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Accounting Cycle Exercises IV

Christopher J. Skousen; Larry M. Walther

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Larry M. Walther & Christopher J. Skousen

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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 infomation.

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	-
	$ 283,815	$ 283,815

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.

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

a) Prepare the necessary adjusting enties as of December 31, 20X8.
b) Use T-accounts to determine the adjusted balances of the accounts.
c) 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)

CASH

REVENUES

ACCOUNTS RECEIVABLE

RENT EXPENSE

SUPPLIES

SALARIES EXPENSE

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DISPLAY EQUIPMENT	INTEREST EXPENSE
ACCUMULATED DEPRECIATION	UTILITIES EXPENSE
LOAN PAYABLE	
RENT PAYABLE	
CAPITAL STOCK	

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	-	-
	$ -	$ -

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Solution 1 (a)

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

Solution 1 (b)

CASH

	64,400	

REVENUES

	170,065	
	62,650	aje #2
	232,715	

ACCOUNTS RECEIVABLE

aje #2	62,650	

RENT EXPENSE

	38,500	
aje #4	3,500	
	42,000	

SUPPLIES

	23,765	11,865	aje #3
	11,900		

SALARIES EXPENSE

	84,000	

DISPLAY EQUIPMENT

	52,500	

INTEREST EXPENSE

	1,750	

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ACCUMULATED DEPRECIATION	
	10,500 aje #1

