

MODULE 3

PRACTICE PROBLEMS & SOLUTIONS



PROBLEM 1 – MULTIPLE CHOICE QUESTIONS

1. In recording transactions,
 - (a) The word debit means to increase and the word credit means to decrease.
 - (b) Assets, expenses, and owners' drawing accounts are debited for increases.
 - (c) Liabilities, revenue, and owners' drawing accounts are debited for increases.
 - (d) Assets, expenses, and owners' capital accounts are debited for increases.
 - (e) None of the above

2. Which of the following combinations of trial balance totals does not indicate a transposition error?
 - (a) \$65,470 debit and \$64,570 credit
 - (b) \$32,540 debit and \$35,420 credit
 - (c) \$25,670 debit and \$26,670 credit
 - (d) \$14,517 debit and \$15,471 credit

3. Sara had a beginning credit balance of \$21,000 in her capital account. At the close of the period, Sara's drawing account had a debit balance of \$2,200. On the end-of-period balance sheet, Sara's capital balance is \$32,000. If Sara contributed an additional \$2,000 to the firm during the period, what is the period's net income?
 - (a) \$12,400
 - (b) \$11,200
 - (c) \$9,000
 - (d) \$10,800

4. Which of the following is not true of a general ledger trial balance?
 - A. If it balances, it proves that the total debits equal total credits.
 - B. It facilitates the preparation of financial statements.
 - C. If it balances, it proves that no errors have been made in recording transactions.
 - D. It will not detect an error where the accounts debited and credited are reversed in recording a particular transaction.

5. During May, Hal Company invoiced customers \$5,000 for goods delivered in May and collected \$6,000 from customers. Included in the \$6,000 was \$500 which was an advance for a sales order which would be filled in June. Hal should report revenue for May of
- A. \$5,000
 - B. \$6,000.
 - C. \$4,500.
 - D. \$5,500
 - E. Other
6. The Haul-It Cartage Company purchased a new truck at a cost of \$36,000 on July 1, 1996. The truck is estimated to have a useful life of 6 years and Haul-It Cartage Company does not expect to receive anything when it disposes of the truck at the end of 6 years. How much depreciation expense should have been recorded for the truck during the year ended December 31, 1996?
- A. \$3,000.
 - B. \$3,500.
 - C. \$4,000.
 - D. \$6,000.
 - E. Other
7. Apartments-for-Rent Corporation received cash of \$7,200 on August 1, 1998 for one year's rent in advance and recorded the transaction with a credit to Rent Revenue. The December 31, 1998 adjusting entry is
- A. Debit Rent Revenue and credit Unearned Rent, \$3,000
 - B. Debit Rent Revenue and credit Unearned Rent, \$4,200
 - C. Debit Unearned Rent and credit Rent Revenue, \$3,000
 - D. Debit Cash and credit Unearned Rent, \$4,200
 - E. None of the above
8. During January, Kubbrick Company invoiced customers \$10,000 for goods delivered in January and collected \$12,000 from customers. Included in the \$12,000 was \$1,000 which was an advance for a sales order which would be filled in February. Kubbrick should report revenue for January of
- A. \$10,000
 - B. \$12,000
 - C. \$9,000
 - D. \$11,000
 - E. none of the above

9. Choose whether each of the following would most likely be part of

- A. A computerized accounting system
- B. A manual accounting system
- C. All accounting systems

1. Source documents
2. Worksheets
3. Accounts
4. Trial balances
5. Chart of accounts
6. Journal entries
7. Out-of-balance journal entries
8. Debits and credits
9. Posting from the general journal to the accounts
10. Preparation of the financial statements
11. On demand sorting of transactions into journal, account and financial statement views
12. Reporting dates
13. Reconciliation of accounting records to the underlying asset and liabilities
14. Adjusting entries
15. Transaction analysis
16. Recording

PROBLEM 2 – TRANSACTIONS AND THEIR EFFECTS (DEBITS AND CREDITS)

Match each of the following transactions with the appropriate letters, indicating the debits and credits to be made. The correct answer for transaction (1) is given.

	ANSWERS
(1)The owner contributed cash to the business.	A F
(2)Purchased equipment on account.	
(3)Received and immediately paid advertising bill.	
(4)Purchased supplies for cash.	
(5)Borrowed money from bank, giving a note payable.	
(6)Billed customers.	
(7)Made partial payment on account for equipment.	
(8)Paid employee's salary.	
(9)Collected amounts due from customers billed in transaction (6).	

