

# SOLUTIONS TO BRIEF EXERCISES

## BRIEF EXERCISE 4-1

The steps in using a worksheet are performed in the following sequence: (1) prepare a trial balance on the worksheet, (2) enter adjustment data, (3) enter adjusted balances, (4) extend adjusted balances to appropriate statement columns and (5) total the statement columns, compute net income (loss), and complete the worksheet. Filling in the blanks, the answers are 1, 3, 4, 5, 2.

The solution to BRIEF EXERCISE 4-2 is on page 4-9.

## BRIEF EXERCISE 4-3

Account	Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.
Accumulated Depreciation				X
Depreciation Expense	X			
Owner's Capital				X
Owner's Drawings			X	
Service Revenue		X		
Supplies			X	
Accounts Payable				X

## BRIEF EXERCISE 4-4

Dec. 31	Service Revenue .....	50,000	
	Income Summary .....		50,000
31	Income Summary .....	34,000	
	Salaries and Wages Expense .....		27,000
	Supplies Expense.....		7,000
31	Income Summary .....	16,000	
	Owner's Capital .....		16,000
31	Owner's Capital.....	2,000	
	Owner's Drawings .....		2,000

**CLAYTON COMPANY**  
**Worksheet**

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet		
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	
	<b>Prepaid Insurance</b>	<b>3,000</b>			<b>(a) 1,800</b>	<b>1,200</b>					<b>1,200</b>

**BRIEF EXERCISE 4-5**

<b>Salaries and Wages Expense</b>		<b>Income Summary</b>		<b>Service Revenue</b>	
Bal. 27,000	(2) 27,000	(2) 34,000	(1) 50,000	(1) 50,000	Bal. 50,000
		(3) 16,000			
		50,000	50,000		
<b>Supplies Expense</b>		<b>Owner's Capital</b>		<b>Owner's Drawings</b>	
Bal. 7,000	(2) 7,000	(4) 2,000	Bal. 30,000	Bal. 2,000	(4) 2,000
			(3) 16,000		
			Bal. 44,000		

**BRIEF EXERCISE 4-6**

July 31	Service Revenue .....	16,400	
	Income Summary .....		16,400
31	Income Summary .....	10,700	
	Salaries and Wages Expense .....		8,200
	Maintenance and Repairs Expense .....		2,500

Service Revenue					
Date	Explanation	Ref.	Debit	Credit	Balance
7/31	Balance			16,400	16,400

7/31	Closing entry		16,400		<u><u>0</u></u>
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**Salaries and Wages Expense**

<u>Date</u>	<u>Explanation</u>	<u>Ref.</u>	<u>Debit</u>	<u>Credit</u>	<u>Balance</u>
7/31	Balance		8,200		8,200
7/31	Closing entry			8,200	<u><u>0</u></u>

### BRIEF EXERCISE 4-6 (Continued)

<b>Maintenance and Repairs Expense</b>					
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
7/31	Balance		2,500		2,500
7/31	Closing entry			2,500	<u>0</u>

### BRIEF EXERCISE 4-7

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

Accumulated Depreciation  
Owner's Capital  
Supplies  
Accounts Payable

### BRIEF EXERCISE 4-8

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

1. Analyze business transactions.
2. Journalize the transactions.
3. Post to ledger accounts.
4. Prepare a trial balance.
5. Journalize and post adjusting entries.
6. Prepare an adjusted trial balance.

- 7. Prepare financial statements.**
- 8. Journalize and post closing entries.**
- 9. Prepare a post-closing trial balance.**

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

### BRIEF EXERCISE 4-9

1.	Service Revenue .....	870	
	Accounts Receivable .....		870
2.	Accounts Payable (\$1,750 – \$1,570) .....	180	
	Supplies .....		180

### BRIEF EXERCISE 4-10

#### HAMIDI COMPANY Partial Balance Sheet

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<b>Current assets</b>	
Cash .....	\$ 4,100
Debt investments .....	6,700
Accounts receivable .....	12,500
Supplies .....	5,200
Prepaid insurance .....	<u>3,600</u>
Total current assets .....	<u><u>\$32,100</u></u>

### BRIEF EXERCISE 4-11

<u>CL</u> Accounts payable	<u>CL</u> Income taxes payable
<u>CA</u> Accounts receivable	<u>LTI</u> Debt investments (long-term)
<u>PPE</u> Accum. depreciation—buildings	<u>PPE</u> Land
<u>PPE</u> Buildings	<u>CA</u> Inventory

# SOLUTIONS TO PROBLEMS

## PROBLEM 4-1B

IA Patents  
CA Supplies

CA Cash  
IA Copyrights



(a)

MICHAEL PEVNICK, P.I.

