

ACC101 – CHAPTER 3

Preparing Financial Statements



Key Terms and Concepts to Know

Accounting Period:

Time Period Principle
Calendar vs. Fiscal Year

Accounting Cycle:

Know the steps in order.
Use the steps as a reference to insure that journal entries, trial balances and financial statements are prepared in the proper order.

Accrual Basis Accounting:

Accrual vs. Cash Basis Accounting

Revenue Recognition Principle requires that revenues are reported in the period in which they are earned, regardless of when payment is received.

Matching Principle requires that all expenses incurred (whether paid or not) are recorded in the same accounting period as the revenues earned as a result of these expenses.

Therefore, adjusting entries may be required to record internal transactions and to bring assets and liability accounts to their proper balances.

Adjusting Entries:

Adjusting entries always affect one income statement account (revenue or expense) and one balance sheet account (asset or liability).

There are two basic types of adjusting entries: **Deferrals** and **Accruals**

Deferrals occur when cash changes hands prior to the revenue is earned or expense is incurred. Recording the revenue or expense is postponed or deferred until a subsequent economic event has occurred which causes revenue to be earned or expense to be incurred.

Accruals occur when revenue is earned or expense is incurred prior to the cash changing hands. Deferred revenues and deferred expenses have not been recorded prior to preparing and recording the adjusting entry.

Deferred Expenses (also referred to as prepaid expenses) are initially recorded as assets and adjusted at the end of the period for the portion that has been used up or expired.

Revised September 2007

Any Date Prepaid Insurance *(Cost of insurance policy)*
Cash

Dec. 31 Insurance Expense *(Portion of policy that has expired)*
Prepaid Insurance

Deferred Revenues – (also referred to as unearned revenue) are initially recorded as a liability and adjusted at the end of the period for the portion that has been earned. This occurs when payment is received in advance of performing the service.

Any Date Cash *(Cash received in advance)*
Unearned Revenue

Dec. 31 Unearned Revenue *(Amount earned as of end of period)*
Fees Earned

Accrued Expenses – are expenses that have been incurred and a debt or liability is owed to a third party; however neither the expenses nor liability have been recorded.

Dec. 31 Interest Expense *(amount owed as of 12/31)*
Interest Payable

Accrued Revenues – are revenues that have been earned, but have not been recorded. Payment has not been received.

Dec. 31 Accounts Receivable *(amount earned as of 12/31)*
Fees Earned

Closing Process:

Closing prepares the general ledger for the next accounting cycle or year.

All general ledger accounts are classified as Permanent or Temporary for purposes of the closing process.

Permanent Accounts are Balance Sheet accounts whose balances are carried forward from year to year.

Temporary accounts are the revenue, expense and dividend accounts which measure activity for a specific time period. Only temporary accounts are closed at the end of the year.

Income Summary is a special temporary account used only during the closing process to summarize net income.

Revised September 2007

Closing process involves four steps:

- 1) Zeroing-out the balance in each revenue account and transferring the total revenues to the Income Summary account as a credit.
- 2) Zeroing-out the balance in each expense account and transferring the total revenues to the Income Summary account as a debit.
- 3) Zeroing-out the balance in Income Summary, the net income (credit) or net loss (debit) for the period, to the Retained Earnings account.
- 4) Zeroing-out the balance in each dividend account and transferring the total dividends directly into retained earnings as a debit. Income Summary is not used because dividends are not used to determine Net Income.

After closing only asset, liability and permanent stockholders' equity accounts should have balances.

Trial Balances:

Unadjusted, adjusted and post-closing are all necessary and important. Know when to prepare each of them and the purpose of each one.

Classified Balance Sheet:

Divides assets and liabilities into Current and Non-Current based on the company's operating cycle (typically one year).

Current Assets are cash and other assets expected to be converted to cash or sold within one year through normal operations of the business.

Current Liabilities are debts due within one year or less that will be paid out of current assets.

