	30	Service Revenue	12,590	
		Ho, Capital		12,590
	30	Ho, Capital	11,328	
		Salaries Expense		9,840
		Rent Expense		760
		Amortization Expense		671
		Interest Expense		57
	30	Ho, Capital	3,650	
		Ho, Drawings		3,650

(b)

Cash

Date	Explanation	Ref.	Debit	Credit	Balance
April 30	Balance	✓			15,052

Accounts Receivable

Date	Explanation	Ref.	Debit	Credit	Balance
April 30	Balance	✓			7,840

Prepaid Rent

Date	Explanation	Ref.	Debit	Credit	Balance
April 30	Balance	✓			2,280

Equipment

Date	Explanation	Ref.	Debit	Credit	Balance
April 30	Balance	✓			23,050

Accumulated Amortization

Date	Explanation	Ref.	Debit	Credit	Balance
April 30	Balance	✓			4,921

EXERCISE 4-3 (Continued)

(b) (Continued)

Notes Payable

Date	Explanation	Ref.	Debit	Credit	Balance
April 30	Balance	✓			5,700

Accounts Payable

Date	Explanation	Ref.	Debit	Credit	Balance
April 30	Balance	✓			5,972

Interest Payable

Date	Explanation	Ref.	Debit	Credit	Balance
April 30	Balance	✓			57

Ho, Capital

Date	Explanation	Ref.	Debit	Credit	Balance
April 30	Balance	✓			33,960
30	Closing entry			12,590	46,550
30	Closing entry		11,328		35,222
30	Closing entry		3,650		31,572

Ho, Drawings

Date	Explanation	Ref.	Debit	Credit	Balance
April 30	Balance	✓			3,650
30	Closing entry			3,650	0

Service Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
April 30	Balance	✓			12,590
30	Closing entry		12,590		0

EXERCISE 4-3 (Continued)

(b) (Continued)

Salaries Expense

Date	Explanation	Ref.	Debit	Credit	Balance
April 30	Balance	✓			9,840
30	Closing entry			9,840	0

Rent Expense

Date	Explanation	Ref.	Debit	Credit	Balance
April 30	Balance	✓			760
30	Closing entry			760	0

Amortization Expense

Date	Explanation	Ref.	Debit	Credit	Balance
April 30	Balance	✓			671
30	Closing entry			671	0

Interest Expense

Date	Explanation	Ref.	Debit	Credit	Balance
April 30	Balance	✓			57
30	Closing entry			57	0

EXERCISE 4-3 (Continued)

(c)

KWOK YEUN HO COMPANY
Post-Closing Trial Balance
April 30, 2003

	Debit	Credit
Cash	$15,052	
Accounts Receivable	7,840	
Prepaid Rent	2,280	
Equipment	23,050	
Accumulated Amortization		$ 4,921
Notes Payable		5,700
Accounts Payable		5,972
Interest Payable		57
Ho, Capital		31,572
	$48,222	$48,222

EXERCISE 4-4

1.	Accounts Payable ($830 - $380)	450	
	Cash		450
2.	Supplies	500	
	Equipment		50
	Accounts Payable		450
3.	L. Choi, Drawings	400	
	Salaries Expense		400
4.	Office Equipment	1,200	
	Office Supplies		1,200

EXERCISE 4-5

(a)

RAFAEL COMPANY
Income Statement
For the Year Ended July 31, 2003

Revenues		
Commission revenue		$63,100
Rent revenue		6,500
Total revenues		69,600
Expenses		
Salaries expense	$55,700	
Rent expense	14,900	
Amortization expense	4,000	
Total expenses		74,600
Net loss		$ 5,000

EXERCISE 4-5 (Continued)

(a) (Continued)

RAFAEL COMPANY
Statement of Owner's Equity
For the Year Ended July 31, 2003

R. Rafael, Capital, August 1, 2002		$45,200
Less: Net loss	$ 5,000	
Drawings	14,000	19,000
R. Rafael, Capital, July 31, 2003		$26,200

(b)

RAFAEL COMPANY
Balance Sheet
July 31, 2003

Assets

Current assets		
Cash		$14,940
Accounts receivable		8,780
Total current assets		23,720
Capital assets		
Equipment	$15,900	
Less: Accumulated amortization	5,400	10,500
Total assets		$34,220

Liabilities and Owner's Equity

Current liabilities	
Accounts payable	$ 6,220
Unearned rent revenue	1,800
Total current liabilities	8,020
Owner's equity	
R. Rafael, Capital	26,200
Total liabilities and owner's equity	$34,220

EXERCISE 4-6

KWOK YUEN HO COMPANY
Income Statement
For the Month Ended April 30, 2003

Revenues		
Service revenue		$12,590
Expenses		
Salaries expense	$9,840	
Rent expense	760	
Amortization expense	671	
Interest expense	57	
Total expenses		11,328
Net income		$ 1,262

KWOK YUEN HO COMPANY
Statement of Owner's Equity
For the Month Ended April 30, 2003

Ho, Capital, April 1	$33,960
Add: Net income	1,262
	35,222
Less: Drawings	3,650
Ho, Capital, April 30	$31,572

EXERCISE 4-6 (Continued)

KWOK YUEN HO COMPANY
Balance Sheet
April 30, 2003

Assets		
Current assets		
Cash		$15,052
Accounts receivable		7,840
Prepaid rent		2,280
Total current assets		25,172
Capital assets		
Equipment	$23,050	
Less: Accumulated amortization	4,921	18,129
Total assets		$43,301
Liabilities and Owner's Equity		
Current liabilities		
Notes payable		$ 5,700
Accounts payable		5,972
Interest payable		57
Total current liabilities		11,729
Owner's equity		
Ho, Capital		31,572
Total liabilities and owner's equity		$43,301

EXERCISE 4-7

(a)

SUMMIT'S BOWL-A-DROME ALLEY
Balance Sheet
December 31, 2002

Assets

Current assets			
Cash			$ 20,840
Accounts receivable			14,520
Prepaid insurance			4,680
Total current assets			40,040
Capital assets			
Land		$ 63,200	
Building	$128,800		
Less: Accum. amortization	45,600	83,200	
Equipment	$ 62,400		
Less: Accum. amortization	18,720	43,680	190,080
Total assets			$230,120

Liabilities and Owner's Equity

Current liabilities	
Current portion of mortgage payable	$ 13,600
Accounts payable	13,480
Interest payable	2,600
Total current liabilities	29,680
Long-term liabilities	
Mortgage payable (less current portion)	80,000
Total liabilities	109,680
Owner's equity	
T. Bolgos, Capital	120,440
Total liabilities and owner's equity	$230,120

Net Income = $14,180 – $780 – $5,360 – $2,600 = $5,440
Ending Capital = $115,000 + $5,440 = $120,440

EXERCISE 4-7 (Continued)

(b) Working capital (current assets less current liabilities) is $10,360 ($40,040 – $29,680). The current ratio (current assets divided by current liabilities) is 1.35:1 ($40,040 ÷ $29,680). In addition, approximately 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

2000: $1,408,529 - $568,035 = $840,494
1999: $1,064,667 - $401,111 = $663,556
1998: $726,484 - $315,589 = $410,895

Current Ratio = $\dfrac{\text{Current Assets}}{\text{Current Liabilities}}$

2000: $\dfrac{\$1{,}408{,}529}{\$568{,}035}$ = 2.48:1

1999: $\dfrac{\$1{,}064{,}667}{\$401{,}111}$ = 2.65:1

1998: $\dfrac{\$726{,}484}{\$315{,}589}$ = 2.30:1

(b) The Carnival's liquidity in 2000 is slightly below that of 1999 and slightly higher than 1998 based on the current ratios. It is still a very positive ratio, however, with sufficient current assets to cover current liabilities. In terms of working capital, the liquidity has increased in 2000, compared to 1999 and 1998.

*EXERCISE 4-9

KWOK YUEN HO COMPANY
(Partial) Work Sheet
For the Month Ended April 30, 2003

Account Titles	Adjusted Trial Balance Dr.	Adjusted Trial Balance Cr.	Income Statement Dr.	Income Statement Cr.	Balance Sheet Dr.	Balance Sheet Cr.
Cash	15,052				15,052	
Accounts Receivable	7,840				7,840	
Prepaid Rent	2,280				2,280	
Equipment	23,050				23,050	
Accum. Amortization		4,921				4,921
Notes Payable		5,700				5,700
Accounts Payable		5,972				5,972
Ho, Capital		33,960				33,960
Ho, Drawings	3,650				3,650	
Service Revenue		12,590		12,590		
Salaries Expense	9,840		9,840			
Rent Expense	760		760			
Amortization Expense	671		671			
Interest Expense	57		57			
Interest Payable		57				57
Totals	63,200	63,200	11,328	12,590	51,872	50,610
Net Income			1,262			1,262
Totals			12,590	12,590	51,872	51,872

*EXERCISE 4-10

(a) (1) Accounts Receivable — $28,000 ($34,000 – $6,000 increase in Service Revenue).

(2) Salaries Expense—$42,000 ($49,000 – $7,000 increase in Salaries Payable).

(3) Supplies — $5,000 ($9,000 – $4,000 in Supplies Expense).

(4) Insurance Expense — $8,000 ($26,000 – $18,000 = $8,000 decrease in Prepaid Insurance).

