

**LARRY M. WALTHER & CHRISTOPHER J. SKOUSEN**

# **ACCOUNTING CYCLE EXERCISES IV**



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Larry M. Walther & Christopher J. Skousen

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# Accounting Cycle Exercises IV

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Accounting Cycle Exercises IV

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## Problem 1

Alberto Condor has an eye for quality. He recently formed an art gallery where he allows artists to display their artwork for sale. Customers buy the artwork through the gallery, but payments are actually made payable directly to the originating artist. Artists, in turn, pay Albert a 20% commission that is appropriately reflected as revenue of the gallery.

Following is Albert's trial balance after the first year of operation. This trial balance does not reflect the adjustments that are necessary, as described by the additional information.

ALBERT CONDOR ART GALLERY		
Trial Balance		
As of December 31, 20X8		
	Debits	Credits
Cash	\$ 64,400	\$ -
Supplies	23,765	-
Display equipment	52,500	-
Loan Payable	-	26,250
Capital Stock	-	87,500
Revenues	-	170,065
Rent Expense	38,500	-
Salaries Expense	84,000	-
Interest Expense	1,750	-
Utilities Expense	18,900	-
	<u>\$ 283,815</u>	<u>\$ 283,815</u>

The Display equipment was purchased near the beginning of the year. It has a 5-year life and no salvage value. Its cost should be depreciated equally over its life.

Albert is entitled to receive \$62,650 of commissions for art sold. This revenue has not yet been recorded, but it is fully expected that the artists will soon be making payment.

Supplies on hand at year end were counted, and amount to \$11,900.

December's rent of \$3,500 has not yet been paid.

- Prepare the necessary adjusting entries as of December 31, 20X8.
- Use T-accounts to determine the adjusted balances of the accounts.
- Prepare the adjusted trial balance for Amber Nestor.

## Worksheet 1 (a)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Dec. 31			
Dec. 31			
Dec. 31			
Dec. 31			

## Worksheet 1 (b)

<b>CASH</b>	<b>REVENUES</b>
	—
<b>ACCOUNTS RECEIVABLE</b>	<b>RENT EXPENSE</b>
	—
<b>SUPPLIES</b>	<b>SALARIES EXPENSE</b>
—	
<b>DISPLAY EQUIPMENT</b>	<b>INTEREST EXPENSE</b>

<b>ACCUMULATED DEPRECIATION</b>	<b>UTILITIES EXPENSE</b>
<b>LOAN PAYABLE</b>	
<b>RENT PAYABLE</b>	
<b>CAPITAL STOCK</b>	

Worksheet 1 (c)

ALBERT CONDOR ART GALLERY		
Adjusted Trial Balance		
As of December 31, 20X8		
	Debits	Credits
Cash	\$ -	\$ -
Accounts Receivable	-	-
Supplies	-	-
Display equipment	-	-
Accumulated deprec.	-	-
Rent Payable	-	-
Loan Payable	-	-
Capital Stock	-	-
Revenues	-	-
Rent Expense	-	-
Salaries Expense	-	-
Interest Expense	-	-
Utilities Expense	-	-
	<u>\$ -</u>	<u>\$ -</u>



## Solution 1 (a)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Dec. 31	Depreciation Expense	10,500	
	Accumulated Depreciation		10,500
	<i>To record annual depreciation</i>		
Dec. 31	Accounts Receivable	62,650	
	Revenues		62,650
	<i>To record earned revenues</i>		
Dec. 31	Supplies Expense	11,865	
	Supplies		11,865
	<i>To record supplies used</i>		
Dec. 31	Rent Expense	3,500	
	Rent Payable		3,500
	<i>To record rent due and payable</i>		

<div>CASH</div> <div>64,400</div>	<div>REVENUES</div> <div>170,065</div> <div>62,650</div> <div>232,715</div> <div>aje #2</div>
<div>ACCOUNTS RECEIVABLE</div> <div>aje #2</div> <div>62,650</div>	<div>RENT EXPENSE</div> <div>38,500</div> <div>aje #4</div> <div>3,500</div> <div>42,000</div>
<div>SUPPLIES</div> <div>23,765</div> <div>11,865</div> <div>aje #3</div> <div>11,900</div>	<div>SALARIES EXPENSE</div> <div>84,000</div>
<div>DISPLAY EQUIPMENT</div> <div>52,500</div>	<div>INTEREST EXPENSE</div> <div>1,750</div>
<div>ACCUMULATED DEPRECIATION</div> <div>10,500</div> <div>aje #1</div>	<div>UTILITIES EXPENSE</div> <div>18,900</div>
<div>LOAN PAYABLE</div> <div>26,250</div>	<div>DEPRECIATION EXPENSE</div> <div>aje #1</div> <div>10,500</div>
<div>RENT PAYABLE</div> <div>3,500</div> <div>aje #4</div>	<div>SUPPLIES EXPENSE</div> <div>aje #3</div> <div>11,865</div>
<div>CAPITAL STOCK</div> <div>87,500</div>	

