

# CHAPTER 3

## The Accounting Information System

### ANSWERS TO QUESTIONS

1. Examples are:
  - (a) Payment of accounts payable.
  - (b) Collection of accounts receivable from a customer. Also, a purchase of supplies or equipment for cash.
  - (c) Conversion of accounts payable to note payable.

LO: 1, Bloom: K, Difficulty: Simple, Time: 3-5, AICPA BB: Communication, AICPA FC: Reporting, AICPA PC: None

2. Transactions (a), (b), (d) are considered business transactions and are recorded in the accounting records because a change in assets, liabilities, and/or owners'/stockholders' equity has been effected as a result of a transfer of values from one party to another. Transactions (c) and (e) are not business transactions because a transfer of values has not resulted, nor can the event be considered financial in nature and capable of being expressed in terms of money.

LO: 1, Bloom: K, Difficulty: Simple, Time: 3-5, AICPA BB: Communication, AICPA FC: Reporting, AICPA PC: None

3. Transaction (a): Accounts Receivable (debit), Service Revenue (credit).  
Transaction (b): Cash (debit), Accounts Receivable (credit).  
Transaction (c): Supplies (debit), Accounts Payable (credit).  
Transaction (d): Delivery Expense (debit), Cash (credit).

LO: 1, 2, Bloom: K, Difficulty: Simple, Time: 3-5, AICPA BB: Communication, AICPA FC: Reporting, AICPA PC: None

4. Revenue and expense accounts are referred to as temporary or nominal accounts because each period they are closed out to Income Summary in the closing process. Their balances are reduced to zero at the end of the accounting period; therefore, the term temporary or nominal is given to these accounts.

LO: 1, Bloom: K, Difficulty: Simple, Time: 3-5, AICPA BB: Communication, AICPA FC: Reporting, AICPA PC: None

5. Andrea is not correct. The double-entry system means that for every debit amount there must be a credit amount and vice-versa. At least two accounts are affected and debits must equal credits. It does not mean that each transaction must be recorded twice.

LO: 1, Bloom: C, Difficulty: Simple, Time: 3-5, AICPA BB: Communication, AICPA FC: Reporting, AICPA PC: None

6. Although it is not absolutely necessary that a trial balance be prepared periodically, it is customary and desirable. The trial balance accomplishes two principal purposes:
  - (1) It tests the accuracy of the entries in that it proves that debits and credits of an equal amount are in the ledger.
  - (2) It provides a list of ledger accounts and their balances, which may be used in preparing the financial statements and in supplying financial data about the concern.

LO: 3, Bloom: C, Difficulty: Simple, Time: 3-5, AICPA BB: Communication, AICPA FC: Reporting, AICPA PC: None

7.
  - (a) Real account; balance sheet.
  - (b) Real account; balance sheet.
  - (c) Inventory is generally considered a real account appearing on the balance sheet. (Note: Inventory has the elements of a nominal account when the periodic inventory system is used. It may appear on the income statement when the multiple-step format is used under a periodic inventory system.)
  - (d) Real account; balance sheet.
  - (e) Real account; balance sheet.

- (f) Nominal account; income statement.
- (g) Nominal account; income statement.
- (h) Real account; balance sheet.

LO: 1, Bloom: K, Difficulty: Simple, Time: 3-5, AICPA BB: Communication, AICPA FC: Reporting, AICPA PC: None

**Questions Chapter 3 (Continued)**

8. At December 31, the three days' wages due to the employees represent an accrued expense which creates a current liability, salaries and wages payable. The related expense must be recorded in this period to properly reflect the expense incurred.

LO: 3, Bloom: K, Difficulty: Simple, Time: 3-5, AICPA FC: Reporting, AICPA PC: None

9. (a) In a service company, revenues are service revenues and expenses are operating expenses. In a merchandising company, revenues are sales revenues and expenses consist of cost of goods sold plus operating expenses.  
 (b) The measurement process in a merchandising company consists of comparing the sales price of the merchandise inventory to the cost of goods sold and operating expenses.

LO: 6, Bloom: K, Difficulty: Simple, Time: 3-5, AICPA FC: Reporting, AICPA PC: None

10. (a) No change.  
 (b) Before closing, balances exist in these accounts; after closing, no balances exist.  
 (c) Before closing, balances exist in these accounts; after closing, no balances exist.  
 (d) Before closing, a balance exists in this account exclusive of any dividends or the net income or net loss for the period; after closing, the balance is increased or decreased by the amount of net income or net loss and decreased by dividends declared.  
 (e) No change.

LO: 5, Bloom: C, Difficulty: Simple, Time: 3-5, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

11. Adjusting entries are prepared prior to the preparation of financial statements in order to bring the accounts up to date and are necessary (1) to achieve a proper recognition of revenues and expenses in measuring income and (2) to achieve an accurate presentation of assets, liabilities and stockholders' equity.

LO: 3, Bloom: K, Difficulty: Simple, Time: 3-5, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

12. Closing entries are prepared to transfer the balances of nominal accounts to capital (retained earnings) after the adjusting entries have been recorded and the financial statements prepared. Closing entries are necessary to reduce the balances in nominal accounts to zero in order to prepare the accounts for the next period's transactions.

LO: 5, Bloom: K, Difficulty: Simple, Time: 3-5, AICPA FC: Reporting, AICPA PC: None

13.  $\text{Cost} - \text{Salvage Value} = \text{Depreciable Cost}$ :  $\$4,000 - \$0 = \$4,000$ .  $\text{Depreciable Cost} \div \text{Useful Life} = \text{Depreciation Expense for One Year}$   $\$4,000 \div 5 \text{ years} = \$800$  per year. The asset was used for 6 months (7/1 – 12/31), therefore 1/2-year of depreciation expense should be reported. Annual depreciation  $\times 6/12 =$  amount to be reported on the 2020 income statement:  $\$800 \times 6/12 = \underline{\$400}$ .

LO: 3, Bloom: AP, Difficulty: Simple, Time: 5, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

**14.**

December 31	
Interest Receivable .....	10,000
Interest Revenue .....	10,000
(To record accrued interest revenue on loan)	

Accrued expenses result from the same causes as accrued revenues. In fact, an accrued expense on the books of one company (the borrower) is an accrued revenue to another company (the lender).

LO: 3, Bloom: AP, Difficulty: Simple, 3 Time: -5, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

### Questions Chapter 3 (Continued)

- \*15.** Under the cash basis of accounting, revenue is recorded only when cash is received and expenses are recorded only when paid. Under the accrual basis of accounting, revenue is recognized when a performance obligation is satisfied and expenses are recognized when incurred, without regard to the time of the receipt or payment of cash.

A cash-basis balance sheet and income statement are incomplete and inaccurate in comparison to accrual-basis financial statements. The accrual basis matches effort (expenses) with accomplishment (revenues) in the income statement while the cash basis only presents cash receipts and cash disbursements. The accrual basis balance sheet contains receivables, payables, accruals, prepayments, and deferrals while a cash-basis balance sheet shows none of these.

LO: 7, Bloom: C, Difficulty: Simple, Time: 3-5, AICPA FC: Measurement, Reporting, AICPA PC: None

- \*16.** Salaries and wages paid during the year will include the payment of any wages attributable to the prior year but unpaid at the end of the prior year. This amount is an expense of the prior year and not of the current year, and thus should be subtracted in determining salaries and wages expense. Similarly, salaries and wages paid during the year will not include any salaries and wages attributable to hours worked during the current year but not actually paid until the following year. This should be added in determining salaries and wages expense.

LO: 7, Bloom: K, Difficulty: Simple, Time: 3-5, AACSB: None, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

- \*17.** Although similar to the strict cash basis, the modified cash basis of accounting requires that expenditures for capital items be charged against income over all the periods to be benefited. This is done through conventional accounting methods, such as depreciation and amortization and inventory. Under the strict cash basis, expenditures would be recognized as expenses in the period in which the corresponding cash disbursements are made.

LO: 8, Bloom: C, Difficulty: Simple, Time: 3-5, AACSB: None, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

- \*18.** Reversing entries are made at the beginning of the period to reverse accruals and some deferrals. Reversing entries are not required. They are made to simplify the recording of certain transactions that will occur later in the period that relate to previous adjustments. The same net results will be attained whether or not reversing entries are recorded.

LO: 8, Bloom: K, Difficulty: Simple, Time: 3-5, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

- \*19.** Disagree. A worksheet is not a permanent accounting record and its use is not required in the accounting cycle. The worksheet is an informal device for accumulating and sorting information needed for the financial statements. Its use is optional in helping to prepare financial statements.

LO: 9, Bloom: C, Difficulty: Simple, Time: 3-5, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

# SOLUTIONS TO BRIEF EXERCISES

## BRIEF EXERCISE 3.1

May	1	Cash .....	4,000	
		Common Stock.....		4,000
	3	Equipment.....	1,100	
		Accounts Payable .....		1,100
	13	Rent Expense .....	400	
		Cash .....		400
	21	Accounts Receivable .....	500	
		Service Revenue .....		500

LO: 2, Bloom: AP, Difficulty: Simple, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

## BRIEF EXERCISE 3.2

Aug.	2	Cash .....	12,000	
		Equipment.....	2,500	
		Owner's Capital .....		14,500
	7	Supplies .....	500	
		Accounts Payable .....		500
	12	Cash .....	1,300	
		Accounts Receivable .....	670	
		Service Revenue .....		1,970
	15	Rent Expense.....	600	
		Cash .....		600
	19	Supplies Expense.....	230	
		Supplies (\$500 – \$270).....		230

LO: 2, Bloom: AP, Difficulty: Simple, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

### BRIEF EXERCISE 3.3

July	1	Prepaid Insurance .....	15,000	
		Cash .....		15,000
Dec.	31	Insurance Expense.....	2,500	
		Prepaid Insurance		
		(\$15,000 X 6/12 X 1/3) .....		2,500

LO: 2, 3, Bloom: AP, Difficulty: Simple, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

### BRIEF EXERCISE 3.4

July	1	Cash .....	15,000	
		Unearned Service Revenue .....		15,000
Dec.	31	Unearned Service Revenue .....	3,000	
		Service Revenue	2,500	
		(\$15,000 X 6/12 X 1/3) .....		2,500

LO: 2, 3, Bloom: AP, Difficulty: Simple, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

### BRIEF EXERCISE 3.5

Feb.	1	Prepaid Insurance .....	720,000	
		Cash .....		720,000
June	30	Insurance Expense.....	150,000	
		Prepaid Insurance		
		(\$720,000 X 5/24) .....		150,000

LO: 2, 3, Bloom: AP, Difficulty: Simple, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

### BRIEF EXERCISE 3.6

Nov.	1	Cash .....	2,400	
		Unearned Rent Revenue.....		2,400
Dec.	31	Unearned Rent Revenue .....	1,600	
		Rent Revenue		
		(\$2,400 X 2/3) .....		1,600

LO: 2, 3, Bloom: AP, Difficulty: Simple, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

### BRIEF EXERCISE 3.7

<b>Dec.</b>	<b>31</b>	<b>Salaries and Wages Expense .....</b>	<b>4,800</b>	
		<b>Salaries and Wages Payable</b>		
		<b>(\$8,000 X 3/5) .....</b>		<b>4,800</b>
<b>Jan.</b>	<b>2</b>	<b>Salaries and Wages Payable.....</b>	<b>4,800</b>	
		<b>Salaries and Wages Expense .....</b>	<b>3,200</b>	
		<b>Cash .....</b>		<b>8,000</b>

LO: 2, 3, Bloom: AP, Difficulty: Simple, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

### BRIEF EXERCISE 3.8

<b>Dec.</b>	<b>31</b>	<b>Interest Receivable.....</b>	<b>300</b>	
		<b>Interest Revenue .....</b>		<b>300</b>
<b>Feb.</b>	<b>1</b>	<b>Cash .....</b>	<b>12,400</b>	
		<b>Notes Receivable.....</b>		<b>12,000</b>
		<b>Interest Receivable.....</b>		<b>300</b>
		<b>Interest Revenue (\$12,000 X 10% X 1/12).</b>		<b>100</b>