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

(b)

(1)	Accounts Receivable	6,000	
	Service Revenue		6,000
(2)	Salaries Expense	7,000	
	Salaries Payable		7,000
(3)	Supplies Expense	4,000	
	Supplies		4,000
(4)	Insurance Expense	8,000	
	Prepaid Insurance		8,000
(5)	Amortization Expense	10,000	
	Accumulated Amortization		10,000

*EXERCISE 4-11

(a) (1)	Dec. 31	Accounts Receivable	5,000	
		Commission Revenue		5,000
	31	Interest Expense	2,000	
		Interest Payable		2,000
(2)	Dec. 31	Commission Revenue	97,000	
		Masterson, Capital		97,000
	31	Masterson, Capital	9,800	
		Interest Expense		9,800
(b)	Jan. 1	Commission Revenue	5,000	
		Accounts Receivable		5,000
	1	Interest Payable	2,000	
		Interest Expense		2,000
(c)	Jan. 10	Cash	5,000	
		Commission Revenue		5,000
	15	Interest Expense	2,000	
		Cash		2,000

*EXERCISE 4-11 (Continued)

(a), (b) & (d)

Cash

Date		Explanation	Ref.	Debit	Credit	Balance
Jan.	10			5,000		5,000
	15				2,000	3,000

Accounts Receivable

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Unadjusted balance				0
	31	Adjusting entry		5,000		5,000
Jan.	1	Reversing entry			5,000	0

Interest Payable

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Unadjusted balance				0
	31	Adjusting entry			2,000	2,000
Jan.	1	Reversing entry		2,000		0

Masterson, Capital

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Unadjusted balance				48,000
	31	Closing entry			97,000	135,000
	31	Closing entry		9,800		125,200

Commission Revenue

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Unadjusted balance				92,000
	31	Adjusting entry			5,000	97,000
	31	Closing entry		97,000		0
Jan.	1	Reversing entry		5,000		(5,000)
	10				5,000	0

*EXERCISE 4-11 (Continued)

(a), (b) & (d) (Continued)

Interest Expense

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Unadjusted balance				7,800
	31	Adjusting entry		2,000		9,800
	31	Closing entry			9,800	0
Jan.	1	Reversing entry			2,000	(2,000)
	15			2,000		0

SOLUTIONS TO PROBLEMS

PROBLEM 4-1A

(a)

GUNTER COMPANY
Income Statement
For the Year Ended December 31, 2002

Revenues		
Service revenue		$59,000
Expenses		
Salaries expense	$35,000	
Rent expense	12,200	
Amortization expense	2,600	
Repair expense	1,800	
Utilities Expense	1,700	
Total expenses		53,300
Net income		$ 5,700

GUNTER COMPANY
Statement of Owner's Equity
For the Year Ended December 31, 2002

N. Gunter, Capital, January 1, 2002	$34,000
Add: Net income	5,700
	39,700
Less: Drawings	12,000
N. Gunter, Capital, December 31, 2002	$27,700

PROBLEM 4-1A (Continued)

(a) (Continued)

GUNTER COMPANY
Balance Sheet
December 31, 2002

Assets

Current assets		
Cash		$ 6,600
Accounts receivable		13,500
Prepaid insurance		3,500
Total current assets		23,600
Capital assets		
Equipment	$26,000	
Less: Accumulated amortization	5,600	20,400
Total assets		$44,000

Liabilities and Owner's Equity

Current liabilities	
Accounts payable	$13,300
Salaries payable	3,000
Total current liabilities	16,300
Owner's equity	
N. Gunter, Capital	27,700
Total liabilities and owner's equity	$44,000

PROBLEM 4-1A (Continued)

(b)

GENERAL JOURNAL **J14**

Date	Account Titles and Explanation	Ref.	Debit	Credit
Dec. 31	Service Revenue	400	59,000	
	N. Gunter, Capital	301		59,000
31	N. Gunter, Capital	301	53,300	
	Repair Expense	622		1,800
	Amortization Expense	711		2,600
	Salaries Expense	726		35,000
	Rent Expense	729		12,200
	Utilities Expense	732		1,700
31	N. Gunter, Capital	301	12,000	
	N. Gunter, Drawings	306		12,000

PROBLEM 4-1A (Continued)

(c)

Cash — No. 101

Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			6,600

Accounts Receivable — No. 112

Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			13,500

Prepaid Rent — No. 131

Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			3,500

Equipment — No. 157

Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			26,000

Accumulated Amortization — No. 158

Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			5,600

Accounts Payable — No. 201

Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			13,300

Salaries Payable — No. 212

Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			3,000

PROBLEM 4-1A (Continued)

(c) (Continued)

N. Gunter, Capital					No. 301
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			34,000
31	Closing entry	J14		59,000	93,000
31	Closing entry	J14	53,300		39,700
31	Closing entry	J14	12,000		27,700

N. Gunter, Drawings					No. 306
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			12,000
31	Closing entry	J14		12,000	0

Service Revenue					No. 400
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			59,000
31	Closing entry	J14	59,000		0

Repair Expense					No. 622
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			1,800
31	Closing entry	J14		1,800	0

Amortization Expense					No. 711
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			2,600
31	Closing entry	J14		2,600	0

PROBLEM 4-1A (Continued)

(c) (Continued)

Salaries Expense — No. 726

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓			35,000
	31	Closing entry	J14		35,000	0

Rent Expense — No. 729

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓			12,200
	31	Closing entry	J14		12,200	0

Utilities Expense — No. 732

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓			1,700
	31	Closing entry	J14		1,700	0

(d)

GUNTER COMPANY
Post-Closing Trial Balance
December 31, 2002

	Debit	Credit
Cash	$ 6,600	
Accounts Receivable	13,500	
Prepaid Insurance	3,500	
Equipment	26,000	
Accumulated Amortization		$ 5,600
Accounts Payable		13,300
Salaries Payable		3,000
N. Gunter, Capital		27,700
Totals	$49,600	$49,600

PROBLEM 4-2A

(a)

GENERAL JOURNAL

Date	Account Titles and Explanation	Ref.	Debit	Credit
Jan. 31	Service Revenue		24,000	
	Dude, Capital			24,000
31	Dude, Capital		10,900	
	Amortization Expense			5,500
	Insurance Expense			400
	Interest Expense			800
	Salaries Expense			3,200
	Utilities Expense			1,000
31	Dude, Capital		8,600	
	Dude, Drawings.................................			8,600

(b) Dude, Capital Account

January 1, 2003	$66,000
Add: Net Income ($24,000 - $10,900)	13,100
Less: Drawings	8,600
January 31, 2003	$70,500

This amount should agree with the Dude, Capital account on the Statement of Owner's Equity and the Balance Sheet as of January 31, 2003.

PROBLEM 4-3A

Repair Service Revenue..........................	180,000	
Other Revenue...	20,000	
J. Lecoure, Capital..............................		200,000
J. Lecoure, Capital..................................	145,000	
Repair Service Expense.....................		125,000
Other Expenses		20,000
J. Lecoure, Capital..................................	4,000	
J. Lecoure, Drawings..........................		4,000

PROBLEM 4-4A

(a)

CORMIER COMPANY
Income Statement
For the Year Ended December 31, 2002

Revenues		
Service revenue		$88,000
Expenses		
Salaries expense	$40,000	
Rent expense	14,000	
Supplies expense	5,700	
Insurance expense	5,000	
Amortization expense	4,000	
Interest expense	500	
Total expenses		69,200
Net income		$18,800

CORMIER COMPANY
Statement of Owner's Equity
For the Year Ended December 31, 2002

P. Cormier, Capital, January 1, 2002	$25,000
Add: Net income	18,800
	43,800
Less: Drawings	10,000
P. Cormier, Capital, December 31, 2002	$33,800

PROBLEM 4-4A (Continued)

(a) (Continued)

CORMIER COMPANY
Balance Sheet
December 31, 2002

Assets

Current assets		
Cash		$13,600
Accounts receivable		15,400
Supplies		1,500
Prepaid insurance		2,800
Total current assets		33,300
Capital assets		
Office equipment	$34,000	
Less: Accumulated amortization	8,000	26,000
Total assets		$59,300

Liabilities and Owner's Equity

Current liabilities	
Notes payable	$10,000
Accounts payable	6,000
Salaries payable	3,000
Interest payable	500
Total current liabilities	19,500
Long-term liabilities	
Notes payable (less current portion)	6,000
Total liabilities	25,500
Owner's equity	
P. Cormier, Capital	33,800
Total liabilities and owner's equity	$59,300

PROBLEM 4-4A (Continued)

(b)

GENERAL JOURNAL **J14**

Date	Account Titles and Explanation	Ref.	Debit	Credit
Dec. 31	Service Revenue	400	88,000	
	P. Cormier, Capital	301		88,000
31	P. Cormier, Capital	301	69,200	
	Supplies Expense	631		5,700
	Amortization Expense	711		4,000
	Insurance Expense	722		5,000
	Salaries Expense	726		40,000
	Rent Expense	729		14,000
	Interest Expense	905		500
31	P. Cormier, Capital	301	10,000	
	P. Cormier, Drawings	306		10,000

PROBLEM 4-4A (Continued)

(c)

Cash — No. 101

Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			13,600

Accounts Receivable — No. 112

Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			15,400

Supplies — No. 126

Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			1,500

Prepaid Insurance — No. 130

Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			2,800

Office Equipment — No. 151

Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			34,000

Accumulated Amortization—Office Equipment — No. 152

Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			8,000

PROBLEM 4-4A (Continued)

(c) (Continued)

Notes Payable No. 200

Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			16,000

Accounts Payable No. 201

Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			6,000

Salaries Payable No. 212

Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			3,000

Interest Payable No. 230

Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			500

P. Cormier, Capital No. 301

Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			25,000
31	Closing entry	J14		88,000	113,000
31	Closing entry	J14	69,200		43,800
31	Closing entry	J14	10,000		33,800

P. Cormier, Drawings No. 306

Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			10,000
31	Closing entry	J14		10,000	0

PROBLEM 4-4A (Continued)

(c) (Continued)

Service Revenue **No. 400**

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓			88,000
	31	Closing entry	J14	88,000		0

Supplies Expense **No. 631**

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓			5,700
	31	Closing entry	J14		5,700	0

Amortization Expense **No. 711**

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓			4,000
	31	Closing entry	J14		4,000	0

Insurance Expense **No. 722**

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓			5,000
	31	Closing entry	J14		5,000	0

Salaries Expense **No. 726**

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓			40,000
	31	Closing entry	J14		40,000	0

PROBLEM 4-4A (Continued)

(c) (Continued)

