CHAPTER 4

SOLUTIONS TO EXERCISES—SET B

### EXERCISE 4-1B

### LAMAR COMPANY

#### Worksheet

**For the Month Ended June 30, 2022**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Account Titles** | **Trial Balance** | | **Adjustments** | | **Adj. Trial Balance** | | **Income Statement** | | **Balance Sheet** | |
|  | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. |
| Cash | **1,760** |  |  |  | **1,760** |  |  |  | **1,760** |  |
| **Accounts Receivable** | **2,100** |  |  |  | **2,100** |  |  |  | **2,100** |  |
| **Supplies** | **1,320** |  |  | **1,070** | **250** |  |  |  | **250** |  |
| **Accounts Payable** |  | **1,080** |  |  |  | **1,080** |  |  |  | **1,080** |
| **Unearned Service Revenue** |  | **360** | **240** |  |  | **120** |  |  |  | **120** |
| **Common Stock** |  | **2,280** |  |  |  | **2,280** |  |  |  | **2,280** |
| **Service Revenue** |  | **2,100** |  | **240** |  | **2,340** |  | **2,340** |  |  |
| **Salaries/Wages Expense** | **500** |  | **250** |  | **750** |  | **750** |  |  |  |
| **Miscellaneous Expense** | **140** |  |  |  | **140** |  | **140** |  |  |  |
| **Totals** | **5,820** | **5,820** |  |  |  |  |  |  |  |  |
| **Supplies Expense** |  |  | **1,070** |  | **1,070** |  | **1,070** |  |  |  |
| Salaries/Wages Payable |  |  |  | **250** |  | **250** |  |  |  | **250** |
| **Totals** |  |  | **1,560** | **1,560** | **6,070** | **6,070** | **1,960** | **2,340** | **4,110** | **3,730** |
| **Net Income** |  |  |  |  |  |  | **380** |  |  | **380** |
| **Totals** |  |  |  |  |  |  | **2,340** | **2,340** | **4,110** | **4,110** |

EXERCISE 4-2B

GOMEZ COMPANY

(Partial) Worksheet

For the Month Ended April 30, 2022

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | Adjusted Trial Balance | | |  | Income Statement | | |  | Balance Sheet | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| Account Titles |  | Dr. |  | Cr. |  | Dr. |  | Cr. |  | Dr. |  | Cr. |
| Cash |  | 11,400 |  |  |  |  |  |  |  | 11,400 |  |  |
| Accounts Receivable |  | 7,000 |  |  |  |  |  |  |  | 7,000 |  |  |
| Prepaid Rent |  | 2,000 |  |  |  |  |  |  |  | 2,000 |  |  |
| Equipment |  | 20,000 |  |  |  |  |  |  |  | 20,000 |  |  |
| Accum. Depreciation |  |  |  | 4,700 |  |  |  |  |  |  |  | 4,700 |
| Notes Payable |  |  |  | 5,000 |  |  |  |  |  |  |  | 5,000 |
| Accounts Payable |  |  |  | 4,950 |  |  |  |  |  |  |  | 4,950 |
| Common Stock |  |  |  | 15,000 |  |  |  |  |  |  |  | 15,000 |
| Retained Earnings |  |  |  | 10,800 |  |  |  |  |  |  |  | 10,800 |
| Dividends |  | 3,500 |  |  |  |  |  |  |  | 3,500 |  |  |
| Service Revenue |  |  |  | 14,000 |  |  |  | 14,000 |  |  |  |  |
| Salaries and Wages    Expense |  | 9,450 |  |  |  | 9,450 |  |  |  |  |  |  |
| Rent Expense |  | 500 |  |  |  | 500 |  |  |  |  |  |  |
| Depreciation Expense |  | 600 |  |  |  | 600 |  |  |  |  |  |  |
| Interest Expense |  | 50 |  |  |  | 50 |  |  |  |  |  |  |
| Interest Payable |  |  |  | 50 |  |  |  |  |  |  |  | 50 |
| Totals |  | 54,500 |  | 54,500 |  | 10,600 |  | 14,000 |  | 43,900 |  | 40,500 |
| Net Income |  |  |  |  |  | 3,400 |  |  |  |  |  | 3,400 |
| Totals |  |  |  |  |  | 14,000 |  | 14,000 |  | 43,900 |  | 43,900 |