LO: 3, Bloom: AP, Difficulty: Simple, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

### BRIEF EXERCISE 3.9

<b>Aug.</b>	<b>31</b>	<b>Interest Expense.....</b>	<b>300</b>	
		<b>Interest Payable.....</b>		<b>300</b>
	<b>31</b>	<b>Accounts Receivable .....</b>	<b>1,400</b>	
		<b>Service Revenue .....</b>		<b>1,400</b>
	<b>31</b>	<b>Salaries and Wages Expense .....</b>	<b>700</b>	
		<b>Salaries and Wages Payable .....</b>		<b>700</b>
	<b>31</b>	<b>Bad Debt Expense .....</b>	<b>900</b>	
		<b>Allowance for Doubtful Accounts .....</b>		<b>900</b>

LO: 3, Bloom: AP, Difficulty: Simple, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

### BRIEF EXERCISE 3.10

Depreciation Expense .....	2,000	
Accumulated Depreciation—Equipment.....		2,000
 Equipment .....	<b>\$30,000</b>	
Less: Accumulated Depreciation—Equipment.....	<u>2,000</u>	<b>\$28,000</b>

LO: 3, Bloom: AP, Difficulty: Simple, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

### BRIEF EXERCISE 3.11

Sales Revenue .....	808,900	
Interest Revenue .....	13,500	
Income Summary.....		822,400
 Income Summary .....	780,300	
Cost of Goods Sold .....		556,200
Administrative Expenses .....		189,000
Income Tax Expense .....		35,100
 Income Summary (\$822,400* - \$780,300).....	42,100	
Retained Earnings .....		42,100
 Retained Earnings .....	18,900	
Dividends .....		18,900

LO: 4, Bloom: AP, M Difficulty: Moderate, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

### \*BRIEF EXERCISE 3.12

(a) Cash receipts .....	\$142,000
+ Increase in accounts receivable	
(\$18,600 – \$13,000) .....	<u>5,600</u>
Service revenue .....	<u>\$147,600</u>
 (b) Payments for operating expenses.....	\$ 97,000
– Increase in prepaid expenses	
(\$23,200 – \$17,500) .....	<u>(5,700)</u>
Operating expenses.....	<u>\$ 91,300</u>

LO: 6, Bloom: AP, Difficulty: Moderate, Time: 7-10, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

**\*BRIEF EXERCISE 3.13**

(a)	Salaries and Wages Payable .....	4,200*	
	Salaries and Wages Expense.....		4,200
(b)	Salaries and Wages Expense.....	7,000	
	Cash.....		7,000
(c)	Salaries and Wages Payable .....	4,200	
	Salaries and Wages Expense (\$7,000 - \$4,200).....	2,800	
	Cash.....		7,000

LO: 7, Bloom: C, Difficulty: Moderate, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

**EXERCISE 3.1 (15–20 minutes)**

Apr.	2	Cash .....	32,000	
		Equipment.....	14,000	
		Owner's Capital .....		46,000
	2	No entry—not a transaction.		
	3	Supplies .....	700	
		Accounts Payable .....		700
	7	Rent Expense.....	600	
		Cash .....		600
	11	Accounts Receivable .....	1,100	
		Service Revenue .....		1,100
	12	Cash .....	3,200	
		Unearned Service Revenue .....		3,200
	17	Cash .....	2,300	
		Service Revenue .....		2,300
	21	Insurance Expense.....	110	
		Cash .....		110
	30	Salaries and Wages Expense .....	1,160	
		Cash .....		1,160



30	Supplies Expense.....	120	
	Supplies.....		120
30	Equipment.....	6,100	
	Owner's Capital .....		6,100

LO: 2, Bloom: AP, Difficulty: Simple, Time: 15-20, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

### EXERCISE 3.2 (10–15 minutes)

#### Wanda Landowska Company Trial Balance April 30, 2020

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 4,800	
.....		
.....		
Accounts Receivable .....	2,750	
Prepaid Insurance (\$700 + \$100).....	800	
Equipment .....	8,000	
Accounts Payable (\$4,500 – \$100) .....		\$ 4,400
Property Taxes Payable.....		560
Owner's Capital (\$11,200 + \$1,500) .....		12,700
Owner's Drawing .....	1,500	
Service Revenue .....		6,690
Salaries and Wages Expense.....	4,200	
Advertising Expense (\$1,100 + \$300) .....	1,400	
Property Tax Expense (\$800 + \$100) .....	900	
	<u>\$24,350</u>	<u>\$24,350</u>

LO: 2, Bloom: AP, Difficulty: Simple, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

### EXERCISE 3.3 (15–20 minutes)

The ledger accounts are reproduced below, and corrections are shown in the accounts.

<b>Cash</b>				<b>Accounts Payable</b>			
	Bal.	5,912	(4)		Bal.	7,044	
	(1)	450					
	Bal.	6,172					
<b>Accounts Receivable</b>				<b>Common Stock</b>			

Bal.	<u>5,240</u>	(1)	<u>450</u>	Bal.	8,000
Bal,	<u>4,790</u>				

<u>Supplies</u>			<u>Retained Earnings</u>		
Bal.	2,967		Bal.	2,000	
(1)	[\$1,830 - \$1,380]	(4)	[\$95 + \$95]		

**EXERCISE 3.3 (Continued)**

<u>Equipment</u>			<u>Service Revenue</u>			
Bal.	6,100		Bal.	5,200		
(2)	<u>3,200</u>		(3)	2,025		
Bal.	9,300		(5)	<u>80</u>		
			Bal.	7,305		
			<u>Office Expense</u>			
			Bal.	<u>4,320</u>	(2)	3,200
			Bal.	<u>1,120</u>		
(3)	[\$2,250 - \$225]					

**Blues Traveler Corporation  
Trial Balance (corrected)  
April 30, 2020**

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 6,172	
.....		
.....		
Accounts Receivable .....	4,790	
Supplies .....	2,967	
Equipment .....	9,300	
Accounts Payable .....		\$ 7,044
Common Stock .....		8,000
Retained Earnings .....		2,000
Service Revenue .....		7,305
Office Expense .....	<u>1,120</u>	
	<u>\$24,349</u>	<u>\$24,349</u>

LO: 2, Bloom: AP, Difficulty: Simple, Time: 15-20, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

### EXERCISE 3.4 (10–15 minutes)

**Watteau Co.  
Trial Balance  
June 30, 2020**

	<u>Debit</u>	<u>Credit</u>
Cash (\$2,870 + \$180 – \$65 – \$65) .....	\$ 2,920	
Accounts Receivable (\$3,231 – \$180) .....	3,051	
Supplies (\$800 – \$500) .....	300	
Equipment (\$3,800 + \$500) .....	4,300	
Accounts Payable (\$2,666 – \$206 – \$260) .....		\$ 2,200
Unearned Service Revenue (\$1,200 – \$325) .....		875
Common Stock .....		6,000
Dividends .....	575	
Retained Earnings .....		3,000
Service Revenue (\$2,380 + \$801 [\$890 – \$89] + \$325) ..		3,506
Salaries and Wages Expense (\$3,400 + \$670 – \$575)...	3,495	
Office Expense .....	940	
	<u>\$15,581</u>	<u>\$15,581</u>

LO: 2, Bloom: AP, Difficulty: Simple, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

### EXERCISE 3.5 (10–15 minutes)

1. Depreciation Expense (\$250 X 3) .....	750	
Accumulated Depreciation—Equipment .....		750
2. Unearned Rent Revenue (\$9,300 X 1/3) .....	3,100	
Rent Revenue .....		3,100
3. Interest Expense .....	500	
Interest Payable .....		500
4. Supplies Expense .....	1,950	
Supplies (\$2,800 – \$850) .....		1,950
5. Insurance Expense (\$300 X 3) .....	900	
Prepaid Insurance .....		900

LO: 3, Bloom: AP, Difficulty: Moderate, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

### EXERCISE 3.6 (10–15 minutes)

1.	Accounts Receivable .....	750	
	Service Revenue .....		750
2.	Utilities Expenses .....	520	
	Accounts Payable .....		520
3.	Depreciation Expense .....	400	
	Accumulated Depreciation – Equipment .....		400
	Interest Expense .....	500	
	Interest Payable .....		500
4.	Insurance Expense (\$12,000 X 1/12) .....	1,000	
	Prepaid Insurance .....		1,000
5.	Supplies Expense (\$1,600 – \$500) .....	1,100	
	Supplies .....		1,100

LO: 3, Bloom: AP, Difficulty: Moderate, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

### EXERCISE 3.7 (15–20 minutes)

(a)	Ending balance of supplies	\$700	
	Add: Adjusting entry	950	
	Deduct: Purchases	<u>850</u>	
	Beginning balance of supplies	<u>\$800</u>	
(b)	Total prepaid insurance	\$4,800	(\$400 X 12)
	Amount used (6 X \$400)	<u>2,400</u>	
	Present balance	<u>\$2,400</u>	

The policy was purchased six months ago (August 1, 2019)

(c) The entry in January to record salary and wages expense was

Salaries and Wages Expense .....	1,800	
Salaries and Wages Payable .....	700	
Cash .....		2,500

### EXERCISE 3.7 (Continued)

The “T” account for salaries payable is

Salaries and Wages Payable			
Paid	700	Beg. Bal.	?
January			
		End Bal.	800

The beginning balance is therefore

Ending balance of salaries and wages payable	\$ 800
Plus: Reduction of salaries and wages payable	<u>700</u>
Beginning balance of salaries and wages payable	<u>\$1,500</u>

(d) Service revenue	\$2,000
Cash received	<u>(1,600)</u>
Unearned revenue reduced	<u>\$ 400</u>

Ending unearned revenue January 31, 2020	\$ 750
Plus: Unearned revenue reduced	<u>400</u>
Beginning unearned revenue December 31, 2019	<u>\$1,150</u>

LO: 3, Bloom: AP, Difficulty: Complex, Time: 15-20, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

### EXERCISE 3.8 (10–15 minutes)

1. Salaries and Wages Expense.....	1,900	
Salaries and Wages Payable.....		1,900
2. Utilities Expenses .....	600	
Accounts Payable.....		600
3. Interest Expense (\$30,000 X 8% X 1/12) .....	200	
Interest Payable .....		200
4. Telephone and Internet Expense .....	117	
Accounts Payable.....		117

LO: 3, Bloom: AP, Difficulty: Moderate, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

**EXERCISE 3.9 (15–20 minutes)**

(a)	10/15	Salaries and Wages Expense .....	800	
		Cash .....		800
		(To record payment of October 15 payroll)		
	10/17	Accounts Receivable .....	2,400	
		Service Revenue .....		2,400
		(To record revenue for services performed for which payment has not yet been received)		
	10/20	Cash .....	650	
		Unearned Service Revenue .....		650
		(To record receipt of cash for services not yet performed)		
(b)	10/31	Supplies Expense.....	470	
		Supplies .....		470
		(To record the use of supplies During October)		
	10/31	Accounts Receivable .....	1,650	
		Service Revenue .....		1,650
		(To record revenue for services performed for which payment has not yet been received)		
	10/31	Salaries and Wages Expense .....	600	
		Salaries and Wages Payable .....		600
		(To record liability for accrued payroll)		
	10/31	Unearned Service Revenue .....	400	
		Service Revenue .....		400
		(To reduce the Unearned Service Revenue account for service that has been performed)		

LO: 2, 3, Bloom: AP, Difficulty: Moderate, Time: 15-20, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