Rent Expense						No. 729
Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓			14,000
	31	Closing entry	J14		14,000	0

Interest Expense						No. 905
Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓			500
	31	Closing entry	J14		500	0

(d)

CORMIER COMPANY
Post-Closing Trial Balance
December 31, 2002

	Debit	Credit
Cash	$13,600	
Accounts Receivable	15,400	
Prepaid Insurance	2,800	
Supplies	1,500	
Office Equipment	34,000	
Accumulated Amortization—Office Equipment		$ 8,000
Notes Payable		16,000
Accounts Payable		6,000
Salaries Payable		3,000
Interest Payable		500
P. Cormier, Capital		33,800
Totals	$67,300	$67,300

PROBLEM 4-5A

(a)

	(1) INCORRECT ENTRY			(2) CORRECT ENTRY			(3) CORRECTING ENTRY		
1.	Cash	650		Cash	590		Accounts Receivable	60	
	Accounts Receivable		650	Accounts Receivable		590	Cash		60
2.	Supplies	3,300		Equipment	3,300		Equipment	3,300	
	Accounts Payable		3,300	Accounts Payable		3,300	Supplies		3,300
3.	No entry			Amortization Expense	275		Amortization Expense	275	
				Accumulated Amortization		275	Accumulated Amortization		275
4.	Miscellaneous Expense	30		Advertising Expense	30		Advertising Expense	30	
	Cash		30	Cash		30	Miscellaneous Expense		30
5.	Salaries Expense	1,900		Salaries Expense	1,100		Salaries Payable	800	
	Cash		1,900	Salaries Payable	800		Salaries Expense		800
				Cash		1,900			
6.	Equipment	68		Repair Expense	86		Repair Expense	86	
	Cash		68	Cash		86	Cash		18
							Equipment		68
7.	No entry			Rent Expense	1,000		Rent Expense	1,000	
				Rent Payable		1,000	Rent Payable		1,000

PROBLEM 4-5A (Continued)

(b)

CAMPUS TV REPAIR
Trial Balance
April 30, 2003

	Debit	Credit
Cash ($5,000 – $60 – $18)	$ 4,922	
Accounts Receivable ($3,200 + $60)	3,260	
Supplies ($3,800 – $3,300)	500	
Equipment ($10,600 + $3,300 – $68)	13,832	
Accumulated Amortization ($1,350 + $275)		$ 1,625
Accounts Payable		2,100
Rent Payable ($0 + $1,000)		1,000
Unearned Revenue		590
S. Morris, Capital		16,900
Service Revenue		5,450
Salaries Expense ($3,300 – $800)	2,500	
Advertising Expense ($400 + $30)	430	
Miscellaneous Expense ($290 – $30)	260	
Amortization Expense ($500 + $275)	775	
Repair Expense ($100 + $86)	186	
Rent Expense ($1,000)	1,000	
	$27,665	$27,665

PROBLEM 4-6A

(a)

Item	Expenses	Revenue	Assets	Liabilities
1.			Understated	Understated
2.	Overstated		Understated	
3.			Understated	
4.	Understated			
5.		Understated		
6.		Understated	Overstated	
7.				Overstated
8.		Overstated		Understated

(b)

2. Income understated – expense overstated	($300)	U
4. Income overstated – expense understated ($92 - $29).....	63	O
5. Income understated – revenue understated......................	(80)	U
6. Income understated – revenue understated	(600)	U
8. Income overstated – revenue overstated	300	O
Total net income understated..	($617)	U

PROBLEM 4-7A

Account	Balance Sheet Classification
Accounts payable and accrued liabilities	Current Liabilities
Accounts receivable	Current Assets
Bank indebtedness	Current Liabilities
Cash	Current Assets
Fixed assets	Capital Assets
Inventories	Current Assets
Long-term debt	Long-term liabilities
Long-term debt due within one year	Current Liabilities
Prepaid expenses and other assets	Current Assets
Short-term bank loans	Current Liabilities
Short-term investments	Current Assets
Taxes recoverable	Current Assets

PROBLEM 4-8A

(a)

(in thousands)	1999	1998
Working Capital	$34,132 - $31,462 = $2,670	$23,573 - $24,774 = ($1,201)
Current Ratio	$\frac{\$34,132}{\$31,462}$ = 1.08:1	$\frac{\$23,573}{\$24,774}$ = 0.95:1

(b) The working capital and current ratios both show an improvement in 1999 over 1998. In 1998, 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 1999, the company had a positive working capital amount of $2,670,000 and a current ratio of greater than 1. Sleeman's liquidity has improved.

*PROBLEM 4-9A

(a)

LAVIGNE ROOFING
Work Sheet
For the Month Ended March 31, 2003

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	2,500				2,500				2,500	
Accounts Receivable	1,600				1,600				1,600	
Roofing Supplies	1,100			(1) 780	320				320	
Equipment	6,000				6,000				6,000	
Accum. Amortization		1,200		(2) 100		1,300				1,300
Accounts Payable		1,100				1,100				1,100
Unearned Revenue		300	(3) 100			200				200
J. Lavigne, Capital		7,000				7,000				7,000
J. Lavigne, Drawings	600				600				600	
Service Revenue		3,000		(3) 100		3,100		3,100		
Salaries Expense	700		(4) 400		1,100		1,100			
Misc. Expense	100				100		100			
Totals	12,600	12,600								
Supplies Expense			(1) 780		780		780			
Amortization Expense			(2) 100		100		100			
Salaries Payable				(4) 400		400				400
Rent Expense			(3) 800		800		800			
Rent Payable				(3) 800		800				800
Totals			2,180	2,180	13,900	13,900	2,880	3,100	11,020	10,800
Net Income							220			220
Totals							3,100	3,100	11,020	11,020

Key: (1) Supplies used; (2) Amortization expensed; (3) Unearned revenue earned; (4) Salaries accrued; (5) Rent accrued.

*PROBLEM 4-9A (Continued)

(b)

LAVIGNE ROOFING
Income Statement
For the Month Ended March 31, 2003

Revenues		
Service revenue		$3,100
Expenses		
Salaries expense	$1,100	
Rent expense	800	
Supplies expense	780	
Amortization expense	100	
Miscellaneous expense	100	
Total expenses		2,880
Net income		$ 220

LAVIGNE ROOFING
Statement of Owner's Equity
For the Month Ended March 31, 2003

J. Lavigne, Capital, March 1	$7,000
Add: Net income	220
	7,220
Less: Drawings	600
J. Lavigne, Capital, March 31	$6,620

*PROBLEM 4-9A (Continued)

(b) (Continued)

LAVIGNE ROOFING
Balance Sheet
March 31, 2003

Assets

Current assets		
Cash		$2,500
Accounts receivable		1,600
Roofing supplies		320
Total current assets		4,420
Capital assets		
Equipment	$6,000	
Less: Accumulated amortization	1,300	4,700
Total assets		$9,120

Liabilities and Owner's Equity

Current liabilities	
Accounts payable	$1,100
Salaries payable	400
Rent payable	800
Unearned revenue	200
Total current liabilities	2,500
Owner's equity	
J. Lavigne, Capital	6,620
Total liabilities and owner's equity	$9,120

*PROBLEM 4-9A (Continued)

(c)	Mar.	31	Supplies Expense	780	
			Supplies		780
		31	Amortization Expense	100	
			Accumulated Amortization		100
		31	Unearned Revenue	100	
			Service Revenue		100
		31	Salaries Expense	400	
			Salaries Payable		400
		31	Rent Expense	800	
			Rent Payable		800
(d)	Mar.	31	Service Revenue	3,100	
			J. Lavigne, Capital		3,100
		31	J. Lavigne, Capital	2,880	
			Salaries Expense		1,100
			Supplies Expense		780
			Amortization Expense		100
			Miscellaneous Expense		100
			Rent Expense		800
		31	J. Lavigne, Capital	600	
			J. Lavigne, Drawings		600

*PROBLEM 4-10A

(a)

WATER WORLD PARK
Work Sheet
For the Year Ended September 30, 2003

Account Titles	Trial Balance		Adjustments		Adj. Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	41,400				41,400				41,400	
Supplies	18,600			(b) 17,400	1,200				1,200	
Prepaid Insurance	31,900			(a) 28,000	3,900				3,900	
Land	80,000				80,000				80,000	
Building	500,000				500,000				500,000	
Accum. Amortiz-Bldg.		125,000		(c) 25,000		150,000				150,000
Equipment	120,000				120,000				120,000	
Accum. Amortiz.-Equip.		36,200		(c) 6,800		43,000				43,000
Accounts Payable		14,600				14,600				14,600
Unearned Admission		3,700	(d) 2,000			1,700				1,700
Mortgage Payable		350,000				350,000				350,000
M. Berge, Capital		159,700				159,700				159,700
M. Berge, Drawings	14,000				14,000				14,000	
Admission Revenue		302,500		(d) 2,000		304,500		304,500		
Salaries Expense	105,000				105,000		105,000			
Repair Expense	30,500				30,500		30,500			
Advertising Expense	9,400				9,400		9,400			
Utilities Expense	16,900				16,900		16,900			
Prop. Taxes Expense	18,000		(e) 3,000		21,000		21,000			
Interest Expense	6,000		(f) 6,000		12,000		12,000			
Totals	991,700	991,700								
Insurance Expense			(a) 28,000		28,000		28,000			
Supplies Expense			(b) 17,400		17,400		17,400			
Interest Payable				(f) 6,000		6,000				6,000
Amortization Expense			(c) 31,800		31,800		31,800			
Prop. Taxes Payable				(e) 3,000		3,000				3,000
Totals			88,200	88,200	1,032,500	1,032,500	272,000	304,500	760,500	728,000
Net Income							32,500			32,500
Totals							304,500	304,500	760,500	760,500

Key: (a) Expired Insurance; (b) Supplies Used; (c) Amortization Expensed; (d) Admission Revenue Earned; (e) Accrued Property Taxes; (f) Accrued Interest Payable.

