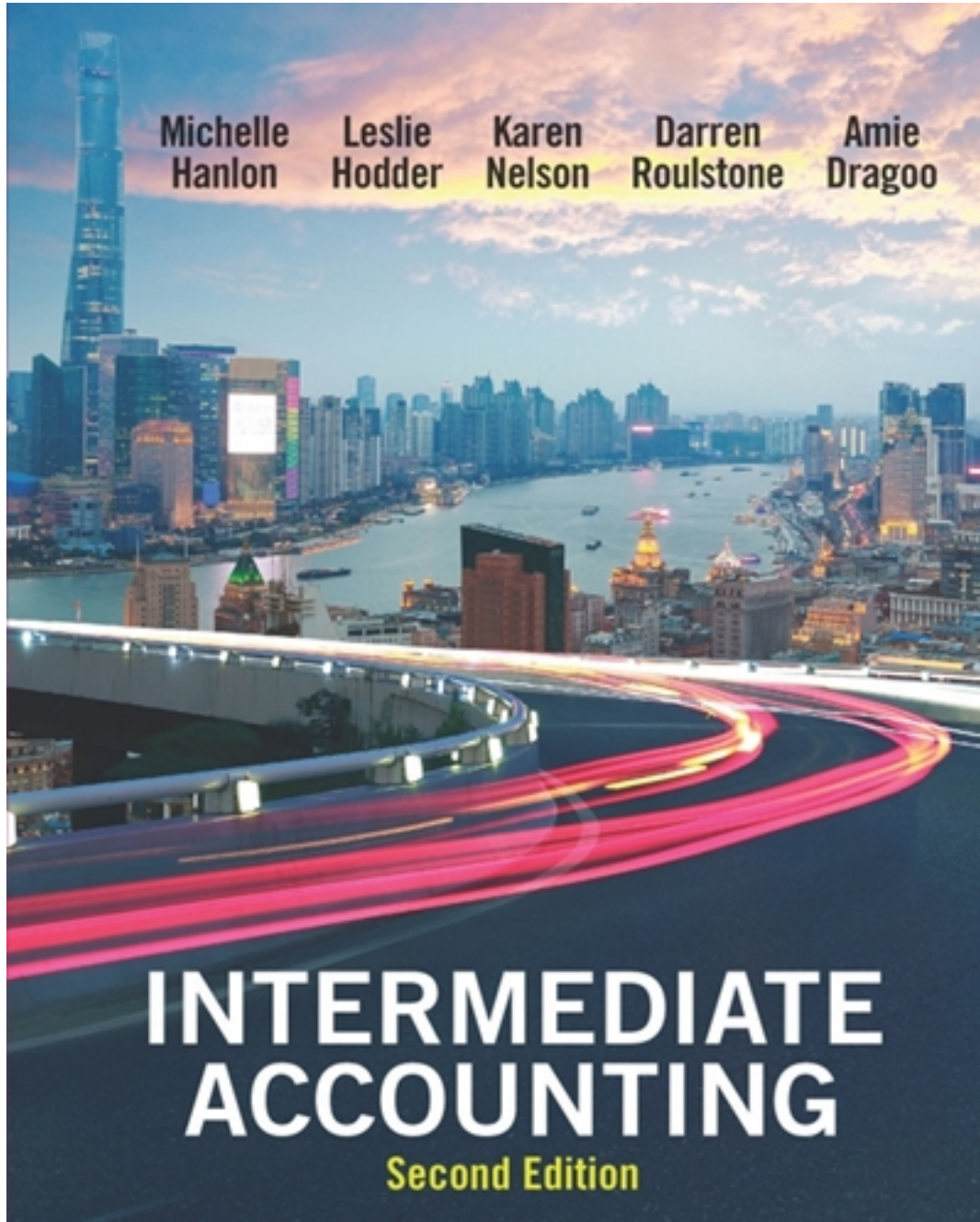


# Test Bank for Intermediate Accounting 2nd Edition by Hanlon

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# Test Bank

# Chapter 2

## Accounting Information Systems

Learning Objectives – Coverage by question		
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## Chapter 2: Accounting Information Systems

### Multiple Choice

**Topic: The effect of economic transactions on the accounting equation**

**LO 1**

1. Which of the following statements is true?
  - A) Retained earnings, as a category, represents the resources available to a business.
  - B) Liabilities show the amount of assets claimed by creditors.
  - C) The accounting equation shows that the total resources of a business is equal to the total amount of financing of those resources.
  - D) Both A and B are true.
  - E) Both B and C are true.

*Answer: E*

*Rationale:* The answer A is incorrect; retained earnings shows the residual interest of the owners in the business. However, both B and C are true, hence E is the correct answer. Liabilities show the amount of financing of assets provided (and claimed) by creditors. The accounting equation shows the equality of assets (resources) and the sourcing of those assets (financing).

**Topic: The effect of economic transactions on the accounting equation**

**LO 1**

2. If Alexis Corp. paid \$3,500 to a marketing firm for help with an advertising campaign, how would this transaction affect Alexis's accounting equation?

	Assets	=	Liabilities	+	Stockholders' Equity
A)	Advertising +\$3,500		Accounts Payable +\$3,500		
B)	Cash -\$3,500				Consulting Expense -\$3,500
C)	Cash +\$3,500		Accounts Payable +\$3,500		
D)	Advertising +\$3,500				Consulting Expense -\$3,500

*Answer: B*

*Rationale:* Cash paid represents a decrease in assets and a decrease (via an expense) of shareholders' equity.

**Topic: Identify, record, and post transactions**

**LO 2**

3. Cal-Ex Corp. received \$32,000 cash from Slender Fastly, Inc. as a prepayment on a consulting engagement. Cal-Ex will provide the consulting service to Slender Fastly starting next month. On Cal-Ex' books, the journal entry recorded for this transaction will include
- A) A credit to Deferred Revenue.
  - B) A credit to Cash.
  - C) A debit to Prepaid Consulting.
  - D) A credit to Consulting Revenue.
  - E) A credit to Accounts Payable.

*Answer: A*

*Rationale:* The journal entry will consist of a debit to Cash for the increase in cash and a credit to Deferred Revenue to record the obligation to provide service in the future.

**Topic: Identify, record, and post transactions**

**LO 2**

4. Which of the following accounts have a debit normal balance?
- A) Dividends Payable
  - B) Salaries Expense
  - C) Deferred Revenue
  - D) Both A and B have debit normal balances.
  - E) Both A and C have debit normal balances.

*Answer: B*

*Rationale:* The accounts listed in A and C are liabilities, so they have a credit normal balances. Salaries Expense is an expense account so it has a debit normal balance.

**Topic: Identify, record, and post transactions**

**LO 2**

5. If the Accounts Payable account starts with a normal balance of \$34,500, and the firm purchases \$4,300 worth of inventory on account, and later pays \$12,700 on the accounts payable amount due, what is the ending balance of Accounts Payable?
- A) A debit balance of \$26,100.
  - B) A credit balance of \$21,800.
  - C) A credit balance of \$26,100.
  - D) A debit balance of \$21,800.
  - E) The correct ending balance is not displayed as a choice.

*Answer: C*

*Rationale:*

Accounts Payable	
	34,500
12,700	4,300
	26,100

**Topic: Identify, record, and post transactions**

**LO 2**

6. Cal-Ex Corp. sold products from inventory for \$23,500 cash. The inventory sold had a cost of \$11,300. Which statement below is true about the journal entries recorded for the sale of the inventory?
- A) The account Retained Earnings is credited for \$23,500.
  - B) The account Cost of Goods Sold is credited for \$11,300.
  - C) The account Sales Revenue is credited for \$12,200.
  - D) The account Inventory is credited for \$11,300.
  - E) Both B and C are true.

*Answer:* D

*Rationale:* The journal entries for the transaction are as follows:

XXX	Cash	23,500	
	Sales Revenue		23,500
XXX	Cost of Goods Sold	11,300	
	Inventory		11,300

**Topic: Identify, record, and post transactions**

**LO 2**

7. Which of the following will be recorded as a debit in a journal entry?
- A) An increase in Dividends Payable...
  - B) An increase in Salaries Expense.
  - C) An increase in Salaries Payable.
  - D) A decrease in Accounts Receivable.
  - E) A decrease in Prepaid Insurance

*Answer:* B

*Rationale:* An increase in Dividends Payable and Salaries Payable are shown with a credit (they are liabilities and increasing), and a decrease in Accounts Receivable and Prepaid Insurance will also be shown with a credit (they are assets and decreasing). Salaries Expense is an expense account and increasing; hence it is debited.

**Topic: Prepare an unadjusted trial balance**

**LO 3**

8. Management uses an unadjusted trial balance to
- A) Make sure the accounts are totally error free.
  - B) Check if a transaction has not been recorded.
  - C) Make sure the sum of debit balances and the sum of credit balances are equal.
  - D) Catch all erroneous entries.
  - E) Make sure all accounts are correctly classified.

*Answer:* C

*Rationale:* A and D are incorrect because there is no way to assure that there are no errors at all, nor any check offered by the unadjusted trial balance that would catch all erroneous entries. E is incorrect because there is nothing in the structure that guarantees all accounts are correctly classified. B is incorrect because the structure of the unadjusted trial balance is such that there is no way to know if a particular transaction was recorded or not. C is correct, because the structure of the unadjusted trial balance demonstrates whether the sum of the debit and credit balances are equal.

**Topic: Prepare an unadjusted trial balance**

**LO 3**

9. Jim Dandy Inc. shows the following normal balances in its general ledger at the end of year.

Cash	\$33,800
Accounts Receivable	78,600
Allowance for Doubtful Accounts	11,000
Equipment	134,700
Accumulated Depreciation - Equipment	12,600
Accounts Payable	29,400
Dividends Payable	5,000
Notes Payable	30,000
Deferred Revenue	26,700
Common Stock	20,000
Retained Earnings	81,700
Dividends	9,000
Service Revenue	158,400
Salaries Expense	85,100
Depreciation Expense	12,600
Lease Expense	21,000

When they create their adjusted trial balance for the year, the total amount in the debit column should be:

- A) \$374,800
- B) \$342,200
- C) \$354,800
- D) \$365,800
- E) \$379,800

*Answer: A*

*Rationale:*

	Debits	Credits
Cash	\$33,800	
A/R	78,600	
Allowance for D/A		\$11,000
Equipment	134,700	
A/D - Equipment		12,600
A/P		29,400
Dividends Payable		5,000
Notes Payable		30,000
Deferred Revenue		26,700
Common Stock		20,000
Retained Earnings		81,700
Dividends	9,000	
Service Revenue		158,400
Salaries Expense	85,100	
Depreciation Expense	12,600	
Lease Expense	21,000	
	<u>\$374,800</u>	<u>\$374,800</u>

**Topic: Prepare an unadjusted trial balance**

**LO 3**

**10.** Jim Dandy Inc. shows the following normal balances in its general ledger at the end of year.

Cash	\$33,800
Accounts Receivable	78,600
Allowance for Doubtful Accounts	11,000
Equipment	134,700
Accumulated Depreciation - Equipment	12,600
Accounts Payable	29,400
Dividends Payable	5,000
Notes Payable	30,000
Deferred Revenue	26,700
Common Stock	20,000
Retained Earnings	81,700
Dividends	9,000
Service Revenue	158,400
Salaries Expense	85,100
Depreciation Expense	12,600
Lease Expense	21,000

Before they started to create their unadjusted trial balance for the year, a bookkeeper discovered an error in the accounts - a cash collection of \$1,600 on accounts receivable was debited to Cash and credited to Deferred Revenue. After the error is corrected, the total amount in the debit column of the unadjusted trial balance should be:

- A) \$376,400
- B) \$373,200
- C) \$356,400
- D) \$378,200
- E) Some other number

*Answer:* B

*Rationale:*

	Debits	Credits
Cash	\$ 33,800	
A/R	77,000	
Allowance for D/A		\$ 11,000
Equipment	134,700	
A/D - Equipment		12,600
A/P		29,400
Dividends Payable		5,000
Notes Payable		30,000
Deferred Revenue		25,100
Common Stock		20,000
Retained Earnings		81,700
Dividends	9,000	
Service Revenue		158,400
Salaries Expense	85,100	
Depreciation Expense	12,600	
Lease Expense	21,000	
	<u>\$ 373,200</u>	<u>\$ 373,200</u>

**Topic: Identify, record, and post adjusting journal entries**

**LO 4**

11. Arpeni Corp. (whose fiscal year is a calendar year) purchased a vinyl press on July 1, 2019, for \$59,000. Management estimates that the press has a salvage value of \$3,000 and will be used for the next 7 years.