**EXERCISE 3.10 (25–30 minutes)**

(a)	1.	Aug. 31	Insurance Expense ( $\$4,500 \times 3/12$ ).....	1,125	
			Prepaid Insurance .....		1,125
	2.	Aug. 31	Supplies Expense ( $\$2,600 - \$450$ ).....	2,150	
			Supplies .....		2,150
	3.	Aug. 31	Depreciation Expense .....	1,080	
			Accumulated Depreciation— Buildings .....		1,080
			( $\$120,000^* - \$12,000 = \$108,000$ ; $\$108,000 \times 4\% = \$4,320$ per year; $\$4,320 \times 3/12 = \$1,080$ ) * $\$120,000 \times 10\%$		
	Aug. 31	Depreciation Expense .....	360		
		Accumulated Depreciation— Equipment.....		360	
		( $\$16,000 - \$1,600^{**} = \$14,400$ ; $\$14,400 \times 10\% = \$1,440$ ; $\$1,440 \times 3/12 = \$360$ ) ** $\$16,000 \times 10\%$			
	4.	Aug. 31	Unearned Rent Revenue .....	3,800	
			Rent Revenue .....		3,800
	5.	Aug. 31	Salaries and Wages Expense.....	375	
			Salaries and Wages Payable .....		375
	6.	Aug. 31	Accounts Receivable.....	800	
			Rent Revenue .....		800
	7.	Aug. 31	Interest Expense .....	1,200	
			Interest Payable.....		1,200
			[ $(\$60,000 \times 8\%) \times 3/12$ ]		

**EXERCISE 3.10 (Continued)**

(b)

**Greco Resort  
Adjusted Trial Balance  
August 31, 2020**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 19,600	
Accounts Receivable .....	800	
Prepaid Insurance (\$4,500 – \$1,125) .....	3,375	
Supplies (\$2,600 – \$2,150) .....	450	
Land .....	20,000	
Buildings.....	120,000	
Accumulated Depreciation—Buildings .....		\$ 1,080
Equipment .....	16,000	
Accumulated Depreciation—Equipment .....		360
Accounts Payable .....		4,500
Unearned Rent Revenue (\$4,600 – \$3,800).....		800
Salaries and Wages Payable .....		375
Interest Payable .....		1,200
Mortgage Payable .....		60,000
Common Stock.....		91,000
Retained Earnings.....		9,000
Dividends.....	5,000	
Rent Revenue (\$76,200 + \$3,800 + \$800) .....		80,800
Salaries and Wages Expense (\$44,800 + \$375).....	45,175	
Utilities Expenses .....	9,200	
Maintenance and Repair Expense .....	3,600	
Insurance Expense .....	1,125	
Supplies Expense .....	2,150	
Depreciation Expense (\$1,080 + \$360).....	1,440	
Interest Expense .....	1,200	
	<b>\$249,115</b>	<b>\$249,115</b>

LO: 3, Bloom: AP, Difficulty: Complex, Time: 25-30, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None



**EXERCISE 3.11 (20–25 minutes)**

(a) **ANDERSON COOPER CO.**  
**Income Statement**  
**For the Year Ended December 31, 2020**

<b>Revenues</b>		
Service revenue .....		<b>\$11,590</b>
<b>Expenses</b>		
Salaries and wages expense .....	<b>\$6,840</b>	
Rent expense .....	<b>2,260</b>	
Depreciation expense .....	<b>145</b>	
Interest expense .....	<b>83</b>	
		<b><u>9,328</u></b>
<b>Net Income .....</b>		<b><u>\$ 2,262*</u></b>

(b) **ANDERSON COOPER CO.**  
**Retained Earnings Statement**  
**For the Year Ended December 31, 2020**

Retained earnings, January 1 .....	<b>\$11,310</b>
Add: Net income .....	<b><u>2,262*</u></b>
	<b>13,572</b>
Less: Dividends .....	<b><u>3,000</u></b>
Retained earnings, December 31 .....	<b><u>\$10,572**</u></b>

(c) **ANDERSON COOPER CO.**  
**Balance Sheet**  
**December 31, 2020**

<b><u>Assets</u></b>		
<b>Current Assets</b>		
Cash .....		<b>\$19,472</b>
Accounts receivable .....		<b>6,920</b>
Prepaid rent .....		<b><u>2,280</u></b>
<b>Total current assets .....</b>		<b>28,672</b>
<b>Property, plant, and equipment</b>		
Equipment .....	<b>\$18,050</b>	
Accumulated depreciation – equipment .....	<b><u>(4,895)</u></b>	<b><u>13,155</u></b>
<b>Total assets .....</b>		<b><u>\$41,827</u></b>

## EXERCISE 3.11 (Continued)

### Liabilities and Stockholders' Equity

<b>Current liabilities</b>		
Accounts payable .....		\$ 5,472
Interest payable .....		83
Notes payable .....		<u>5,700</u>
<b>Total current liabilities .....</b>		<b>11,255</b>
<b>Stockholders' equity</b>		
Common stock .....	\$20,000	
Retained earnings .....	<u>10,572*</u>	<u>30,572</u>
<b>Total liabilities and stockholders' equity .....</b>		<b><u>\$41,827</u></b>

**\*Beg. Balance + Net Income – Dividends = Ending Balance**  
**\$11,310 + \$2,262 – \$3,000 = \$10,572**

LO: 4, Bloom: AP, Difficulty: Moderate, Time: 20-25, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

## EXERCISE 3.12 (20–25 Minutes)

(a) **SANTO DESIGN**  
**Income Statement**  
**For the Year Ended December 31, 2020**

<b>Revenues</b>		
Service revenue .....		\$61,500
<b>Expenses</b>		
Salaries and wages expense .....	\$11,300	
Depreciation expense .....	7,000	
Rent expense .....	4,000	
Supplies expense .....	3,400	
Insurance expense .....	850	
Interest expense .....	<u>150</u>	
<b>Total expenses .....</b>		<b><u>26,700</u></b>
<b>Net income .....</b>		<b><u>\$34,800</u></b>

**SANTO DESIGN**  
**Retained Earnings Statement**  
**For the Year Ended December 31, 2020**

Retained earnings, January 1 .....	\$ 3,500
Add: Net income .....	<u>34,800</u>
Retained earnings, December 31 .....	<b><u>\$38,300</u></b>

## EXERCISE 3.12 (Continued)

(a) Continued

### SANTO DESIGN Balance Sheet December 31, 2020

Assets		
Cash.....		\$11,350
Accounts receivable .....		21,500
Supplies.....		5,000
Prepaid insurance.....		2,500
Equipment .....	\$60,000	
Less: Accumulated depreciation – equipment.....	<u>35,000</u>	<u>25,000</u>
<b>Total assets .....</b>		<b><u>\$65,350</u></b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Notes payable.....	\$ 5,000	
Accounts payable .....	5,000	
Interest payable.....	150	
Unearned service revenue.....	5,600	
Salaries and wages payable.....	<u>1,300</u>	
<b>Total liabilities .....</b>		<b>\$17,050</b>
<b>Stockholders' equity</b>		
Common stock .....	\$10,000	
Retained earnings .....	<u>38,300</u>	<u>48,300</u>
<b>Total liabilities and stockholders' equity.....</b>		<b><u>\$65,350</u></b>

(b) (1) Based on interest payable at December 31, 2020, interest is \$25 per month (\$150/6 months) or 0.5% of the note payable.  $0.5\% \times 12 = 6\%$  interest per year.

(2) Salaries and Wages Expense, \$11,300 less Salaries and Wages Payable 12/31/20, \$1,300 = \$10,000. Total payments, \$17,500 – \$10,000 = \$7,500 Salaries and Wages Payable 12/31/19.

LO: 3, 4, Bloom: AP, Difficulty: Moderate, Time: 20-25, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

**EXERCISE 3.13 (10–15 minutes)**

(a) Sales revenue .....		\$800,000
Less: Sales returns and allowances .....	\$24,000	
Sales discounts .....	<u>15,000</u>	<u>39,000</u>
Net sales .....		<u>\$761,000</u>
(b) Sales Revenue .....	800,000	
Income Summary .....		800,000
Income Summary .....	39,000	
Sales Returns and Allowances .....		24,000
Sales Discounts .....		15,000

LO: 4, 5 Bloom: AP, Difficulty: Simple, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

**EXERCISE 3.14 (10–15 minutes)**

Sales Revenue .....	350,000	
Income Summary .....		350,000
Income Summary .....	329,000	
Cost of Goods Sold .....		208,000
Sales Returns and Allowances .....		13,000
Sales Discounts .....		8,000
Delivery Expense .....		7,000
Insurance Expense .....		12,000
Rent Expense .....		20,000
Salaries and Wages Expense .....		61,000
Income Summary (\$350,000 - \$329,000) .....	21,000	
Retained Earnings .....		21,000

LO: 4, Bloom: AP, Difficulty: Moderate, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

**EXERCISE 3.15 (10–15 minutes)**

- |                                    |                                    |
|------------------------------------|------------------------------------|
| (a) \$9,000 (\$90,000 - \$81,000)  | (d) \$100,000 (\$95,000 + \$5,000) |
| (b) \$25,000 (\$81,000 - \$56,000) | (e) \$57,000 (\$95,000 - \$38,000) |
| (c) \$10,000 (\$25,000 - \$15,000) |                                    |

LO: 5, Bloom: AP, Difficulty: Simple, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

**EXERCISE 3.16 (10–15 minutes)**

<b>Sales Revenue</b> .....	<b>410,000</b>	
<b>Cost of Goods Sold</b> .....		<b>225,700</b>
<b>Sales Returns and Allowances</b> .....		<b>12,000</b>
<b>Sales Discounts</b> .....		<b>15,000</b>
<b>Selling Expenses</b> .....		<b>16,000</b>
<b>Administrative Expenses</b> .....		<b>38,000</b>
<b>Income Tax Expense</b> .....		<b>30,000</b>
<b>Income Summary</b> .....		<b>73,300</b>

(or)

<b>Sales Revenue</b> .....	<b>410,000</b>	
<b>Income Summary</b> .....		<b>410,000</b>
<b>Income Summary</b> .....	<b>336,700</b>	
<b>Cost of Goods Sold</b> .....		<b>225,700</b>
<b>Sales Returns and Allowances</b> .....		<b>12,000</b>
<b>Sales Discounts</b> .....		<b>15,000</b>
<b>Selling Expenses</b> .....		<b>16,000</b>
<b>Administrative Expenses</b> .....		<b>38,000</b>
<b>Income Tax Expense</b> .....		<b>30,000</b>
<b>Income Summary (\$410,000 - \$336,700)</b> .....	<b>73,300</b>	
<b>Retained Earnings</b> .....		<b>73,300</b>
<b>Retained Earnings</b> .....	<b>18,000</b>	
<b>Dividends</b> .....		<b>18,000</b>

LO: 4, Bloom: AP, Difficulty: Moderate, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

**EXERCISE 3.17 (10–15 minutes)**
**J1**

<b>Date</b>	<b>Account Titles and Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
<b>Mar. 1</b>	<b>Cash</b> <b>    Common Stock</b> <b>        (Investment of cash in business)</b>		<b>50,000</b>	<b>50,000</b>
<b>3</b>	<b>Land</b> <b>Buildings</b> <b>Equipment</b> <b>    Cash</b> <b>        (Purchased Michelle Wie’s Golf Land)</b>		<b>10,000</b> <b>22,000</b> <b>6,000</b>	<b>38,000</b>
<b>5</b>	<b>Advertising Expense</b> <b>    Cash</b> <b>        (Paid for advertising)</b>		<b>1,600</b>	<b>1,600</b>
<b>6</b>	<b>Prepaid Insurance</b> <b>    Cash</b> <b>        (Paid for one-year insurance policy)</b>		<b>1,480</b>	<b>1,480</b>
<b>10</b>	<b>Equipment</b> <b>    Accounts Payable</b> <b>        (Purchased equipment on account)</b>		<b>2,500</b>	<b>2,500</b>
<b>18</b>	<b>Cash</b> <b>    Service Revenue</b> <b>        (Received cash for services performed)</b>		<b>1,200</b>	<b>1,200</b>
<b>25</b>	<b>Dividends</b> <b>    Cash</b> <b>        (Declared and paid a \$500 cash dividend)</b>		<b>500</b>	<b>500</b>
<b>30</b>	<b>Salaries and Wages Expense</b> <b>    Cash</b> <b>        (Paid wages expense)</b>		<b>900</b>	<b>900</b>
<b>30</b>	<b>Accounts Payable</b> <b>    Cash</b> <b>        (Paid creditor on account)</b>		<b>2,500</b>	<b>2,500</b>
<b>31</b>	<b>Cash</b> <b>    Service Revenue</b> <b>        (Received cash for services performed)</b>		<b>750</b>	<b>750</b>