Non-Current Assets – include fixed assets such as plant and equipment, which are depreciated over time, property or land and investments expected to be owned after one year.

Non-current (Long-term) Liabilities are debts due after one year.

Profit Margin ratio and Current ratio

Example #1:

- 1) Journalize the adjusting entries and label them as accruals or deferrals, adding accounts as needed.
 - 2) Determine the adjusted balances of the accounts and prepare an adjusted trial balance.
- a. Unexpired insurance at December 31, \$1,500.
 - b. Supplies on hand at December 31, \$400.
 - c. Depreciation of building for the year, \$1,750.
 - d. Depreciation of equipment for the year, \$5,800.
 - e. Revenue unearned at December 31, \$2,000.
 - f. Accrued salaries and wages at December 31, \$2,300.
 - g. Fees earned but unbilled on December 31, \$4,850.

Forever Green Lawn Care, Inc. Trial Balance December 31, 20--		
Cash	8,700	
Accounts Receivable	20,600	
Prepaid Insurance	4,400	
Supplies	1,950	
Land	45,000	
Building	134,500	
Accumulated Depreciation-Bldg		86,700
Equipment	80,100	
Accumulated Depreciation-Equip.		61,300
Accounts Payable		7,500
Unearned Revenue		6,000
Capital Stock		15,300
Retained Earnings		54,000
Dividends	8,000	
Fees Earned		199,400
Salaries and Wages Expense	70,200	
Utilities Expense	23,200	
Advertising Expense	18,000	
Repairs Expense	11,500	
Miscellaneous Expense	4,050	
Totals	430,200	430,200

Solution #1

a. **Deferred Expense**

Insurance Expense	2,900	
Prepaid Insurance		2,900

b. **Deferred Expense**

Supplies Expense	1,550	
Supplies		1,550

c. **Deferred Expense**

Depreciation Expense-Bldg	1,750	
Accum. Depr.- Bldg		1,750

d. **Deferred Expense**

Depreciation Expense-Equip	5,800	
Accum. Depr.-Equipment		5,800

e. **Deferred Revenue**

Unearned Revenue	4,000	
Fees Earned		4,000

f. **Accrued Expense**

Wages Expense	2,300	
Wages Payable		2,300

g. **Accrued Revenue**

Accounts Receivable	4,850	
Fees Earned		4,850

Forever Green Lawn Care, Inc. Adjusted Trial Balance December 31, 20--		
Cash	8,700	
Accounts Receivable	25,450	
Prepaid Insurance	1,500	
Supplies	400	
Land	45,000	
Building	134,500	
Accumulated Depreciation-Bldg		88,450
Equipment	80,100	
Accumulated Depreciation-Equip.		67,100
Accounts Payable		7,500
Salaries & Wages Payable		2,300
Unearned Revenue		2,000
Capital Stock		15,300
Retained Earnings		54,000
Dividends	8,000	
Fees Earned		208,250
Salaries and Wages Expense	72,500	
Utilities Expense	23,200	
Advertising Expense	18,000	
Repairs Expense	11,500	
Depreciation Expense-Equipment	5,800	
Depreciation Expense-Bldg	1,750	
Miscellaneous Expense	4,050	
Insurance Expense	2,900	
Supplies Expense	1,550	
Totals	444,900	444,900

Practice Problem #1:

- 1) Journalize the adjusting entries and label them as accruals or deferrals.
- 2) Update the account balances of the selected accounts given below.
 - a. Supplies on hand on August 31, \$800
 - b. Depreciation of equipment during the year, \$3,400
 - c. Rent expired during the year, \$11,000
 - d. Wages accrued, but not paid at August 31, \$2,500
 - e. Unearned fees at August 31, \$1,500
 - f. Unbilled fees at August 31, \$5,260

Selected Account Balances	Current Balance		Adjustment (+ / -)	Adjusted Balance	
	Debit	Credit		Debit	Credit
Accounts Receivable	12,350				
Supplies	1,980				
Prepaid Rent	20,000				
Equipment	73,800				
Accumulated Depreciation-Equipment		24,700			
Capital Stock		20,480			
Dividends	2,000				
Unearned Fees		7,500			
Fees Earned		99,650			
Wages Expense	42,200				
Rent Expense					
Depreciation Expense					
Supplies Expense					

Adjusting Entries and Errors

Failure to record adjusting entries at the end of the period will cause several financial statement items to be misstated. Consider the following:

Company A failed to record accrued wages of \$5,000 at the end of the period.

