Note: All problems are organized by Topic. Each problem is numbered with the topic number first followed by a dash and then the problem number for that topic. Many of the problems in this set are from the Dyckman, Magee and Pfeiffer (4th edition) textbook. For those problems, the topic-problem number is followed by the textbook reference number in parentheses. Note that some of the problems extracted from the textbook have been revised or reworded.

1-1 (Q1.1)  
What are the three major business activities of a company that are motivated and by planning activities? Explain each activity.

1-2 (Q1.2)  
The accounting equation (Assets = Liabilities + Equity) is a fundamental business concept. Explain what this equation reveals about a company’s sources and uses of funds and the claims on company resources.

1-3 (Q1.3)  
Companies prepare four primary financial statements. What are those financial statements and what information is typically conveyed in each?

1-4 (Q1.4)  
Does a balance sheet report on a period of time or at a point in time? Also, explain the information conveyed in that report. Does an income statement report on a period of time or at a point in time? Also, explain the information conveyed in that report.

1-5 (Q1.6)  
Does a statement of cash flows report on a period of time or at a point in time? Also, explain the information and activities conveyed in that report.

1-6 (Q1.7)  
Explain what is meant by the articulation of financial statements.

1-7 (Q1.14)  
What are generally accepted accounting principles and what organization presently establishes them?

1-8 (Q2-2)  
Two important concepts that guide income statement reporting are the revenue recognition principle and the matching principle. Define and explain each of these two guiding principles.

1-9 (Q2-3)  
GAAP is based on the concept of accrual accounting. Define and describe accrual accounting. Explain how accrual accounting differs from cash-based accounting.

1-10 (M1.20) Financing and Investing Relations, and Financing Sources  
Total assets of The Coca-Cola Company equal $72,921 million and its liabilities equal $41,604 million. What is the amount of its equity? Does Coke receive more financing from its owners or nonowners, and what percentage of financing is provided by its owners?
1-11 (M2-16) Applying the Accounting Equation to the Balance Sheet

Determine the missing amount in each of the following separate company cases.

<table>
<thead>
<tr>
<th></th>
<th>Assets</th>
<th>Liabilities</th>
<th>Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>$375,000</td>
<td>$105,000</td>
<td>$ ?</td>
</tr>
<tr>
<td>b.</td>
<td>?</td>
<td>43,000</td>
<td>11,000</td>
</tr>
<tr>
<td>c.</td>
<td>878,000</td>
<td>?</td>
<td>422,000</td>
</tr>
</tbody>
</table>

1-12 (M1.21) Applying the Accounting Equation and Computing Financing Proportions.

Use the accounting equation to compute the missing financial amounts (a), (b), and (c). Which of these companies is more owner-financed? Which of these companies is more nonowner-financed?

<table>
<thead>
<tr>
<th>($ millions)</th>
<th>Assets</th>
<th>=</th>
<th>Liabilities</th>
<th>+</th>
<th>Equity</th>
</tr>
</thead>
</table>
| Hewlett-Packard | $129,517 | $90,513 | $ (a)  
| General mills  | $18,675  | $ (b) | $6,612 |
| Harley-Davidson | $ (c)    | $7,254 | $2,420 |

1-13 (E1-28) Applying the Accounting Equation and Financial Statement Articulation

Answer the following questions. (Hint: Apply the accounting equation.)

a. Intel Corporation had assets equal to $63,186 million and liabilities equal to $13,756 million for a recent year-end. What was the total equity for Intel’s business at year-end?

b. At the beginning of a recent year, JetBlue’s assets were $6,549 million and its equity was $1,546 million. During the year, assets increased $44 million and liabilities decreased $64 million. What was its equity at the end of the year?

c. At the beginning of a recent year, The Walt Disney Company’s liabilities equaled $29,864 million. During the year, assets increased by $2,918 million, and year-end assets equaled $72,124 million. Liabilities increased $2,807 million during the year. What were its beginning and ending amounts for equity?
Topic 2: Accounting for Transactions and Preparing Financial Statements

2-1 (Q2-1)
   The balance sheet consists of assets, liabilities, and equity. Define each category and provide
two examples of accounts reported within each category.

2-2 (Q3-8)
   Why is the adjusting step of the accounting cycle necessary?

2-3 (Q3-9)
   What four different types of adjustments are frequently necessary at the close of an
accounting period? Give examples of each type.

2-4 (Q3-11)
   What is a contra account? What contra account is used in reporting the book value of a
depreciable asset?

2-5 (Q3-12)
   A building was acquired on January 1, 2010, at a cost of $4,000,000, and its depreciation is
calculated using the straight-line method. At the end of 2014, the accumulated depreciation
contra asset for the building is $800,000. What will be the balance in the building’s
accumulated depreciation contra asset at the end of 2021? What is the building’s book value
at that date?

2-6 (Q3-16)
   Which groups of accounts are closed at the end of the accounting year?

2-7 (Q3-18)
   What is the purpose of a post-closing trial balance? Which of the following accounts should
not appear in the post-closing trial balance: Cash; Unearned Revenue; Prepaid Rent;
Depreciation Expense; Utilities Payable; Supplies Expense; and Retained Earnings?