EXERCISE 4-3B

GOMEZ COMPANY

Income Statement

For the Month Ended April 30, 2022

Revenues

Service revenue $14,000

Expenses

Salaries and wages expense $9,450

Depreciation expense 600

Rent expense 500

Interest expense 50

Total expenses 10,600

Net income $ 3,400

GOMEZ COMPANY

Retained Earnings Statement

For the Month Ended April 30, 2022

Beginning balance, April 1 $10,800

Add: Net income 3,400

14,200

Less: Dividends 3,500

Ending balance, April 30 $10,700

GOMEZ COMPANY

Balance Sheet

April 30, 2022

Assets

Current assets

Cash $11,400

Accounts receivable 7,000

Prepaid rent 2,000

Total current assets $20,400

Property, plant, and equipment

Equipment 20,000

Less: Accumulated depreciation—equip. 4,700 15,300

Total assets $35,700

EXERCISE 4-3B (Continued)

GOMEZ COMPANY

Balance Sheet (Continued)

April 30, 2022

Liabilities and Stockholders’ Equity

Current liabilities

Notes payable $ 5,000

Accounts payable 4,950

Interest payable 50

Total current liabilities $10,000

Stockholders’ equity

Common Stock 15,000

Retained Earnings 10,700 25,700

Total liabilities and stockholders’ equity $35,700

EXERCISE 4-4B

(a) Apr. 30 Service Revenue 14,000

Income Summary 14,000

30 Income Summary 10,600

Salaries and Wages Expense 9,450

Rent Expense 500

Depreciation Expense 600

Interest Expense 50

30 Income Summary 3,400

Retained Earnings 3,400

30 Retained Earnings 3,500

Dividends 3,500

(b)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Income Summary | |  | Retained Earnings | |
|  | (2) 10,600 | (1) 14,000 |  | (4) 3,500 | 10,800 |
|  | (3) 3,400 |  |  |  | (3) 3,400 |
|  | 14,000 | 14,000 |  |  | Bal. 10,700 |

EXERCISE 4-4B (Continued)

(c) GOMEZ COMPANY

Post-Closing Trial Balance

April 30, 2022

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | Debit |  | Credit |

Cash $11,400

Accounts Receivable 7,000

Prepaid Rent 2,000

Equipment 20,000

Accumulated Depreciation—Equipment $ 4,700

Notes Payable 5,000

Accounts Payable 4,950

Interest Payable 50

Common Stock 15,000

Retained Earnings               10,700

$40,400 $40,400

EXERCISE 4-5B

(a) Accounts Receivable 1,100

Service Revenue 1,100

Insurance Expense 500

Prepaid Insurance 500

Depreciation Expense 1,250

Accumulated Depreciation - Equipment 1,250

Salaries and Wages Expense 650

Salaries and Wages Payable 650

EXERCISE 4-5B (Continued)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| (b) |  |  | Income Statement | | |  | Balance Sheet | | |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  | Dr. |  | Cr. |  | Dr. |  | Cr. |
|  | Accounts Receivable |  |  |  |  |  | X |  |  |
|  | Prepaid Insurance |  |  |  |  |  | X |  |  |
|  | Accum. Depr.—Equip. |  |  |  |  |  |  |  | X |
|  | Salaries and Wages    Payable |  |  |  |  |  |  |  | X |
|  | Service Revenue |  |  |  | X |  |  |  |  |
|  | Salaries and Wages    Expense |  | X |  |  |  |  |  |  |
|  | Insurance Expense |  | X |  |  |  |  |  |  |
|  | Depreciation Expense |  | X |  |  |  |  |  |  |

EXERCISE 4-6B

(a) Accounts Receivable—$20,000 ($35,000 – $15,000).

Supplies—$1,500 ($8,000 – $6,500).

Accumulated Depr.—Equip.—$36,000 ($24,000 + $12,000).

Salaries and Wages Payable—$0 No liability recorded until adjustments are made.

Insurance Expense—$5,000 ($29,000 – $24,000).

Salaries and Wages Expense—$46,000 ($52,000 – $6,000).