The entry should have been:

Wages Expense	5,000	
Wages Payable		5,000

Failing to record this entry caused the following errors:

1. Wages Expense will be understated by \$5,000, so
2. Total Expenses will be understated by \$5,000, so
3. Net Income will be overstated by \$5,000, and when closed to RE
4. Retained Earnings will be overstated by \$5,000
5. Wages Payable will be understated by \$5,000, so
6. Total Liabilities will be understated by \$5,000

Example #2:

At the end of October, the first month of operations, the following selected data were taken from the financial statements of Crisp Cleaners:

Net Income for October	\$102,500
Total Assets at October 31	228,750
Total Liabilities at October 31	60,500
Total Stockholders' Equity at October 31	168,250

The following adjusting entries were omitted at the end of the month:

- a. Supplies used during October, \$800
- b. Depreciation of equipment for October, \$3,000
- c. Unbilled fees earned at October 31, \$1,200
- d. Accrued wages at October 31, \$500

Required:

- 1) Journalize the entries to record the omitted adjustments.
- 2) Determine the correct amounts for Net Income, Total Assets, Total Liabilities and Total Stockholders' Equity as of October 31.

Solution #2

a.	Supplies Expense	800	
	Supplies		800
b.	Depreciation Exp.-Equip.	3,000	
	Accum. Depr.- Equip.		3,000
c.	Accounts Receivable	1,200	
	Fees Earned		1,200
d.	Wages Expense	500	
	Wages Payable		500

	<u>Net Income</u>	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Total Stock- holder's Equity</u>
Reported Balance	\$102,500	\$228,750	\$60,500	\$168,250
Corrections:				
Adjustment (a)	-800	-800	---	-800
Adjustment (b)	-3,000	-3,000	---	-3,000
Adjustment (c)	+1,200	+1,200	---	+1,200
Adjustment (d)	<u>-500</u>	<u>-----</u>	<u>+500</u>	<u>-500</u>
Corrected Balance	\$ 99,400	\$ 226,150	\$ 61,000	\$ 165,150

Practice Problem #2

At the end of January, the first month of operations, the following selected data were taken from the financial statements of Wanda's Car Wash:

Net Income for January	\$88,450
Total Assets at January 31	276,000
Total Liabilities at January 31	77,800
Total Stockholders' Equity at January 31	198,200

The following adjusting entries were omitted at the end of the month:

- Unbilled fees earned at January 31, \$2,200
- Supplies used during January 31, \$1,800
- Depreciation of equipment for January, \$7,500
- Accrued wages at January 31, \$1,500

Required: 1) Journalize the entries to record the omitted adjustments.
2) Determine the correct amounts for Net Income, Total Assets, Total Liabilities, and Total Stockholders' Equity as of January 31.

Closing Entries

The next step in the accounting cycle is to journalize the closing entries to prepare the temporary accounts to gather data for the next accounting period. The following closing entries are based on the previous worksheet. There are four closing entries that are numbered below.