Worksheet

For the Quarter Ended March 31, 2014

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Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	11,400				11,400				11,400	
Accounts Receivable	5,620		(e) 1,030		6,650				6,650	
Supplies	1,050			(a) 570	480				480	
Prepaid Insurance	2,400			(d) 600	1,800				1,800	
Equipment	30,000				30,000				30,000	
Notes Payable		10,000				10,000				10,000
Accounts Payable		12,350				12,350				12,350
Owner's Capital		20,000				20,000				20,000
Owner's Drawings	600				600				600	
Service Revenue		13,620		(e) 1,030		14,650	14,650			

**PROBLEM 4-1B (Continued)**

**(b)**

**MICHAEL PEVNICK, P.I.  
Income Statement  
For the Quarter Ended March 31, 2014**

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<b>Revenues</b>		
Service revenue.....		<b>\$14,650</b>
<b>Expenses</b>		
Salaries and wages expense .....	<b>\$2,200</b>	
Travel expense .....	<b>1,300</b>	
Rent expense.....	<b>1,200</b>	
Depreciation expense .....	<b>800</b>	
Insurance expense.....	<b>600</b>	
Supplies expense.....	<b>570</b>	
Interest expense.....	<b>300</b>	
Miscellaneous expense .....	<b>200</b>	
Total expenses.....		<b><u>7,170</u></b>
<b>Net income .....</b>		<b><u>\$ 7,480</u></b>

**MICHAEL PEVNICK, P.I.  
Owner's Equity Statement  
For the Quarter Ended March 31, 2014**

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<b>Owner's Capital, January 1 .....</b>		<b>\$ 0</b>
<b>Add: Investment by owner .....</b>	<b>\$20,000</b>	
<b>Net income .....</b>	<b><u>7,480</u></b>	<b><u>27,480</u></b>
		<b>27,480</b>
<b>Less: Drawings .....</b>		<b><u>600</u></b>
<b>Owner's Capital, March 31 .....</b>		<b><u>\$26,880</u></b>

PROBLEM 4-1B (Continued)

**MICHAEL PEVNICK, P.I.**  
**Balance Sheet**  
**March 31, 2014**

		Assets		
<b>Current assets</b>				
	Cash .....	\$11,400		
	Accounts receivable .....	6,650		
	Supplies .....	480		
	Prepaid insurance .....	<u>1,800</u>		
	<b>Total current assets .....</b>		<b>\$20,330</b>	
<b>Property, plant, and equipment</b>				
	Equipment .....	30,000		
	Less: Accumulated depreciation— equipment .....	<u>800</u>	<u>29,200</u>	
	<b>Total assets.....</b>		<b><u>\$49,530</u></b>	
		<b>Liabilities and Owner's Equity</b>		
<b>Current liabilities</b>				
	Notes payable.....	\$10,000		
	Accounts payable .....	12,350		
	Interest payable.....	<u>300</u>		
	<b>Total current liabilities .....</b>		<b>\$22,650</b>	
<b>Owner's equity</b>				
	Owner's capital.....		<u>26,880</u>	
	<b>Total liabilities and owner's equity.....</b>		<b><u>\$49,530</u></b>	
(c)	Mar. 31	Supplies Expense.....	570	
		Supplies.....		570
	31	Depreciation Expense .....	800	
		Accumulated Depreciation— Equipment .....		800
	31	Interest Expense.....	300	
		Interest Payable .....		300
	31	Insurance Expense.....	600	
		Prepaid Insurance.....		600

**PROBLEM 4-1B (Continued)**

Mar. 31	Accounts Receivable .....	1,030	
	Service Revenue .....		1,030
(d) Mar. 31	Service Revenue.....	14,650	
	Income Summary.....		14,650
31	Income Summary.....	7,170	
	Travel Expense.....		1,300
	Salaries and Wages Expense.....		2,200
	Rent Expense .....		1,200
	Insurance Expense .....		600
	Depreciation Expense.....		800
	Supplies Expense .....		570
	Interest Expense .....		300
	Miscellaneous Expense.....		200
31	Income Summary.....	7,480	
	Owner's Capital.....		7,480
31	Owner's Capital .....	600	
	Owner's Drawings.....		600