*PROBLEM 4-10A (Continued)

(b)

WATER WORLD PARK
Balance Sheet
September 30, 2003

Assets

Current assets			
Cash			$ 41,400
Supplies			1,200
Prepaid insurance			3,900
Total current assets			46,500
Capital assets			
Land		$ 80,000	
Building	$500,000		
Less: Accumulated amortization	150,000	350,000	
Equipment	$120,000		
Less: Accumulated amortization	43,000	77,000	507,000
Total assets			$553,500

Liabilities and Owner's Equity

Current liabilities	
Accounts payable	$ 14,600
Unearned admission revenue	1,700
Interest payable	6,000
Property taxes payable	3,000
Mortgage payable—current portion	50,000
Total current liabilities	75,300
Long-term liabilities	
Mortgage payable (less current portion)	300,000
Total liabilities	375,300
Owner's equity	
M. Berge, Capital ($159,700 + $32,500 – $14,000)	178,200
Total liabilities and shareholder’s equity	$553,500

*PROBLEM 4-10A (Continued)

(c) Sept.	30	Insurance Expense	28,000	
		Prepaid Insurance		28,000
	30	Supplies Expense	17,400	
		Supplies		17,400
	30	Amortization Expense	31,800	
		Accum. Amortiz. – Building		25,000
		Accum. Amortiz. – Equipment		6,800
	30	Unearned Admission Revenue	2,000	
		Admission Revenue		2,000
	30	Property Taxes Expense	3,000	
		Property Taxes Payable		3,000
	30	Interest Expense	6,000	
		Interest Payable		6,000
(d) Sept.	30	Admission Revenue	304,500	
		M. Berge, Capital		304,500
	30	M. Berge, Capital	272,000	
		Salaries Expense		105,000
		Repairs Expense		30,500
		Insurance Expense		28,000
		Property Taxes Expense		21,000
		Supplies Expense		17,400
		Utilities Expense		16,900
		Interest Expense		12,000
		Advertising Expense		9,400
		Amortization Expense		31,800
	30	M. Berge, Capital	14,000	
		M. Berge, Drawings		14,000

*PROBLEM 4-10A (Continued)

(e)

WATER WORLD PARK
Post-Closing Trial Balance
September 30, 2003

	Debit	Credit
Cash	$ 41,400	
Supplies	1,200	
Prepaid Insurance	3,900	
Land	80,000	
Building	500,000	
Accumulated Amortization – Building		$150,000
Equipment	120,000	
Accumulated Amortization – Equipment		43,000
Accounts Payable		14,600
Unearned Admission Revenue		1,700
Interest Payable		6,000
Property Taxes Payable		3,000
Mortgage Payable		350,000
M. Berge, Capital		178,200
	$746,500	$746,500

*PROBLEM 4-11A

(a)	1,200	(n)	2,000
(b)	1,800	(o)	250
(c)	900	(p)	800
(d)	1,500	(q)	6,600
(e)	600	(r)	500
(f)	500	(s)	250
(g)	250	(t)	800
(h)	800	(u)	6,600
(i)	800	(v)	6,600
(j)	150	(w)	6,600
(k)	250	(x)	1,200
(l)	600	(y)	12,950
(m)	400	(z)	3,200

*PROBLEM 4-12A

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

1.

Cash	3,000	
Interest Revenue		1,000
Interest Receivable		2,000
Wages Expense	54,000	
Wages Payable	36,000	
Cash		90,000
Insurance Expense	5,000	
Prepaid Insurance		5,000
Alternatively, this could be treated as a year-end adjustment.		
Prepaid Insurance	8,000	
Cash		8,000
Unearned Sales Revenue	40,000	
Cash (or Accounts Receivable)	380,000	
Sales Revenue		420,000

*PROBLEM 4-12A (Continued)

2.

Interest Receivable

Bal. 2,000	
	2,000
0	

Prepaid Insurance

Bal. 5,000	
	5,000
8,000	
8,000	

Wages Payable

	Bal. 36,000
36,000	
	0

Unearned Sales Revenue

	Bal. 40,000
40,000	
	0

Interest Revenue

	1,000

Wages Expense

54,000	

Cash

3,000	
	90,000
	8,000
380,000	
285,000	

Insurance Expense

5,000	

Sales Revenue

	420,000

*PROBLEM 4-12A (Continued)

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

1.

Jan. 1	Interest Revenue	2,000	
	Interest Receivable		2,000
Jan. 1	Wages Payable	36,000	
	Wages Expense		36,000

2.

Cash	3,000	
Interest Revenue		3,000
Wages Expense	90,000	
Cash		90,000
Insurance Expense	5,000	
Prepaid Insurance		5,000
Prepaid Insurance	8,000	
Cash		8,000
Unearned Sales Revenue	40,000	
Cash (or Accounts Receivable)	380,000	
Sales Revenue		420,000

*PROBLEM 4-12A (Continued)

(b) (Continued)

3.

Interest Receivable

Bal. 2,000	2,000
0	

Wages Payable

36,000	Bal. 36,000
	0

Interest Revenue

2,000	3,000
	1,000

Cash

3,000	90,000
	8,000
380,000	
285,000	

Note that all of the above account balances are the same as they were in (a).

Prepaid Insurance

Bal. 5,000	5,000
8,000	
8,000	

Unearned Sales Revenue

40,000	Bal. 40,000
	0

Wages Expense

90,000	36,000
54,000	

Insurance Expense

5,000	

Sales Revenue

	420,000

PROBLEM 4-1B

(a)

PANAKA COMPANY
Income Statement
For the Year Ended December 31, 2002

Revenues		
Service revenue		$64,000
Expenses		
Salaries expense	$36,000	
Amortization expense	8,800	
Utilities expense	3,700	
Repair expense	3,200	
Insurance expense	1,200	
Total expenses		52,900
Net income		$11,100

PANAKA COMPANY
Statement of Owner's Equity
For the Year Ended December 31, 2002

O. Panaka, Capital, January 1, 2002		$248,000
Add: Investment	$ 4,000	
Add: Net income	11,100	15,100
		263,100
Less: Drawings		7,200
O. Panaka, Capital, December 31, 2002		$255,900

PROBLEM 4-1B (Continued)

(a) (Continued)

PANAKA COMPANY
Balance Sheet
December 31, 2002

Assets

Current assets			
Cash			$ 10,200
Accounts receivable			7,500
Prepaid insurance			1,800
Total current assets			19,500
Capital assets			
Land		$100,000	
Building	$150,000		
Less: Accumulated amortization	18,000	132,000	
Equipment	$ 28,000		
Less: Accumulated amortization	8,600	19,400	251,400
Total assets			$270,900

Liabilities and Owner's Equity

Current liabilities	
Accounts payable	$ 12,000
Salaries payable	3,000
Total current liabilities	15,000
Owner's equity	
O. Panaka, Capital	255,900
Total liabilities and owner's equity	$270,900

PROBLEM 4-1B (Continued)

(b)

GENERAL JOURNAL J14

Date	Account Titles and Explanation	Ref.	Debit	Credit
Dec. 31	Service Revenue	400	64,000	
	O. Panaka, Capital	301		64,000
31	O. Panaka, Capital	301	52,900	
	Repair Expense	622		3,200
	Amortization Expense	711		8,800
	Insurance Expense	722		1,200
	Salaries Expense	726		36,000
	Utilities Expense	732		3,700
31	O. Panaka, Capital	301	7,200	
	O. Panaka, Drawings	306		7,200

PROBLEM 4-1B (Continued)

(c)

Cash					No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			10,200

Accounts Receivable					No. 112
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			7,500

Prepaid Insurance					No. 130
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			1,800

Land					No. 140
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			100,000

Building					No. 145
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			150,000

Accumulated Amortization—Building					No. 146
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓			18,000

PROBLEM 4-1B (Continued)

(c) (Continued)

Equipment — **No. 157**

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓			28,000

Accumulated Amortization—Equipment — **No. 158**

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓			8,600

Accounts Payable — **No. 201**

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓			12,000

Salaries Payable — **No. 212**

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓			3,000

O. Panaka, Capital — **No. 301**

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓			252,000
	31	Closing entry	J14		64,000	316,000
	31	Closing entry	J14	52,900		263,100
	31	Closing entry	J14	7,200		255,900

O. Panaka, Drawings — **No. 306**

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓			7,200
	31	Closing entry	J14		7,200	0

PROBLEM 4-1B (Continued)

(c) (Continued)

Service Revenue — No. 400

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓			64,000
	31	Closing entry	J14	64,000		0

Repair Expense — No. 622

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓			3,200
	31	Closing entry	J14		3,200	0

Amortization Expense — No. 711

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓			8,800
	31	Closing entry	J14		8,800	0

Insurance Expense — No. 722

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓			1,200
	31	Closing entry	J14		1,200	0

Salaries Expense — No. 726

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓			36,000
	31	Closing entry	J14		36,000	0

Utilities Expense — No. 732

Date		Explanation	Ref.	Debit	Credit	Balance
Dec.	31	Balance	✓			3,700
	31	Closing entry	J14		3,700	0

PROBLEM 4-1B (Continued)

(d)

PANAKA COMPANY
Post-Closing Trial Balance
December 31, 2002

	Debit	Credit
Cash	$ 10,200	
Accounts Receivable	7,500	
Prepaid Insurance	1,800	
Land	100,000	
Building	150,000	
Accumulated Amortization – Building		$ 18,000
Equipment	28,000	
Accumulated Amortization – Equipment		8,600
Accounts Payable		12,000
Salaries Payable		3,000
O. Panaka, Capital		255,900
Totals	$297,500	$297,500

PROBLEM 4-2B

(a)

GENERAL JOURNAL

Date		Account Titles and Explanation	Ref.	Debit	Credit
Sept.	30	Repair Service Revenue		14,000	
		Bachchan, Capital			14,000
	30	Bachchan, Capital		5,925	
		Amortization Expense			425
		Insurance Expense			400
		Interest Expense			200
		Rent Expense			1,500
		Salaries Expense			3,200
		Supplies Expense			200
	30	Bachchan, Capital		600	
		Bachchan, Drawings			600

(b) Bachchan, Capital Account

September 1, 2003	$ 8,300
Add: Net Income ($14,000 - $5,925)	8,075
Less: Drawings	600
September 30, 2003	$15,775

This amount should agree with the Bachchan, Capital account on the Statement of Owner's Equity and the Balance Sheet as of September 30, 2003.