LO: 2, Bloom: AP, Difficulty: Moderate, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

**\*EXERCISE 3.18 (15–20 minutes)**

**Jill Accardo, M.D.  
Conversion of Cash Basis to Accrual Basis  
For the Year 2020**

Excess of cash collected over cash disbursed (\$142,600 – \$55,470)	<b>\$87,130</b>
Add increase in accounts receivable (\$9,250 – \$15, 927)	6,677
Deduct increase in unearned service revenue (\$2,840 – \$4,111)	(1,271)
Add decrease in accrued expenses (\$3,435 – \$2,108)	1,327
Add increase in prepaid expenses (\$1,917 – \$3,232)	<u>1,315</u>
Net income on an accrual basis	<u><b>\$95,178</b></u>

**Alternate solution:**

<p style="text-align: center;"><b>Jill Accardo, M.D. Conversion of Income Statement Data from Cash Basis to Accrual Basis For the Year 2020</b></p>				
	<b>Cash</b>	<b><u>Adjustments</u></b>		<b>Accrual</b>
	<b><u>Basis</u></b>	<b><u>Add</u></b>	<b><u>Deduct</u></b>	<b><u>Basis</u></b>
<b>Collections from customers:</b>	<b>\$142,600</b>			<b>\$142,600</b>
–Accounts receivable, Jan. 1			<b>\$9,250</b>	<b>(\$9,250)</b>
+Accounts receivable, Dec. 31		<b>\$15,927</b>		<b>\$15,927</b>
+Unearned service revenue, Jan. 1		<b>\$2,840</b>		<b>\$2,840</b>
–Unearned service revenue, Dec. 31			<b>\$4,111</b>	<b>(\$4,111)</b>
<b>Service revenue</b>	<b><u>\$142,600</u></b>	<b><u>\$18,767</u></b>	<b><u>\$13,361</u></b>	<b><u>\$148,006</u></b>
<b>Disbursements for expenses:</b>	<b>\$55,470</b>			
–Accrued expenses, Jan. 1			<b>\$3,435</b>	
+Accrued expenses, Dec. 31		<b>\$2,108</b>		
+Prepaid expenses, Jan. 1		<b>\$1,917</b>		
–Prepaid expenses, Dec. 31			<b><u>\$3,232</u></b>	
<b>Operating expenses</b>	<b><u>\$55,470</u></b>	<b><u>\$4,025</u></b>	<b><u>\$ 6,667</u></b>	<b><u>52,828</u></b>
<b>Net income—cash basis</b>	<b><u>\$ 87,130</u></b>			<b><u>\$ 95,178</u></b>
<b>Net income—accrual basis</b>				

LO: 6, Bloom: AP, Difficulty: Moderate, Time: 15-20, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

**\*EXERCISE 3.19 (10–15 minutes)**

**(a) Wayne Rogers Corp.  
Income Statement (Cash Basis)  
For the Year Ended December 31,**

	<u>2019</u>	<u>2020</u>
Sales revenue	\$295,000	\$515,000
Expenses	<u>225,000</u>	<u>272,000</u>
Net income	<u>\$ 70,000</u>	<u>\$243,000</u>

**(b) Wayne Rogers Corp.  
Income Statement (Accrual Basis)  
For the Year Ended December 31,**

	<u>2019</u>	<u>2020</u>
Sales* revenue	\$485,000	\$445,000
Expenses**	<u>277,000</u>	<u>255,000</u>
Net income	<u>\$208,000</u>	<u>\$190,000</u>

\*2019: \$295,000 + \$160,000 + \$30,000 = \$485,000

2020: \$355,000 + \$90,000 = \$445,000

\*\*2019: \$185,000 + \$67,000 + \$25,000 = \$277,000

2020: \$40,000 + \$160,000 + \$55,000 = \$255,000

LO: 6, Bloom: AP, Difficulty: Moderate, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

**\*EXERCISE 3.20 (20–25 minutes)**

**(a) Adjusting Entries:**

1.	Dec. 31 Insurance Expense (\$5,280 X 5/24)....	1,100	
	Prepaid Insurance.....		1,100
2.	Dec. 31 Rent Revenue (\$1,800 X 1/3) .....	600	
	Unearned Rent Revenue.....		600
3.	Dec. 31 Supplies .....	290	
	Advertising Expense .....		290
4.	Dec. 31 Interest Expense.....	770	
	Interest Payable .....		770



**\*EXERCISE 3.20 (Continued)**

**(b) Reversing Entries:**

1. No reversing entry required.

2.	Unearned Rent Revenue .....	600	
	Rent Revenue .....		600
3.	Advertising Expense .....	290	
	Supplies .....		290
4.	Interest Payable .....	770	
	Interest Expense.....		770

LO: 7, Bloom: AP, Difficulty: Complex, Time: 20-25, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

**\*EXERCISE 3.21 (10–15 minutes)**

<u>Accounts</u>	<u>Adjusted Trial Balance</u>		<u>Income Statement</u>		<u>Balance Sheet</u>	
	<u>Dr.</u>	<u>Cr.</u>	<u>Dr.</u>	<u>Cr.</u>	<u>Dr.</u>	<u>Cr.</u>
<b>Cash</b>	<b>9,000</b>				<b>9,000</b>	
<b>Inventory</b>	<b>80,000</b>				<b>80,000</b>	
<b>Sales Revenue</b>		<b>450,000</b>		<b>450,000</b>		
<b>Sales Returns and Allowances</b>	<b>10,000</b>		<b>10,000</b>			
<b>Sales Discounts</b>	<b>5,000</b>		<b>5,000</b>			
<b>Cost of Goods Sold</b>	<b>250,000</b>		<b>250,000</b>			

LO: 8, Bloom: AP, Difficulty: Simple, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

**\*EXERCISE 3.22 (20–25 minutes)**

<b>Ed Bradley Co.</b> <b>Worksheet (partial)</b> <b>For the Month Ended April 30, 2020</b>						
Account Titles	Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	24,522				24,522	
Accounts Receivable	6,920				6,920	
Prepaid Rent	2,280				2,280	
Equipment	18,050				18,050	
Accum. Depreciation – Equipment		4,895				4,895
Notes Payable		5,700				5,700
Accounts Payable		4,472				4,472
Common Stock		34,960				34,960
Retained Earnings		1,000				1,000
Dividends	1,100				1,100	
Service Revenue		12,590		12,590		
Salaries and Wages Expense	6,840		6,840			
Rent Expense	3,760		3,760			
Depreciation Expense	145		145			
Interest Expense	83		83			
Interest Payable		<u>83</u>	<u>83</u>		<u>83</u>	<u>83</u>
<b>Totals</b>	<b><u>63,700</u></b>	<b><u>63,700</u></b>	<b>10,828</b>	<b>12,590</b>	<b>52,872</b>	<b>51,110</b>
Net income			<u>1,762</u>			<u>1,762</u>
<b>Totals</b>			<b><u>12,590</u></b>	<b><u>12,590</u></b>	<b><u>52,872</u></b>	<b><u>51,872</u></b>

**\*EXERCISE 3.22 (Continued)**

**Ed Bradley Co.  
Balance Sheet  
April 30, 2020**

**Assets**

<b>Current Assets</b>		
<b>Cash</b>	<b>\$24,522</b>	
<b>Accounts receivable .....</b>	<b>6,920</b>	
<b>Prepaid rent .....</b>	<b><u>2,280</u></b>	
<b>Total current assets .....</b>		<b>\$33,722</b>
<b>Property, plant, and equipment</b>		
<b>Equipment.....</b>	<b>18,050</b>	
<b>Accumulated depreciation –     equipment .....</b>	<b><u>(4,895)</u></b>	<b><u>13,155</u></b>
<b>Total assets</b>		<b><u>\$46,877</u></b>

**Liabilities and Stockholders' Equity**

<b>Liabilities</b>		
<b>Notes payable.....</b>	<b>\$ 5,700</b>	
<b>Accounts payable.....</b>	<b>4,472</b>	
<b>Interest payable .....</b>	<b><u>83</u></b>	
<b>Total current liabilities .....</b>		<b>\$10,255</b>
<b>Stockholders' equity</b>		
<b>Common Stock.....</b>	<b>34,960</b>	
<b>Retained earnings .....</b>	<b><u>1,662</u></b>	<b><u>36,622*</u></b>
<b>Total liabilities and Stockholders' equity .....</b>		<b><u>\$46,877</u></b>

**\*Beg. Balance + Net Income – Dividends = Ending Balance**

$$\mathbf{\$1,000 + \$1,762 - \$1,100 = \$1,662}$$

LO: 8, Bloom: AP, Difficulty: Moderate, Time: 20-25, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

**\*EXERCISE 3.23 (10–15 minutes)**

Jurassic Park Co.												
Worksheet (partial)												
For Month Ended February 28, 2020												
Account Titles	Trial Balance		Adjustments				Adjusted Trial Balance		Income Statement <sup>a</sup>		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.		
Supplies	1,756			(a) 1,041	715					715		
Accumulated depreciation – equipment		6,939		(b) 257		7,196					7,196	
Interest payable		150		(c) 50		200					200	
Supplies expense	1,500		(a) 1,041		2,541		2,541					
Depreciation expense	257		(b) 257		514		514					
Interest expense	50		(c) 50		100		100					

The following accounts and amounts would be shown in the February income statement<sup>a</sup>:

Supplies expense	<b>\$2,541</b>
Depreciation expense	<b>514</b>
Interest expense	<b>100</b>

LO: 8, Bloom: AP, Difficulty: Moderate, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

# SOLUTIONS TO PROBLEMS

## PROBLEM 3.1

(a) (Explanations are omitted.) and (d)

Cash			
Sept. 1	20,000	Sept. 4	680
8	1,690	5	942
20	980	10	430
		18	3,600
		19	3,000
		30	1,800
		30	85
30 Bal			12,133

Accounts Receivable			
Sept. 14	5,820	Sept. 20	980
25	2,110		
Bal. 30			6,950

Rent Expense			
Sept. 4	<u>680</u>	Sept. 30	<u>680</u>

Supplies			
Sept. 5	942	Sept. 30	330
Bal. 30			612

Office Expense			
Sept. 10	430	Sept. 30	515
30	85		
			<u>515</u>

Salaries and Wages Expense			
Sept. 30	<u>1,800</u>	Sept. 30	<u>1,800</u>

Supplies Expense			
Sept. 30	<u>330</u>	Sept. 30	<u>330</u>

Equipment			
Sept. 2	17,280		

Common Stock			
		Sept. 1	20,000
		Bal. 30	20,000

Retained Earnings			
		Sept. 30	6007
		Bal. 30	6007

Dividends			
		Sept. 19	3000
		Bal. 9	3000

Accounts Payable			
Sept. 18	3,600	Sept. 2	17,280
		Bal. 30	13,680

Service Revenue			
Sept. 30	9,620	Sept. 8	1,690
		14	5,820
		25	2,110
			<u>9,620</u>

Accumulated Depreciation—Equipment			
		Sept. 30	288

**PROBLEM 3.1 (Continued)**

Depreciation Expense				Income Summary			
Sept. 30	<u>288</u>	Sept. 30	<u>288</u>	Sept. 30	680	Sept. 30	9,620
				30	515		
				30	1,800		
				30	330		
				30	288		
				30 Inc.	6,007		
					<u>9,620</u>		<u>9,620</u>

**(b) YASUNARI KAWABATA, D.D.S.  
Trial Balance  
September 30**

	<u>Debit</u>	<u>Credit</u>
Cash	\$12,133	
.....		
.....		
Accounts Receivable .....	6,950	
Supplies .....	612	
Equipment .....	17,280	
Accumulated Depreciation—Equipment .....		\$ 288
Accounts Payable .....		13,680
Common Stock.....		20,000
Retained Earnings.....		0
Dividends.....	3,000	
Service Revenue .....		9,620
Rent Expense .....	680	
Office Expense .....	515	
Salaries and Wages Expense.....	1,800	
Supplies Expense .....	330	
Depreciation Expense.....	288	
Totals.....	<u>\$43,588</u>	<u>\$43,588</u>

**PROBLEM 3.1 (Continued)**

**(c) YASUNARI KAWABATA, D.D.S.  
Income Statement  
For the Month of September**

Service revenue .....		<b>\$9,620</b>
Expenses:		
Salaries and wages expense .....	<b>\$1,800</b>	
Rent expense .....	<b>680</b>	
Supplies expense .....	<b>330</b>	
Depreciation expense .....	<b>288</b>	
Office expense .....	<b><u>515</u></b>	
Total expenses .....		<b><u>3,613</u></b>
Net income		<b><u>\$6,007</u></b>
.....		
.....		

