Chapter 3
The Accounting Cycle: End of the Period

REVIEW QUESTIONS

Question 3-1 (LO 3-1)

The revenue recognition principle states that we record revenue in the period in which we provide products or services to customers. If a company sells products or provides services to a customer in the current year, then the company should report the revenue in its current income statement. If the company sells products or provides services to a customer in the following year, then it should report the revenue in the following year's income statement, and so on.

Question 3-2 (LO 3-1)

The concept of expense recognition suggests that we recognize expenses in the same period as costs are used for providing goods and services to customers. In other words, we report expenses with the revenues they help to generate. There is a *cause-and-effect* relationship between revenue and expense recognition implicit in this principle. Some costs are more difficult to match with revenue and are expensed in the period in which they occur or are used in business operations.

Question 3-3 (LO 3-1)

Net income is an important profitability measure used by investors, creditors, and others in assessing the performance of the company. Net income equals revenues minus expenses. Therefore, to accurately assess profitability, it is important that revenues and the expenses that helped to generate those revenues be reported in the same period. Otherwise, it would be difficult to tell from period to period the company's profit-generating ability.

Question 3-4 (LO 3-2)

Under cash-basis accounting, revenues are recorded when cash is received and expenses are recorded when cash is paid. In contrast, under accrual-basis accounting, revenues are recorded when goods and services are provided to customers (revenue recognition principle) and expenses are recorded when used to generate revenues.

Question 3-5 (LO 3-2)

(1) April 10th.
(2) April 10th.
(3) April 10th.

Question 3-6 (LO 3-2)

(1) March 28th.
(2) April 10th.
(3) May 2nd.

Answers to Review Questions (continued)

Question 3-7 (LO 3-2)

(1) April 10th.
(2) April 10th.
(3) April 10th.

Question 3-8 (LO 3-2)

(1) March 28th.
(2) April 10th.
(3) May 2nd.

Question 3-9 (LO 3-3)

One of the primary purposes of adjusting entries is to allow for proper application of the revenue recognition principle (revenues) and expense recognition (expenses). The revenue recognition principle and expense recognition concept are key components of accrual-basis accounting.

Question 3-10 (LO 3-3)

Prepayments are cases where cash is received *before* revenue is recognized or where cash is paid *before* the expense is recognized. Accruals are cases where cash is received *after* revenue is recognized or where cash is paid *after* the expense is recognized.

Question 3-11 (LO 3-3)

A prepaid expense includes the purchase of supplies, prepaid insurance, and prepaid rent. At the time of purchase, the purchase is recorded as an asset. When that asset is used (or expires), an adjusting entry is needed to reduce the asset to its remaining amount and to recognize an expense.

Question 3-12 (LO 3-3)

Deferred revenue includes a customer paying cash before receiving the related product or service, such as a magazine subscription. At the time the cash is received, a liability is recorded. When those products and services are provided to customers, an adjusting entry is needed to reduce the liability to its remaining amount and to recognize revenue.

Question 3-13 (LO 3-3)

An accrued expense includes incurring an expense before the related cash outflow, such as when the cost of employees' salaries, utilities, taxes, and interest are incurred but not paid until a later time. In the period the cost occurs, an adjusting entry is needed to record the liability for the amount to be paid and to recognize an expense.

Question 3-14 (LO 3-3)

An accrued revenue includes recording a revenue before the related cash inflow, such as providing products or services to customers on account. In the period the goods and services are provided to customers, an adjusting entry is needed to record an asset for the amount to be received and to recognize revenue.

Answers to Review Questions (continued)

Question 3-15 (LO 3-3)

October 31	Debit	Credit
Supplies Expense ($75 − $25)	**50**	
Supplies		**50**
(*Consume supplies during the current period*)		

Question 3-16 (LO 3-3)

Yes. Utilities expense and utilities payable will be understated at the end of September. Utilities expense should be recorded during the period incurred (that is, in the period it helps to produce revenues), regardless of whether it is paid. Utilities payable should be recorded in the period the obligation (debt) arises.

Question 3-17 (LO 3-3)

November 30	Debit	Credit
Deferred Revenues	**20,000**	
Service Revenue		**20,000**
(*Provide services to customers who paid in advance*)		

Question 3-18 (LO 3-3)

Yes. Accounts receivable and service revenue will be understated at the end of May. Accounts receivable should be recorded in the period the right to receive cash arises. Service revenue should be recorded in the period the service is provided to the customer, regardless of whether cash is received.

Question 3-19 (LO 3-3)

(a) Prepaid expense: Debit Supplies Expense; credit **Supplies**.

(b) Deferred revenue: Debit **Deferred Revenue**; credit Service Revenue.

(c) Accrued expense: Debit **Salaries Expense**; credit Salaries Payable.

(d) Accrued revenue: Debit Accounts Receivable; credit **Service Revenue**.

Question 3-20 (LO 3-4)

The purpose of the adjusted trial balance is to list all accounts and their balances after updating account balances for adjusting entries and check the equality of total debits and total credits. Account balances reported on the (unadjusted) trial balance *do not* include the effects of adjusting entries. Account balances reported on the adjusted trial balance *do* include the effects of adjusting entries.

Question 3-21 (LO 3-5)

Classified indicates that assets are separated into those that provide a benefit over the next year (current assets) and those that provide a benefit for more than one year (long-term assets) from the date of the balance sheet. Similarly, liabilities are divided into those due over the next year (current liabilities) and those due in more than one year (long-term liabilities) from the date of the balance sheet.

Answers to Review Questions (continued)

Question 3-22 (LO 3-5)

Assets	=	Liabilities	+	Stockholders' equity
\$12,000	=	\$8,000	+	\$X
\$12,000	−	\$8,000	=	**\$4,000**

Question 3-23 (LO 3-6)

The two purposes of closing entries are (1) to transfer the balances of temporary accounts (revenues, expenses, and dividends) to the retained earnings account and (2) to reduce the balances of these temporary accounts to zero to prepare them for measuring activity in the next period.

Question 3-24 (LO 3-6)

To "close" temporary accounts indicates that temporary account balances should be reduced to zero at the end of the accounting period. The reason is that temporary accounts measure activity over a single period only and therefore need to start each period at zero. To start a period at zero, it is necessary to end the previous period with a zero balance. Dividends, revenues, and expenses are closed.

Question 3-25 (LO 3-6)

The first closing entry transfers revenue transactions to retained earnings by debiting all revenue accounts (reducing their balances to zero) and crediting retained earnings. The second closing entry transfers expense transactions to retained earnings by crediting all expense accounts (reducing their balance to zero) and debiting retained earnings. The third closing entry transfers dividend transactions to retained earnings by crediting the dividends account (reducing its balance to zero) and debiting retained earnings.

Question 3-26 (LO 3-6)

	Net Income	Dividends	Retained Earnings*
Year 1	\$ 300	\$200	**\$ 100**
Year 2	900	200	**800**
Year 3	1,500	200	**2,100**
Year 4	2,400	200	**4,300**

* Retained earnings = Previous year's retained earnings + Net income − Dividends

Answers to Review Questions (continued)

Question 3-27 (LO 3-6)

It is important to understand that transactions are recorded from the company's perspective. The company is paying dividends to its stockholders. From the company's perspective, there is a reduction in total assets of the company (generally cash) and total stockholders' equity when dividends are paid. [The personal accounting records of the stockholder would show an increase in cash and stockholders' equity when the dividend is received from the company.]

Question 3-28 (LO 3-7)

The adjusted trial balance does not include the effect of closing entries while the post-closing trial balance does. This means that revenues, expenses, and dividends will be reported in the adjusted trial balance but not in the post-closing trial balance. The balance of retained earnings will differ in the two trial balances. In the post-closing trial balance, all balances for revenue, expense, and dividends accounts will have been transferred to the balance of retained earnings.

BRIEF EXERCISES

Brief Exercise 3-1 (LO 3-1)

(a) $0; Cash received in advance is recorded as Deferred revenue (liability).

(b) $900.

(c) $2,300.

Brief Exercise 3-2 (LO 3-1)

(a) $600.

(b) $200.

(c) $0; The payment would reduce accounts payable (liability).

Brief Exercise 3-3 (LO 3-1)

Revenues	−	Expenses	=	Net Income
$17,000	−	$12,000	=	**$5,000**

Brief Exercise 3-4 (LO 3-1, 3-2)

	Impact on:	Cash Balance	Cash-basis Net Income	Accrual-basis Net Income
(a)	*Receive $1,500 from customers who were billed for services in April.*	*+$1,500*	*+$1,500*	*$0*
(b)	Provide $3,200 of consulting services to a local business. Payment is not expected until June.	**$0**	**$0**	**+$3,200**
(c)	Purchase office supplies for $400 on account. All supplies are used by the end of May.	**$0**	**$0**	**−$400**
(d)	Pay $600 to workers. $400 is for work in May and $200 is for work in April.	**−$600**	**−$600**	**−$400**
(e)	Pay $200 to advertise in a local newspaper in May.	**−$200**	**−$200**	**−$200**
	Total	**+$700**	**+$700**	**+$2,200**

Brief Exercise 3-5 (LO 3-1, 3-2)

	Cash-basis net income	Accrual adjustments	Accrual-basis net income
Cash inflows	$50,000	+$6,900*	$56,900
Cash outflows	21,900	−$3,000**	18,900
	$28,100		$38,000

* The increase in accounts receivable ($6,900) represents accrual-basis revenues with no corresponding cash inflows.

** The decrease in salaries owed ($3,000) represents cash outflows for salaries of the prior year and would not be expensed in the current year.

Brief Exercise 3-6 (LO 3-3)

(1)

May 15	Debit	Credit
Supplies	**3,300**	
Cash		**3,300**
(*Purchase supplies for cash*)		

(2)

May 31	Debit	Credit
Supplies Expense	**3,500**	
Supplies		**3,500**
(*Adjust supplies*)		

(3)

		Supplies	Supplies Expense
May 1	Beginning balance	$ 500	$ 0
May 15	Purchase	3,300	
Adjustment	Supplies used during May	(3,500)	3,500
May 31	Ending balance	$ 300	$3,500

Brief Exercise 3-7 (LO 3-3)

(1)

Oct. 1	Debit	Credit
Prepaid Rent	**25,200**	
Cash		**25,200**
(*Pay for rent in advance*)		

(2)

Dec. 31	Debit	Credit
Rent Expense	**6,300**	
Prepaid Rent		**6,300**
(*Adjust prepaid rent*)		
= $2,100 per month x 3 months (Oct., Nov., and Dec.)		

(3)

		Prepaid Rent	Rent Expense
Jan. 1	Beginning balance	$ 0	$ 0
Oct. 1	Payment	25,200	
Adjustment	Prepaid rent expired during year	(6,300)	6,300
Dec. 31	Ending balance	$18,900	$6,300

Brief Exercise 3-8 (LO 3-3)

(1)

Mar. 1	Debit	Credit
Prepaid Insurance	**36,000**	
Cash		**36,000**
(*Purchase insurance in advance*)		

(2)

Dec. 31	Debit	Credit
Insurance Expense	**30,000**	
Prepaid Insurance		**30,000**
(*Adjust prepaid insurance*)		
= $3,000 per month x 10 months (Mar. – Dec.)		

(3)

		Prepaid Insurance	Insurance Expense
Jan. 1	Beginning balance	$ 0	$ 0
Mar. 1	Payment	36,000	
Adjustment	Insurance expired during year	(30,000)	30,000
Dec. 31	Ending balance	$ 6,000	$30,000

Brief Exercise 3-9 (LO 3-3)

(1)

Apr. 1	Debit	Credit
Equipment	**50,400**	
Cash		**50,400**
(*Purchase equipment*)		

(2)

Dec. 31	Debit	Credit
Depreciation Expense	**5,400**	
Accumulated Depreciation		**5,400**
(*Adjust accumulated depreciation*)		
= $600 per month x 9 months (Apr. – Dec.)		

(3)

		Accumulated Depreciation	Depreciation Expense
Jan. 1	Beginning balance	$ 0	$ 0
Adjustment	Depreciation during year	5,400	5,400
Dec. 31	Ending balance	$5,400	$5,400

Brief Exercise 3-10 (LO 3-3)

(1)

Nov. 1	Debit	Credit
Cash	**6,000**	
Deferred Revenue		**6,000**
(*Receive cash in advance from customer*)		

(2)

Dec. 31	Debit	Credit
Deferred Revenue	**4,000**	
Service Revenue		**4,000**
(*Adjust deferred revenue*)		
= $2,000 per month x 2 months (Nov. and Dec.)		

(3)

		Deferred Revenue	Service Revenue
Jan. 1	Beginning balance	$ 0	$ 0
Nov. 1	Cash received	6,000	
Adjustment	Revenue recognized during year	(4,000)	4,000
Dec. 31	Ending balance	$2,000	$4,000

Brief Exercise 3-11 (LO 3-3)

(1)

Dec. 31, 2021	Debit	Credit
Salaries Expense	**1,200**	
Salaries Payable		**1,200**
(*Record salaries owed at December 31; $400 per day x 3 days [Dec. 29 – 31] = $1,200*)		

(2)

		Salaries Payable
Jan. 1, 2021	Beginning balance	$ 0
Adjustment	Salaries incurred but not paid	1,200
Dec. 31, 2021	Ending balance	$1,200

Brief Exercise 3-12 (LO 3-3)

(1)

Jul. 1, 2021	Debit	Credit
Cash	**15,000**	
Notes Payable		**15,000**
(*Borrow cash*)		

(2)

Dec. 31, 2021	Debit	Credit
Interest Expense	**900**	
Interest Payable		**900**
(*Record interest payable*)		
= $150 (or 1% of $15,000) per month x 6 months (Jul. – Dec.)		

(3)

		Interest Payable	Interest Expense
Jan. 1, 2021	Beginning balance	$ 0	$ 0
Adjustment	Interest incurred but not paid	900	900
Dec. 31, 2021	Ending balance	$900	$900

Brief Exercise 3-13 (LO 3-3)

(1)

Jul. 1, 2021	Debit	Credit
Notes Receivable	**15,000**	
Cash		**15,000**
(*Lend cash*)		

(2)

Dec. 31, 2021	Debit	Credit
Interest Receivable	**900**	
Interest Revenue		**900**
(*Record interest receivable*)		
= $150 (or 1% of $15,000) per month x 6 months (Jul. – Dec.)		

