

SOLUTIONS TO EXERCISES

EXERCISE 3-1 (15–20 minutes)

Apr.	2	Cash.....	30,000	
		Equipment	14,000	
		Christine Ewing, Capital.....		44,000
	2	No entry—not a transaction.		
	3	Supplies	700	
		Accounts Payable		700
	7	Rent Expense	600	
		Cash.....		600
	11	Accounts Receivable.....	1,100	
		Service Revenue.....		1,100
	12	Cash.....	3,200	
		Unearned Service Revenue.....		3,200
	17	Cash.....	2,300	
		Service Revenue.....		2,300
	21	Insurance Expense.....	110	
		Cash.....		110
	30	Salaries Expense.....	1,160	
		Cash.....		1,160

EXERCISE 3-1 (Continued)

30	Supplies Expense	120	
	Supplies		120
30	Equipment	5,100	
	Christine Ewing, Capital		5,100

EXERCISE 3-2 (10–15 minutes)

GERONIMO COMPANY
Trial Balance
April 30, 2010

	<u>Debit</u>	<u>Credit</u>
Cash	€ 2,100	
Accounts Receivable	2,750	
Prepaid Insurance (€700 + €1,000)	1,700	
Equipment	8,000	
Accounts Payable (€4,500 – €1,000)		€ 3,500
Property Tax Payable		560
Geronimo, Capital (€11,200 + €3,200)		14,400
Geronimo, Drawing	3,200	
Service Revenue		6,690
Salaries Expense	4,200	
Advertising Expense (€1,100 + €300)	1,400	
Property Tax Expense (€800 + €1,000)	1,800	
	<u>€25,150</u>	<u>€25,150</u>

EXERCISE 3-3 (15–20 minutes)

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

Cash			
Bal.	5,912	(4)	190
(1)	270		

Accounts Payable	
Bal.	7,044

Accounts Receivable			
Bal.	5,240	(1)	270

Share Capital—Ordinary	
Bal.	8,000

Supplies on Hand	
Bal.	2,967

Retained Earnings	
Bal.	2,000

Furniture and Equipment			
Bal.	6,100		
(2)	1,900		

Service Revenue	
Bal.	5,200
(3)	2,025
(5)	80

Office Expense	
Bal.	4,320
(2)	1,900

EXERCISE 3-3 (Continued)

SCARLATTI CORPORATION
Trial Balance (Corrected)
April 30, 2010

	Debit	Credit
Cash.....	\$ 5,992	
Accounts Receivable.....	4,970	
Supplies on Hand.....	2,967	
Furniture and Equipment.....	8,000	
Accounts Payable.....		\$ 7,044
Share Capital—Ordinary.....		8,000
Retained Earnings.....		2,000
Service Revenue.....		7,305
Office Expense.....	2,420	
	<u>\$24,349</u>	<u>\$24,349</u>

EXERCISE 3-4 (15–20 minutes)

**OAKLEY CO.
Trial Balance
June 30, 2010**

	Debit	Credit
Cash (\$2,870 + \$360 – \$65 – \$65)	\$ 3,100	
Accounts Receivable (\$3,231 – \$360).....	2,871	
Supplies (\$800 – \$500).....	300	
Equipment (\$3,800 + \$500).....	4,300	
Accounts Payable (\$2,666 – \$206 – \$260).....		\$ 2,200
Unearned Service Revenue (\$1,200 – \$225).....		975
Share Capital—Ordinary.....		6,000
Dividends.....	575	
Retained Earnings		3,000
Service Revenue (\$2,380 + \$801 + \$225).....		3,406
Wages Expense (\$3,400 + \$670 – \$575).....	3,495	
Office Expense.....	940	
	\$15,581	\$15,581

EXERCISE 3-5 (10–15 minutes)

1. Depreciation Expense (\$250 X 3).....	750	
Accumulated Depreciation—Equipment		750
2. Unearned Rent Revenue (\$6,300 X 1/3).....	2,100	
Rent Revenue		2,100
3. Interest Expense	500	
Interest Payable		500