## Solution 1 (c)

ALBERT CONDOR ART GALLERY		
Adjusted Trial Balance		
As of December 31, 20X8		
	Debits	Credits
Cash	\$ 64,400	\$ -
Accounts Receivable	62,650	-
Supplies	11,900	-
Display equipment	52,500	-
Accumulated deprec.	-	10,500
Rent Payable	-	3,500
Loan Payable	-	26,250
Capital Stock	-	87,500
Revenues	-	232,715
Rent Expense	42,000	-
Salaries Expense	84,000	-
Interest Expense	1,750	-
Utilities Expense	18,900	-
Depreciation Expense	10,500	-
Supplies Expense	11,865	-
	<u>\$ 360,465</u>	<u>\$ 360,465</u>

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## Problem 2

Wolfgang Schnitzer is in charge of financial management for Over-Head-Eye Corp. Over-Head-Eye utilizes satellite technology and sophisticated mapping software to alert its customers to trespassing, illegal dumping, and other encroachments on property these customers own around the globe. Customers typically purchase one-year contracts for this service, and the pricing depends on the number and size of sites monitored.

Mr. Schnitzer desires to review financial reports -- an income statement, statement of retained earnings, and balance sheet. Prepare these reports from the following adjusted trial balance. Mr. Schnitzer needs this information for internal review purposes, and does not require a classified balance sheet. The operating data relate to the full year, and the blank worksheet already includes partial data.

<b>OVER-HEAD-EYE CORPORATION</b> <b>Adjusted Trial Balance</b> <b>As of December 31, 20X0</b>		
	<b>Debits</b>	<b>Credits</b>
Cash	\$ 2,502,663	\$ -
Accounts Receivable	1,037,727	-
Prepaid Expenses	137,361	-
Supplies	199,995	-
Satellite equipment	9,027,000	-
Accumulated deprec.	-	3,666,597
Accounts Payable	-	1,632,570
Unearned Revenues	-	1,365,000
Loan Payable	-	3,000,000
Capital Stock	-	1,680,000
Retained earnings, Jan. 1	-	686,676
Dividends	150,000	-
Revenues	-	7,120,206
Selling Expenses	1,429,335	-
Interest Expense	240,000	-
Salaries Expenses	2,033,001	-
Maintenance and supplies expense	668,967	-
Depreciation expense	1,725,000	-
	<u>\$ 19,151,049</u>	<u>\$ 19,151,049</u>

## Worksheet 2

OVER-HEAD-EYE CORPORATION Income Statement			
<b>Revenues</b>			
Services to customers		\$	-
<b>Expenses</b>			
	\$	-	
		-	
		-	
		-	
		-	
		-	
<b>Net income</b>		\$	-

OVER-HEAD-EYE CORPORATION Statement of Retained Earnings			
Beginning retained earnings		\$	-
Plus: Net income			-
		\$	-
			-
		\$	-

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OVER-HEAD-EYE CORPORATION Balance Sheet			
<b>Assets</b>			
		\$	-
			-
			-
			-
Satellite equipment	\$	-	
Less: Accumulated depreciation		-	-
Total assets		\$	-
<b>Liabilities</b>			
	\$	-	
		-	
		-	
Total liabilities		\$	-
<b>Stockholders' equity</b>			
	\$	-	
		-	
Total stockholders' equity			-
Total liabilities and equity		\$	-



## Solution 2

OVER-HEAD-EYE CORPORATION		
Income Statement		
For the Year Ending December 31, 20X0		
<b>Revenues</b>		
Services to customers		\$ 7,120,206
<b>Expenses</b>		
Selling	\$ 1,429,335	
Interest	240,000	
Salaries	2,033,001	
Maintenance and supplies	668,967	
Depreciation	1,725,000	6,096,303
<b>Net income</b>		<u><u>\$ 1,023,903</u></u>

OVER-HEAD-EYE CORPORATION	
Statement of Retained Earnings	
For the Year Ending December 31, 20X0	
Beginning retained earnings	\$ 686,676
Plus: Net income	1,023,903
	<u>\$ 1,710,579</u>
Less: Dividends	150,000
Ending retained earnings	<u><u>\$ 1,560,579</u></u>

OVER-HEAD-EYE CORPORATION	
Balance Sheet	
December 31, 20X0	
<b>Assets</b>	
Cash	\$ 2,502,663
Accounts receivable	1,037,727
Prepaid expenses	137,361
Supplies	199,995
Satellite equipment	\$ 9,027,000
Less: Accumulated depreciation	<u>(3,666,597)</u>
Total assets	<u><u>\$ 9,238,149</u></u>

<b>Liabilities</b>		
Accounts payable	\$ 1,632,570	
Unearned revenues	1,365,000	
Loan payable	<u>3,000,000</u>	
Total liabilities		\$ 5,997,570
<b>Stockholders' equity</b>		
Capital stock	\$ 1,680,000	
Retained earnings	<u>1,560,579</u>	
Total stockholders' equity		3,240,579
Total liabilities and equity		<u>\$ 9,238,149</u>

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## Problem 3

Beaver Lodge prepared the following adjusted trial balance on December 31, 20X7. The company has completed preparation of financial statements and is now ready to prepare closing entries.