2-8 (M1.24) Identifying Financial Statement Line Items and Accounts

Several line items and account titles are listed below. For each, indicate in which of the
following financial statement(s) you would likely find the item or account: income statement
(IS), balance sheet (BS), statement of stockholders’ equity (SE), or statement of cash flows
(SCF).

   a. Cash asset                      h. Cash outflow for dividends
   b. Expenses                      i. Net income
   c. Noncash assets
   d. Contributed capital
   e. Cash outflow for land
   f. Retained earnings
   g. Cash inflow for stock issued
2-9 (E1-30)  **Financial Statement Relations to Compute Dividends**

Colgate-Palmolive Company reports the following year-end retained earnings balances.

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retained earnings</td>
<td>$14,329</td>
<td>$13,157</td>
</tr>
</tbody>
</table>

During 2010, Colgate-Palmolive reported net income of $2,203 million. Assume that the only changes affecting retained earnings were net income and cash dividends. Calculate the amount of dividends declared by Colgate-Palmolive during 2010. What does this dividend amount constitute as a percent of the company’s net income?

2-10 (P1-39)  **Formulating a Statement of Stockholders’ Equity from Raw Data**

DP Systems, Inc., reports the following selected information at December 31, 2013 ($ millions):

- Contributed capital, December 31, 2012 and 2013: $550
- Retained earnings, December 31, 2012: 2,437
- Cash dividends, 2013: 281
- Net income, 2013: 859

Required: Use this information to prepare its statement of stockholders’ equity for 2013.

2-11 (M2-14)  **Determining Retained Earnings and Net Income Using the Balance Sheet**

The following information is reported for Kinney Corporation at the end of 2013.

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting Receivable</td>
<td>$ 23,000</td>
<td>Retained Earnings</td>
<td>$ ?</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$ 11,000</td>
<td>Supplies Inventory</td>
<td>$ 9,000</td>
</tr>
<tr>
<td>Cash</td>
<td>$ 8,000</td>
<td>Equipment</td>
<td>$138,000</td>
</tr>
<tr>
<td>Common Stock</td>
<td>$110,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- a. Compute the amount of retained earnings at the end of 2013.
- b. If the amount of retained earnings at the beginning of 2013 was $30,000, and $12,000 in cash dividends were declared and paid during 2013, what was its net income for 2013?
2-12 (M2-18) **Analyzing Transaction Effects on Equity**

For each of the following transactions, identify whether they would increase, decrease, or have no effect on equity?

a. Paid cash to acquire supplies.
b. Paid cash for dividends to shareholders.
c. Paid cash for salaries.
d. Purchased equipment for cash.
e. Shareholders invested cash in business in exchange for common stock.
f. Rendered service to customers on account.
g. Rendered service to customers for cash.

2-13 (M2-19) **Identifying and Classifying Financial Statement Items**

For each of the following items, identify whether they would most likely be reported in the balance sheet (B) or income statement (I).

a. Machinery
b. Supplies expense
   _______
c. Prepaid advertising
   _______
d. Advertising expense
   _______
e. Common stock
   _______
f. Factory buildings
   _______
g. Receivables
   _______
h. Taxes payable
   _______
i. Taxes expense
   _______
j. Cost of goods sold
   _______
k. Long-term debt
   _______
l. Treasury stock
   _______

2-14 (M2-25) **Analyzing the Effect of transactions on the Balance Sheet**

Following the example in a below, indicate the effects of transactions b through i on assets, liabilities, and equity, including identifying the individual accounts affected.

a. Rendered legal services to clients for cash
   ANSWER: Increase assets (Cash)
   Increase equity (Service Revenues)
b. Purchased office supplies on account
c. Issued additional common stock in exchange for cash
d. Paid amount due on account for office supplies purchased in b
e. Borrowed cash (and signed a six-month note) from bank
f. Rendered legal services and billed clients
g. Paid cash to acquire a desk lamp for the office
h. Paid cash to cover interest on note payable to bank
i. Received invoice for this period’s utilities
2-15 (M2-29) Analyzing Transactions using the Financial Statement effects Template

Report the effects for each of the following independent transactions using the financial statement effects template provided.

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Balance Sheet</th>
<th>Income Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Issue stock for $1,000 cash</td>
<td>=</td>
<td>-</td>
</tr>
<tr>
<td>b. Purchase inventory for $500 cash</td>
<td>=</td>
<td>-</td>
</tr>
<tr>
<td>c. Sell inventory for $2,000 on credit</td>
<td>=</td>
<td>-</td>
</tr>
<tr>
<td>d. Record $500 for cost of inventory sold in c</td>
<td>=</td>
<td>-</td>
</tr>
<tr>
<td>e. Receive $2,000 cash on receivable from c</td>
<td>=</td>
<td>-</td>
</tr>
</tbody>
</table>

2-16 (M2-30) Journalizing Business Transactions

Refer to the transactions in 2-15. Prepare journal entries for each of the transactions a through e.

2-17 (M2-31) Posting to T-Accounts

Refer to the transactions in 2-15. Set up T-accounts for each of the accounts referenced by the transactions and post the amounts for each transaction to those T-accounts.

Balance sheet information for Lang Services at the end of 2012 and 2013 is:

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2013</th>
<th>December 31, 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable</td>
<td>$22,800</td>
<td>$17,500</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>1,800</td>
<td>1,600</td>
</tr>
<tr>
<td>Cash</td>
<td>10,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>32,000</td>
<td>27,000</td>
</tr>
<tr>
<td>Supplies</td>
<td>4,700</td>
<td>4,200</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Stockholders’ Equity</td>
<td>?</td>
<td>?</td>
</tr>
</tbody>
</table>

a. Prepare its balance sheet for December 31 of each year.
b. Lang Services raised $5,000 cash through issuing additional common stock early in 2013, and it declared and paid a $17,000 cash dividend in December 2013. Compute its net income or loss for 2013.

