

B PROBLEMS

P3.1B (LO 2,4) (Transactions, Financial Statements—Service Company) Listed below are the transactions of Rook Medical, for the month of March.

- March 1 Rook begins practice as a family practitioner and invests \$50,000 cash.
 1 Purchases medical equipment on account from JK Enterprises for \$22,800.
 3 Pays rent for office space, \$1,500 for the month.
 3 Employs a receptionist, Michelle Kwin.
 4 Purchases medical supplies for cash, \$1,165.
 10 Receives cash of \$850 from patients for services performed.
 15 Bills patients \$11,560 for services performed.
 21 Pays JK Enterprises. on account, \$7,600.
 23 Withdraws \$3,000 cash from the business for personal use.
 26 Receives \$2,600 from patients on account.
 30 Bills patients \$6,890 for services performed.
 31 Pays the following expenses in cash: Salaries and wages \$2,500; miscellaneous office expenses \$910.
 31 Medical supplies used during the month, \$695.

Instructions

- Enter the transactions shown above in appropriate general ledger accounts (use T-accounts). Use the following ledger accounts: Cash, Accounts Receivable, Supplies, Equipment, Accumulated Depreciation—Equipment, Accounts Payable, Owner's Capital, Service Revenue, Rent Expense, Office Expense, Salaries and Wages Expense, Supplies Expense, Depreciation Expense, and Income Summary. Allow 10 lines for the Cash and Income Summary accounts, and 5 lines for each of the other accounts needed. Record depreciation using a 5-year life on the equipment, the straight-line method, and no salvage value. Do not use a drawing account.
- Prepare a trial balance.
- Prepare an income statement, a statement of owner's equity, and an unclassified balance sheet.
- Close the ledger.
- Prepare a post-closing trial balance.

P3.2B (LO 3,4) (Adjusting Entries and Financial Statements) Palm Travel Agency was founded in January 2016. Presented below are adjusted and unadjusted trial balances as of December 31, 2020.

PALM TRAVEL AGENCY TRIAL BALANCE DECEMBER 31, 2020				
	Unadjusted		Adjusted	
	Debit	Credit	Debit	Credit
Cash	\$16,500		\$16,500	
Accounts Receivable	6,500		7,250	
Supplies	3,600		800	
Prepaid Insurance	2,000		800	
Equipment	30,000		30,000	
Accumulated Depreciation—Equipment		\$12,000		\$15,000
Notes Payable		10,000		10,000
Accounts Payable		2,600		2,600
Interest Payable		0		600
Salaries and Wages Payable		0		1,850
Unearned Service Revenue		1,100		250
Common Stock		1,000		1,000
Retained Earnings		13,800		13,800
Service Revenue		46,100		47,700
Salaries and Wages Expense	26,000		27,850	
Insurance Expense	0		1,200	
Interest Expenses	0		600	
Depreciation Expense	0		3,000	
Supplies Expense	0		2,800	
Rent Expense	2,000		2,000	
	<u>\$86,600</u>	<u>\$86,600</u>	<u>\$92,800</u>	<u>\$92,800</u>

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Instructions

- (a) Journalize the annual adjusting entries that were made. (Omit explanations.)
- (b) Prepare an income statement and a statement of retained earnings for the year ending December 31, 2020, and an unclassified balance sheet at December 31.
- (c) Answer the following questions.
 - (1) If the note has been outstanding 6 months, what is the annual interest rate on that note?
 - (2) If the company paid \$27,200 in salaries and wages in 2020, what was the balance in Salaries and Wages Payable on December 31, 2019?