(3)

		Interest Receivable	Interest Revenue
Jan. 1, 2021	Beginning balance	$ 0	$ 0
Adjustment	Interest earned but not received	900	900
Dec. 31, 2021	Ending balance	$900	$900

Brief Exercise 3-14 (LO 3-5)

	Account	Financial Statement
1.	Accounts Receivable	**Balance Sheet**
2.	Deferred Revenue	**Balance Sheet**
3.	Supplies Expense	**Income Statement**
4.	Salaries Payable	**Balance Sheet**
5.	Depreciation Expense	**Income Statement**
6.	Service Revenue	**Income Statement**

Brief Exercise 3-15 (LO 3-5)

1. (b)
2. (d)
3. (a)
4. (c)

Brief Exercise 3-16 (LO 3-5)

Beavers Corporation
Income Statement
For the year ended December 31, 2021

Service revenue		$275,000
Expenses:		
	Salaries	110,000
	Supplies	20,000
	Rent	26,000
	Depreciation	44,000
	Delivery	18,000
	Total expenses	218,000
Net income		$ 57,000

Brief Exercise 3-17 (LO 3-5)

Spiders Corporation
Statement of Stockholders' Equity
For the year ended December 31, 2021

	Common Stock	Retained Earnings	Total Stockholders' Equity
Balance at January 1	$30,000	$ 8,000	$38,000
Issuance of common stock	0		0
Add: Net income for 2021		3,000 *	3,000
Less: Dividends		(1,000)	(1,000)
Balance at December 31	$30,000	$10,000	$40,000

* $3,000 is calculated as total revenues ($28,000) less total expenses ($25,000) for the year.

Brief Exercise 3-18 (LO 3-5)

Blue Devils Corporation
Balance Sheet
December 31, 2021

Assets		**Liabilities**	
Current assets:		Current liabilities:	
Cash	$ 5,000	Accounts payable	$ 26,000
Accounts receivable	9,000	Salaries payable	16,000
Supplies	19,000	Total current liabilities	42,000
Total current assets	33,000		
		Stockholders' Equity	
Long-term assets:		Common stock	60,000
Equipment	120,000	Retained earnings	6,000 *
Accumulated depr.	(45,000)	Total stockholders' equity	66,000
Total assets	$108,000	Total liabilities and stockholders' equity	$108,000

* Assets	=	Liabilities	+	Stockholders' equity
$108,000	=	$42,000	+	($60,000 + Retained earnings)
$108,000	−	$42,000	−	$60,000 = Retained earnings
				$6,000 = Retained earnings

Brief Exercise 3-19 (LO 3-6)

December 31	Debit	Credit
Service Revenue	**900,000**	
Retained Earnings		**900,000**
(*Close revenue accounts*)		
Retained Earnings	**625,000**	
Salaries Expense		**390,000**
Rent Expense		**150,000**
Interest Expense		**85,000**
(*Close expense accounts*)		
Retained Earnings	**60,000**	
Dividends		**60,000**
(*Close dividends account*)		

Brief Exercise 3-20 (LO 3-7)

Hilltoppers Corporation
Post-Closing Trial Balance

Accounts	Debit	Credit
Cash	$ 5,000	
Equipment	17,000	
Accounts Payable		$ 3,000
Common Stock		11,000
Retained Earnings		8,000 *
Totals	$22,000	$22,000

* Retained Earnings (before closing)	+	Revenues	−	Expenses	−	Dividends	=	Retained Earnings (after closing)
8,100	+	16,000	−	15,000	−	1,100	=	8,000

EXERCISES

Exercise 3-1 (LO 3-1)

1. August 16.
2. January 27.
3. April 2.
4. Revenue would be recognized as each magazine is delivered.

Exercise 3-2 (LO 3-1)

1. August 16.
2. January 27.
3. One month's worth of insurance expense is recorded each month.
4. February 4.

Exercise 3-3 (LO 3-2)

1. June 12.
2. February 2.
3. April 2.
4. July 1.

Exercise 3-4 (LO 3-2)

1. September 2.
2. January 6.
3. January 1.
4. February 23.

Exercise 3-5 (LO 3-1)

Net income (unadjusted)	$100,000
1. Record insurance expense of $2,000 per month	(6,000)
2. Reclassify service revenue as deferred revenue (liability)	(4,000)
3. Reclassify supplies expense as supplies (asset)	2,750
4. Record interest expense of $525 per month (9%/12 of $70,000)	(2,100)
Net income (adjusted)	$ 90,650

Exercise 3-6 (LO 3-3, 3-4, 3-5, 3-6, 3-7)

(i) Use source documents to identify accounts affected by external transactions.
(g) Analyze the impact of the transaction on the accounting equation.
(h) Assess whether the transaction results in a debit or a credit to the account balance.
(c) Record the transaction.
(b) Post the transaction to the T-account in the general ledger.
(f) Prepare a trial balance.
(a) Record and post adjusting entries.
(d) Prepare financial statements (income statement, statement of stockholders' equity, balance sheet, and statement of cash flows).
(e) Record and post closing entries.

Exercise 3-7 (LO 3-3)

(1)	Debit	Credit
Supplies Expense	**3,000**	
Supplies		**3,000**
(*Supplies used during December*)		

(2)	Debit	Credit
Insurance Expense	**2,000**	
Prepaid Insurance		**2,000**
(*Reduce prepaid insurance*)		

(3)	Debit	Credit
Salaries Expense	**16,000**	
Salaries Payable		**16,000**
(*Record salaries owed at December 31*)		

Note: The November salaries paid in December are not an adjusting entry in December. When those salaries are paid, the Salaries Payable account is reduced and cash is reduced. Thus, the Salaries Payable account is zero at December 31 until the December unpaid salaries are accrued.

(4)	Debit	Credit
Deferred Revenue	**1,500**	
Service Revenue		**1,500**
(*Reduce deferred revenue for rental space used by tenant during December*)		

Exercise 3-8 (LO 3-3)

(1)	Debit	Credit
Depreciation Expense	**7,000**	
Accumulated Depreciation		**7,000**
(*Depreciation expense = $7,000 for the year*)		

(2)	Debit	Credit
Interest Receivable	**1,750**	
Interest Revenue		**1,750**
(*Interest revenue = $50,000 × 0.07 × 6/12*)		

(3)	Debit	Credit
Deferred Revenue	**4,000**	
Service Revenue		**4,000**
(*Recognize revenue for three months of twelve months received in advance; $16,000 × 3/12*)		

Exercise 3-9 (LO 3-3)

If the adjusting entry is NOT made:

	Revenues	−	Expenses	=	Net Income
(1)	**$0**	−	**−$7,000**	=	**+$7,000**
(2)	**−$1,750**	−	**$0**	=	**−$1,750**
(3)	**−$4,000**	−	**$0**	=	**−$4,000**
Total					**+$1,250**

Exercise 3-10 (LO 3-3)

(1)	Debit	Credit
Deferred Revenue	**1,500**	
Service Revenue		**1,500**
(*Recognize revenue for one month = $4,500 ÷ 3 = $1,500*)		

(2)	Debit	Credit
Advertising Expense	**900**	
Prepaid Advertising		**900**
(*Recognize advertising expense for one month; 10 ads used ÷ 30 prepaid = $2,700 × 1/3 = $900*)		

(3)	Debit	Credit
Salaries Expense	**8,000**	
Salaries Payable		**8,000**
(*Record salaries payable*)		

(4)	Debit	Credit
Interest Expense	**2,100**	
Interest Payable		**2,100**
(*Record interest payable; $70,000 × 0.09 × 4/12*)		

Exercise 3-11 (LO 3-3, 3-4)

If the adjusting entry is NOT made:

	Assets	=	Liabilities	+	Stockholders' Equity
(1)	**$0**	=	**+$1,500**	+	**−$1,500**
(2)	**+$900**	=	**$0**	+	**+$900**
(3)	**$0**	=	**−$8,000**	+	**+$8,000**
(4)	**$0**	=	**−$2,100**	+	**+$2,100**

Total	**+$900**	**−$8,600**	**+$9,500**

Exercise 3-12 (LO 3-3)

(1)	Debit	Credit
Deferred Revenue	**2,000**	
Service Revenue		**2,000**
(*Recognize revenue for one month = $4,000 ÷ 2 months received = $2,000*)		

(2)	Debit	Credit
Insurance Expense	**6,600**	
Prepaid Insurance		**6,600**
(*Recognize insurance expense for 6 months*)		

(3)	Debit	Credit
Salaries Expense	**3,000**	
Salaries Payable		**3,000**
(*Record salaries owed at December 31*)		

(4)	Debit	Credit
Interest Expense	**250**	
Interest Payable		**250**
(*Record interest expense; $15,000 × 0.10 × 2/12 = $250*)		

(5)	Debit	Credit
Supplies Expense	**3,900**	
Supplies		**3,900**
(*Office supplies used during year; $1,000 + $3,400 – $500 = $3,900*)		

Exercise 3-13 (LO 3-3)

(1)	Debit	Credit
Interest Receivable	**270**	
Interest Revenue		**270**
(*Record interest revenue not received; $9,000 × 0.12 × 3/12 = $270*)		

(2)	Debit	Credit
Rent Expense	**3,000**	
Prepaid Rent		**3,000**
(*Reduce prepaid rent for two months used of three months prepaid; $4,500 × 2/3 =$3,000*)		

(3)	Debit	Credit
Deferred Revenue	**5,500**	
Service Revenue		**5,500**
(*Recognize revenue for five months of 12 months collected in advance; $13,200 × 5/12*)		

(4)	Debit	Credit
Depreciation Expense	**5,500**	
Accumulated Depreciation		**5,500**
(*Depreciation expense = $5,500 for year*)		

(5	Debit	Credit
Salaries Expense	**5,000**	
Salaries Payable		**5,000**
(*Record salaries owed at December 31*)		

(6)	Debit	Credit
Supplies Expense	**3,500**	
Supplies		**3,500**
(*Supplies used during year; $1,500 + $5,500 – $3,500 = $3,500*)		

Exercise 3-14 (LO 3-3, 3-4)

Requirement 1

(1)	Debit	Credit
Rent Expense	**2,400**	
Prepaid Rent		**2,400**
(*Adjust prepaid rent to recognize two months used of six months prepaid = $7,200 × 2/6 = $2,400*)		

(2)	Debit	Credit
Deferred Revenue	**750**	
Service Revenue		**750**
(*Adjust deferred revenue for service provided*)		

(3)	Debit	Credit
Salaries Expense	**700**	
Salaries Payable		**700**
(*Record salaries owed at December 31*)		

(4)	Debit	Credit
Supplies Expense	**3,200**	
Supplies		**3,200**
(*Supplies used during year; $1,700 + $2,300 – $800 = $3,200*)		

Exercise 3-14 (concluded)

Requirement 2

Demon Deacons Corporation
Adjusted Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$ 10,000	
Accounts Receivable	15,000	
Prepaid Rent	4,800	
Supplies	800	
Deferred Revenue		$ 2,250
Salaries Payable		700
Common Stock		11,000
Retained Earnings		6,000
Service Revenue		51,950
Salaries Expense	35,700	
Rent Expense	2,400	
Supplies Expense	3,200	
Totals	$71,900	$71,900

Exercise 3-15 (LO 3-5)

	Volunteers Inc. (in millions)		Raiders Inc. (in millions)	
Year	Net Income (Loss)	Retained Earnings	Net Income (Loss)	Retained Earnings
2012	—	$ 0	$ 35	$ 11
2013	$ 30	**30**	(43)	**(32)**
2014	(7)	**23**	63	**31**
2015	41	**64**	63	**94**
2016	135	**199**	102	**196**
2017	30	**229**	135	**331**
2018	(131)	**98**	(42)	**289**
2019	577	**675**	74	**363**
2020	359	**1,034**	110	**473**
2021	360	**1,394**	162	**635**

Exercise 3-16 (LO 3-5)

Requirement 1

Fightin' Blue Hens Corporation
Income Statement
For the year ended December 31, 2021

Service revenue	$500,000
Expenses:	
Salaries	400,000
Rent	20,000
Depreciation	40,000
Interest	5,000
Total expenses	465,000
Net income	$ 35,000

Requirement 2

Fightin' Blue Hens Corporation
Statement of Stockholders' Equity
For the period ended December 31, 2021

	Common Stock	Retained Earnings	Total Stockholders' Equity
Balance at July 1	$300,000	$60,000	$360,000
Issuance of common stock	0		0
Add: Net income for 2021		35,000	35,000
Less: Dividends		(0)	(0)
Balance at December 31	$300,000	$95,000	$395,000

Exercise 3-16 (concluded)

Requirement 3

Fightin' Blue Hens Corporation
Balance Sheet
December 31, 2021

Assets		**Liabilities**	
Current assets:		Current liabilities:	
Cash	$ 12,000	Accounts payable	$ 12,000
Accounts receivable	150,000	Salaries payable	11,000
Prepaid rent	6,000	Interest payable	5,000
Supplies	30,000	Total current liabilities	28,000
Total current assets	198,000	Notes payable	40,000
		Total liabilities	68,000
		Stockholders' Equity	
Long-term assets:		Common stock	300,000
Equipment	400,000	Retained earnings	95,000 *
Accumulated depr.	(135,000)	Total stockholders' equity	395,000
Total assets	$463,000	Total liabilities and stockholders' equity	$463,000

* Retained earnings = Beginning retained earnings + Net income − Dividends
= $60,000 + $35,000 − $0
= $95,000

Exercise 3-17 (LO 3-6)

Requirement 1

December 31, 2021	Debit	Credit
Service Revenue	**50,000**	
Interest Revenue	**6,000**	
Retained Earnings		**56,000**
(*Close revenue accounts*)		
Retained Earnings	**40,000**	
Salaries Expense		**15,000**
Rent Expense		**6,000**
Advertising Expense		**3,000**
Depreciation Expense		**11,000**
Interest Expense		**5,000**
(*Close expense accounts*)		
Retained Earnings	**3,000**	
Dividends		**3,000**
(*Close dividends account*)		

Requirement 2

Retained Earnings	
	30,000
40,000	**56,000**
3,000	
	43,000

Exercise 3-18 (LO 3-6)

Requirement 1

December 31, 2021	Debit	Credit
Service Revenue	**54,000**	
Retained Earnings		**54,000**
(*Close revenue accounts*)		
Retained Earnings	**51,000**	
Salaries Expense		**20,000**
Advertising Expense		**13,000**
Rent Expense		**10,000**
Utilities Expense		**8,000**
(*Close expense accounts*)		
Retained Earnings	**4,000**	
Dividends		**4,000**
(*Close dividends account*)		