**PROBLEM 4-2B**

**(a) GREENWOOD COMPANY**  
**Partial Worksheet**  
**For the Year Ended December 31, 2014**

Account		Adjusted Trial Balance		Income Statement		Balance Sheet	
No.	Titles	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
101	Cash	18,800				18,800	
112	Accounts Receivable	16,200				16,200	
126	Supplies	2,300				2,300	
130	Prepaid Insurance	4,400				4,400	
157	Equipment	46,000				46,000	
158	Acc. Depr.—Equip.		20,000				20,000
200	Notes Payable		20,000				20,000
201	Accounts Payable		8,000				8,000
212	Salaries and Wages Payable		2,600				2,600
230	Interest Payable		1,000				1,000
301	Owner's Capital		26,000				26,000
306	Owner's Drawings	12,000				12,000	
400	Service Revenue		87,800		87,800		
610	Advertising Expense	10,000		10,000			
631	Supplies Expense	3,700		3,700			
711	Depreciation Expense	8,000		8,000			
722	Insurance Expense	4,000		4,000			
726	Salaries and Wages Expense	39,000		39,000			
905	Interest Expense	1,000		1,000			
	Totals	<u>165,400</u>	<u>165,400</u>	<u>65,700</u>	<u>87,800</u>	<u>99,700</u>	<u>77,600</u>
	Net Income			<u>22,100</u>			<u>22,100</u>
	Totals			<u>87,800</u>	<u>87,800</u>	<u>99,700</u>	<u>99,700</u>

**PROBLEM 4-2B (Continued)**

**(b)**

**GREENWOOD COMPANY**  
**Income Statement**  
**For the Year Ended December 31, 2014**

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<b>Revenues</b>	
Service revenue.....	<b>\$87,800</b>
<b>Expenses</b>	
Salaries and wages expense.....	<b>\$39,000</b>
Advertising expense.....	<b>10,000</b>
Depreciation expense.....	<b>8,000</b>
Insurance expense.....	<b>4,000</b>
Supplies expense.....	<b>3,700</b>
Interest expense.....	<b>1,000</b>
Total expenses.....	<u><b>65,700</b></u>
Net income .....	<u><b>\$22,100</b></u>

**GREENWOOD COMPANY**  
**Owner's Equity Statement**  
**For the Year Ended December 31, 2014**

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Owner's Capital, January 1 .....	<b>\$26,000</b>
Add: Net income .....	<u><b>22,100</b></u>
	<b>48,100</b>
Less: Drawings .....	<u><b>12,000</b></u>
Owner's Capital, December 31.....	<u><b>\$36,100</b></u>

**PROBLEM 4-2B (Continued)**

**GREENWOOD COMPANY**  
**Balance Sheet**  
**December 31, 2014**

<b>Assets</b>		
<b>Current assets</b>		
Cash .....	\$18,800	
Accounts receivable .....	16,200	
Supplies .....	2,300	
Prepaid insurance .....	<u>4,400</u>	
Total current assets .....		\$41,700
<b>Property, plant, and equipment</b>		
Equipment .....	46,000	
Less: Accumulated depreciation— equipment .....	<u>20,000</u>	<u>26,000</u>
Total assets.....		<u>\$67,700</u>
<b>Liabilities and Owner's Equity</b>		
<b>Current liabilities</b>		
Notes payable.....	\$5,000	
Accounts payable .....	8,000	
Salaries and wages payable.....	2,600	
Interest payable.....	<u>1,000</u>	
Total current liabilities .....		\$16,600
<b>Long-term liabilities</b>		
Notes payable.....		<u>15,000</u>
Total liabilities.....		31,600
<b>Owner's equity</b>		
Owner's capital.....		<u>36,100</u>
Total liabilities and owner's equity.....		<u>\$67,700</u>

**PROBLEM 4-2B (Continued)**

(c)

<b>General Journal</b>					<b>J14</b>
<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	
<b>Dec. 31</b>	<b>Service Revenue .....</b>	<b>400</b>	<b>87,800</b>		
	<b>Income Summary .....</b>	<b>350</b>		<b>87,800</b>	
<b>31</b>	<b>Income Summary .....</b>	<b>350</b>	<b>65,700</b>		
	<b>Advertising Expense.....</b>	<b>610</b>		<b>10,000</b>	
	<b>Supplies Expense .....</b>	<b>631</b>		<b>3,700</b>	
	<b>Depreciation Expense.....</b>	<b>711</b>		<b>8,000</b>	
	<b>Insurance Expense .....</b>	<b>722</b>		<b>4,000</b>	
	<b>Salaries and Wages Expense....</b>	<b>726</b>		<b>39,000</b>	
	<b>Interest Expense .....</b>	<b>905</b>		<b>1,000</b>	
<b>31</b>	<b>Income Summary .....</b>	<b>350</b>	<b>22,100</b>		
	<b>Owner's Capital.....</b>	<b>301</b>		<b>22,100</b>	
<b>31</b>	<b>Owner's Capital.....</b>	<b>301</b>	<b>12,000</b>		
	<b>Owner's Drawings.....</b>	<b>306</b>		<b>12,000</b>	

(d)

<b>Owner's Capital</b>					<b>No. 301</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Jan. 31</b>	<b>Balance</b>	<b>✓</b>		<b>26,000</b>	<b>26,000</b>
<b>Dec. 31</b>	<b>Closing entry</b>	<b>J14</b>		<b>22,100</b>	<b>48,100</b>
<b>31</b>	<b>Closing entry</b>	<b>J14</b>	<b>12,000</b>		<b>36,100</b>