After the end of the year adjusting journal entries are made on December 31, 2019, Arpeni will have recorded \_\_\_\_\_ of depreciation expense for the year for that machine.

- A) \$4,215
- B) \$8,000
- C) \$8,429
- D) \$4,000
- E) Some other number.

*Answer:* D

*Rationale:* The correct depreciation expense for the vinyl press for the 6 months of 2019 will be  $(59,000 - 3,000)/7 \times 6/12 = \$4,000$ .

**Topic: Identify, record, and post adjusting journal entries**

**LO 4**

12. Dynasty Pianos Inc. is making an adjusting journal entry on December 31, 2019 for depreciation expense of \$4,250 on a specialized warehouse forklift. The forklift cost is in the Warehouse Equipment account and the asset's book value after the adjusting entry will be \$53,200.

The proper form of the adjusting journal entry for the forklift is:

- |          |  |        |        |
|----------|--|--------|--------|
| A) 12/31 | Accumulated Depreciation – Warehouse Equipment | 4,250  |        |
|          | Warehouse Equipment                            |        | 4,250  |
| B) 12/31 | Depreciation Expense                           | 4,250  |        |
|          | Warehouse Equipment                            |        | 4,250  |
| C) 12/31 | Depreciation Expense                           | 4,250  |        |
|          | Accumulated Depreciation – Warehouse Equipment |        | 4,250  |
| D) 12/31 | Warehouse Equipment                            | 4,250  |        |
|          | Depreciation Expense                           |        | 4,250  |
| E) 12/31 | Depreciation Expense                           | 4,250  |        |
|          | Warehouse Equipment                            | 53,400 |        |
|          | Accumulated Depreciation – Warehouse Equipment |        | 4,250  |
|          | Cash   |        | 53,400 |

*Answer:* C

*Rationale:* The correct form for a deferred expense journal entry for depreciation is to debit an expense (depreciation expense) and credit the contra asset account for the asset (accumulated depreciation). There is no expense listed in A; in B, the asset is credited, not the contra asset account; in D, the expense is credited; and in E, the entry shows a cash outflow for the remaining book value.

**Topic: Identify, record, and post adjusting journal entries**

**LO 4**

13. Pinkerton HR Consultants borrowed \$100,000 from National Bank on October 1, 2019, with a 9 month 6% note payable. The principal and interest on the note are due to be paid back on July 1, 2020.

Pinkerton should record the following amount of interest expense in an adjusting journal entry on December 31, 2019:

- A) \$-0-
- B) \$ 4,500
- C) \$ 6,000
- D) \$ 1,500
- E) \$ 2,000

*Answer:* D

*Rationale:* The calculation of interest expense for the three months the note was held in 2019 is  $\$100,000 \times 6\% \times 3/12 = \$1,500$ .

**Topic: Identify, record, and post adjusting journal entries**

**LO 4**

14. Pinkerton HR Consultants borrowed \$100,000 from National Bank on October 1, 2019, with a 9 month 6% note payable. The principal and interest on the note are due to be paid back on July 1, 2020.

Pinkerton should record an adjusting journal entry for this note on December 31, 2019, with the following accounts debited and credited:

- A) Debit Interest Expense; Credit Interest Revenue.
- B) Debit Interest Expense; Credit Note Payable.
- C) Debit Interest Expense; Credit Cash.
- D) Debit Interest Expense; Credit Interest Payable
- E) Debit Interest Expense; Credit Prepaid Interest

*Answer:* D

*Rationale:* The proper form for an adjusting entry recording an accrued expense is to debit an expense and credit the related payable. In this case, the related payable is Interest Payable.

**Topic: Identify, record, and post adjusting journal entries**

**LO 4**

15. At December 31, 2019, Pixel Film Corp. estimates that it would need an increase to its Allowance for Doubtful Accounts of \$14,600 so that its \$187,400 of accounts receivables would be shown at net realizable value.

The adjusting journal entry that Pixel would make at December 31, 2019, would be:

- |    |       |                                 |        |        |
|----|-------|---------------------------------|--------|--------|
| A) | 12/31 | Allowance for Doubtful Accounts | 14,600 |        |
|    |       | Accounts Receivable             |        | 14,600 |
| B) | 12/31 | Bad Debt Expense                | 14,600 |        |
|    |       | Allowance for Doubtful Accounts |        | 14,600 |
| C) | 12/31 | Bad Debt Expense                | 14,600 |        |
|    |       | Accounts Receivable             |        | 14,600 |
| D) | 12/31 | Allowance for Doubtful Accounts | 14,600 |        |
|    |       | Bad Debt Expense                |        | 14,600 |
| E) | 12/31 | Accounts Receivable             | 14,600 |        |
|    |       | Allowance for Doubtful Accounts |        | 14,600 |

*Answer: B*

*Rationale:* The proper form for this type of accrued expense is to debit an expense (Bad Debt Expense, in this case) and credit the contra asset (Allowance for Doubtful Accounts). Although there is no increase in a liability, as in most accrued expense adjusting entries, the asset is indirectly reduced by the increase in the contra asset account.

**Topic: Identify, record, and post adjusting journal entries**

**LO 4**

16. At the beginning of 2019, Pixel Film Corp. had a balance of \$23,000 in its Deferred Demolition Revenue account. During 2019, Pixel Film Corp. received additional cash prepayments totaling \$156,800 by customers for demolition jobs to be completed later. The cash prepayments were correctly accounted for with an increase in Deferred Demolition Revenue. As of the company's year end of December 31, 2019, Pixel had completed \$143,500 of the prepaid contracts.

Pixel should record the following journal entry on December 31, 2019:

- |    |       |                             |         |         |
|----|-------|-----------------------------|---------|---------|
| A) | 12/31 | Deferred Demolition Revenue | 143,500 |         |
|    |       | Demolition Revenue          |         | 143,500 |
| B) | 12/31 | Deferred Demolition Revenue | 36,300  |         |
|    |       | Demolition Revenue          |         | 36,300  |
| C) | 12/31 | Demolition Revenue          | 36,300  |         |
|    |       | Deferred Demolition Revenue |         | 36,300  |
| D) | 12/31 | Demolition Revenue          | 23,000  |         |
|    |       | Cash                        | 120,500 |         |
|    |       | Deferred Demolition Revenue |         | 143,500 |
| E) | 12/31 | Deferred Demolition Revenue | 143,500 |         |
|    |       | Accounts Receivable         |         | 23,000  |
|    |       | Demolition Revenue          |         | 120,500 |

*Answer: A*

*Rationale:* The proper form for a deferred revenue adjusting entry for a contract liability is a debit to the deferred revenue account (here, Deferred Demolition Revenue) and a credit to the related revenue account (here, Demolition Revenue) for the amount of the contract liability for which the company has satisfied its performance obligation.

**Topic: Prepare an adjusted trial balance**

**LO 5**

17. What statements below are true about an adjusted trial balance?
- A) The sum of debit balances should equal the sum of credit balances.
  - B) The retained earnings account should be updated for current year income and dividends.
  - C) There should be fewer accounts listed than on the unadjusted trial balance.
  - D) Both A and B are true.
  - E) Both A and C are true.

*Answer: A*

*Rationale:* B is incorrect because the balance in retained earnings will be updated only after the closing entries for the year are made. C is incorrect; there should be at least as many accounts in the adjusted trial balance as there are in the unadjusted trial balance, if not more. Many adjusting journal entries draw on accounts not used during the year, so there is the possibility that there may be more accounts on the adjusted trial balance. A is correct, as it is the goal of any trial balance, if the books are in balance.

**Topic: Prepare an adjusted trial balance**

**LO 5**

18. The adjusted trial balance and not the unadjusted trial balance is used to prepare financial statements, because the adjusted trial balance include the effect of adjusting entries. Please indicate which one of the following effects of adjusting entries is NOT true.
- A) One type of adjusting entry corrects an overstatement of an asset and the understatement of an expense.
  - B) One type of adjusting entry corrects an understatement of an asset and an understatement of a liability.
  - C) One type of adjusting entry corrects an understatement of an asset and an understatement of a revenue.
  - D) One type of adjusting entry corrects an understatement of a liability and an understatement of an expense.
  - E) One type of adjusting entry corrects an overstatement of a liability and an understatement of a revenue.

*Answer: B*

*Rationale:* A describes the effect of a deferred expense adjusting entry, C the effect of an accrued revenue, D the effect of an accrued expense, and E the effect of a deferred revenue. B does not represent a typical adjusting entry.

**Topic: Prepare financial statements from an adjusted trial balance.**

**LO 6**

19. In preparing financial statements (except the statement of cash flows) from an adjusted trial balance, which financial statement is prepared first and why?
- A) The income statement is prepared first because it is the simplest in terms of content.
  - B) The balance sheet is prepared first because it represents a snapshot of the accounting equation at the end of the year.
  - C) The income statement is prepared first because net income must be determined in order to complete the remaining financial statements.
  - D) The statement of stockholders' equity is prepared first so that shareholders see an overview of what is theirs.
  - E) The retained earnings component of the statement of stockholders' equity is prepared first so that the balance sheet can be produced.

*Answer: C*

*Rationale:* The creation of the statement of stockholders' equity, the balance sheet, and the cash flow statement depend on the calculation of net income, so the income statement is created first.