PROBLEM 4-3B

(a)

Account	Normal Balance
Other Revenue	Credit
Repair Service Revenue	Credit
R. Laporte, Capital	Credit
Repair Service Expense	Debit
R. Laporte, Drawings	Debit
Other Expenses	Debit

(b)

Repair Service Revenue..........................	170,000	
Other Revenue..	30,000	
R. Laporte, Capital...............................		200,000
R. Laporte Capital....................................	135,000	
Repair Service Expense.....................		110,000
Other Expenses..................................		25,000
R. Laporte, Capital...................................	40,000	
R. Laporte, Drawings..........................		40,000

PROBLEM 4-4B

(a)

SHMI SKYWALKER COMPANY
Income Statement
For the Year Ended March 31, 2003

Revenues		
Service revenue		$109,000
Expenses		
Salaries expense	$39,000	
Amortization expense	15,000	
Advertising expense	12,000	
Supplies expense	3,700	
Insurance expense	4,000	
Utilities expense	2,000	
Interest expense	1,000	
Total expenses		76,700
Net income		$32,300

SHMI SKYWALKER COMPANY
Statement of Owner's Equity
For the Year Ended March 31, 2003

S. Skywalker, Capital, April 1, 2002	$108,000
Add: Net income	32,300
	140,300
Less: Drawings	12,000
S. Skywalker, Capital, March 31, 2003	$128,300

PROBLEM 4-4B (Continued)

(a) (Continued)

SHMI SKYWALKER COMPANY
Balance Sheet
March 31, 2003

Assets			
Current assets			
Cash			$ 20,800
Accounts receivable			15,400
Supplies			2,300
Prepaid insurance			4,800
Total current assets			43,300
Capital assets			
Land		$ 50,000	
Building	$150,000		
Less: Accumulated amortization	9,000	141,000	
Office equipment	$ 44,000		
Less: Accumulated amortization	18,000	26,000	217,000
Total assets			$260,300

Liabilities and Owner's Equity	
Current liabilities	
Accounts payable	$ 8,000
Salaries payable	3,000
Interest payable	1,000
Current portion of long-term debt ($10,000 + $15,000)	25,000
Total current liabilities	37,000
Long-term liabilities	
Notes payable ($20,000 - $10,000)	10,000
Mortgage payable ($100,000 - $15,000)	85,000
Total liabilities	132,000
Owner's equity	
S. Skywalker, Capital	128,300
Total liabilities and owner's equity	$260,300

PROBLEM 4-4B (Continued)

(b)

GENERAL JOURNAL **J14**

Date	Account Titles and Explanation	Ref.	Debit	Credit
Mar. 31	Service Revenue	400	109,000	
	S. Skywalker, Capital	301		109,000
31	S. Skywalker, Capital	301	76,700	
	Advertising Expense	610		12,000
	Supplies Expense	631		3,700
	Amortization Expense	711		15,000
	Insurance Expense	722		4,000
	Salaries Expense	726		39,000
	Utilities Expense	732		2,000
	Interest Expense	905		1,000
31	S. Skywalker, Capital	301	12,000	
	S. Skywalker, Drawings	306		12,000

PROBLEM 4-4B (Continued)

(c)

Cash No. 101

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Balance	✓			20,800

Accounts Receivable No. 112

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Balance	✓			15,400

Supplies No. 126

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Balance	✓			2,300

Prepaid Insurance No. 130

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Balance	✓			4,800

Land No. 140

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Balance	✓			50,000

Building No. 145

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Balance	✓			150,000

PROBLEM 4-4B (Continued)

(c) (Continued)

Accumulated Amortization—Building **No. 146**

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Balance	✓			9,000

Office Equipment **No. 151**

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Balance	✓			44,000

Accumulated Amortization—Office Equipment **No. 152**

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Balance	✓			18,000

Notes Payable **No. 200**

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Balance	✓			20,000

Accounts Payable **No. 201**

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Balance	✓			8,000

Salaries Payable **No. 212**

Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Balance	✓			3,000

PROBLEM 4-4B (Continued)

(c) (Continued)

Interest Payable No. 230

Date		Explanation	Ref.	Debit	Credit	Balance
Mar.	31	Balance	✓			1,000

Mortgage Payable No. 275

Date		Explanation	Ref.	Debit	Credit	Balance
Mar.	31	Balance	✓			100,000

S. Skywalker, Capital No. 301

Date		Explanation	Ref.	Debit	Credit	Balance
Mar.	31	Balance	✓			108,000
	31	Closing entry	J14		109,000	217,000
	31	Closing entry	J14	76,700		140,300
	31	Closing entry	J14	12,000		128,300

S. Skywalker, Drawings No. 306

Date		Explanation	Ref.	Debit	Credit	Balance
Mar.	31	Balance	✓			12,000
	31	Closing entry	J14		12,000	0

Service Revenue No. 400

Date		Explanation	Ref.	Debit	Credit	Balance
Mar.	31	Balance	✓			109,000
	31	Closing entry	J14	109,000		0

PROBLEM 4-4B (Continued)

(c) (Continued)

Advertising Expense **No. 610**

Date		Explanation	Ref.	Debit	Credit	Balance
Mar.	31	Balance	✓			12,000
	31	Closing entry	J14		12,000	0

Supplies Expense **No. 631**

Date		Explanation	Ref.	Debit	Credit	Balance
Mar.	31	Balance	✓			3,700
	31	Closing entry	J14		3,700	0

Amortization Expense **No. 711**

Date		Explanation	Ref.	Debit	Credit	Balance
Mar.	31	Balance	✓			15,000
	31	Closing entry	J14		15,000	0

Insurance Expense **No. 722**

Date		Explanation	Ref.	Debit	Credit	Balance
Mar.	31	Balance	✓			4,000
	31	Closing entry	J14		4,000	0

Salaries Expense **No. 726**

Date		Explanation	Ref.	Debit	Credit	Balance
Mar.	31	Balance	✓			39,000
	31	Closing entry	J14		39,000	0

PROBLEM 4-4B (Continued)

(c) (Continued)

Utilities Expense						No. 732
Date		Explanation	Ref.	Debit	Credit	Balance
Mar.	31	Balance	✓			2,000
	31	Closing entry	J14		2,000	0

Interest Expense						No. 905
Date		Explanation	Ref.	Debit	Credit	Balance
Mar.	31	Balance	✓			1,000
	31	Closing entry	J14		1,000	0

(d)

SHMI SKYWALKER COMPANY
Post-Closing Trial Balance
March 31, 2003

	Debit	Credit
Cash	$ 20,800	
Accounts Receivable	15,400	
Prepaid Insurance	4,800	
Supplies	2,300	
Land	50,000	
Building	150,000	
Accumulated Amortization—Building		$ 9,000
Office Equipment	44,000	
Accumulated Amortization—Office Equipment		18,000
Notes Payable		20,000
Mortgage Payable		100,000
Accounts Payable		8,000
Salaries Payable		3,000
Interest Payable		1,000
S. Skywalker, Capital		128,300
Totals	$287,300	$287,300

PROBLEM 4-5B

(a)

(1) INCORRECT ENTRY			(2) CORRECT ENTRY			(3) CORRECTING ENTRY		
1. Cash	750		Cash	570		Accounts Receivable	180	
Accounts Receivable		750	Accounts Receivable		570	Cash		180
2. Supplies	375		Equipment	375		Equipment	375	
Accounts Receivable		375	Accounts Payable		375	Accounts Receivable	375	
						Supplies		375
						Accounts Payable		375
3. Miscellaneous Expense	30		Advertising Expense	50		Advertising Expense	50	
Cash		30	Cash		50	Miscellaneous Expense		30
						Cash		20
4. Salaries Expense	1,800		Salaries Expense	1,200		Salaries Payable	600	
Cash		1,800	Salaries Payable	600		Salaries Expense		600
			Cash		1,800			
5. Equipment	90		Repair Expense	90		Repair Expense	90	
Cash		90	Cash		90	Equipment		90
6. No entry			Rent Expense	1,000		Rent Expense	1,000	
			Rent Payable		1,000	Rent Payable		1,000

PROBLEM 4-5B (Continued)

(b)

INTERACTIVE COMPUTER REPAIR
Trial Balance
March 31, 2003

	Debit	Credit
Cash ($6,000 - $180 - $20)	$ 5,800	
Accounts Receivable ($3,800 + $180 + $375)	4,355	
Supplies ($900 – $375)	525	
Equipment ($11,400 + $375 – $90)	11,685	
Accumulated Amortization		$ 1,815
Accounts Payable ($3,000 + $375)		3,375
Rent Payable ($1,000)		1,000
Unearned Revenue		935
H. Maurice, Capital		14,160
Service Revenue		6,450
Salaries Expense ($2,900 – $600)	2,300	
Advertising Expense ($800 + $50)	850	
Miscellaneous Expense ($310 – $30)	280	
Amortization Expense	700	
Repair Expense ($150 + $90)	240	
Rent Expense ($1,000)	1,000	
	$27,735	$27,735

PROBLEM 4-6B

	Income Statement			Balance Sheet		
(a) Item	Revenue	Expense	Net Income	Assets	Liabilities	Owner's Equity
1.	NE	O$300	U$300	U$300	NE	U$300
2.	NE	NE	NE	NE (O$500/ U$500)	NE	NE
3.	O$400	NE	O$400	O$400	NE	O$400
4.	NE	U$63	O$63	O$63	NE	O$63
5.	U$80	NE	U$80	U$80	NE	U$80
6.	U$600	U$600	NE	NE	NE	NE
7.	NE	NE	NE	U$500	U$500	NE
8.	NE	O$300	U$300	U$300	NE	U$300
9.	NE	O$1,000	U$1,000	NE	NE	NE (U$1,000/ O$1,000)
(b) Total	O$280	O$937	U$1,217	U$717	U$500	U$217

(b) Note that the accounting equations stay in balance, in the total row. Revenues (O$280) – Expenses (O$937) = Net Income (U$1,217). Assets ($U717) = Liabilities (U$500) + Owner's Equity (U$217).