UTILITIES EXPENSE	
18,900	

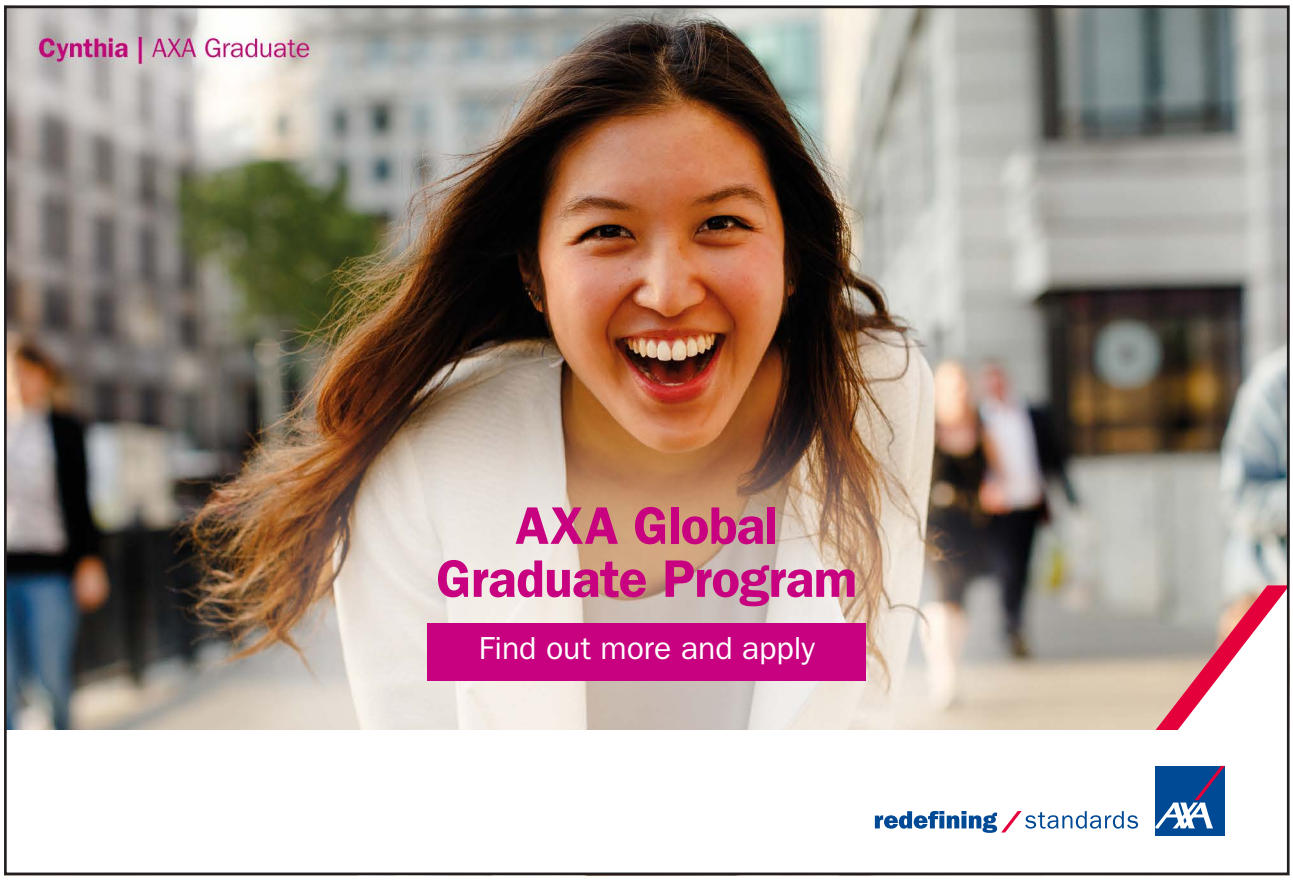
LOAN PAYABLE	
	26,250

DEPRECIATION EXPENSE	
aje #1 10,500	

RENT PAYABLE	
	3,500 aje #4

SUPPLIES EXPENSE	
aje #3 11,865	

CAPITAL STOCK	
	87,500



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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	-
	$ 360,465	$ 360,465

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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.

OVER-HEAD-EYE CORPORATIOn
Adjusted Trial Balance
As of December 31, 20X0

	Debits	Credits
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	-
	$ 19,151,049	$ 19,151,049

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Worksheet 2

OVER-HEAD-EYE CORPORATION Income Statement		
Revenues		
Services to customers		$ -
Expenses		
	$ -	
	-	
	-	
	-	
	-	-
Net income		$ -

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

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

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Solution 2

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

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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
	$	1,710,579
Less: Dividends		150,000
Ending retained earnings	$	1,560,579

OVER-HEAD-EYE CORPORATION Balance Sheet December 31, 20X0				
Assets				
Cash			$	2,502,663
Accounts receivable				1,037,727
Prepaid expenses				137,361
Supplies				199,995
Satellite equipment	$	9,027,000		
Less: Accumulated depreciation		(3,666,597)		5,360,403
Total assets			$	9,238,149
Liabilities				
Accounts payable	$	1,632,570		
Unearned revenues		1,365,000		
Loan payable		3,000,000		
Total liabilities			$	5,997,570
Stockholders' equity				
Capital stock	$	1,680,000		
Retained earnings		1,560,579		
Total stockholders' equity				3,240,579
Total liabilities and equity			$	9,238,149

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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.

BEAVER LODGE Adjusted Trial Balance As of December 31, 20X7		
	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	-
	$ 1,808,100	$ 1,808,100

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

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Worksheet 3 (a)

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

Worksheet 3 (b)

CASH

DIVIDENDS

closing

ACCOUNTS RECEIVABLE

REVENUES

closing

SUPPLIES

RENT EXPENSE

closing

EQUIPMENT

SALARIES EXPENSE

closing

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ACCUMULATED DEPRECIATION

SUPPLIES EXPENSE

closing

ACCOUNTS PAYABLE

INTEREST EXPENSE

closing

LOAN PAYABLE

DEPRECIATION EXPENSE

closing

CAPITAL STOCK

INCOME SUMMARY

closing

closing

closing

RETAINED EARNINGS

closing

closing

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Worksheet 3 (c)

BEAVER LODGE Post-Closing Trial Balance As of December 31, 20X7		
	Debits	**Credits**
	$ -	$ -
	-	-
	-	-
	-	-
	-	-
	-	-
	-	-
	-	-
	-	-
	$ -	$ -

Solution 3 (a)

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
Dec. 31	Revenues	1,076,400	
	Income Summary		1,076,400
	To close the revenue account to Income Summary		
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
	To close the expense accounts to Income Summary		
Dec. 31	Income Summary	196,425	
	Retained Earnings		196,425
	To close Income Summary to retained earnings		
Dec. 31	Retained Earnings	45,000	
	Dividends		45,000
	To close dividends		