**Use the following adjusted trial balance to answer Questions 20 – 23.**

<b>Clemsy Tines Corp.</b>			
Adjusted Trial Balance			
December 31, 2019			
		Debits	Credits
Cash		\$ 19,600	
Accounts Receivable		98,500	
Allowance for Doubtful Accounts			\$ 6,500
Inventory		134,900	
Prepaid insurance		11,000	
Equipment		178,400	
Accumulated Depreciation - Equipment			32,400
Accounts Payable			54,700
Notes Payable			10,000
Interest Payable			500
Salaries Payable			1,300
Deferred Revenue			19,200
Common Stock			120,000
Retained Earnings			214,500
Dividends		6,500	
Sales Revenue			823,000
Service Revenue			32,700
Cost of Goods Sold		634,100	
Salaries Expense		167,500	
Depreciation Expense		12,600	
Lease Expense		26,000	
Interest Expense		1,500	
Bad Debt Expense		3,200	
Insurance Expense		21,000	
		<b>\$ 1,314,800</b>	<b>\$ 1,314,800</b>

**Topic: Prepare financial statements from an adjusted trial balance.**

**LO 6**

**20.** Clemsy Tines Corp. is preparing its financial statements for the year ended December 31, 2019, from the adjusted trial balance above. What are the total revenue and total expenses on Clemsy's income statement for the year ended December 31, 2019?

- |    | <u>Total Revenues</u>       | <u>Total Expenses</u> |
|----|-----------------------------|-----------------------|
| A) | \$874,900                   | \$865,900             |
| B) | \$855,700                   | \$872,400             |
| C) | \$855,700                   | \$865,900             |
| D) | \$874,900                   | \$872,400             |
| E) | Some other pair of numbers. |                       |

*Answer: C*

*Rationale:* Total revenues is the sum of Sales Revenue and Service Revenue (823,000 + 32,700 = 855,700) and total expenses (from Cost of Goods Sold to Insurance Expense) equals \$865,900. The distractor expense above comes from adding Dividends as an expense. The distractor revenue comes from adding Deferred Revenue as a revenue amount.

**Topic: Prepare financial statements from an adjusted trial balance.**

**LO 6**

21. When Clemsy prepares its Statement of Stockholders' Equity for the year ended December 31, 2019, the balance of Retained Earnings as of December 31, 2019, should be
- A) \$214,500
  - B) \$197,800
  - C) \$217,000
  - D) \$210,500
  - E) Some other number.

*Answer:* B

*Rationale:*

Beginning balance of R/E January 1, 2019		\$214,500
Revenues:	\$855,700	
Expenses:	<u>865,900</u>	
Net loss		(10,200)
Less dividends		<u>(6,500)</u>
Ending balance of R/E December 31, 2019		\$197,800

**Topic: Prepare financial statements from an adjusted trial balance**

**LO 6**

22. On Clemsy's Balance Sheet dated December 31, 2019, total assets should equal
- A) \$442,400
  - B) \$410,000
  - C) \$435,900
  - D) \$403,500
  - E) Some other number.

*Answer:* D

*Rationale:*

Cash		\$19,600
A/R	\$98,500	
Less Allowance	<u>6,500</u>	92,000
Inventory		134,900
Prepaid Insurance		11,000
Equipment	178,400	
Less A/D	<u>32,400</u>	<u>146,000</u>
Total Assets		\$403,500

**Topic: Prepare financial statements from an adjusted trial balance**

**LO 6**

23. On Clemsy's Balance Sheet dated December 31, 2019, total stockholders' equity should equal:
- A) \$337,000
  - B) \$317,800
  - C) \$334,500
  - D) \$330,500
  - E) Some other number.

*Answer:* B

*Rationale:* Total stockholders' equity equals Common Stock plus Retained Earnings equals \$317,800 (\$120,000 + 197,800).

**Topic: Prepare and post closing entries and prepare a post-closing trial balance.**

**LO 8**

**24.** What statement(s) below is(are) true?

- A) The total of the debit column in a post-closing trial balance will always equal the total assets on the current balance sheet.
- B) The post-closing trial balance presents the balances of all the permanent accounts of a company.
- C) The balance of the retained earnings account is the only permanent account whose balance changes from that in the adjusted trial balance.
- D) Both B and C.
- E) A, B, and C.

*Answer:* D

*Rationale:* A is incorrect when there are contra asset accounts (whose balances are credits) and hence left out of the total debit balances. B and C are both true – only permanent accounts (assets, liabilities, and stockholders' equity accounts) are left with any balances after the closing entries are made, and the one goal of closing entries is to update the balance in Retained Earnings.

**Topic: Prepare and post closing entries and prepare a post-closing trial balance.**

**LO 8**

**25.** The purpose(s) of closing entries is(are) to:

- A) Transfer the balances of temporary accounts to Retained Earnings.
- B) Set the balances of income statement accounts only to zero at the end of the fiscal year.
- C) Update the balance of Retained Earnings for the effect of current year net income/(loss) and dividends declared.
- D) A, B, and C are all true.
- E) A and C are true.

*Answer:* E

*Rationale:* B is incorrect because if there is a Dividends account, its balance too should be set to zero, but it is not part of the income statement. E is correct – closing entries transfer the balances of all temporary accounts (revenues, expenses, gains, losses, and dividends) to Retained Earnings and another goal of closing entries is to update Retained Earnings for the current year's net income/(loss) and dividends declared.

**Topic: Prepare and post closing entries and prepare a post-closing trial balance.**

**LO 8**

**26.** After the first two closing entries, Culmsy Corp. had the following balances in its general ledger:

Dividends		Income Summary		Retained Earnings	
14,000		730,200	745,850		144,800

What additional entry will be made as part of the closing process?

- A) Debit Income Summary and credit Dividends for \$14,000
- B) Debit Retained Earnings and credit Income Summary for \$144,800
- C) Debit Retained Earnings and credit Income Summary for \$15,650
- D) Debit Income Summary and credit Retained Earnings for \$15,650

*Answer: D*

*Rationale:* A is incorrect because Dividends is closed to Retained Earnings, not Income Summary. B is incorrect because we do not close out the existing balance in Retained Earnings. C is incorrect because the goal in the next entry is to close out the balance in Income Summary to Retained Earnings. The current balance in Income Summary is a credit balance of \$15,650. The entry in C would actually double the existing account balance in Income Summary. D is correct because debiting Income Summary for the existing credit balance will zero out the Income Summary account and correctly update Retained Earnings.

**Topic: Prepare and post closing entries and prepare a post-closing trial balance.**

**LO 8**

**27.** What statement(s) is(are) true about the income summary account?

- A) Dividends get closed to Income Summary.
- B) Income Summary is a permanent account.
- C) After closing entries, the balance in Income Summary is zero.
- D) The beginning balance in Retained Earnings gets closed to Income Summary.
- E) In the final closing entry involving Income Summary, Income Summary is debited.

*Answer: C*

*Rationale:* A is incorrect – Dividends get closed to Retained Earnings. B is incorrect because Income Summary gets closed out itself in the closing process. The beginning balance in Retained Earnings stays in the account, so D is false. If Income Summary has a net debit balance by the final entry involving Income Summary, then the account will be credited, so E is incorrect. C is correct because Income Summary is a temporary clearing account.

**Topic: Convert from cash-basis to accrual-basis net income**

**LO 8**

**28.** Sinker Ball Dynamics, Inc. shows the following information in its records:

As of December 31		2018	2019		For the year ended	2020
Accounts receivable		\$ 8,000	\$ 6,500		Cash receipts from customers	\$ 260,000
Deferred revenue		1,500	6,000		Cash paid for operating expenses	110,000
Prepaid operating expenses		9,800	4,000			
Accrued liabilities		7,800	5,200			

What is the accrual-based revenue that Sinker Ball Dynamics earned in the year ended December 31, 2019?

- A) \$257,000
- B) \$254,000
- C) \$263,000
- D) \$266,000
- E) Some other number.

*Answer: B*

*Rationale:*

Cash receipts		\$ 260,000
Less beg. A/R		(8,000)
Plus end A/R		6,500
Add beg. Def rev		1,500
Less end def rev		(6,000)
		<hr/>
Accrual revenue		\$ 254,000

**Topic: Convert from cash-basis to accrual-basis net income**

**LO 8**

**29.** Sinker Ball Dynamics, Inc. shows the following information in its records:

As of December 31		2018	2019		For the year ended	2020
Accounts receivable		\$ 8,000	\$ 6,500		Cash receipts from customers	\$ 260,000
Deferred revenue		1,500	6,000		Cash paid for operating expenses	110,000
Prepaid operating expenses		9,800	4,000			
Accrued liabilities		7,800	5,200			

What is the accrual-based operating expenses that Sinker Ball Dynamics incurred in the year ended December 31, 2019?

- A) \$113,200
- B) \$101,600
- C) \$106,800
- D) \$118,400
- E) Some other number.

*Answer: A*

*Rationale:*

Cash payments		\$ 110,000
Add beg pp exp		9,800
Less end pp exp		(4,000)
Less beg payables		(7,800)
Add end payables		5,200
Accrual expenses		\$ 113,200

**Topic: Prepare reversing entries**

**LO 9**

**30.** Williamson Artist Supply Co. recorded an adjusting journal entry on December 31, 2019, to accrue \$23,500 of Salaries and Wages Expense incurred by the company for work completed in 2019, but payable to the employees in the first payroll checks in January. On January 1, 2020, the company's bookkeeper reversed the adjusting entry. On January 9, 2020, Williamson paid a total of \$54,200 in salaries and wages for the first pay period ending in 2020.

What would the balance in Williamson's Salaries and Wages Expense account be on January 9, 2020, after the payroll entry was posted to the ledger?

- A) \$77,700
- B) \$54,200
- C) \$30,700
- D) \$23,500
- E) Some other number.

*Answer: C*

*Rationale:* The reversing entry created a credit balance of \$23,500 in the Salaries and Wages Expense account on January 1, 2020. When the first pay of 2020 was recorded and posted as a debit to the Salaries and Wages Expense account, the resulting balance would be \$54,200 - \$23,500 = \$30,700.

**Topic: Prepare reversing entries**

**LO 9**

**31.** Which of the following adjusting journal entries made on December 31, 2020, are eligible for reversing entries to be made on January 1, 2021?

1. Debit Interest Expense and credit Interest Payable
2. Debit Lease Expense and credit Prepaid Lease
3. Debit Depreciation Expense and credit Accumulated Depreciation – Equipment
4. Debit Prepaid Advertising and credit Advertising Expense
5. Debit Deferred Service Revenue and credit Service Revenue

- A) Entries 1, 2, 4, and 5 are eligible.
- B) All five of the entries are eligible.
- C) Entries 1, 4, and 5 are eligible.
- D) Entries 1 and 4 are eligible.
- E) Only entry 1 is eligible.

*Answer:* D

*Rationale:* Reversing entries are only appropriate for adjusting entries that defer the recognition of revenue or expense items recorded initially as revenue or expense in full (Entry 4) or accrue revenue or expense items during the current period (Entry 1). The other entries do not meet either of these requirements.

## Exercises & Problems

### Topic: Preparing Journal Entries

#### LO: 2

32. Prepare journal entries for the following transactions for Kinder Inc.

- Paid \$480 cash for a 6-month insurance policy
- Declared dividends of \$800 cash
- Paid \$1,200 cash in salaries for the month
- Provided \$3,200 in services for customers on account
- Collected one-half of the amount due from customers in part *d*.

