

BRIEF EXERCISES



BE3-1 Below are transactions for Lobos, Inc., during the month of December. Calculate the amount of revenue to recognize in December. If the transaction does not require the company to recognize a revenue, indicate how it would report the transaction.

Determine revenues to be recognized (LO1)

- a. Receive \$1,200 cash from customers for services to be provided next month.
- b. Perform \$900 of services during the month and bill customers. Customers are expected to pay next month.
- c. Perform \$2,300 of services during the month and receive full cash payment from customers at the time of service.

BE3-2 Below are transactions for Bronco Corporation during the month of June. Calculate the amount of expense to recognize in June. If the transaction does not require an expense to be recognized, indicate how the transaction would be reported.

Determine expenses to be recognized (LO1)

- a. Pay \$600 cash to employees for work performed during June.
- b. Receive a \$200 telephone bill for the month of June, but Bronco does not plan to pay the bill until early next month.
- c. Pay \$500 on account for supplies purchased last month. All supplies were used last month.

BE3-3 Hoya Corporation reports the following amounts: Assets = \$12,000; Liabilities = \$2,000; Stockholders' equity = \$10,000; Dividends = \$2,000; Revenues = \$15,000; and Expenses = \$11,000. What amount is reported for net income?

Calculate net income (LO1)

BE3-4 Consider the following set of transactions occurring during the month of May for Bison Consulting Company. For each transaction, indicate the impact on (1) the balance of cash, (2) cash-basis net income, and (3) accrual-basis net income for May. The first answer is provided as an example.

Analyze the impact of transactions on the balance of cash, cash-basis net income, and accrual-basis net income (LO1, 2)

	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.			
(c) Purchase office supplies for \$400 on account. All supplies are used by the end of May.			
(d) Pay \$600 to workers. \$400 is for work in May and \$200 is for work in April.			
(e) Pay \$200 to advertise in a local newspaper in May.			
Totals	=====	=====	=====

BE3-5 Rebel Technology maintains its records using cash-basis accounting. During the year, the company received cash from customers, \$40,000, and paid cash for salaries, \$22,000. At the beginning of the year, customers owe Rebel \$1,000. By the end of the year, customers owe \$6,000. At the beginning of the year, Rebel owes salaries of \$5,000. At the end of the year, Rebel owes salaries of \$3,000. Determine cash-basis net income and accrual-basis net income for the year.

Determine accrual-basis and cash-basis net income (LO1, 2)

BE3-6 At the beginning of May, Golden Gopher Company reports a balance in Supplies of \$400. On May 15, Golden Gopher purchases an additional \$2,300 of supplies for cash. By the end of May, only \$200 of supplies remains. (1) Record the purchase

Record the adjusting entry for supplies (LO3)

of supplies on May 15. (2) Record the adjusting entry on May 31. (3) Calculate the balances after adjustment on May 31 of Supplies and Supplies Expense.

Record the adjusting entry for prepaid rent (LO3)

BE3-7 Suppose Hoosiers, a specialty clothing store, rents space at a local mall for one year, paying \$19,200 (\$1,600/month) in advance on October 1. (1) Record the purchase of rent in advance on October 1. (2) Record the adjusting entry on December 31. (3) Calculate the year-end adjusted balances of prepaid rent and rent expense (assuming the balance of Prepaid Rent at the beginning of the year is \$0).

Record the adjusting entry for prepaid insurance (LO3)

BE3-8 Mountaineer Excavation operates in a low-lying area that is subject to heavy rains and flooding. Because of this, Mountaineer purchases one year of flood insurance in advance on March 1, paying \$30,000 (\$2,500/month). (1) Record the purchase of insurance in advance on March 1. (2) Record the adjusting entry on December 31. (3) Calculate the year-end adjusted balances of Prepaid Insurance and Insurance Expense (assuming the balance of Prepaid Insurance at the beginning of the year is \$0).

Record the adjusting entry for depreciation (LO3)

BE3-9 Beaver Construction purchases new equipment for \$36,000 cash on April 1, 2012. At the time of purchase, the equipment is expected to be used in operations for six years (72 months) and have no resale or scrap value at the end. Beaver depreciates equipment evenly over the 72 months (\$500/month). (1) Record the purchase of equipment on April 1. (2) Record the adjusting entry for depreciation on December 31, 2012. (3) Calculate the year-end adjusted balances of Accumulated Depreciation and Depreciation Expense (assuming the balance of Accumulated Depreciation at the beginning of 2012 is \$0).

Record the adjusting entry for unearned revenue (LO3)

BE3-10 Suppose a customer rents a vehicle for three months from Commodores Rental on November 1, paying \$4,500 (\$1,500/month). (1) Record the rental for Commodores on November 1. (2) Record the adjusting entry on December 31. (3) Calculate the year-end adjusted balances of the Unearned Revenue and Service Revenue accounts (assuming the balance of Unearned Revenue at the beginning of the year is \$0).

Record the adjusting entry for salaries payable (LO3)

BE3-11 Fighting Irish Incorporated pays its employees \$4,200 every two weeks (\$300/day). The current two-week pay period ends on December 28, 2012, and employees are paid \$4,200. The next two-week pay period ends on January 11, 2013, and employees are paid \$4,200. (1) Record the adjusting entry on December 31, 2012. (2) Record the payment of salaries on January 11, 2013. (3) Calculate the 2012 year-end adjusted balance of Salaries Payable (assuming the balance of Salaries Payable before adjustment in 2012 is \$0).