Requirement 2

Retained Earnings

	9000
51,000	**54,000**
4,000	
	8,000

Exercise 3-18 (concluded)
Requirement 3

Laker Incorporated
Post-Closing Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$12,000	
Supplies	39,000	
Prepaid Rent	30,000	
Accounts Payable		$ 3,000
Notes Payable		30,000
Common Stock		40,000
Retained Earnings		8,000
Totals	$81,000	$81,000

Exercise 3-19 (LO 3-6, 3-7)

Requirement 1

December 31, 2021	Debit	Credit
Service Revenue	**500,000**	
Retained Earnings		**500,000**
(*Close revenue accounts*)		
Retained Earnings	**465,000**	
Salaries Expense		**400,000**
Rent Expense		**20,000**
Depreciation Expense		**40,000**
Interest Expense		**5,000**
(*Close expense accounts*)		

Requirement 2

Fightin' Blue Hens Corporation
Post-Closing Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$ 12,000	
Accounts Receivable	150,000	
Prepaid Rent	6,000	
Office Supplies	30,000	
Equipment	400,000	
Accumulated Depreciation		$135,000
Accounts Payable		12,000
Salaries Payable		11,000
Interest Payable		5,000
Notes Payable		40,000
Common Stock		300,000
Retained Earnings		95,000
Totals	$598,000	$598,000

Exercise 3-20 (LO 3-3, 3-4, 3-5, 3-6, 3-7)

Requirement 1

February 15	Debit	Credit
1. **Cash**	**20,000**	
Common Stock		**20,000**
(*Issue shares of common stock*)		
May 20		
2. **Cash**	**35,000**	
Accounts Receivable	**30,000**	
Service Revenue		**65,000**
(*Provide services to customers for cash and on account*)		
August 31		
3. **Salaries Expense**	**23,000**	
Cash		**23,000**
(*Pay salaries to employees*)		
October 1		
4. **Prepaid Rent**	**12,000**	
Cash		**12,000**
(*Pay for one-year of rental space*)		
November 17		
5. **Supplies**	**22,000**	
Accounts Payable		**22,000**
(*Purchase supplies on account*)		
December 30		
6. **Dividends**	**2,000**	
Cash		**2,000**
(*Pay dividends*)		

Exercise 3-20 (continued)

Requirement 2

December 31	Debit	Credit
1. **Salaries Expense**	**4,000**	
Salaries Payable		**4,000**
(*Record salaries owed at December 31*)		
2. **Rent Expense**	**3,000**	
Prepaid Rent		**3,000**
(*Reduce prepaid rent for three months used = $12,000 × 3/12 = $3,000*)		
3. **Supplies Expense**	**25,000**	
Supplies		**25,000**
(*Supplies used during year = $8,000 + $22,000 – $5,000 = $25,000*)		
4. **Deferred Revenue**	**5,000**	
Service Revenue		**5,000**
(*Reduce deferred revenue for services performed*)		

Exercise 3-20 (continued)

Requirement 3

Red Flash Photography
Adjusted Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$ 30,000	
Accounts Receivable	30,000	
Supplies	5,000	
Prepaid Rent	9,000	
Land	60,000	
Accounts Payable		$ 22,000
Salaries Payable		4,000
Common Stock		70,000
Retained Earnings		25,000
Dividends	2,000	
Service Revenue		70,000
Salaries Expense	27,000	
Rent Expense	3,000	
Supplies Expense	25,000	
Total	$191,000	$191,000

Exercise 3-20 (continued)

Requirement 4

Red Flash Photography
Income Statement
For the year ended December 31, 2021

Service revenue	$70,000
Expenses:	
Salaries	27,000
Rent	3,000
Supplies	25,000
Total expenses	55,000
Net income	$15,000

Red Flash Photography
Statement of Stockholders' Equity
For the period ended December 31, 2021

	Common Stock	Retained Earnings	Total Stockholders' Equity
Balance at January 1	$50,000	$25,000	$ 75,000
Issuance of common stock	20,000		20,000
Add: Net income for 2021		15,000	15,000
Less: Dividends		(2,000)	(2,000)
Balance at December 31	$70,000	$38,000	$108,000

Exercise 3-20 (continued)

Requirement 4 (continued)

Red Flash Photography
Balance Sheet
December 31, 2021

Assets		**Liabilities**	
Current assets:		Current liabilities:	
Cash	$ 30,000	Accounts payable	$ 22,000
Accounts receivable	30,000	Salaries payable	4,000
Supplies	5,000	Total current liabilities	26,000
Prepaid rent	9,000	**Stockholders' Equity**	
Total current assets	74,000	Common stock	70,000
Long-term assets:		Retained earnings	38,000
Land	60,000	Total stockholders' equity	108,000
Total assets	$134,000	Total liabilities and stockholders' equity	$134,000

Exercise 3-20 (concluded)
Requirement 5

December 31, 2021	Debit	Credit
Service Revenue	**70,000**	
Retained Earnings		**70,000**
(*Close revenue accounts*)		
Retained Earnings	**55,000**	
Salaries Expense		**27,000**
Rent Expense		**3,000**
Supplies Expense		**25,000**
(*Close expense accounts*)		
Retained Earnings	**2,000**	
Dividends		**2,000**
(*Close dividends account*)		

Exercise 3-21

Requirement 1

January 2	Debit	Credit
Prepaid Rent	**6,000**	
Cash		**6,000**
(Pay for one year of rent in advance)		

January 9	Debit	Credit
Supplies	**3,500**	
Accounts Payable		**3,500**
(*Purchase supplies on account*)		

January 13	Debit	Credit
Accounts Receivable	**25,500**	
Service Revenue		**25,500**
(*Provide services on account*)		

January 17	Debit	Credit
Cash	**3,700**	
Deferred Revenue		**3,700**
(*Receive cash in advance from customers*)		

January 20	Debit	Credit
Salaries Expense	**11,500**	
Cash		**11,500**
(*Pay cash for salaries*)		

January 22	Debit	Credit
Cash	**24,100**	
Accounts Receivable		**24,100**
(*Receive cash on account*)		

January 29	Debit	Credit
Accounts Payable	**4,000**	
Cash		**4,000**
(*Pay cash on account*)		

Exercise 3-21 (continued)
Requirement 2

(a) January 31	Debit	Credit
Rent Expense	**500**	
Prepaid Rent		**500**
(*Reduce prepaid rent for one month used of twelve months prepaid*)		

(b) January 31	Debit	Credit
Supplies Expense	**3,800**	
Supplies		**3,800**
(*Supplies used during January; $3,100+$3,500−$2,800 = $3,800*)		

(c) January 31	Debit	Credit
Deferred Revenue	**3,200**	
Service Revenue		**3,200**
(*Reduce deferred revenue for services rendered*)		

(d) January 31	Debit	Credit
Salaries Expense	**5,800**	
Salaries Payable		**5,800**
(*Record salaries owed at January 31*)		

Exercise 3-21 (continued)
Requirement 3

Dynamite Fireworks
Adjusted Trial Balance
January 31, 2021

Accounts	Debit	Credit
Cash	$ 30,100	
Accounts Receivable	6,600	
Supplies	2,800	
Prepaid Rent	5,500	
Land	50,000	
Accounts Payable		$ 2,700
Deferred Revenue		500
Salaries Payable		5,800
Common Stock		65,000
Retained Earnings		13,900
Service Revenue		28,700
Salaries Expense	17,300	
Rent Expense	500	
Supplies Expense	3,800	
Totals	$116,600	$116,600

Exercise 3-21 (continued)
Requirement 3 (continued)

Accounts	Ending Balance		Beginning balance in **bold**, entries during January in blue, and adjusting entries in red.
Cash	30,100	=	**23,800**−6,000+3,700−11,500+24,100−4,000
Accounts Receivable	6,600	=	**5,200**+25,500−24,100
Supplies	2,800	=	**3,100**+3,500−3,800
Prepaid Rent	5,500	=	6,000−500
Land	50,000	=	**50,000**
Accounts Payable	2,700	=	**3,200**+3,500−4,000
Deferred Revenue	500	=	3,700−3,200
Salaries Payable	5,800	=	5,800
Common Stock	65,000	=	**65,000**
Retained Earnings	13,900	=	**13,900**
Service Revenue	28,700	=	25,500+3,200
Salaries Expense	17,300	=	11,500+5,800
Rent Expense	500	=	500
Supplies Expense	3,800	=	3,800

Exercise 3-21 (continued)

Requirement 4

Dynamite Fireworks
Income Statement
For the year ended January 31, 2021

Revenues:	
Service revenue	$28,700
Expenses:	
Salaries Expense	17,300
Rent Expense	500
Supplies Expense	3,800
Total expenses	21,600
Net income	$ 7,100

Requirement 5

Dynamite Fireworks
Balance Sheet
January 31, 2021

Assets		**Liabilities**	
Current assets:		Current liabilities	
Cash	$30,100	Accounts payable	$ 2,700
Accounts Receivable	6,600	Deferred revenue	500
Supplies	2,800	Salaries payable	5,800
Prepaid Rent	5,500	Total current liabilities	9,000
Total current assets	45,000		
		Stockholders' Equity	
		Common stock	65,000
Long-term assets:		Retained earnings	21,000 *
Land	50,000	Total stockholders' equity	86,000
Total assets	$95,000	Total liabilities and stockholders' equity	$95,000

* Retained earnings = Beginning retained earnings + Net income − Dividends
= $13,900 + $7,000 − $0
= $21,000

Exercise 3-21 (concluded)
Requirement 6

January 31, 2021	Debit	Credit
Service Revenue	28,700	
Retained Earnings		28,700
(*Close revenue accounts*)		
Retained Earnings	21,600	
Salaries Expense		17,300
Rent Expense		500
Supplies Expense		3,800
(*Close expense accounts*)		

Requirement 7
(a) Profit is the amount of net income reported in the income statement = **$7,100**.

(b) Currents assets ($45,000) divided by current liabilities ($9,000) = **5.00**.

(c) Profits greater than zero indicate a company's ability to generate revenues from its customers in excess of the costs of providing services to those customers and operating the business. For the month of January, Dynamite Fireworks recognizes revenues from customers of $28,700, while costs (or expenses) associated with those revenues are only $21,600. The difference is a profit of $7,100. A positive amount for profit generally is a sign of the company's success.

Current assets represent cash, items expected to be converted to cash within one year (accounts receivable), or items that benefit the company within the next year (supplies and prepaid rent). Current liabilities are amounts due within the next year. At the end of January, Dynamite Fireworks' current assets are five times its current liabilities (5.00), which would suggest that the company will be able to pay obligations as they come due.

Based on its profit and its ratio of current assets to current liabilities, Dynamite Fireworks appears to be in **good** financial condition.

PROBLEMS: SET A

Problem 3-1A (LO 3-1, 3-2)

	Accrual-Basis		Cash-Basis	
Transaction	Revenue	Expense	Revenue	Expense
1. Receive cash from customers in advance, $600.	**$0**	**$0**	**$600**	**$0**
2. Pay utilities bill for the previous month, $150.	**$0**	**$0**	**$0**	**$150**
3. Pay for insurance one year in advance, $2,000.	**$0**	**$0**	**$0**	**$2,000**
4. Pay workers' salaries for the current month, $800.	**$0**	**$800**	**$0**	**$800**
5. Incur costs for employee salaries in the current month but do not pay, $1,000.	**$0**	**$1,000**	**$0**	**$0**
6. Receive cash from customers at the time of service, $1,700.	**$1,700**	**$0**	**$1,700**	**$0**
7. Purchase office supplies on account, $330.	**$0**	**$0**	**$0**	**$0**
8. Borrow cash from the bank, $4,000.	**$0**	**$0**	**$0**	**$0**
9. Receive cash from customers for services performed last month, $750.	**$0**	**$0**	**$750**	**$0**
10. Pay for advertising to appear in the current month, $450.	**$0**	**$450**	**$0**	**$450**

Problem 3-2A (LO 3-1, 3-2)

Minutemen Law Services
Income Statement
For the year ended December 31, 2021

Service revenue	$73,000[a]
Expenses:	
Salaries	37,700[b]
Supplies	7,000[c]
Rent	5,000[d]
Insurance	3,300[e]
Utilities	3,000[f]
Total expenses	56,000
Net income	$17,000

[a] $70,000 (cash from customers) + $3,000 (increase in accounts receivable) = $73,000

[b] $36,000 (cash paid for salaries) + $1,700 (increase in salaries payable) = $37,700

[c] $4,000 (cash paid for supplies) + $3,000 (decrease in supplies) = $7,000

[d] $5,000 (cash paid for rent) +/− $0 (decrease/increase in prepaid rent) = $5,000

[e] $7,000 (cash paid for insurance) − $3,700 (increase in prepaid insurance) = $3,300

[f] $3,000 (cash paid for utilities) +/− $0 (increase/decrease in utilities payable) = $3,000

Problem 3-3A (LO 3-3)

(1)	Debit	Credit
Deferred Revenue	**3,600**	
Service Revenue		**3,600**
(*Reduce deferred revenue for six months provided of ten months revenue received in advance; \$60,000 × 6/10 = \$3,600*)		

(2)	Debit	Credit
Depreciation Expense	**7,000**	
Accumulated Depreciation		**7,000**
(*Record depreciation expense for year; \$28,000 ÷ 4 = \$7,000*)		

(3)	Debit	Credit
Insurance Expense	**1,600**	
Prepaid Insurance		**1,600**
(*Reduce prepaid insurance for eight months used of twenty-four months prepaid; \$4,800 × 8/24 = \$1,600*)		

(4)	Debit	Credit
Interest Expense	**800**	
Interest Payable		**800**
(*Record interest expense for four months not yet paid; \$20,000 × 0.12 × 4/12 = \$800*)		

(5)	Debit	Credit
Supplies Expense	**1,700**	
Supplies		**1,700**
(*Supplies used during year; \$2,700 – \$1,000 = \$1,700*)		

Problem 3-4A (LO 3-3)

(1)	Debit	Credit
Insurance Expense	**3,000**	
Prepaid Insurance		**3,000**
(*Reduce prepaid insurance for six months used of thirty-six months paid in advance; $18,000 × 6/36 = $3,000*)		

(2)	Debit	Credit
Salaries Expense	**25,000**	
Salaries Payable		**25,000**
(*Record salaries owed at December 31*)		