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Solution 3 (b)

CASH	
80,100	

DIVIDENDS			
	45,000	45,000	closing
	0		

ACCOUNTS RECEIVABLE	
53,325	

REVENUES			
closing	1,076,400	1,076,400	
		0	

SUPPLIES	
16,875	

RENT EXPENSE			
	270,000	270,000	closing
0			

EQUIPMENT	
732,825	

SALARIES EXPENSE			
	530,100	530,100	closing
	0		

ACCUMULATED DEPRECIATION	
	90,900

SUPPLIES EXPENSE			
	40,500	40,500	closing
	0		

ACCOUNTS PAYABLE	
	78,300

INTEREST EXPENSE			
	16,650	16,650	closing
	0		

LOAN PAYABLE	
	225,000

DEPRECIATION EXPENSE			
	22,725	22,725	closing
	0		

CAPITAL STOCK	
	180,000

INCOME SUMMARY			
closing	879,975	1,076,400	closing
closing	196,425		
	0	0	

RETAINED EARNINGS			
closing	45,000	157,500	
		196,425	closing
	45,000	353,925	
		308,925	

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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
	$	883,125	$	883,125

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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 $750,0000 covering the rents due as due of December 31, 20X8, and additional amounts relating to the first half of January, 20X9.

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

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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			

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Jan. 15			

f)

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Solution 4

	GENERAL JOURNAL			
	Date	**Accounts**	**Debit**	**Credit**
a)	Dec. 31	Salaries Expense	45,000	
		Salaries Payable		45,000
		To record accrued salaries		
	Dec. 31	Rent Receivable	300,000	
		Rent Revenues		300,000
		To record accrued rent revenue		
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
		To reverse accrued salaries		
	Jan. 1	Rent Revenues	300,000	
		Rent Receivable		300,000
		To reverse accrued rent revenue		
d)	Jan. 10	Salaries Expense	120,000	
		Cash		120,000
		To record payment of salaries		
	Jan. 15	Cash	750,000	
		Rent Revenues		750,000
		To record collection of rent		
e)	Jan. 10	Salaries Expense	75,000	
		Salaries Payable	45,000	
		Cash		120,000
		To record payment of salaries		

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Jan. 15	Cash	750,000	
	Rent Receivable		300,000
	Rent Revenues		450,000
	To record collection of rent		

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).

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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			

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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			
		R 2,517,550	R 2,201,500	R 932,750

Working Capital:

Current assets	R 2,517,550
Less: Current liabilities	932,750
	R 1,584,800

Current Ratio:

Current assets ÷ Current liabilities R 2,517,550 ÷ R 932,750 = 2.70

Quick Ratio:

Quick assets ÷ Current liabilities R 2,201,500 ÷ R 932,750 = 2.36

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

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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.

MCCORMICK CORPORATION Trial Balance As of December 31, 20X8		
	Debits	**Credits**
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	-
	$ 1,870,350	$ 1,870,350

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Worksheet 6 (a)

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**

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Worksheet 6 (b)

McCORMICK CORPORATION
Worksheet for Adjusted Trial Balance
December 31, 20X8

	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	-	-	-	-	-
	$ 1,870,350	$ 1,870,350	$ -	$ -	$ -	$ -

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- 2nd place: MSc Global Supply Chain Management and Change

Sources: Keuzegids Master ranking 2013; Elsevier 'Beste Studies' ranking 2012; Financial Times Global Masters in Management ranking 2012

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Worksheet 6 (c)