<b>BEAVER LODGE</b> <b>Adjusted Trial Balance</b> <b>As of December 31, 20X7</b>		
	Debits	Credits
Cash	\$ 80,100	\$ -
Accounts Receivable	53,325	-
Supplies	16,875	-
Equipment	732,825	-
Accumulated deprec.	-	90,900
Accounts Payable	-	78,300
Loan Payable	-	225,000
Capital Stock	-	180,000
Retained earnings	-	157,500
Dividends	45,000	-
Revenues	-	1,076,400
Rent Expense	270,000	-
Salaries Expense	530,100	-
Supplies Expenses	40,500	-
Interest Expenses	16,650	-
Depreciation expense	22,725	-
	<u>\$ 1,808,100</u>	<u>\$ 1,808,100</u>

- Prepare the necessary closing entries.
- Use T-accounts to determine the post-closing balances of the accounts.
- Prepare the post-closing trial balance.

## Worksheet 3 (a)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Dec. 31			
	<i>To close the revenue account to Income Summary</i>		
Dec. 31			
	<i>To close the expense accounts to Income Summary</i>		
Dec. 31			
	<i>To close Income Summary to retained earnings</i>		
Dec. 31			
	<i>To close dividends</i>		

## Worksheet 3 (b)

<div>CASH</div> <div> <div></div> <div></div> </div>	<div>DIVIDENDS</div> <div> <div></div> <div></div> </div> <div>closing</div>
<div>ACCOUNTS RECEIVABLE</div> <div> <div></div> <div></div> </div>	<div>REVENUES</div> <div> <div></div> <div></div> </div> <div>closing</div>
<div>SUPPLIES</div> <div> <div></div> <div></div> </div>	<div>RENT EXPENSE</div> <div> <div></div> <div></div> </div> <div>closing</div>
<div>EQUIPMENT</div> <div> <div></div> <div></div> </div>	<div>SALARIES EXPENSE</div> <div> <div></div> <div></div> </div> <div>closing</div>



## Solution 3 (a)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Dec. 31	Revenues	1,076,400	
	Income Summary		1,076,400
	<i>To close the revenue account to Income Summary</i>		
Dec. 31	Income Summary	879,975	
	Rent Expense		270,000
	Salaries Expense		530,100
	Supplies Expense		40,500
	Interest Expense		16,650
	Depreciation Expense		22,725
	<i>To close the expense accounts to Income Summary</i>		
Dec. 31	Income Summary	196,425	
	Retained Earnings		196,425
	<i>To close Income Summary to retained earnings</i>		



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Dec. 31	Retained Earnings	45,000	
	Dividends		45,000
	<i>To close dividends</i>		

## Solution 3 (b)

<b>CASH</b>		<b>DIVIDENDS</b>	
	<u>80,100</u>	<u>45,000</u>	45,000 closing
		<u>0</u>	
<b>ACCOUNTS RECEIVABLE</b>		<b>REVENUES</b>	
	<u>53,325</u>	closing <u>1,076,400</u>	1,076,400
			<u>0</u>
<b>SUPPLIES</b>		<b>RENT EXPENSE</b>	
	<u>16,875</u>	<u>270,000</u>	270,000 closing
		<u>0</u>	
<b>EQUIPMENT</b>		<b>SALARIES EXPENSE</b>	
	<u>732,825</u>	<u>530,100</u>	530,100 closing
		<u>0</u>	
<b>ACCUMULATED DEPRECIATION</b>		<b>SUPPLIES EXPENSE</b>	
		<u>40,500</u>	40,500 closing
		<u>0</u>	
<b>ACCOUNTS PAYABLE</b>		<b>INTEREST EXPENSE</b>	
	<u>78,300</u>	<u>16,650</u>	16,650 closing
		<u>0</u>	
<b>LOAN PAYABLE</b>		<b>DEPRECIATION EXPENSE</b>	
	<u>225,000</u>	<u>22,725</u>	22,725 closing
		<u>0</u>	
<b>CAPITAL STOCK</b>		<b>INCOME SUMMARY</b>	
	<u>180,000</u>	closing <u>879,975</u>	1,076,400 closing
		closing <u>196,425</u>	
		<u>0</u>	<u>0</u>
<b>RETAINED EARNINGS</b>			
closing	45,000	157,500	
		196,425	closing
	<u>45,000</u>	<u>353,925</u>	
		<u>308,925</u>	