(3)	Debit	Credit
Deferred Revenue	**4,000**	
Service Revenue		**4,000**
(*Reduce deferred revenue for completion of four custom bikes of six custom bikes paid for in advance; $6,000 × 4/6 = $4,000*)		

(4)	Debit	Credit
Supplies Expense	**16,000**	
Supplies		**16,000**
(*Supplies used during year; $2,000 + $18,000 − $4,000 = $16,000*)		

(5)	Debit	Credit
Advertising Expense	**3,000**	
Prepaid Advertising		**3,000**
(*Reduce prepaid advertising for one month used of four months prepaid; $12,000 × ¼ = $3,000*)		

(6)	Debit	Credit
Interest Expense	**3,000**	
Interest Payable		**3,000**
(*Record ten months interest expense not yet paid;*		

$36,000 × 10% × 10/12 = $3,000)

Problem 3-5A (LO 3-5)

Boilermaker Unlimited
Income Statement
For the year ended December 31, 2021

Service revenues:	
New construction	$450,000
Remodel	280,000
Total revenues	730,000
Expenses:	
Salaries	160,000
Supplies	285,000
Depreciation	50,000
Insurance	25,000
Utilities	42,000
Interest	9,000
Service fee	73,000
Total expenses	644,000
Net income	$ 86,000

Problem 3-5A (concluded)

Boilermaker Unlimited
Statement of Stockholders' Equity
For the year ended December 31, 2021

	Common Stock	Retained Earnings	Total Stockholders' Equity
Balance at January 1	$170,000	$ 31,000	$201,000
Issuance of common stock	30,000		30,000
Add: Net income for 2021		86,000	86,000
Less: Dividends		(26,000)	(26,000)
Balance at December 31	$200,000	$91,000	$291,000

Boilermaker Unlimited
Balance Sheet
December 31, 2021

Assets		**Liabilities**	
Current assets:		Current liabilities:	
Cash	$ 16,000	Accounts payable	$ 31,000
Accounts receivable	25,000	Salaries payable	28,000
Supplies	32,000	Utilities payable	5,000
Prepaid insurance	7,000	Total current liabilities	64,000
Total current assets	80,000	Notes payable	150,000
		Total Liabilities	214,000
Long-term assets:		**Stockholders' Equity**	
Equipment	625,000	Common stock	200,000
Accumulated depr.	(200,000)	Retained earnings	91,000
		Total stockholders' equity	291,000
Total assets	$505,000	Total liabilities and stockholders' equity	$505,000

Problem 3-6A (LO 3-6, 3-7)

Requirement 1

December 31	Debit	Credit
Service Revenue	**77,500**	
Retained Earnings		**77,500**
(*Close revenue accounts*)		
Retained Earnings	**62,100**	
Salaries Expense		**46,000**
Utilities Expense		**8,200**
Insurance Expense		**5,800**
Supplies Expense		**2,100**
(*Close expense accounts*)		
Retained Earnings	**6,000**	
Dividends		**6,000**
(*Close dividends account*)		

Requirement 2

Rattlers Tax Services
Post-Closing Trial Balance

Accounts	Debit	Credit
Cash	$ 4,700	
Accounts Receivable	7,200	
Land	115,000	
Accounts Payable		$ 3,000
Common Stock		90,000
Retained Earnings		33,900
Totals	$126,900	$126,900

Problem 3-7A (LO 3-4, 3-5, 3-6, 3-7)

Requirements 1 and 2 (adjusting entries posted in red)

Cash

Debit	Credit
10,300	
10,300	

Accounts Receivable

Debit	Credit
9,500	
9,500	

Supplies

Debit	Credit
2,000	
	1,300
700	

Interest Receivable

Debit	Credit
0	
800	
800	

Prepaid Rent

Debit	Credit
7,200	
	5,400
1,800	

Land

Debit	Credit
78,000	
78,000	

Notes Receivable

Debit	Credit
20,000	
20,000	

Accounts Payable

Debit	Credit
	7,700
	7,700

Salaries Payable

Debit	Credit
	0
	2,100
	2,100

Utilities Payable

Debit	Credit
	0
	200
	200

Deferred Revenue

Debit	Credit
	5,300
3,300	
	2,000

Common Stock

Debit	Credit
	79,000
	79,000

Retained Earnings

Debit	Credit
	19,700
	19,700

Service Revenue

Debit	Credit
	0
	42,200
	3,300
	45,500

Interest Revenue

Debit	Credit
	0
	800
	800

Salaries Expense

Debit	Credit
24,500	
2,100	
26,600	

Utilities Expense

Debit	Credit
2,400	
200	
2,600	

Rent Expense

Debit	Credit
0	
5,400	
5,400	

Supplies Expense

Debit	Credit
0	
1,300	
1,300	

Problem 3-7A (continued)

Requirement 3

Crimson Tide Music Academy
Adjusted Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$ 10,300	
Accounts Receivable	9,500	
Interest Receivable	800	
Supplies	700	
Prepaid Rent	1,800	
Land	78,000	
Notes Receivable	20,000	
Accounts Payable		$ 7,700
Salaries Payable		2,100
Deferred Revenue		2,000
Utilities Payable		200
Common Stock		79,000
Retained Earnings		19,700
Service Revenue		45,500
Interest Revenue		800
Salaries Expense	26,600	
Rent Expense	5,400	
Supplies Expense	1,300	
Utilities Expense	2,600	
Total	$157,000	$157,000

Problem 3-7A (continued)

Requirement 4

Crimson Tide Music Academy
Income Statement
For the year ended December 31, 2021

Revenues:	
Service	$45,500
Interest	800
Total revenues	46,300
Expenses:	
Salaries	26,600
Rent	5,400
Supplies	1,300
Utilities	2,600
Total expenses	35,900
Net income (Loss)	$10,400

Crimson Tide Music Academy
Statement of Stockholders' Equity
For the year ended December 31, 2021

	Common Stock	Retained Earnings	Total Stockholders' Equity
Balance at January 1	$79,000	$19,700	$ 64,000
Issuance of common stock	0		0
Less: Net income for 2021		10,400	10,400
Less: Dividends		(0)	(0)
Balance at December 31	$79,000	$30,100	$109,100

Problem 3-7A (continued)

Crimson Tide Music Academy
Balance Sheet
December 31, 2021

Assets		Liabilities	
Current assets:		Current liabilities:	
Cash	$ 10,300	Accounts payable	$ 7,700
Accounts receivable	9,500	Salaries payable	2,100
Interest receivable	800	Deferred revenue	2,000
Supplies	700	Utilities payable	200
Prepaid rent	1,800	Total current liabilities	12,000
Total current assets	23,100		
Long-term assets:		**Stockholders' Equity**	
Land	78,000	Common stock	79,000
Notes receivable	20,000	Retained earnings	30,100
	98,000	Total stockholders' equity	109,100
Total assets	$121,100	Total liabilities and stockholders' equity	$121,100

Problem 3-7A (continued)
Requirement 5

December 31, 2021	Debit	Credit
Service Revenue	**45,500**	
Interest Revenue	**800**	
Retained Earnings		**46,300**
(*Close revenue accounts*)		
Retained Earnings	**35,900**	
Salaries Expense		**26,600**
Rent Expense		**5,400**
Supplies Expense		**1,300**
Utilities Expense		**2,600**
(*Close expense accounts*)		

Problem 3-7A (concluded)

Requirement 6 (closing entries posted in red)

Retained Earnings

	19,700
35,900	46,300
	30,100

Service Revenue

	42,200
45,500	3,300
	0

Interest Revenue

800	800
	0

Salaries Expense

24,500	
2,100	26,600
0	

Rent Expense

0	
5,400	5,400
0	

Supplies Expense

0	
1,300	1,300
0	

Utilities Expense

2,400	
200	2,600
0	

Requirement 7

Crimson Tide Music Academy
Post-Closing Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$ 10,300	
Accounts Receivable	9,500	
Interest Receivable	800	
Supplies	700	
Prepaid Rent	1,800	
Land	78,000	
Notes Receivable	20,000	
Accounts Payable		$ 7,700
Salaries Payable		2,100
Deferred Revenue		2,000
Utilities Payable		200
Common Stock		79,000
Retained Earnings		30,100
Total	$121,100	$121,100

Problem 3-8A (LO 3-3, 3-4, 3-5, 3-6, 3-7)

Requirement 1

Cash

Debit	Credit
20,000	
20,000	

Accounts Receivable

Debit	Credit
8,000	
8,000	

Supplies

Debit	Credit
4,000	
4,000	

Equipment

Debit	Credit
15,000	
15,000	

Accumulated Depr.

Debit	Credit
	5,000
	5,000

Salaries Payable

Debit	Credit
	7,500
	7,500

Common Stock

Debit	Credit
	25,000
	25,000

Retained Earnings

Debit	Credit
	9,500
	9,500

Service Revenue

Debit	Credit
	0
	0

Dividends

Debit	Credit
0	
0	

Salaries Expense

Debit	Credit
0	
0	

R&M Expense

Debit	Credit
0	
0	

Depr. Expense

Debit	Credit
0	
0	

Supplies Expense

Debit	Credit
0	
0	

Problem 3-8A (continued)

Requirement 2

(1) March 12	Debit	Credit
Accounts Receivable	**21,000**	
Cash	**39,000**	
Service Revenue		**60,000**
(*Service revenue on account and for cash*)		

(2) May 2	Debit	Credit
Cash	**18,000**	
Accounts Receivable		**18,000**
(*Collect on account*)		

(3) June 30	Debit	Credit
Cash	**6,000**	
Common Stock		**6,000**
(*Issue common stock*)		

(4) August 1	Debit	Credit
Salaries Payable	**7,500**	
Cash		**7,500**
(*Pay for past salaries*)		

(5) September 25	Debit	Credit
Repairs and Maintenance Expense	**13,000**	
Cash		**13,000**
(*Pay repairs and maintenance expenses*)		

(6) October 19	Debit	Credit
Equipment	**8,000**	
Cash		**8,000**
(*Purchase equipment*)		

(7) December 30	Debit	Credit
Dividends	**1,100**	
Cash		**1,100**
(*Pay dividends*)		

Problem 3-8A (continued)

Requirement 3 (entries posted in red)

Cash

20,000	7,500
39,000	13,000
18,000	8,000
6,000	1,100
53,400	

Accounts Receivable

8,000	
21,000	18,000
11,000	

Supplies

4,000	
4,000	

Equipment

15,000	
8,000	
23,000	

Accumulated Depr.

	5,000
	5,000

Salaries Payable

	7,500
7,500	
	0

Common Stock

	25,000
	6,000
	31,000

Retained Earnings

	9,500
	9,500

Service Revenue

	0
	60,000
	60,000

Dividends

0	
1,100	
1,100	

Salaries Expense

0	
0	

R&M Expense

0	
13,000	
13,000	

Depr. Expense

0	
0	

Supplies Expense

0	
0	

Problem 3-8A (continued)

Requirement 4

Red Storm Cleaners
Unadjusted Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$ 53,400	
Accounts Receivable	11,000	
Supplies	4,000	
Equipment	23,000	
Accumulated Depreciation		$ 5,000
Salaries Payable		0
Common Stock		31,000
Retained Earnings		9,500
Dividends	1,100	
Service Revenue		60,000
Salaries Expense	0	
Repairs and Main. Expense	13,000	
Depreciation Expense	0	
Supplies Expense	0	
Total	$105,500	$105,500

Requirement 5

December 31	Debit	Credit
Salaries Expense	**19,600**	
Salaries Payable		**19,600**
(*Record salaries owed at December 31*)		
Depreciation Expense	**5,000**	
Accumulated Depreciation		**5,000**
(*Record depreciation expense for the year*)		
Supplies Expense	**2,800**	
Supplies		**2,800**
(*Supplies used during year; $4,000 – $1,200 = $2,800*)		

Problem 3-8A (continued)

Requirement 6 (adjusted entries posted in red)

Cash

Debit	Credit
20,000	7,500
39,000	13,000
18,000	8,000
6,000	1,100
53,400	

Accounts Receivable

Debit	Credit
8,000	
21,000	18,000
11,000	

Supplies

Debit	Credit
4,000	2,800
1,200	

Equipment

Debit	Credit
15,000	
8,000	
23,000	

Accumulated Depr.

Debit	Credit
	5,000
	5,000
	10,000

Salaries Payable

Debit	Credit
	7,500
7,500	19,600
	19,600

Common Stock

Debit	Credit
	25,000
	6,000
	31,000

Retained Earnings

Debit	Credit
	9,500
	9,500

Service Revenue

Debit	Credit
	0
	60,000
	60,000

Dividends

Debit	Credit
0	
1,100	
1,100	

Salaries Expense

Debit	Credit
0	
19,600	
19,600	

R&M Expense

Debit	Credit
0	
13,000	
13,000	

Depr. Expense

Debit	Credit
0	
5,000	
5,000	

Supplies Expense

Debit	Credit
0	
2,800	
2,800	

Problem 3-8A (continued)

Requirement 7

Red Storm Cleaners
Adjusted Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$ 53,400	
Accounts Receivable	11,000	
Supplies	1,200	
Equipment	23,000	
Accumulated Depreciation		$ 10,000
Salaries Payable		19,600
Common Stock		31,000
Retained Earnings		9,500
Dividends	1,100	
Service Revenue		60,000
Salaries Expense	19,600	
Repairs and Main. Expense	13,000	
Depreciation Expense	5,000	
Supplies expense	2,800	
Total	$130,100	$130,100

Problem 3-8A (continued)

Requirement 8

Red Storm Cleaners
Income Statement
For the year ended December 31, 2021

Service revenue	$60,000
Expenses:	
Salaries	19,600
Repairs and main.	13,000
Depreciation	5,000
Supplies	2,800
Total expenses	40,400
Net income	$19,600

Red Storm Cleaners
Balance Sheet
December 31, 2021

Assets		Liabilities	
Current assets		Current liabilities.	
Cash	$53,400	Salaries payable	$19,600
Accounts receivable	11,000		
Supplies	1,200		
Total current assets	65,600	**Stockholders' Equity**	
Long-term assets:		Common stock	31,000
Equipment	23,000	Retained earnings	28,000 *
Accumulated depr.	(10,000)	Total stockholders' equity	59,000
Total assets	$78,600	Total liabilities and stockholders' equity	$78,600

* Retained earnings = Beginning retained earnings + Net income − Dividends
= $9,500 + $19,600 − $1,100
= $28,000

Problem 3-8A (continued)
Requirement 9

December 31	Debit	Credit
Service Revenue	**60,000**	
Retained Earnings		**60,000**
(*Close revenue accounts*)		
Retained Earnings	**40,400**	
Salaries Expense		**19,600**
Repairs and Main. Expense		**13,000**
Depreciation Expense		**5,000**
Supplies Expense		**2,800**
(*Close expense accounts*)		
Retained Earnings	**1,100**	
Dividends		**1,100**
(*Close dividends account*)		

Problem 3-8A (continued)

Requirement 10 (closing entries posted in red)

Cash

20,000	7,500
39,000	13,000
18,000	8,000
6,000	1,100
53,400	

Accounts Receivable

8,000	
21,000	18,000
11,000	

Supplies

4,000	2,800
1,200	

Equipment

15,000	
8,000	
23,000	

Accumulated Depr.