EXERCISE 3-5 (Continued)

4.	Supplies Expense	2,150	
	Supplies (\$2,800 – \$650).....		2,150
5.	Insurance Expense (\$300 X 3).....	900	
	Prepaid Insurance		900

EXERCISE 3-6 (10–15 minutes)

1.	Accounts Receivable	750	
	Service Revenue		750
2.	Utilities Expense.....	520	
	Utilities Payable		520
3.	Depreciation Expense.....	400	
	Accumulated Depreciation—Dental Equipment.....		400
	Interest Expense.....	500	
	Interest Payable		500
4.	Insurance Expense (\$15,000 X 1/12)	1,250	
	Prepaid Insurance		1,250
5.	Supplies Expense (\$1,600 – \$400)	1,200	
	Supplies.....		1,200

EXERCISE 3-7 (15–20 minutes)

(a) Ending balance of supplies	£ 900	
Add: Adjusting entry	950	
Deduct: Purchases	<u>850</u>	
Beginning balance of supplies	<u>1,000</u>	
(b) Total prepaid insurance	£4,800	(£400 X 12)
Amount used (6 X £400)	<u>2,400</u>	
Present balance	<u>2,400</u>	

The policy was purchased six months ago (August 1, 2009)

(c) The entry in January to record salaries paid was

Salaries Expense	1,800	
Salaries Payable	900	
Cash		2,700

The "T" account for salaries payable is

Salaries Payable			
Paid	900	Beg. Bal.	?
January			
		End Bal.	800

The beginning balance is therefore

Ending balance of salaries payable	£ 800
Plus: Reduction of salaries payable	<u>900</u>
Beginning balance of salaries payable	<u>£1,700</u>

EXERCISE 3-7 (Continued)

(d) Service revenue	£2,000	
Cash received	<u>1,600</u>	
Unearned revenue reduced	<u>£ 400</u>	
Ending unearned revenue January 31, 2010		£ 750
Plus: Unearned revenue reduced	<u>400</u>	
Beginning unearned revenue December 31, 2009		<u>£1,150</u>

EXERCISE 3-8 (10–15 minutes)

(a) Wages Expense	2,900	
Wages Payable		2,900
(b) Utilities Expense	600	
Accounts Payable		600
(c) Interest Expense ($\$60,000 \times 8\% \times 1/12$)	400	
Interest Payable		400
(d) Telephone Expense	117	
Accounts Payable		117

EXERCISE 3-9 (15–20 minutes)

(a)	10/15	Salaries Expense	800	
		Cash		800
		(To record payment of October 15 payroll)		
	10/17	Accounts Receivable	2,100	
		Service Revenue		2,100
		(To record revenue for services performed for which payment has not yet been received)		
	10/20	Cash	650	
		Unearned Service Revenue		650
		(To record receipt of cash for services not yet performed)		
(b)	10/31	Supplies Expense	470	
		Supplies		470
		(To record the use of supplies during October)		
	10/31	Accounts Receivable	1,650	
		Service Revenue		1,650
		(To record revenue for services performed for which payment has not yet been received)		
	10/31	Salaries Expense	600	
		Salaries Payable		600
		(To record liability for accrued payroll)		
	10/31	Unearned Service Revenue	400	
		Service Revenue		400
		(To reduce the Unearned Service Revenue account for service that has been performed)		

EXERCISE 3-10 (25–30 minutes)