Fees Revenue	190,150
Rent Revenue	2,000
Income Summary	192,150
<i>(#1: close all revenue accounts to Income Summary)</i>	

Revised September 2007

Income Summary	201,620	
Salaries and Wages Expense		102,250
Advertising Expense		58,200
Utilities Expense	19,000	
Repairs Expense	11,500	
Miscellaneous Expense	4,050	
Insurance Expense		800
Supplies Expense	700	
Depreciation Expense-Bldg		1,620
Depreciation Expense-Equipment		3,500

(#2: close all expense account to Income Summary)

(Balance of Income Summary = Net Income)

Retained Earnings	9,470	
Income Summary		9,470

(#3: close Income Summary to RE)

Retained Earnings	10,000	
Dividends		10,000

(#4: close Dividend account to RE)

Practice Problem #3

For each of the following accounts indicate whether it is:

(IS) – closed to Income Summary (RE) – closed to Retained Earnings
(P) – a permanent account and not closed

- | | |
|----------------------------------|------------------------|
| 1. Accounts Payable | 7. Prepaid Advertising |
| 2. Accounts Receivable | 8. Wages Payable |
| 3. Fees Earned | 9. Unearned Fees |
| 4. Dividends | 10. Supplies |
| 5. Insurance Expense | 11. Prepaid Insurance |
| 6. Accumulated Depreciation-Bldg | 12. Salary Expense |

Post-Closing Trial Balance

A trial balance is taken after the closing entries have been posted. This trial balance should contain only permanent accounts as all temporary accounts have been closed.

Practice Problem #4

Using the completed worksheet from Practice Problem #1, prepare closing entries and the Post-Closing Trial Balance.

SAMPLE MULTIPLE CHOICE QUESTIONS

1. The revenue recognition concept
 - a. Determines when revenue is credited to a revenue account.
 - b. States that revenue is not recorded until the cash is received.
 - c. Controls all revenue reporting for the cash basis of accounting.
 - d. Is in conflict with accrual accounting.
2. The matching principle:
 - a. Addresses the relationship between the journal and the ledger.
 - b. Determines whether the normal balance of an account is a debit or credit.
 - c. Requires that expenses related to revenue and revenue be reported at the same time.
 - d. Requires that the dollar amount of debits equal the dollar amount of credits in a journal entry.
3. Using accrual accounting, expenses are recorded only:
 - a. When they are incurred and paid at the same time
 - b. If they are paid before they are incurred
 - c. If they are paid after they are incurred
 - d. When they are incurred, whether or not cash is paid
4. The primary difference between deferred and accrued expenses is that deferred expenses have:
 - a. Been recorded and accrued expenses have not been incurred
 - b. Been incurred and accrued expenses have not
 - c. Not been incurred and accrued expenses have been incurred
 - d. Not been recorded and accrued expenses have been incurred
5. Adjusting entries affect at least one:
 - a. Revenue and one expense account
 - b. Asset and one liability account
 - c. Revenue and one stockholders' equity account
 - d. Income statement account and one balance sheet account

Revised September 2007

6. The balance in the prepaid rent account before adjustment at the end of the year is \$18,000, which represents three months' rent paid on December 1. The adjusting entry required on December 31 is:
 - a. Debit Rent Expense, \$6,000; credit Prepaid Rent, \$6,000
 - b. Debit Prepaid Rent, \$6,000; credit Rent Expense, \$6,000
 - c. Debit Rent expense, \$12,000; credit Prepaid Rent, \$12,000
 - d. Debit Prepaid Rent, \$12,000; credit Rent expense, \$12,000
7. At the end of the fiscal year, the usual adjusting entry for accrued salaries owed to employees was omitted. Which of the following statements is true?
 - a. Stockholders' equity at the end of the year was overstated
 - b. Salary Expense for the year was overstated
 - c. The total of the liabilities at the end of the year was overstated
 - d. Net Income for the year was understated
8. What is the proper adjusting entry at June 30, the end of the fiscal year, based on a supplies account balance before adjustment, \$7,200, and supplies inventory on June 30, \$1,200?
 - a. Debit Supplies, \$1,200; credit Supplies Expense, \$1,200
 - b. Debit Supplies Expense, \$1,200; credit Supplies, \$1,200
 - c. Debit Supplies Expense, \$6,000; credit Supplies, \$6,000
 - d. Debit Supplies, \$6,000; credit Supplies Expense, \$6,000
9. A business enterprise pays weekly salaries of \$45,000 on Friday for a five-day week ending on that day. The adjusting entry necessary at the end of the fiscal period ending on Thursday is:
 - a. Debit Salaries Payable, \$36,000; credit Cash, \$36,000
 - b. Debit Salary Expense, \$36,000; credit Dividends, \$36,000
 - c. Debit Salary Expense, \$36,000; credit Salaries Payable, \$36,000
 - d. Debit Dividends, \$36,000; credit Cash, \$36,000
10. At the end of the fiscal year, May Company omitted the usual adjusting entry for depreciation on equipment. Which of the following statements is true?
 - a. Total assets will be understated at the end of the current year.
 - b. The balance sheet, income statement, and retained earnings statement will be misstated for the current year.
 - c. Expenses will be overstated at the end of the current year.
 - d. Net income will be understated for the current year.
11. Data for an adjusting entry described as "accrued wages, \$800" means to debit:
 - a. Capital Stock and credit Wages Payable
 - b. Wages Expense and credit Wages Payable
 - c. Wages Payable and credit Wages Expense
 - d. Accounts Receivable and credit Wages Expense