Record the adjusting entry for interest payable (LO3)

BE3-12 Midshipmen Company borrows \$10,000 from Falcon Company on July 1, 2012. Midshipmen repays the amount borrowed and pays interest of 12% (1%/month) on June 30, 2013. (1) Record the borrowing for Midshipmen on July 1, 2012. (2) Record the adjusting entry for Midshipmen on December 31, 2012. (3) Calculate the 2012 year-end adjusted balances of Interest Payable and Interest Expense (assuming the balance of Interest Payable at the beginning of the year is \$0).

Flip Side of BE3-13



Record the adjusting entry for interest receivable (LO3)

BE3-13 Refer to the information in BE3-12. (1) Record the lending for Falcon on July 1, 2012. (2) Record the adjusting entry for Falcon on December 31, 2012. (3) Calculate the 2012 year-end adjusted balances of Interest Receivable and Interest Revenue (assuming the balance of Interest Receivable at the beginning of the year is \$0).

Flip Side of BE3-12



Assign accounts to financial statements (LO5)

BE3-14 For each of the following accounts, indicate whether the account is shown in the income statement or the balance sheet:

<u>Accounts</u>	<u>Financial Statement</u>
1. Accounts Receivable	_____
2. Unearned Revenue	_____
3. Supplies Expense	_____
4. Salaries Payable	_____
5. Depreciation Expense	_____
6. Service Revenue	_____

BE3-15 Below are the four primary financial statements. Match each financial statement with its primary purpose to investors.

Understand the purpose of financial statements (LO5)

Financial Statements	Purposes
1. _____ Income statement	a. Provides measures of resources and claims to those resources at the end of the year.
2. _____ Statement of stockholders' equity	b. Provides an indication of the company's ability to make a profit during the current year.
3. _____ Balance sheet	c. Provides a measure of net increases and decreases in cash for the current year.
4. _____ Statement of cash flows	d. Shows changes in owners' claims to resources for the current year.

BE3-16 The following account balances appear in the 2012 adjusted trial balance of Beavers Corporation: Service Revenue, \$225,000; Salaries Expense, \$100,000; Supplies Expense, \$15,000; Rent Expense, \$21,000; Depreciation Expense, \$34,000; and Delivery Expense, \$13,000. Prepare an income statement for the year ended December 31, 2012.

Prepare an income statement (LO5)

BE3-17 The following account balances appear in the 2012 adjusted trial balance of Bulldog Corporation: Common Stock, \$20,000; Retained Earnings, \$7,000; Dividends, \$1,000; Service Revenue, \$25,000; Salaries Expense, \$15,000; and Rent Expense, \$8,000. No common stock was issued during the year. Prepare the statement of stockholders' equity for the year ended December 31, 2012.

Prepare a statement of stockholders' equity (LO5)

BE3-18 The following account balances appear in the 2012 adjusted trial balance of Blue Devils Corporation: Cash, \$4,000; Accounts Receivable, \$8,000; Supplies, \$18,000; Equipment, \$110,000; Accumulated Depreciation, \$40,000; Accounts Payable, \$25,000; Salaries Payable, \$15,000; Common Stock, \$50,000; and Retained Earnings, _____. Prepare the December 31, 2012, classified balance sheet including the correct balance for retained earnings.

Prepare a classified balance sheet (LO5)

BE3-19 The year-end adjusted trial balance of Aggies Corporation included the following account balances: Retained Earnings, \$220,000; Service Revenue, \$850,000; Salaries Expense, \$380,000; Rent Expense, \$140,000; Interest Expense, \$75,000; and Dividends, \$50,000. Record the necessary closing entries.

Record closing entries (LO6)

BE3-20 The year-end adjusted trial balance of Hilltoppers Corporation included the following account balances: Cash, \$4,000; Equipment, \$16,000; Accounts Payable, \$2,000; Common Stock, \$10,000; Retained Earnings, \$7,000; Dividends, \$1,000; Service Revenue, \$15,000; Salaries Expense, \$10,000; and Utilities Expense, \$3,000. Prepare the post-closing trial balance.

Prepare a post-closing trial balance (LO7)

EXERCISES

E3-1 Consider the following situations:

- American Airlines** collects cash on June 12 from the sale of a ticket to a customer. The flight occurs on August 16.
- A customer purchases sunglasses from **Eddie Bauer** on January 27 on account. Eddie Bauer receives payment from the customer on February 2.

Determine the timing of revenue recognition (LO1)

- On March 30, a customer preorders 10 supreme pizzas (without onions) from **Pizza Hut** for a birthday party. The pizzas are prepared and delivered on April 2. The company receives cash at the time of delivery.
- A customer pays in advance for a three-month subscription to **Sports Illustrated** on July 1. Issues are scheduled for delivery each week from July 1 through September 30.

Required:

For each situation, determine the date for which the company recognizes the revenue under accrual-basis accounting.

Determine the timing of expense recognition (LO1)

E3-2 Consider the following situations:

- American Airlines** operates a flight from Dallas to Los Angeles on August 16. The pilots' salaries associated with the flight are paid on September 2.
- Eddie Bauer** pays cash on January 6 to purchase sunglasses from a wholesale distributor. The sunglasses are sold to customers on January 27.
- On January 1, **Pizza Hut** pays for a one-year property insurance policy with coverage starting immediately.
- Sports Illustrated** signs an agreement with CBS on January 12 to provide television advertisements during the Super Bowl. Payment is due within 3 weeks after February 4, the day of the Super Bowl. Sports Illustrated makes the payment on February 23.