P3.3B (LO 3) (Adjusting Entries) A review of the ledger of Dallas Company at December 31, 2020, produces the following data pertaining to the preparation of annual adjusting entries:

1. Salaries and Wages Payable \$0. There are nine employees. Salaries and wages are paid every Friday for the current week. Five employees receive \$850 each per week, and four employees earn \$500 each per week. December 31 is a Wednesday. Employees do not work weekends. All employees worked the last 3 days of December.
2. Unearned Rent Revenue \$660,000. The company began leasing office space in its new building on October 1. Each tenant is required to make a \$10,000 security deposit that is not refundable until occupancy is terminated. At December 31, the company had the following rental contracts that are paid in full for the entire term of the lease:

<u>Date</u>	<u>Term (in months)</u>	<u>Monthly Rent</u>	<u>Number of Leases</u>
Oct. 1	12	\$ 8,000	2
Nov. 1	6	\$10,000	1
Dec. 1	12	\$ 8,500	4

3. Prepaid Advertising \$23,400. This balance consists of payments on three advertising contracts. The contracts provide for monthly advertising in three trade magazines. The terms of the contracts are as shown below.

<u>Contract</u>	<u>Date</u>	<u>Amount</u>	<u>Number of Magazine Issues</u>
J5K	July 1	\$6,000	12
K56	Oct 1	\$8,400	12
L76H	Dec 1	\$9,000	6

The first advertisement runs in the month in which the contract is signed.

4. Notes Payable \$108,000. This balance consists of a note for one year at an annual interest rate of 10%, dated September 1.

Instructions

Prepare the adjusting entries at December 31, 2020. (Show all computations).

P3.4B (LO 3,4,5) (Financial Statements, Adjusting and Closing Entries) The trial balance of Orange Center contained the following accounts at June 30, the end of the company's fiscal year:

ORANGE CENTER TRIAL BALANCE JUNE 30, 2020		
	Debit	Credit
Cash	\$ 6,800	
Accounts Receivable	49,800	
Inventory	56,950	
Supplies	5,600	
Equipment	62,000	
Accumulated Depreciation—Equipment		\$ 20,000
Notes Payable		41,000
Accounts Payable		32,500
Common Stock		1,000
Retained Earnings		61,700
Sales Revenue		506,800
Sales Returns and Allowances	13,000	
Cost of Goods Sold	246,900	
Salaries and Wages Expense	125,650	
Advertising Expense	36,000	
Utilities Expenses	6,890	
Maintenance and Repairs Expense	9,810	
Freight-out	16,800	
Rent Expense	26,800	
	<u>\$663,000</u>	<u>\$663,000</u>

Adjustment data:

- Supplies on hand totaled \$2,200.
- Depreciation is \$6,800 on the equipment. (Selling expense)
- Interest of \$3,800 is accrued on notes payable at June 30.

Other data:

- Salaries and wages expense is 60% selling and 40% administrative.
- Rent expense and utilities expense are 70% selling and 30% administrative.
- \$10,000 of notes payable are due for payment next year.
- Maintenance and repairs expense is 100% administrative.

Instructions

- Journalize the adjusting entries.
- Prepare an adjusted trial balance.
- Prepare a multiple-step income statement and retained earnings statement for the year and a classified balance sheet as of June 30, 2020.
- Journalize the closing entries.
- Prepare a post-closing trial balance.

P3.5B (LO 3) (Adjusting Entries) The accounts listed below appeared in the December 31 trial balance of the Danforth Club.

	Debit	Credit
Equipment	\$ 268,000	
Accumulated Depreciation—Equipment		\$ 165,000
Notes Payable		160,000
Admissions Revenue		680,000
Advertising Expense	56,580	
Salaries and Wages Expense	168,000	
Interest Expense	2,000	

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Instructions

- (a) From the account balances listed above and the information given below, prepare the annual adjusting entries necessary on December 31. (Omit explanations.)
1. The equipment has an estimated life of 12 years and a salvage value of \$28,000 at the end of that time. (Use straight-line method.)
 2. The note payable is a 180-day note given to the bank Aug 18 and bearing interest at 12%. (Use 360 days for denominator.)
 3. In December, 5,000 coupon admission books were sold at \$25 each. They could be used for admission any time after January 1. This was initially recorded as Admissions Revenue.
 4. Advertising expense paid in advance was included in Advertising Expense. \$4,500 of this remains unexpired at the end of the month.
 5. Salaries and wages accrued but unpaid \$9,200.
- (b) What amounts should be shown for each of the following on the income statement for the year?
1. Interest expense.
 2. Admissions revenue.
 3. Advertising expense.
 4. Salaries and wages expense.