## Solution 3 (c)

BEAVER LODGE			
Post-Closing Trial Balance			
As of December 31, 20X7			
	Debits	Credits	
Cash	\$ 80,100	\$ -	
Accounts receivable	\$ 53,325	-	
Supplies	\$ 16,875	-	
Equipment	\$ 732,825	-	
Accumulated depreciation	-	90,000	
Accounts payable	-	78,300	
Loan payable	-	225,000	
Capital stock	-	180,000	
Retained earnings	-	308,925	
	<u>\$ 883,125</u>	<u>\$ 883,125</u>	

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## Problem 4

Elements is an upscale university housing complex providing all the amenities of private townhouse living, and a full service 24-hour cafeteria for busy students. Prior to recording any adjusting entries for 20X8, Elements has incurred and recorded total salary expense of \$2,625,000 and total rental revenue of \$14,400,000.

As of December 31, 20X8, the company owes \$45,000 of additional salaries to employees, and accrued rent due from residents amounts to \$300,000.

On January 10, 20X9, Traditions paid salaries of \$120,000 covering the amount due as of December 31, as well as additional amounts relating to 20X9.

On January 15, 20X9, Traditions received rental payments for \$750,000 covering the rents due as due of December 31, 20X8, and additional amounts relating to the first half of January, 20X9.

- Prepare the necessary year-end adjusting entries for salaries and rent.
- Determine the total salaries expense and total rent revenue for 20X4.
- Assuming the company uses reversing entries, prepare necessary reversals for early 20X5.
- Assuming the company used reversing entries, prepare entries for January 10 and 15, 20X5.
- Assuming the company does not use reversing entries, prepare entries for January 10 and 15, 20X5.
- Show how 20X5 salaries expense and rent revenue will be the same, whether reversing entries are used or not.

### Worksheet 4

GENERAL JOURNAL			
	Date	Accounts	Debit      Credit
a)	Dec. 31		
	Dec. 31		

b)				
c)	Jan. 1			
	Jan. 1			
d)	Jan. 10			
	Jan. 15			
e)	Jan. 10			
	Jan. 15			
f)				

## Solution 4

GENERAL JOURNAL			
	Date	Accounts	Debit      Credit
a)	Dec. 31	Salaries Expense	45,000
		Salaries Payable	45,000
		<i>To record accrued salaries</i>	
	Dec. 31	Rent Receivable	300,000
		Rent Revenues	300,000
		<i>To record accrued rent revenue</i>	
b)	Total salaries are \$2,580,000 (\$2,625,000 + \$45,000)		
	Total rent revenue is \$14,100,000 (\$14,400,000 + \$300,000)		
c)	Jan. 1	Salaries Payable	45,000
		Salaries Expense	45,000
		<i>To reverse accrued salaries</i>	
	Jan. 1	Rent Revenues	300,000
		Rent Receivable	300,000
		<i>To reverse accrued rent revenue</i>	
d)	Jan. 10	Salaries Expense	120,000
		Cash	120,000
		<i>To record payment of salaries</i>	
	Jan. 15	Cash	750,000
		Rent Revenues	750,000
		<i>To record collection of rent</i>	
e)	Jan. 10	Salaries Expense	75,000
		Salaries Payable	45,000
		Cash	120,000
		<i>To record payment of salaries</i>	
	Jan. 15	Cash	750,000
		Rent Receivable	300,000
		Rent Revenues	450,000
		<i>To record collection of rent</i>	
f)	Salaries expense without reversing entries of \$75,000 (see entry (e)) equals the results from (c) and (d) with reversing entries (\$120,000 - \$45,000).		
	Rent revenues without reversing entries of \$450,000 (see entry (e)) equals the results from (c) and (d) with reversing entries (\$750,000 - \$300,000).		

## Problem 5

Dingane Ndubizu owns a diamond mining business in South Africa. He is interested in attracting additional investors to obtain financing for planned expansion. Some potential investors have expressed a concern that money is really being sought to address liquidity problems being faced by Dingane's company.

To alleviate this concern Dingane provided the following complete list of assets and liabilities of the company. The currency unit is the South African Rand. Use this information to determine the company's current assets, current liabilities, working capital, current ratio, and quick ratio. Based on your calculations, does it appear that the company is experiencing liquidity problems?