(b) Accounts Receivable 15,000

Service Revenue 15,000

Insurance Expense 5,000

Prepaid Insurance 5,000

Supplies Expense 6,500

Supplies 6,500

Depreciation Expense 12,000

Accumulated Depreciation 12,000

Salaries and Wages Expense 6,000

Salaries and Wages Payable 6,000

EXERCISE 4-7B

(a) Service Revenue 5,360

Income Summary 5,360

Income Summary 5,050

Salaries and Wages Expense 1,650

Miscellaneous Expense 350

Supplies Expense 3,050

Income Summary 310

Retained Earnings 310

Retained Earnings 400

Dividends 400

(b) PENNINGTON COMPANY

Post-Closing Trial Balance

For the Month Ended June 30, 2022

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Account Titles |  | Debit |  | Credit |

Cash $ 4,650

Accounts Receivable 5,200

Supplies 640

Accounts Payable $ 2,500

Salaries and Wages Payable 600

Unearned Service Revenue 200

Common Stock 6,000

Retained Earnings              1,190

$10,490 $10,490

EXERCISE 4-8B

(a)

General Journal J15

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | |  | Account Titles |  | Ref. |  | Debit |  | Credit |
| July 31 |  | | Service Revenue |  | 404 |  | 42,400 |  |  |
|  |  | | Rent Revenue |  | 429 |  | 6,100 |  |  |
|  |  | | Income Summary |  | 350 |  |  |  | 48,500 |
|  |  | |  |  |  |  |  |  |  |
| 31 |  | | Income Summary |  | 350 |  | 51,900 |  |  |
|  |  | | Salaries and Wages Expense |  | 720 |  |  |  | 39,100 |
|  |  | | Utilities Expense |  | 732 |  |  |  | 10,100 |
|  |  | | Depreciation Expense |  | 711 |  |  |  | 2,700 |
|  |  | |  |  |  |  |  |  |  |
| 31 |  | | Retained Earnings |  | 311 |  | 3,400 |  |  |
|  |  | | Income Summary |  | 350 |  |  |  | 3,400 |
|  |  | |  |  |  |  |  |  |  |
| 31 |  | | Retained Earnings |  | 311 |  | 11,000 |  |  |
|  |  | | Dividends |  | 332 |  |  |  | 11,000 |

(b)

Retained Earnings No. 301

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date |  | Explanation |  | Ref. |  | Debit |  | Credit |  | Balance |
| July 31 |  | Balance |  |  |  |  |  |  |  | 15,700 |
| 31 |  | Close net loss |  | J15 |  | 3,400 |  |  |  | 12,300 |
| 31 |  | Close dividends |  | J15 |  | 11,000 |  |  |  | 1,300 |

Income Summary No. 350

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date |  | Explanation |  | Ref. |  | Debit |  | Credit |  | Balance |
| July 31 |  | Close revenue |  | J15 |  |  |  | 48,500 |  | 48,500 |
| 31 |  | Close expenses |  | J15 |  | 51,900 |  |  |  | (3,400) |
| 31 |  | Close net loss |  | J15 |  |  |  | 3,400 |  | 0 |

EXERCISE 4-8B (Continued)

(c) WANG COMPANY

Post-Closing Trial Balance

July 31, 2022

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | Debit |  | Credit |

Cash $ 7,900

Accounts Receivable 6,200

Equipment 10,600

Accumulated Depreciation—Equip. $ 4,400

Accounts Payable 2,800

Unearned Rent Revenue 1,200

Common Stock               15,000

Retained Earnings               1,300

$24,700 $24,700

EXERCISE 4-9B

(a) WANG COMPANY

Income Statement

For the Year Ended July 31, 2022

Revenues

Service revenue $42,400

Rent revenue 6,100

Total revenues $48,500

Expenses

Salaries and wages expense 39,100

Utilities expense 10,100

Depreciation expense 2,700

Total expenses 51,900

Net loss ($ 3,400)