<b>Owner's Drawings</b>					<b>No. 306</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>Dec. 31</b>	<b>Balance</b>	<b>✓</b>	<b>12,000</b>		<b>12,000</b>
<b>31</b>	<b>Closing entry</b>	<b>J14</b>		<b>12,000</b>	<b>0</b>



**PROBLEM 4-2B (Continued)**

<b>Income Summary</b>					<b>No. 350</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Dec. 31	Closing entry	J14		87,800	87,800
31	Closing entry	J14	65,700		22,100
31	Closing entry	J14	22,100		0

<b>Service Revenue</b>					<b>No. 400</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Dec. 31	Balance	✓		87,800	87,800
31	Closing entry	J14	87,800		0

<b>Advertising Expense</b>					<b>No. 610</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Dec. 31	Balance	✓	10,000		10,000
31	Closing entry	J14		10,000	0

<b>Supplies Expense</b>					<b>No. 631</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Dec. 31	Balance	✓	3,700		3,700
31	Closing entry	J14		3,700	0

<b>Depreciation Expense</b>					<b>No. 711</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Dec. 31	Balance	✓	8,000		8,000
31	Closing entry	J14		8,000	0

<b>Insurance Expense</b>					<b>No. 722</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Dec. 31	Balance	✓	4,000		4,000
31	Closing entry	J14		4,000	0

**PROBLEM 4-2B (Continued)**

Salaries and Wages Expense					No. 726
Date	Explanation	Ref.	Debit	Credit	Balance
Dec. 31	Balance	✓	39,000		39,000
31	Closing entry	J14		39,000	0

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

(e) **GREENWOOD COMPANY**  
**Post-Closing Trial Balance**  
**December 31, 2014**

	Debit	Credit
Cash.....	\$18,800	
Accounts Receivable.....	16,200	
Supplies .....	2,300	
Prepaid Insurance.....	4,400	
Equipment.....	46,000	
Accumulated Depreciation— Equipment.....		\$20,000
Notes Payable .....		20,000
Accounts Payable.....		8,000
Salaries and Wages Payable.....		2,600
Interest Payable .....		1,000
Owner's Capital .....		36,100
	<b>\$87,700</b>	<b>\$87,700</b>

**PROBLEM 4-3B**

(a)

**S. NIHO COMPANY  
Income Statement  
For the Year Ended December 31, 2014**

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<b>Revenues</b>		
Service revenue.....		\$46,000
<b>Expenses</b>		
Salaries and wages expense .....	\$35,200	
Maintenance and repairs expense .....	4,400	
Utilities expense.....	4,000	
Depreciation expense .....	2,800	
Insurance expense.....	<u>1,200</u>	
Total expenses.....		<u>47,600</u>
Net loss .....		<u><u>\$ (1,600)</u></u>

**S. NIHO COMPANY  
Owner's Equity Statement  
For the Year Ended December 31, 2014**

<hr/>		
Owner's Capital, January 1 .....		\$30,000
Add: Additional investment by owner .....		<u>4,000</u>
		34,000
Less: Net loss .....	\$1,600	
Drawings .....	<u>7,200</u>	<u>8,800</u>
Owner's Capital, December 31.....		<u><u>\$25,200</u></u>

**S. NIHO COMPANY  
Balance Sheet  
December 31, 2014**

<hr/>		
<b>Assets</b>		
<b>Current assets</b>		
Cash .....	\$6,200	
Accounts receivable .....	7,500	
Prepaid insurance .....	<u>1,800</u>	
Total current assets .....		\$15,500
<b>Property, plant, and equipment</b>		
Equipment .....	33,000	
Less: Accumulated depreciation— equipment .....	<u>8,600</u>	<u>24,400</u>
Total assets.....		<u><u>\$39,900</u></u>

**PROBLEM 4-3B (Continued)**

**S. NIHO COMPANY  
Balance Sheet (Continued)  
December 31, 2014**

Liabilities and Owner's Equity			
<b>Current liabilities</b>			
Accounts payable .....	\$11,700		
Salaries and wages payable .....	<u>3,000</u>		
Total current liabilities .....			\$14,700
<b>Owner's equity</b>			
Owner's capital.....			<u>25,200</u>
Total liabilities and owner's equity.....			<u>\$39,900</u>

(b)

General Journal				
Date	Account Titles	Ref.	Debit	Credit
Dec. 31	Service Revenue .....	400	46,000	
	Income Summary .....	350		46,000
31	Income Summary .....	350	47,600	
	Maintenance and Repairs Expense .....	622		4,400
	Depreciation Expense .....	711		2,800
	Insurance Expense.....	722		1,200
	Salaries and Wages Expense ...	726		35,200
	Utilities Expense.....	732		4,000
31	Owner's Capital .....	301	1,600	
	Income Summary .....	350		1,600
31	Owner's Capital .....	301	7,200	
	Owner's Drawings .....	306		7,200