P3.6B (LO 3,4) (Adjusting Entries and Financial Statements) Presented below are the trial balance and the other information related to Gator Consulting.

GATOR CONSULTING		
TRIAL BALANCE		
DECEMBER 31, 2020		
	Debit	Credit
Cash	\$21,600	
Accounts Receivable	85,600	
Allowance for Doubtful Accounts		\$1,600
Supplies	12,600	
Prepaid Insurance	2,800	
Equipment	43,000	
Accumulated Depreciation—Equipment		10,750
Notes Payable		50,000
Owner's Capital		18,250
Service Revenue		427,500
Rent Expense	42,000	
Salaries and Wages Expense	256,800	
Utilities Expense	16,800	
Office Expense	26,900	
	<u>\$508,100</u>	<u>\$508,100</u>

1. Fees received in advance from clients and included in Service Revenue initially, \$9,000.
2. Services performed for clients that were not recorded by December 31, \$12,600.
3. Bad debt expense for the year is \$3,650.
4. Insurance expired during the year \$2,100.
5. Equipment is being depreciated at 10% per year.
6. Gator gave the bank a 90-day, 12% note for \$50,000 on December 1, 2020.
7. Rent of the building is \$3,000 per month. The rent for 2020 has been paid, as has that for January and February 2021. The total rental payment was initially recorded in Rent Expense.
8. Office salaries and wages earned but unpaid December 31, 2020, \$2,650.

Instructions

- (a) From the trial balance and other information given, prepare annual adjusting entries as of December 31, 2020. (Omit explanations.)
- (b) Prepare an income statement for 2020, a statement of owner's equity, and a classified balance sheet. The owner withdrew \$25,000 cash for personal use during the year.

P3.7B (LO 3,4) (Adjusting Entries and Financial Statements) Austin Sports, Inc. was organized on April 1, 2020. Quarterly financial statements are prepared. The trial balance and adjusted trial balance on June 30 are shown here.

AUSTIN SPORTS, INC. TRIAL BALANCE JUNE 30, 2020				
	Unadjusted		Adjusted	
	Debit	Credit	Debit	Credit
Cash	\$12,500		\$12,500	
Accounts Receivable	6,500		7,200	
Prepaid Rent	600		0	
Supplies	1,600		850	
Equipment	26,000		26,000	
Accumulated Depreciation—Equipment	0			\$ 650
Notes Payable		\$ 20,000		20,000
Accounts Payable		1,200		1,200
Salaries and Wages Payable		0		1,600
Interest Payable		0		500
Unearned Rent Revenue		2,000		600
Common Stock		10,500		10,500
Retained Earnings		0		0
Dividends	500		500	
Service Revenue		35,450		36,150
Rent Revenue		1,200		2,600
Salaries and Wages Expense	20,100		21,700	
Rent Expense	1,600		2,200	
Depreciation Expense	0		650	
Supplies Expense	0		750	
Utilities Expense	950		950	
Interest Expense	0		500	
	<u>\$70,350</u>	<u>\$70,350</u>	<u>\$73,800</u>	<u>\$73,800</u>

Instructions

- Journalize the adjusting entries that were made.
- Prepare an income statement and a retained earnings statement for the 3 months ending June 30 and a classified balance sheet at June 30.
- Identify which accounts should be closed on June 30.
- If the note bears interest at 10%, how many months has it been outstanding?

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P3.8B (LO 3,4) (Adjusting Entries and Financial Statements) Baltic Travel Agency was established in January 2016. The adjusted and unadjusted trial balances as of December 31, 2020 are shown here.