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

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

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McCORMICK CORPORATION Balance Sheet December 31, 20X8		
Assets		
Current assets		
Cash	$ -	
Accounts receivable	-	
Supplies	-	$ -
Property, plant & equipment		
Equipment	$ -	
Less: Accumulated depreciation	-	-
Total assets		$ -
Liabilities		
Current liabilities		
Accounts payable	$ -	
Utilities payable	-	
Wages payable	-	
Unearned revenue	-	$ -
Long-term liabilities		
Notes payable		-
Total liabilities		$ -
Stockholders' equity		
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
	To adjust Unearned Revenue for portion earned ($93,750 X 40%)		
Dec. 31	Supplies Expense	12,000	
	Supplies		12,000
	To record supplies used ($21,000 – $9,000 = $12,000)		
Dec. 31	Utilities Expense	4,500	
	Utlities Payable		4,500
	To record accrued utilities		
Dec. 31	Wages Expense	11,700	
	Wages Payable		11,700
	To record accrued wages		
Dec. 31	Depreciation Expense	9,300	
	Accumulated Depreciation		9,300
	To record depreciation expense		

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Solution 6 (b)

McCORMICK CORPORATION
Worksheet for Adjusted Trial Balance
December 31, 20X8

	Debits	Debits	Debits	Debits	Debits	Debits
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	-
	$ 1,870,350	$ 1,870,350	$ 225,000	$ 225,000	$ 1,946,850	$ 1,946,850

Solution 6 (c)

McCORMICK CORPORATION
Income Statement
For the Year Ending December 31, 20X8

Revenues		
Services to customers		$ 981,900
Expenses		
Wages	$ 678,900	
Utilities	39,600	
Selling	124,830	
Depreciation	63,900	
Supplies	36,000	
Interest	22,500	965,730
Net income		$ 16,170

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

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

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.

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Problem 7

Examine the following trial balances, before and after adjustment:

YORKSHIRE CONSULTING CORPORATION Trial Balance and Adjusted Trial Balance As of December 31, 20X9				
	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	-
	$ 3,071,436	$ 3,071,436	$ 3,203,436	$ 3,203,436

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

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Worksheet 7 (a)

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**

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Worksheet 7 (b)

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

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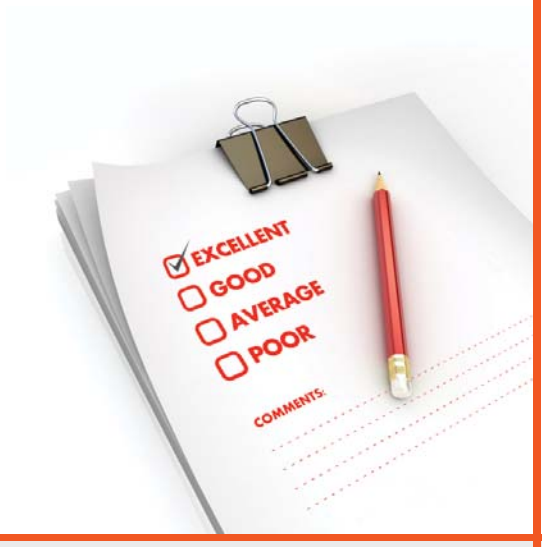

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YORKSHIRE CONSULTING CORPORATION Statement of Retained Earnings For the Year Ending December 31, 20X9	
Beginning retained earnings	$ -
Plus: Net income	-
	$ -
Less: Dividends	-
Ending retained earnings	$ -

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

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Solution 7 (a)

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

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Solution 7 (b)

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

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

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

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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)

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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

Worksheet 8

WYLFA CORPORATION Balance Sheet December 31, 20X8
Assets
Liabilities

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Solution 8

Wylfa CORPORATION Balance Sheet December 31, 20X8			
Assets			
Current assets			
Cash		$ 547,035	
Accounts receivable		170,298	
Inventories		363,024	
Prepaid insurance		11,649	$ 1,092,006
Long-term Investments			
Cash value of life insurance		$ 75,000	
Land held for speculation		468,294	543,294
Property, plant & equipment			
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
Intangible assets			
Patent			825,000
Total assets			$ 7,533,360
Liabilities			
Current liabilities			
Accounts payable		$ 234,033	
Interest payable		93,351	
Current portion of loan payable		600,000	$ 927,384
Long-term liabilities			
Loan payable			2,400,000
Total liabilities			$ 3,327,384
Stockholders' equity			
Capital stock		$ 2,265,000	
Retained earnings		1,940,976	
Total stockholders' equity			4,205,976
Total liabilities and equity			$7,533,360

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