**PROBLEM 4-3B (Continued)**

(c)

Owner's Capital		No. 301	
12/31	1,600	12/31 Bal.	34,000
12/31	7,200		
		12/31 Bal.	25,200

Owner's Drawings		No. 306	
12/31 Bal.	7,200	12/31	7,200

Income Summary		No. 350	
12/31	47,600	12/31	46,000
		12/31	1,600
	47,600		47,600

Service Revenue		No. 400	
12/31	46,000	12/31 Bal.	46,000

Maintenance and Repairs Expense		No. 622	
12/31 Bal.	4,400	12/31	4,400

Depreciation Expense		No. 711	
12/31 Bal.	2,800	12/31	2,800

Insurance Expense		No. 722	
12/31 Bal.	1,200	12/31	1,200

Salaries and Wages Expense		No. 726	
12/31 Bal.	35,200	12/31	35,200

Utilities Expense		No. 732	
12/31 Bal.	4,000	12/31	4,000

(d)

**S. NIHO COMPANY  
Post-Closing Trial Balance  
December 31, 2014**

	Debit	Credit
Cash.....	\$ 6,200	
Accounts Receivable.....	7,500	
Prepaid Insurance.....	1,800	
Equipment.....	33,000	
Accumulated Depreciation—Equipment.....		\$ 8,600
Accounts Payable.....		11,700
Salaries and Wages Payable.....		3,000
Owner's Capital .....		25,200
<b>Totals .....</b>	<b><u>\$48,500</u></b>	<b><u>\$48,500</u></b>

(a)

**AVALON AMUSEMENT PARK**

**Worksheet**

**For the Year Ended September 30, 2014**

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	41,400				41,400				41,400	
Supplies	18,600		(a)	16,400	2,200				2,200	
Prepaid Insurance	31,900		(b)	21,000	80,000				80,000	
Land	80,000				120,000				120,000	
Equipment	120,000									
Accumulated Depreciation— Equipment		36,200	(c)	6,000		42,200				42,200
Accounts Payable		14,600				14,600				14,600
Unearned Ticket Revenue		3,700	(d)	2,700		1,000				1,000
Mortgage Payable		50,000				50,000				50,000
Owner's Capital		109,700				109,700				
Owner's Drawings		109,700			14,000				14,000	109,700
Ticket Revenue	14,000					280,200				
		277,500	(d)	2,700	105,000			280,200		

**PROBLEM 4-4B**

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

**(b) AVALON AMUSEMENT PARK  
Balance Sheet  
September 30, 2014**

Assets			
<b>Current assets</b>			
Cash .....		\$41,400	
Supplies .....		2,200	
Prepaid insurance .....		<u>10,900</u>	
Total current assets .....			\$ 54,500
<b>Property, plant, and equipment</b>			
Land .....		80,000	
Equipment .....	\$120,000		
Less: Accum. depreciation— equipment .....	<u>42,200</u>	<u>77,800</u>	<u>157,800</u>
Total assets.....			<u>\$212,300</u>
<b>Liabilities and Owner's Equity</b>			
<b>Current liabilities</b>			
Mortgage payable (due in 2015) .....		\$15,000	
Accounts payable .....		14,600	
Interest payable.....		4,000	
Property taxes payable .....		3,000	
Unearned ticket revenue .....		<u>1,000</u>	
Total current liabilities .....			\$ 37,600
<b>Long-term liabilities</b>			
Mortgage payable.....			<u>35,000</u>
Total liabilities.....			72,600
<b>Owner's equity</b>			
Owner's capital (\$109,700 + \$44,000 – \$14,000) .....			<u>139,700</u>
Total liabilities and owner's equity .....			<u>\$212,300</u>

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

(c)	Sept. 30	Supplies Expense .....	16,400	
		Supplies .....		16,400
	30	Insurance Expense .....	21,000	
		Prepaid Insurance .....		21,000
	30	Depreciation Expense.....	6,000	
		Accumulated Depreciation— Equipment.....		6,000
	30	Unearned Ticket Revenue .....	2,700	
		Ticket Revenue .....		2,700
	30	Property Tax Expense .....	3,000	
		Property Taxes Payable .....		3,000
	30	Interest Expense .....	4,000	
		Interest Payable .....		4,000
(d)	Sept. 30	Ticket Revenue.....	280,200	
		Income Summary .....		280,200
	30	Income Summary .....	236,200	
		Salaries and Wages Expense .....		105,000
		Maintenance and Repairs Expense .....		30,500
		Insurance Expense.....		21,000
		Property Tax Expense.....		21,000
		Supplies Expense.....		16,400
		Utilities Expense.....		16,900
		Interest Expense.....		10,000
		Advertising Expense .....		9,400
		Depreciation Expense .....		6,000
	30	Income Summary .....	44,000	
		Owner's Capital .....		44,000
	30	Owner's Capital.....	14,000	
		Owner's Drawings .....		14,000