	5,000
	5,000
	10,000

Salaries Payable

	7,500
7,500	19,600
	19,900

Common Stock

	25,000
	6,000
	31,000

Retained Earnings

	9,500
40,400	60,000
1,100	
	28,000

Service Revenue

	0
60,000	60,000
	0

Dividends

0	
1,100	1,100
0	

Salaries Expense

0	
19,600	19,600
0	

R&M Expense

0	
13,000	13,000
0	

Depr. Expense

0	
5,000	
	5,000
0	

Supplies Expense

0	
2,800	
	2,800
0	

Problem 3-8A (concluded)

Requirement 11

Red Storm Cleaners
Post-Closing Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$53,400	
Accounts Receivable	11,000	
Supplies	1,200	
Equipment	23,000	
Accumulated Depreciation		$10,000
Salaries Payable		19,600
Common Stock		31,000
Retained Earnings		28,000
Total	$88,600	$88,600

Problem 3-9A (LO 3-3, 3-4, 3-5, 3-6, 3-7)

Requirement 1

Cash	
24,600	
24,600	

Accounts Receivable	
15,400	
15,400	

Prepaid Insurance	
12,000	
12,000	

Supplies	
0	
0	

Land	
148,000	
148,000	

Accounts Payable	
	6,700
	6,700

Deferred Revenue	
	5,800
	5,800

Common Stock	
	143,000
	143,000

Retained Earnings	
	44,500
	44,500

Service Revenue	
	0
	0

Dividends	
0	
0	

Property Tax Expense	
0	
0	

Salaries Expense	
0	
0	

Insurance Expense	
0	
0	

Supplies Expense	
0	
0	

Problem 3-9A (continued)

Requirement 2

(1) January 9	Debit	Credit
Cash	**134,100**	
Accounts Receivable	**52,200**	
Service Revenue		**186,300**
(*Provide services for cash and on account*)		

(2) February 12	Debit	Credit
Cash	**51,500**	
Accounts Receivable		**51,500**
(*Collect on account*)		

(3) April 25	Debit	Credit
Cash	**12,900**	
Deferred Revenue		**12,900**
(*Receive cash in advance from customers*)		

(4) May 6	Debit	Credit
Supplies	**9,200**	
Accounts Payable		**9,200**
(*Purchase supplies on account*)		

(5) July 15	Debit	Credit
Property Tax Expense	**8,500**	
Cash		**8,500**
(*Pay property taxes*)		

(6) September 10	Debit	Credit
Accounts Payable	**11,400**	
Cash		**11,400**
(*Pay on account*)		

(7) October 31	Debit	Credit
Salaries Expense	**123,600**	
Cash		**123,600**
(*Pay salaries for the current year*)		

(8) November 20	Debit	Credit
Cash	**27,000**	
Common Stock		**27,000**
(*Issue shares of common stock*)		

(9) December 30	Debit	Credit
Dividends	**2,800**	
Cash		**2,800**
(*Pay dividends*)		

Problem 3-9A (continued)

Requirement 3 (entries posted in red)

Cash

24,600	
134,100	8,500
51,500	11,400
12,900	123,600
27,000	2,800
103,800	

Accounts Receivable

15,400	
52,200	51,500
16,100	

Prepaid Insurance

12,000	
12,000	

Supplies

0	
9,200	
9,200	

Land

148,000	
148,000	

Accounts Payable

	6,700
11,400	9,200
	4,500

Deferred Revenue

	5,800
	12,900
	18,700

Common Stock

	143,000
	27,000
	170,000

Retained Earnings

	44,500
	44,500

Dividends

0	
2,800	
2,800	

Service Revenue

	0
	186,300
	186,300

Property Tax Expense

0	
8,500	
8,500	

Salaries Expense

0	
123,600	
123,600	

Insurance Expense

0	
0	

Supplies Expense

0	
0	

Problem 3-9A (continued)

Requirement 4

Zips Storage
Unadjusted Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$103,800	
Accounts Receivable	16,100	
Prepaid Insurance	12,000	
Supplies	9,200	
Land	148,000	
Accounts Payable		$ 4,500
Deferred Revenue		18,700
Common Stock		170,000
Retained Earnings		44,500
Dividends	2,800	
Service Revenue		186,300
Property Tax Expense	8,500	
Salaries Expense	123,600	
Insurance Expense	0	
Supplies Expense	0	
Total	$424,000	$424,000

Requirement 5

December 31	Debit	Credit
Insurance Expense	**7,000**	
Prepaid Insurance		**7,000**
(*Reduce prepaid insurance due to passage of time*)		
Supplies Expense	**6,300**	
Supplies		**6,300**
(*Supplies used during the year*; $0 + $9,200 − $2,900 = $6,300)		
Deferred Revenue	**11,800**	
Service Revenue		**11,800**
(*Provide services to customers who paid in advance*)		

Problem 3-9A (continued)

Requirement 6 (adjusted entries posted in red)

Cash

24,600	8,500
134,100	11,400
51,500	123,600
12,900	2,800
27,000	
103,800	

Accounts Receivable

15,400	
52,200	51,500
16,100	

Prepaid Insurance

12,000	7,000
5,000	

Supplies

0	
9,200	6,300
2,900	

Land

148,000	
148,000	

Accounts Payable

	6,700
11,400	9,200
	4,500

Deferred Revenue

	5,800
11,800	12,900
	6,900

Common Stock

	143,000
	27,000
	170,000

Retained Earnings

	44,500
	44,500

Dividends

0	
2,800	
2,800	

Service Revenue

	0
	186,300
	11,800
	198,100

Property Tax Expense

0	
8,500	
8,500	

Salaries Expense

0	
123,600	
123,600	

Insurance Expense

0	
7,000	
7,000	

Supplies Expense

0	
6,300	
6,300	

Problem 3-9A (continued)
Requirement 7

Zips Storage
Adjusted Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$103,800	
Accounts Receivable	16,100	
Prepaid Insurance	5,000	
Supplies	2,900	
Land	148,000	
Accounts Payable		$ 4,500
Deferred Revenue		6,900
Common Stock		170,000
Retained Earnings		44,500
Dividends	2,800	
Service Revenue		198,100
Property Tax Expense	8,500	
Salaries Expense	123,600	
Insurance Expense	7,000	
Supplies Expense	6,300	
Total	$424,000	$424,000

Problem 3-9A (continued)

Requirement 8

Zips Storage
Income Statement
For the year ended December 31, 2021

Service revenue		$198,100
Expenses:		
	Property Tax	8,500
	Salaries	123,600
	Insurance	7,000
	Supplies	6,300
	Total expenses	145,400
Net income		$ 52,700

Zips Storage
Balance Sheet
December 31, 2021

Assets		**Liabilities**	
Current assets:		Current liabilities:	
Cash	$103,800	Accounts Payable	$ 4,500
Accounts receivable	16,100	Deferred Revenue	6,900
Prepaid Insurance	5,000	Total current liabilities	11,400
Supplies	2,900	**Stockholders' Equity**	
Total current assets	127,800	Common stock	170,000
Long-term assets:		Retained earnings	94,400 *
Land	148,000	Total stockholders' equity	264,400
Total assets	$275,800	Total liabilities and stockholders' equity	$275,800

* Retained earnings = Beginning retained earnings + Net income − Dividends
= $44,500 + $52,700 − $2,800
= $94,400

Problem 3-9A (continued)
Requirement 9

December 31	Debit	Credit
Service Revenue	**198,100**	
Retained Earnings		**198,100**
(*Close revenue accounts*)		
Retained Earnings	**145,400**	
Property Tax Expense		**8,500**
Salaries Expense		**123,600**
Insurance Expense		**7,000**
Supplies Expense		**6,300**
(*Close expense accounts*)		
Retained Earnings	**2,800**	
Dividends		**2,800**
(*Close dividends account*)		

Problem 3-9A (continued)

Requirement 10 (closing entries posted in red)

Cash

24,600	8,500
134,100	11,400
51,500	123,600
12,900	2,800
27,000	
103,800	

Accounts Receivable

15,400	51,500
52,200	
16,100	

Prepaid Insurance

12,000	7,000
5,000	

Supplies

0	6,300
9,200	
2,900	

Land

148,000	
148,000	

Accounts Payable

	6,700
11,400	9,200
	4,500

Deferred Revenue

	5,800
11,800	12,900
	6,900

Common Stock

	143,000
	27,000
	170,000

Retained Earnings

	44,500
145,400	198,100
2,800	
	94,400

Dividends

0	
2,800	2,800
0	

Service Revenue

	0
	186,300
198,100	11,800
	0

Property Tax Expense

0	
8,500	8,500
0	

Salaries Expense

0	
123,600	123,600
0	

Insurance Expense

0	
7,000	7,000
0	

Supplies Expense

0	
6,300	6,300
0	

Problem 3-9A (concluded)

Requirement 11

Zips Storage
Unadjusted Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$103,800	
Accounts Receivable	16,100	
Prepaid Insurance	5,000	
Supplies	2,900	
Land	148,000	
Accounts Payable		$ 4,500
Deferred Revenue		6,900
Common Stock		170,000
Retained Earnings		94,400
Total	$275,800	$275,800

PROBLEMS: SET B

Problem 3-1B (LO 3-1, 3-2)

	Accrual-Basis		Cash-Basis	
Transaction	Revenue	Expense	Revenue	Expense
1. Receive cash from customers at the time of service, $3,700	**$3,700**	**$0**	**$3,700**	**$0**
2. Issue common stock for cash, $6,000.	**$0**	**$0**	**$0**	**$0**
3. Receive cash from customers who were previously billed, $1,700	**$0**	**$0**	**$1,700**	**$0**
4. Incur utilities cost in the current month but do not pay, $600.	**$0**	**$600**	**$0**	**$0**
5. Pay workers' salaries for the current month, $700.	**$0**	**$700**	**$0**	**$700**
6. Pay for rent one year in advance, $3,600	**$0**	**$0**	**$0**	**$3,600**
7. Repay a long-term note to the bank, $3,000.	**$0**	**$0**	**$0**	**$0**
8. Pay workers' salaries for the previous month, $850.	**$0**	**$0**	**$0**	**$850**
9. Pay dividends to stockholders, $500.	**$0**	**$0**	**$0**	**$0**
10. Purchase office supplies for cash, $540.	**$0**	**$0**	**$0**	**$540**

Problem 3-2B (LO 3-1, 3-2)

Horned Frogs Fine Cooking
Income Statement
For the year ended December 31, 2021

Service revenue	$60,000[a]
Expenses:	
Salaries	21,600[b]
Supplies	7,000[c]
Repairs and maintenance	8,000[d]
Insurance	1,500[e]
Advertising	6,000[f]
Total expenses	44,100
Net income	$15,900

[a] $65,000 (cash from customers) − $5,000 (decrease in accounts receivable) = $60,000

[b] $23,000 (cash paid for salaries) − $1,400 (decrease in salaries payable) = $21,600

[c] $9,000 (cash paid for supplies) − $2,000 (increase in supplies) = $7,000

[d] $8,000 (cash paid for maintenance) +/− $0 (increase/decrease in maintenance payable) = $8,000

[e] $4,000 (cash paid for insurance) − $2,500 (increase in prepaid insurance) = $1,500

[f] $6,000 (cash paid for advertising) +/− $0 (decrease/increase in prepaid advertising) = $6,000

Problem 3-3B (LO 3-3)

(1)	Debit	Credit
Depreciation Expense	**7,000**	
Accumulated Depreciation		**7,000**
(*Record depreciation expense for year*)		

(2)	Debit	Credit
Salaries Expense	**4,000**	
Salaries Payable		**4,000**
(*Record salaries owed at December 31*)		

(3)	Debit	Credit
Interest Receivable	**1,500**	
Interest Revenue		**1,500**
(*Record interest revenue for ten months not yet received; $20,000 × 0.09 × 10/12 = $1,500*)		

(4)	Debit	Credit
Insurance Expense	**4,950**	
Prepaid Insurance		**4,950**
(*Reduce prepaid insurance for nine months used of twenty-four months paid in advance; $13,200 × 9/24 = $4,950*)		

(5)	Debit	Credit
Supplies Expense	**1,700**	
Supplies		**1,700**
(*Supplies used during year*)		

(6)	Debit	Credit
Deferred Revenue	**1,800**	
Service Revenue		**1,800**
(*Reduce deferred revenue for two months provided of three months revenue received in advance; $2,700 × 2/3 = $1,800*)		

(7)	Debit	Credit
Rent Expense	**2,000**	
Prepaid Rent		**2,000**
(*Reduce prepaid rent for one month used of three months paid in advance*)		

Problem 3-4B (LO 3-3)

(1)	Debit	Credit
Interest Expense	**1,200**	
Interest Payable		**1,200**
(*Record interest expense for three months not yet paid; $60,000 × 8% × 3/12*)		

(2)	Debit	Credit
Rent Expense	**5,000**	
Prepaid Rent		**5,000**
(*Reduce prepaid rent for two months used of three month prepaid; $7,500 × 2/3 = $5,000*)		

(3)	Debit	Credit
Deferred Revenue	**5,000**	
Service Revenue		**5,000**
(*Reduce deferred revenue for five months provided of twelve months received in advance; $12,000 × 5/12 = $5,000*)		

(4)	Debit	Credit
Depreciation Expense	**18,000**	
Accumulated Depreciation		**18,000**
(*Record depreciation expense for year*)		

(5)	Debit	Credit
Salaries Expense	**8,000**	
Salaries Payable		**8,000**
(*Record salaries owed at December 31*)		