Required:

For each situation, determine the date for which the company recognizes the expense under accrual-basis accounting.

Differentiate cash-basis revenues from accrual-basis revenues (LO2)

E3-3 Refer to the situations discussed in E3-1.**Required:**

For each situation, determine the date for which the company recognizes revenue using cash-basis accounting.

Differentiate cash-basis expenses from accrual-basis expenses (LO2)

E3-4 Refer to the situation discussed in E3-2.**Required:**

For each situation, determine the date for which the company recognizes the expense using cash-basis accounting.

Determine the amount of net income (LO1)

E3-5 During the course of your examination of the financial statements of Trojan Corporation for the year ended December 31, 2012, you come across several items needing further consideration. Currently, net income is \$90,000.

- An insurance policy covering 12 months was purchased on October 1, 2012, for \$18,000. The entire amount was debited to Prepaid Insurance and no adjusting entry was made for this item in 2012.
- During 2012, the company received a \$3,000 cash advance from a customer for services to be performed in 2013. The \$3,000 was incorrectly credited to Service Revenue.
- There were no supplies listed in the balance sheet under assets. However, you discover that supplies costing \$2,250 were on hand at December 31, 2012.
- Trojan borrowed \$60,000 from a local bank on September 1, 2012. Principal and interest at 12% will be paid on August 31, 2013. No accrual was made for interest in 2012.

Required:

Using the information in *a.* through *d.* above, determine the proper amount of net income as of December 31, 2012.

Organize the steps in the accounting cycle (LO3, 4, 5, 6, 7)

E3-6 Listed below are all the steps in the accounting cycle.

- (a) Record and post adjusting entries.
- (b) Post the transaction to the T-account in the general ledger.
- (c) Record the transaction.
- (d) Prepare financial statements (income statement, statement of stockholders' equity, balance sheet, and statement of cash flows).
- (e) Record and post closing entries.
- (f) Prepare a trial balance.
- (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.
- (i) Use source documents to identify accounts affected by external transactions.

Required:

List the steps in proper order.

E3-7 Golden Eagle Company prepares monthly financial statements for its bank. The November 30 and December 31 adjusted trial balances include the following account information:

Record adjusting entries (LO3)

	November 30		December 31	
	Debit	Credit	Debit	Credit
Supplies	1,500		3,000	
Prepaid Insurance	6,000		4,500	
Salaries Payable		10,000		15,000
Unearned Revenue		2,000		1,000

The following information also is known:

- a. Purchases of supplies in December total \$3,500.
- b. No insurance payments are made in December.
- c. \$10,000 is paid to employees during December for November salaries.
- d. On November 1, a tenant pays Golden Eagle \$3,000 in advance rent for the period November through January. Unearned Revenue is credited.

Required:

Show the adjusting entries that were made for supplies, prepaid insurance, salaries payable, and unearned revenue on December 31.

E3-8 Consider the following transactions for Huskies Insurance Company:

Record year-end adjusting entries (LO3)

- a. Equipment costing \$36,000 is purchased at the beginning of the year for cash. Depreciation on the equipment is \$6,000 per year.
- b. On June 30, the company lends its chief financial officer \$40,000; principal and interest at 6% are due in one year.
- c. On October 1, the company receives \$12,000 from a customer for a one-year property insurance policy. Unearned Revenue is credited.

Required:

For each item, record the necessary adjusting entry for Huskies Insurance at its year-end of December 31. No adjusting entries were made during the year.

E3-9 Refer to the information in E3-8.

Calculate the effects of adjusting entries on net income (LO3)

Required:

For each of the adjustments in E3-8, indicate by how much net income in the income statement is higher or lower if the adjustment is not recorded.

E3-10 Consider the following situations for Shocker:

Record year-end adjusting entries (LO3)

- a. On November 28, 2012, Shocker receives a \$3,000 payment from a customer for services to be rendered evenly over the next three months. Unearned Revenue is credited.

- b. On December 1, 2012, the company pays a local radio station \$2,400 for 30 radio ads that were to be aired, 10 per month, throughout December, January, and February. Prepaid Advertising is debited.
- c. Employee salaries for the month of December totaling \$7,000 will be paid on January 7, 2013.
- d. On August 31, 2012, Shocker borrows \$60,000 from a local bank. A note is signed with principal and 8% interest to be paid on August 31, 2013.

Required:

Record the necessary adjusting entries for Shocker at December 31, 2012. No adjusting entries were made during the year.

Calculate the effects of adjusting entries on the accounting equation (LO3, 4)

E3-11 Refer to the information in E3-10.

Required:

For each of the adjustments recorded in E3-10, indicate by how much the assets, liabilities, and stockholders' equity in the December 31, 2012, balance sheet is higher or lower if the adjustment is not recorded.

Record year-end adjusting entries (LO3)

E3-12 Below are transactions for Wolverine Company during 2012.

- a. On December 1, 2012, Wolverine receives \$3,000 cash from a company that is renting office space from Wolverine. The payment, representing rent for December and January, is credited to Unearned Revenue.
- b. Wolverine purchases a one-year property insurance policy on July 1, 2012, for \$12,000. The payment is debited to Prepaid Insurance for the entire amount.
- c. Employee salaries of \$2,000 for the month of December will be paid in early January 2013.
- d. On November 1, 2012, the company borrows \$10,000 from a bank. The loan requires principal and interest at 12% to be paid on October 30, 2013.
- e. Office supplies at the beginning of 2012 total \$900. On August 15, Wolverine purchases an additional \$2,400 of office supplies, debiting the Supplies account. By the end of the year, \$400 of office supplies remains.