2-19 (E2-35) Constructing Balance Sheets and Determining Income

Following is balance sheet information for Lynch Services at the end of 2013 and 2012.

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2013</th>
<th>December 31, 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$6,000</td>
<td>$9,000</td>
</tr>
<tr>
<td>Cash</td>
<td>23,000</td>
<td>20,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>42,000</td>
<td>33,000</td>
</tr>
<tr>
<td>Land</td>
<td>40,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Building</td>
<td>250,000</td>
<td>260,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>43,000</td>
<td>45,000</td>
</tr>
<tr>
<td>Mortgage Payable</td>
<td>90,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Supplies</td>
<td>20,000</td>
<td>18,000</td>
</tr>
<tr>
<td>Common Stock</td>
<td>220,000</td>
<td>220,000</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>?</td>
<td>?</td>
</tr>
</tbody>
</table>

a. Prepare balance sheets at December 31 of each year.
b. The firm declared and paid a cash dividend of $10,000 in December 2013. Compute its net income for 2013.
2-20 (E2-44) **Constructing Balance Sheets**

The following balance sheet data are reported for Bettis Contractors at June 30, 2013.

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>$8,900</td>
<td>Common Stock</td>
<td>$100,000</td>
</tr>
<tr>
<td>Cash</td>
<td>14,700</td>
<td>Retained Earnings</td>
<td>?</td>
</tr>
<tr>
<td>Supplies</td>
<td>30,500</td>
<td>Notes Payable</td>
<td>30,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>98,000</td>
<td>Accounts Receivable</td>
<td>9,200</td>
</tr>
<tr>
<td>Land</td>
<td>25,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Assume that during the next two days only the following three transactions occurred:

July 1  Paid $5,000 cash toward the notes payable owed.
2  Purchased equipment for $10,000, paying $2,000 cash and an $8,000 note payable for the remaining balance.
2  Declared and paid a $5,500 cash dividend.

**Required:**

2-21 (E2-45) Analyzing Transactions Using the Financial Statement Effects Template

Record the effect of each of the following independent transactions using the financial statement effects template provided. Confirm that Assets = Liabilities + Equity.

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Balance Sheet</th>
<th>Income Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Receive $20,000 cash in exchange for common stock.</td>
<td>=</td>
<td>=</td>
</tr>
<tr>
<td>2. Purchase $2,000 of inventory on credit.</td>
<td>=</td>
<td>=</td>
</tr>
<tr>
<td>3. Sell inventory for $3,000 on credit.</td>
<td>=</td>
<td>=</td>
</tr>
<tr>
<td>4. Record $2,000 for cost of inventory sold in 3.</td>
<td>=</td>
<td>=</td>
</tr>
<tr>
<td>5. Collect $3,000 cash from transaction 3.</td>
<td>=</td>
<td>=</td>
</tr>
<tr>
<td>6. Acquire $5,000 of equipment by signing a note.</td>
<td>=</td>
<td>=</td>
</tr>
<tr>
<td>7. Pay wages of $1,000 in cash.</td>
<td>=</td>
<td>=</td>
</tr>
<tr>
<td>8. Pay $5,000 on a note payable that came due.</td>
<td>=</td>
<td>=</td>
</tr>
<tr>
<td>9. Pay $2,000 cash dividend.</td>
<td>=</td>
<td>=</td>
</tr>
<tr>
<td>Totals</td>
<td>=</td>
<td>=</td>
</tr>
</tbody>
</table>

2-22 (E2-46) Recording Transactions using Journal Entries and T-Accounts

Use the information from Exercise 2-21 to complete the following.

a. Prepare journal entries for each of the transactions 1 through 9.
b. Set up T-accounts for each of the accounts used in part a and post the journal entries to those T-accounts. (The T-accounts will not have opening balances.)
2-23 (P2-51) Preparing a Balance Sheet, Computing net Income, and Understanding Equity Transactions.

At the beginning of 2013, Barth Company reported the following balance sheet.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$4,800 Accounts payable</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>14,700 Equity</td>
</tr>
<tr>
<td>Equipment</td>
<td>10,000 Common stock</td>
</tr>
<tr>
<td>Land</td>
<td>50,000 Retained earnings</td>
</tr>
<tr>
<td>Total assets</td>
<td>$79,500 Total liabilities and equity</td>
</tr>
</tbody>
</table>

Required:

a. At the end of 2013, Barth Company reported the following assets and liabilities: Cash, $8,800; Accounts Receivable, $18,400; Equipment, $9,000; Land, $50,000; and Accounts Payable, $7,500. Prepare a year-end balance sheet for Barth. *(Hint: Stockholder’s Equity is a plug.)*

b. Assuming that Barth did not issue any common stock during the year but paid $12,000 cash in dividends, what was its net income or net loss for 2013?

c. Assuming that Barth issued an additional $13,500 common stock early in the year but paid $21,000 cash in dividends before the end of the year, what was its net income or net loss for 2013?
2-24 (P2-55) **Analyzing Transactions using the Financial Statement Effects Template and Preparing an Income Statement.**

On December 1, 2013, R. Lambert formed Lambert Services, which provides career and vocational counseling services to graduating college students. The following transactions took place during December, and company accounts include the following: Cash, Accounts Receivable, Land, Accounts Payable, Notes Payable, Common Stock, Retained Earnings, Counseling Services Revenue, Rent Expense, Advertising Expense, Interest Expense, Salary Expense, and Utilities Expense.