(6)	Debit	Credit
Supplies Expense	**57,000**	
Supplies		**57,000**
(*Supplies used during year; $17,000 + $62,000 − $22,000 = $57,000*)		

Problem 3-5B (LO 3-5)

Orange Designs
Income Statement
For the year ended December 31, 2021

Service revenue	$111,900
Expenses:	
Salaries	43,000
Rent	19,000
Depreciation	8,000
Supplies	9,000
Advertising	14,000
Utilities	13,000
Interest	3,000
Total expenses	109,000
Net income	$ 2,900

Problem 3-5B (concluded)

Orange Designs
Statement of Stockholders' Equity
For the year ended December 31, 2021

	Common Stock	Retained Earnings	Total Stockholders' Equity
Balance at January 1	$49,000	$16,000	$65,000
Issuance of common stock	11,000		11,000
Add: Net income for 2021		2,900	2,900
Less: Dividends		(0)	(0)
Balance at December 31	$60,000	$18,900	$78,900

Orange Designs
Balance Sheet
December 31, 2021

Assets		**Liabilities**	
Current assets:		Current liabilities:	
Cash	$ 6,000	Accounts payable	$ 4,000
Accounts receivable	5,000	Salaries payable	5,000
Supplies	3,000	Utilities payable	1,100
Prepaid rent	7,000	Total current liabilities	10,100
Total current assets	21,000	Notes payable	30,000
		Total liabilities	40,100
Long-term assets:		**Stockholders' Equity**	
Buildings	120,000	Common stock	60,000
Accum. depr.	(22,000)	Retained earnings	18,900
		Total stockholders' equity	78,900
Total assets	$119,000	Total liabilities and stockholders' equity	$119,000

Problem 3-6B (LO 3-6, 3-7)

December 31	Debit	Credit
Service Revenue	**89,700**	
Retained Earnings		**89,700**
(*Close revenue accounts*)		
Retained Earnings	**73,300**	
Salaries Expense		**50,000**
Supplies Expense		**10,100**
Rent Expense		**8,500**
Delivery Expense		**4,700**
(*Close expense accounts*)		
Retained Earnings	**7,000**	
Dividends		**7,000**
(*Close dividends account*)		

Fighting Illini
Post-Closing Trial Balance

Accounts	Debit	Credit
Cash	$ 7,600	
Accounts Receivable	10,200	
Land	120,000	
Accounts Payable		$ 5,100
Common Stock		90,000
Retained Earnings		42,700
Totals	$137,800	$137,800

Problem 3-7B (LO 3-4, 3-5, 3-6, 3-7)

Requirements 1 and 2 (adjusting entries posted in red)

Cash

76,000	
76,000	

Accounts Receivable

15,000	
15,000	

Supplies

27,000	
	22,000
5,000	

Prepaid Insurance

24,000	
	20,000
4,000	

Equipment

95,000	
95,000	

Accumulated Depr.

	37,000
	10,000
	47,000

Accounts Payable

	12,000
	12,000

Salaries Payable

	0
	4,000
	4,000

Deferred Revenue

15,000	60,000
	45,000

Interest Payable

	0
	1,000
	1,000

Notes Payable

	35,000
	35,000

Common Stock

	35,000
	35,000

Retained Earnings

	10,000
	10,000

Dividends

3,000	
3,000	

Service Revenue

	227,000
	15,000
	242,000

Salaries Expense

164,000	
4,000	
168,000	

Depreciation Expense

0	
10,000	
10,000	

Insurance Expense

0	
20,000	
20,000	

Supplies Expense

0	
22,000	
22,000	

Utilities Expense

12,000	
12,000	

Interest Expense

0	
1,000	
1,000	

Problem 3-7B (continued)

Requirement 3

Jaguar Auto Company
Adjusted Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$ 76,000	
Accounts Receivable	15,000	
Supplies	5,000	
Prepaid Insurance	4,000	
Equipment	95,000	
Accumulated Depreciation		$ 47,000
Accounts Payable		12,000
Salaries Payable		4,000
Deferred Revenue		45,000
Interest Payable		1,000
Notes Payable		35,000
Common Stock		35,000
Retained Earnings		10,000
Dividends	3,000	
Service Revenue		242,000
Salaries Expense	168,000	
Depreciation Expense	10,000	
Insurance Expense	20,000	
Supplies Expense	22,000	
Utilities Expense	12,000	
Interest Expense	1,000	
Total	$431,000	$431,000

Problem 3-7B (continued)

Requirement 4

Jaguar Auto Company
Income Statement
For the year ended December 31, 2021

Service revenue	$242,000
Expenses:	
Salaries	168,000
Depreciation	10,000
Insurance	20,000
Supplies	22,000
Utilities	12,000
Interest	1,000
Total expenses	233,000
Net income	$ 9,000

Jaguar Auto Company
Statement of Stockholders' Equity
For the year ended December 31, 2021

	Common Stock	Retained Earnings	Total Stockholders' Equity
Balance at January 1	$35,000	$10,000	$45,000
Issuance of common stock	0		0
Less: Net income for 2021		9,000	9,000
Less: Dividends		(3,000)	(3,000)
Balance at December 31	$35,000	$ 16,000	$51,000

Problem 3-7B (continued)

Jaguar Auto Company
Balance Sheet
December 31, 2021

Assets		**Liabilities**	
Current assets		Current liabilities	
Cash	$ 76,000	Accounts payable	$12,000
Accounts receivable	15,000	Salaries payable	4,000
Supplies	5,000	Deferred revenue	45,000
Prepaid insurance	4,000	Interest payable	1,000
Total current assets	100,000	Total current liabilities	62,000
		Notes payable	35,000
Long-term assets:		Total liabilities	97,000
Equipment	95,000	**Stockholders' Equity**	
Accumulated depr.	(47,000)	Common stock	35,000
		Retained earnings	16,000
		Total stockholders' equity	51,000
Total assets	$148,000	Total liabilities and stockholders' equity	$148,000

Problem 3-7B (continued)
Requirement 5

December 31, 2021	Debit	Credit
Service Revenue	**242,000**	
Retained Earnings		**242,000**
(*Close revenue accounts*)		
Retained Earnings	**233,000**	
Salaries Expense		**168,000**
Depreciation Expense		**10,000**
Insurance Expense		**20,000**
Supplies Expense		**22,000**
Utilities Expense		**12,000**
Interest Expense		**1,000**
(*Close expense accounts*)		
Retained Earnings	**3,000**	
Dividends		**3,000**
(*Close dividends account*)		

Problem 3-7B (concluded)

Requirement 6 (closing entries posted in red)

Retained Earnings

	10,000
233,000	242,000
3,000	
	16,000

Dividends

3,000	
	3,000
0	

Service Revenue

	242,000
242,000	
	0

Salaries Expense

164,000	
4,000	168,000
0	

Depreciation Expense

0	
10,000	10,000
0	

Insurance Expense

0	
20,000	20,000
0	

Supplies Expense

0	
22,000	22,000
0	

Utilities Expense

12,000	
	12,000
0	

Interest Expense

0	
1,000	1,000
0	

Requirement 7

Jaguar Auto Company
Post-Closing Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$ 76,000	
Accounts Receivable	15,000	
Supplies	5,000	
Prepaid Insurance	4,000	
Equipment	95,000	
Accumulated Depreciation		$ 47,000
Accounts Payable		12,000
Salaries Payable		4,000
Deferred Revenue		45,000
Interest Payable		1,000
Notes Payable		35,000
Common Stock		35,000
Retained Earnings		16,000
Total	$195,000	$195,000

Problem 3-8B (LO 3-3, 3-4, 3-5, 3-6, 3-7)

Requirement 1

Cash	
4,500	
4,500	

Accounts Receivable	
9,500	
9,500	

Supplies	
3,500	
3,500	

Equipment	
36,000	
36,000	

Accumulated Depr.	
	8,000
	8,000

Accounts Payable	
	6,000
	6,000

Utilities Payable	
	7,000
	7,000

Deferred Revenue	
	0
	0

Common Stock	
	23,000
	23,000

Retained Earnings	
	9,500
	9,500

Dividends	
0	
0	

Service Revenue	
	0
	0

Salaries Expense	
0	
0	

Utilities Expense	
0	
0	

Supplies Expense	
0	
0	

Depr. Expense	
0	
0	

Problem 3-8B (continued)

Requirement 2

(1) January 24	Debit	Credit
Accounts Receivable	**65,000**	
Cash	**20,000**	
Service Revenue		**85,000**
(*Provide services on account and for cash*)		

(2) March 13	Debit	Credit
Cash	**53,000**	
Accounts Receivable		**53,000**
(*Collect on account*)		

(3) May 6	Debit	Credit
Cash	**11,000**	
Common Stock		**11,000**
(*Issue common stock*)		

(4) June 30	Debit	Credit
Salaries Expense	**33,000**	
Cash		**33,000**
(*Pay current salaries*)		

(5) September 15	Debit	Credit
Utilities Payable	**7,000**	
Cash		**7,000**
(*Pay for past utilities*)		

(6) November 24	Debit	Credit
Cash	**10,000**	
Deferred Revenue		**10,000**
(*Receive cash in advance*)		

(7) December 30	Debit	Credit
Dividends	**3,000**	
Cash		**3,000**
(*Pay dividends*)		

Problem 3-8B (continued)

Requirement 3 (entries posted in red)

Cash

Debit	Credit
4,500	
20,000	33,000
53,000	7,000
11,000	3,000
10,000	
55,500	

Accounts Receivable

Debit	Credit
9,500	
65,000	53,000
21,500	

Supplies

Debit	Credit
3,500	
3,500	

Equipment

Debit	Credit
36,000	
36,000	

Accumulated Depr.

Debit	Credit
	8,000
	8,000

Accounts Payable

Debit	Credit
	6,000
	6,000

Utilities Payable

Debit	Credit
	7,000
7,000	
	0

Deferred Revenue

Debit	Credit
	0
	10,000
	10,000

Common Stock

Debit	Credit
	23,000
	11,000
	34,000

Retained Earnings

Debit	Credit
	9,500
	9,500

Dividends

Debit	Credit
0	
3,000	
3,000	

Service Revenue

Debit	Credit
	0
	85,000
	85,000

Salaries Expense

Debit	Credit
0	
33,000	
33,000	

Utilities Expense

Debit	Credit
0	
0	

Supplies Expense

Debit	Credit
0	
0	

Depr. Expense

Debit	Credit
0	
0	

Problem 3-8B (continued)

Requirement 4

Pipers Plumbing
Unadjusted Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$ 55,500	
Accounts Receivable	21,500	
Supplies	3,500	
Equipment	36,000	
Accumulated Depreciation		$ 8,000
Accounts Payable		6,000
Utilities Payable		0
Deferred Revenue		10,000
Common Stock		34,000
Retained Earnings		9,500
Dividends	3,000	
Service Revenue		85,000
Salaries Expense	33,000	
Utilities Expense	0	
Supplies Expense	0	
Depreciation Expense	0	
Total	$152,500	$152,500

Requirement 5

December 31	Debit	Credit
Depreciation Expense	**8,000**	
Accumulated Depreciation		**8,000**
(*Record depreciation expense for year*)		
Supplies Expense	**2,400**	
Supplies		**2,400**
(*Supplies used during year; $3,500 – $1,100 = $2,400*)		
Deferred Revenue	**7,000**	
Service Revenue		**7,000**
(*Reduce deferred revenue for services completed*)		
Utilities Expense	**6,000**	
Utilities Payable		**6,000**
(*Record utilities owed at December 31*)		

Problem 3-8B (continued)

Requirement 6 (adjusted entries posted in red)

Cash

4,500	
20,000	33,000
53,000	7,000
11,000	3,000
10,000	
55,500	

Accounts Receivable

9,500	
65,000	53,000
21,500	

Supplies

3,500	2,400
1,100	

Equipment

36,000	
36,000	

Accumulated Depr.

	8,000
	8,000
	16,000

Accounts Payable

	6,000
	6,000

Utilities Payable

	7,000
7,000	6,000
	6,000

Deferred Revenue

	0
7,000	10,000
	3,000

Common Stock

	23,000
	11,000
	34,000

Retained Earnings

	9,500
	9,500

Dividends

0	
3,000	
3,000	

Service Revenue

	0
	85,000
	7,000
	92,000

Salaries Expense

0	
33,000	
33,000	

Utilities Expense

0	
6,000	
6,000	

Supplies Expense

0	
2,400	
2,400	

Depr. Expense

0	
8,000	
8,000	

Problem 3-8B (continued)

Requirement 7

Pipers Plumbing
Adjusted Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$ 55,500	
Accounts Receivable	21,500	
Supplies	1,100	
Equipment	36,000	
Accumulated Depreciation		$ 16,000
Accounts Payable		6,000
Utilities Payable		6,000
Deferred Revenue		3,000
Common Stock		34,000
Retained Earnings		9,500
Dividends	3,000	
Service Revenue		92,000
Salaries Expense	33,000	
Utilities Expense	6,000	
Supplies Expense	2,400	
Depreciation Expense	8,000	
Total	$166,500	$166,500

Problem 3-8B (continued)

Requirement 8

Pipers Plumbing
Income Statement
For the year ended December 31, 2021

Service revenue	$92,000
Expenses:	
Salaries	33,000
Utilities	6,000
Supplies	2,400
Depreciation	8,000
Total expenses	49,400
Net income	$42,600

Pipers Plumbing
Balance Sheet
December 31, 2021

Assets		**Liabilities**		
Current assets:		Current liabilities:		
Cash	$55,500	Accounts payable	$ 6,000	
Accounts receivable	21,500	Utilities payable	6,000	
Supplies	1,100	Deferred revenue	3,000	
Total current assets	78,100	Total current liabilities	15,000	
		Stockholders' Equity		
Long-term assets:		Common stock	34,000	
Equipment	36,000	Retained earnings	49,100	*
Accumulated depr.	(16,000)	Total stockholders' equity	83,100	
Total assets	$98,100	Total liabilities and stockholders' equity	$98,100	

* Retained earnings = Beginning retained earnings + Net income − Dividends
= $9,500 + $42,600 − $3,000
= $49,100

Problem 3-8B (continued)
Requirement 9

December 31	Debit	Credit
Service Revenue	**92,000**	
Retained Earnings		**92,000**
(*Close revenue accounts*)		
Retained Earnings	**49,400**	
Salaries Expense		**33,000**
Utilities Expense		**6,000**
Supplies Expense		**2,400**
Depreciation Expense		**8,000**
(*Close expense accounts*)		
Retained Earnings	**3,000**	
Dividends		**3,000**
(*Close dividends account*)		

Problem 3-8B (continued)

Requirement 10 (closing entries posted in red)

Cash

4,500	
20,000	33,000
53,000	7,000
11,000	3,000
10,000	
55,500	

Accounts Receivable

9,500	
65,000	53,000
21,500	

Supplies

3,500	2,400
1,100	

Equipment

36,000	
36,000	

Accumulated Depr.

