

SELF STUDY PROBLEM 2-1

Shown below is the trial balance for the LMN Co. as of December 31, 20x1, the end of the company's fiscal year. The trial balance shows the balances for those accounts having non-zero balances. You may assume that there are additional accounts in the accounting system.

LMN Company
Trial Balance
December 31, 20x1

	Debit	Credit
Accounts Payable		\$ 4,000
Accounts Receivable	\$ 8,000	
Cash	8,000	
L. Vance, Capital		10,000
Equipment	30,000	
Miscellaneous Expense	9,000	
Rent Expense	25,000	
Service Income		70,000
Supplies	6,000	
Unearned Service Income		14,000
Wages Expense	12,000	
	\$ 98,000	\$ 98,000

Record in general journal form, the necessary year-end adjusting entries for the LMN Co. based upon the additional information provided below. When recording the entries, the date need not be shown and commas and decimals should be used in recording the amounts.

Additional information:

1. The Unearned Service Income account includes \$3,000 received in payment for services to be rendered during the first four months of 20x2. The remaining balance is related to services already performed.
2. Supplies used during the year, \$4,000.
3. Depreciation expense for the year, \$3,000.

SELF STUDY PROBLEM 2-2

Shown below is the trial balance for the QRS Co. as of December 31, 20x1, the end of the company's fiscal year. The trial balance shows the balances for those accounts having non-zero balances. You may assume that there are additional accounts in the accounting system.

QRS Company
Trial Balance
December 31, 20x1

	Debit	Credit
Accounts Payable		\$ 7,000
Accounts Receivable	\$ 12,000	
Building	48,000	
Cash	15,000	
W. Randolph, Capital		50,000
Land	8,000	
Miscellaneous Expense	21,000	
Prepaid Rent	12,000	
Sales		83,000
Store Supplies	6,000	
Wages Expense	18,000	
	\$140,000	\$140,000

Record in general journal form, the necessary year-end adjusting entries for the QRS Co. based upon the additional information provided below. When recording the entries, the date need not be shown and commas and decimals should be used in recording the amounts.

Additional information:

1. Depreciation expense for the year, \$1,500.
2. The amount in the Prepaid Rent account represents payment for three months rent starting December 1, 20x1.
3. Store supplies on hand, December 31, 20x1, \$1,000.

SELF STUDY PROBLEM 2-3

Shown below is the trial balance for the FGH Co. as of December 31, 20x1, the end of the company's fiscal year. The trial balance shows the balances for those accounts having non-zero balances. You may assume that there are additional accounts in the accounting system.

FGH Company
Trial Balance
December 31, 20x1

	Debit	Credit
Accounts Payable		\$ 6,000
Accounts Receivable	\$ 7,000	
Cash	6,000	
H. Bierman, Capital		40,000
Machinery	8,000	
Miscellaneous Expense	12,000	
Notes Receivable	10,000	
Rent Expense	20,000	
Sales		60,000
Store Supplies	15,000	
Wages Expense	18,000	
	\$106,000	\$106,000

Record in general journal form, the necessary year-end adjusting entries for the FGH Co. based upon the additional information provided below. When recording the entries, the date need not be shown and commas and decimals should be used in recording the amounts.

Additional information:

1. As of December 31, 20x1, the FGH Company had earned, but not yet received, \$500 interest on the note receivable.
2. The depreciation expense for the year was \$2,000.
3. Store supplies on hand, December 31, 20x1, \$3,000.

SELF STUDY PROBLEM 2-4

If a company fails to record an adjusting entry, the resulting financial statements will be misstated. For each of the following situations indicate the effect of a failure to adjust the accounts of the assets liabilities, and net income by placing a

- understatement
- + overstatement
- 0 no effect

in the appropriate box.

	Assets	Liabilities	Net Income
1. Failure to record depreciation on a fixed asset			
2. Failure to accrue interest on a note payable			
3. Failure to expense office supplies used when all purchases have been recorded in a real account			
4. Failure to accrue wages owed at the end of the period			
5. Failure to properly reflect prepaid rent when all payments have been recorded in a real account			

SELF STUDY PROBLEMS 2-5 AND 2-6

Problem 2-5

Shown below are the adjusted account balances taken from the books of the Cooper Company as of December 31, 20x1, the end of the company's fiscal year.