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

(e)

**AVALON AMUSEMENT PARK  
Post-Closing Trial Balance  
September 30, 2014**

	Debit	Credit
Cash.....	\$ 41,400	
Supplies .....	2,200	
Prepaid Insurance.....	10,900	
Land.....	80,000	
Equipment.....	120,000	
Accumulated Depreciation—Equipment.....		\$ 42,200
Accounts Payable.....		14,600
Interest Payable .....		4,000
Property Taxes Payable .....		3,000
Unearned Ticket Revenue .....		1,000
Mortgage Payable.....		50,000
Owner's Capital .....		139,700
	\$254,500	\$254,500

**PROBLEM 4-5B**

(a)

General Journal				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
Mar. 1	Cash .....	101	10,000	
	Owner's Capital .....	301		10,000
1	Equipment .....	157	6,000	
	Cash .....	101		3,000
	Accounts Payable .....	201		3,000
3	Supplies .....	126	1,200	
	Accounts Payable .....	201		1,200
5	Prepaid Insurance .....	130	1,200	
	Cash .....	101		1,200
14	Accounts Receivable .....	112	4,800	
	Service Revenue .....	400		4,800
18	Accounts Payable .....	201	2,000	
	Cash .....	101		2,000
20	Salaries and Wages Expense .....	726	1,800	
	Cash .....	101		1,800
21	Cash .....	101	1,400	
	Accounts Receivable .....	112		1,400
28	Accounts Receivable .....	112	2,500	
	Service Revenue .....	400		2,500
31	Gasoline Expense .....	633	200	
	Cash .....	101		200
31	Owner's Drawings .....	306	700	
	Cash .....	101		700

(b)&(c)

SHAW'S CARPET CLEANERS

Worksheet

For the Month Ended March 31, 2014

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
	Cash	2,500				2,500				2,500
Accounts Receivable	5,900		(a) 500		6,400				6,400	
Supplies	1,200			(d) 950	250				250	
Prepaid Insurance	1,200			(c) 100	1,100				1,100	
Equipment	6,000				6,000				6,000	
Accounts Payable		2,200				2,200				2,200
Owner's Capital		10,000				10,000				10,000
Owner's Drawings	700				700				700	

**PROBLEM 4-5B (Continued)**

(a), (e) & (f)

<b>Cash</b>					<b>No. 101</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 1		J1	10,000		10,000
1		J1		3,000	7,000
5		J1		1,200	5,800
18		J1		2,000	3,800
20		J1		1,800	2,000
21		J1	1,400		3,400
31		J1		200	3,200
31		J1		700	2,500

<b>Accounts Receivable</b>					<b>No. 112</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 14		J1	4,800		4,800
21		J1		1,400	3,400
28		J1	2,500		5,900
31	Adjusting	J2	500		6,400

<b>Supplies</b>					<b>No. 126</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 3		J1	1,200		1,200
31	Adjusting	J2		950	250

<b>Prepaid Insurance</b>					<b>No. 130</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 5		J1	1,200		1,200
31	Adjusting	J2		100	1,100

<b>Equipment</b>					<b>No. 157</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 1		J1	6,000		6,000

**PROBLEM 4-5B (Continued)**

**Accumulated Depreciation—Equipment**

**No. 158**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 31	Adjusting	J2		300	300

**Accounts Payable**

**No. 201**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 1		J1		3,000	3,000
3		J1		1,200	4,200
18		J1	2,000		2,200

**Salaries and Wages Payable**

**No. 212**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 31	Adjusting	J2		550	550

**Owner's Capital**

**No. 301**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 1		J1		10,000	10,000
31	Closing	J3		3,900	13,900
31	Closing	J3	700		13,200

**Owner's Drawings**

**No. 306**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 31		J1	700		700
31	Closing	J3		700	0

**Income Summary**

**No. 350**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Mar. 31	Closing	J3		7,800	7,800
31	Closing	J3	3,900		3,900
31	Closing	J3	3,900		0

**PROBLEM 4-5B (Continued)**

Service Revenue					No. 400
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 14		J1		4,800	4,800
28		J1		2,500	7,300
31	Adjusting	J2		500	7,800
31	Closing	J3	7,800		0

Supplies Expense					No. 631
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Adjusting	J2	950		950
31	Closing	J3		950	0

Gasoline Expense					No. 633
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31		J1	200		200
31	Closing	J3		200	0

Depreciation Expense					No. 711
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Adjusting	J2	300		300
31	Closing	J3		300	0

Insurance Expense					No. 722
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 31	Adjusting	J2	100		100
31	Closing	J3		100	0