	8,000
	8,000
	16,000

Accounts Payable

	6,000
	6,000

Utilities Payable

	7,000
7,000	6,000
	6,000

Deferred Revenue

	0
7,000	10,000
	3,000

Common Stock

	23,000
	11,000
	34,000

Retained Earnings

	9,500
49,400	92,000
3,000	
	49,100

Dividends

0	
3,000	3,000
0	

Service Revenue

	0
	85,000
92,000	7,000
	0

Salaries Expense

0	
33,000	33,000
0	

Utilities Expense

0	
6,000	6,000
0	

Supplies Expense

0	
2,400	2,400
0	

Depr. Expense

0	
8,000	8,000
0	

Problem 3-8B (concluded)

Requirement 11

Pipers Plumbing
Post-Closing Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$ 55,500	
Accounts Receivable	21,500	
Supplies	1,100	
Equipment	36,000	
Accumulated Depreciation		$ 16,000
Accounts Payable		6,000
Utilities Payable		6,000
Deferred Revenue		3,000
Common Stock		34,000
Retained Earnings		49,100
Total	$114,100	$114,100

Problem 3-9B (LO 3-3, 3-4, 3-5, 3-6, 3-7)

Requirement 1

Cash

41,500	
41,500	

Accounts Receivable

25,700	
25,700	

Supplies

0	
0	

Land

110,800	
110,800	

Accounts Payable

	15,300
	15,300

Salaries Payable

	0
	0

Interest Payable

	0
	0

Notes Payable

	30,000
	30,000

Common Stock

	100,000
	100,000

Retained Earnings

	32,700
	32,700

Dividends

0	
0	

Service Revenue

	0
	0

Salaries Expense

0	
0	

Advertising Expense

0	
0	

Interest Expense

0	
0	

Supplies Expense

0	
0	

Problem 3-9B (continued)

Requirement 2

(1) January 12	Debit	Credit
Accounts Receivable	**62,400**	
Service Revenue		**62,400**
(*Provide services on account*)		

(2) February 25	Debit	Credit
Cash	**75,300**	
Service Revenue		**75,300**
(*Provide services for cash*)		

(3) March 19	Debit	Credit
Cash	**45,700**	
Accounts Receivable		**45,700**
(*Receive cash on account*)		

(4) April 30	Debit	Credit
Cash	**30,000**	
Common Stock		**30,000**
(*Issue common stock*)		

(5) June 16	Debit	Credit
Supplies	**12,100**	
Accounts Payable		**12,100**
(*Purchase supplies on account*)		

(6) July 7	Debit	Credit
Accounts Payable	**11,300**	
Cash		**11,300**
(*Pay cash on account*)		

(7) September 30	Debit	Credit
Salaries Expense	**64,200**	
Cash		**64,200**
(*Pay salaries for work in the current period*)		

(8) November 22	Debit	Credit
Advertising Expense	**22,500**	
Cash		**22,500**
(*Pay advertising for the current period*)		

(9) December 30	Debit	Credit
Dividends	**2,900**	
Cash		**2,900**
(*Pay dividends*)		

Problem 3-9B (continued)

Requirement 3 (entries posted in red)

Cash

41,500	11,300
75,300	64,200
45,700	22,500
30,000	2,900
91,600	

Accounts Receivable

25,700	
62,400	45,700
42,400	

Supplies

0	
12,100	
12,100	

Land

110,800	
110,800	

Accounts Payable

	15,300
11,300	12,100
	16,100

Salaries Payable

	0
	0

Interest Payable

	0
	0

Notes Payable

	30,000
	30,000

Common Stock

	100,000
	30,000
	130,000

Retained Earnings

	32,700
	32,700

Dividends

0	
2,900	
2,900	

Service Revenue

	0
	62,400
	75,300
	137,700

Salaries Expense

0	
64,200	
64,200	

Advertising Expense

0	
22,500	
22,500	

Interest Expense

0	
0	

Supplies Expense

0	
0	

Problem 3-9B (continued)

Requirement 4

Jackrabbit Rentals
Unadjusted Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$ 91,600	
Accounts Receivable	42,400	
Supplies	12,100	
Land	110,800	
Accounts Payable		$ 16,100
Salaries Payable		0
Interest Payable		0
Notes Payable		30,000
Common Stock		130,000
Retained Earnings		32,700
Dividends	2,900	
Service Revenue		137,700
Salaries Expense	64,200	
Advertising Expense	22,500	
Interest Expense	0	
Supplies Expense	0	
Total	$346,500	$346,500

Requirement 5

December 31	Debit	Credit
Interest Expense	**2,500**	
Interest Payable		**2,500**
(*Accrue interest on notes payable*)		
Salaries Expense	**1,500**	
Salaries Payable		**1,500**
(*Record salaries owed at December 31*)		
Supplies Expense	**9,800**	
Supplies		**9,800**
(*Supplies used during the year;* \$0 + \$12,100 − \$2,300 = \$9,800)		

Problem 3-9B (continued)

Requirement 6 (adjusted entries posted in red)

Cash

41,500	11,300
75,300	64,200
45,700	22,500
30,000	2,900
91,600	

Accounts Receivable

25,700	
62,400	45,700
42,400	

Supplies

0	
12,100	9,800
2,300	

Land

110,800	
110,800	

Accounts Payable

	15,300
11,300	12,100
	16,100

Salaries Payable

	0
	1,500
	1,500

Interest Payable

	0
	2,500
	2,500

Notes Payable

	30,000
	30,000

Common Stock

	100,000
	30,000
	130,000

Retained Earnings

	32,700
	32,700

Dividends

0	
2,900	
2,900	

Service Revenue

	0
	62,400
	75,300
	137,700

Salaries Expense

0	
64,200	
1,500	
65,700	

Advertising Expense

0	
22,500	
22,500	

Interest Expense

0	
2,500	
2,500	

Supplies Expense

0	
9,800	
9,800	

Problem 3-9B (continued)

Requirement 7

Jackrabbit Rentals
Adjusted Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$ 91,600	
Accounts Receivable	42,400	
Supplies	2,300	
Land	110,800	
Accounts Payable		$ 16,100
Salaries Payable		1,500
Interest Payable		2,500
Notes Payable		30,000
Common Stock		130,000
Retained Earnings		32,700
Dividends	2,900	
Service Revenue		137,700
Salaries Expense	65,700	
Advertising Expense	22,500	
Interest Expense	2,500	
Supplies Expense	9,800	
Total	$350,500	$350,500

Problem 3-9B (continued)

Requirement 8

Jackrabbit Rentals
Income Statement
For the year ended December 31, 2021

Service revenue	$137,700
Expenses:	
Salaries	65,700
Advertising	22,500
Interest	2,500
Supplies	9,800
Total expenses	100,500
Net income	$ 37,200

Jackrabbit Rentals
Balance Sheet
December 31, 2021

Assets		**Liabilities**	
Current assets:		Current liabilities:	
Cash	$ 91,600	Accounts Payable	$ 16,100
Accounts Receivable	42,400	Salaries Payable	1,500
Supplies	2,300	Interest Payable	2,500
Total current assets	136,300	Total current liabilities	20,100
		Notes Payable	30,000
		Total liabilities	50,100
Long-term assets:		**Stockholders' Equity**	
Land	110,800	Common stock	130,000
		Retained earnings	67,000 *
		Total stockholders' equity	197,000
Total assets	$247,100	Total liabilities and stockholders' equity	$247,100

* Retained earnings = Beginning retained earnings + Net income − Dividends
= $32,700 + $37,200 − $2,900
= $67,000

Problem 3-9B (continued)
Requirement 9

December 31	Debit	Credit
Service Revenue	**137,700**	
Retained Earnings		**137,700**
(*Close revenue accounts*)		
Retained Earnings	**100,500**	
Salaries Expense		**65,700**
Advertising Expense		**22,500**
Interest Expense		**2,500**
Supplies Expense		**9,800**
(*Close expense accounts*)		
Retained Earnings	**2,900**	
Dividends		**2,900**
(*Close dividends account*)		

Problem 3-9B (continued)

Requirement 10 (closing entries posted in red)

Cash	
41,500	11,300
75,300	64,200
45,700	22,500
30,000	2,900
91,600	

Accounts Receivable	
25,700	
62,400	45,700
42,400	

Supplies	
0	
12,100	9,800
2,300	

Land	
110,800	
110,800	

Accounts Payable	
	15,300
11,300	12,100
	16,100

Salaries Payable	
	0
	1,500
	1,500

Interest Payable	
	0
	2,500
	2,500

Notes Payable	
	30,000
	30,000

Common Stock	
	100,000
	30,000
	130,000

Retained Earnings	
	32,700
100,500	137,700
2,900	
	67,000

Dividends	
0	
2,900	2,900
0	

Service Revenue	
	0
	62,400
137,700	75,300
	0

Salaries Expense	
0	
64,200	
1,500	65,700
0	

Advertising Expense	
0	
22,500	22,500
0	

Interest Expense	
0	
2,500	2,500
0	

Supplies Expense	
0	
9,800	9,800
0	

Problem 3-9B (concluded)

Requirement 11

Jackrabbit Rentals
Post-Closing Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$ 91,600	
Accounts Receivable	42,400	
Supplies	2,300	
Land	110,800	
Accounts Payable		$ 16,100
Salaries Payable		1,500
Interest Payable		2,500
Notes Payable		30,000
Common Stock		130,000
Retained Earnings		67,000
Total	$247,100	$247,100

ADDITIONAL PERSPECTIVES

Additional Perspective 3-1

Requirement 1

July 1, 2021	Debit	Credit
Cash	**10,000**	
Common Stock		**10,000**
(*Issue common stock to Suzie*)		
July 1, 2021		
Cash	**10,000**	
Common Stock		**10,000**
(*Issue common stock to Tony*)		
July 1, 2021		
Prepaid Insurance	**4,800**	
Cash		**4,800**
(*Purchase one-year insurance policy*)		
July 2, 2021		
Legal Fees Expense	**1,500**	
Cash		**1,500**
(*Pay legal fees for incorporation*)		
July 4, 2021		
Supplies (Office)	**1,800**	
Accounts Payable		**1,800**
(*Purchase office supplies on account*)		
July 7, 2021		
Advertising Expense	**300**	
Cash		**300**
(*Pay cash for advertising*)		
July 8, 2021		
Equipment (Bikes)	**12,000**	
Cash		**12,000**
(*Pay cash for mountain bikes*)		
July 15, 2021		
Cash	**2,000**	
Service Revenue (Clinic)		**2,000**
(*Receive cash for mountain bike clinic*)		

Additional Perspective 3-1 (continued)

Requirement 1 (continued)

	Debit	Credit
July 22, 2021		
Cash	**2,300**	
Service Revenue (Clinic)		**2,300**
(*Receive cash for mountain bike clinic*)		
July 24, 2021		
Advertising Expense	**700**	
Cash		**700**
(*Pay cash for advertising*)		
July 30, 2021		
Cash	**4,000**	
Deferred Revenue		**4,000**
(*Receive cash in advance for kayak clinic*)		
Aug. 1, 2021	Debit	Credit
Cash	**30,000**	
Notes Payable		**30,000**
(*Obtain loan from city council*)		
Aug. 4, 2021		
Equipment (Kayaks)	**28,000**	
Cash		**28,000**
(*Pay cash for kayaks*)		
Aug. 10, 2021		
Cash	**3,000**	
Deferred Revenue	**4,000**	
Service Revenue (Clinic)		**7,000**
(*Receive cash and hold kayak clinic*)		
Aug. 17, 2021		
Cash	**10,500**	
Service Revenue (Clinic)		**10,500**
(*Receive cash and hold kayak clinic*)		
Aug. 24, 2021		
Accounts Payable	**1,800**	
Cash		**1,800**
(*Pay cash on account*)		

Additional Perspective 3-1 (continued)

Requirement 1 (concluded)

Sep. 1, 2021		
Prepaid Rent	**2,400**	
Cash		**2,400**
(*Pay cash for one-year rental policy*)		
Sep. 21, 2021		
Cash	**13,200**	
Service Revenue (Clinic)		**13,200**
(*Receive cash for rock climbing clinic*)		
Oct. 17, 2021		
Cash	**17,900**	
Service Revenue (Clinic)		**17,900**
(*Receive cash for orienteering clinic*)		
Dec. 8, 2021		
Miscellaneous Expense	**1,200**	
Cash		**1,200**
(*Pay cash for race permit*)		
Dec. 12, 2021		
Supplies (Racing)	**2,800**	
Accounts Payable		**2,800**
(*Purchase racing supplies on account*)		
Dec. 15, 2021		
Cash	**20,000**	
Service Revenue (Racing)		**20,000**
(*Receive cash for adventure race*)		
Dec. 16, 2021		
Salaries Expense	**2,000**	
Cash		**2,000**
(*Pay cash for salary*)		
Dec. 31, 2021		
Dividend	**4,000**	
Cash		**4,000**
(*Pay cash for dividend*)		

Additional Perspective 3-1 (continued)

Requirement 2

Dec. 31, 2021	Debit	Credit
Depreciation Expense	**8,000**	
Accumulated Depreciation		**8,000**
(*Record depreciation expense*)		
Dec. 31, 2021		
Insurance Expense	**2,400**	
Prepaid Insurance		**2,400**
(*Reduce prepaid insurance for six months used of twelve months paid in advance*)		
Dec. 31, 2021		
Rent Expense	**800**	
Prepaid Rent		**800**
(*Reduce prepaid rent for four months used of twelve months paid in advance*)		
Dec. 31, 2021		
Supplies Expense (Office)	**1,500**	
Supplies (Office)		**1,500**
(*Office supplies used; $1,800 – $300 = $1,500*)		
Dec. 31, 2021		
Interest Expense	**750**	
Interest Payable		**750**
(*Accrue five months interest not yet paid; $30,000 × 0.06 × 5/12 = $750*)		
Dec. 31, 2021		
Supplies Expense (Racing)	**2,600**	
Supplies (Racing)		**2,600**
(*Racing supplies used; $2,800 – $200 = $2,600*)		
Dec. 31, 2021		
Income Tax Expense	**14,000**	
Income Tax Payable		**14,000**
(*Accrue income tax payable*)		