Effect of transaction

- (A) Debit an asset
- (B) Credit an asset
- (C) Debit a liability
- (D) Credit a liability
- (E) Debit owner's capital
- (F) Credit owner's capital
- (G) Debit revenue
- (H) Credit revenue
- (I) Debit an expense
- (J) Credit an expense

PROBLEM 3 – T-ACCOUNTS - DESCRIPTIONS

The accounts below are from the general ledger of a local accountant. For each letter given in the T accounts, describe the type of business transaction(s) or event(s) that would most probably be reflected by entries on that side of the account. For example, the answer to (a) is: The amounts of services performed for clients on account.

Accounts receivable	
(a)	(b)

Supplies on Hand	
	(c)

Office Equipment	
(d)	

Prepaid Insurance	
(e)	

Professional Fees	
	(f)

Owner's Drawing	
(g)	

Owner's Capital	
	(h)

Salaries Expense	
(i)	

Accounts Payable	
(j)	(k)

PROBLEM 4 – T-ACCOUNTS AND TRIAL BALANCE

W. Weinstein, roofing contractor, began business on May 1 of the current year
The following transactions occurred during May:

- (1) Weinstein invested \$25,000 of his personal funds in the business.
- (2) Purchased equipment on account, \$2,400.
- (3) Paid the premium for a one-year liability insurance policy, \$720.
- (4) Purchased supplies on account, \$580.
- (5) Purchased a truck for \$8,500; Weinstein paid \$2,500 cash and gave a note payable for the balance.
- (6) Paid rent for May, \$750.
- (7) Paid fuel bill for truck, \$70.
- (8) Billed customers for services rendered, \$9,200.
- (9) Paid \$1,000 on account for equipment purchased in transaction (2).
- (10) Paid utilities expense for May, \$120.
- (11) Received invoice for May advertising expense, to be paid in June, \$150.
- (12) Paid employees' wages, \$1,450.
- (13) Collected \$5,300 on accounts receivable,
- (14) Withdrew \$800 for personal expenses.
- (15) Counted supplies on hand at May 31; \$320 worth remained,
- (16) Recorded the insurance expired at May 31, \$60.

REQUIRED

- (a) Record the above transactions in T accounts, and key entries with the numbers of the transactions. The following accounts will be needed to record the transactions for May:

Cash; Accounts Receivable; Supplies on Hand; Prepaid Insurance; Equipment, Truck; Notes Payable; Accounts Payable; Weinstein, Capital; Weinstein, Drawing; Service Fees; Rent Expense; Wages Expense; Utilities Expense; Truck Expense; Advertising Expense; Supplies Expense; and Insurance Expense.

- (b) Prepare a trial balance of the general ledger as of May 31.

PROBLEM 5 – TRIAL BALANCE AND FINANCIAL STATEMENTS

The following account balances, in alphabetical order, are from the general ledger of Anil's Hacking Service at January 31, 19XX. The firm's accounting year began on January 1. All accounts had normal balances.

Accounts Payable	\$ 1,100
Anil. Drawing	\$2,750
Accounts Receivable	\$10,400
Prepaid Insurance	\$880
Advertising Expense	\$150
Rent Expense	\$640
Cash	\$6,800
Salaries Expense	\$3,200
Service Fees	\$16,200
Supplies Expense	\$2,250
Insurance Expense	\$80
Supplies on Hand	\$8,420
Anil, Capital, January 1	\$18,500
Utilities Expense	\$230

REQUIRED

- (a) Prepare a trial balance in good form from the given data.
- (b) Prepare an Income statement for the month of January.
- (c) Prepare a balance sheet at January 31.

PROBLEM 6 – PREPARATION OF FINANCIAL STATEMENTS

Sana Ahmed owns *Foresight*, a fortune telling firm specializing in reading tea leaves tarot cards. On July 1 of the current year, her general ledger showed the following account balances.