Accumulated Depreciation	R 7,995,750
Prepaid Rent	80,150
Note Payable (due in 3 months)	175,000
Accounts Receivable	819,000
Accounts Payable	446,250
Patent	5,250,000
Cash	1,382,500
Supplies	235,900
Unearned Revenues	232,750
Equipment	15,360,800
Interest Payable	78,750
Loan Payable (due in 3 years)	2,625,000

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## Worksheet 5

		Current Assets	Quick Assets	Current Liabilities
Accumulated Depreciation	R 7,995,750			
Prepaid Rent	80,150			
Note Payable (due in 3 months)	175,000			
Accounts Receivable	819,000			
Accounts Payable	446,250			
Patent	5,250,000			
Cash	1,382,500			
Supplies	235,900			
Unearned Revenues	232,750			
Equipment	15,360,800			
Interest Payable	78,750			
Loan Payable (due in 3 years)	2,625,000			

**Working Capital:****Current Ratio:****Quick Ratio:**

## Solution 5

		Current Assets	Quick Assets	Current Liabilities
Accumulated Depreciation	R 7,995,750			
Prepaid Rent	80,150	R 80,150		
Note Payable (due in 3 months)	175,000			R 175,000
Accounts Receivable	819,000	819,000	R 819,000	
Accounts Payable	446,250			446,250
Patent	5,250,000			
Cash	1,382,500	1,382,500	1,382,500	
Supplies	235,900	235,900		
Unearned Revenues	232,750			232,750
Equipment	15,360,800			
Interest Payable	78,750			78,750
Loan Payable (due in 3 years)	2,625,000			
		<u>R 2,517,550</u>	<u>R 2,201,500</u>	<u>R 932,750</u>

**Working Capital:**

Current assets	R 2,517,550
Less: Current liabilities	<u>932,750</u>
	<u>R 1,584,800</u>

**Current Ratio:**

$$\text{Current assets} \div \text{Current liabilities} \quad R 2,517,550 \div R 932,750 = 2.70$$

**Quick Ratio:**

$$\text{Quick assets} \div \text{Current liabilities} \quad R 2,201,500 \div R 932,750 = 2.36$$

The ratios do not seem to indicate a liquidity problem. Current assets are almost 3X current liabilities, and a large portion of those assets are in highly liquid items such as cash and receivables.

## Problem 6

McComick Corporation prepared the following preliminary trial balance. The trial balance and other information was evaluated by Darren Anderson, CPA. Darren has returned a list of proposed adjustments that are necessary to facilitate preparation of correct financial statements for the year ending December 31, 20X8.

<b>McCORMICK CORPORATION</b> <b>Trial Balance</b> <b>As of December 31, 20X8</b>		
	<b>Debits</b>	<b>Credits</b>
Cash	\$ 91,620	\$ -
Accounts Receivable	135,000	-
Supplies	21,000	-
Equipment	733,500	-
Accumulated Deprec.	-	139,500
Accounts Payable	-	38,100
Unearned Revenue	-	93,750
Notes Payable	-	240,000
Capital Stock	-	300,000
Retained Earnings, Jan. 1	-	189,600
Dividends	36,000	-
Revenues	-	869,400
Wages Expense	643,800	-
Utilities Expenses	26,100	-
Selling Expenses	124,830	-
Depreciation Expenses	36,000	-
Interest expense	22,500	-
	<u>\$ 1,870,350</u>	<u>\$ 1,870,350</u>

## Worksheet 6 (a)

[illegible]

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## Worksheet 6 (b)

<b>McCORMICK CORPORATION</b> <b>Worksheet for Adjusted Trial Balance</b> <b>December 31, 20X8</b>						
	Debits	Debits	Debits	Debits	Debits	Debits
Cash	\$ 91,620	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts Receivable	135,000	-	-	-	-	-
Supplies	21,000	-	-	-	-	-
Equipment	733,500	-	-	-	-	-
Accumulated Deprec.	-	139,500	-	-	-	-
Accounts Payable	-	38,100	-	-	-	-
Utilities Payable	-	-	-	-	-	-
Wages Payable	-	-	-	-	-	-
Unearned Revenue	-	93,750	-	-	-	-
Notes Payable	-	240,000	-	-	-	-
Capital Stock	-	300,000	-	-	-	-
Retained Earnings, Jan. 1	-	189,600	-	-	-	-
Dividends	36,000	-	-	-	-	-
Revenues	-	869,400	-	-	-	-
Wages Expense	643,800	-	-	-	-	-
Utilities Expense	26,100	-	-	-	-	-
Selling Expenses	124,830	-	-	-	-	-
Depreciation Expenses	36,000	-	-	-	-	-
Supplies Expenses	-	-	-	-	-	-
Interest expense	22,500	-	-	-	-	-
	<u>\$ 1,870,350</u>	<u>\$ 1,870,350</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## Worksheet 6 (c)