Additional Perspective 3-1 (continued)

Requirement 3 (Note: adjusting entries in italics)

Cash	
10,000	4,800
10,000	1,500
2,000	300
2,300	12,000
4,000	700
30,000	28,000
3,000	1,800
10,500	2,400
13,200	1,200
17,900	2,000
20,000	4,000
64,200	

Prepaid Insurance	
4,800	*2,400*
2,400	

Prepaid Rent	
2,400	*800*
1,600	

Supplies (Office)	
1,800	*1,500*
300	

Supplies (Racing)	
2,800	*2,600*
200	

Equipment (Bikes)	
12,000	
12,000	

Equipment (Kayaks)	
28,000	
28,000	

Accum. Depr.	
	8,000
	8,000

Accounts Payable	
1800	1,800
	2,800
	2,800

Deferred Revenue	
4,000	4,000
	0

Interest Payable	
	750
	750

Income Tax Payable	
	14,000
	14,000

Notes Payable	
	30,000
	30,000

Common Stock	
	10,000
	10,000
	20,000

Dividends	
4,000	
4,000	

Service Revenue (Clinic)	
	2,000
	2,300
	7,000
	10,500
	13,200
	17,900
	52,900

Service Revenue (Racing)	
	20,000
	20,000

Legal Fees Expense	
1,500	
1,500	

Advertising Expense	
300	
700	
1,000	

Rent Expense	
800	
800	

Salaries Expense	
2,000	
2,000	

Depr. Expense	
8,000	
8,000	

Insurance Expense	
2,400	
2,400	

Supplies Expense (Office)	
1,500	
1,500	

Supplies Expense (Racing)	
2,600	
2,600	

Interest Expense	
750	
750	

Income Tax Expense	
14,000	
14,000	

Miscellaneous Expense	
1,200	
1,200	

Additional Perspective 3-1 (continued)
Requirement 4

Great Adventures, Inc.
Adjusted Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$ 64,200	
Prepaid Insurance	2,400	
Prepaid Rent	1,600	
Supplies (Office)	300	
Supplies (Racing)	200	
Equipment (Bikes)	12,000	
Equipment (Kayaks)	28,000	
Accumulated Depreciation		$ 8,000
Accounts Payable		2,800
Income Tax Payable		14,000
Interest Payable		750
Notes Payable		30,000
Common Stock		20,000
Dividends	4,000	
Service Revenue (Clinic)		52,900
Service Revenue (Racing)		20,000
Advertising Expense	1,000	
Depreciation Expense	8,000	
Income Tax Expense	14,000	
Insurance Expense	2,400	
Interest Expense	750	
Legal Fees Expense	1,500	
Miscellaneous Expense	1,200	
Rent Expense	800	
Salaries Expense	2,000	
Supplies Expense (Office)	1,500	
Supplies Expense (Racing)	2,600	
Totals	$148,450	$148,450

Additional Perspective 3-1 (continued)
Requirement 5

Great Adventures, Inc.
Income Statement
For the period ended December 31, 2021

Revenues:		
Service revenue (clinic)	$52,900	
Service revenue (racing)	20,000	
Total revenues		$72,900
Expenses:		
Advertising expense	1,000	
Depreciation expense	8,000	
Income tax expense	14,000	
Insurance expense	2,400	
Interest expense	750	
Legal fees expense	1,500	
Miscellaneous expense	1,200	
Rent expense	800	
Salaries expense	2,000	
Supplies expense (office)	1,500	
Supplies expense (racing)	2,600	
Total expenses		35,750
Net income		$37,150

Great Adventures, Inc.
Statement of Stockholders' Equity
For the period ended December 31, 2021

	Common Stock	Retained Earnings	Total Stockholders' Equity
Balance at July 1	$ 0	$ 0	$ 0
Issuance of common stock	20,000		20,000
Add: Net income for 2021		37,150	37,150
Less: Dividends		(4,000)	(4,000)
Balance at December 31	$20,000	$33,150	$53,150

Additional Perspective 3-1 (continued)
Requirement 5 (concluded)

Great Adventures, Inc.
Balance Sheet
December 31, 2021

Assets		Liabilities	
Current assets:		Current liabilities:	
Cash	$ 64,200	Accounts payable	$ 2,800
Prepaid insurance	2,400	Interest payable	750
Prepaid rent	1,600	Income tax payable	14,000
Supplies (office)	300	Total current liabilities	17,550
Supplies (racing)	200	Notes payable	30,000
Total current assets	68,700	Total liabilities	47,550
Long-term assets:		**Stockholders' Equity**	
Equipment (bikes)	12,000	Common stock	20,000
Equipment (kayaks)	28,000	Retained earnings	33,150
Accumulated depr.	(8,000)	Total stockholders' equity	53,150
Total assets	$100,700	Total liabilities and stockholders' equity	$100,700

Additional Perspective 3-1 (continued)

Requirement 6

Dec. 31, 2021	Debit	Credit
Service Revenue (Clinic)	**52,900**	
Service Revenue (Racing)	**20,000**	
Retained Earnings		**72,900**
(*Close revenue accounts*)		
Dec. 31, 2021		
Retained Earnings	**35,750**	
Advertising Expense		**1,000**
Depreciation Expense		**8,000**
Income Tax Expense		**14,000**
Insurance Expense		**2,400**
Interest Expense		**750**
Legal Fees Expense		**1,500**
Miscellaneous Expense		**1,200**
Rent Expense		**800**
Salaries Expense		**2,000**
Supplies Expense (Office)		**1,500**
Supplies Expense (Racing)		**2,600**
(*Close expense accounts*)		
Dec. 31, 2021		
Retained Earnings	**4,000**	
Dividends		**4,000**
(*Close dividends account*)		

Additional Perspective 3-1 (continued)

Requirement 7 (Note: closing entries in italics)

Cash

10,000	4,800
10,000	1,500
2,000	300
2,300	12,000
4,000	700
30,000	28,000
3,000	1,800
10,500	2,400
13,200	1,200
17,900	2,000
20,000	4,000
64,200	

Prepaid Insurance

4,800	2,400
2,400	

Prepaid Rent

2,400	800
1,600	

Supplies (Office)

1,800	1,500
300	

Supplies (Racing)

2,800	2,600
200	

Equipment (Bikes)

12,000	
12,000	

Equipment (Kayaks)

28,000	
28,000	

Accum. Depr.

	8,000
	8,000

Accounts Payable

1800	1,800
	2,800
	2,800

Deferred Revenue

4,000	4,000
	0

Interest Payable

	750
	750

Income Tax Payable

	14,000
	14,000

Notes Payable

	30,000
	30,000

Common Stock

	10,000
	10,000
	20,000

Dividends

4,000	*4,000*
0	

Service Revenue (Clinic)

52,900	2,000
	2,300
	7,000
	10,500
	13,200
	17,900
	0

Service Revenue (Racing)

20,000	20,000
	0

Legal Fees Expense

1,500	*1,500*
0	

Advertising Expense

300	*1,000*
700	
0	

Rent Expense

800	*800*
0	

Salaries Expense

2,000	*2,000*
0	

Depr. Expense

8,000	*8,000*
0	

Insurance Expense

2,400	*2,400*
0	

Supplies Expense (Racing)

2,600	2,600
0	

Supplies Expense (Office)

1,500	*1,500*
0	

Interest Expense

750	*750*
0	

Income Tax Expense

14,000	*14,000*
0	

Miscellaneous Expense

1,200	*1,200*
0	

Retained Earnings

35,750	*72,900*
4,000	
	33,150

Additional Perspective 3-1 (concluded)
Requirement 8

Great Adventures, Inc.
Post-closing Trial Balance
December 31, 2021

Accounts	Debit	Credit
Cash	$ 64,200	
Prepaid Insurance	2,400	
Prepaid Rent	1,600	
Supplies (Office)	300	
Supplies (Racing)	200	
Equipment (Bikes)	12,000	
Equipment (Kayaks)	28,000	
Accumulated Depreciation		$ 8,000
Accounts Payable		2,800
Income Tax Payable		14,000
Interest Payable		750
Notes Payable		30,000
Common Stock		20,000
Retained Earnings		33,150
Totals	$108,700	$108,700

Additional Perspective 3-2

American Eagle
($ in thousands)

Requirement 1

Current assets equal $968,530. The ratio of current assets to total assets is 0.53 (= $968,530 / $1,816,313).

Requirement 2

Current liabilities equal $485,221. The ratio of current liabilities to total liabilities is 0.85 (= $485,221 / $569,522).

Requirement 3

The change in retained earnings is $107,817 (= $1,883,592 − $1,775,775).

Requirement 4

The amount of net income is $204,163.

Requirement 5

The change in retained earnings typically represents net income for the year less dividends. If the change in retained earnings is $107,817 and net income equals $204,163, then dividends normally would be $**96,346** thousand. The statement of stockholders' equity shows cash dividends equal to only $90,858. The reasons for the inequality are due to the reissuance of treasury stock. Normally, these types of events do not occur and the change in retained earnings would equal net income less dividends.

Additional Perspective 3-3

Buckle
($ in thousands)

Requirement 1

Current assets equal $360,584. The ratio of current assets to total assets is 0.67 (= $360,584 / $538,116).

Requirement 2

Current liabilities equal $97,906. The ratio of current liabilities to total liabilities is 0.67 (= $97,906 / $146,868).

Requirement 3

The change in retained earnings is $(44,167) (= $246,570 − $290,737).

Requirement 4

The amount of net income is $89,707.

Requirement 5

The change in retained earnings typically represents net income for the year less dividends. If the change in retained earnings is $(44,167) and net income equals $89,707, then dividends should be **$133,874**. This is verified looking at the retained earnings column in the statement of stockholders' equity which shows dividends of $133,874.

Additional Perspective 3-4

Compare American Eagle and Buckle

Requirement 1

Buckle has the higher ratio of current assets to total assets. For American Eagle, the ratio of current assets to total assets is 0.53 (= $968,530 / $1,816,313). For Buckle, the ratio of current assets to total assets is 0.67 (= $360,584 / $538,116). A higher ratio indicates that a higher portion of the company's assets will provide benefits within the next year or become cash in the next year. With more cash-based resources, the company may be better able to respond to competitive opportunities.

Requirement 2

American Eagle has the higher ratio of current liabilities to total liabilities. For American Eagle, the ratio of current liabilities to total liabilities is 0.85 (= $485,221 / $569,522). For Buckle, the ratio of current liabilities to total liabilities is 0.67 (= $97,906 / $146,868). A higher ratio indicates that a higher portion of the company's liabilities are due within the next year. With more current debt, the company may be less able to respond quickly to new competitive opportunities, and face a higher risk of bankruptcy if it cannot pay its current liabilities as they come due.

Requirement 3

Buckle has a higher dividend payout ratio. For American Eagle, the dividend payout ratio is 0.45 (= $90,858 / $204,163). For Buckle, the dividend payout ratio is 1.49 (= $133,874 / $89,707). A higher ratio indicates that a higher portion of the company's net income is paid in dividends. More often, growth companies pay fewer dividends because they are using available cash to expand the company. Mature companies typically have more cash available to pay dividends.

Additional Perspective 3-5

1. Profits are overstated.
By reporting the $80,000 as Service Revenue instead of Deferred Revenue, pretax profit will increase from $280,000 to $360,000, giving a false appearance that this year's profit is higher than last year's.

2. Liability.
Cash received from customers in advance of performing services is a liability, representing an obligation to customers.

3. Yes.
Next year the $80,000 cannot be counted again in pretax profits, likely causing a big decline in reported performance. When this occurs, investors and other employees, who bought the company's stock when the price was high and who thought that profitability was increasing, may sustain large losses as the stock price falls.

4. No.
As the assistant controller (accountant), you should understand that your responsibilities include accurately recording and reporting the company's activities. By falsely reporting activities this year, you mislead people (investors and other employees) who are relying on your financial reports.
Because you are new to the position, you might not be sure that it's right for you to question any decision of the company's president. You have just been hired and don't want to lose your job. If you do make the adjustment, then the company's president will know he can count on you, and this could be your fast track to the top.

Additional Perspective 3-6

(Note to instructor: Answers are based on McDonald's December 2016 annual report, and dollar amounts are in millions.)

Requirement 1

Revenues exceed expenses because the company reports net income of $4,686.5 (in millions).

Requirement 2

Net income increased from $4,529.3 to $4,686.5.

Requirement 3

Current assets include cash and equivalents, accounts and notes receivable, inventories, and prepaid expenses and other current assets. Other assets include assets that will provide a benefit for more than one year.

Requirement 4

Current liabilities include accounts payable, income taxes, other taxes, accrued interest, and accrued payroll and other liabilities. Other liabilities include liabilities that are due in more than one year.

Requirement 5

Retained earnings increased $1,628.2, from $44,594.5 to $46,222.7.

Requirement 6

The amount of dividends paid equals $3,058.2.

Requirement 7

In most instances, the change in retained earnings equals net income less dividends. For McDonald's, net income in requirement 1 ($4,686.5) less dividends in requirement 6 ($3,058.2) equals $1,628.3, which is slightly different from the change in retained earnings in requirement 5 ($1,628.2). The difference of $0.1 is due to unusual adjustments beyond the scope of this course.

Additional Perspective 3-7

Requirement 1
Prepaid revenues occur when cash is received before the related revenues are reported. Prepaid expenses occur when cash (or an obligation to pay cash) is paid before the related expenses are reported. Accrued revenues occur when cash is received after the related revenues are reported. Accrued expenses occur when cash is paid after the related expenses and liabilities are reported.

Requirement 2
The adjusting entry for prepaid expenses includes a debit to an expense and a credit to an asset. The adjusting entry for deferred revenue includes a debit to deferred revenue (liability) and a credit to a revenue. By not recording an adjusting entry for a prepaid expense, expenses will be understated and assets will be overstated. By not recording an adjusting entry for deferred revenue, liabilities will be overstated and revenues will be understated.

Requirement 3
The adjusting entry for accrued expenses includes a debit to an expense and a credit to a liability. The adjusting entry for accrued revenues includes a debit to an asset and a credit to a revenue. By not recording an adjusting entry for an accrued expense, expenses will be understated and liabilities will be understated. By not recording an adjusting entry for an accrued revenue, assets will be understated and revenues will be understated.