1. Raised $7,000 cash through common stock issuance.
2. Paid $750 cash for December rent on its furnished office space.
3. Received $500 invoice for December advertising expenses.
4. Borrowed $15,000 cash from bank and signed note payable for that amount.
5. Received $1,200 cash for counseling services rendered.
6. Billed clients $6,800 for counseling services rendered.
7. Paid $2,200 cash for secretary salary.
9. Declared and paid a $900 cash dividend.
10. Purchased land for $13,000 cash to use for its own facilities.
11. Paid $100 cash to bank as December interest expense on note payable.

**Required**

a. Report the effects for each of the separate transactions 1 through 11 using the financial statement effects template. Total all columns and prove that (1) assets equal liabilities plus equity at December 31, and (2) revenues less expenses equal net income for December.

b. Prepare an income statement for the month of December.

2-25 (P2-60) **Analyzing Transactions using the Financial Statement Effects Template and Preparing an Income Statement.**

On June 1, 2013, a group of pilots in Melbourne, Australia, formed Outback Flights by issuing common stock for $50,000 cash. The group then leased several amphibious aircraft and docking facilities, equipping them to transport campers and hunters to outpost camps owned by various resorts in remote parts of Australia. The following transactions occurred during June 2013, and company accounts include the following: Cash, Accounts Receivable, Prepaid Insurance, Accounts Payable, Common Stock, Retained Earnings, Flight Services Revenue, Rent Expense, Entertainment Expense, Advertising Expense, Insurance Expense, Wages Expense, and Fuel Expense.

1. Issued common stock for $50,000 cash.
2. Paid $4,800 cash for June rent of aircraft, dockage, and dockside office.
3. Received $1,600 invoice for the cost of a reception to entertain resort owners in June.
4. Paid $900 cash for June advertising in various sport magazines.
5. Paid $1,800 cash for insurance premium for July.
6. Rendered flight services for various groups for $22,700 cash.
7. Billed client $2,900 for transporting personnel, and billed various firms for $13,000 in flight services.
8. Paid $1,500 cash to cover accounts payable.
9. Received $13,200 on account from clients in transaction 7.
10. Paid $16,000 cash to cover June wages.
11. Received $3,500 invoice for the cost of fuel used during June.
12. Declared and paid a $3,000 cash dividend.

Required

a. Report the effects for each of the separate transactions 1 through 12 using the financial statement effects template, as seen in previous problems (i.e. E2-45). Total all columns and prove that (1) assets equal liabilities plus equity at June 30, 2013 and (2) revenues less expenses equal net income for June.
b. Prepare an income statement for the month of June.

2-26 (P2-61) Recording Transactions in Journal Entries and T-Accounts

Use the information in Problem 2-25 to complete the following requirements.
Required:

a. Prepare journal entries for each of the transactions 1 through 12.
b. Set up T-accounts for each of the accounts used in part a and post the journal entries to those T-accounts.


The records of Geyer, Inc, show the following information after all transactions are recorded for 2013.

\[
\begin{align*}
\text{Note payable} & \quad \$4,000 \\
\text{Service Fees Earned} & \quad 67,600 \\
\text{Supplies Expense} & \quad 9,700 \\
\text{Insurance Expense} & \quad 1,500 \\
\text{Miscellaneous Expense} & \quad 200 \\
\text{Common Stock (beg. year)} & \quad 4,000 \\
\text{Accounts Payable} & \quad 1,800 \\
\end{align*}
\]

Supplies $6,100
Cash 14,800
Advertising Expense 1,700
Salaries Expense 30,000
Rent Expense 7,500
Retained Earnings (beg. year) 6,200

Geyer, Inc. raised $1,400 cash through the issuance of additional common stock during this year and it declared and paid a $13,500 cash dividend near year-end.

Required:

a. Prepare its income statement for 2013.
b. Prepare its statement of stockholder’s equity for 2013.

Schrand Aerobics, Inc., rents studio space (including a sound system) and specializes in offering aerobics classes. On January 1, 2013, its beginning account balances are as follows: Cash, $5,000; Accounts Receivable, $5,200; Equipment, $0; Notes Payable, $2,500; Accounts Payable, $1,000; Common Stock, $5,500; Retained Earnings, $1,200; Services Revenue, $0; Rent Expense, $0; Advertising Expense, $0; Wages Expense, $0; Utilities Expense, $0; Interest Expense, $0. The following transactions occurred during January.

1. Paid $600 cash toward accounts payable.
2. Paid $3,600 cash for January rent.
4. Received $500 invoice from supplier for T-shirts given to January class members as an advertising promotion.
5. Collected $10,000 cash from clients previously billed for services rendered.
6. Paid $2,400 cash for employee wages.
7. Received $680 invoice for January utilities expense.
8. Paid $20 cash to bank as January interest on notes payable.
9. Declared and paid $900 cash dividend to stockholders.
10. Paid $4,000 cash on January 31 to purchase sound equipment to replace the rental system.