Salaries and Wages Expense					No. 726
Date	Explanation	Ref.	Debit	Credit	Balance
Mar. 20		J1	1,800		1,800
31	Adjusting	J2	550		2,350
31	Closing	J3		2,350	0

**PROBLEM 4-5B (Continued)**

**(d) SHAW'S CARPET CLEANERS**  
**Income Statement**  
**For the Month Ended March 31, 2014**

<b>Revenues</b>		
Service revenue .....		<b>\$7,800</b>
<b>Expenses</b>		
Salaries and wages expense.....	<b>\$2,350</b>	
Supplies expense .....	<b>950</b>	
Depreciation expense.....	<b>300</b>	
Gasoline expense .....	<b>200</b>	
Insurance expense .....	<b><u>100</u></b>	
Total expenses .....		<b><u>3,900</u></b>
Net income.....		<b><u>\$3,900</u></b>

**SHAW'S CARPET CLEANERS**  
**Owner's Equity Statement**  
**For the Month Ended March 31, 2014**

Owner's Capital, March 1.....		<b>\$ 0</b>
Add: Investments .....	<b>\$10,000</b>	
Net income.....	<b><u>3,900</u></b>	<b><u>13,900</u></b>
		<b>13,900</b>
Less: Drawings.....		<b><u>700</u></b>
Owner's Capital, March 31.....		<b><u>\$13,200</u></b>

**SHAW'S CARPET CLEANERS**  
**Balance Sheet**  
**March 31, 2014**

<b>Assets</b>		
<b>Current assets</b>		
Cash.....	<b>\$2,500</b>	
Accounts receivable.....	<b>6,400</b>	
Supplies.....	<b>250</b>	
Prepaid insurance.....	<b><u>1,100</u></b>	
Total current assets .....		<b>\$10,250</b>

**PROBLEM 4-5B (Continued)**

**SHAW'S CARPET CLEANERS**  
**Balance Sheet (Continued)**  
**March 31, 2014**

Assets (Continued)		
Property, plant, and equipment		
Equipment .....	\$6,000	
Less: Accumulated depreciation— equipment .....	300	5,700
Total assets .....		\$15,950
Liabilities and Owner's Equity		
Current liabilities		
Accounts payable .....	\$2,200	
Salaries and wages payable .....	550	
Total current liabilities .....		\$ 2,750
Owner's equity		
Owner's capital .....		13,200
Total liabilities and owner's equity .....		\$15,950

(e)

General Journal				J2
Date	Account Titles and Explanation	Ref.	Debit	Credit
Mar. 31	Accounts Receivable .....	112	500	
	Service Revenue .....	400		500
31	Depreciation Expense .....	711	300	
	Accumulated Depreciation— Equipment .....	158		300
31	Insurance Expense .....	722	100	
	Prepaid Insurance .....	130		100
31	Supplies Expense .....	631	950	
	Supplies .....	126		950
31	Salaries and Wages Expense .....	726	550	
	Salaries and Wages Payable....	212		550



**PROBLEM 4-5B (Continued)**

(f)

General Journal				J3
Date	Account Titles and Explanation	Ref.	Debit	Credit
Mar. 31	Service Revenue .....	400	7,800	
	Income Summary .....	350		7,800
31	Income Summary .....	350	3,900	
	Salaries and Wages Expense ...	726		2,350
	Depreciation Expense .....	711		300
	Insurance Expense .....	722		100
	Supplies Expense .....	631		950
	Gasoline Expense .....	633		200
31	Income Summary .....	350	3,900	
	Owner's Capital .....	301		3,900
31	Owner's Capital .....	301	700	
	Owner's Drawings .....	306		700

(g)

**SHAW'S CARPET CLEANERS**  
**Post-Closing Trial Balance**  
**March 31, 2014**

	Debit	Credit
Cash .....	\$ 2,500	
Accounts Receivable .....	6,400	
Supplies .....	250	
Prepaid Insurance .....	1,100	
Equipment .....	6,000	
Accumulated Depreciation—Equipment .....		\$ 300
Accounts Payable .....		2,200
Salaries and Wages Payable .....		550
Owner's Capital .....		13,200
	<u>\$16,250</u>	<u>\$16,250</u>

# CHAPTER REVIEW

## Preparing a Worksheet

- (L.O. 1) The **steps** in preparing a worksheet are:
  - Prepare a trial balance on the worksheet.
  - Enter the adjustments in the adjustments columns.
  - Enter adjusted balances in the adjusted trial balance columns.
  - Extend adjusted trial balance amounts to appropriate financial statement columns.
  - Total the statement columns, compute the net income (or loss), and complete the worksheet.
- A **worksheet** is a multiple-column form that may be used in the adjustment process and in preparing financial statements. The **basic form** of a worksheet consists of the following columns:

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.