Revised September 2007

12. Supplies are recorded as assets when purchased. Therefore, the credit to supplies in the adjusting entry is for the amount of supplies:
 - a. Purchased
 - b. Used
 - c. Either used or remaining
 - d. Remaining
13. If cash is received in advance from a customer, then
 - a. Assets will decrease.
 - b. Retained earnings will increase.
 - c. Liabilities will increase.
 - d. Stockholders' equity will decrease.
14. Which of the following appears on the Balance Sheet?
 - a. Unearned Fees
 - b. Supplies Expense
 - c. Service Revenue
 - d. Fees Earned
15. Which of the following does not appear on the Income Statement?
 - a. Service Revenue
 - b. Prepaid Insurance
 - c. Wages Expenses
 - d. Rent Income
16. When preparing the retained earnings statement, the beginning retained earnings balance can always be found:
 - a. In the Income Statement columns of the worksheet
 - b. By subtracting expenses from revenue
 - c. In the general journal
 - d. In the general ledger
17. Depreciation Expense appears on the
 - a. Balance Sheet
 - b. Retained Earnings Statement
 - c. Statement of Cash Flows
 - d. Income Statement
18. Accumulated Depreciation appears on the:
 - a. Balance Sheet in the Fixed Asset section
 - b. Balance Sheet in the Current Assets section
 - c. Balance Sheet in the Long-Term Liabilities section
 - d. Income Statement as an Operating Expense

19. Notes Receivable due in 60 days appears on the:
 - a. Balance Sheet in the Current Assets section
 - b. Balance Sheet in the Fixed Asset section
 - c. Balance Sheet in the Current Liabilities section
 - d. Income Statement as Revenue
20. Adjusting entries are dated in the journal as of:
 - a. The last day of the accounting period, although they are actually journalized after the end of the accounting period.
 - b. The date they are actually journalized, although this date is generally after the end of the accounting period.
 - c. The first day of the accounting period, although they are actually journalized after the end of the accounting period.
 - d. The first day of the subsequent accounting period.
21. Closing entries:
 - a. Need not be journalized since they appear on the worksheet
 - b. Need not be posted if the financial statements are prepared from the worksheet
 - c. Must be journalized and posted
 - d. Are not needed if adjusting entries are prepared
22. Which of the following accounts should be closed to Income Summary?
 - a. Accumulated Depreciation
 - b. Supplies Expense
 - c. Prepaid Expenses
 - d. Dividends
23. Which of the following accounts ordinarily appears in the post-closing trial balance?
 - a. Salaries Expense
 - b. Supplies Expense
 - c. Accumulated Depreciation
 - d. Fees Earned
24. The entry to close the income summary account when there is net income at the end of the accounting period is:
 - a. Debit Retained Earnings; credit Income Summary
 - b. Debit Income Summary; credit Retained Earnings
 - c. Debit Income Summary; credit Dividends
 - d. Debit Dividends; credit Income Summary
25. In the normal manual accounting cycle the:
 - a. Financial statements are prepared after the adjusting entries are posted
 - b. Financial statements are prepared after the closing entries are posted
 - c. Adjusting and closing entries are journalized before financial statements are prepared
 - d. Post-closing trial balance is prepared before the closing entries are posted