Accounts Payable.....	6,200	Merchandise Inventory	24,800
Accounts Receivable.....	8,700	Misc. General Expense.....	2,100
Accum. Depr., Store Equipment....	3,500	Prepaid Insurance	1,600
Advertising Expense	1,560	Purchases.....	92,000
J. Cooper, Capital.....	29,540	Rent Expense.....	6,000
Cash	4,400	Salaries Payable.....	160
Delivery Expense	1,300	Sales.....	143,000
Depr. Expense - Store Equip.....	1,000	Sales Salaries.....	16,160
J. Cooper, Drawing.....	9,000	Store Equipment	12,400
Insurance Expense	600	Store Supplies	350
Loss on Disposal of Equipment	130	Store Supplies Expense	300

The merchandise inventory, as of December 31, 20x1, was \$26,300.

Required:

- Prepare an income statement for the Cooper Company for the year ended December 31, 20x1.
- Prepare a balance sheet for the Cooper Company as of December 31, 20x1.

Problem 2-6

Shown below are the adjusted account balances taken from the books of The Lasser Company as of December 31, 20x1, the end of the company's fiscal year.

Accounts Payable.....	5,250	Rent Expense.....	500
Accounts Receivable.....	17,000	Sales.....	54,000
Accum. Depr., Sales Equip.	1,650	Sales Equipment	5,500
J. Lasser, Capital	33,700	Salesman's Salary Expense.....	5,200
Cash	2,500	Salesman's Salary Payable.....	200
Depreciation Expense	550	Sales Returns & Allowances	1,500
J. Lasser, Drawing	10,000	Sundry Administrative Expense ...	7,500
Merchandise Inventory	8,500	Sundry Selling Expense	2,050
Prepaid Rent	1,500	Supplies.....	1,300
Purchases.....	30,000	Supplies Expense	1,300
Purchase Returns & Allow.	500		

The merchandise inventory, as of December 31, 20x1, was \$9,500.

Required:

- Prepare an income statement for The Lasser Company for the year ended December 31, 20x1.
- List the accounts that would be closed out at the end of the fiscal year, December 31, 20x1.

SELF STUDY PROBLEM 2-7

Shown below are the adjusted account balances taken from the books of the Davis Company as of December 31, 20x4, the end of the company's fiscal year.

	<u>Debit</u>	<u>Credit</u>
Accounts Payable		20,000
Accounts Receivable	30,000	
Accumulated Depr. - Building		20,000
Accumulated Depr. - Equipment...		50,000
Advertising Expense	17,000	
Bonds Payable - Due 12/31/x9		160,000
Building.....	250,000	
Cash	7,000	
R. Davis, Capital.....		100,000
R. Davis, Drawing.....	15,000	
Depreciation Expense.....	9,000	
Equipment	70,000	
Land	30,000	
Merchandise Inventory, Begin.....	50,000	
Miscellaneous Expense	7,000	
Notes Payable, Due 6/30/x5.....		5,000
Patents.....	60,000	
Prepaid Advertising.....	12,000	
Purchases.....	340,000	
Sales		630,000
Sales Discounts	8,000	
Sales Returns & Allowances	2,000	
Supplies	6,000	
Supplies Expense	14,000	
Temporary Investments	15,000	
Wages Expense.....	50,000	
Wages Payable.....		7,000
	<u>992,000</u>	<u>992,000</u>

The merchandise inventory, as of December 31, 20x4, was \$60,000.

Required:

- Prepare a balance sheet for the Davis Company as of December 31, 20x4. Instead of calculating the various elements of owner's equity, you may obtain the figure needed for the ending balance in owner's equity by using a plug figure -- the figure needed to balance the financial statement.

