

Problems: Set C

P4-1C The following data are taken from the comparative balance sheets of Golfview Inn, which prepares its financial statements using the accrual basis of accounting.

<u>December 31</u>	<u>2012</u>	<u>2011</u>
Accounts receivable for member fees	\$18,000	\$20,000
Unearned service revenue	17,000	10,000

Fees are billed to members based upon their use of the club's facilities. Unearned service revenues arise from the sale of gift certificates, which members can apply to their future use of club facilities. The 2012 income statement for the club showed that service revenue of \$190,000 was earned during the year.

Instructions

(Hint: You will find it helpful to use T accounts to analyze these data.)

- (a) Prepare journal entries for each of the following events that took place during 2012.
- Fees receivable from 2011 were all collected during 2012.
 - Gift certificates outstanding at the end of 2011 were all redeemed during 2012.
 - An additional \$40,000 worth of gift certificates were sold during 2012; a portion of these were used by the recipients during the year; the remainder were still outstanding at the end of 2012.
 - Fees for 2012 were billed to members.
 - Fees receivable for 2012 (i.e., those billed in item (4) above) were partially collected.
- (b) Determine the amount of cash received by the club with respect to fees during 2012.

Record transactions on accrual basis; convert revenue to cash receipts.
(SO 2, 4, 9), AP

(b) Cash received \$199,000

P4-2C Pat Okendo started her own consulting firm, Okendo Consulting, on May 1, 2012. The trial balance at May 31 is as shown below.

OKENDO CONSULTING Trial Balance May 31, 2012

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 7,500	
Accounts Receivable	3,000	
Prepaid Insurance	3,600	
Supplies	2,500	
Equipment	12,000	
Accounts Payable		\$ 3,500
Unearned Service Revenue		4,000
Common Stock		19,100
Service Revenue		7,500
Salaries and Wages Expense	4,000	
Rent Expense	1,500	
	<u>\$34,100</u>	<u>\$34,100</u>

Prepare adjusting entries, post to ledger accounts, and prepare an adjusted trial balance.

(SO 4, 5, 6), AP



In addition to those accounts listed on the trial balance, the chart of accounts for Okendo Consulting also contains the following accounts: Accumulated Depreciation—Equipment, Salaries and Wages Payable, Depreciation Expense, Insurance Expense, Utilities Expense, and Supplies Expense.

Other data:

- \$1,000 of supplies have been used during the month.
- Utility costs incurred but not paid are \$300.
- The insurance policy is for 3 years.
- \$1,500 of the balance in the Unearned Service Revenue account remains unearned at the end of the month.

5. Assume May 31 is a Tuesday and employees are paid on Fridays. Okendo Consulting has two employees that are paid \$600 each for a 5-day work week.
6. The equipment has a 5-year life with no salvage value and is being depreciated at \$200 per month for 60 months.
7. Invoices representing \$1,500 of services performed during the month have not been recorded as of May 31.

Instructions

- (a) Prepare the adjusting entries for the month of May.
- (b) Post the adjusting entries to the ledger accounts. Enter the totals from the trial balance as beginning account balances. Use T accounts.
- (c) Prepare an adjusted trial balance at May 31, 2012.

(c) Tot. trial balance \$36,580

Prepare adjusting entries, adjusted trial balance, and financial statements.

(SO 4, 5, 6, 7), AP



P4-3C Death Valley Resort opened for business on June 1 with eight air-conditioned units. Its trial balance before adjustment on August 31 is presented here.

DEATH VALLEY RESORT
Trial Balance
August 31, 2012

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 24,600	
Prepaid Insurance	5,400	
Supplies	4,300	
Land	40,000	
Buildings	132,000	
Equipment	36,000	
Accounts Payable		\$ 6,500
Unearned Rent Revenue		6,800
Mortgage Payable		120,000
Common Stock		100,000
Dividends	5,000	
Rent Revenue		80,000
Salaries and Wages Expense	53,000	
Utilities Expense	9,400	
Maintenance and Repairs Expense	3,600	
	\$313,300	\$313,300

Other data:

1. Insurance expires at the rate of \$500 per month.
2. A count of supplies on August 31 shows \$900 of supplies on hand.
3. Annual depreciation is \$6,600 on buildings and \$4,000 on equipment.
4. Unearned rent of \$4,000 was earned prior to August 31.
5. Salaries of \$600 were unpaid at August 31.
6. Rentals of \$1,600 were due from tenants at August 31. (Use Accounts Receivable.)
7. The mortgage interest rate is 6% per year. (The mortgage was taken out August 1.)

Instructions

- (a) Journalize the adjusting entries on August 31 for the 3-month period June 1–August 31.
- (b) Prepare a ledger using T accounts. Enter the trial balance amounts and post the adjusting entries.
- (c) Prepare an adjusted trial balance on August 31.
- (d) Prepare an income statement and a retained earnings statement for the 3 months ended August 31 and a classified balance sheet as of August 31.
- (e) Identify which accounts should be closed on August 31.