**YASUNARI KAWABATA, D.D.S.  
Retained Earnings Statement  
For the Month of September**

Balance, September 1 .....	<b>\$0</b>
Add: Net income .....	<b><u>6,007</u></b>
	<b>6,007</b>
Less: Dividends .....	<b><u>3,000</u></b>
Balance, September 30 .....	<b><u>\$3,007</u></b>

**YASUNARI KAWABATA, D.D.S.  
Balance Sheet  
As of September 30**

Assets		Liabilities and Owners' Equity	
Cash .....	\$12,133	Accounts payable .....	\$13,680
Accounts receivable ...	6,950	Common Stock .....	20,000
Supplies .....	612	Retained earnings .....	3,007
Equipment .....	17,280		
Accum. depreciation— equipment .....	<b><u>(288)</u></b>	Total liabilities and owners' equity .....	<b><u>\$36,687</u></b>
Total assets .....	<b><u>\$36,687</u></b>		

**PROBLEM 3.1 (Continued)**

**(d) YASUNARI KAWABATA, D.D.S.  
Post-Closing Trial Balance  
September 30**

	<u>Debit</u>	<u>Credit</u>
Cash	\$12,133	
.....		
.....		
Accounts Receivable .....	6,950	
Supplies .....	612	
Equipment .....	17,280	
Accumulated Depreciation—Equipment ..		\$ 288
Accounts Payable .....		13,680
Common Stock.....		20,000
Retained Earnings.....		3,007
<b>Totals.....</b>	<b><u>\$36,975</u></b>	<b><u>\$36,975</u></b>

LO: 2, 4, Bloom: AP, Difficulty: Moderate, Time: 25-30, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None



<b>PROBLEM 3.2</b>
--------------------

(a)	Dec. 31	Accounts Receivable (\$23,500 – \$20,000).....	3,500	
		Service Revenue.....		3,500
	31	Unearned Service Revenue (\$7,000 – \$5,600).....	1,400	
		Service Revenue.....		1,400
	31	Supplies Expense .....	5,400	
		Supplies (\$8,400 – \$3,000) .....		5,400
	31	Depreciation Expense .....	5,000	
		Accumulated Depreciation— Equipment (\$33,000 – \$28,000) .....		5,000
	31	Interest Expense(\$500 – \$350).....	150	
		Interest Payable .....		150
	31	Insurance Expense .....	850	
		Prepaid Insurance (\$3,350 - \$2,500) .....		850
	31	Salaries and Wages Expense (\$11,300 – \$10,000)	1,300	
		Salaries and Wages Payable.....		1,300

(b)

**MASON ADVERTISING**  
**Income Statement**  
**For the Year Ended December 31, 2020**

<b>Revenues</b>		
Service revenue .....		\$63,500
<b>Expenses</b>		
Salaries and wages expense.....	\$11,300	
Supplies expense.....	5,400	
Depreciation expense .....	5,000	
Rent expense.....	4,000	
Insurance expense.....	850	
Interest expense.....	500	
Total expenses .....		<u>27,050</u>
<b>Net income .....</b>		<u><u>\$36,450</u></u>

**PROBLEM 3.2 (Continued)**

**MASON ADVERTISING**  
**Retained Earnings Statement**  
**For the Year Ended December 31, 2020**

Retained earnings, January 1 .....	\$ 3,500
Add: Net income .....	<u>36,450</u>
Retained earnings, December 31 .....	<u>\$39,950</u>

**MASON ADVERTISING**  
**Balance Sheet**  
**December 31, 2020**

<u>Assets</u>	
Cash .....	\$11,000
Accounts receivable.....	23,500
Supplies .....	3,000
Prepaid insurance .....	2,500
Equipment.....	\$60,000
Less: Accumulated depreciation—equipment .....	<u>33,000</u> <u>27,000</u>
Total assets.....	<u>\$67,000</u>

**Liabilities and Stockholders' Equity**

<b>Liabilities</b>	
Notes payable .....	\$ 5,000
Accounts payable.....	5,000
Unearned service revenue .....	5,600
Salaries and wages payable .....	1,300
Interest payable .....	<u>150</u>
Total liabilities.....	\$17,050
<b>Stockholders' equity</b>	
Common stock.....	\$10,000
Retained earnings .....	<u>39,950</u> <u>49,950</u>
Total liabilities and stockholders' equity .....	<u>\$67,000</u>

- (c) 1. Interest is \$50 per month or 1% of the note payable.  $1\% \times 12 = 12\%$  interest per year.
2. Salaries and Wages Expense, \$11,300 less Salaries and Wages Payable 12/31/20, \$1,300 = \$10,000. Total Payments, \$12,500 – \$10,000 = \$2,500 Salaries and Wages Payable 12/31/19.

<b>PROBLEM 3.3</b>
--------------------

1.	Dec. 31	Salaries and Wages Expense.....	2,120	
		Salaries and Wages Payable.....		2,120
		(5 X \$700 X 2/5) = \$1,400		
		(3 X \$600 X 2/5) = <u>720</u>		
		Total accrued salaries <u>\$2,120</u>		
2.	31	Unearned Rent Revenue .....	94,000	
		Rent Revenue .....		94,000
		(5 X \$6,000 X 2) = \$60,000		
		(4 X \$8,500 X 1) = <u>34,000</u>		
		Total rent recognized <u>\$94,000</u>		
3.	31	Advertising Expense .....	4,900	
		Prepaid Advertising.....		4,900
		(A650 – \$500 (\$6,000/12) per month for 8 months) = \$4,000		
		(B974 – \$300 per month (\$7,200/24) for 3 months) = <u>900</u>		
		Total advertising expense <u>\$4,900</u>		
4.	31	Interest Expense .....	4,200	
		Interest Payable		
		(\$60,000 X 12% X 7/12) .....		4,200

LO: 3, Bloom: AP, Difficulty: Moderate, Time: 25-30, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

<b>PROBLEM 3.4</b>
--------------------

(a)	Nov. 30	Supplies Expense (\$5,500 – \$1,500) .....	4,000	
		Supplies.....		4,000
	30	Depreciation Expense.....	15,000	
		Accumulated Depreciation— Equipment .....		15,000
	30	Interest Expense .....	11,000	
		Interest Payable .....		11,000

**PROBLEM 3.4 (Continued)**

**BELLEMY FASHION CENTER**  
Adjusted Trial Balance  
November 30, 2020

	Dr.	Cr.
Cash .....	\$ 28,700	
Accounts Receivable .....	33,700	
Inventory .....	45,000	
Supplies (\$5,500 - \$4,000) .....	1,500	
Equipment.....	133,000	
Accumulated Depr.— Equipment (\$24,000 + \$15,000) .....		\$ 39,000
Notes Payable.....		51,000
Accounts Payable .....		48,500
Common Stock.....		90,000
Retained Earnings.....		8,000
Sales Revenue.....		757,200
Sales Returns and Allowances.....	4,200	
Cost of Goods Sold .....	495,400	
Salaries and Wages Expense .....	140,000	
Advertising Expense .....	26,400	
Utilities Expenses.....	14,000	
Maintenance and Repairs Expense.....	12,100	
Delivery Expense.....	16,700	

Rent Expense .....	24,000	
Supplies Expense (\$0 + \$4,000) .....	4,000	
Depreciation Expense (\$0 + \$15,000).....	15,000	
Interest Expense (\$0 + \$11,000) .....	11,000	
Interest Payable (\$0 + \$11,000) .....		11,000
Totals .....	<u>\$1,004,700</u>	<u>\$1,004,700</u>

**PROBLEM 3.4 (Continued)**

**(c) BELLEMY FASHION CENTER  
Income Statement  
For the Year Ended November 30, 2020**

<b>Sales revenue</b>		
<b>Sales</b> .....		<b>\$757,200</b>
<b>Less: Sales returns and allowances</b> .....		<u><b>4,200</b></u>
<b>Net sales</b> .....		<b>753,000</b>
<b>Cost of goods sold</b> .....		<u><b>495,400</b></u>
<b>Gross profit</b> .....		<b>257,600</b>
<b>Operating expenses</b>		
<b>Selling expenses</b>		
<b>Salaries and wages expense</b> (\$140,000 X 70%) .....	<b>\$98,000</b>	
<b>Advertising expense</b> .....	<b>26,400</b>	
<b>Rent expense</b> (\$24,000 X 80%) .....	<b>19,200</b>	
<b>Delivery expense</b> .....	<b>16,700</b>	
<b>Utilities expenses</b> (\$14,000 X 80%) .....	<b>11,200</b>	
<b>Depreciation Expense</b> .....	<b>15,000</b>	
<b>Supplies expense</b> .....	<u><b>4,000</b></u>	
<b>Total selling expenses</b> .....		<b>\$190,500</b>
<b>Administrative expenses</b>		
<b>Salaries and wages expense</b> (\$140,000 X 30%) .....	<b>42,000</b>	
<b>Maintenance and Repairs Expense</b> .....	<b>12,100</b>	
<b>Rent expense</b> (\$24,000 X 20%) .....	<b>4,800</b>	
<b>Utilities expenses</b> (\$14,000 X 20%) .....	<u><b>2,800</b></u>	
<b>Total admin. expenses</b> .....		<u><b>61,700</b></u>
<b>Total oper. expenses</b> .....		<u><b>252,200</b></u>
<b>Income from operations</b> .....		<b>5,400</b>
<b>Other expenses and losses</b>		
<b>Interest expense</b> .....		<u><b>11,000</b></u>

**Net loss**

**(\$ 5,600)**

.....  
.....