Required:

a. Using the financial statement effects template, enter January 1 beginning amounts in the appropriate columns of the first row. (Hint: Beginning balances for columns can include amounts from more than one account.)

b. Report the effects for each of the separate transactions 1 through 10 in the financial statement effects template set up in part a. Total all columns and prove that (1) assets equal liabilities plus equity at January 31, and (2) revenues less expenses equal net income for January.


d. Prepare its statement of stockholders’ equity for January 2013.

e. Prepare its balance sheet at January 31, 2013.

2-29 (M3-23) Journalizing Transactions and Adjusting Accounts.

Deluxe Building Services offers custodial services on both a contract basis and an hourly basis. On January 1, 2013, Deluxe collected $20,100 in advance on a six-month contract for work to be performed evenly during the next six months.

a. Prepare the entry on January 1 to record the receipt of $20,100 cash for contract work (1) using the financial statements effect template and (2) in journal entry form.

b. Prepare the adjusting entry to be made on January 31, 2013, for the contract work done during January (1) using the financial statements effect template and (2) in journal entry form.
c. At January 31, a total of 30 hours of hourly rate custodial work was unbilled. The billing rate is $19 per hour. Prepare the adjusting entry needed on January 31, 2013, (1) using the financial statements effect template and (2) in journal entry form. (The firm uses the account Fees Receivable to reflect amounts due but not yet billed.)

2-30 (M3-24) Adjusting Accounts.

Selected accounts of Ideal Properties, a real estate management firm, are shown below as of January 31, 2014, before any adjusting entries have been made.

<table>
<thead>
<tr>
<th>Unadjusted Account Balances</th>
<th>Debits</th>
<th>Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepaid Insurance</td>
<td>$6,660</td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>1,930</td>
<td></td>
</tr>
<tr>
<td>Office Equipment</td>
<td>5,952</td>
<td></td>
</tr>
<tr>
<td>Unearned Rent Revenue</td>
<td></td>
<td>$5,250</td>
</tr>
<tr>
<td>Salaries Expense</td>
<td>3,100</td>
<td></td>
</tr>
<tr>
<td>Rent Revenue</td>
<td></td>
<td>15,000</td>
</tr>
</tbody>
</table>

Monthly financial statements are prepared. Using the following information, record the adjusting entries necessary on January 31 (a) using the financial statements effect template and (b) in journal entry form.

2. Supplies of $850 were still available on January 31.
3. Office equipment is expected to last eight years.
4. On January 1, 2014, Ideal Properties collected six months’ rent in advance from a tenant renting space for $875 per month.
5. Accrued employee salaries of $490 are not recorded as of January 31.

2-31 (M3-25) Inferring Transactions from Financial Statements.

Dick’s Sporting Goods, Inc., a retailer of sporting goods equipment, apparel, and footwear, operates more than 380 stores in 39 states. For the fiscal year ended January 28, 2012, Dick’s purchased merchandise inventory costing $2,913.49 ($ millions). Assume that all purchases were made on account. The following account balances reflect information contained in the company’s 2011 and 2012 balance sheets (in $ millions).

<table>
<thead>
<tr>
<th>Inventories</th>
<th>Accounts Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/29/2011</td>
<td>887.36</td>
</tr>
<tr>
<td>1/29/2012</td>
<td>854.77</td>
</tr>
</tbody>
</table>

a. Prepare the entry, using the financial statement effects template and in journal entry form, to record its purchases for the fiscal year ended January 28, 2012.

b. What amount did Dick’s pay in cash to its suppliers for fiscal year ended January 28, 2012? Explain. Assume that Accounts Payable is affected only by inventory transactions.

c. Prepare the entry, using the financial statement effects template and in journal entry form, to record cost of goods sold for the year ended January 28, 2012.

The adjusted trial balance at December 31, 2014, for Smith Company includes the following selected accounts.

<table>
<thead>
<tr>
<th>Adjusted Account Balances</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commissions Revenue</td>
<td></td>
<td>$84,900</td>
</tr>
<tr>
<td>Wages Expense</td>
<td>$36,000</td>
<td></td>
</tr>
<tr>
<td>Insurance Expense</td>
<td>1,900</td>
<td></td>
</tr>
<tr>
<td>Utilities Expense</td>
<td>8,200</td>
<td></td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>9,800</td>
<td></td>
</tr>
<tr>
<td>Retained Earnings</td>
<td></td>
<td>72,100</td>
</tr>
</tbody>
</table>

a. Prepare entries to close these accounts in journal entry form.
b. Set up T-accounts for each of these ledger accounts, enter the balances above, and post the closing entries to them. After these entries are posted, what is the post-closing balance of the Retained Earnings account?

2-33 (E3-32) Preparing and Journalizing Adjusting Entries.

For each of the following separate situations, prepare the necessary adjustments in journal entry form.

1. Unrecorded depreciation on equipment is $610.
2. The Supplies account has an unadjusted balance of $2,990. Supplies still available at the end of the period total $1,100.
3. On the date for preparing financial statements, an estimated utilities expense of $390 has been incurred, but no utility bill has yet been received or paid.
4. On the first day of the current period, rent for four periods was paid and recorded as a $2,800 debit to Prepaid Rent and a $2,800 credit to Cash.
5. Nine months ago, the Hartford Insurance Company sold a one-year policy to a customer and recorded the receipt of the premium by debiting Cash for $624 and crediting Unearned Premium Revenue or $624. No adjusting entries have been prepared during the nine-month period. Hartford’s annual financial statements are now being prepared.
6. At the end of the period, employee wages of $965 have been incurred but not yet paid or recorded.
7. At the end of the period, $300 of interest income has been earned but not yet received or recorded.
2-34 (E3-34) Analyzing Accounts Using Adjusted Data

Selected T-account balances for Fields Company are shown below as of January 31, 2014; adjusting entries have already been posted. The firm uses a calendar-year accounting period but prepares monthly adjustments.