<b>McCORMICK CORPORATION</b> <b>Income Statement</b> <b>For the Year Ending December 31, 20X8</b>	
<b>Revenues</b>	
Services to customers	\$ -
<b>Expenses</b>	
Wages	\$ -
Utilities	-
Selling	-
Depreciation	-
Supplies	-
Interest	-
<b>Net income</b>	<u>\$ -</u>

<b>McCORMICK CORPORATION</b> <b>Statement of Retained Earnings</b> <b>For the Year Ending December 31, 20X8</b>	
Beginning retained earnings	\$ -
Plus: Net income	
	\$ -
Less: Dividends	-
Ending retained earnings	<u>\$ -</u>

<b>McCORMICK CORPORATION</b> <b>Balance Sheet</b> <b>December 31, 20X8</b>	
<b>Assets</b>	
<b>Current assets</b>	
Cash	\$ -
Accounts receivable	-
Supplies	- \$ -
<b>Property, plant &amp; equipment</b>	
Equipment	\$ -
Less: Accumulated depreciation	- -
Total assets	<u>\$ -</u>
<b>Liabilities</b>	
<b>Current liabilities</b>	
Accounts payable	\$ -
Utilities payable	-
Wages payable	-
Unearned revenue	- \$ -
<b>Long-term liabilities</b>	



Notes payable		-
Total liabilities	\$	-
<b>Stockholders' equity</b>		
Capital stock	\$	-
Retained earnings		-
Total stockholders' equity		-
Total liabilities and equity	\$	-

d)

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## Solution 6 (a)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Dec. 31	Unearned Revenue	37,500	
	Revenues		37,500
	<i>To adjust Unearned Revenue for portion earned (\$93,750 X 40%)</i>		
Dec. 31	Supplies Expense	12,000	
	Supplies		12,000
	<i>To record supplies used (\$21,000 - \$9,000 = \$12,000)</i>		
Dec. 31	Utilities Expense	4,500	
	Utilities Payable		4,500
	<i>To record accrued utilities</i>		
Dec. 31	Wages Expense	11,700	
	Wages Payable		11,700
	<i>To record accrued wages</i>		
Dec. 31	Depreciation Expense	9,300	
	Accumulated Depreciation		9,300
	<i>To record depreciation expense</i>		

## Solution 6 (b)

<b>McCORMICK CORPORATION</b> <b>Worksheet for Adjusted Trial Balance</b> <b>December 31, 20X8</b>						
	<b>Debits</b>	<b>Debits</b>	<b>Debits</b>	<b>Debits</b>	<b>Debits</b>	<b>Debits</b>
Cash	\$ 91,620	\$ -	\$ -	\$ -	\$ 91,620	\$ -
Accounts Receivable	135,000	-	-	-	135,000	-
Supplies	21,000	-	-	36,000	(15,000)	-
Equipment	733,500	-	-	-	733,500	-
Accumulated Deprec.	-	139,500	-	27,900	-	167,400
Accounts Payable	-	38,100	-	-	-	38,100
Utilities Payable	-	-	-	13,500	-	13,500
Wages Payable	-	-	-	35,100	-	35,100
Unearned Revenue	-	93,750	112,500	-	-	(18,750)
Notes Payable	-	240,000	-	-	-	240,000
Capital Stock	-	300,000	-	-	-	300,000
Retained Earnings, Jan. 1	-	189,600	-	-	-	189,600
Dividends	36,000	-	-	-	36,000	-
Revenues	-	869,400	-	112,500	-	981,900
Wages Expense	643,800	-	35,100	-	678,900	-
Utilities Expense	26,100	-	13,500	-	39,600	-
Selling Expenses	124,830	-	-	-	124,830	-
Depreciation Expenses	36,000	-	27,900	-	63,900	-
Supplies Expenses	-	-	36,000	-	36,000	-
Interest expense	22,500	-	-	-	22,500	-
	<u>\$ 1,870,350</u>	<u>\$ 1,870,350</u>	<u>\$ 225,000</u>	<u>\$ 225,000</u>	<u>\$ 1,946,850</u>	<u>\$ 1,946,850</u>

## Solution 6 (c)

McCORMICK CORPORATION		
Income Statement		
For the Year Ending December 31, 20X8		
<b>Revenues</b>		
Services to customers		\$ 981,900
<b>Expenses</b>		
Wages	\$ 678,900	
Utilities	39,600	
Selling	124,830	
Depreciation	63,900	
Supplies	36,000	
Interest	22,500	965,730
<b>Net income</b>		<u>\$ 16,170</u>

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<b>McCORMICK CORPORATION</b> <b>Statement of Retained Earnings</b> <b>For the Year Ending December 31, 20X8</b>	
Beginning retained earnings	\$ 189,600
Plus: Net income	16,170
	<u>\$ 205,770</u>
Less: Dividends	36,000
Ending retained earnings	<u><u>\$ 169,770</u></u>