Revised September 2007

26. The ability of a company to pay its debts is called
- Solvency
 - Working capital
 - Current ratio
 - Net worth
27. A current ratio of 5.6 means that
- There is \$5.60 in current assets available to pay each dollar of current liabilities
 - The company cannot pay its debts as they come due
 - There is \$5 in current assets for every \$6 in current liabilities
 - There is \$6 in current assets for every \$5 in current liabilities
28. Receipt of an unearned revenue
- Increases an asset; increases a liability.
 - Increases an asset; increases a revenue.
 - Decreases a liability; increases stockholders' equity.
 - Decreases a revenue; increases stockholders' equity.
29. If revenues are recognized only when a customer pays, what method of accounting is being used?
- Accrual basis
 - Recognition basis
 - Cash basis
 - Matching basis
30. Which of the following is not a typical example of a prepaid expense?
- Supplies
 - Insurance
 - Rent
 - Wages
31. Payments received in advance of services provided are recorded as
- Revenues
 - Equity
 - Expenses
 - Liabilities
32. If the adjusting entry is not made for unearned revenues the result will be to
- Overstate assets and understate liabilities.
 - Overstate liabilities and understate revenues.
 - Understate net income and overstate retained earnings
 - Understate retained earnings and overstate revenues.

33. Greenland Property Management Co. received a check for \$30,000 on October 1 which represents a one year advance payment of rent on an office it rents to a client. Unearned Rental Revenue was credited for the full \$30,000. Financial statements are prepared on December 31. The appropriate adjusting journal entry to make on December 31 would be
- a. Debit Rental Revenue \$2,500; credit Unearned Rental Revenue \$2,500.
 - b. Debit Unearned Rental Revenue \$7,500; credit Rental Revenue \$7,500
 - c. Debit Unearned Rental Revenue \$22,500; credit Rental Revenue \$22,500
 - d. Debit Rental Revenue \$22,500; credit Unearned Rental Revenue \$22,500
34. On July 1, East Lake, Inc. purchased a 3-year insurance policy for \$12,600. Prepaid Insurance was debited for the entire amount. On December 31, when the annual financial statements are prepared, the appropriate adjusting journal entry would be
- a. Debit Prepaid Insurance \$2,100; credit Insurance Expense \$2,100
 - b. Debit Insurance Expense \$10,500; credit Prepaid Insurance \$10,500
 - c. Debit Prepaid Insurance \$10,500; credit Insurance Expense \$10,500
 - d. Debit Insurance Expense \$2,100; credit Prepaid Insurance \$2,100

SOLUTIONS TO PRACTICE PROBLEMS

Practice Problem #1

1) Journalize the adjusting entries and label them as accruals or deferrals.

- | | | | |
|------------------------------------|-----------------------------|--------|--------|
| a. <u>Deferred Expense:</u> | Supplies Expense | 1,180 | |
| | Supplies | | 1,180 |
| b. <u>Deferred Expense:</u> | Depreciation Expense-Equip. | | 3,400 |
| | Accum. Depr.-Equip. | | 3,400 |
| c. <u>Deferred Expense:</u> | Rent Expense | 11,000 | |
| | Prepaid Rent | | 11,000 |
| d. <u>Accrued Expense:</u> | Wages Expense | 2,500 | |
| | Wages Payable | | 2,500 |
| e. <u>Deferred Revenue:</u> | Unearned Fees | 6,000 | |
| | Fees Earned | | 6,000 |
| f. <u>Accrued Revenue:</u> | Accounts Receivable | 5,260 | |
| | Fees Earned | | 5,260 |