(a) 1.	Aug. 31	Insurance Expense ($\text{¥}4,500 \times 3/12$)	1,125	
		Prepaid Insurance		1,125
2.	Aug. 31	Supplies Expense ($\text{¥}2,600 - \text{¥}650$)	1,950	
		Supplies		1,950
3.	Aug. 31	Depreciation Expense—Cottages	1,080	
		Accumulated Depreciation— Cottages		1,080
		($\text{¥}120,000 - \text{¥}12,000 = \text{¥}108,000$; $\text{¥}108,000 \times 4\% = \text{¥}4,320$ per year; $\text{¥}4,320 \times 3/12 = \text{¥}1,080$)		
	Aug. 31	Depreciation Expense—Furniture	360	
		Accumulated Depreciation— Furniture		360
		($\text{¥}16,000 - \text{¥}1,600 = \text{¥}14,400$; $\text{¥}14,400 \times 10\% = \text{¥}1,440$; $\text{¥}1,440 \times 3/12 = \text{¥}360$)		
4.	Aug. 31	Unearned Rent Revenue	3,800	
		Rent Revenue		3,800
5.	Aug. 31	Salaries Expense	375	
		Salaries Payable		375
6.	Aug. 31	Accounts Receivable	800	
		Rent Revenue		800
7.	Aug. 31	Interest Expense	1,000	
		Interest Payable [($\text{¥}50,000 \times 8\%$) $\times 3/12$]		1,000

EXERCISE 3-10 (Continued)

(b) UHURA RESORT
Adjusted Trial Balance
August 31, 2010

	Debit	Credit
Cash.....	¥ 19,600	
Accounts Receivable	800	
Prepaid Insurance (¥4,500 – ¥1,125).....	3,375	
Supplies (¥2,600 – ¥1,950).....	650	
Land.....	20,000	
Cottages	120,000	
Accumulated Depreciation—Cottages.....		¥ 1,080
Furniture.....	16,000	
Accumulated Depreciation—Furniture		360
Accounts Payable		4,500
Unearned Rent Revenue (¥4,600 – ¥3,800)		800
Salaries Payable		375
Interest Payable		1,000
Mortgage Payable		50,000
Share Capital—Ordinary		100,000
Retained Earnings		
Dividends	5,000	
Rent Revenue (¥86,200 + ¥3,800 + ¥800)		90,800
Salaries Expense (¥44,800 + ¥375).....	45,175	
Utilities Expense.....	9,200	
Repair Expense.....	3,600	
Insurance Expense	1,125	
Supplies Expense	1,950	
Depreciation Expense—Cottages.....	1,080	
Depreciation Expense—Furniture	360	
Interest Expense.....	1,000	
	<u>¥248,915</u>	<u>¥248,915</u>

EXERCISE 3-11 (20–25 Minutes)

(a)

CAVAMANLIS CO.
Income Statement
For the Year Ended December 31, 2010

Revenues		
Service revenue.....		\$12,590
Expenses		
Salaries expense.....	\$6,840	
Rent expense.....	2,760	
Depreciation expense.....	145	
Interest expense.....	<u>83</u>	<u>9,828</u>
Net Income		<u>\$ 2,762</u>

(b)

CAVAMANLIS CO.
Statement of Retained Earnings
For the Year Ended December 31, 2010

Retained earnings, January 1		\$11,310
Add: Net income.....	2,762	
Less: Dividends.....	<u>3,000</u>	
Retained earnings, December 31		<u>\$11,072</u>

EXERCISE 3-11 (Continued)

(c) **CAVAMANLIS CO.**
Statement of Financial Position
December 31, 2010

<u>Assets</u>		
Noncurrent assets		
Property, plant, and equipment		
Equipment.....	\$18,050	
Less: Accumulated depreciation	<u>4,895</u>	\$13,155
Current assets		
Prepaid rent	2,280	
Accounts receivable.....	6,920	
Cash	<u>18,972</u>	
Total current assets.....		<u>28,172</u>
Total assets		<u>\$41,327</u>

<u>Equity and Liabilities</u>		
Equity		
Share capital—ordinary	\$20,000	
Retained earnings	<u>11,072*</u>	\$31,072
Current liabilities		
Notes payable.....	5,700	
Accounts payable.....	4,472	
Interest payable	<u>83</u>	
Total current liabilities.....		<u>10,255</u>
Total equity and liabilities		<u>\$41,327</u>

*Beg. Balance + Net Income – Dividends = Ending Balance
\$11,310 + \$2,762 – \$3,000 = \$11,072