Answer:

a.	Prepaid Insurance	480	
	Cash		480
b.	Dividends	800	
	Dividends Payable		800
c.	Salaries Expense	1,200	
	Cash		1,200
d.	Accounts Receivable	3,200	
	Service Revenue		3,200
e.	Cash	1,600	
	Accounts Receivable		1,600

### Topic: Recording Journal Entries

#### LO: 2

33. Prepare journal entries for the following transactions of Alma Mater Inc.

- Issues stock to shareholders in exchange for \$ 17,500 cash
- Purchases \$5,250 of equipment by signing a note payable
- Performs \$4,375 of services for customers on account
- Pays \$1,750 cash for legal services

Answer:

a.	Cash	17,500	
	Common Stock		17,500
b.	Equipment	5,250	
	Notes Payable		5,250
c.	Accounts Receivable	4,375	
	Service Revenue		4,375
d.	Legal Expense	1,750	
	Cash		1,750

**Topic: Posting Journal Entries**

**LO: 2**

**34.** Travillion Inc. recorded the following journal entries *a* through *h* in January 2020, its first period of operations.

a.	Cash	100	6,800	
	Common Stock	302		6,800
b.	Operating Expense	525	4,420	
	Cash	100		4,420
c.	Accounts Receivable	104	1,530	
	Service Revenue	400		1,530
d.	Cash	100	850	
	Accounts Receivable	104		850
e.	Equipment	160	2,550	
	Cash	100		2,550
f.	Accounts Receivable	104	1,700	
	Service Revenue	400		1,700
g.	Cash	100	4,080	
	Common Stock	302		4,080
h.	Operating Expense	525	1,360	
	Accounts Payable	202		1,360

Post the journal entries *a* through *h* to T-accounts (as ledgers), and determine the ending balance in each T-account.

Answer:

<b>Cash                    100</b>	
6,800	4,420
850	2,550
4,080	
4,760	

<b>Accounts Receivable   104</b>	
1,530	850
1,700	
2,380	

<b>Equipment                160</b>	
2,550	
2,550	

<b>Accounts Payable        202</b>	
	1,360
	1,360

<b>Common Stock            302</b>	
	6,800
	4,080
	10,880

<b>Service Revenue         400</b>	
	1,530
	1,700
	3,230

<b>Operating Expense       525</b>	
4,420	
1,360	
5,780	

**Topic: Preparing an Unadjusted Trial Balance**

**LO: 3**

35. Using the following T-Accounts, prepare an unadjusted trial balance for Perrin Inc. Assume that the trial balance is dated January 31, 2020. Ignore account numbers.

<b>Cash</b>	
13,600	6,800
2,720	

<b>Accounts Receivable</b>	
3,400	2,720
2,040	

<b>Note Payable</b>	
	3,740

<b>Common Stock</b>	
	6,800

<b>Equipment</b>	
3,740	

<b>Accounts Payable</b>	
6,800	10,200
	1,530

<b>Service Revenue</b>	
	2,040

<b>Legal Expense</b>	
1,530	

Answer:

<b>Perry Inc.</b> <b>Unadjusted Trial Balance</b> <b>January 31, 2020</b>		
<b>Description</b>	<b>Debit</b>	<b>Credit</b>
Cash	\$ 9,520	\$ -
Accounts receivable	2,720	-
Equipment	3,740	-
Accounts payable	-	4,930
Note payable	-	3,740
Common stock	-	6,800
Service revenue	-	2,040
Legal expense	<u>1,530</u>	<u>-</u>
Totals	<u>\$ 17,510</u>	<u>\$ 17,510</u>

**Topic: Recording Asset Purchase and Depreciation**

**LO: 2, 4**

- 36.** Atlas Co. purchased equipment on June 1, 2020, for \$225,000. The company plans to depreciate the asset evenly over its useful life of 6 years.

Required:

- Record the entry for the purchase on June 1, 2020.
- Record the required adjusting entry on December 31, 2020.

Round your answers to the nearest dollar.

Answer:

- |           |         |         |
|-----------|---------|---------|
| Equipment | 225,000 |         |
| Cash      |         | 225,000 |
- |                          |        |        |
|--------------------------|--------|--------|
| Depreciation Expense     | 21,875 |        |
| Accumulated Depreciation |        | 21,875 |

**Topic: Recording Prepaid Asset and Year-End Adjustment**

**LO: 2, 4**

**37.** Atlas Co. purchased a 3-year insurance policy on June 1, 2020, for \$25,920.

Required:

- a. Record the entry for the purchase of the insurance coverage on June 1, 2020, recording the full amount as prepaid insurance.
- b. Record the required adjusting entry on December 31, 2020.

Round your answers to the nearest dollar.

*Answer:*

a.	Prepaid Insurance	25,920	
	Cash		25,920
b.	Insurance Expense	5,040	
	Prepaid Insurance		5,040

**Topic: Recording Deferred Revenue and Year-End Adjustment**

**LO: 2, 4**

**38.** On January 1, 2020, Colombus Inc. contracts with a customer to provide services in March 2020 for \$2,250. The customer paid the full contract price on January 1, 2020.

Required:

- a. Record the entry for the receipt of cash on January 1, 2020, recording the full amount as a deferred revenue.
- b. Record the required adjusting entry on March 31, 2020.

*Answer:*

a.	Cash	2,250	
	Deferred Revenue		2,250
b.	Deferred Revenue	2,250	
	Service Revenue		2,250

**Topic: Recording Accrued Expenses**

**LO: 2, 4**

39. Atlas Co. incurred \$3,500 of utility costs for the month of December 2020 (payment due in January), which are unrecorded at year-end.

Required:

- Record the entry for the adjustment on December 31, 2020.
- Record the payment for the utility costs in January 2021.

Answer:

a.	Utilities Expense	3,500	
	Utilities Payable		3,500
b.	Utilities Payable	3,500	
	Cash		3,500

**Topic: Recording Accrued Revenues**

**LO: 2, 4**

40. Atlas Co. provided delivery services for \$2,000 to a customer on December 31, 2020, that has not yet been billed to the customer.

Required:

- Record the year-end adjustment required on December 31, 2020.
- Record the receipt of cash from the customer in January 2021.

Answer:

a.	Accounts Receivable	2,000	
	Service Revenue		2,000
b.	Cash	2,000	
	Accounts Receivable		2,000

**Topic: Recording Accrued Interest Expense**

**LO: 4**

41. Allentown Inc. borrowed \$16,000 by signing a one-year note payable on November 1, 2020. The note bears interest at 10% and interest is payable upon maturity of the note.

Required:

- Record this financing transaction on November 1, 2020.
- Record the year-end adjusting entry required on December 31, 2020. *Hint: Prorate the annual interest of 10% for two months.*
- Record the entry to repay the note on November 1, 2021.

Round your answers to the nearest dollar.

Answer:

a.	Cash	16,000	
	Note Payable		16,000
b.	Interest Expense	267	
	Interest Payable		267
c.	Note Payable	16,000	
	Interest Payable	267	
	Interest Expense	1,333	
	Cash		17,600

**Topic: Recording Asset Purchase and Depreciation**

**LO: 2, 4**

42. Sao Paulo Inc. purchased equipment for \$550,000 cash on June 30, 2020. The equipment has an estimated useful life of 10 years with no salvage value. The company will depreciate the asset evenly over its useful life.

Required:

- Record the purchase of equipment on June 30, 2020.
- Record the adjusting entry required on December 31, 2020.
- Provide the balance sheet presentation of equipment on December 31, 2020

Answer:

a.	6/30	Equipment	550,000	
		Cash		550,000
b.	12/31	Depreciation Expense	27,500	
		Accumulated Depreciation		27,500

c.

Sao Paulo Inc. Balance Sheet (excerpt) December 31, 2020	
Equipment	\$ 550,000
Accumulated depreciation	<u>27,500</u>
Equipment, net	<u>\$ 522,500</u>

**Topic: Recording Adjusting Entries**

**LO: 4**

**43.** Prepare the adjusting journal entries required on December 31, 2020, for Winston Corp. using the following information. Assume that no adjusting journal entries were recorded in 2020 prior to year-end.

- a. Interest expense of \$525 for the month of December 2020 will be paid in January 2021.
- b. Unbilled revenue for services performed in December 2020 is \$1,750. The company will prepare and forward invoices for this amount in January 2021 to customers with a 30-day collection term.
- c. \$5,250 cash was received in advance on November 30, 2020, for future services to be performed by Winston Corp. and was recorded as deferred service revenue. The services were performed in December 20, 2020.
- d. Winston Corp. acquired a two-year insurance policy on January 1, 2020, for \$16,800 cash that was recorded initially as prepaid insurance.
- e. Depreciation on equipment is \$21,000 for 2020.

*Answer:*

a.	Interest Expense	525	
	Interest Payable		525
b.	Accounts Receivable	1,750	
	Service Revenue		1,750
c.	Deferred Service Revenue	5,250	
	Service Revenue		5,250
d.	Insurance Expense	8,400	
	Prepaid Insurance		8,400
e.	Depreciation Expense	21,000	
	Accumulated Depreciation		21,000

**Topic: Analyzing Financial Statement Impacts**

**LO: 4**

**44.** Referring to the information below, indicate the income statement and balance sheet impacts in each case a through e if Winston Corp. failed to record the necessary adjusting entry.

- a. Interest expense of \$360 for the month of December 2020 will be paid in January 2021.
- b. Unbilled revenue for services performed in December 2020 is \$1,200. The company will prepare and forward invoices for this amount in January 2021 to customers with a 30-day collection term.
- c. \$3,600 cash was received in advance on November 30, 2020, for future services to be performed by Winston Corp. and was recorded as deferred service revenue. The services were performed in December 20, 2020.
- d. Winston Corp. acquired a two-year insurance policy on January 1, 2020, for \$11,520 cash that was recorded initially as prepaid insurance.
- e. Depreciation on equipment is \$14,400 for 2020.

*Answer:*

**Income statement impact:**

*Net income:*

a. Overstatement (understatement)	\$ 360
b. Overstatement (understatement)	(1,200)
c. Overstatement (understatement)	(3,600)
d. Overstatement (understatement)	5,760
e. Overstatement (understatement)	<u>14,400</u>
Net overstatement (understatement)	<u>\$ 15,720</u>

**Balance sheet impact:**

*Assets:*

a. Overstatement (understatement)	\$ -
b. Overstatement (understatement)	(1,200)
c. Overstatement (understatement)	-
d. Overstatement (understatement)	5,760
e. Overstatement (understatement)	<u>14,400</u>
Net overstatement (understatement)	<u>\$ 18,960</u>

*Liabilities:*

a. Overstatement (understatement)	\$ (360)
b. Overstatement (understatement)	
c. Overstatement (understatement)	3,600
d. Overstatement (understatement)	
e. Overstatement (understatement)	<u></u>
Net overstatement (understatement)	<u>\$ 3,240</u>

*Stockholders' equity:*

Net overstatement (understatement)	<u>\$ 15,720</u>
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**Topic: Preparing an Adjusted Trial Balance**

**LO: 5**

**45.** Winston Corp. provides the following information relating to adjusting entries required at the end of its fiscal year, December 31, 2020.

- a. Interest expense of \$150 for the month of December 2020 will be paid in January 2021.
- b. Unbilled revenue for services performed in December 2020 is \$500. The company will prepare and forward invoices for this amount in January 2021 to customers with a 30-day collection term.
- c. \$1,500 cash was received in advance on November 30, 2020, for future services to be performed by Winston Corp. and was recorded as deferred service revenue. The services were performed in December 20, 2020.
- d. Winston Corp. acquired a two-year insurance policy on January 1, 2020, for \$4,800 cash that was recorded initially as prepaid insurance.
- e. Depreciation on equipment is \$6,000 for 2020.