Required:

Record the necessary adjusting entries at December 31, 2012, for Wolverine Company. You do not need to record transactions made during the year. Assume that no financial statements were prepared during the year and no adjusting entries were recorded.

Record year-end adjusting entries (LO3)

E3-13 Below are transactions for Hurricane Company during 2012.

- a. On October 1, 2012, Hurricane lends \$8,000 to another company. The other company signs a note indicating principal and 8% interest will be paid to Hurricane on September 30, 2013.
- b. On November 1, 2012, Hurricane pays its landlord \$3,000 representing rent for the months of November through January. The payment is debited to Prepaid Rent for the entire amount.
- c. On August 1, 2012, Hurricane collects \$12,000 in advance from another company that is renting a portion of Hurricane's factory. The \$12,000 represents one year's rent and the entire amount is credited to Unearned Revenue.
- d. Depreciation on machinery is \$4,500 for the year.
- e. Salaries for the year earned by employees but not paid to them or recorded are \$4,000.
- f. Hurricane begins the year with \$1,000 in supplies. During the year, the company purchases \$4,500 in supplies and debits that amount to Supplies. At year-end, supplies costing \$2,500 remain on hand.

Required:

Record the necessary adjusting entries at December 31, 2012, for Hurricane Company for each of the situations. Assume that no financial statements were prepared during the year and no adjusting entries were recorded.

E3-14 The December 31, 2012, unadjusted trial balance for Demon Deacons Corporation is presented below.

Prepare an adjusted trial balance (**LO3, 4**)

Accounts	Debit	Credit
Cash	\$ 9,000	
Accounts Receivable	14,000	
Prepaid Rent	6,000	
Supplies	3,000	
Unearned Revenue		\$ 2,000
Common Stock		10,000
Retained Earnings		5,000
Service Revenue		45,000
Salaries Expense	30,000	
	<u>\$62,000</u>	<u>\$62,000</u>

At year-end, the following additional information is available:

- The balance of Prepaid Rent, \$6,000, represents payment on October 31, 2012, for rent from November 1, 2012, to April 30, 2013.
- The balance of Unearned Revenue, \$2,000, represents payment in advance from a customer. By the end of the year, \$500 of the services have been provided.
- An additional \$600 in salaries is owed to employees at the end of the year but will not be paid until January 4, 2013.
- The balance of Supplies, \$3,000, represents the amount of office supplies on hand at the beginning of the year of \$1,200 plus an additional \$1,800 purchased throughout 2012. By the end of 2012, only \$700 of supplies remains.

Required:

- Update account balances for the year-end information by recording any necessary adjusting entries. No prior adjustments have been made in 2012.
- Prepare an adjusted trial balance as of December 31, 2012.

E3-15 Below are the restated amounts of net income and retained earnings for Volunteers Inc. and Raiders Inc. for the period 2003–2012. Volunteers began operations in 2004.

Calculate the balance of retained earnings (**LO5**)

Year	VOLUNTEERS INC. (\$ in millions)		RAIDERS INC. (\$ in millions)	
	Net Income (Loss)	Retained Earnings	Net Income (Loss)	Retained Earnings
2003	—	\$0	\$ 25	\$10
2004	\$ 20		(53)	
2005	(6)		51	
2006	31		53	
2007	125		92	
2008	20		125	
2009	(141)		(52)	
2010	567		64	
2011	349		100	
2012	350		152	

Required:

Calculate the balance of retained earnings each year for each company. Neither company paid dividends during this time.

Prepare financial statements from an adjusted trial balance (LO5)

E3-16 The December 31, 2012, adjusted trial balance for Blue Hens Corporation is presented below.

Accounts	Debit	Credit
Cash	\$ 11,000	
Accounts Receivable	140,000	
Prepaid Rent	5,000	
Supplies	25,000	
Equipment	300,000	
Accumulated Depreciation		\$125,000
Accounts Payable		11,000
Salaries Payable		10,000
Interest Payable		4,000
Notes Payable (due in two years)		30,000
Common Stock		200,000
Retained Earnings		50,000
Service Revenue		400,000
Salaries Expense	300,000	
Rent Expense	15,000	
Depreciation Expense	30,000	
Interest Expense	4,000	
Totals	\$830,000	\$830,000

Required:

1. Prepare an income statement for the year ended December 31, 2012.
2. Prepare a classified balance sheet as of December 31, 2012.

Record closing entries (LO6)

E3-17 Seminoles Corporation's fiscal year-end is December 31, 2012. The following is a partial adjusted trial balance as of December 31.

Accounts	Debit	Credit
Retained Earnings		\$20,000
Dividends	\$ 2,000	
Service Revenue		40,000
Interest Revenue		5,000
Salaries Expense	14,000	
Rent Expense	5,000	
Advertising Expense	2,000	
Depreciation Expense	10,000	
Interest Expense	4,000	

Required:

Prepare the necessary closing entries.

Record closing entries (LO6)

E3-18 Laker Incorporated's fiscal year-end is December 31, 2012. The following is an adjusted trial balance as of December 31.