BALTIC TRAVEL AGENCY. TRIAL BALANCE DECEMBER 31, 2020				
	Unadjusted		Adjusted	
	Dr.	Cr.	Dr.	Cr.
Cash	\$ 6,500		\$ 6,500	
Accounts Receivable	22,600		26,100	
Supplies	3,650		1,800	
Prepaid Insurance	2,400		1,100	
Equipment	36,900		36,900	
Accumulated Depreciation—Equipment		\$ 15,800		\$ 21,500
Notes Payable		15,000		15,000
Accounts Payable		1,500		1,500
Interest Payable		0		1,350
Unearned Service Revenue		3,600		2,100
Salaries and Wages Payable		0		1,300
Common Stock		10,000		10,000
Retained Earnings		6,400		6,400
Dividends	6,000		6,000	
Service Revenue		85,200		90,200
Salaries and Wages Expense	46,950		48,250	
Insurance Expense	0		1,300	
Interest Expense	0		1,350	
Depreciation Expense	0		5,700	
Supplies Expense	0		1,850	
Rent Expense	12,500		12,500	
	<u>\$137,500</u>	<u>\$137,500</u>	<u>\$149,350</u>	<u>\$149,350</u>

Instructions

- Journalize the annual adjusting entries that were made.
- Prepare an income statement and a retained earnings statement for the year ended December 31, and a classified balance sheet at December 31.
- Identify which accounts should be closed on December 31.
- If the note has been outstanding 9 months, what is the annual interest rate on that note?
- If the company paid \$48,000 in salaries and wages in 2020, what was the balance in Salaries and Wages Payable on December 31, 2019?

P3.9B (LO 2,3,4) (Adjusting and Closing) Presented below is the trial balance of the ALI Golf and Tennis Club, Inc. as of December 31. The books are closed annually on December 31.

ALI GOLF AND TENNIS CLUB, INC. TRIAL BALANCE DECEMBER 31		
	Debit	Credit
Cash	\$ 9,500	
Accounts Receivable	23,500	
Allowance for Doubtful Accounts		\$ 3,800
Prepaid Insurance	4,850	
Land	650,000	
Buildings	549,000	
Accumulated Depreciation—Buildings		59,900
Equipment	261,000	
Accumulated Depreciation—Equipment		121,850
Common Stock		800,000
Retained Earnings		200,900
Dues Revenue		489,600
Green Fees Revenue		121,000
Rent Revenue		26,400
Utilities Expense	65,600	
Salaries and Wages Expense	165,000	
Maintenance and Repairs Expense	95,000	
	<u>\$1,823,450</u>	<u>\$1,823,450</u>

Instructions

- (a) Enter the balances in ledger accounts. Allow five lines for each account.
- (b) From the trial balance and the information given below, prepare annual adjusting entries and post to the ledger accounts. (Omit explanations.)
 1. The buildings have an estimated life of 30 years with no salvage value (straight-line method).
 2. The equipment is depreciated at 10% per year.
 3. Insurance expired during the year \$3,000.
 4. The rent revenue represents the amount received for 11 months for dining facilities. The December rent has not yet been received.
 5. It is estimated that 20% of the accounts receivable will be uncollectible.
 6. Salaries and wages earned but not paid by December 31, \$4,600.
 7. Dues received in advance from members, and initially recorded in Dues Revenue, \$16,600.
- (c) Prepare an adjusted trial balance.
- (d) Prepare closing entries and post.

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P3.10B (LO 2,3,4,5) (Adjusting and Closing) Presented below is the December 31 trial balance of Juno Beach Clothing, Inc.

JUNO BEACH CLOTHING, INC. TRIAL BALANCE DECEMBER 31		
	Debit	Credit
Cash	\$ 23,850	
Accounts Receivable	16,000	
Allowance for Doubtful Accounts		\$ 600
Inventory, December 31	73,600	
Prepaid Insurance	5,200	
Equipment	60,000	
Accumulated Depreciation—Equipment		26,000
Notes Payable		21,000
Accounts Payable		18,400
Common Stock		10,000
Retained Earnings		76,550
Sales Revenue		397,300
Cost of Goods Sold	204,150	
Salaries and Wages Expense (sales)	56,850	
Advertising Expense	26,700	
Salaries and Wages Expense (administrative)	79,300	
Supplies Expense	4,200	
	<u>\$549,850</u>	<u>\$549,850</u>