Selected Account Balances	Current Balance		Adjustment	Adjusted Balance	
	Debit	Credit		Debit	Credit
Accounts Receivable	12,350		+5,260	17,610	
Supplies	1,980		-1,180	800	
Prepaid Rent	20,000		-11,000	9,000	
Equipment	75,800		-----	75,800	
Accumulated Depreciation-Equipment		24,700	+3,400	0	28,100
Capital Stock		20,480		0	20,480
Wages Payable		0	+2,500	0	2,500
Unearned Fees		7,500	-6,000	0	1,500
Fees Earned		99,650	+11,260	0	110,910
Wages Expense	42,200		+2,500	44,700	0
Rent Expense			+11,000	11,000	0
Depreciation Expense			+3,400	3,400	0
Supplies Expense			+1,180	1,180	0
	152,330	152,330		163,490	163,490

Practice Problem #2

a.	Accounts Receivable	2,200
	Fees Earned	2,200
b.	Supplies Expense	1,800
	Supplies	1,800
c.	Depreciation Expense-Equip.	7,500
	Accum. Depr.-Equip.	7,500
d.	Wages Expense	1,500
	Wages Payable	1,500

	<u>Net Income</u>	<u>Total Assets</u>	<u>Total Liabilities</u>	<u>Total Stock- holders' Equity</u>
Reported Balance	\$88,450	\$276,000	\$77,800	\$198,200
Corrections:				
Adjustment (a)	+2,200	+2,200	-----	+2,200
Adjustment (b)	-1,800	-1,800	-----	-1,800
Adjustment (c)	-7,500	-7,500	-----	-7,500
Adjustment (d)	<u>-1,500</u>	<u>-----</u>	<u>+1,500</u>	<u>-1,500</u>
Corrected Balance	\$79,850	\$268,900	\$79,300	\$189,600

Practice Problem #3

- | | |
|-------|--------|
| 1. P | 7. P |
| 2. P | 8. P |
| 3. IS | 9. P |
| 4. RE | 10. P |
| 5. IS | 11. P |
| 6. P | 12. IS |

Practice Problem #4

1)	Fees Earned	110,910	
	Income Summary		110,910
2)	Income Summary	60,280	
	Wages Expense		44,700
	Rent Expense		11,000
	Depreciation Expense		3,400
	Supplies Expense		1,180
3)	Income Summary	50,630	
	Retained Earnings		50,630
4)	Retained Earnings	2,000	
	Dividends		2,000

Post-Closing Trial Balance		
Accounts Receivable	17,610	
Supplies	800	
Prepaid Rent	9,000	
Equipment	73,800	
Accumulated Depreciation-Equip		28,100
Capital Stock		20,480
Wages Payable		2,500
Unearned Fees		1,500
Retained Earnings		48,630
Total	101,210	101,210

SOLUTIONS TO MULTIPLE CHOICE QUESTIONS

1. A

2. C

3. D

4. C

5. D

6. A: $\$18,000/3 = \$6,000/\text{month}$

7. A: entry omitted: Salary Expense
 Salary Payable

Therefore: Salary expense is understated, so net income is overstated and stockholders' equity is overstated as well.

8. C: $\$7,200 \text{ account balance} - \$1,200 \text{ inventory} = \$6,000 \text{ used}$

9. C: $\$45,000/5 = 9,000/\text{day} * 4 \text{ days} = \$36,000$

10. B: entry omitted: Depreciation Expense - Equip.
 Accumulated Depreciation - Equip.

Therefore: Expenses are understated, so net income is overstated on the income statement and retained earnings is overstated on both the retained earnings statement and balance sheet.

11. B

12. B

13. C

14. A

15. B

16. D

17. D

18. A

19. A

20. A

21. C

22. B

23. C

24. B

25. A

26. A

27. A

28. A

29. C

30. D

31. D

32. B

33. B

34. D