SELF STUDY PROBLEM 2-8

The following adjusted account balances have been obtained from the records of the Evans Company as of December 31, 20x1, the company's fiscal year end:

Accounts Payable.....	12,000	Merchandise Inventory	30,000
Accounts Receivable.....	15,000	Miscellaneous Expense.....	17,000
Accum. Depr. - Building.....	3,000	Prepaid Insurance	4,000
Building	80,000	Purchases.....	90,000
Cash	10,000	Sales.....	140,000
Depreciation Expense	3,000	Sales Discounts.....	8,000
Insurance Expense	2,000	Sales Returns & Allowances.....	1,000
J. R. Evans, Capital.....	150,000	Supplies.....	1,000
J. R. Evans, Drawing.....	8,000	Supplies Expense	8,000
Land.....	12,000	Wages Expense.....	16,000

Additional information:

Merchandise inventory, December 31, 20x1, \$45,000

Required:

1. Prepare an income statement for the Evans Company for the year ended December 31, 20x1.
2. List the accounts that would be closed out at the end of the fiscal year, December 31, 20x1

SELF STUDY PROBLEMS 2-1 TO 2-3
ANSWERS

Problem 2-1

Unearned Services Income	11,000	
Service Income		11,000
Supplies Expense	4,000	
Supplies		4,000
Depreciation Expense	3,000	
Accumulated Depreciation - Equipment		3,000

Problem 2-2

Depreciation Expense	1,500	
Accumulated Depreciation - Building		1,500
Rent Expense	4,000	
Prepaid Rent		4,000
Store Supplies Expense	5,000	
Store Supplies		5,000

Problem 2-3

Interest Receivable	500	
Interest Income		500
Depreciation Expense	2,000	
Accumulated Depreciation - Machinery		2,000
Store Supplies Expense	12,000	
Store Supplies		12,000

SELF STUDY PROBLEM 2-4
ANSWERS

Symbols used

- understatement
- + overstatement
- 0 no effect

	Assets	Liabilities	Net Income
1. Failure to record depreciation on a fixed asset	+	0	+
2. Failure to accrue interest on a note payable	0	-	+
3. Failure to expense office supplies used when all purchases have been recorded in a real account	+	0	+
4. Failure to accrue wages owed at the end of the period	0	-	+
5. Failure to properly reflect prepaid rent when all payments have been recorded in a real account	+	0	+

SELF STUDY PROBLEM 2-5
ANSWERS

Cooper Company
Income Statement
For the Year Ended December 31, 20x1

Revenue From Sales		
Sales.....		143,000
Cost of Goods Sold		
Merchandise Inventory, 1/1/x1	24,800	
Purchaes	<u>92,000</u>	
Goods Available for Sale.....	116,000	
Less: Mdse. Inventory, 12/31/x1.....	<u>26,300</u>	
Cost of Goods Sold		<u>90,500</u>
Gross Margin.....		52,500
Operating Expenses		
Sales Salaries.....	16,160	
Advertising Expense	1,560	
Delivery Expense	1,300	
Depreciation Expense - St. Equip.....	1,000	
Store Supplies Expense	300	
Rent Expense.....	6,000	
Insurance Expense	600	
Misc. General Expense.....	<u>2,100</u>	
Total Operating Expenses.....		<u>29,020</u>
Net Income From Operations.....		23,480
Other Expenses		
Loss on Disposal of Equipment		<u>130</u>
Net Income		23,350

Cooper Company
Balance Sheet
As of December 31, 20x1

Assets

Current Assets	
Cash	4,400
Accounts Receivable.....	8,700
Merchandise Inventory	26,300
Store Supplies.....	350
Prepaid Insurance ¹	<u>600</u>
	40,350
Plant and Equipment	
Store Equipment.....	12,400
Less: Accumulated Depreciation.....	<u>3,500</u>
	8,900
Other Assets	
Prepaid Insurance	1,000
TOTAL ASSETS	<u>50,250</u>

Liabilities

Current Liabilities	
Accounts Payable.....	6,200
Salaries Payable.....	<u>160</u>
	6,360

Owner's Equity

J. Cooper, Capital, 12/31/x0.....	29,540
Add: Net Income.....	<u>23,350</u>
	52,890
Deduct: Withdrawals.....	<u>9,000</u>
J. Cooper, Capital, 12/31/x1	43,890
TOTAL LIABILITIES AND OWNER'S EQUITY	<u>50,250</u>

¹ Theoretically, an asset should be classified a current only if it is expected to be consumed or converted into cash within one year (or the normal operating cycle, whichever is longer). Using one year as the “current time period”, and observing the operations during 20x1, we note that only \$600 of the prepaid insurance expired during the year. We might assume that the same amount might expire this coming year, and thus only \$600 was listed as a current asset. A similar argument might be used to classify \$50 of Store Supplies as non-current.