Cash	\$8,600
Accounts Receivable	\$15,500
Prepaid Rent	\$900
Supplies on Hand	\$5,400
Notes Payable	\$ 4,500
Accounts Payable	\$1,800
Ahmed, Capital	\$24,100

The following transactions occurred in July:

- (1) Collected \$8,300 on account from customers.
- (2) Paid \$1,500 installment due on the \$3,000 non-interest bearing note payable to a relative.
- (3) Billed customers for design services rendered on account, \$16,400.
- (4) Rendered design services for cash customers, \$800.
- (5) Purchased various art supplies on account, \$1,820.
- (6) Paid \$1,200 to creditors on account
- (7) Collected \$8,100 on account from customers.
- (8) Paid a delivery service for delivery of graphics to commercial firms, \$170.
- (9) Paid July salaries, \$2,450.
- (10) Received invoice for July advertising expense, to be paid in August, \$480.
- (11) Paid utilities expense for July, \$220.
- (12) Withdrew \$750 for personal use.
- (13) Recorded rent expense for July, \$450 (note that on July 1, two months' rent, \$900, was prepaid).
- (14) Counted supplies on hand at July 31; \$4,250 worth remained.

REQUIRED

- (a) Set up the appropriate T accounts for the July 1 balance sheet and enter the beginning balances. Also provide the following T accounts: Ahmed, Drawing; Service Fees; Rent Expense; Salaries Expense; Delivery Expense; Advertising Expense; Utilities Expense; and Supplies Expense. Record the listed transactions in the T accounts, and key entries with transaction numbers.
- (a) Prepare a trial balance at July 31.
- (b) Prepare an income statement for July.
- (c) Prepare a statement of owner's equity for July. (e)
Prepare a balance sheet at July 31.

PROBLEM 7 – PREPARATION OF FINANCIAL STATEMENTS

Transylvanian Vampire Killers (TVK) operates a vampire extermination service. On August 1 of the current year, the firm's account balances were as follows:

Cash	\$40,250
Accounts Receivable	\$21,600
Supplies on Hand	\$14,200
Prepaid Insurance	\$2,400
Notes Payable	\$3,000
Accounts Payable	\$6,800
Capital Stock	\$50,000
Retained Earnings	\$18,650

During August the following transactions occurred:

- Aug. 1 Paid August rental cost for office, \$4,500.
- Aug. 3 Purchased Lobo bullets, wooden stakes and other supplies on account, \$5,100.
- Aug. 5 Paid bill for August advertising in various ghoulish magazines, \$750.
- Aug. 6 Rendered extermination services for various clients for cash, \$15,250.
- Aug. 8 Billed an extra \$4,500 to one client for destroying a werewolf.
- Aug. 13 Received \$11,500 on account from clients.
- Aug. 18 Paid \$4,800 on accounts payable.
- Aug. 18 Paid miscellaneous expenses, \$260.
- Aug. 24 Billed various clients for extermination services, \$5,800.
- Aug. 31 Paid August wages, \$8,400.
- Aug. 31 Declared and paid a dividend of \$5,000, (treat as a debit to Retained Earnings).
- Aug. 31 Determined that \$600 haunting insurance premiums expired during August.
- Aug. 31 Determined that supplies on hand at August 31 amounted to \$14,600.

REQUIRED

- (a) Set up running balance accounts for each item in the August 1 trial balance. Also provide similar accounts for the following items: Service Fees, Wages Expense, Advertising Expense, Rent Expense, Supplies Expense, Insurance Expense, and Miscellaneous Expense. Record the transactions for August in the accounts, using the dates given.
- (b) Prepare a trial balance at August 31, 19XX.
- (c) Prepare an income statement for August.
- (d) Prepare a balance sheet at August 31.

PROBLEM 8 – TRIAL BALANCE

The following trial balance for *Khan Golf Clinic*, prepared after its first month of operations on January 31 of the current year, does not balance because of a number of errors.

ACCOUNT	DEBIT BALANCE	CREDIT BALANCE
Cash	\$5,910	
Accounts Receivable	7,800	
Supplies on Hand	4,520	
Prepaid Insurance	360	
Equipment	16,000	
Accounts Payable		\$4,450
Khan, Capital		21,650
Khan, Drawings		1,500
Consulting Fees		17,500
Wage Expense	4,800	
Insurance Expense	120	
Advertising Expense	220	
Supplies Expense	2,350	
TOTALS	\$42,080	\$45,100

ERRORS DISCOVERED

- (1) Utilities Expense, with a \$180 balance, was omitted from the trial balance,
- (2) Supplies on Hand, listed in the trial balance as \$4,520, should be \$4,250
- (3) During the period, a cash payment of \$530 on accounts payable was recorded as a \$350 credit to Cash.
- (4) A debit of \$120 to Accounts Payable was erroneously recorded as a credit.
- (5) In determining the Accounts Receivable balance, a credit of \$150 was overlooked.
- (6) The \$1,500 balance of the Khan, Drawing account is listed as a credit in the trial balance.
- (7) The balance of the Service Fees account was over-footed (over-added) by \$200.