EXERCISE 3-12 (20–25 Minutes)

(a) **FLYNN DESIGN AGENCY**
Income Statement
For the Year Ended December 31, 2010

Revenues		
Advertising revenue		\$58,500
Expenses		
Salaries expense.....	\$12,300	
Depreciation expense	7,000	
Rent expense	4,000	
Art supplies expense.....	3,400	
Insurance expense.....	850	
Interest expense.....	<u>500</u>	
Total expenses		<u>28,050</u>
Net income		<u>\$30,450</u>

FLYNN DESIGN AGENCY
Statement of Retained Earnings
For the Year Ended December 31, 2010

Retained earnings, January 1.....	\$ 3,500
Add: Net income.....	<u>30,450</u>
Retained earnings, December 31	<u>\$33,950</u>

EXERCISE 3-12 (Continued)

(a) (Continued)

FLYNN DESIGN AGENCY
Statement of Financial Position
December 31, 2010

<u>Assets</u>		
Printing equipment	\$60,000	
Less: Accumulated depreciation—printing equipment.....	35,000	\$25,000
Art supplies		5,000
Prepaid insurance		2,500
Accounts receivable.....		21,500
Cash.....		10,000
Total assets.....		<u>\$64,000</u>
<u>Equity and Liabilities</u>		
Equity		
Share capital—ordinary.....	\$10,000	
Retained earnings	33,950	\$43,950
Liabilities		
Notes payable	5,000	
Accounts payable.....	8,000	
Unearned advertising revenue.....	5,600	
Salaries payable.....	1,300	
Interest payable.....	150	
Total liabilities		<u>20,050</u>
Total equity and liabilities		<u>\$64,000</u>

- (b) 1. Based on interest payable at December 31, 2010, interest is \$25 per month or .5% of the note payable. $.5\% \times 12 = 6\%$ interest per year.
2. Salaries Expense, \$12,300 less Salaries Payable 12/31/10, \$1,300 = \$11,000.
 Total Payments, \$17,500 – \$11,000 = \$6,500 Salaries Payable 12/31/09.

EXERCISE 3-13 (10–15 Minutes)

(a) Sales		\$800,000
Less: Sales returns and allowances.....	\$24,000	
Sales discount	<u>12,000</u>	<u>36,000</u>
Net sales.....		<u>\$764,000</u>
(b) Sales	800,000	
Income Summary.....		800,000
Income Summary	36,000	
Sales Returns and Allowances		24,000
Sales Discounts		12,000

EXERCISE 3-14 (10–15 minutes)

Sales	340,000	
Sales Returns and Allowances.....		13,000
Sales Discounts.....		8,000
Income Summary.....		319,000
Income Summary.....	302,000	
Cost of Goods Sold		202,000
Freight-out.....		7,000
Insurance Expense.....		12,000
Rent Expense		20,000
Salary Expense.....		61,000
Income Summary.....	17,000	
Retained Earnings.....		17,000

EXERCISE 3-15 (10–15 minutes)

- (a) \$5,000 (\$90,000 – \$85,000) (d) \$95,000 (\$5,000 + \$90,000)
 (b) \$29,000 (\$85,000 – \$56,000) (e) \$52,000 (\$90,000 – \$38,000)
 (c) \$14,000 (\$29,000 – \$15,000)

EXERCISE 3-16 (10–15 minutes)

Sales	390,000	
Cost of Goods Sold.....		235,700
Sales Returns and Allowances		12,000
Sales Discounts		15,000
Selling Expenses		16,000
Administrative Expenses		38,000
Income Tax Expense		30,000
Income Summary.....		43,300

(or)

Sales	390,000	
Income Summary.....		390,000
Income Summary	346,700	
Cost of Goods Sold.....		235,700
Sales Returns and Allowances		12,000
Sales Discounts		15,000
Selling Expenses		16,000
Administrative Expenses		38,000
Income Tax Expense		30,000
Income Summary	43,300	
Retained Earnings.....		43,300
Retained Earnings	18,000	
Dividends		18,000