The following is the unadjusted trial balance for Winston Corp. as of December 31, 2020.

Unadjusted Trial Balance		
Accounts	Debit	Credit
Cash	\$ 8,180	
Accounts receivable	3,500	
Supplies	1,620	
Prepaid insurance	4,800	
Equipment	25,000	
Accumulated depreciation		
Accounts payable		1,200
Interest payable		
Deferred revenue		1,500
Note payable		10,000
Common stock		25,000
Retained earnings		
Service revenue		9,000
Salaries expense	3,600	
Depreciation expense		
Interest expense		
Insurance expense		
Net earnings	<u>\$ 46,700</u>	<u>\$ 46,700</u>

Prepare an adjusted trial balance after the required adjusting entries were made for the above information. Assume that no adjusting journal entries were recorded in 2020 prior to year-end.

Answer:

Unadjusted Trial Balance			Adjusted Trial Balance	
Accounts	Debit	Credit	Debit	Credit
Cash	\$ 8,180		\$ 8,180	\$
Accounts receivable	3,500		4,000	
Supplies	1,620		1,620	
Prepaid insurance	4,800		2,400	
Equipment	25,000		25,000	
Accumulated depreciation				6,000
Accounts payable		1,200		1,200
Interest payable				150
Deferred revenue		1,500		
Note payable		10,000		10,000
Common stock		25,000		25,000
Retained earnings				
Service revenue		9,000		11,000
Salaries expense	3,600		3,600	
Depreciation expense			6,000	
Interest expense			150	
Insurance expense			2,400	
Net earnings	\$ 46,700	\$ 46,700	\$ 53,350	\$ 53,350

### Topic: Preparing Financial Statements

#### LO: 6

46. Browning & Stratton Inc. prepared the following adjusted trial balance on December 31, 2020, based on its first year of operations. Using this adjusted trial balance, prepare an income statement for the year ended December 31, 2020, and a balance sheet as of December 31, 2020.

Adjusted Trial Balance December 31, 2020		
Accounts	Debit	Credit
Cash	\$ 23,100	\$ -
Accounts receivable	10,500	-
Prepaid insurance	4,200	-
Other assets	18,200	-
Equipment, net	70,000	-
Accounts payable	-	14,000
Note payable	-	28,000
Common stock	-	28,000
Service revenue	-	140,000
Selling expenses	28,000	-
General and administrative expenses	52,500	-
Interest expense	3,500	-
Totals	\$ 210,000	\$ 210,000

Answer:

<p align="center"><b>Browning &amp; Stratton Inc.</b>  <b>Income Statement</b>  <b>For the Year Ended December 31, 2020</b></p>
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Revenues	
Service revenue	\$ 140,000
Total revenues	140,000
Expenses	
Selling expenses	28,000
General and administrative expenses	52,500
Interest expense	<u>3,500</u>
Total expenses	84,000
Net income	<u>\$ 56,000</u>

<p align="center"><b>Browning &amp; Stratton Inc.</b>  <b>Balance Sheet</b>  <b>December 31, 2020</b></p>
---

Assets	
Cash	\$ 23,100
Accounts receivable	10,500
Prepaid insurance	4,200
Other assets	18,200
Equipment, net	<u>70,000</u>
Total assets	<u>\$ 126,000</u>
Liabilities	
Accounts payable	14,000
Notes payable	<u>28,000</u>
Total liabilities	42,000
Stockholders' Equity	
Common stock	28,000
Retained earnings	<u>56,000</u>
Total stockholders' equity	84,000
Total liabilities and stockholders' equity	<u>\$ 126,000</u>

**Topic: Recording Closing Entries**

**LO: 7**

**47.** Dockside Inc. reports balances in the following temporary accounts on December 31, 2020.

Account	Dec 31, 2020
Service revenue	\$ 500,000
Operating expenses	300,000
Interest revenue	12,500
Interest expense	15,000
Income tax expense	59,250
Dividends	25,000

Prepare closing entries as of December 31, 2020. Assume that the company uses the Income Summary account as a temporary clearing account for revenues, expenses, gains, and losses.

*Answer:*

General Journal			
Account Name	Dr.		Cr.
Service Revenue	500,000		
Interest Revenue	12,500		
Income Summary			512,500
<i>To close revenues to income summary</i>			
Income Summary	374,250		
Operating Expenses			300,000
Interest Expense			15,000
Income Tax Expense			59,250
<i>To close expenses to income summary</i>			
Income Summary	138,250		
Retained Earnings			138,250
<i>To close income summary to retained earnings</i>			
Retained Earnings	25,000		
Dividends			25,000
<i>To close dividends to retained earnings</i>			

**Topic: Analyzing Transactions Using the Accounting Equation**

**LO: 1**

**48.** Dyna-Star Corporation completed the following transactions during the month of March 2020. Indicate the effects on the accounting equation for each of the 10 transactions.

1. Issued 35,000 shares of its own common stock for \$350,000 cash.
2. Borrowed \$175,000 cash in return for a 9%, one-year note payable.
3. Purchased equipment at a net cash cost of \$175,000 with cash.
4. Purchased inventory on account for \$140,000. Assume that the company uses the perpetual inventory system.
5. Sold merchandise for \$175,000 (and a cost of \$105,000); collected \$122,500 cash, and the balance is due in one month. Consider three parts to the transaction—one for partial sale in cash, one for partial sale on account, and one for cost of goods sold.
6. Paid \$43,750 cash for operating expenses.
7. Paid for half of the merchandise previously purchased on account in transaction 4.
8. Collected 40% of the balance due on the sales in transaction 5.
9. Paid cash for an insurance premium, \$2,100 for one year of coverage (debit prepaid insurance).
10. Paid legal fees for the month of March, \$17,500 cash.

Provide your answers in the following format. Use parentheses with your answers to indicate a decrease.

Assets	=	Liabilities	+	Stockholders' Equity
	=		+	

Answer:

1.

Assets	=	Liabilities	+	Stockholders' Equity
Cash \$350,000	=		+	Common stock \$350,000
2.

Assets	=	Liabilities	+	Stockholders' Equity
Cash \$175,000	=	Note payable \$175,000	+	
3.

Assets	=	Liabilities	+	Stockholders' Equity
Equipment \$175,000	=		+	
Cash (\$175,000)				
4.

Assets	=	Liabilities	+	Stockholders' Equity
Inventory \$140,000	=	Accounts payable \$140,000	+	

Continued

5.

Assets	=	Liabilities	+	Stockholders' Equity
Cash \$122,500	=		+	Sales revenue \$122,500
Accounts receivable \$52,500				Sales revenue \$52,500
Inventory (\$105,000)				Cost of goods sold (\$105,000)

6.

Assets	=	Liabilities	+	Stockholders' Equity
Cash (\$43,750)	=		+	Operating expense (\$43,750)

7.

Assets	=	Liabilities	+	Stockholders' Equity
Cash (\$70,000)	=	Accounts payable (\$70,000)	+	

8.

Assets	=	Liabilities	+	Stockholders' Equity
Cash \$21,000	=		+	
Accounts receivable (\$21,000)				

9.

Assets	=	Liabilities	+	Stockholders' Equity
Prepaid insurance \$2,100	=		+	
Cash (\$2,100)				

10.

Assets	=	Liabilities	+	Stockholders' Equity
Cash (\$17,500)	=		+	Legal expense (\$17,500)

### Topic: Recording Journal Entries

#### LO: 2

49. Dyna-Star Corporation completed the following transactions during the month of March 2020.

1. Issued 45,000 shares of its own common stock for \$450,000 cash.
2. Borrowed \$225,000 cash in return for a 9%, one-year note payable.
3. Purchased equipment at a net cash cost of \$225,000 with cash.
4. Purchased inventory on account for \$180,000. Assume that the company uses the perpetual inventory system.
5. Sold merchandise for \$225,000 (and a cost of \$135,000); collected \$157,500 cash, and the balance is due in one month. Hint: Consider two parts to the transaction—one for sales and one for cost of goods sold.
6. Paid \$56,250 cash for operating expenses.
7. Paid for half of the merchandise previously purchased on account in transaction 4.
8. Collected 40% of the balance due on the sales in transaction 5.
9. Paid cash for an insurance premium, \$2,700 for one year of coverage (debit prepaid insurance).
10. Paid legal fees for the month of March, \$22,500 cash.

Prepare journal entries to record the transactions.

*Answer:*

1. Cash	450,000	
Common Stock		450,000
2. Cash	225,000	
Note Payable		225,000
3. Equipment	225,000	
Cash		225,000
4. Inventory	180,000	
Accounts Payable		180,000
5. Cash	157,500	
Accounts Receivable	67,500	
Sales Revenue		225,000
<i>To record the sale</i>		
Cost of Goods Sold	135,000	
Inventory		135,000
<i>To record the cost of goods sold</i>		
6. Operating Expense	56,250	
Cash		56,250
7. Accounts Payable	90,000	
Cash		90,000
8. Cash	27,000	
Accounts Receivable		27,000
9. Prepaid Insurance	2,700	
Cash		2,700
10. Legal Expense	22,500	
Cash		22,500

**Topic: Preparing Journal Entries**

**LO: 2**

**50.** Decklin & Parker, a legal firm, completed the following transactions during the month of January, its first month of operations.

1. Jan. 1 Issued 50,000 shares of common stock for \$250,000 cash.
2. Jan. 3 Purchased \$300,000 of office equipment by paying \$25,000 cash and by signing a one-year, 10% interest-bearing note payable for the remaining balance.
3. Jan. 3 Purchased \$15,000 supplies on account. Hint: Debit Supplies.
4. Jan. 4 Performed \$20,000 of legal services on account.
5. Jan. 6 Received a \$7,500 cash deposit from a new client for legal work to commence next month.
6. Jan. 10 Paid \$25,000 cash for a 12-month insurance policy.
7. Jan. 13 Paid cash to settle the account for supplies purchased on January 3.
8. Jan. 20 Performed legal services for \$25,000 cash.
9. Jan. 30 Collected \$10,000 cash from customer on account for legal services performed on January 4.
10. Jan. 31 Paid \$15,000 cash in salaries for the month of January.
11. Jan. 31 Paid \$5,000 cash dividends to shareholders.
12. Jan. 31 Paid \$25,000 cash for January rent.

Analyze each of the above transactions and record the general journal entry for each, omitting explanations. Ignore any month-end adjusting entries.

*Answer:*

1.	Cash	250,000	
	Common Stock		250,000
2.	Office Equipment	300,000	
	Cash		25,000
	Note Payable		275,000
3.	Supplies	15,000	
	Accounts Payable		15,000
4.	Accounts Receivable	20,000	
	Service Revenue		20,000
5.	Cash	7,500	
	Deferred Revenue		7,500
6.	Prepaid Insurance	25,000	
	Cash		25,000

*Continued*

7.	Accounts Payable	15,000	
	Cash		15,000
8.	Cash	25,000	
	Service Revenue		25,000
9.	Cash	10,000	
	Accounts Receivable		10,000
10.	Salaries Expense	15,000	
	Cash		15,000
11.	Dividends	5,000	
	Cash		5,000
12.	Rent Expense	25,000	
	Cash		25,000

**Topic: Posting Journal Entries and Preparing Trial Balance**

**LO: 2, 3**

**51.** Decklin & Parker., a legal firm, completed the following transactions during the month of January, its first month of operations.