Accounts	Debit	Credit
Cash	\$ 11,000	
Supplies	34,000	
Prepaid Rent	25,000	

(continued)

(concluded)

Accounts	Debit	Credit
Accounts Payable		\$ 2,000
Notes Payable		20,000
Common Stock		35,000
Retained Earnings		8,000
Dividends	3,000	
Service Revenue		55,000
Salaries Expense	19,000	
Advertising Expense	12,000	
Rent Expense	9,000	
Utilities Expense	7,000	
Totals	\$120,000	\$120,000

Required:

Prepare the necessary closing entries.

E3-19 Refer to the adjusted trial balance in E3-16.

Required:

1. Record the necessary closing entries at December 31, 2012.
2. Prepare a post-closing trial balance.

Record closing entries and a post-closing trial balance (LO6, 7)

PROBLEMS: SET A



P3-1A Consider the following transactions.

Determine accrual-basis and cash-basis revenues and expenses (LO1, 2)

Transaction	Accrual-basis		Cash-basis	
	Revenue	Expense	Revenue	Expense
1. Receive cash from customers in advance, \$500.				
2. Pay utilities bill for the previous month, \$100.				
3. Pay for insurance one year in advance, \$1,500.				
4. Pay workers' salaries for the current month, \$700.				
5. Record depreciation of building, \$900.				
6. Receive cash from customers at the time of service, \$1,200.				
7. Purchase office supplies on account, \$230.				
8. Borrow cash from the bank, \$3,000.				
9. Receive cash from customers for services performed last month, \$650.				
10. Pay for advertising to appear in the current month, \$350.				

Required:

For each transaction, determine the amount of revenue or expense, if any, that is recorded under accrual-basis accounting and under cash-basis accounting in the current period.

P3-2A Minutemen Law Services maintains its books using cash-basis accounting. However, the company decides to borrow \$100,000 from a local bank, and the bank requires Minutemen to provide annual financial statements prepared using accrual-basis

Convert cash-basis accounting to accrual-basis accounting (LO1, 2)

accounting as part of the creditworthiness verification. During 2012, the company records the following cash flows:

Cash collected from customers		\$60,000
Cash paid for:		
Salaries	\$35,000	
Supplies	3,000	
Rent	4,000	
Insurance	6,000	
Utilities	<u>2,000</u>	<u>50,000</u>
Net cash flows		<u>\$10,000</u>

You are able to determine the following information:

	<u>January 1, 2012</u>	<u>December 31, 2012</u>
Accounts Receivable	\$20,000	\$22,000
Prepaid Insurance	-0-	3,200
Supplies	4,000	1,500
Salaries Payable	2,200	3,400

In addition, depreciation on the company's equipment is \$8,000 for the year.

Required:

Prepare an accrual-basis income statement for the year ended December 31, 2012. (Ignore income taxes.)

Record adjusting entries and determine their effect on net income (LO3)

- P3-3A** The information necessary for preparing the 2012 year-end adjusting entries for Gamecock Advertising Agency appears below. Gamecock's fiscal year-end is December 31.
- On July 1, 2012, Gamecock receives \$5,000 from a customer for advertising services to be given evenly over the next 10 months. Gamecock credits Unearned Revenue.
 - At the beginning of the year, Gamecock's depreciable equipment has a cost of \$30,000, a five-year life, and no salvage value. The equipment is depreciated evenly (straight-line depreciation method) over the five years.
 - On May 1, 2012, the company pays \$3,600 for a two-year fire and liability insurance policy and debits Prepaid Insurance.
 - On September 1, 2012, the company borrows \$10,000 from a local bank and signs a note. Principal and interest at 12% will be paid on August 31, 2013.
 - At year-end there is a \$2,200 debit balance in the Supplies (asset) account. Only \$900 of supplies remains on hand.

Required:

Record the necessary adjusting entries on December 31, 2012. No prior adjustments have been made during 2012.

Record adjusting entries (LO3)

- P3-4A** Crimson Tide Music Academy offers lessons in playing a wide range of musical instruments. The *unadjusted* trial balance as of December 31, 2012, appears below. December 31 is the company's fiscal year-end.

<u>Accounts</u>	<u>Debits</u>	<u>Credits</u>
Cash	\$ 9,300	
Accounts Receivable	8,500	
Supplies	1,500	
Prepaid Rent	6,000	
Equipment	75,000	
Accumulated Depreciation		\$ 10,000
Accounts Payable		6,700

(continued)



(concluded)

Accounts	Debits	Credits
Salaries Payable		-0-
Interest Payable		-0-
Utilities Payable		-0-
Notes Payable		15,000
Common Stock		35,000
Retained Earnings		14,000
Service Revenue		45,000
Salaries Expense	23,500	
Interest Expense	-0-	
Rent Expense	-0-	
Supplies Expense	-0-	
Utilities Expense	1,900	
Depreciation Expense	-0-	
Totals	\$125,700	\$125,700

Information necessary to prepare the year-end adjusting entries appears below.

- a. Depreciation of equipment for the year is \$5,000.
- b. Accrued salaries at year-end should be \$1,600.
- c. Crimson Tide borrows \$15,000 on September 1, 2012. The principal is due to be repaid in four years. Interest is payable each August 31 at an annual rate of 10%.
- d. Unused supplies at year-end total \$600. Crimson Tide debits Supplies at the time supplies are purchased.
- e. Crimson Tide opens a second studio by purchasing one year of rent in advance on April 1, 2012, for \$6,000 (\$500 per month) debiting Prepaid Rent.
- f. Unpaid utilities for December total \$100.