PROBLEM 4-7B

Account	Balance Sheet Classification
Accounts payable and accrued charges	Current Liabilities
Bank loans (short-term)	Current Liabilities
Cash	Current Assets
Marketable securities	Current Assets
Income taxes payable	Current Liabilities
Income taxes recoverable	Current Assets
Inventories	Current Assets
Investments and advances	Long-term Assets (could also be current)
Long-term debt	Long-term Liabilities
Long-term debt due within one year	Current Liabilities
Prepaid expenses	Current Assets
Property and equipment	Capital Assets
Receivables	Current Assets

PROBLEM 4-8B

(a)

	1999	1998
Working Capital	**\$9,214,140 - \$956,873 = \$8,257,267**	**\$1,070,353 - \$278,738 = \$791,615**
Current Ratio	**\$9,214,140 / \$956,873 = 9.63:1**	**\$1,070,353 / \$278,738 = 3.84:1**

(b) Working capital is positive for both years and the current ratios are both greater than 1, which indicates the company can meet its obligations. Both the amount of working capital and current ratio have increased. This indicates that the company's liquidity has improved from 1998 to 1999.

(c) It is likely that the large cash balance is from investments, and not generated from operations.

*PROBLEM 4-9B

(a)

MASON P. I.
Work Sheet
For the Quarter Ended March 31, 2003

Account Titles	Trial Balance Dr.	Trial Balance Cr.	Adjustments Dr.	Adjustments Cr.	Adjusted Trial Balance Dr.	Adjusted Trial Balance Cr.	Income Statement Dr.	Income Statement Cr.	Balance Sheet Dr.	Balance Sheet Cr.
Cash	11,400				11,400				11,400	
Accounts Receivable	5,620		(5) 750		6,370				6,370	
Supplies	1,050			(1) 300	750				750	
Prepaid Insurance	2,400			(4) 450	1,950				1,950	
Equipment	30,000				30,000				30,000	
Notes Payable		10,000				10,000				10,000
Accounts Payable		12,350				12,350				12,350
A. Mason, Capital		20,000				20,000				20,000
A. Mason, Drawings	600				600				600	
Service Revenue		13,620		(5) 750		14,370		14,370		
Salaries Expense	2,200				2,200		2,200			
Travel Expense	1,300				1,300		1,300			
Rent Expense	1,200				1,200		1,200			
Miscellaneous Expense	200				200		200			
Totals	55,970	55,970								
Supplies Expense			(1) 300		300		300			
Amortization Expense			(2)1,500		1,500		1,500			
Accumulated Amortization				(2)1,500		1,500				1,500
Interest Expense			(3) 250		250		250			
Interest Payable				(3) 250		250				250
Insurance Expense			(4) 450		450		450			
Totals			3,250	3,250	58,470	58,470	7,400	14,370	51,070	44,100
Net Income							6,970			6,970
Totals							14,370	14,370	51,070	51,070

Key: (1) Supplies used; (2) Amortization expensed; (3) Accrued interest on note; (4) Insurance expired; (5) Service revenue unbilled.

*PROBLEM 4-9B (Continued)

(b)

MASON P.I.
Income Statement
For the Quarter Ended March 31, 2003

Revenues		
Service revenue		$14,370
Expenses		
Salaries expense	$2,200	
Amortization expense	1,500	
Travel expense	1,300	
Rent expense	1,200	
Insurance expense	450	
Supplies expense	300	
Interest expense	250	
Miscellaneous expense	200	
Total expenses		7,400
Net income		$ 6,970

MASON P. I.
Statement of Owner's Equity
For the Quarter Ended March 31, 2003

A. Mason, Capital, January 1, 2003	$ 0
Add: Investment by owner	20,000
Net income	6,970
	26,970
Less: Drawings	600
A. Mason, Capital, March 31, 2003	$26,370

*PROBLEM 4-9B (Continued)

(b) (Continued)

MASON P. I.
Balance Sheet
March 31, 2003

Assets		
Current assets		
Cash		$11,400
Accounts receivable		6,370
Supplies		750
Prepaid insurance		1,950
Total current assets		20,470
Capital assets		
Equipment	$30,000	
Less: Accumulated amortization	1,500	28,500
Total assets		$48,970
Liabilities and Owner's Equity		
Current liabilities		
Notes payable		$10,000
Accounts payable		12,350
Interest payable		250
Total liabilities		22,600
Owner's equity		
A. Mason, Capital		26,370
Total liabilities and owner's equity		$48,970

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

(c)	Mar.	31	Supplies Expense	300	
			Supplies		300
		31	Amortization Expense	1,500	
			Accumulated Amortization		1,500
		31	Interest Expense	250	
			Interest Payable		250
		31	Insurance Expense	450	
			Prepaid Insurance (3 x $150)		450
		31	Accounts Receivable	750	
			Service Revenue		750
(d)	Mar.	31	Service Revenue	14,370	
			A. Mason, Capital		14,370
		31	A. Mason, Capital	7,400	
			Amortization Expense		1,500
			Travel Expense		1,300
			Salaries Expense		2,200
			Rent Expense		1,200
			Insurance Expense		450
			Supplies Expense		300
			Interest Expense		250
			Miscellaneous Expense		200
		31	A. Mason, Capital	600	
			A. Mason, Drawings		600

*PROBLEM 4-10B

(a)

SHERRICK MANAGEMENT SERVICES
Work Sheet
For the Year Ended December 31, 2003

Account Titles	Trial Balance		Adjustments		Adj. Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	14,500				14,500				14,500	
Accounts Receivable	23,600				23,600				23,600	
Prepaid Insurance	3,100			(a) 1,500	1,600				1,600	
Land	56,000				56,000				56,000	
Building	106,000				106,000				106,000	
Equipment	48,000				48,000				48,000	
Accounts Payable		10,400				10,400				10,400
Unearned Rent Revenue		5,000	(b) 3,200			1,800				1,800
Mortgage Payable		100,000				100,000				100,000
R. Sherrick, Capital		120,000				120,000				120,000
R. Sherrick, Drawings	20,000				20,000				20,000	
Service Revenue		75,600				75,600		75,600		
Rent Revenue		23,000		(b) 3,200		26,200		26,200		
Salaries Expense	30,000				30,000		30,000			
Advertising Expense	17,000				17,000		17,000			
Utilities Expense	15,800				15,800		15,800			
Totals	334,000	334,000								
Insurance Expense			(a) 1,500		1,500		1,500			
Amortiz. Expense-			(c) 2,500		2,500		2,500			
Building				(c) 2,500		2,500				2,500
Accum. Amortiz - Building			(d) 3,900		3,900		3,900			
Amortiz. Expense - Equip.				(d) 3,900		3,900				3,900
Accum. Amort. - Equip.			(e) 10,000		10,000		10,000			
Interest Expense				(e)10,000		10,000				10,000
Interest Payable			21,100	21,100	350,400	350,400	80,700	101,800	269,700	248,600
Totals							21,100			21,100
Net Income							101,800	101,800	269,700	269,700
Totals										

Key: (a) Expired insurance; (b) Rent revenue earned; (c) Amortization expensed--building; (d) Amortization expensed--equipment; (e) Interest expense.

*PROBLEM 4-10B (Continued)

(b)

SHERRICK MANAGEMENT SERVICES
Balance Sheet
December 31, 2003

Assets

Current assets			
Cash			$ 14,500
Accounts receivable			23,600
Prepaid insurance			1,600
Total current assets			39,700
Capital assets			
Land		$ 56,000	
Building	$106,000		
Less: Accumulated amortization	2,500	103,500	
Equipment	$ 48,000		
Less: Accumulated amortization	3,900	44,100	203,600
Total assets			$243,300

Liabilities and Owner's Equity

Current liabilities	
Accounts payable	$ 10,400
Unearned rent revenue	1,800
Interest payable	10,000
Current maturity of long-term debt	10,000
Total current liabilities	32,200
Long-term liabilities	
Mortgage payable (less current portion)	90,000
Total liabilities	122,200
Owner's equity	
R. Sherrick, Capital ($120,000 + $21,100 – $20,000)	121,100
Total liabilities and shareholder’s equity	$243,300

*PROBLEM 4-10B (Continued)

(c)	Dec.	31	Insurance Expense	1,500	
			Prepaid Insurance		1,500
		31	Amortization Expense – Building	2,500	
			Amortization Expense – Equipment	3,900	
			Accum. Amortiz. – Building		2,500
			Accum. Amortiz. – Equipment		3,900
		31	Unearned Rent Revenue	3,200	
			Rent Revenue		3,200
		31	Interest Expense	10,000	
			Interest Payable		10,000
(d)	Dec.	31	Service Revenue	75,600	
			Rent Revenue	26,200	
			R. Sherrick, Capital		101,800
		31	R. Sherrick, Capital	80,700	
			Salaries Expense		30,000
			Advertising Expense		17,000
			Utilities Expense		15,800
			Insurance Expense		1,500
			Amortization Expense – Building		2,500
			Amortization Expense – Equipment		3,900
			Interest Expense		10,000
		31	R. Sherrick, Capital	20,000	
			R. Sherrick, Drawings		20,000

*PROBLEM 4-10B (Continued)

(e)

SHERRICK MANAGEMENT SERVICES
Post-Closing Trial Balance
December 31, 2003

	Debit	Credit
Cash	$ 14,500	
Accounts Receivable	23,600	
Prepaid Insurance	1,600	
Land	56,000	
Building	106,000	
Accumulated Amortization – Building		$ 2,500
Equipment	48,000	
Accumulated Amortization – Equipment		3,900
Accounts Payable		10,400
Unearned Rent Revenue		1,800
Interest Payable		10,000
Mortgage Payable		100,000
R. Sherrick, Capital		121,100
	$249,700	$249,700

*PROBLEM 4-11B

(a)	1,300	(n)	2,500
(b)	1,520	(o)	250
(c)	1,100	(p)	600
(d)	1,900	(q)	8,000
(e)	1,000	(r)	600
(f)	600	(s)	250
(g)	250	(t)	600
(h)	600	(u)	8,000
(i)	600	(v)	8,000
(j)	160	(w)	8,000
(k)	250	(x)	1,300
(l)	1,000	(y)	12,350
(m)	500	(z)	4,270

*PROBLEM 4-12B

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

1.	Cash	4,000	
	Rent Revenue		1,500
	Rent Receivable....................................		2,500
	Property Tax Expense	5,000	
	Property Tax Payable..................................	3,000	
	Cash...		8,000
	Prepaid Insurance	9,000	
	Cash...		9,000
	Insurance Expense	4,800	
	Prepaid Insurance		4,800
	Alternatively, this could be treated as a year-end adjustment.		
	Unearned Service Revenue.........................	45,000	
	Cash (or Accounts Receivable)	405,000	
	Service Revenue..................................		450,000

*PROBLEM 4-12B (Continued)

(a) (Continued)

2.