1. Jan. 1 Issued 27,500 shares of common stock for \$137,500 cash.
2. Jan. 3 Purchased \$165,000 of office equipment by paying \$13,750 cash and by signing a one-year, 10% interest-bearing note payable for the remaining balance.
3. Jan. 3 Purchased \$8,250 supplies on account. Hint: Debit Supplies.
4. Jan. 4 Performed \$11,000 of legal services on account.
5. Jan. 6 Received a \$4,125 cash deposit from a new client for legal work to commence next month.
6. Jan. 10 Paid \$13,750 cash for a 12-month insurance policy.
7. Jan. 13 Paid cash to settle the account for supplies purchased on January 3.
8. Jan. 20 Performed legal services for \$13,750 cash.
9. Jan. 30 Collected \$5,500 cash from customer on account for legal services performed on January 4.
10. Jan. 31 Paid \$8,250 cash in salaries for the month of January.
11. Jan. 31 Paid \$2,750 cash dividends to shareholders.
12. Jan. 31 Paid \$13,750 cash for January rent.

Required:

- a. Post the journal entries 1 through 12 to T-accounts (as ledgers), and determine the ending balance in each T-account.
- b. Prepare an unadjusted trial balance from the ledger in part a.

Answer:

a.

Cash		Prepaid Insurance		Note Payable		Service Revenue	
137,500	13,750	13,750			151,250		11,000
4,125	13,750						13,750
13,750	8,250	13,750			151,250		24,750
5,500	8,250						
	2,750						
	13,750						
100,375							
Accounts Receivable		Office Equipment		Common Stock		Salaries Expense	
11,000	5,500	165,000			137,500	8,250	
5,500		165,000			137,500	8,250	
Supplies		Accounts Payable		Dividends		Rent Expense	
8,250		8,250	8,250	2,750		13,750	
8,250				2,750		13,750	
		Deferred Revenue					
			4,125				
			4,125				

b.

Decklin & Parker Unadjusted Trial Balance January 31, 2020		
Description	Debit	Credit
Cash	\$ 100,375	\$ -
Accounts receivable	5,500	-
Supplies	8,250	-
Prepaid insurance	13,750	-
Office equipment	165,000	-
Accounts payable	-	-
Deferred revenue	-	4,125
Note payable	-	151,250
Common stock	-	137,500
Dividends	2,750	-
Service revenue	-	24,750
Salaries expense	8,250	-
Rent expense	13,750	-
Totals	\$ 317,625	\$ 317,625

**Topic: Resolving Errors and Correcting a Trial Balance**

**LO: 3**

**52.** Assume we examine the accounts of Centuria Inc. and identify the following four errors.

1. Equipment purchased for \$82,500 at year-end was debited to Expenses.
2. Sales on credit of \$9,119 were debited to Accounts Receivable for \$9,812 and credited to Revenues for \$9,119.
3. A \$66,000 cash collection on accounts receivable was debited to Cash and credited to Revenues.
4. The inventory amount is understated by \$22,000 because the entry to record the purchase of inventory was incorrectly recorded in cost of goods sold (cost of goods sold is included in Expenses).

The unadjusted trial balance of Centuria Inc. is provided below.

Accounts	Unadjusted Trial Balance	
	Debit	Credit
Cash	\$ 391,193	\$ -
Accounts receivable	341,000	-
Allowance for doubtful accounts	(22,000)	-
Inventory	-	198,000
Equipment	1,996,500	-
Accumulated depreciation	-	132,000
Accounts payable	198,000	-
Notes payable	-	275,000
Common stock	-	1,980,000
Retained earnings	-	154,000
Revenues	-	825,000
Expenses	<u>660,000</u>	<u>-</u>
Net earnings	<u>\$ 3,564,693</u>	<u>\$ 3,564,000</u>

Prepare a corrected unadjusted trial balance adjusting for the four identified errors.

*Answer:*

Accounts	Unadjusted Trial Balance		Adjusted Trial Balance	
	Debit	Credit	Debit	Credit
Cash	\$ 391,193	\$ -	\$ 391,193	\$ -
Accounts receivable	341,000	-	274,307	-
Allowance for doubtful accounts	(22,000)	-	-	22,000
Inventory	-	198,000	220,000	-
Equipment	1,996,500	-	2,079,000	-
Accumulated depreciation	-	132,000	-	132,000
Accounts payable	198,000	-	-	198,000
Notes payable	-	275,000	-	275,000
Common stock	-	1,980,000	-	1,980,000
Retained earnings	-	154,000	-	154,000
Revenues	-	825,000	-	759,000
Expenses	<u>660,000</u>	<u>-</u>	<u>555,500</u>	<u>-</u>
Net earnings	<u>\$ 3,564,693</u>	<u>\$ 3,564,000</u>	<u>\$ 3,520,000</u>	<u>\$ 3,520,000</u>

**Topic: Resolving Errors and Correcting a Trial Balance**

**LO: 3**

**53.** Upon a detailed examination of the accounting records of Spinnelli Stores Inc., the following items were discovered.

1. A \$4,200 posting (debit) to Inventory was omitted.
2. A \$1,750 payment on account was debited to Operating Expense and credited to Cash.
3. A sale of \$11,200 on account (supported by an invoice) was recorded as a debit to Accounts Receivable for \$8,050 and a credit to Sales for \$8,050.
4. The total amount of interest expense in the ledger is \$14,000, instead of \$8,400 incorrectly included in the trial balance.
5. Depreciation expense for the period of \$70,000 was debited to Accumulated Depreciation and credited to Operating Expense.

The unadjusted trial balance of Spinnelli Stores Inc. is provided below.

Accounts	Unadjusted Trial Balance	
	Debit	Credit
Cash	\$ 286,300	\$ -
Accounts receivable	224,350	
Allowance for doubtful accounts		8,050
Inventory	310,800	
Prepaid insurance	2,800	
Land	35,000	
Equipment	700,000	
Accumulated depreciation		210,000
Accounts payable		127,750
Interest payable		1,750
Deferred revenue	6,300	
Notes payable		350,000
Common stock		490,000
Retained earnings		98,000
Sales		952,350
Salaries expense	280,000	
Operating expense	386,750	
Interest expense	8,400	-
Totals	<u>\$ 2,240,700</u>	<u>\$ 2,237,900</u>

Prepare a corrected unadjusted trial balance adjusting for the four identified errors.

Answer:

	Unadjusted Trial Balance		Unadjusted Trial Balance	
Accounts	Debit	Credit	Debit	Credit
Cash	\$ 286,300	\$ -	\$ 286,300	\$ -
Accounts receivable	224,350		227,500	-
Allowance for doubtful accounts		8,050	-	8,050
Inventory	310,800		315,000	-
Prepaid insurance	2,800		2,800	-
Land	35,000		35,000	-
Equipment	700,000		700,000	-
Accumulated depreciation		210,000	-	350,000
Accounts payable		127,750	-	126,000
Interest payable		1,750	-	1,750
Deferred revenue	6,300		-	6,300
Notes payable		350,000	-	350,000
Common stock		490,000	-	490,000
Retained earnings		98,000	-	98,000
Sales		952,350	-	955,500
Salaries expense	280,000		280,000	-
Operating expense	386,750		525,000	-
Interest expense	8,400	-	14,000	-
Totals	<u>\$ 2,240,700</u>	<u>\$ 2,237,900</u>	<u>\$ 2,385,600</u>	<u>\$ 2,385,600</u>

**Topic: Preparing Adjusting Journal Entries**

**LO: 2, 4**

**54.** Blakely Corp., which produces fine confections, had the following transactions during 2020.

- Jan. 1 Purchased insurance policy for \$10,800 cash that expires on December 31, 2021.
- Mar. 31 Borrowed \$67,500 cash from a bank and signed a one-year note payable, with interest of 6% due at maturity.
- June 30 Purchased equipment for \$45,000 cash. The equipment will be depreciated evenly over 10 years.
- Dec. 1 A key customer borrows \$13,500 cash and signs a 1-year note that requires the customer to pay the loan of \$13,500 plus interest of 6% upon maturity.
- Dec. 15 \$4,050 cash collected for a performance obligation to be completed in January 2021.  
Hint: Credit Deferred Service Revenue when collected.

Required:

- a. Prepare the original journal entry for each transaction on the date provided.
- b. Provide the 2020 adjusting journal entry (if applicable) for each situation. \*Round your answers to the nearest whole dollar. For example, \$5.49 is rounded to \$5 and \$5.50 is rounded to \$6.

Answer:

a.

General Journal				
Ref.	Account Name		Dr.	Cr.
Jan. 1	Prepaid Insurance		10,800	-
	Cash		-	10,800
Mar. 31	Cash		67,500	-
	Note Payable		-	67,500
June 30	Equipment		45,000	-
	Cash		-	45,000
Dec. 1	Note Receivable		13,500	-
	Cash		-	13,500
Dec. 15	Cash		4,050	-
	Deferred Revenue		-	4,050

b.

General Journal				
Ref.	Account Name		Dr.	Cr.
Dec. 31	Insurance Expense		5,400	-
	Prepaid Insurance		-	5,400
Dec. 31	Interest Expense		3,038	-
	Interest Payable		-	3,038
Dec. 31	Depreciation Expense		2,250	-
	Accumulated Depreciation		-	2,250
Dec. 31	Interest Receivable		68	-
	Interest Revenue		-	68

**Topic: Preparing Adjusting Journal Entries**

**LO: 4**

**55.** Rioux Corp., which sponsors river tours, adjusts and closes its accounts each December 31. The following situations require adjusting entries at the current year-end.

1. Equipment is to be depreciated for the full year: cost is \$101,250 and the estimated useful life is five years.
2. The accounts receivable balance at December 31 is \$18,000. The company estimates that 2% of receivables will not be collected. (Assume a zero beginning balance in the allowance for doubtful accounts.)
3. Property taxes for the current year have not yet been recorded or paid. A statement for the current year was received near the end of December for \$9,000; if paid after February 1 in the next year, a 10% penalty is assessed.
4. Office supplies that cost \$900 were purchased during the year and debited to Supplies. A physical count of inventory showed \$225 of supplies at the prior year-end and \$338 at the current year-end.
5. Rioux received \$22,500 cash for 12 monthly tours to take place from September of the current year to August of the following year. The total amount collected on September 1 of this year was credited to Service Revenue.
6. Rioux received a note receivable from a customer dated November 1 of the current year. It is a \$13,500, 8% note, due in one year. At the maturity date, Rioux will collect the amount of the note plus interest for one year.
7. Salaries earned from December 29 through 31 of this year, but not yet recorded or paid, are \$10,800.
8. Interest expense of \$900 incurred, but not yet recorded, for November and December of this year will not be paid until April 30 of next year.

Prepare the necessary adjusting journal entries on December 31 for each situation. Assume that no adjusting journal entries were recorded during the year prior to year-end. Round your answers to the nearest whole dollar. For example, \$5.49 is rounded to \$5 and \$5.50 is rounded to \$6.