(c) Tot. adj. trial balance \$318,750
(d) Net income \$ 10,850

Prepare adjusting entries and financial statements; identify accounts to be closed.

(SO 4, 5, 6, 7), AP



P4-4C AbDulla Advertising Agency was founded by Miriam AbDulla in January 2007. Presented here are both the adjusted and unadjusted trial balances as of December 31, 2012.

ABDULLA ADVERTISING AGENCY
Trial Balance
December 31, 2012

	Unadjusted		Adjusted	
	Dr.	Cr.	Dr.	Cr.
Cash	\$ 11,000		\$ 11,000	
Accounts Receivable	16,000		19,000	
Supplies	9,400		7,000	
Prepaid Insurance	3,350		1,790	
Equipment	60,000		60,000	
Accumulated Depreciation—				
Equipment		\$ 25,000		\$ 30,000
Notes Payable		8,000		8,000
Accounts Payable		2,000		2,000
Interest Payable		0		560
Unearned Service Revenue		5,000		3,100
Salaries and Wages Payable		0		820
Common Stock		20,000		20,000
Retained Earnings		5,500		5,500
Dividends	10,000		10,000	
Service Revenue		57,600		62,500
Salaries and Wages Expense	9,000		9,820	
Insurance Expense			1,560	
Interest Expense			560	
Depreciation Expense			5,000	
Supplies Expense			2,400	
Rent Expense	4,350		4,350	
	\$123,100	\$123,100	\$132,480	\$132,480

Instructions

- (a) Journalize the annual adjusting entries that were made.
- (b) Prepare an income statement and a retained earnings statement for the year ended December 31, and a classified balance sheet at December 31.
- (c) Identify which accounts should be closed on December 31.
- (d) If the note has been outstanding 10 months, what is the annual interest rate on that note?
- (e) If the company paid \$10,000 in salaries in 2012, what was the balance in Salaries and Wages Payable on December 31, 2011?

(b) Net income \$38,810
 Tot. assets \$68,790

P4-5C A review of the ledger of Garner Company at December 31, 2012, produces these data pertaining to the preparation of annual adjusting entries.

Prepare adjusting entries.
 (\$0 4, 5)

1. Prepaid Insurance \$16,400. The company has separate insurance policies on its buildings and its motor vehicles. Policy B4564 on the building was purchased on January 1, 2011, for \$11,400. The policy has a term of 3 years. Policy A2958 on the vehicles was purchased on July 1, 2012, for \$8,800. This policy has a term of 2 years.
2. Unearned Sales Revenue \$29,040. The company began selling magazine subscriptions on September 1, 2012 on an annual basis. The selling price of a subscription is \$24. A review of subscription contracts reveals the following.

Subscription Start Date	Number of Subscriptions
September 1	240
October 1	260
November 1	330
December 1	380
	1,210

3. Notes Payable, \$20,000: This balance consists of a note for 8 months at an annual interest rate of 9%, dated August 1.

- Salaries Payable \$0: There are six salaried employees. Salaries are paid every Friday for the current week. Four employees receive a salary of \$480 each per week, and two employees earn \$600 each per week. December 31 is a Thursday. Employees do not work weekends. All employees worked the last 4 days of December.

Instructions

Prepare the adjusting entries at December 31, 2012.

Prepare adjusting entries and a corrected income statement.

(S0 4, 5)

P4-6C Tutors-Plus Test Prep was organized on May 1, 2011, by Jan Cooper. Jan is a good manager but a poor accountant. From the trial balance prepared by a part-time bookkeeper, Jan prepared the following income statement for her fourth quarter, which ended April 30, 2012.

**TUTORS-PLUS TEST PREP
Income Statement
For the Quarter Ended April 30, 2012**

		Revenues			
		Service revenue			\$240,000
		Operating expenses			
		Advertising	\$ 6,400		
		Salaries and wages	92,000		
		Utilities	1,300		
		Depreciation	2,400		
		Maintenance and repairs	1,700		
		Total operating expenses		<u>103,800</u>	
		Net income			<u><u>\$136,200</u></u>
(f) Cash	\$2,420				
	Tot. trial balance				\$27,990
(g) Net loss	\$1,040				

Jan suspected that something was wrong with the statement because net income had never exceeded \$40,000 in any one quarter. Knowing that you are an experienced accountant, she asks you to review the income statement and other data.

You first look at the trial balance. In addition to the account balances reported above in the income statement, the ledger contains the following additional selected balances at April 30, 2012.

Supplies	\$ 9,800
Prepaid Insurance	12,000
Notes Payable	15,000

You then make inquiries and discover the following.

- Service revenue includes advance payments received for summer classes, in the amount of \$75,000.
- There were \$2,600 of supplies on hand at April 30.
- Prepaid insurance resulted from the payment of a one-year policy on February 1, 2012.
- The mail in May 2012 brought the following bills: advertising for the week of April 24, \$80; repairs made April 18, \$2,560; and utilities for the month of April, \$530.
- There are six employees who receive wages that total \$1,380 per day. At April 30, three days' wages have been incurred but not paid.
- The note payable is a 8% note dated February 1, 2012, and due on May 31, 2012.
- Income tax of \$15,200 for the quarter is due in May but has not yet been recorded.