**PROBLEM 3.4 (Continued)**

**BELLEMY FASHION CENTER**  
**Retained Earnings Statement**  
**For the Year Ended November 30, 2020**

Retained earnings, December 1, 2019 .....	\$8,000
Less: Net loss.....	<u>5,600</u>
Retained earnings, November 30, 2020 .....	<u>\$2,400</u>

**BELLEMY FASHION CENTER**  
**Balance Sheet**  
**November 30, 2020**

Assets	
<b>Current assets</b>	
Cash	\$28,700
.....	
Accounts receivable.....	33,700
Inventory .....	45,000
Supplies .....	<u>1,500</u>
Total current assets.....	\$108,900
<b>Property, plant, and equipment</b>	
Equipment.....	133,000
Accumulated depreciation— equipment .....	<u>39,000</u>
Total assets.....	<u>\$202,900</u>
Liabilities and Stockholders' Equity	
<b>Current liabilities</b>	
Notes payable due next year .....	\$30,000
Accounts payable .....	48,500
Interest payable .....	<u>11,000</u>
Total current liabilities .....	\$ 89,500
<b>Long-term liabilities</b>	
Notes payable (\$51,000 - \$30,000) .....	<u>21,000</u>
Total liabilities.....	110,500
<b>Stockholders' equity</b>	
Common stock.....	90,000
Retained earnings.....	<u>2,400</u>
Total liabilities and stockholders' equity.....	<u>\$202,900</u>



**PROBLEM 3.4 (Continued)**

(d) Nov. 30	Sales Revenue .....	757,200	
	Income Summary.....		757,200
30	Income Summary .....	762,800	
	Sales Returns and Allowances.....		4,200
	Cost of Goods Sold .....		495,400
	Salaries and Wages Expense .....		140,000
	Advertising Expense .....		26,400
	Utilities Expenses.....		14,000
	Maintenance and Repair Expense.....		12,100
	Delivery Expense.....		16,700
	Rent Expense.....		24,000
	Supplies Expense .....		4,000
	Depreciation Expense .....		15,000
	Interest Expense.....		11,000
30	Retained Earnings .....	5,600	
	Income Summary (\$757,200 - \$762,800)..		5,600

(e) **BELLEMY FASHION CENTER**  
**Post-Closing Trial Balance**  
**November 30, 2020**

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 28,700	
.....		
.....		
Accounts Receivable .....	33,700	
Inventory.....	45,000	
Supplies	1,500	
.....		
Equipment .....	133,000	
Accumulated Depreciation—Equipment .....		\$ 39,000
Notes Payable .....		51,000
Accounts Payable .....		48,500
Interest Payable .....		11,000
Common Stock.....		90,000
Retained Earnings .....		2,400 <sup>b</sup>
	<u>\$241,900</u>	<u>\$241,900</u>



**PROBLEM 3.5**

<b>(a)</b>	<b>-1-</b>		
		<b>Dec. 31 Depreciation Expense .....</b>	<b>10,500</b>
		<b>Accum. Depreciation—Equipment</b>	
		<b>(1/16 X [\$192,000 – \$24,000]) .....</b>	<b>10,500</b>
	<b>-2-</b>		
		<b>Dec. 31 Interest Expense .....</b>	<b>1,440*</b>
		<b>Interest Payable</b>	
		<b>(\$90,000 X 8% X 72/360) .....</b>	<b>1,440*</b>
	<b>-3-</b>		
		<b>Dec. 31 Admissions Revenue .....</b>	<b>60,000</b>
		<b>Unearned Admissions Revenue</b>	
		<b>(2,000 X \$30) .....</b>	<b>60,000</b>
	<b>-4-</b>		
		<b>Dec. 31 Prepaid Advertising .....</b>	<b>1,100</b>
		<b>Advertising Expense .....</b>	<b>1,100</b>
	<b>-5-</b>		
		<b>Dec. 31 Salaries and Wages Expense .....</b>	<b>4,700</b>
		<b>Salaries and Wages Payable .....</b>	<b>4,700</b>

- (b)**
- 1. Interest expense, \$2,840 (\$1,400 + \$1,440).**
  - 2. Admissions revenue, \$320,000 (\$380,000 – \$60,000).**
  - 3. Advertising expense, \$12,580 (\$13,680 – \$1,100).**
  - 4. Salaries and wages expense, \$62,300 (\$57,600 + \$4,700).**

**\*Note to instructor: If 30-day months are assumed, interest expense = \$1,400 (\$90,000 X 8% X 70/360).**

LO: 3, Bloom: AP, Difficulty: Moderate, Time: 15-20, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

<b>PROBLEM 3.6</b>
--------------------

<b>(a)</b>	<b>-1-</b>		<b>6,000</b>	
		Dec. 31 Service Revenue .....	6,000	
		Unearned Service Revenue .....		6,000
	<b>-2-</b>			
		Dec. 31 Accounts Receivable .....	4,900	
		Service Revenue.....		4,900
	<b>-3-</b>			
		Dec. 31 Bad Debt Expense.....	1,430	
		Allowance for Doubtful Accounts .....		1,430
	<b>-4-</b>			
		Dec. 31 Insurance Expense .....	480	
		Prepaid Insurance .....		480
	<b>-5-</b>			
		Dec. 31 Depreciation Expense.....	2,500	
		Accumulated Depreciation—Equipment (\$25,000 X 10%) .....		2,500
	<b>-6-</b>			
		Dec. 31 Interest Expense .....	60	
		Interest Payable (\$7,200 X 10% X 30/360) .....		60
	<b>-7-</b>			
		Dec. 31 Prepaid Rent.....	750	
		Rent Expense .....		750
	<b>-8-</b>			
		Dec. 31 Salaries and Wages Expense.....	2,510	
		Salaries and Wages Payable .....		2,510

**PROBLEM 3.6 (Continued)**

**(b) PEREZ CONSULTING ENGINEERS  
Income Statement  
For the Year Ended December 31, 2020**

<b>Service revenue (\$100,000 – \$6,000 + \$4,900).....</b>		<b>\$98,900</b>
<b>Expenses</b>		
<b>Salaries and wages expense</b>		
<b>(\$30,500+\$2,510).....</b>	<b>\$33,010</b>	
<b>Rent expense (\$9,750 – \$750).....</b>	<b>9,000</b>	
<b>Depreciation expense .....</b>	<b>2,500</b>	
<b>Bad debt expense .....</b>	<b>1,430</b>	
<b>Utilities expenses.....</b>	<b>1,080</b>	
<b>Office expense.....</b>	<b>720</b>	
<b>Insurance expense.....</b>	<b>480</b>	
<b>Interest expense.....</b>	<b>60</b>	
<b>Total expenses .....</b>	<b><u>48,280</u></b>	
<b>Net income</b>		<b><u>\$50,620</u></b>
.....		

**PEREZ CONSULTING ENGINEERS  
Retained Earnings Statement  
For the Year Ended December 31, 2020**

<b>Retained Earnings, January 1 .....</b>	<b>\$ 42,010<sup>a</sup></b>
<b>Add: Net income.....</b>	<b>50,620</b>
<b>Less: Dividends.....</b>	<b><u>17,000</u></b>
<b>Retained Earnings, December 31 .....</b>	<b><u>\$ 75,630</u></b>
<b>(a) Retained Earnings—trial balance.....</b>	<b>\$ 25,010</b>
<b>2020 Dividend recorded in Retained Earnings ....</b>	<b><u>17,000</u></b>
<b>Retained Earnings, as of January 1, 2020.....</b>	<b><u>\$ 42,010</u></b>

**PROBLEM 3.6 (Continued)**

**PEREZ CONSULTING ENGINEERS**  
**Balance Sheet**  
**December 31, 2020**

**Assets**

**Current assets**

Cash .....	\$29,500	
Accounts receivable (\$49,600 + \$4,900) .....	\$54,500	
Less: Allowance for doubtful accounts .....	<u>2,180*</u>	52,320
Supplies .....		1,960
Prepaid insurance (\$1,100 – \$480) .....		620
Prepaid rent .....		<u>750</u>
<b>Total current assets .....</b>		<b>\$ 85,150</b>
Equipment .....	25,000	
Less: Accumulated depreciation ..	<u>8,750**</u>	<u>16,250</u>
<b>Total assets .....</b>		<b><u>\$101,400</u></b>

**Liabilities and owners' equity**

**Current liabilities**

Notes payable .....	\$7,200	
Unearned service revenue .....	6,000	
Salaries and wages payable ....	2,510	
Interest payable .....	<u>60</u>	\$ 15,770
 <b>Common Stock .....</b>	 10,000	
<b>Retained earnings .....</b>	 <u>75,630</u>	 <u>85,630</u>
<b>Total liabilities and owners' equity .....</b>		<b><u>\$101,400</u></b>

\*(\$750 + \$1,430)

\*\*(\$6,250 + \$2,500)

LO: 3, 4, Bloom: AP, Difficulty: Moderate, Time: 25-35, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

**PROBLEM 3.7**

(a)

Sep. 30	Accounts Receivable (\$1,000 - \$400) .....	600	
	Service Revenue .....		600
30	Rent Expense.....	900	
	Prepaid Rent (\$1,800 - \$900).....		900
30	Supplies Expense.....	1,020	
	Supplies (\$1,200 - \$180).....		1,020
30	Depreciation Expense .....	350	
	Accumulated Depreciation—Equipment .		350
30	Interest Expense.....	50	
	Interest Payable.....		50
30	Unearned Rent Revenue (\$1,000 - \$800).....	200	
	Rent Revenue .....		200
30	Salaries and Wages Expense (\$9,400 - \$8,800) ..	600	
	Salaries and Wages Payable .....		600

(b) **ROLLING HILLS GOLF INC.**  
**Income Statement**  
**For the Quarter Ended September 30, 2020**

<b>Revenues</b>		
Service revenue .....	\$14,700	
Rent revenue .....	<u>900</u>	
Total revenue.....		\$15,600
<b>Expenses</b>		
Salaries and wages expense.....	\$9,400	
Rent expense .....	1,800	
Supplies expense.....	1,020	
Utilities expenses.....	470	
Depreciation expense .....	350	
Interest expense.....	<u>50</u>	
Total expenses .....		<u>13,090</u>
<b>Net income</b>		<u><u>\$ 2,510</u></u>
.....		

**PROBLEM 3.7 (Continued)**

**ROLLING HILLS GOLF INC.  
Retained Earnings Statement  
For the Quarter Ended September 30, 2020**

Retained earnings, July 1, 2020 .....		\$ 0
Add: Net income .....		2,510
Less: Dividends .....		<u>600</u>
Retained earnings, September 30, 2020 .....		<u><u>\$1,910</u></u>

**ROLLING HILLS GOLF INC.  
Balance Sheet  
September 30, 2020**

**Assets**

**Current assets**

Cash .....	\$ 6,700		
Accounts receivable.....	1,000		
Supplies .....	180		
Prepaid rent expense .....	<u>900</u>		
<b>Total current assets.....</b>			<b>\$ 8,780</b>
<b>Equipment.....</b>	<b>15,000</b>		
<b>Less: Accumulated depreciation..</b>	<b><u>350</u></b>		<b><u>14,650</u></b>
<b>Total assets.....</b>			<b><u><u>\$23,430</u></u></b>

**Liabilities and Stockholders' Equity**

**Current liabilities**

Notes payable.....	\$ 5,000		
Accounts payable.....	1,070		
Unearned rent revenue .....	800		
Salaries and wages payable ....	600		
Interest payable .....	<u>50</u>		<b>\$ 7,520</b>

**Stockholders' Equity**

Common stock .....	14,000		
Retained earnings .....	<u>1,910</u>		
<b>Total stockholders' equity</b>			<b><u>15,910</u></b>
<b>Total liabilities and</b>			
<b>stockholders' equity.....</b>			<b><u><u>\$23,430</u></u></b>



### PROBLEM 3.7 (Continued)

- (c) The following accounts would be closed: **Service Revenue, Rent Revenue, Salaries and Wages Expense, Rent Expense, Utilities Expense, Depreciation Expense, Supplies Expense, Interest Expense, Dividends.**
- (d) **Interest of 12% per year equals a monthly rate of 1%; monthly interest is \$50 ( $\$5,000 \times 1\%$ ). Since total interest expense is \$50, the note has been outstanding one month.**

LO: 3, 4, Bloom: AP, Difficulty: Moderate, Time: 25-35, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

<b>PROBLEM 3.8</b>
--------------------

(a)

Dec. 31	Accounts Receivable (\$19,500 – \$16,000).....	3,500	
	Service Revenue.....		3,500
31	Supplies Expense.....	2,900	
	Supplies (\$9,400 – \$6,500) .....		2,900
31	Insurance Expense .....	1,560	
	Prepaid Insurance (\$3,350 – \$1,790) .....		1,560
31	Depreciation Expense .....	5,000	
	Accumulated Depreciation—Equipment . (\$30,000 - \$25,000)		5,000
31	Interest Expense.....	560	
	Interest Payable.....		560
31	Unearned Service Revenue (\$5,000 – \$3,100). Service Revenue.....	1,900	1,900
31	Salaries and Wages Expense (\$9,820 - \$9,000) .. Salaries and Wages Payable .....	820	820

(b) **VEDULA ADVERTISING**  
**Income Statement**  
**For the Year Ended December 31, 2020**

---

<b>Revenues</b>			
	Service revenue .....		\$63,000
<b>Expenses</b>			
	Salaries and wages expense.....	\$9,820	
	Depreciation expense .....	5,000	
	Rent expense.....	4,350	
	Supplies expense.....	2,900	
	Insurance expense.....	1,560	
	Interest expense.....	<u>560</u>	
	Total expenses .....		<u>24,190</u>
<b>Net income</b>			<u><u>\$38,810</u></u>
	.....		

