

S4-6 Critical Thinking: Adjusting an Income Statement and Balance Sheet for Deferrals and Accruals
LO 4-1, 4-2, 4-4, 4-6

Pirate Pete Moving Corporation has been in operation since January 1, 2012. It is now December 31, 2012, the end of the annual accounting period. The company has not done well financially during the first year, although revenue has been fairly good. Three stockholders manage the company, but they have not given much attention to recordkeeping. In view of a serious cash shortage, they have applied to your bank for a \$20,000 loan. As a loan officer, you requested a complete set of financial statements. The following 2012 annual financial statements were prepared by the company's office staff.

PIRATE PETE MOVING CORPORATION Income Statement For the Period Ended December 31, 2012		PIRATE PETE MOVING CORPORATION Balance Sheet At December 31, 2012	
Service Revenue	\$85,000	Assets	
Expenses:		Cash	\$ 2,000
Salaries Expense	17,000	Accounts Receivable	3,000
Supplies Expense	12,000	Supplies	6,000
Other Expenses	18,000	Equipment	40,000
Total Expenses	47,000	Prepaid Insurance	4,000
Net Income	\$38,000	Remaining Assets	27,000
		Total Assets	\$82,000
		Liabilities	
		Accounts Payable	\$ 9,000
		Stockholders' Equity	
		Contributed Capital	35,000
		Retained Earnings	38,000
		Total Liabilities and Stockholders' Equity	\$82,000

After briefly reviewing the statements and "looking into the situation," you requested that the statements be redone (with some expert help) to "incorporate depreciation, accruals, supply counts, income taxes, and so on." As a result of a review of the records and supporting documents, the following additional information was developed:

- Supplies of \$6,000 shown on the balance sheet has not been adjusted for supplies used during 2012. A count of the supplies on hand on December 31, 2012, showed \$1,800.
- The insurance premium paid in 2012 was for years 2012 and 2013. The total insurance premium was debited in full to Prepaid Insurance when paid in 2012 and no adjustment has been made.
- The equipment cost \$40,000 when purchased January 1, 2012. It had an estimated annual depreciation of \$8,000. No depreciation has been recorded for 2012.
- Unpaid (and unrecorded) salaries at December 31, 2012, amounted to \$2,200.
- At December 31, 2012, transportation fees collected in advance amounted to \$7,000. This amount was credited in full to Service Revenue when the cash was collected earlier during 2012.
- Income taxes for the year are calculated as 25% of income before tax.

Required:

1. Prepare the adjusting journal entries required on December 31, 2012, based on the preceding additional information. You may need to create new accounts not yet included in the income statement or balance sheet.
2. Redo the preceding statements after taking into account the adjusting journal entries. One way to organize your response follows:

Items	Amounts Reported	Changes		Corrected Amounts
		Plus	Minus	
(List here each item from the two statements)				

3. The effects of recording the adjusting journal entries were to
 - a. Increase or decrease (select one) net income by \$ ____.
 - b. Increase or decrease (select one) total assets by \$ ____.
4. Write a letter to the company explaining the results of the adjustments and your preliminary analysis.

LO 4-3, 4-4, 4-6**S4-7 Aggregating Accounts on an Adjusted Trial Balance to Prepare an Income Statement, Statement of Retained Earnings, and Balance Sheet**

Escalade, Inc.



Assume you recently were hired for a job in Evansville, Indiana, at the head office of **Escalade, Inc.**—the company that makes Goalrilla™ and Goaliath® basketball systems, and is the exclusive supplier of Ping Pong® and Stiga® equipment for table tennis. Your first assignment is to review the company's lengthy adjusted trial balance to determine the accounts that can be combined ("aggregated") into single line-items that will be reported on the financial statements. By querying the accounting system, you were able to obtain the following alphabetical list of accounts and their adjusted balances (in thousands) for the year ended December 31.