Rent Receivable

Bal. 2,500	
	2,500
0	

Prepaid Insurance

Bal. 4,800	
	4,800
9,000	
9,000	

Property Taxes Payable

	Bal. 3,000
3,000	
	0

Unearned Service Revenue

	Bal. 45,000
45,000	
	0

Rent Revenue

	1,500

Property Tax Expense

5,000	

Cash

4,000	
	9,000
	8,000
405,000	
392,000	

Insurance Expense

4,800	

Service Revenue

	450,000

*PROBLEM 4-12B (Continued)

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

1.

Rent Revenue	2,500	
Rent Receivable....................................		2,500
Property Taxes Payable...............................	3,000	
Property Tax Expense...........................		3,000

2.

Cash	4,000	
Rent Revenue		4,000
Property Tax Expense	8,000	
Cash...		8,000
Insurance Expense	4,800	
Prepaid Insurance		4,800
Alternatively, this could be treated as a year-end adjustment.		
Prepaid Insurance	9,000	
Cash...		9,000
Unearned Service Revenue..........................	45,000	
Cash (or Accounts Receivable)	405,000	
Service Revenue....................................		450,000

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

(b) (Continued)

3.

Rent Receivable

Bal. 2,500	
	2,500
---	---
0	

Prepaid Insurance

Bal. 4,800	4,800
9,000	
---	---
9,000	

Property Taxes Payable

	Bal. 3,000
3,000	
---	---
	0

Unearned Service Revenue

	Bal. 45,000
45,000	
---	---
	0

Rent Revenue

2,500	
	4,000
---	---
	1,500

Property Tax Expense

	3,000
8,000	
---	---
5,000	

Cash

4,000	
	9,000
	8,000
405,000	
---	---
392,000	

Insurance Expense

4,800	

Sales Revenue

	450,000

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

(b) 3. (Continued)

Note that all of the above account balances are the same as they were in (a).

CUMULATIVE COVERAGE–CHAPTERS 2 TO 4

(a)

GENERAL JOURNAL — J1

Date		Account Titles and Explanation	Ref.	Debit	Credit
July	1	Cash	101	18,000	
		Lee Chan, Capital	301		18,000
	1	Equipment	157	26,000	
		Cash	101		3,000
		Accounts Payable	201		23,000
	1	Rent Expense	729	500	
		Cash	101		500
	3	Cleaning Supplies	128	900	
		Accounts Payable	201		900
	5	Prepaid Insurance	130	1,200	
		Cash	101		1,200
	12	Accounts Receivable	112	2,500	
		Cleaning Revenue	400		2,500
	18	Accounts Payable	201	3,500	
		Cash	101		3,500
	20	Salaries Expense	726	1,200	
		Cash	101		1,200
	21	Cash	101	1,400	
		Accounts Receivable	112		1,400
	25	Accounts Receivable	112	3,000	
		Cleaning Revenue	400		3,000

(a) (Continued)

Date	Account Titles and Explanation	Ref.	Debit	Credit
July 31	Gas & Oil Expense	633	250	
	Cash	101		250
31	Lee Chan, Drawings	306	1,600	
	Cash	101		1,600

(c)

GENERAL JOURNAL J2

Date	Account Titles and Explanation	Ref.	Debit	Credit
July 31	Accounts Receivable	112	1,500	
	Cleaning Revenue	400		1,500
31	Amortization Expense	711	700	
	Accum. Amort.—Equipment	158		700
31	Insurance Expense	722	100	
	Prepaid Insurance	130		100
31	Cleaning Supplies Expense	634	300	
	Cleaning Supplies	128		300
31	Salaries Expense	726	400	
	Salaries Payable	212		400

Note that a worksheet is not required. The trial balance and adjusted trial balance are included within the optional worksheet shown below.

(b) & (d)

LEE'S WINDOW WASHING
Work Sheet
For the Month Ended July 31, 2003

Account Titles	Trial Balance Dr.	Trial Balance Cr.	Adjustments Dr.	Adjustments Cr.	Adjusted Trial Balance Dr.	Adjusted Trial Balance Cr.	Income Statement Dr.	Income Statement Cr.	Balance Sheet Dr.	Balance Sheet Cr.
Cash	8,150				8,150				8,150	
Accounts Receivable	4,100		(1) 1,500		5,600				5,600	
Cleaning Supplies	900			(4) 300	600				600	
Prepaid Insurance	1,200			(3) 100	1,100				1,100	
Equipment	26,000				26,000				26,000	
Accounts Payable		20,400				20,400				20,400
Lee Chan, Capital		18,000				18,000				18,000
Lee Chan, Drawings	1,600				1,600				1,600	
Cleaning Revenue		5,500		(1)1,500		7,000		7,000		
Gas & Oil Expense	250				250		250			
Rent Expense	500				500		500			
Salaries Expense	1,200		(5) 400		1,600		1,600			
Total	43,900	43,900								
Amortization Expense			(2) 700		700		700			
Accum. Amort. Equipment				(2) 700		700				700
Insurance Expense			(3) 100		100		100			
Cleaning Supplies Expense			(4) 300		300		300			
Salaries Payable				(5) 400		400				400
Totals			3,000	3,000	46,500	46,500	3,450	7,000	43,050	39,500
Net Income							3,550			3,550
Totals							7,000	7,000	43,050	43,050

Key: (1) Service revenue earned; (2) Amortization expensed; (3) Insurance expired; (4) Cleaning supplies used; (5) Unpaid salaries.

CUMULATIVE COVERAGE—CHAPTERS 2 TO 4 (Continued)

(a), (c) & (f)

Cash No. 101

Date		Explanation	Ref.	Debit	Credit	Balance
July	1		J1	18,000		18,000
	1		J1		3,000	15,000
	1		J1		500	14,500
	5		J1		1,200	13,300
	18		J1		3,500	9,800
	20		J1		1,200	8,600
	21		J1	1,400		10,000
	31		J1		250	9,750
	31		J1		1,600	8,150

Accounts Receivable No. 112

Date		Explanation	Ref.	Debit	Credit	Balance
July	12		J1	2,500		2,500
	21		J1		1,400	1,100
	25		J1	3,000		4,100
	31	Adjusting	J2	1,500		5,600

Cleaning Supplies No. 128

Date		Explanation	Ref.	Debit	Credit	Balance
July	3		J1	900		900
	31	Adjusting	J2		300	600

Prepaid Insurance No. 130

Date		Explanation	Ref.	Debit	Credit	Balance
July	5		J1	1,200		1,200
	31	Adjusting	J2		100	1,100

(a), (c) & (f) (Continued)

Equipment — No. 157

Date		Explanation	Ref.	Debit	Credit	Balance
July	1		J1	26,000		26,000

Accumulated Amortization—Equipment — No. 158

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Adjusting	J2		700	700

Accounts Payable — No. 201

Date		Explanation	Ref.	Debit	Credit	Balance
July	1		J1		23,000	23,000
	3		J1		900	23,900
	18		J1	3,500		20,400

Salaries Payable — No. 212

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

Lee Chan, Capital — No. 301

Date		Explanation	Ref.	Debit	Credit	Balance
July	1		J1		18,000	18,000
	31	Closing	J3		7,000	25,000
	31	Closing	J3	3,450		21,550
	31	Closing	J3	1,600		19,950

CUMULATIVE COVERAGE—CHAPTERS 2 TO 4 (Continued)

(a), (c) & (f) (Continued)

Lee Chan, Drawings — **No. 306**

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

Cleaning Revenue — **No. 400**

Date		Explanation	Ref.	Debit	Credit	Balance
July	12		J1		2,500	2,500
	25		J1		3,000	5,500
	31	Adjusting	J2		1,500	7,000
	31	Closing	J3	7,000		0

Gas & Oil Expense — **No. 633**

Date		Explanation	Ref.	Debit	Credit	Balance
July	31		J1	250		250
	31	Closing	J3		250	0

Cleaning Supplies Expense — **No. 634**

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Adjusting	J2	300		300
	31	Closing	J3		300	0

Amortization Expense — **No. 711**

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Adjusting	J2	700		700
	31	Closing	J3		700	0

(a), (c) & (f) (Continued)

Insurance Expense No. 722

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

Salaries Expense No. 726

Date		Explanation	Ref.	Debit	Credit	Balance
July	20		J1	1,200		1,200
	31	Adjusting	J2	400		1,600
	31	Closing	J3		1,600	0

Rent Expense No. 729

Date		Explanation	Ref.	Debit	Credit	Balance
July	31	Adjusting	J2	500		500
	31	Closing	J3		500	0