REQUIRED

Prepare a corrected trial balance as of January 31 of the current year.

PROBLEM 9 – THE ACCOUNT EQUATION

Compute the unknown amount required in each of the following five independent situations. The answer to situation (a) is given as an example

Account	Beginning balance	Ending balance	Other information
Cash	\$5,200	\$4,450	Total cash disbursed = \$5,600
Accounts Receivable	\$4,900	\$3,700	Services on account = \$6,000
Supplies on hand	\$750	\$680	Supplies used = \$560
Prepaid Insurance	\$150	\$400	Premiums paid in advance = \$600
Able, Capital	\$22,000	\$33,000	Capital contributions = \$3,000

- a) Total cash received.....\$4,850
- b) Total amount received from credit customers....?
- c) Supplies purchased during the period.....?
- d) Amount of insurance expense for the period.....?
- e) Net income if no withdrawals were made.....?

PROBLEM 10 – ERROR ANALYSIS

Indicate how each of the following errors would affect the trial balance totals. For each error, specify whether the debit or credit totals would be overstated, understated, or whether both totals would be unaffected.

- (a) The Accounts Receivable balance of \$62,100 was listed in the trial balance as \$61,200.
- (b) A \$480 payment for Utilities Expense was debited to Miscellaneous Expense during the accounting period.
- (c) The Accounts Payable balance of \$32,600 was omitted from the trial balance.
- (d) Salaries Expense of \$2,100 was listed in the trial balance as a credit
- (e) The Owner's Drawing account, with a debit balance of \$7,500, was listed as a credit in the trial balance.

PRACTICE PROBLEM 11 - ITEMS OF FINANCIAL STATEMENTS

Compute the missing information in each of the independent cases below. The letters in parentheses refer to the following:

BS - Balance Sheet
 IS - Income Statement
 CFS - Cash Flow Statement

a.

Accounts Receivable, Jan. 1, Year 2 (BS)	\$ 450
Sales on Account for Year 2 (IS)	1,700
Collections from Customers on Account During Year 2 (CFS)	1,350
Accounts Receivable, Dec. 31, Year 2 (BS)	?

b.

Salaries Payable, Jan. 1, Year 2 (BS)	\$ 120
Salary Expense for Year 2 (IS)	?
Payments to Salaried Employees During Year 2 (CFS)	660
Salaries Payable, Dec. 31, Year 2 (BS)	90

c. Equipment (net of accumulated depreciation), Jan. 1, Year 2 (BS)

Equipment (net of accumulated depreciation), Jan. 1, Year 2 (BS)	800
Depreciation Expense for Year 2 (IS)	?
Sales of Equipment During Year 2 (CFS)	0
Acquisition of Equipment During Year 2 (CFS)	250
Equipment (net of accumulated depreciation), Dec. 31, Year 2 (BS)	900

d.

Retained Earnings, Jan 1, Year 2 (BS)	\$1,250
Net Income for Year 2 (IS)	300
Dividends Declared and Paid During Year 2 (BS)	?
Retained Earnings, Dec. 31, Year 2 (BS)	1,430

PROBLEM 12 – T-ACCOUNTS AND TRIAL BALANCE

P. Ruiz electrical contractor, began business on May 1 of the current year. The following transactions occurred during May:

- (1) Ruiz invested \$25,000 of his personal funds in the business.
- (2) Purchased equipment on account, \$2,400.
- (3) Paid the premium for a one-year liability insurance policy, \$720.
- (4) Purchased supplies on account, \$580.
- (5) Purchased a truck for \$8,500. Piper paid \$2,500 cash and gave a note payable for the balance.
- (6) Paid rent for May, \$750.
- (7) Paid fuel bill for truck, \$70.
- (8) Billed customers for services rendered, \$9,200.
- (9) Paid \$1,000 on account for equipment purchased in transaction (2).
- (10) Paid utilities expense for May, \$120.
- (11) Received invoice for May advertising expense, to be paid in June, \$150.
- (12) Paid employees' wages, \$1,450.
- (13) Collected \$5,300 on accounts receivable.
- (14) Withdrew \$800 for personal expenses.
- (15) Counted supplies on hand at May 31, \$320 worth remained.
- (16) Recorded the insurance expired at May 31, \$60.