Required:

Record the necessary adjusting entries on December 31, 2012.

P3-5A Boilermaker Unlimited specializes in building new homes and remodeling existing homes. Remodeling projects include adding game rooms, changing kitchen cabinets and countertops, and updating bathrooms. Below is the year-end adjusted trial balance of Boilermaker Unlimited.

Prepare financial statements from an adjusted trial balance when net income is positive (LO5)



BOILERMAKER UNLIMITED
Adjusted Trial Balance
December 31, 2012

Accounts	Debits	Credits
Cash	\$ 15,000	
Accounts Receivable	24,000	
Supplies	31,000	
Prepaid Insurance	6,000	
Equipment	500,000	
Accumulated Depreciation		\$ 160,000
Accounts Payable		30,000
Salaries Payable		27,000
Utilities Payable		4,000
Notes Payable (due in 5 years)		100,000
Common Stock		150,000
Retained Earnings		79,000
Dividends	25,000	

(continued)

BOILERMAKER UNLIMITED		
Adjusted Trial Balance		
December 31, 2012		
Accounts	Debits	Credits
Service Revenue—new construction		400,000
Service Revenue—remodeling		250,000
Salaries Expense	150,000	
Supplies Expense	275,000	
Depreciation Expense	40,000	
Insurance Expense	24,000	
Utilities Expense	41,000	
Interest Expense	6,000	
Service Fee Expense	63,000	
Totals	<u>\$1,200,000</u>	<u>\$1,200,000</u>

Required:

Prepare an income statement, statement of stockholders' equity, and classified balance sheet. In preparing the statement of stockholders' equity, note that during the year the company issued additional common stock for \$20,000. This amount is included in the amount for Common Stock in the adjusted trial balance.

Record closing entries and prepare a post-closing trial balance (LO6, 7)

P3-6A The year-end financial statements of Blue Devil Tax Services are provided below.

BLUE DEVIL TAX SERVICES		BLUE DEVIL TAX SERVICES		
Income Statement		Statement of Stockholders' Equity		
		Common Stock	Retained Earnings	Total S. Equity
Service revenue	\$72,500			
Expenses:				
Salaries	\$45,000			
Utilities	7,200			
Insurance	4,800			
Supplies	1,600			
	<u>58,600</u>			
Net income	<u>\$13,900</u>			
		Beg. bal., Jan. 1	\$50,000	\$23,500
		Issue stock	20,000	20,000
		Net income		13,900
		Dividends	(5,000)	(5,000)
		Ending bal., Dec. 31	<u>\$70,000</u>	<u>\$32,400</u>
				<u>\$102,400</u>

BLUE DEVIL TAX SERVICES			
Balance Sheet			
Assets		Liabilities	
Cash	\$ 3,700	Accounts payable	\$ 7,500
Accounts receivable	6,200	Stockholders' Equity:	
Land	100,000	Common stock	\$70,000
		Retained earnings	32,400
Total assets	<u>\$109,900</u>	Total liabs. and equities	<u>\$109,900</u>

Required:

- Record year-end closing entries.
- Prepare a post-closing trial balance. (*Hint:* The balance of Retained Earnings will be the amount shown in the balance sheet.)

P3-7A Refer to P3-4A.

Required:

Complete the following steps:

1. Enter the unadjusted balances from the trial balance into T-accounts.
2. Post the adjusting entries prepared in P3-4A to the accounts.
3. Prepare an adjusted trial balance.
4. Prepare an income statement and a statement of shareholders' equity for the year ended December 31, 2012, and a classified balance sheet as of December 31, 2012. Assume that no common stock is issued during the year.
5. Record closing entries.
6. Post closing entries to the accounts.
7. Prepare a post-closing trial balance.

Complete the accounting cycle after adjusting entries (LO4, 5, 6, 7)



P3-8A The general ledger of Red Storm Cleaners at January 1, 2012, includes the following account balances:

Accounts	Debits	Credits
Cash	\$15,000	
Accounts Receivable	7,000	
Supplies	3,000	
Equipment	10,000	
Accumulated Depreciation		\$ 3,000
Salaries Payable		5,000
Common Stock		20,000
Retained Earnings		7,000
Totals	<u>\$35,000</u>	<u>\$35,000</u>

Complete the full accounting cycle (LO3, 4, 5, 7)



The following is a summary of the transactions for the year:

- a. Sales of services, \$50,000, of which \$20,000 is on account.
- b. Collect on accounts receivable, \$17,000.
- c. Issue shares of common stock in exchange for \$5,000 cash.
- d. Pay salaries, \$25,000 (of which \$5,000 is for salaries payable in 2011).
- e. Pay repairs and maintenance expenses, \$12,000.
- f. Purchase equipment for \$7,000 cash.
- g. Pay \$1,000 cash dividends to stockholders.

Required:

1. Set up the necessary T-accounts and enter the beginning balances from the trial balance. In addition to the accounts shown, the company also has accounts for Dividends, Service Revenue, Salaries Expense, Repairs and Maintenance Expense, Depreciation Expense, and Supplies Expense.
2. Record each of the summary transactions listed above.
3. Post the transaction to the accounts.
4. Prepare an unadjusted trial balance.
5. Record adjusting entries. Accrued salaries at year-end amounted to \$1,000. Depreciation for the year on the equipment is \$4,000. Office supplies remaining on hand at the end of the year equal \$1,000.
6. Post adjusting entries.
7. Prepare an adjusted trial balance.
8. Prepare an income statement for 2012 and a classified balance sheet as of December 31, 2012.
9. Record closing entries.
10. Post closing entries.
11. Prepare a post-closing trial balance.