SELF STUDY PROBLEM 2-6
ANSWERS

The Lasser Company
Income Statement
For the Year Ended December 31, 20x1

Revenue		
Gross Sales.....		54,000
Less: Sales Returns & Allowances...	<u>1,500</u>	
Net Sales		52,500
Cost of Goods Sold		
Merchandise Inventory, 1/1/x1	8,500	
Add: Net Purchases		
Gross Purchases	30,000	
Less: Purch. Ret. & Allow...	<u>500</u>	
Net Purchases.....		<u>29,500</u>
Goods Available for Sale.....		38,000
Less: Mdse. Inventory, 12/31/x1.....	<u>9,500</u>	
Cost of Goods Sold		<u>28,500</u>
Gross Margin		\$ 24,000
Operating Expenses		
Salesman's Salary	5,200	
Sundry Administrative Expenses	7,500	
Sundry Selling Expenses	2,050	
Rent Expense.....	500	
Depreciation Expense	550	
Supplies Expense	<u>1,700</u>	
Total Operating Expenses.....		<u>17,500</u>
Net Income		<u>6,500</u>

The following accounts would be closed out at the end of the fiscal year:

Sales	Sundry Administrative Expense
Sales Returns and Allowances	Sundry Selling Expense
Merchandise Inventory (1/1/x1)	Rent Expense
Purchases	Depreciation Expense
Purchase Returns and Allowances	Supplies Expense
Salesman's Salary Expense	J. Lasser, Drawing

In addition to the accounts listed above, any accounts opened in the closing entries, other than the ending merchandise inventory, (such as Profit and Loss Summary) would also be closed.

SELF STUDY PROBLEM 2-7
ANSWERS

Davis Company
Balance Sheet
As of December 31, 20x4

Assets

Current Assets

Cash	7,000
Temporary Investments	15,000
Accounts Receivable	30,000
Merchandise Inventory	60,000
Supplies	6,000
Prepaid Advertising	<u>12,000</u>
Total Current Assets	130,000

Plant and Equipment

Land	30,000
Building	250,000
Less: Accumulated Depreciation	<u>20,000</u>
	230,000
Equipment	70,000
Less: Accumulated Depreciation	<u>50,000</u>
	<u>20,000</u>
Total Plant, Property and Equipment	280,000

Intangible Assets

Patents	60,000
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TOTAL ASSETS

	<u>470,000</u>
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Liabilities

Current Liabilities

Notes Payable	5,000
Accounts Payable	20,000
Wages Payable	<u>7,000</u>
	32,000

Long-Term Liabilities

Bonds Payable - Due 12/31/x9	160,000
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Owner's Equity

R. Davis, Capital, 12/31/x3	100,000
Add: Net Income	<u>193,000</u>
	293,000
Deduct: Withdrawals	<u>15,000</u>
R. Davis, Capital, 12/31/x4	278,000
TOTAL LIABILITIES AND OWNER'S EQUITY	<u>470,000</u>

SELF STUDY PROBLEM 2-8
ANSWERS

Evans Company
Income Statement
For the Year Ended December 31, 20x1

Revenues		
Gross Sales.....		140,000
Less: Sales Discounts.....	8,000	
Sales Returns & Allowances	<u>1,000</u>	<u>9,000</u>
Net Sales		131,000
 Cost of Goods Sold		
Beginning Inventory.....	30,000	
Purchases.....	<u>90,000</u>	
Cost of Goods Available For Sale.....	120,000	
Ending Inventory	<u>45,000</u>	
Cost of Goods Sold.....		<u>75,000</u>
 Gross Margin		 56,000
 Operating Expenses		
Miscellaneous Expense.....	17,000	
Supplies Expense.....	8,000	
Wages Expense.....	16,000	
Insurance Expense	2,000	
Depreciation Expense	<u>3,000</u>	
Total Operating Expenses.....		<u>46,000</u>
 Net Income		 <u>10,000</u>

The following accounts would be closed out at the end of the fiscal year:

Sales	Supplies Expense
Sales Discounts	Wages Expense
Sales Returns & Allowances	Insurance Expense
Merchandise Inventory (1/1/x1)	Depreciation Expense
Purchases	J. R. Evans, Drawing
Miscellaneous Expense	

In addition to the accounts listed above, any accounts opened in the closing entries, other than the ending merchandise inventory, (such as Profit and Loss Summary) would also be closed.