EXERCISE 3-17 (10–15 minutes)

Mar.	1	Cash.....	60,000	
		Share Capital—Ordinary.....		60,000
		(Investment of cash in business)		
	3	Land.....	10,000	
		Building.....	22,000	
		Equipment.....	6,000	
		Cash.....		38,000
		(Purchased Michelle Wie's Golf Land)		
	5	Advertising Expense.....	1,600	
		Cash.....		1,600
		(Paid for advertising)		
	6	Prepaid Insurance.....	1,480	
		Cash.....		1,480
		(Paid for one-year insurance policy)		
	10	Equipment.....	2,500	
		Accounts Payable.....		2,500
		(Purchased equipment on account)		
	18	Cash.....	1,200	
		Service Revenue.....		1,200
		(Received cash for services performed)		
	25	Dividends.....	1,000	
		Cash.....		1,000
		(Declared and paid a £1,000 cash dividend)		
	30	Wages Expense.....	900	
		Cash.....		900
		(Paid wages expense)		
	30	Accounts Payable.....	2,500	
		Cash.....		2,500
		(Paid creditor on account)		
	31	Cash.....	750	
		Service Revenue.....		750
		(Received cash for services performed)		

*EXERCISE 3-18 (15–20 minutes)

CORINNE DUNBAR, M.D.
Conversion of Cash Basis to Accrual Basis
For the Year 2010

Excess of cash collected over cash disbursed	
(\$142,600 – \$60,470)	\$82,130
Add increase in accounts receivable (\$11,250 – \$15,927).....	4,677
Deduct increase in unearned service revenue (\$2,840 – \$4,111).....	(1,271)
Add decrease in accrued expenses (\$3,435 – \$2,108).....	1,327
Add increase in prepaid expenses (\$1,917 – \$3,232).....	<u>1,315</u>
Net income on an accrual basis.....	<u>\$88,178</u>

Alternate solution:

CORINNE DUNBAR, M.D.
Conversion of Income Statement Data
from Cash Basis to Accrual Basis
For the Year 2010

	Cash	Adjustments		Accrual
	Basis	Add	Deduct	
Collections from customers:	\$142,600			
–Accounts receivable, Jan. 1			\$11,250	
+Accounts receivable, Dec. 31		\$15,927		
+Unearned service revenue, Jan. 1		2,840		
–Unearned service revenue, Dec. 31			4,111	
Service revenue				\$146,006
Disbursements for expenses:	60,470			
–Accrued liabilities, Jan. 1			3,435	
+Accrued liabilities, Dec. 31		2,108		
+Prepaid expenses, Jan. 1		1,917		
–Prepaid expenses, Dec. 31			3,232	
Operating expenses				<u>57,828</u>
Net income—cash basis	<u>\$ 82,130</u>			<u>\$ 88,178</u>
Net income—accrual basis				

***EXERCISE 3-19 (10–15 minutes)**

(a) **NALEZNY CORP.**
Income Statement (Cash Basis)
For the Year Ended December 31,

	<u>2009</u>	<u>2010</u>
Sales.....	\$290,000	\$515,000
Expenses	<u>225,000</u>	<u>282,000</u>
Net income	<u>\$ 65,000</u>	<u>\$233,000</u>

(b) **NALEZNY CORP.**
Income Statement (Accrual Basis)
For the Year Ended December 31,

	<u>2009</u>	<u>2010</u>
Sales*	\$480,000	\$445,000
Expenses**	<u>277,000</u>	<u>265,000</u>
Net income	<u>\$203,000</u>	<u>\$180,000</u>

*2009: \$290,000 + \$160,000 + \$30,000 = \$480,000

2010: \$355,000 + \$90,000 = \$445,000

**2009: \$185,000 + \$67,000 + \$25,000 = \$277,000

2010: \$40,000 + \$170,000 + \$55,000 = \$265,000

***EXERCISE 3-20 (20–25 minutes)**

(a) Adjusting Entries:

1.	Insurance Expense (\$6,000 X 5/24)	1,250	
	Prepaid Insurance		1,250
2.	Rental Revenue (\$2,400 X 1/3)	800	
	Unearned Rental Revenue		800
3.	Advertising Materials	290	
	Advertising Expense		290
4.	Interest Expense	770	
	Interest Payable		770

(b) Reversing Entries:

1.	No reversing entry required.		
2.	Unearned Rental Revenue	800	
	Rental Revenue		800
3.	Advertising Expense	290	
	Advertising Materials		290
4.	Interest Payable	770	
	Interest Expense		770

*EXERCISE 3-21 (10–15 minutes)

<u>Accounts</u>	<u>Adjusted Trial Balance</u>		<u>Income Statement</u>		<u>Statement of Financial Position</u>	
	<u>Dr.</u>	<u>Cr.</u>	<u>Dr.</u>	<u>Cr.</u>	<u>Dr.</u>	<u>Cr.</u>
Cash	15,000				15,000	
Merchandise Inventory	80,000				80,000	
Sales		470,000		470,000		
Sales Returns and Allowances	10,000		10,000			
Sales Discounts	5,000		5,000			
Cost of Goods Sold	250,000		250,000			

***EXERCISE 3-22 (20–25 minutes)**

MADRASAH CO.
Worksheet (Partial)
For the Month Ended April 30, 2010

Account Titles	Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	18,972				18,972	
Accounts Receivable	6,920				6,920	
Prepaid Rent	2,280				2,280	
Equipment	18,050				18,050	
Accum. Depreciation		4,895				4,895
Notes Payable		5,700				5,700
Accounts Payable		4,472				4,472
Madrasah, Capital		34,960				34,960
Madrasah, Drawing	6,650				6,650	
Service Revenue		12,590		12,590		
Salaries Expense	6,840		6,840			
Rent Expense	2,760		2,760			
Depreciation Expense	145		145			
Interest Expense	83		83			
Interest Payable		83				83
Totals	<u>62,700</u>	<u>62,700</u>	<u>9,828</u>	<u>12,590</u>	<u>52,872</u>	<u>50,110</u>
Net Income			<u>2,762</u>			<u>2,762</u>
Totals			<u>12,590</u>	<u>12,590</u>	<u>52,872</u>	<u>52,872</u>

*EXERCISE 3-22 (Continued)

MADRASAH CO.
Statement of Financial Position
April 30, 2010

<u>Assets</u>		
Noncurrent Assets		
Property, plant, and equipment		
Equipment.....	\$18,050	
Less Accumulated depreciation.....	<u>4,895</u>	\$13,155
Current Assets		
Prepaid rent.....	2,280	
Accounts receivable.....	6,920	
Cash.....	<u>18,972</u>	
Total current assets.....		<u>28,172</u>
Total assets.....		<u>\$41,327</u>

<u>Equity and Liabilities</u>		
Equity		
Madrasah, Capital		\$31,072*
Current liabilities		
Notes payable.....	\$ 5,700	
Accounts payable	4,472	
Interest payable	<u>83</u>	
Total current liabilities.....		<u>10,255</u>
Total equity and liabilities.....		<u>\$41,327</u>

*Beg. Balance – Drawings + Net Income = Ending Balance
\$34,960 – \$6,650 + \$2,762 = \$31,072

***EXERCISE 3-23 (10–15 minutes)**

LETTERMAN CO.
Worksheet (Partial)
For Month Ended February 28, 2010

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Statement of Financial Position	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Supplies	1,756			(a) 1,241	515				515	
Accumulated Depreciation		7,967		(b) 257		8,224				8,224
Interest Payable		150		(c) 50		200				200
Supplies Expense			(a) 1,241		1,241		1,241			
Depreciation Expense			(b) 257		257		257			
Interest Expense			(c) 50		50		50			

The following accounts and amounts would be shown in the February income statement:

Supplies expense.....	\$1,241
Depreciation expense.....	257
Interest expense.....	50