<table>
<thead>
<tr>
<th>Supplies (A)</th>
<th>Supplies Expense (E)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 31 Bal. 800</td>
<td>Jan. 31 Bal 960</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Prepaid Insurance (A)</th>
<th>Insurance Expense (E)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 31 Bal 574</td>
<td>Jan. 31 Bal 82</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Wages Payable (L)</th>
<th>Wages Expense (E)</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Truck (A)</th>
<th>Accumulated Depreciation—Truck (XA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 31 Bal 8,700</td>
<td>2,610 Jan. 31 Bal.</td>
</tr>
</tbody>
</table>

a. If the amount in Supplies Expense represents the January 31 adjustment for the supplies used in January, and $620 worth of supplies were purchased during January, what was the January 1 beginning balance of Supplies?

b. The amount in the Insurance Expense account represents the adjustment made at January 31 for January insurance expense. If the original insurance premium was for one year, what was the amount of the premium and on what date did the insurance policy start?

c. If we assume that no beginning balance existed in Wages Payable or Wages Expense on January 1, how much cash was paid as wages during January?

d. If the truck has a useful life of five years, what is the monthly amount of depreciation expense and how many months has Fields owned the truck?
2-35 (E3-37) Preparing Closing Procedures.

The adjusted trial balance of Parker Corporation, prepared December 31, 2013, contains the following selected accounts (i.e., all balance sheet accounts, except for retained earnings, have been excluded):

<table>
<thead>
<tr>
<th>Adjusted Account Balances</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Fees Earned</td>
<td></td>
<td>$92,500</td>
</tr>
<tr>
<td>Interest Income</td>
<td></td>
<td>2,200</td>
</tr>
<tr>
<td>Salaries Expense</td>
<td></td>
<td>$41,800</td>
</tr>
<tr>
<td>Advertising Expense</td>
<td>4,300</td>
<td></td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>8,700</td>
<td></td>
</tr>
<tr>
<td>Income Tax Expense</td>
<td>9,900</td>
<td></td>
</tr>
<tr>
<td>Retained Earnings</td>
<td></td>
<td>42,700</td>
</tr>
</tbody>
</table>

a. Prepare entries to close these accounts in journal entry form.
b. Set up T-accounts for each of the ledger accounts, enter the balances above, and post the closing entries to them. After these entries are posted, what is the post-closing balance of the Retained Earnings account?

2-36 (P3-41) Preparing an Unadjusted Trail Balance and Adjustments.

SnapShot Company, a commercial photography studio, has just completed its first full year of operations on December 31, 2013. General ledger account balances before year-end adjustments follow no adjusting entries have been made to the accounts at any time during the year. Assume that all balances are normal.

<table>
<thead>
<tr>
<th>Cash</th>
<th>$2,150</th>
<th>Accounts Payable</th>
<th>$1,910</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Receivable</td>
<td>3,800</td>
<td>Unearned Photography Fees</td>
<td>2,600</td>
</tr>
<tr>
<td>Prepaid Rent</td>
<td>12,600</td>
<td>Common Stock</td>
<td>24,000</td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td>2,970</td>
<td>Photography Fees Earned</td>
<td>34,480</td>
</tr>
<tr>
<td>Supplies</td>
<td>4,250</td>
<td>Wages Expense</td>
<td>11,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>22,800</td>
<td>Utilities Expense</td>
<td>3,420</td>
</tr>
</tbody>
</table>

An analysis of the firm’s records discloses the following:

1. Photography services of $925 have been rendered, but customers have not yet paid or been billed. The firm uses the account Fees Receivable to reflect amounts due but not yet billed.
2. Equipment, purchased January 1, 2013, has an estimated life of 10 years.
3. Utilities expense for December is estimated to be $400, but the bill will not arrive or be paid until January of next year.
4. The balance in Prepaid Rent represents the amount paid on January 1, 2013, for a 2-year lease on the studio.
5. In November, customers paid $2,600 cash in advance for photos to be taken for the holiday season. When received, these fees were credited to Unearned Photography Fees. By December 31, all of these fees are earned.
6. A 3-year insurance premium paid on January 1, 2013, was debited to Prepaid Insurance.
7. Supplies available at December 31 are $1,520.
8. At December 31, wages expense of $375 has been incurred but not paid or recorded.

Required

a. Prove that debits equal credits for SnapShot’s unadjusted account balances by preparing its unadjusted trial balance at December 31, 2013.
b. Prepare its adjusting entries: (1) using the financial statement effects template, and (2) in journal entry form.
c. Set up T-accounts, enter the balances above, and post the adjusting entries to them.

2-37 (P3-43)  Preparing Adjusting Entries.

The following information relates to the December 31 adjustments for Kwik Print Company. The firm’s fiscal year ends on December 31.