<b>McCORMICK CORPORATION</b> <b>Balance Sheet</b> <b>December 31, 20X8</b>	
<b>Assets</b>	
<b>Current assets</b>	
Cash	\$ 91,620
Accounts receivable	135,000
Supplies	<u>(15,000)</u>
	\$ 211,620
<b>Property, plant &amp; equipment</b>	
Equipment	\$ 733,500
Less: Accumulated depreciation	<u>(167,400)</u>
	566,100
Total assets	<u><u>\$ 777,720</u></u>
<b>Liabilities</b>	
<b>Current liabilities</b>	
Accounts payable	\$ 38,100
Utilities payable	13,500
Wages payable	35,100
Unearned revenue	<u>(18,750)</u>
	\$ 67,950
<b>Long-term liabilities</b>	
Notes payable	<u>240,000</u>
Total liabilities	\$ 307,950
<b>Stockholders' equity</b>	
Capital stock	\$ 300,000
Retained earnings	<u>169,770</u>
Total stockholders' equity	469,770
Total liabilities and equity	<u><u>\$ 777,720</u></u>

- d) It is true that the adjustments produce no change in net income. The increase in revenues of \$37,500 is exactly offset by the increase in expenses ( $\$12,000 + \$4,500 + \$11,700 + \$9,300 = \$37,500$ ). However, the individual accounts would not be correct if the adjustments were not made. It is important that all information be correct, and the adjustments should be recorded.

## Problem 7

Examine the following trial balances, before and after adjustment:

<b>YORKSHIRE CONSULTING CORPORATION</b> <b>Trial Balance and Adjusted Trial Balance</b> <b>As of December 31, 20X9</b>				
	Debits	Debits	Debits	Debits
Cash	\$ 667,560	\$ -	\$ 667,560	\$ -
Accounts Receivable	350,616	-	430,616	-
Supplies	35,968	-	18,000	-
Prepaid Rent	24,000	-	8,000	-
Equipment	582,800	-	582,800	-
Accumulated Deprec.	-	150,640	-	178,640
Accounts Payable	-	54,360	-	54,360
Wages Payable	-	-	-	18,000
Interest Payable	-	-	-	6,000
Unearned Revenue	-	72,000	-	48,000
Notes Payable	-	200,000	-	200,000
Capital Stock	-	900,000	-	900,000
Retained Earnings, Jan. 1	-	356,476	-	356,476
Dividends	160,000	-	160,000	-
Revenues	-	1,337,960	-	1,441,960
Wages Expense	1,104,492	-	1,122,492	-
Rent Expenses	132,000	-	148,000	-
Depreciation Expenses	-	-	28,000	-
Supplies Expenses	-	-	17,968	-
Interest expense	14,000	-	20,000	-
	<u>\$ 3,071,436</u>	<u>\$ 3,071,436</u>	<u>\$ 3,203,436</u>	<u>\$ 3,203,436</u>

- Determine and record the apparent adjusting entries in journal entry format.
- Prepare an income statement for the year ending December 31, 20X9.
- Prepare a statement of retained earnings for the year ending December 31, 20X9.
- Prepare a classified balance sheet as of December 31, 20X9.

## Worksheet 7 (a)

[illegible]



## Worksheet 7 (b)

YORKSHIRE CONSULTING CORPORATION		
Income Statement		
For the Year Ending December 31, 20X9		
<b>Revenues</b>		
Services to customers		\$ -
<b>Expenses</b>		
Wages	\$ -	
Rent	-	
Depreciation	-	
Supplies	-	
Interest	-	-
<b>Net income</b>		<u>\$ -</u>

YORKSHIRE CONSULTING CORPORATION	
Statement of Retained Earnings	
For the Year Ending December 31, 20X9	
Beginning retained earnings	\$ -
Plus: Net income	-
	<u>\$ -</u>
Less: Dividends	-
Ending retained earnings	<u>\$ -</u>

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YORKSHIRE CONSULTING CORPORATION			
Balance Sheet			
December 31, 20X9			
<b>Assets</b>			
<b>Current assets</b>			
Cash	\$	-	
Accounts receivable		-	
Supplies		-	
Prepaid rent		-	\$ -
<b>Property, plant &amp; equipment</b>			
Equipment	\$	-	
Less: Accumulated depreciation		-	-
Total assets			\$ -
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable	\$	-	
Wages payable		-	
Interest payable		-	
Unearned revenue		-	\$ -
<b>Long-term liabilities</b>			
Notes payable			-
Total liabilities			\$ -
<b>Stockholders' equity</b>			
Capital stock	\$	-	
Retained earnings		-	
Total stockholders' equity			-
Total liabilities and equity			\$ -