(e)

LEE'S WINDOW WASHING
Income Statement
For the Month Ended July 31, 2003

Revenues		
Cleaning revenue		$7,000
Expenses		
Salaries expense	$1,600	
Cleaning supplies expense	300	
Amortization expense	700	
Gas & oil expense	250	
Rent expense	500	
Insurance expense	100	
Total expenses		3,450
Net income		$3,550

LEE'S WINDOW WASHING
Statement of Owner's Equity
For the Month Ended July 31, 2003

Lee Chan, Capital, July 1		$ 0
Add: Investments	$18,000	
Net income	3,550	21,550
		21,550
Less: Drawings		1,600
Lee Chan, Capital, July 31		$19,950

(e) (Continued)

LEE'S WINDOW WASHING
Balance Sheet
July 31, 2003

Assets

Current assets		
Cash		$ 8,150
Accounts receivable		5,600
Cleaning supplies		600
Prepaid insurance		1,100
Total current assets		15,450
Capital assets		
Equipment	$26,000	
Less: Accumulated amortization	700	25,300
Total assets		$40,750

Liabilities and Owner's Equity

Current liabilities	
Accounts payable	$20,400
Salaries payable	400
Total current liabilities	20,800
Owner's equity	
Lee Chan, Capital	19,950
Total liabilities and owner's equity	$40,750

(f)

GENERAL JOURNAL J3

Date	Account Titles and Explanation	Ref.	Debit	Credit
July 31	Cleaning Revenue	400	7,000	
	Lee Chan, Capital	301		7,000
31	Lee Chan, Capital	301	3,450	
	Gas & Oil Expense	633		250
	Cleaning Supplies Expense	634		300
	Amortization Expense	711		700
	Insurance Expense	722		100
	Salaries Expense	726		1,600
	Rent Expense	729		500
31	Lee Chan, Capital	301	1,600	
	Lee Chan, Drawings	306		1,600

(g)

LEE'S WINDOW WASHING
Post-Closing Trial Balance
July 31, 2003

	Debit	Credit
Cash	$ 8,150	
Accounts Receivable	5,600	
Cleaning Supplies	600	
Prepaid Insurance	1,100	
Equipment	26,000	
Accumulated Amortization—Equipment		$ 700
Accounts Payable		20,400
Salaries Payable		400
Lee Chan, Capital		19,950
	$41,450	$41,450

BYP 4-1 FINANCIAL REPORTING PROBLEM

(a) Second Cup'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) Cash equivalents consist of investments in short-term money market instruments. They are recorded at the lower of cost and estimated market value. They are highly liquid investments (see Note 2 to the financial statements).

(c) Working capital = Current assets - Current liabilities

2000: \$5,416,000 - \$6,405,000 = (\$989,000)
1999: \$24,990,000 - \$6,451,000 = \$18,539,000

Current ratio = Current assets ÷ Current liabilities

2000: \$5,416,000 ÷ \$6,405,000 = 0.85:1
1999: \$24,990,000 ÷ \$6,451,000 = 3.87:1

Working capital and current ratio were significantly higher in 1999 than in 2000.

BYP 4-2 INTERPRETING FINANCIAL STATEMENTS

(a)

(in millions)	2000	1999
Working Capital	$226.2 - $260.2 = ($34.0)	$221.3 - $253.9 = ($32.6)
Current Ratio	$\frac{\$226.2}{\$260.2}$ = 0.87:1	$\frac{\$221.3}{\$253.9}$ = 0.87:1

I think Future Shop's creditors should be concerned about its liquidity. Creditors lend money to companies with the expectation that they will be repaid at a specified point in time in the future. The working capital is negative in both years, despite the company reporting a profit in 2000. The current ratio is also less than 1, indicating the company may have difficulty meeting its current commitments without obtaining additional financing. The fact that income was reported in 2000 versus a loss in 1999 should help alleviate some of their concerns.

(b) As a creditor in this situation I would request information on the company's plans for the upcoming year – such as a cash forecast.

BYP 4-3 INTERPRETING FINANCIAL STATEMENTS

(a)

FISHERY PRODUCTS INTERNATIONAL LIMITED
Income Statement
For the Year Ended December 31, 1999
(dollars in thousands)

Revenues	
Sales	$708,911
Commission revenue	3,327
Total revenue	712,238
Expenses	
Cost of goods sold, administration and marketing expenses	678,580
Amortization expense	9,883
Interest expense	7,146
Other expenses	2,506
Income tax expense	4,097
Total expenses	702,212
Net income	$ 10,026

Note to Instructor: Instructors may wish to point out that income tax expense is actually reported separately on corporate income statements.

BYP 4-3 (Continued)

(a) (Continued)

FISHERY PRODUCTS INTERNATIONAL LIMITED
Balance Sheet
December 31, 1999
(dollars in thousands)

Assets

Current assets		
Cash		$ 916
Accounts receivable		80,644
Inventories		119,471
Prepaid expenses		5,637
Total current assets		206,668
Capital assets		
Property, plant and equipment	$220,798	
Less: Accumulated amortization	127,121	93,677
Other long term assets		14,057
Total assets		$314,402

Liabilities and Shareholders' Equity

Current liabilities	
Bank indebtedness	$ 43,124
Accounts payable and accrued liabilities	37,252
Current portion of long term debt	8,351
Total current liabilities	88,727
Long term debt	62,323
Total liabilities	151,050
Shareholders' equity	
($155,148 – $1,822 + $10,026)	163,352
Total liabilities and shareholders' equity	$314,402

BYP 4-3 (Continued)

(b) (All numbers reported in thousands of dollars)

Working capital = Current assets - Current liabilities

1999: $206,668 - $88,727 = $117,941
1998: $219,652 – $110,374 = $109,278

Current ratio = Current assets ÷ Current liabilities

1999: $ 206,668 ÷ $88,727 = 2.33:1
1998: $ 219,652 ÷ $110,374 = 1.99:1

(c) FPI's liquidity has improved in 1999 over 1998. The amount of working capital is higher and the current ratio has increased.

BYP 4-4 ACCOUNTING ON THE WEB

Due to the frequency of change with regard to information available on the world wide web, the Accounting on the Web cases are updated as required. Their suggested solutions are also updated whenever necessary, and can be found on-line in the Instructor Resources section of our home page [www.wiley.com/canada/weygandt2].

BYP 4-5 COLLABORATIVE LEARNING ACTIVITY

(a)

EVERCLEAN JANITORIAL SERVICE
Balance Sheet
December 31, 2002

Assets

Current assets			
Cash			$ 6,500
Accounts receivable ($9,000 + $5,000)			14,000
Janitorial supplies ($5,200 – $2,700)			2,500
Prepaid insurance ($4,800 X 1/2)			2,400
Total current assets			25,400
Capital assets			
Cleaning equipment ($22,000 + $4,000)	$26,000		
Less: Accumulated amortization—cleaning equipment ($4,000 + $2,000)	6,000	$20,000	
Delivery trucks ($34,000 + $5,000)	$39,000		
Less: Accumulated amortization—delivery trucks ($5,000 + $5,000)	10,000	29,000	49,000
Total assets			$74,400

Liabilities and Owner's Equity

Current liabilities	
Notes payable due within one year	$10,000
Accounts payable ($2,500 + $300)	2,800
Interest payable ($25,000 X 10% X 6/12)	1,250
Total current liabilities	14,050
Long-term liabilities	
Notes payable, due July 1, 2004 (less current portion)	15,000
Total liabilities	29,050
Owner's equity	
Jean-Guy Richard, Capital	45,350*
Total liabilities and owner's equity	$74,400

BYP 4-5 (Continued)

(a) (Continued)

*Capital balance as reported		$54,000
Add: Earned but unbilled fees		5,000
Less: Janitorial supplies used ($5,200 - $2,500)	$ 2,700	59,000
Insurance expired ($4,800 x 1/2)	2,400	
Amortization ($2,000 + $5,000)	7,000	
Expenses incurred but unpaid	300	
Interest accrued	1,250	
Total		13,650
Capital balance as adjusted		$45,350

(b) Yes, Everclean Janitorial Service met the terms of the bank loan because current assets exceed current liabilities by $11,350 ($25,400 – $14,050) at December 31, 2002.

BYP 4-6 COLLABORATIVE LEARNING ACTIVITY

	2002	2003
1.	O	U
2.	O	U
3.	O	U
4.	U	O

Explanations:

	Did		Should Have Done	
	2002	2003	2002	2003
1.	Dr. Prepaid Expense (A) / Cr. Cash	Dr. Expense / Cr. Prepaid Expense (A)	Dr. Prepaid Expense (A) / Cr. Cash Dr. Expense / Cr. Prepaid Expense (A)	No entry
	Expenses are understated in 2002; therefore net income is overstated. Expenses are overstated in 2003; therefore net income is understated.			
2.	Dr. Cash / Cr. Revenue	No entry	Dr. Cash / Cr. Unearned Revenue (L)	Dr. Unearned Revenue (L) / Cr. Revenue
	Revenue is overstated in 2002; therefore net income is overstated. Revenue is understated in 2003; therefore net income is also understated.			
3.	No entry	Dr. Expense / Cr. Cash	Dr. Expense / Cr. Payables (L)	Dr. Payables (L) / Cr. Cash
	Expenses are understated in 2002; therefore net income is overstated. Expenses are overstated in 2003; therefore net income is understated.			
4.	No entry	Dr. Cash / Cr. Revenue	Dr. Receivables (A) / Cr. Revenue	Dr. Cash / Cr. Receivables (A)
	Revenue is understated in 2002; therefore net income is understated in 2002. Revenue is overstated in 2003; therefore net income is also overstated in 2003.			

Note to Instructors: You may wish to point out that the errors combine and offset themselves at the end of the two year period.

BYP 4-7 COMMUNICATION ACTIVITY

MEMO

To: Accounting Instructor

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. **Analyse 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 4-8 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.