1. Weekly employee salaries for a five-day week total $1,800, payable on Fridays. December 31 of the current year is a Tuesday.
2. Kwik Print has $20,000 of notes payable outstanding at December 31. Interest of $200 has accrued on these notes by December 31, but will not be paid until the notes mature next year.
3. During December, Kwik Print provided $900 of printing services to clients who will be billed on January 2. The firm uses the account Fees Receivable to reflect amounts due but not yet billed.
4. Starting December 1, all maintenance work on Kwik Print’s equipment is handled by Richardson Repair Company under an agreement whereby Kwik Print pays a fixed monthly charge of $400. Kwik Print paid six months’ service charge in advance on December 1, debiting Prepaid Maintenance for $2,400.
5. The firm paid $900 cash on December 15 for a series of radio commercials to run during December and January. One-third of the commercials have aired by December 31. The $900 payment was debited to Prepaid Advertising.
6. Starting December 16, Kwik Print rented 400 square feet of storage space form a neighboring business. The monthly rent of $0.80 per square foot is due in advance on the first of each month. Nothing was paid in December, however, because the neighbor agreed to add the rent for the one-half of December to the January 1 payment.
7. Kwik Print invested $5,000 in securities on December 1 and earned interest of $38 on these securities by December 31. No interest payment will be received until January.

8. Annual depreciation on the firm’s equipment is $2,175. No depreciation has been recorded during the year.

Required:

Prepare its adjusting entries required at December 31:

a. Using the financial statement effects template, and
b. In journal entry form.

2-38 (P3-44) Preparing Financial Statements and Closing Entries.

The following adjusted trial balance is for Trueman Consulting Inc. at December 31, 2013. The company had no stock issuances or repurchases during 2013.

<table>
<thead>
<tr>
<th></th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$2,700</td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>3,270</td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>3,060</td>
<td></td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td>1,500</td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>6,400</td>
<td></td>
</tr>
<tr>
<td>Accumulated Depreciation—Equipment</td>
<td></td>
<td>$1,080</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td></td>
<td>845</td>
</tr>
<tr>
<td>Long-Term Notes Payable</td>
<td>7,000</td>
<td></td>
</tr>
<tr>
<td>Common Stock</td>
<td></td>
<td>1,000</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>3,305</td>
<td></td>
</tr>
<tr>
<td>Service Fees Earned</td>
<td>58,400</td>
<td></td>
</tr>
<tr>
<td>Rent Expense</td>
<td></td>
<td>12,000</td>
</tr>
<tr>
<td>Salaries Expense</td>
<td>33,400</td>
<td></td>
</tr>
<tr>
<td>Supplies Expense</td>
<td>4,700</td>
<td></td>
</tr>
<tr>
<td>Insurance Expense</td>
<td>3,250</td>
<td></td>
</tr>
<tr>
<td>Depreciation Expense-Equipment</td>
<td>720</td>
<td></td>
</tr>
<tr>
<td>Interest Expense</td>
<td>630</td>
<td></td>
</tr>
</tbody>
</table>

$71,630 $71,630

Required:


b. Prepare entries to close its accounts in journal entry form.
2-39 (P3-47)  **Journalizing and Posting Transactions, and Preparing a Trial Balance and Adjustments.**

Market-probe, a market research firm, had the following transactions in June 2014, its first month of operations. The numbers preceding the description for each transaction represent the day during the month of June on which the transaction occurred.

1. Investors invested $24,000 cash in the firm in exchange for common stock.
2. The firm purchased the following: office equipment, $11,040; office supplies, $2,840. Terms are $4,400 cash with the remainder due in 60 days. (Make a compound entry requiring two credits.)
3. Paid $875 cash for June rent owed to the landlord.
4. Contracted for 3 months’ advertising in a local newspaper at $310 per month and paid for the advertising in advance.
5. Signed a 6-month contract with a customer to provide research consulting services at a rate of $3,200 per month. Received payment for two months’ fees in advance. Work on the contract started immediately.
8. Billed various customers $5,800 for services rendered.
9. Paid $3,600 cash for two weeks’ salaries (5-day week) to employees.
10. Paid $1,240 cash to employee for travel expenses to conference.
12. Paid $520 cash to post office for bulk mailing of research questionnaire (postage expense).
18. Paid $3,600 cash for two weeks’ salaries to employees.
20. Billed various customers $5,200 for services rendered.
24. Collected $7,800 cash form customers on their accounts.
30. Paid $1,500 cash for dividends.

Required:

a. Set up a general ledger in T-account form for the following accounts: Cash; Accounts Receivable; Office Supplies; Prepaid Advertising; Office Equipment; Accumulated Depreciation—Office Equipment; Accounts Payable; Salaries Payable; Unearned Service Fees; Common Stock; Retained Earnings; Service Fees Earned; Salaries expense; Advertising Expense; Supplies Expense; Rent Expense; Travel Expense; Depreciation Expense—Office Equipment; and Postage Expense.

b. Record these transactions (1) using the financial statement effects template, and (2) in journal entry form. (3) Post these entries to their T-accounts (key numbers in T-accounts by date).

c. Prepare an unadjusted trial balance at June 30, 2014.
d. Prepare adjusting entries (1) using the financial statement effects template and (2) in journal entry from, that reflect the following information at June 30, 2014:
   - Office supplies available, $1,530
   - Accrued employee salaries, $725
   - Estimated life of office equipment is 8 years

Adjusting entries must also be prepared for advertising and service fees per information in the June transactions. (3) Post adjusting entries to their T-accounts.