## Solution 7 (a)

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Dec. 31	Accounts Receivable	80,000	
	Revenues		80,000
	<i>To record earned revenues and related receivable</i>		
Dec. 31	Supplies Expense	17,968	
	Supplies		17,968
	<i>To record supplies used (\$35,968 - \$18,000 = \$17,968)</i>		
Dec. 31	Rent Expense	16,000	
	Prepaid Rent		16,000
	<i>To record expired rent</i>		
Dec. 31	Depreciation Expense	28,000	
	Accumulated Depreciation		28,000
	<i>To record depreciation expense</i>		
Dec. 31	Wages Expense	18,000	
	Wages Payable		18,000
	<i>To record accrued wages</i>		
Dec. 31	Interest Expense	6,000	
	Interest Payable		6,000
	<i>To record accrued interest</i>		
Dec. 31	Unearned Revenue	24,000	
	Revenues		24,000
	<i>To record earned portion of customer prepayment (\$72,000 - \$48,000 = \$24,000)</i>		

## Solution 7 (b)

YORKSHIRE CONSULTING CORPORATION		
Income Statement		
For the Year Ending December 31, 20X9		
<b>Revenues</b>		
Services to customers		\$1,441,960
<b>Expenses</b>		
Wages	\$1,122,492	
Rent	148,000	
Depreciation	28,000	
Supplies	17,968	
Interest	20,000	1,336,460
<b>Net income</b>		<u>\$ 105,500</u>

YORKSHIRE CONSULTING CORPORATION		
Statement of Retained Earnings		
For the Year Ending December 31, 20X9		
Beginning retained earnings		\$ 356,476
Plus: Net income		105,500
		<u>\$ 461,976</u>
Less: Dividends		160,000
Ending retained earnings		<u>\$ 301,976</u>

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YORKSHIRE CONSULTING CORPORATION			
Balance Sheet			
December 31, 20X9			
<b>Assets</b>			
<b>Current assets</b>			
Cash	\$ 667,560		
Accounts receivable	430,616		
Supplies	18,000		
Prepaid rent	8,000	\$1,124,176	
<b>Property, plant &amp; equipment</b>			
Equipment	\$ 582,800		
Less: Accumulated depreciation	(178,640)	404,160	
Total assets		<u>\$1,528,336</u>	
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 54,360		
Wages payable	18,000		
Interest payable	6,000		
Unearned revenue	48,000	\$ 126,360	
<b>Long-term liabilities</b>			
Notes payable		200,000	
Total liabilities		\$ 326,360	
<b>Stockholders' equity</b>			
Capital stock	\$ 900,000		
Retained earnings	301,976		
Total stockholders' equity		1,201,976	
Total liabilities and equity		<u>\$1,528,336</u>	

## Problem 8

Use this randomly arranged data to prepare a classified balance sheet for Wylfa Corporation as of December 31, 20X8. Some of the accounts do not belong in the balance sheet, and 20% of the loan payable matures each June 30.

Capital Stock	\$2,265,000
Patent	825,000
Accumulated depreciation (equipment)	(1,432,962)
Building	5,972,328
Land held for speculation	468,294
Dividends	150,000
Cash	547,035
Retained earnings	1,940,976
Accounts receivable	170,298
Accounts payable	234,033
Income tax expense	370,002
Prepaid insurance	11,649
Accumulated depreciation (building)	(2,966,331)
Loan payable	3,000,000
Equipment	2,663,655
Land	836,370
Interest payable	93,351
Inventories	363,024
Cash value of life insurance	75,000

[illegible]

## Solution 8

WYLFA CORPORATION			
Balance Sheet			
December 31, 20X8			
<b>Assets</b>			
<b>Current assets</b>			
Cash		\$ 547,035	
Accounts receivable		170,298	
Inventories		363,024	
Prepaid insurance		11,649	\$ 1,092,006
<b>Long-term Investments</b>			
Cash value of life insurance		\$ 75,000	
Land held for speculation		468,294	543,294
<b>Property, plant &amp; equipment</b>			
Land		\$ 836,370	
Building	\$5,972,328		
Less: Accumulated depreciation	(2,966,331)	3,005,997	
Equipment	\$2,663,655		
Less: Accumulated depreciation	(1,432,962)	1,230,693	5,073,060
<b>Intangible assets</b>			
Patent			825,000
Total assets			<u>\$7,533,360</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable		\$ 234,033	
Interest payable		93,351	
Current portion of loan payable		600,000	\$ 927,384
<b>Long-term liabilities</b>			
Loan payable			2,400,000
Total liabilities			<u>\$3,327,384</u>
<b>Stockholders' equity</b>			
Capital stock		\$2,265,000	
Retained earnings		1,940,976	
Total stockholders' equity			<u>4,205,976</u>
Total liabilities and equity			<u>\$7,533,360</u>