Instructions

- Prepare any adjusting journal entries required as at April 30, 2012.
- Prepare a correct income statement for the quarter ended April 30, 2012.
- Explain to Jan the generally accepted accounting principles that she did not recognize in preparing her income statement and their effect on her results.

(b) Net income \$28,190

P4-7C On August 1, 2012, the following were the account balances of D&D Repair Services.

	<u>Debits</u>		<u>Credits</u>
Cash	\$ 6,040	Accumulated Depr.-Equip.	\$ 600
Accounts Receivable	2,910	Accounts Payable	2,300
Supplies	1,030	Unearned Service Revenue	1,260
Equipment	10,000	Salaries and Wages Payable	1,420
		Common Stock	10,000
		Retained Earnings	4,400
	<u>\$19,980</u>		<u>\$19,980</u>

Journalize transactions and follow through accounting cycle to preparation of financial statements.

(SO 4, 5, 6)



During August the following summary transactions were completed.

- Aug. 5 Received \$1,200 cash from customers in payment of account.
- 10 Paid \$3,120 for salaries due employees, of which \$1,700 is for August and \$1,420 is for July salaries payable.
- 12 Received \$2,800 cash for services performed in August.
- 15 Purchased store equipment on account \$2,000.
- 17 Purchased supplies on account \$860.
- 20 Paid creditors \$2,000 of accounts payable due.
- 22 Paid August rent \$380.
- 25 Paid salaries \$2,900.
- 27 Performed services on account and billed customers for services provided \$3,130.
- 29 Received \$780 from customers for services to be provided in the future.

Adjustment data:

1. Supplies on hand are valued at \$960.
2. Accrued salaries payable are \$1,540.
3. Depreciation for the month is \$320.
4. Unearned service revenue of \$800 is earned.

Instructions

- (a) Enter the August 1 balances in the ledger accounts. (Use T accounts.)
- (b) Journalize the August transactions.
- (c) Post to the ledger accounts. Use Service Revenue, Depreciation Expense, Supplies Expense, Salaries and Wages Expense, and Rent Expense.
- (d) Prepare a trial balance at August 31.
- (e) Journalize and post adjusting entries.
- (f) Prepare an adjusted trial balance.
- (g) Prepare an income statement and a retained earnings statement for August and a classified balance sheet at August 31.

(f) Cash	\$2,420
Tot. trial balance	\$27,990
(g) Net loss	\$1,040

P4-8C Geog Lav opened Geog Cleaners on March 1, 2012. During March, the following transactions were completed.

- Mar. 1 Issued 10,000 shares of common stock for \$15,000 cash.
- 1 Purchased used truck for \$8,000, paying \$3,000 cash and the balance on account.
- 3 Purchased cleaning supplies for \$2,000 on account.
- 5 Paid \$2,400 cash on a 6-month insurance policy effective March 1.
- 14 Billed customers \$3,700 for cleaning services.
- 18 Paid \$1,500 cash on amount owed on truck and \$500 on amount owed on cleaning supplies.
- 20 Paid \$1,750 cash for employee salaries.
- 21 Collected \$1,600 cash from customers billed on March 14.
- 28 Billed customers \$4,200 for cleaning services.
- 31 Paid \$350 for gas and oil used in truck during month (use Maintenance and Repairs Expense).
- 31 Declared and paid a \$900 cash dividend.

Complete all steps in accounting cycle.

(SO 4, 5, 6, 7, 8), AP



The chart of accounts for Geog Cleaners contains the following accounts: Cash, Accounts Receivable, Supplies, Prepaid Insurance, Equipment, Accumulated Depreciation—Equipment, Accounts Payable, Salaries and Wages Payable, Common Stock, Retained Earnings, Dividends, Income Summary, Service Revenue, Maintenance and Repairs Expense, Supplies Expense, Depreciation Expense, Insurance Expense, Salaries and Wages Expense.

Instructions

- (a) Journalize the March transactions.
- (b) Post to the ledger accounts. (Use T accounts.)
- (c) Prepare a trial balance at March 31.
- (d) Journalize the following adjustments.
 1. Earned but unbilled revenue at March 31 was \$200.
 2. Depreciation on equipment for the month was \$250.
 3. One-sixth of the insurance expired.
 4. An inventory count shows \$280 of cleaning supplies on hand at March 31.
 5. Accrued but unpaid employee salaries were \$1,080.
- (e) Post adjusting entries to the T accounts.
- (f) Prepare an adjusted trial balance.
- (g) Prepare the income statement and a retained earnings statement for March and a classified balance sheet at March 31.
- (h) Journalize and post closing entries and complete the closing process.
- (i) Prepare a post-closing trial balance at March 31.

(f) Tot. adj. trial
balance
(g) Tot. assets

\$29,430
\$22,730