**PROBLEM 3.8 (Continued)**

**VEDULA ADVERTISING**  
**Retained Earnings Statement**  
**For the Year Ended December 31, 2020**

Retained earnings, January 1 .....	\$ 5,500
Add: Net income .....	38,810
Less: Dividends .....	<u>10,000</u>
Retained earnings, December 31 .....	<u><u>\$34,310</u></u>

**VEDULA ADVERTISING**  
**Balance Sheet**  
**December 31, 2020**

**Assets**

**Current assets**

Cash .....	\$11,000	
Accounts receivable.....	19,500	
Supplies .....	6,500	
Prepaid insurance .....	<u>1,790</u>	
<b>Total current assets.....</b>		<b>\$38,790</b>

Equipment .....	60,000	
Less: Accumulated depreciation .....	<u>30,000</u>	<u>30,000</u>
<b>Total assets .....</b>		<b><u><u>\$68,790</u></u></b>

**Liabilities and Stockholders' Equity**

**Current liabilities**

Notes payable .....	\$ 8,000	
Accounts payable .....	2,000	
Unearned service revenue .....	3,100	
Salaries and wages payable.....	820	
Interest payable .....	<u>560</u>	<b>\$ 14,480</b>

**Stockholders' Equity**

Common stock.....	20,000	
Retained earnings.....	<u>34,310</u>	
<b>Total stockholders' equity .....</b>		<b><u>54,310</u></b>
<b>Total liabilities and     stockholders' equity.....</b>		<b><u><u>\$68,790</u></u></b>

### PROBLEM 3.8 (Continued)

- (c) Service Revenue, Salaries and Wages Expense, Depreciation Expense, Rent Expense, Supplies Expense, Insurance Expense, Interest Expense, Dividends.
- (d) Interest is \$56 per month or 0.7% of the note payable ( $\$56 \div \$8,000$ ).  
 $0.7\% \times 12 = 8.4\%$  interest per year.
- (e) Salaries and Wages Expense, \$9,820, less Salaries and Wages Payable 12/31/20, \$820 = \$9,000. Total payments, \$10,500 – \$9,000 = \$1,500 Salaries and Wages Payable 12/31/19.

LO: 3, 4, 5, 6, Bloom: AP, Difficulty: Moderate, Time: 25-35, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

## PROBLEM 3.9

(a), (b), (d)

<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Cash</th> </tr> </thead> <tbody> <tr> <td style="width: 10%;">Bal.</td> <td style="width: 20%; text-align: right;">15,000</td> </tr> </tbody> </table>	Cash		Bal.	15,000	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Prepaid Insurance</th> </tr> </thead> <tbody> <tr> <td style="width: 10%;">Bal.</td> <td style="width: 20%; text-align: right;">9,000</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>5,500</u></td> </tr> </tbody> </table>	Prepaid Insurance		Bal.	9,000		<u>5,500</u>	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Salaries and Wages Expense</th> </tr> </thead> <tbody> <tr> <td style="width: 10%;">Bal.</td> <td style="width: 20%; text-align: right;">80,000</td> </tr> <tr> <td>Adj.</td> <td style="text-align: right;"><u>3,600</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>83,600</u></td> </tr> </tbody> </table>	Salaries and Wages Expense		Bal.	80,000	Adj.	<u>3,600</u>		<u>83,600</u>								
Cash																												
Bal.	15,000																											
Prepaid Insurance																												
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	<u>83,600</u>																											
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Bal.	400,000																											
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Accounts Receivable</th> </tr> </thead> <tbody> <tr> <td style="width: 10%;">Bal.</td> <td style="width: 20%; text-align: right;">13,000</td> </tr> </tbody> </table>	Accounts Receivable		Bal.	13,000	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Retained Earnings</th> </tr> </thead> <tbody> <tr> <td style="width: 10%;">Bal.</td> <td style="width: 20%; text-align: right;">82,000</td> </tr> <tr> <td>Inc.</td> <td style="text-align: right;"><u>31,640</u></td> </tr> <tr> <td></td> <td style="text-align: right;">113,640</td> </tr> </tbody> </table>	Retained Earnings		Bal.	82,000	Inc.	<u>31,640</u>		113,640	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Maintenance and Repairs Expense</th> </tr> </thead> <tbody> <tr> <td style="width: 10%;">Bal.</td> <td style="width: 20%; text-align: right;"><u>24,000</u></td> </tr> <tr> <td>Close</td> <td style="text-align: right;"><u>24,000</u></td> </tr> </tbody> </table>	Maintenance and Repairs Expense		Bal.	<u>24,000</u>	Close	<u>24,000</u>								
Accounts Receivable																												
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Allow. for Doubtful Accts.																												
Bal.	1,100																											
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Land																												
Bal.	350,000																											
Green Fees Revenue																												
Close	<u>5,900</u>																											
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<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Buildings</th> </tr> </thead> <tbody> <tr> <td style="width: 10%;">Bal.</td> <td style="width: 20%; text-align: right;">120,000</td> </tr> </tbody> </table>	Buildings		Bal.	120,000	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Rent Revenue</th> </tr> </thead> <tbody> <tr> <td style="width: 10%;">Close</td> <td style="width: 20%; text-align: right;">19,200</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>19,200</u></td> </tr> <tr> <td>Bal.</td> <td style="text-align: right;">17,600</td> </tr> <tr> <td>Adj.</td> <td style="text-align: right;"><u>1,600</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>19,200</u></td> </tr> </tbody> </table>	Rent Revenue		Close	19,200		<u>19,200</u>	Bal.	17,600	Adj.	<u>1,600</u>		<u>19,200</u>	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center; border-bottom: 1px solid black;">Accum. Depr.—Equipment</th> </tr> </thead> <tbody> <tr> <td style="width: 10%;">Bal.</td> <td style="width: 20%; text-align: right;">70,000</td> </tr> <tr> <td>Adj.</td> <td style="text-align: right;"><u>15,000</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>85,000</u></td> </tr> </tbody> </table>	Accum. Depr.—Equipment		Bal.	70,000	Adj.	<u>15,000</u>		<u>85,000</u>		
Buildings																												
Bal.	120,000																											
Rent Revenue																												
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Accum. Depr.—Buildings																												
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Rent Receivable																												
Adj.	<u>\$1,600</u>																											
Bad Debt Expense																												
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Close	<u>460</u>																											
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Inc.	<u>31,640</u>																											
	<u>216,200</u>																											
	<u>216,200</u>																											

**PROBLEM 3.9 (Continued)**

Salaries and Wages			
Payable	Unearned Dues Revenue		
Adj. <u>3,600</u>	Adj. <u>8,900</u>		
(b)	-1-		
Dec. 31	Depreciation Expense .....	4,000	
	Accumulated Depreciation—Buildings (1/30 X \$120,000) .....		4,000
	-2-		
Dec. 31	Depreciation Expense .....	15,000	
	Accumulated Depreciation— Equipment (10% X \$150,000) .....		15,000
	-3-		
Dec. 31	Insurance Expense .....	3,500	
	Prepaid Insurance .....		3,500
	-4-		
Dec. 31	Rent Receivable .....	1,600	
	Rent Revenue (1/11 X \$17,600) .....		1,600
	-5-		
Dec. 31	Bad Debt Expense .....	460	
	Allowance for Doubtful Accounts [((\$13,000 X 12%) – \$1,100)] .....		460
	-6-		
Dec. 31	Salaries and Wages Expense .....	3,600	
	Salaries and Wages Payable .....		3,600
	-7-		
Dec. 31	Dues Revenue .....	8,900	
	Unearned Dues Revenue .....		8,900

PROBLEM 3.9 (Continued)

(c)

**CRESTWOOD GOLF CLUB, INC.**  
**Adjusted Trial Balance**  
**December 31, XXXX**

	Dr.	Cr.
Cash .....	\$ 15,000	
Accounts Receivable .....	13,000	
Allowance for Doubtful Accounts .....		\$ 1,560
Rent Receivable.....	1,600	
Land .....	350,000	
.....		
.....		
Buildings .....	120,000	
Accum. Depreciation—Buildings .....		42,400
Equipment.....	150,000	
Accum. Depreciation—Equipment .....		85,000
Salaries and Wages Payable .....		3,600
Unearned Dues Revenue .....		8,900
Retained Earnings .....		82,000
Dues Revenue.....		191,100
Green Fees Revenue .....		5,900
Rent Revenue .....		19,200
Utilities Expenses.....	54,000	
Salaries and Wages Expense .....	83,600	
Maintenance and Repairs Expense .....	24,000	
Bad Debt Expense .....	460	
Depreciation Expense (\$15,000 + \$4,000) ....	19,000	
Insurance Expense.....	3,500	
Totals .....	\$839,660	\$839,660

**PROBLEM 3.9 (Continued)**

<b>(d)</b>	<b>-Dec. 31-</b>		
	Dues Revenue .....	<b>191,100</b>	
	Green Fees Revenue .....	<b>5,900</b>	
	Rent Revenue .....	<b>19,200</b>	
	Income Summary .....		<b>216,200<sup>a</sup></b>
	<b>-31-</b>		
	Income Summary .....	<b>184,560<sup>b</sup></b>	
	Utilities Expenses .....		<b>54,000</b>
	Bad Debt Expense .....		<b>460</b>
	Salaries and Wages Expense .....		<b>83,600</b>
	Maintenance and Repairs Expense .....		<b>24,000</b>
	Depreciation Expense .....		<b>19,000</b>
	Insurance Expense .....		<b>3,500</b>
	<b>-31-</b>		
	Income Summary (\$216,200 <sup>a</sup> - \$184,560 <sup>b</sup> ) .....	<b>31,640</b>	
	Retained Earnings .....		<b>31,640</b>

LO: 2, 3, 4, Bloom: AP, Difficulty: Moderate, Time: 30-40, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None



### PROBLEM 3.10

(a), (b), (c)

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**PROBLEM 3.10 (Continued)**

(b)	-1-		
Dec. 31	Bad Debt Expense .....	1,400	
	Allowance for Doubtful Accounts .....		1,400
	-2-		
Dec. 31	Depreciation Expense (\$84,000 ÷ 7) .....	12,000	
	Accumulated Depreciation— Equipment.....		12,000
	-3-		
Dec. 31	Insurance Expense.....	2,550	
	Prepaid Insurance.....		2,550
	-4-		
Dec. 31	Interest Expense.....	3,360	
	Interest Payable .....		3,360
	-5-		
Dec. 31	Salaries and Wages Expense (Sales).....	2,400	
	Salaries and Wages Payable.....		2,400
	-6-		
Dec. 31	Prepaid Advertising.....	700	
	Advertising Expense .....		700
	-7-		
Dec. 31	Supplies .....	1,500	
	Supplies Expense .....		1,500