PROBLEMS: SET B

Determine accrual-basis and cash-basis revenues and expenses (LO1, 2)

P3-1B Consider the following transactions.

Transaction	Accrual-Basis		Cash-Basis	
	Revenue	Expense	Revenue	Expense
1. Receive cash from customers at the time of service, \$2,700.				
2. Issue common stock for cash, \$5,000.				
3. Receive cash from customers who were previously billed, \$1,200.				
4. Record depreciation of equipment, \$500.				
5. Pay workers' salaries for the current month, \$600.				
6. Pay for rent one year in advance, \$2,400.				
7. Repay a long-term note to the bank, \$2,000.				
8. Pay workers' salaries for the previous month, \$750.				
9. Pay dividends to stockholders, \$400.				
10. Purchase office supplies for cash, \$440.				

Required:

For each transaction, determine the amount of revenue or expense, if any, that is recorded under accrual-basis accounting and under cash-basis accounting.

Convert cash-basis accounting to accrual-basis accounting (LO1, 2)

P3-2B Horned Frogs Fine Cooking maintains its books using cash-basis accounting. However, the company recently borrowed \$50,000 from a local bank, and the bank requires the company to provide annual financial statements prepared using accrual-basis accounting as part of the creditworthiness verification. During 2012, the company records the following cash flows:

Cash collected from customers		\$55,000
Cash paid for:		
Salaries	\$22,000	
Supplies	8,000	
Repairs and maintenance	7,000	
Insurance	3,000	
Advertising	5,000	45,000
Net cash flows		<u>\$10,000</u>

You are able to determine the following information:

	January 1, 2012	December 31, 2012
Accounts Receivable	\$16,000	\$12,000
Prepaid Insurance	1,200	3,200
Supplies	-0-	1,500
Salaries Payable	3,200	2,300

In addition, depreciation on the company's building is \$6,000 for the year.

Required:

Prepare an accrual-basis income statement for 2012. (Ignore income taxes.)

P3-3B The information necessary for preparing the 2012 year-end adjusting entries for Bearcat Personal Training Academy appears below. Bearcat's fiscal year-end is December 31.

Record adjusting entries and determine their effect on net income (LO3)

- Depreciation on the equipment for the year is \$6,000.
- Salaries earned (but not paid) from December 16 through December 31, 2012, are \$3,000.
- On March 1, 2012, Bearcat lends an employee \$15,000. The employee signs a note requiring principal and interest at 8% to be paid on February 28, 2013.
- On April 1, 2012, Bearcat pays an insurance company \$12,000 for a two-year fire insurance policy. The entire \$12,000 is debited to Prepaid Insurance at the time of the purchase.
- Bearcat uses \$1,200 of supplies in 2012.
- A customer pays Bearcat \$2,400 on October 31, 2012, for three months of personal training to begin November 1, 2012. Bearcat credits Unearned Revenue at the time of cash receipt.
- On December 1, 2012, Bearcat pays \$4,500 rent to the owner of the building. The payment represents rent for December 2012 through February 2013, at \$1,500 per month. Prepaid Rent is debited at the time of the payment.

Required:

Record the necessary adjusting entries at December 31, 2012. No prior adjustments have been made during 2012.

P3-4B Jaguar Auto Company provides general car maintenance to customers. The company's fiscal year-end is December 31. The December 31, 2012, trial balance (before any adjusting entries) appears below.

Prepare adjusting entries (LO3)

Accounts	Debits	Credits
Cash	\$ 17,000	
Accounts Receivable	14,000	
Supplies	22,000	
Prepaid Insurance	18,000	
Equipment	85,000	
Accumulated Depreciation		\$ 27,000
Accounts Payable		11,000
Salaries Payable		-0-
Utilities Payable		-0-
Interest Payable		-0-
Notes Payable		30,000
Common Stock		25,000
Retained Earnings		9,000
Dividends	2,000	
Service Revenue		220,000
Salaries Expense	153,000	
Depreciation Expense	-0-	
Insurance Expense	-0-	
Supplies Expense	-0-	
Utilities Expense	11,000	
Interest Expense	-0-	
Totals	<u>\$322,000</u>	<u>\$322,000</u>

Information necessary to prepare the year-end adjusting entries appears below.

- Depreciation on the machines for the year is \$9,000.

- b. Employee salaries are paid every two weeks. The last pay period ended on December 23. Salaries earned from December 24 through December 31, 2012, are \$3,000.
- c. On September 1, 2012, Jaguar borrows \$30,000 from a local bank and signs a note. The note requires interest to be paid annually on August 31 at 9%. The principal is due in five years.
- d. On March 1, 2012, the company purchases insurance for \$18,000 for a one-year policy to cover possible injury to mechanics. The entire \$18,000 is debited to Prepaid Insurance at the time of the purchase.
- e. \$4,000 of supplies remains on hand at December 31, 2012.
- f. On December 30, Jaguar receives a utility bill of \$1,700 for the month. The bill will not be paid until early January 2013, and no entry is recorded when the bill is received.

Required:

Prepare the necessary adjusting entries on December 31, 2012.