2-40 (P3-50) **Preparing Financial Statement and Closing Entries.**

Trails, Inc., publishes magazines for skiers and hikers. The company’s adjusted trial balance for the year ending December 31, 2013, is:

<table>
<thead>
<tr>
<th></th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$3,400</td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>8,600</td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>4,200</td>
<td></td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td>930</td>
<td></td>
</tr>
<tr>
<td>Office Equipment</td>
<td>66,000</td>
<td></td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td></td>
<td>$11,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>2,100</td>
<td></td>
</tr>
<tr>
<td>Unearned Subscription Revenue</td>
<td></td>
<td>10,000</td>
</tr>
<tr>
<td>Salaries Payable</td>
<td>3,500</td>
<td></td>
</tr>
<tr>
<td>Common Stock</td>
<td>25,000</td>
<td></td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>23,220</td>
<td></td>
</tr>
<tr>
<td>Subscription Revenue</td>
<td>168,300</td>
<td></td>
</tr>
<tr>
<td>Advertising Revenue</td>
<td>49,700</td>
<td></td>
</tr>
<tr>
<td>Salaries Expense</td>
<td>100,230</td>
<td></td>
</tr>
<tr>
<td>Printing and Mailing Expense</td>
<td>85,600</td>
<td></td>
</tr>
<tr>
<td>Rent Expense</td>
<td>8,800</td>
<td></td>
</tr>
<tr>
<td>Supplies Expense</td>
<td>6,100</td>
<td></td>
</tr>
<tr>
<td>Insurance Expense</td>
<td>1,860</td>
<td></td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>5,500</td>
<td></td>
</tr>
<tr>
<td>Income Tax Expense</td>
<td>1,600</td>
<td></td>
</tr>
<tr>
<td>Totals</td>
<td>$292,820</td>
<td>$292,820</td>
</tr>
</tbody>
</table>

Required:

a. Prepare its income statement and statement of stockholders’ equity for 2013, and its balance sheet at December 31, 2013. There were no cash dividends and no stock issuances or repurchases during the year.

b. Prepare entries to close its accounts in journal entry form.
Zealock Bookstore: Analysis of transactions and preparation of the income statement and balance sheet.

Zealock Bookstore opened a bookstore near a college campus on July 1, 2013. Transactions and events of Zealock Bookstore during 2013 follow. The firm uses the calendar year as its reporting period.

1. July 1, 2013: Receives $25,000 from Quinn Zealock for 25,000 shares of the bookstore’s $1 par value common stock.
2. July 1, 2013: Obtains a $30,000 loan from a local bank for working capital needs. The loan bears interest at 6% per year. The loan is repayable with interest on June 30, 2014.
3. July 1, 2013: Signs a rental agreement for three years at an annual rental of $20,000. Pays the first year’s rent in advance.
4. July 1, 2013: Acquires bookshelves for $4,000 cash. The bookshelves have an estimated useful life of five years and zero salvage value.
5. July 1, 2013: Acquires computers for $10,000 cash. The computers have an estimated useful life of three years and $1,000 salvage value.
6. July 1, 2013: Makes security deposits with various book distributors totaling $8,000. The deposits are refundable on June 30, 2014, if the bookstore pays on time all amounts due for books purchased from the distributors between July 1, 2013, and June 30, 2014.
7. During 2013: Purchases books on account from various distributors costing $160,000.
8. During 2013: Sells books costing $140,000 for $172,800. Of the total sales, $24,600 is for cash, and $148,200 is on account.
9. During 2013: Returns unsold books and books ordered in error costing $14,600. The firm had not yet paid for these books.
10. During 2013: Collects $142,400 from sales on account.
13. December 28, 2013: Receives advances from customers of $850 for special-order books that the bookstore will order and expects to receive during 2014.
14. December 31, 2013: Records an appropriate amount of interest expense on the loan in (2) for 2013.
17. December 31, 2013: Records an appropriate amount of depreciation expense on the computers in (5).
(18) December 31, 2013: Records an appropriate amount of income tax expense for 2013. The income tax rate is 40%. The taxes are payable on March 15, 2014.

a. Using T-accounts, enter the 18 transactions and events above.
b. Prepare an income statement for the six months ending December 31, 2013.
c. Prepare a balance sheet on December 31, 2013. To prepare the balance sheet, record the closing entries necessary to determine the proper ending balance of retained earnings.

2-42 Zealock Bookstore: Analysis of transactions and preparation of comparative income statements and balance sheets.

Refer to the information for Zealock Bookstore in Problem 2-41. The following transactions relate to 2014.

(2) June 30, 2014: Repays the bank loan with interest.
(3) July 1, 2014: Obtains a new bank loan for $75,000. The loan is repayable on June 30, 2015, with interest due at maturity of 8%.
(4) July 1, 2014: Receives the security deposit back from the book distributors.
(6) During 2014: Purchases books on account costing $310,000.
(7) During 2014: Sells books costing $286,400 for $353,700. Of the total sales, $24,900 is for cash, $850 is from special orders received during December 2013, and $327,950 is on account.
(8) During 2014: Returns unsold books costing $22,700. The firm had not yet paid for these books.
(9) During 2014: Collects $320,600 from sales on account.
(10) During 2014: Pays employees compensation of $29,400.
(12) December 31, 2014: Declares and pays a dividend of $4,000.

a. Using T-accounts, enter the amounts for the balance sheet on December 31, 2013, from Problem 2-41, the effects of the 12 transactions above, and any required entries on December 31, 2014, to properly measure net income for 2014 and financial position on December 31, 2014.

c. Prepare a comparative balance sheet for December 31, 2013, and December 31, 2014. To prepare the balance sheet, record the closing entries necessary to determine the proper ending balance of retained earnings.