- For each account in the worksheet, the amount in the **adjusted trial balance columns** is equal to the account balance that will appear in the ledger after the adjusting entries have been journalized and posted.
- After the worksheet has been completed the **statement columns** contain all data that are required for the preparation of financial statements. The income statement is prepared from the income statement columns, and the owner's equity statement and balance sheet are prepared from the balance sheet columns.
- Using a worksheet accountants can prepare financial statements **before** adjusting entries are journalized and posted.
- A worksheet is not a journal and it cannot be used as a **basis** for posting to ledger accounts.

## Closing Entries

- (L.O. 2) **Closing entries** formally recognize in the ledger the transfer of net income (or loss) and owner's drawings to owner's capital as shown in the owner's equity statement.
- Journalizing and posting** closing entries is a required step in the accounting cycle.
- The drawing, revenue, and expense accounts are **temporary** (nominal) accounts. Asset accounts, liability accounts, and the owner's capital account are **permanent** (real) accounts.
- A temporary account, **Income Summary**, is used in closing revenue and expense accounts to minimize the amount of detail in the permanent owner's capital account.
- In closing the books of a proprietorship:
  - Debit each revenue account for its balance, and credit Income Summary for total revenues.
  - Debit Income Summary for total expenses, and credit each expense account for its balance.
  - Debit Income Summary, and credit Owner's Capital for the amount of net income; conversely, credit Income Summary and debit Owner's Capital if a net loss exists.
  - Debit Owner's Capital for the balance in the Owner's Drawings account and credit Owner's Drawings for the same amount.

## Post-Closing Trial Balance

12. (L.O. 3) After all closing entries have been journalized and posted, a **post-closing trial balance** is prepared. The purpose of this trial balance is to prove the equality of the **permanent account balances** that are carried forward into the next accounting period.

## Steps in the Accounting Cycle

13. (L.O. 4) The required steps in the accounting cycle are:
- Analyze business transactions.
  - Journalize the transactions.
  - Post to ledger accounts.
  - Prepare a trial balance.
  - Journalize and post adjusting entries: Deferrals/Accruals.
  - Prepare an adjusted trial balance.
  - Prepare financial statements: Income statement, Owner's equity statement, Balance sheet.
  - Journalize and post closing entries.
  - Prepare a post-closing trial balance.
14. A **reversing entry** is the exact opposite of an adjusting entry. The preparation of reversing entries is an optional bookkeeping procedure that is not a required step in the accounting cycle.

## Correcting Entries

15. (L.O. 5) Errors that occur in recording transactions should be corrected as soon as they are discovered by preparing **correcting entries**. Correcting entries:
- are unnecessary if the records are free of errors.
  - are journalized and posted whenever an error is discovered.
  - may involve any combination of balance sheet and income statement accounts.
16. To determine the correcting entry, it is useful to compare the incorrect entry with the correct entry, and then make a correcting entry. Another approach is to reverse the incorrect entry and then prepare the correct entry.

## Classified Balance Sheet

17. (L.O. 6) Financial statements become more useful when the elements are classified into significant subgroups. A **classified balance sheet** generally has the following standard classifications:

<u>Assets</u>	<u>Liabilities and Owner's Equity</u>
Current assets	Current liabilities
Long-term investments	Long-term liabilities
Property, plant, and equipment	Owner's equity
Intangible assets	

## Assets

18. **Current assets** are assets that a company expects to convert to cash or use up within one year or its operating cycle, whichever is longer. Current assets are listed in the order of their liquidity.
19. The **operating cycle** of a company is the average time that it takes to purchase inventory, sell it on account, and then collect cash from customers.

20. **Long-term investments** are generally investments in stocks and bonds of other companies that are normally held for many years.
21. **Property, plant, and equipment** are assets with relatively long useful lives that a company is currently using in operating the business.
22. **Intangible assets** do not have physical substance yet often are very valuable.

### Liabilities

23. **Current liabilities** are obligations that the company is to pay within the coming year.
24. **Long-term liabilities** are obligations that a company expects to pay after one year.

### Owner's Equity

25. The content of the owner's equity section varies with the form of business organization. In a proprietorship, there is one capital account. In a partnership, there are separate capital accounts for each partner. For a corporation, owners' equity is called stockholders' equity and it consists of two accounts: Capital Stock and Retained Earnings.

### Form of Balance Sheet

26. A balance sheet is most often presented in **report form** with the assets shown above the liabilities and owner's equity. It may also be presented in **account form** with the assets section placed on the left and the liabilities and owner's equity section on the right.

### Reversing Entries

- \*27. (L.O. 7) A reversing entry is made at the beginning of the next accounting period. The **purpose** of reversing entries is to simplify the recording of a subsequent transaction related to an adjusting entry.
- \*28. Reversing entries are most often used to reverse two types of adjusting entries: **accrued revenues** and **accrued expenses**.