Instructions

- Construct T-accounts and enter the balances shown.
- Prepare adjusting journal entries for the following and post to the T-accounts. (Omit explanations.) Open additional T-accounts as necessary. (The books are closed yearly on December 31.)
 - Bad debt expense is estimated to be \$2,200 based on an aging schedule.
 - Equipment is depreciated based on a 8-year life (no salvage value).
 - Insurance expired during the year \$3,650.
 - Interest accrued on notes payable \$2,050.
 - Sales salaries and wages earned but not paid \$2,750. (Sales)
 - Advertising paid in advance and initially recorded in Advertising Expense \$1,100.
 - Office supplies on hand \$900, charged to Supplies Expense when purchased.
- Prepare closing entries and post to the accounts.

***P3.11B (LO 6) (Cash and Accrual Basis)** On January 1, 2020, Linda Chop and Johnny Lamb formed a refrigeration sales and service enterprise by each investing \$50,000 cash. The new company, Lambchop Refrigeration Sales and Service, has the following transactions during January:

- Pays \$9,300 in advance for 3 months' rent of office, showroom, and repair space.
- Purchases 10 deluxe kitchen refrigerators at an average cost of \$1,500 each, and 20 standard kitchen refrigerators at an average cost of \$900 each, paying cash upon delivery.
- Sales, repair, and office employees earn \$10,600 in salaries and wages during January, of which \$4,100 was still payable at the end of January.
- Sells 6 deluxe kitchen refrigerators at \$3,100 each and 12 standard kitchen refrigerators for \$1,750 each; \$19,250 is received in cash in January, and \$20,350 is sold on a deferred payment basis.
- Other operating expenses of \$2,200 are incurred and paid for during January; \$850 of incurred expenses are payable at January 31.

Instructions

- Using the transaction data above, prepare (1) a cash-basis income statement and (2) an accrual-basis income statement for the month of January.

- (b) Using the transaction data above, prepare (1) a cash-basis balance sheet and (2) an accrual-basis balance sheet as of January 31, 2020.
- (c) Identify the items in the cash-basis financial statements that make cash-basis accounting inconsistent with the theory underlying the elements of financial statements.

***P3.12B (LO 3,4,8) (Worksheet, Balance Sheet, Adjusting and Closing Entries)** Young Company has a fiscal year ending on June 30. Selected data from the June 30 worksheet are presented below.

YOUNG COMPANY					
For the Month Ended June 30, 2020					
Account Titles	Trial Balance		Adjusted Trial Balance		
	Dr.	Cr.	Dr.	Cr.	
Cash	36,500		36,500		
Supplies	12,600		6,200		
Prepaid Insurance	18,900		4,550		
Land	105,000		105,000		
Equipment	164,000		164,000		
Accumulated Depreciation—Equipment		52,500		63,800	
Accounts Payable		8,500		8,500	
Unearned Admissions Revenue		6,210		2,600	
Mortgage Payable		60,000		60,000	
Owner's Capital		117,490		117,490	
Owner's Drawings	36,000		36,000		
Admissions Revenue		361,500		365,110	
Salaries and Wages Expense	133,700		133,700		
Maintenance and Repairs Expense	26,500		26,500		
Advertising Expense	31,000		31,000		
Utilities Expenses	29,500		29,500		
Property Tax Expense	6,500		9,000		
Interest Expense	6,500		9,000		
Total	\$606,200	\$606,200			
Insurance Expense			14,350		
Supplies Expense			6,400		
Interest Payable				3,000	
Depreciation Expense			11,300		
Property Taxes Payable				2,500	
Totals			\$623,000	\$623,000	

Instructions

- (a) Prepare a complete worksheet.
- (b) Prepare a classified balance sheet. (Note: \$12,000 of the mortgage payable is due for payment in the next fiscal year.)
- (c) Journalize the adjusting entries using the worksheet as a basis.
- (d) Journalize the closing entries using the worksheet as a basis.
- (e) Prepare a post-closing trial balance.