Answer:

General Journal			
Ref.	Account Name	Dr.	Cr.
1	Depreciation Expense	20,250	-
	Accumulated Depreciation	-	20,250
2	Bad Debt Expense	360	-
	Allowance for Doubtful Accounts		360
3	Property Tax Expense	9,000	-
	Property Taxes Payable	-	9,000
4	Supplies Expense	787	-
	Supplies	-	787
5	Service Revenue	15,000	-
	Deferred Service Revenue	-	15,000
6	Interest Receivable	180	-
	Interest Revenue	-	180
7	Salaries Expense	10,800	-
	Salaries Payable	-	10,800
8	Interest Expense	900	-
	Interest Payable	-	900

**Topic: Analyzing Adjusting Journal Entries—Prepaid Asset and Deferred Revenue**

**LO: 4**

**56.** Victoria Inc., an accounting firm, adjusts and closes its accounts each December 31. Below are two situations requiring adjusting entries.

1. During the current year, supplies were purchased for \$1,875 cash. The inventory of supplies at the prior year-end was \$375. At the current year-end, inventory remaining was \$600.

Prepare the adjusting entry required for each of the following separate cases.

- a. Case A—the \$1,875 was debited to Supplies Expense. What is the balance of supplies at year-end?
- b. Case B—the \$1,875 was debited to Supplies. What is the balance of supplies at year-end?

2. On June 1, the company collected \$21,000 cash, which is for services to be performed over the next 12 months.

Prepare the adjusting entry required for each of the following separate cases.

- a. Case A—the \$21,000 was credited to Service Revenue. What is the balance of deferred service revenue at year-end?
- b. Case B—the \$21,000 was credited to Deferred Service Revenue. What is the balance of deferred service revenue at year-end?

*Answer:*

1. a.

Case A	Supplies	225	-
	Supplies Expense	-	225

Balance of Supplies at year-end: \$ 600

- b.

Case B	Supplies Expense	1,650	-
	Supplies	-	1,650

Balance of Supplies at year-end: \$ 600

2. a.

Case A	Service Revenue	8,750	-
	Deferred Service Revenue	-	8,750

Balance of Deferred Service Revenue at year-end: \$ 8,750

- b.

Case B	Deferred Service Revenue	12,250	-
	Service Revenue	-	12,250

Balance of Deferred Service Revenue at year-end: \$ 8,750

**Topic: Analyzing Adjusting Journal Entries—Prepaid Assets**

**LO: 4**

**57.** On December 31, 2020, the Supplies account showed a balance of \$8,400. During 2021, purchases of supplies amount to \$24,000. An inventory of supplies on December 31, 2021, showed a current balance of \$12,000.

1. Prepare the adjusting entry required on December 31, 2021, under each of the following separate cases.
  - a. Case A—purchases of supplies were debited to Supplies. What is the balance of the Supplies account on December 31, 2021?
  - b. Case B—purchases of supplies were debited to Supplies Expense. What is the balance of the Supplies account on December 31, 2021?
2. On December 31, 2020, the Prepaid Insurance account showed a debit balance of \$21,600, which was for coverage for the three months, January through March of 2021. On April 1, 2021, the company purchased another policy covering a two-year period starting from that date. The two-year premium of \$230,400 was paid and debited to Prepaid Insurance.
  - a. Prepare the adjusting entry required on December 31, 2021, to account for insurance expense for the entire year.
  - b. What is the balance in the Prepaid Insurance account on December 31, 2021?

*Answer:*

1. a.

General Journal			
Ref.	Account Name	Dr.	Cr.
Case A	Supplies Expense	20,400	-
	Supplies	-	20,400

Balance of Supplies at year-end: 12,000

b.

General Journal			
Ref.	Account Name	Dr.	Cr.
Case B	Supplies	3,600	-
	Supplies Expense	-	3,600

Balance of Supplies at year-end: 12,000

2. a.

General Journal			
Ref.	Account Name	Dr.	Cr.
	Insurance Expense	108,000	-
	Prepaid Insurance	-	108,000

b. Balance of Prepaid Insurance at year-end: \$144,000

**Topic: Preparing Adjusting Journal Entries**

**LO: 4**

**58.** Pac-Eleven Company adjusts and closes its books each December 31. It is now December 31, 2020, and the following information is available for preparing accounting adjustments.

1. The Accounts Receivable balance at December 31 is \$112,000. The company estimates that 5% of receivables will not be collected. (Assume a zero beginning balance in the Allowance For Doubtful Accounts.)
2. Unpaid and unrecorded salaries incurred at December 31 are \$16,800.
3. The company paid a two-year insurance premium in advance on April 1, 2020, for \$33,600 cash, which was debited to Prepaid Insurance.
4. Equipment, which cost \$280,000, is to be depreciated for the full year. The estimated useful life is 10 years, and the equipment will be depreciated evenly over its useful life.
5. Pac-Eleven Company leased a warehouse on June 1, 2020, for one year only. The company was required to pay the full amount of rent one year in advance on June 1, for \$33,600 cash, which was debited to Lease Expense.
6. The company received from a customer a 9% note with a face amount of \$42,000. The note was dated September 1, 2020; the principal plus the interest is payable one year later. Note Receivable was debited, and Sales was credited on September 1, 2020.
7. On December 30, 2020, the property tax bill was received in the amount of \$17,500. This amount applied only to 2020 and had not been previously recorded or paid. Taxes are due, and will be paid, on January 15, 2021.
8. On April 1, 2020, the company signed a \$210,000, 10% note payable. On that date, Cash was debited and Note Payable credited for \$210,000. The note is payable on March 31, 2021, for the face amount plus interest for one year.
9. The company purchased a patent on January 1, 2020, at a cost of \$41,650. On that date, the Patent was debited and Cash credited for \$41,650. The patent has an estimated useful life of 17 years and no residual value. Hint: Record the estimated consumption of the patent as amortization expense.

Prepare the adjusting entry required on December 31, 2020, for each situation 1 through 9. Assume that no adjusting journal entries were recorded during the year prior to year-end.

Answer:

General Journal			
Ref.	Account Name	Dr.	Cr.
1	Bad Debt Expense	5,600	-
	Allowance for Doubtful Accounts	-	5,600
2	Salaries Expense	16,800	-
	Salaries Payable	-	16,800
3	Insurance Expense	12,600	-
	Prepaid Insurance	-	12,600
4	Depreciation Expense	28,000	-
	Accumulated Depreciation	-	28,000
5	Prepaid Lease Expense	14,000	-
	Lease Expense	-	14,000
6	Interest Receivable	1,260	-
	Interest Revenue	-	1,260
7	Property Tax Expense	17,500	-
	Property Tax Payable	-	17,500
8	Interest Expense	15,750	-
	Interest Payable	-	15,750
9	Amortization Expense	2,450	-
	Patent	-	2,450

**Topic: Analyzing Accrual Accounting Adjustments**

**LO: 4**

**59.** The following balances for Elementary Inc. were obtained from its accounting information system.

As of December 31	2019	2020
Supplies	\$ 4,420	\$ 6,240
Accounts receivable	15,600	12,740
Salaries payable	3,900	1,820
Prepaid lease expense	-	5,720

Round your answers to the nearest dollar. For example, \$5.49 is rounded to \$5 and \$5.50 is rounded to \$6.

Required:

1. If supplies expense in the income statement is \$23,400, what was the cost of supplies purchased in 2020?
2. Assuming no write-offs of accounts receivable, what was the cash collected on accounts receivable in 2020 if revenue recognized in the income statement for 2020 is \$699,140?
3. If salaries paid during the year were \$260,000, what was salaries expense for 2020?
4. If a 3-month lease payment made in advance was \$8,580, what was lease expense for 2020? On approximately what date was the payment made?

*Answer:*

1. \$25,220
2. \$702,000
3. \$257,920
4. \$2,860; December 1

**Topic: Analyzing an Adjusted Trial Balance**

**LO: 5**

**60.** Below is an adjusted trial balance (partial) for Luciano Tag Inc. as of December 31, 2020.

Acct. No.	Accounts	Adjusted Trial Balance December 31, 2020	
		Debit	Credit
104	Accounts receivable	\$ 160,000	\$ -
106	Supplies	36,000	
108	Prepaid insurance	30,400	
160	Deferred revenue		26,400
202	Salaries payable		32,000
208	Interest payable		8,000
400	Sales revenue		3,200,000
405	Event revenue		79,200
502	Salaries expense	800,000	
510	Supplies expense	28,000	
515	Insurance expense	17,280	
520	Interest expense	8,000	

Additional information:

- In 2020, a corporate client paid a 12-month event fee of \$105,600 cash for one planned event per month at Luciano Tag to be applied over 12 months.
- Supplies available on December 31, 2019, were \$24,000.
- A two-year insurance policy was purchased on September 1, 2020. The policy was paid in full on September 1, 2020. Premiums had increased from the prior policy.

Required:

- If interest expense relates to six months of interest expense on a 10% note payable, what is the amount of the note payable?
- What was the adjusting journal entry to accrue unpaid, but incurred salaries, on December 31, 2020?
- How many months remain in the 12-month corporate client contract?
- What amount of supplies was purchased during 2020?
- What was the price of the two-year insurance policy signed on September 1, 2020? By how much did the current policy's monthly premium increase over the prior policy's monthly premium?

Answer:

a. \$160,000

b.

General Journal			
Account Name		Dr.	Cr.
Salaries Expense		32,000	-
	Salaries Payable	-	32,000

c. 3 months remain

d. \$40,000

e. \$36,480; \$120

**Topic: Preparing Adjusting Journal Entries and Trial Balance**

**LO: 4, 5**

**61.** Discus Inc., an electronics retailer, commenced operations on January 1, 2020. The unadjusted trial balance for Discus as of March 31, 2020, follows along with additional supporting information.

Acct. No.	Accounts	Debit	Credit
100	Cash	\$ 83,200	\$ -
104	Accounts receivable	78,400	
105	Supplies	7,200	
106	Inventory	120,000	
108	Prepaid insurance	4,800	
155	Building	240,000	
160	Equipment	128,000	
202	Accounts payable		72,000
208	Deferred service revenue		2,880
240	Note payable		200,000
302	Common stock		176,000
300	Retained earnings		141,120
310	Dividends	2,400	
400	Sales		560,000
510	Cost of goods sold	320,000	
515	Operating expense	24,000	
520	Salaries expense	144,000	
	Totals	\$ 1,152,000	\$ 1,152,000

Additional information:

- Examination of supplies indicates that \$4,800 of supplies are still available on March 31, 2020.
- One year of insurance coverage was purchased on January 1, 2020, for \$4,800 cash.
- The building and equipment (purchased on January 1, 2020) will be depreciated evenly over the useful lives of 30 years and 8 years, respectively.
- \$1,280 of the \$2,880 in Deferred Service Revenue relates to service obligations to be performed after March 31, 2020.
- Annual interest on the note payable is 8%. Interest is due in one year upon the maturity of the note. The note was issued on January 1, 2020.
- Utilities for March 2020 of \$1,280 have been incurred but not yet paid.
- At the end of March, the company provided a new service to customers for in-home assessments. The company will bill customers \$960 in April for services performed in March.
- Additional general ledger accounts, currently with a zero balance, are:
 

170 Accumulated Depreciation—Building	516 Supplies Expense
171 Accumulated Depreciation—Equipment	517 Insurance Expense
203 Utilities Payable	518 Depreciation Expense
209 Interest Payable	519 Utilities Expense
403 Service Revenue	530 Interest Expense

Required:

- Prepare all necessary adjusting entries as of March 31 for the three-month period ended March 31, 2020.
- Prepare an adjusted trial balance on March 31, 2020.
- Compute net income for the three months ended March 31, 2020.