Prepare financial statements from an adjusted trial balance (LO5)

P3-5B Orange Designs provides consulting services related to home decoration. Orange Designs provides customers with recommendations for a full range of home décor, including window treatments, carpet and wood flooring, paint colors, furniture, and much more. Below is the year-end adjusted trial balance of Orange Designs.

ORANGE DESIGNS		
Adjusted Trial Balance		
December 31, 2012		
Accounts	Debits	Credits
Cash	\$ 5,000	
Accounts Receivable	4,000	
Supplies	2,000	
Prepaid Rent	6,000	
Buildings	110,000	
Accumulated Depreciation		\$ 21,000
Accounts Payable		3,000
Salaries Payable		4,000
Utilities Payable		1,000
Notes Payable		20,000
Common Stock		50,000
Retained Earnings		15,000
Service Revenues		115,000
Salaries Expense	42,000	
Rent Expense	18,000	
Depreciation Expense	7,000	
Supplies Expense	8,000	
Advertising Expense	13,000	
Utilities Expense	12,000	
Interest Expense	2,000	
Totals	<u>\$229,000</u>	<u>\$229,000</u>

Required:

Prepare an income statement, statement of stockholders' equity, and classified balance sheet. In preparing the statement of stockholders' equity, note that during the year the company issued additional common stock of \$10,000. This amount is included in the amount for Common Stock in the adjusted trial balance.

Record closing entries and prepare a post-closing trial balance (LO6, 7)

P3-6B The year-end financial statements of Fighting Illini Financial Services are provided below.

FIGHTING ILLINI Income Statement		
Service revenue		\$84,700
Expenses:		
Salaries	\$49,000	
Supplies	9,100	
Rent	7,500	
Delivery	3,700	69,300
Net income		<u>\$15,400</u>

FIGHTING ILLINI Statement of Stockholders' Equity			
	Common Stock	Retained Earnings	Total S. Equity
Beg. bal., Jan. 1	\$60,000	\$32,300	\$ 92,300
Issue stock	15,000		15,000
Net income		15,400	15,400
Dividends		(6,000)	(6,000)
Ending bal., Dec. 31	<u>\$75,000</u>	<u>\$41,700</u>	<u>\$116,700</u>

FIGHTING ILLINI Balance Sheet			
Assets		Liabilities	
Cash	\$ 6,600	Accounts payable	\$ 9,100
Accounts receivable	9,200	Stockholders' Equity	
Land	110,000	Common stock	\$75,000
		Retained earnings	41,700
Total assets	<u>\$125,800</u>	Total liab. and equities	<u>\$125,800</u>

Required:

- Record year-end closing entries.
- Prepare a post-closing trial balance. (*Hint:* The balance of retained earnings will be the amount shown in the balance sheet.)

P3-7B Refer to P3-4B.

Required:

Complete the following steps:

- Enter the unadjusted balances from the trial balance into T-accounts.
- Post the adjusting entries prepared in P3-4B to the accounts.
- Prepare an adjusted trial balance.
- Prepare an income statement and a statement of shareholders' equity for the year ended December 31, 2012, and a classified balance sheet as of December 31, 2012. Assume that no common stock is issued during the year.
- Record closing entries.
- Post closing entries to the accounts.
- Prepare a post-closing trial balance.

P3-8B The general ledger of Pipers Plumbing at January 1, 2012, includes the following account balances:

Accounts	Debits	Credits
Cash	\$ 4,000	
Accounts Receivable	9,000	
Supplies	3,000	
Equipment	26,000	
Accumulated Depreciation		\$ 6,000
Accounts Payable		4,000
Utilities Payable		5,000

(continued)

Complete the accounting cycle after adjusting entries (LO4, 5, 6, 7)

Complete the full accounting cycle (LO3, 4, 5, 6, 7)



(concluded)

<u>Accounts</u>	<u>Debits</u>	<u>Credits</u>
Unearned Revenue		-0-
Common Stock		18,000
Retained Earnings		9,000
Totals	<u>\$42,000</u>	<u>\$42,000</u>

The following is a summary of the transactions for the year:

- a. Provide plumbing services for cash, \$15,000, and on account, \$60,000.
- b. Collect on accounts receivable, \$48,000.
- c. Issue shares of common stock in exchange for \$10,000 cash.
- d. Pay salaries for the current year, \$32,000.
- e. Pay for utilities expenses, \$12,000, of which \$5,000 represents costs for 2011.
- f. Receive cash in advance from customers, \$8,000.
- g. Pay \$2,000 cash dividends to stockholders.

Required:

1. Set up the necessary T-accounts and enter the beginning balances from the trial balance. In addition to the accounts shown, the company has accounts for Dividends, Service Revenue, Salaries Expense, Utilities Expense, Supplies Expense, and Depreciation Expense.
2. Record each of the summary transactions listed above.
3. Post the transactions to the accounts.
4. Prepare an unadjusted trial balance.
5. Record adjusting entries. Depreciation for the year on the machinery is \$6,000. Plumbing supplies remaining on hand at the end of the year equal \$1,000. Of the \$8,000 paid in advance by customers, \$6,000 of the work has been completed by the end of the year.
6. Post adjusting entries.
7. Prepare an adjusted trial balance.
8. Prepare an income statement for 2012 and a classified balance sheet as of December 31, 2012.
9. Record closing entries.
10. Post closing entries
11. Prepare a post-closing trial balance.