**PROBLEM 3.10 (Continued)**

<b>(c)</b>	<b>Dec. 31</b>		
	<b>Sales Revenue.....</b>	<b>600,000</b>	
	<b>Income Summary.....</b>		<b>600,000<sup>a</sup></b>
	<b>Dec. 31</b>		
	<b>Income Summary.....</b>	<b>554,210<sup>b</sup></b>	
	<b>Cost of Goods Sold.....</b>		<b>408,000</b>
	<b>Advertising Expense.....</b>		<b>6,000</b>
	<b>Salaries and Wages Expense (Admin.).....</b>		<b>65,000</b>
	<b>Salaries and Wages Expense (Sales).....</b>		<b>52,400</b>
	<b>Supplies Expense.....</b>		<b>3,500</b>
	<b>Insurance Expense.....</b>		<b>2,550</b>
	<b>Bad Debt Expense.....</b>		<b>1,400</b>
	<b>Depreciation Expense.....</b>		<b>12,000</b>
	<b>Interest Expense.....</b>		<b>3,360</b>
	<b>Dec. 31</b>		
	<b>Income Summary (\$600,000<sup>a</sup> - \$554,210<sup>b</sup>).....</b>	<b>45,790</b>	
	<b>Retained Earnings.....</b>		<b>45,790</b>

LO: 2, 3, 4, 5, Bloom: AP, Difficulty: Moderate, Time: 30-35, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

**\*PROBLEM 3.11**

**(a) ARKANSAS SALES AND SERVICE  
Income Statement  
For the Month Ended January 31, 2020**

	<b>(1)</b>	<b>(2)</b>
	<u><b>Cash Basis</b></u>	<u><b>Accrual Basis</b></u>
<b>Revenues .....</b>	<b>\$ 75,000</b>	<b>\$98,400*</b>
<b>Expenses</b>		
<b>Cost of computers &amp; printers:</b>		
Purchased and paid .....	82,500**	
Cost of goods sold.....		59,500***
Salaries and wages.....	9,600	12,600
Rent.....	6,000	2,000 <sup>a</sup>
Other operating expenses.....	<u>8,400</u>	<u>10,400<sup>b</sup></u>
Total expenses .....	<u>106,500</u>	<u>84,500</u>
<b>Net income (loss) .....</b>	<u><b>\$(31,500)</b></u>	<u><b>\$13,900</b></u>

\*(\$2,550 X 30) + (\$3,600 X 4) + (\$500 X 15)

\*\*(\$1,500 X 40) + (\$2,500 X 6) + (\$300 X 25)

\*\*\*(\$1,500 X 30) + (\$2,500 X 4) + (\$300 X 15)

<sup>a</sup>(\$6,000 / 3 months)

<sup>b</sup>(\$8,400 + \$2,000)

**\*PROBLEM 3.11 (Continued)**

**(b) ARKANSAS SALES AND SERVICE  
Balance Sheet  
As of January 31, 2020**

	<b>(1) <u>Cash Basis</u></b>	<b>(2) <u>Accrual Basis</u></b>
<b><u>Assets</u></b>		
Cash .....	\$58,500 <sup>a</sup>	\$ 58,500 <sup>a</sup>
Accounts receivable .....		23,400
Inventory .....		23,000 <sup>b</sup>
Prepaid rent (\$6,000 - \$2,000) .....		<u>4,000</u>
<b>Total assets</b> .....	<b><u>\$58,500</u></b>	<b><u>\$108,900</u></b>
<b><u>Liabilities and owners' Equity</u></b>		
Salaries and wages payable .....		\$ 3,000
Accounts payable .....		2,000
Owner's capital .....	<b><u>\$58,500<sup>c</sup></u></b>	<b><u>103,900<sup>d</sup></u></b>
<b>Total liabilities and owner's     equity</b> .....	<b><u>\$58,500</u></b>	<b><u>\$108,900</u></b>

<sup>a</sup> Original investment	\$ 90,000
Cash sales	75,000
Cash purchases	(82,500)
Rent paid	(6,000)
Salaries paid	(9,600)
Other operating expenses	<u>(8,400)</u>
Cash balance Jan. 31	<b><u>\$ 58,500</u></b>

<sup>b</sup>[((\$40 - \$30) @ \$1,500] + (2 @ \$2,500) + (10 @ \$300).

<sup>c</sup>Initial investment minus net loss: \$90,000 - \$31,500.

<sup>d</sup>Initial investment plus net income: \$90,000 + \$13,900.

**\*PROBLEM 3.11 (Continued)**

- (c)
- 1. The \$23,400 in receivables from customers is an asset and a future cash flow resulting from sales that is ignored. The cash basis understates the amount of revenues and inflow of assets in January from the sale of computers and printers by \$23,400.**
  - 2. The cost of computers and printers sold in January is overstated by \$23,000. The unsold computers and printers are an asset of \$23,000 in the form of inventory.**
  - 3. The cash basis ignores \$3,000 of the salaries that have been earned by the employees in January and will be paid in February.**
  - 4. Rent expense on the cash basis is overstated by \$4,000. This prepayment is an asset in the form of two months' future right to the use of office, showroom, and repair space and should appear on the balance sheet.**
  - 5. Other operating expenses on a cash basis are understated by \$2,000 as is the liability for the unpaid portion of these expenses incurred in January.**

LO: 6, Bloom: AP, Difficulty: Moderate, Time: 35-40, AACSB: Analytic, Communication, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication

**\*PROBLEM 3.12**

**COOKE COMPANY**  
Worksheet

For the Year Ended September 30, 2020

(a)

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	37,400				37,400				37,400	
Supplies	18,600		(b)	14,400	4,200				4,200	
Prepaid Insurance	31,900		(a)	28,000	3,900				3,900	
Land	80,000				80,000				80,000	
Equipment	120,000				120,000				120,000	
Accum. Depr.-Equip.		36,200	(c)	5,800		42,000				42,000
Accounts Payable		14,600				14,600				14,600
Unearned Service Rev.		2,700	(d)	2,000		700				700
Mortgage Payable		50,000				50,000				50,000
Common Stock		107,700				107,700				107,700
Dividends	14,000				14,000				14,000	
Retained Earnings		2,000				2,000				2,000
Service Revenue		278,500	(d)	2,000		280,500		280,500		
Sal. and Wages Exp.	109,000				109,000			109,000		
Maintenance and Repairs Expense	30,500				30,500			30,500		
Advertising Expense	9,400				9,400			9,400		
Utilities Expenses	16,900				16,900			16,900		
Prop. Tax Expense	18,000		(e)	3,000	21,000			21,000		
Interest Expense	6,000		(f)	6,000	12,000			12,000		
<b>Totals</b>	<b>491,700</b>	<b>491,700</b>								
Insurance Expense			(a)	28,000		28,000		28,000		
Supplies Expense			(b)	14,400		14,400		14,400		
Interest Payable						6,000			6,000	
Depreciation Expense			(c)	5,800		5,800		5,800		
Prop. Taxes Payable			(e)	3,000		3,000				3,000
<b>Totals</b>				<b>59,200</b>		<b>506,500</b>		<b>506,500</b>		
Net Income								247,000		247,000
<b>Totals</b>								<b>280,500</b>		<b>280,500</b>
										<b>33,500</b>
										<b>259,500</b>

Key: (a) Expired Insurance (\$31,900 - \$3,900); (b) Supplies Used (\$18,600 - \$4,200); (c) Depreciation Expensed (\$42,000 - \$36,200); (d) Service Revenue Recognized (\$2,700 - \$700); (e) Accrued Property (\$21,000 - \$18,000); (f) Taxes Accrued (\$0 - \$6,000)

**\*PROBLEM 3.12 (Continued)**

**(b) COOKE COMPANY  
Balance Sheet  
September 30, 2020**

<b>Assets</b>			
<b>Current assets</b>			
Cash		\$37,400	
.....			
Supplies.....		4,200	
Prepaid insurance.....		<u>3,900</u>	
Total current assets.....			\$ 45,500
<b>Property, plant, and equipment</b>			
Land		80,000	
.....			
Equipment.....	\$120,000		
Less: Accum. depreciation – equipment.....	<u>42,000</u>	<u>78,000</u>	<u>158,000</u>
Total assets.....			<u>\$203,500</u>
<b>Liabilities and Stockholders' Equity</b>			
<b>Current liabilities</b>			
Accounts payable.....		\$14,600	
Current maturity of long-term debt.....		10,000*	
Interest payable.....		6,000	
Property taxes payable.....		3,000	
Unearned service revenue.....		<u>700</u>	
Total current liabilities.....			\$ 34,300
<b>Long-term liabilities</b>			
Mortgage payable (\$50,000 - \$10,000*).....			<u>40,000</u>
Total liabilities.....			<u>74,300</u>
<b>Stockholders' equity</b>			
Common stock		107,700	
Retained earnings (\$2,000 + \$33,500 – \$14,000).....		<u>21,500</u>	<u>129,200</u>
Total liabilities and stockholders' equity.....			<u>\$203,500</u>



**\*PROBLEM 3.12 (Continued)**

<b>(c)</b>	<b>Sep. 30</b>	<b>Insurance Expense .....</b>	<b>28,000</b>	
		<b>Prepaid Insurance .....</b>		<b>28,000</b>
	<b>30</b>	<b>Supplies Expense .....</b>	<b>14,400</b>	
		<b>Supplies .....</b>		<b>14,400</b>
	<b>30</b>	<b>Depreciation Expense .....</b>	<b>5,800</b>	
		<b>Accum. Depreciation—</b>		
		<b>Equipment.....</b>		<b>5,800</b>
	<b>30</b>	<b>Unearned Service Revenue (\$2,700 - \$700)</b>	<b>2,000</b>	
		<b>Service Revenue.....</b>		<b>2,000</b>
	<b>30</b>	<b>Property Tax Expense .....</b>	<b>3,000</b>	
		<b>Property Taxes Payable .....</b>		<b>3,000</b>
	<b>30</b>	<b>Interest Expense .....</b>	<b>6,000</b>	
		<b>Interest Payable.....</b>		<b>6,000</b>
<b>(d)</b>	<b>Sep. 30</b>	<b>Service Revenue .....</b>	<b>280,500</b>	
		<b>Income Summary .....</b>		<b>280,500<sup>a</sup></b>
	<b>30</b>	<b>Income Summary.....</b>	<b>247,000<sup>b</sup></b>	
		<b>Salaries and Wages Expense .....</b>		<b>109,000</b>
		<b>Maintenance and Repairs</b>		
		<b>Expense .....</b>		<b>30,500</b>
		<b>Insurance Expense.....</b>		<b>28,000</b>
		<b>Property Tax Expense.....</b>		<b>21,000</b>
		<b>Supplies Expense.....</b>		<b>14,400</b>
		<b>Utilities Expenses.....</b>		<b>16,900</b>
		<b>Interest Expense.....</b>		<b>12,000</b>
		<b>Advertising Expense .....</b>		<b>9,400</b>
		<b>Depreciation Expense .....</b>		<b>5,800</b>
	<b>30</b>	<b>Income Summary (\$280,500<sup>a</sup> - \$247,000<sup>b</sup>)..</b>	<b>33,500</b>	
		<b>Retained Earnings .....</b>		<b>33,500<sup>c</sup></b>
	<b>30</b>	<b>Retained Earnings .....</b>	<b>14,000<sup>d</sup></b>	
		<b>Dividends .....</b>		<b>14,000</b>

**\*PROBLEM 3.12 (Continued)**

**(e) COOKE COMPANY  
Post-Closing Trial Balance  
September 30, 2020**

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 37,400	
.....		
.....		
Supplies .....	4,200	
Prepaid Insurance .....	3,900	
Land	80,000	
.....		
.....		
Equipment .....	120,000	
Accumulated Depreciation – Equipment....		\$ 42,000
Accounts Payable .....		14,600
Unearned Service Revenue .....		700
Interest Payable.....		6,000
Property Tax Payable.....		3,000
Mortgage Payable .....		50,000
Common Stock.....		107,700
Retained Earnings		
(\$2,000 + \$33,500 <sup>c</sup> - \$14,000 <sup>d</sup> ) .....		<u>21,500</u>
	<u>\$245,500</u>	<u>\$245,500</u>

LO: 3, 4, 8, , Bloom: AP, Difficulty: Complex, Time: 40-50, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None