WANG COMPANY

Retained Earnings Statement

For the Year Ended July 31, 2022

Beginning balance, August 1, 2020 $15,700

Less: Net loss $ 3,400

Dividends 11,000 14,400

Ending balance, July 31, 2020 $ 1,300

(b) WANG COMPANY

Balance Sheet

July 31, 2022

Assets

Current assets

Cash $ 7,900

Accounts receivable 6,200

Total current assets $14,100

Property, plant, and equipment

Equipment 10,600

Less: Accumulated depreciation—equip. 4,400 6,200

Total assets $20,300

Liabilities and Stockholders’ Equity

Current liabilities

Accounts payable $ 2,800

Unearned rent revenue 1,200

Total current liabilities $ 4,000

Stockholders’ equity

Common stock 15,000

Retained earnings 1,300 16,300

Total liabilities and stockholders’ equity $20,300

EXERCISE 4-10B

1. True.

2. True.

3. False. If the accounting records are free of errors, *no correcting entries are needed.*

4. False. *Some* of the steps of the accounting cycle are incorporated into the worksheet.

5. True.

6. False. Steps 1–3 may occur daily in the accounting cycle. Steps 4–7 are performed on a periodic basis. Steps 8 and 9 are usually prepared only at the end of a company’s annual accounting period.

7. True.

8. False. Closing entries are prepared *after* financial statements are prepared.

EXERCISE 4-11B

(a) June 30 Service Revenue 10,100

Income Summary 10,100

30 Income Summary 8,750

Salaries and Wages Expense 5,900

Supplies Expense 850

Rent Expense 2,000

30 Income Summary 1,350

Retained Earnings 1,350

30 Retained Earnings 1,700

Dividends 1,700

(b)

|  |  |  |
| --- | --- | --- |
|  | Income Summary | |
|  | June 30 8,750 | June 30 10,100 |
|  | June 30 1,350 |  |
|  | 10,100 | 10,100 |

EXERCISE 4-12B

(a) 1. Cash 700

Supplies 700

Salaries and Wages Expense 700

Cash 700

2. Service Revenue 400

Cash 400

Cash 4,000

Accounts Receivable 4,000

EXERCISE 4-12B (Continued)

3. Accounts Payable 680

Supplies 680

Supplies 860

Accounts Payable 860

(b) 1. Salaries and Wages Expense 700

Supplies 700

2. Service Revenue 400

Cash 3,600

Accounts Receivable 4,000

3. Supplies 180

Accounts Payable 180

EXERCISE 4-13B

1. Accounts Payable ($720 – $270) 450

Cash 450

2. Supplies 650

Inventory 65

Cash 585

3. Dividends 500

Salaries and Wages Expense 500

EXERCISE 4-14B

(a) KEVER MINIATURE GOLF INC.

Balance Sheet

December 31, 2022

Assets

Current assets

Cash $10,840

Accounts receivable 9,000

Prepaid insurance 2,700

Total current assets $ 22,540

Property, plant, and equipment

Land 38,000

Buildings $77,000

Less: Acc. depr.—buildings 19,000 58,000

Equipment 37,500

Less: Acc. depr.—equipment 11,000 26,500 122,500

Total assets $145,040

EXERCISE 4-14B (Continued)

KEVER MINIATURE GOLF INC.

Balance Sheet (Continued)

December 31, 2022

Liabilities and Stockholders’ Equity

Current liabilities

Current portion of notes payable $ 15,000

Accounts payable 7,400

Interest payable 1,600

Total current liabilities $ 24,000

Long-term liabilities

Notes payable 45,000

Total liabilities 69,000

Stockholders’ equity

Common stock 60,000

Retained earnings ($7,000 + $9,040\*) 16,040 76,040

Total liabilities and stockholders’ equity $145,040

\*Net income = $15,580 – $540 – $4,400 – $1,600 = $9,040

(b) Current liabilities exceed current assets by $1,460 ($24,000 – $22,540). However, approximately 50% of current assets are in the form of cash. The company’s liquidity appears to be adequate.

EXERCISE 4-15B

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| CL | Accounts payable |  | LTI | Stock investments |
| CA | Accounts receivable |  | CA | Inventory |
| PPE | Accumulated depr—equip. |  | PPE | Land |
| PPE | Buildings |  | LTL | Notes payable (due in 3 years) |
| CA | Cash |  | CA | Supplies |
| SE | Common stock |  | CA | Prepaid insurance |
| CL | Salaries and wages payable |  | PPE | Equipment |
| IA | Trademarks |  |  |  |

EXERCISE 4-16B

FOYLE COMPANY

Balance Sheet

December 31, 2022

(in thousands)