Accounts Payable	\$ 2,792	Inventory of Finished Goods	\$ 10,263	Prepaid Insurance	\$ 108
Accounts Receivable	34,141	Inventory of Goods being Made	4,536	Prepaid Rent	434
Accrued Interest Payable	42	Inventory of Supplies and Materials	5,750	Rent Expense	7,350
Accrued Wages Payable	5,856	Long-term Bank Loan	14,000	Retained Earnings	27,571
Accrued Warranties Payable	1,324	Long-term Contract Payable	1,837	Salaries Expense	3,582
Accumulated Depreciation	26,198	Long-term Note Payable	2,700	Sales Commissions Expense	3,349
Cash	3,370	Manufacturing Equipment	12,962	Sales of Basketball Systems	98,998
Contributed Capital	7,165	Notes Payable (current)	11,390	Sales of Other Products	28,710
Cost of Goods Sold	111,164	Notes Receivable	400	Sales of Ping Pong Tables	27,747
Depreciation Expense	862	Office Building	2,301	Shipping Expenses	1,448
Factory Buildings	7,070	Office Equipment	2,363	Transport Equipment	7,560
Income Tax Expense	5,804	Office Supplies Expense	69	Unearned Revenue	8,144
Income Tax Payable	1,189	Other Accrued Liabilities	1,638	Utilities Expense	2,111
Insurance Expense	2,368	Other Long-term Assets	28,310	Wages Expense	3,024
Interest Expense	950	Packaging Expenses	1,010	Warranties Expense	1,226
Interest Receivable	415			Warehouse Buildings	3,001

Required:

With the above account names and balances, prepare an adjusted trial balance using a spreadsheet. Also prepare an income statement, statement of retained earnings, and balance sheet that import their numbers from the adjusted trial balance or from the other statements where appropriate.

If similar accounts can be aggregated into a single line-item for each financial statement, use a formula to compute the aggregated amount. To be sure that you understand how to import numbers from other parts of a spreadsheet, you e-mail your friend Owen for advice. His reply is as follows.

From: Owentheaccountant@yahoo.com
 To: Helpme@hotmail.com
 Cc:
 Subject: Excel Help

Hey pal. You're bouncing from job to job like one of those ping-pong balls that your company sells. Okay, to import a number from another spreadsheet, you first click on the cell where you want the number to appear. For example, if you want to enter the Cash balance in the balance sheet, click on the cell in the balance sheet where the cash number is supposed to appear. Enter the equals sign (=) and then click on the tab that takes you to the worksheet containing the adjusted trial balance. In that worksheet, click on the cell that contains the amount you want to import into the balance sheet and then press enter. This will create a link from the adjusted trial balance cell to the balance sheet cell. At the end of this message, I've pasted a screen shot showing the formula I would enter on the balance sheet to import the total of three related inventory accounts from the adjusted trial balance. Don't forget to save the file using a name that indicates who you are.

S4-7.xls - Microsoft Excel

Home Insert Page Layout Formulas Data Review View

C7 fx =SUM('Trial Balance'!C8:C10)

A	B	C
1	Escalade, Inc.	
2	Balance Sheet	
3	As of December 31 (in thousands)	
4	ASSETS	
5	Cash	\$ 3,370
6	Receivables	34,956
7	Inventories	20,549
8	Prepays	542
9	Total Current Assets	59,417
10	Property, plant, and equipment	35,257
11	less accumulated depreciation	(26,198)
12	Other long-term assets	28,310
13	Total Assets	\$ 96,786
14	LIABILITIES	
15	Accounts payable	\$ 2,792
16	Notes payable	11,390
17	Income tax payable	1,189
18	Unearned revenue	8,144
19	Other liabilities	8,860
20	Total Current Liabilities	32,375
21	Long-term debt	18,537
22	Total Liabilities	50,912
23	STOCKHOLDERS' EQUITY	
24	Contributed capital	7,165
25	Retained earnings	38,709
26	Total Stockholders' Equity	45,874
27	Total Liabilities and Stockholders' Equity	\$ 96,786
28		

Trial Balance Income Statement Statement of

Ready 100%