Answer:

a.

General Journal			
Ref.	Account Name	Dr.	Cr.
1	Supplies Expense	2,400	-
	Supplies	-	2,400
2	Insurance Expense	1,200	-
	Prepaid Insurance	-	1,200
3	Depreciation Expense	2,000	-
	Accumulated Depreciation—Building	-	2,000
	Depreciation Expense	4,000	-
	Accumulated Depreciation—Equipment	-	4,000
4	Deferred Service Revenue	1,600	-
	Service Revenue		1,600
5	Interest Expense	4,000	-
	Interest Payable	-	4,000
6	Utilities Expense	1,280	-
	Utilities Payable	-	1,280
7	Accounts Receivable	960	-
	Service Revenue	-	960

b.

Acct. No.	Accounts	Debit	Credit	Debit	Credit
100	Cash	\$ 83,200	\$ -	\$83,200	\$ -
104	Accounts receivable	78,400		79,360	-
105	Supplies	7,200		4,800	-
106	Inventoy	120,000		120,000	-
108	Prepaid insurance	4,800		3,600	-
155	Buiding	240,000		240,000	-
160	Equipment	128,000		128,000	-
170	Accumulated depreciation—Building			-	2,000
171	Accumulated depreciation—Equipment			-	4,000
202	Accounts payable		72,000	-	72,000
203	Utilities payable			-	1,280
208	Deferred service revenue		2,880	-	1,280
209	Interest payable			-	4,000
240	Note payable		200,000	-	200,000
302	Common stock		176,000	-	176,000
300	Retained earnings		141,120	-	141,120
310	Dividends	2,400		2,400	-
400	Sales		560,000	-	560,000
403	Service revenue			-	2,560
510	Cost of goods sold	320,000		320,000	-
515	Operating expense	24,000		24,000	-
516	Supplies expense			2,400	-
517	Insurance expense			1,200	-
518	Depreciation expense			6,000	-
519	Utilities expense			1,280	-
520	Salaries expense	144,000		144,000	-
530	Interest expense			4,000	-
	Totals	<u>\$1,152,000</u>	<u>\$1,152,000</u>	<u>\$1,164,240</u>	<u>\$1,164,240</u>

c.

Income Statement for the 3-Months Ended	March 31, 2020
Total revenue	\$ 562,560
Total expenses	502,880
Net income	<u>\$ 59,680</u>

**Topic: Preparing Financial Statements**

**LO: 6**

**62.** The adjusted trial balance of Monona Inc. as of December 31, 2020, follows.

Acct No.	Accounts	Adjusted Trial Balance	
		Debit	Credit
100	Cash	\$ 28,800	
104	Accounts receivable	56,000	
105	Allowance for doubtful accounts		\$ 2,840
106	Inventory	64,000	
108	Prepaid insurance	3,840	
150	Land	9,160	
155	Building	160,000	
156	Equipment	48,000	
162	Accumulated depreciation		10,000
202	Accounts payable		60,000
204	Salaries payable		3,600
208	Deferred service revenue		1,600
210	Interest payable		400
240	Note payable		120,000
302	Common stock		148,000
304	Retained earnings		9,600
310	Dividends	4,000	
400	Sales		400,000
402	Service revenue		20,000
510	Cost of goods sold	192,000	
512	Salaries expense	184,000	
520	Repair expense	1,600	
526	Insurance expense	2,880	
528	Depreciation expense	10,560	
540	Interest expense	9,600	
542	Bad debt expense	1,600	
	Net earnings	<u>\$ 776,040</u>	<u>\$ 776,040</u>

Required:

- Prepare the income statement for the year ended December 31, 2020.
- Prepare the statement of stockholders' equity for the year ended December 31, 2020. Assume that the common stock was issued prior to 2020.
- Prepare the balance sheet on December 31, 2020.

Answer:

a.

Monona Inc. Income Statement For the Year Ended December 31, 2020		
<b>Revenues</b>		
Sales	\$ 400,000	
Service revenue	<u>20,000</u>	
Total revenues		\$ 420,000
<b>Expenses</b>		
Cost of goods sold	192,000	
Salaries expense	184,000	
Depreciation expense	10,560	
Interest expense	9,600	
Insurance expense	2,880	
Repair expense	1,600	
Bad debt expense	<u>1,600</u>	
Total expenses		<u>402,240</u>
<b>Net Income</b>		<u><u>\$ 17,760</u></u>

b.

Monona Inc. Statement of Stockholders' Equity For the Year Ended December 31, 2020			
	Common Stock	Retained Earnings	Total Stockholders' Equity
Balance, January 1, 2020	\$ 148,000	\$ 9,600	\$ 157,600
Issuance of common stock	-	-	-
Net income	-	17,760	17,760
Less: dividends	<u>-</u>	<u>4,000</u>	<u>4,000</u>
Balance, December 31, 2020	<u><u>\$ 148,000</u></u>	<u><u>\$ 23,360</u></u>	<u><u>\$ 171,360</u></u>

c.

<b>Monona Inc.</b> <b>Balance Sheet</b> <b>December 31, 2020</b>			
<b>Assets</b>			
Cash		\$	28,800
Accounts receivable	\$ 56,000		
Less: Allowance for doubtful accounts	<u>2,840</u>		53,160
Inventory			64,000
Prepaid insurance			3,840
Land			9,160
Building	160,000		
Equipment	48,000		
Less: Accumulated depreciation	<u>10,000</u>		198,000
Total assets		\$	<u>356,960</u>
<b>Liabilities</b>			
Accounts payable		\$	60,000
Salaries payable			3,600
Deferred service revenue			1,600
Interest payable			400
Notes payable			<u>120,000</u>
Total liabilities			185,600
<b>Stockholders' Equity</b>			
Common stock			148,000
Retained earnings			<u>23,360</u>
Total stockholders' equity			171,360
Total liabilities and stockholders' equity		\$	<u>356,960</u>

**Topic: Preparing Closing Entries**

**LO: 7**

**63.** The following selected accounts and amounts are from the adjusted trial balance for Seattle Inc.

Account	Bal.
Sales	\$ 44,000
Service revenue	800
Operating expenses	9,600
Income tax expense	2,000
Costs of goods sold	21,200
Interest expense	1,600
Dividends	4,400

Prepare the closing entries for revenues, expenses, and dividends. Use the Income Summary account to close income statement amounts.

*Answer:*

General Journal			
Account Name	Dr.	Cr.	
Sales	44,000	-	
Service Revenue	800	-	
Income Summary	-	44,800	
<u>To close revenues to income summary</u>			
Income Summary	34,400	-	
Operating Expenses	-	9,600	
Income Tax Expense	-	2,000	
Cost of Goods Sold	-	21,200	
Interest Expense	-	1,600	
<u>To close expenses to income summary</u>			
Income Summary	10,400	-	
Retained Earnings	-	10,400	
<u>To close income summary to retained earnings</u>			
Retained Earnings	4,400	-	
Dividends	-	4,400	
<u>To close dividends to retained earnings</u>			

**Topic: Preparing Closing Entries**

**LO: 7**

**64.** The following selected accounts and amounts are from the adjusted trial balance for Seattle Inc.

Acct. No.	Description	Debit	Credit
310	Retained earnings	\$ -	\$ 2,100,000
315	Dividends	22,750	-
400	Sales	-	1,400,000
405	Consulting revenue	-	87,500
500	Cost of goods sold	875,000	-
502	Salaries expense	140,000	-
510	Supplies expense	12,250	-
515	Insurance expense	21,000	-
520	Interest expense	3,500	-

Prepare the closing entries for revenues, expenses, and dividends. Use the Income Summary account to close income statement amounts.

*Answer:*

General Journal			
Account Name	Dr.	Cr.	
Sales	1,400,000	-	
Consulting Revenue	87,500	-	
Income Summary	-	1,487,500	
<u>To close revenues to income summary</u>			
Income Summary	1,051,750	-	
Cost of Goods Sold	-	875,000	
Salaries Expense	-	140,000	
Supplies Expense	-	12,250	
Insurance Expense	-	21,000	
Interest Expense	-	3,500	
<u>To close expenses to income summary</u>			
Income Summary	435,750	-	
Retained Earnings	-	435,750	
<u>To close income summary to retained earnings</u>			
Retained Earnings	22,750	-	
Dividends	-	22,750	
<u>To close dividends to retained earnings</u>			

**Topic: Preparing Financial Statements and Closing Entries**

**LO: 7**

**65.** Hayley Inc. prepared the following adjusted trial balance as of December 31, 2020.

Accounts	Adjusted Trial Balance	
	Debit	Credit
Cash	\$ 52,500	\$ -
Accounts receivable	56,000	
Inventory	70,000	
Prepaid insurance	2,100	
Equipment	393,750	
Accumulated depreciation—equipment		78,750
Accounts payable		61,250
Salaries payable		7,000
Interest payable		700
Note payable		87,500
Common stock		192,500
Retained earnings		140,000
Dividends	5,250	
Sales		612,500
Cost of goods sold	350,000	
Salaries expense	208,600	
Repair expense	3,675	
Insurance expense	2,625	
Selling expense	3,850	
Depreciation expense	23,100	
Interest expense	8,750	-
Net earnings	<u>\$ 1,180,200</u>	<u>\$ 1,180,200</u>

Required:

- Prepare the income statement for Hayley Inc. for the year ended December 31, 2020.
- Prepare closing entries as of December 31, 2020.

Answer:

a.

<b>Hayley Inc.</b> <b>Income Statement</b> <b>For the Year Ended December 31, 2020</b>		
<b>Revenues</b>		
Sales	\$ 612,500	
Total Revenues		\$ 612,500
<b>Expenses</b>		
Cost of Goods Sold	350,000	
Salaries Expense	208,600	
Depreciation Expense	23,100	
Interest Expense	8,750	
Selling Expense	3,850	
Repair Expense	3,675	
Insurance Expense	<u>2,625</u>	
Total Expenses		<u>600,600</u>
<b>Net Income</b>		<u><u>\$ 11,900</u></u>

b.

General Journal			
Account Name	Dr.	Cr.	
Sales	612,500	-	
Income Summary	-	612,500	
<i>To close revenues to income summary</i>			
Income Summary	600,600	-	
Cost of Goods Sold	-	350,000	
Salaries Expense	-	208,600	
Depreciation Expense	-	23,100	
Selling Expense	-	3,850	
Repair Expense	-	3,675	
Insurance Expense	-	2,625	
Interest Expense	-	8,750	
<i>To close expenses to income summary</i>			
Income Summary	11,900	-	
Retained Earnings	-	11,900	
<i>To close income summary to retained earnings</i>			
Retained Earnings	5,250	-	
Dividends	-	5,250	
<i>To close dividends to retained earnings</i>			