Assets

Current assets

Cash $ 2,300

Debt investments 2,500

Accounts receivable 1,500

Inventory 880

Prepaid insurance 620

Total current assets $ 7,800

Stock investments 185

Property, plant, and equipment

Equipment 8,100

Less: Accumulated depreciation—equip. 4,000 4,100

Total assets $12,085

Liabilities and Stockholders’ Equity

Current liabilities

Notes payable (due in 2022) $ 340

Accounts payable 1,010

Total current liabilities $ 1,350

Long-term liabilities

Long-term debt 1,560

Notes payable (due after 2022) 250

Total long-term liabilities 1,810

Total liabilities 3,160

Stockholders’ equity

Common stock 8,000

Retained earnings 925     8,925

Total liabilities and stockholders’ equity $12,085

EXERCISE 4-17B

(a)

HERRERA COMPANY

Income Statement

For the Year Ended July 31, 2022

Revenues

Service revenue $58,000

Rent revenue 7,600

Total revenues $ 65,600

Expenses

Salaries and wages expense 39,000

Depreciation expense 16,200

Utilities expense 3,600

Total expense 58,800

Net Income $ 6,800

HERRERA COMPANY

Retained Earnings Statement

For the Year Ended July 31, 2022

Beginning balance, August 1, 2021 $ 5,000

Plus: Net Income 6,800

11,800

Less: Dividends 3,600

Ending balance, July 31, 2022 $ 8,200

EXERCISE 4-17B (Continued)

(b)

HERRERA COMPANY

Balance Sheet

July 31, 2022

Assets

Current assets

Cash $13,300

Accounts receivable 21,200

Total current assets $34,500

Property, plant, and equipment

Equipment 26,500

Less: Accumulated depreciation—equip. 5,400 21,100

Total assets $55,600

Liabilities and Stockholders’ Equity

Current liabilities

Accounts payable $ 3,600

Salaries and wages payable 1,800

Total current liabilities $ 5,400

Long-term liabilities

Notes payable 2,000

Total liabilities 7,400

Stockholders’ equity

Common stock 40,000

Retained earnings 8,200 48,200

Total liabilities and stockholders’ equity $55,600

\*EXERCISE 4-18B

(a) Dec. 31 Salaries and Wages Expense

   ($25,000 X 3/5) 15,000

Salaries and Wages Payable 15,000

Jan. 5 Salaries and Wages Payable 15,000

Salaries and Wages Expense

   ($25,000 X 2/5) 10,000

Cash 25,000

(b) Dec. 31 Salaries and Wages Expense 15,000

Salaries and Wages Payable 15,000

Jan. 1 Salaries and Wages Payable 15,000

Salaries and Wages Expense 15,000

Jan. 5 Salaries and Wages Expense 25,000

Cash 25,000

\*EXERCISE 4-19B

(a) Dec. 31 Service Revenue 100,000

Income Summary 100,000

31 Income Summary 11,000

Interest Expense 11,000

(b) Jan. 1 Service Revenue 6,000

Accounts Receivable 6,000

1 Interest Payable 2,500

Interest Expense 2,500

\*EXERCISE 4-19B (Continued)

(c)&(e)

|  |  |
| --- | --- |
| Accounts Receivable | |
| Dec. 31 Balance \*29,000 |  |
| 31 Adjusting 6,000 |  |
| 35,000 |  |
|  | Jan. 1 Reversing 6,000 |

\*($35,000 – $6,000)

|  |  |
| --- | --- |
| Service Revenue | |
| Dec. 31 Closing 100,000 | Dec. 31 Balance 94,000\* |
|  | 31 Adjusting 6,000 |
| 100,000 | 100,000 |
| Jan. 1 Reversing 6,000 | Jan. 10 6,000 |

\*($100,000 – $6,000)

|  |  |
| --- | --- |
| Interest Payable | |
|  | Dec. 31 Adjusting 2,500 |
| Jan. 1 Reversing 2,500 |  |

|  |  |
| --- | --- |
| Interest Expense | |
| Dec. 31 Balance \*8,500 | Dec. 31 Closing 11,000 |
| 31 Adjusting 2,500 |  |
| 11,000 | 11,000 |
| Jan. 15 3,000 | Jan. 1 Reversing 2,500 |

\*($11,000 – $2,500)

(d) (1)

Jan. 10 Cash 6,000

Service Revenue 6,000

(2)

15 Interest Expense 3,000

Cash 3,000