REQUIRED:

(A) Record the above transactions in T accounts, and key entries with the numbers of the transactions. The following accounts will be needed to record the transactions for May: Cash; Accounts Receivable; Supplies on Hand; Prepaid Insurance; Equipment, Truck; Notes Payable; Accounts Payable; P. Ruiz,

Capital; P Ruiz, Drawing; Service Fees; Rent Expense; Wages Expense; Utilities Expense; Truck Expense; Advertising Expense; Supplies Expense; and Insurance Expense.

(B) Prepare a trial balance of the general ledger as of May 31.

PROBLEM 13 – TRIAL BALANCE AND FINANCIAL STATEMENTS

The following account balances, in alphabetical order, are from the general ledger of Beetle Norton's Bedbug Service at January 31, 19XX. The firm's accounting year began on January 1. All accounts had normal balances.

Accounts Payable	\$ 1,100
Advertising Expense	150
Cash	6,800
Service Fees	16,200
Beetle, Capital, January 1	18,500
Utilities Expense	230
Beetle, Drawing	2,750
Prepaid Insurance	880
Accounts Receivable	10,400
Rent Expense	640
Salaries Expense	3,200
Supplies Expense	2,250
Insurance Expense	80
Supplies on Hand	8,420

REQUIRED:

- (a) Prepare a trial balance in good form from the given data.
- (b) Prepare an income statement for the month of January.
- (c) Prepare a balance sheet at January 31.

PROBLEM 14 – DESCRIBING TRANSACTIONS

The following T accounts contain numbered entries for the May transactions of Erica Hanson, a fortune teller, who opened her offices on May 1 of the current year. **Required:** Give a reasonable description of each of the numbered transactions entered in the above accounts. Example: (1) Erica Hanson invested \$25,000 of his personal funds in his business.

Cash	
(1) 25,000	(2) 6,000
(2) 2,800	(4) 750
	(6) 900
	(8) 1,200

Erica Hanson Capital	
	(1) 25,000

Accounts Receivable	
(5) 5,600	(9) 2,800

Erica Hanson Drawing	
(8) 1,200	

Supplies on Hand	
(3) 1,800	(7) 680

Professional Fees	
(8) 5,600	

Office Equipment	
(5) 5,600	(9) 2,800

Rent Expense	
(8) 1,200	

Accounts Payable	
(6) 900	(3) 1,800

Supplies Expense	
(7) 680	

PROBLEM 15 – PREPARATION OF FINANCIAL STATEMENTS

J. King owns What's It?, a firm that catalogues things. On July 1 of the current year, his general ledger showed the following account balances:

Cash	\$ 8,600
Accounts Receivable	15,500
Prepaid Rent	900
Supplies on Hand	5,400
Notes Payable	4,500
Accounts Payable	1,800
W. Marshall , Capital	24,100

The following transactions occurred in July:

- (1) Collected \$8,300 on account from customers.
- (2) Paid \$1,500 installment due on the \$3,000 non-interest-bearing note payable to a relative.
- (3) Billed customers for design services rendered on account, \$16,400.
- (4) Rendered design services for cash customers, \$800.
- (5) Purchased various art supplies on account, \$1,620.
- (6) Paid \$1,200 to creditors on account.
- (7) Collected \$8,100 on account from customers.
- (8) Paid a delivery service for delivery of stuff to customers, \$170.
- (9) Paid July salaries, \$2,450.
- (10) Received invoice for July advertising expense, to be paid in August, \$480.
- (11) Paid utilities expense for July, \$220.
- (12) Withdrew \$750 for personal use.
- (13) Recorded rent expense for July, \$450. (Note that on July 1, two months' rent, \$900, was prepaid.)
- (14) Counted supplies on hand at July 31, \$4,250 worth remained.

REQUIRED

- (a) Set up the appropriate T accounts for the July 1 balance sheet and enter the beginning balances. Also provide the following T accounts: W. Marshall, Drawing; Service Fees; Rent Expense; Salaries Expense; Delivery Expense; Advertising Expense; Utilities Expense; and Supplies Expense. Record the listed transactions in the T accounts, and key entries with transaction numbers.
- (b) Prepare a trial balance at July 31.
- (c) Prepare an income statement for July.
- (d) Prepare a statement of owner's equity for July.
- (e) Prepare a balance sheet at July 31.

PROBLEM 16 – PREPARATION OF FINANCIAL STATEMENTS

The following account balances are from the ledger of *Sara Beautician Supply* at January 31, 19XX. The firm's accounting year began on January 1. All accounts had normal balances (i.e. assets have debit balances, liabilities have credit balances etc).

Accounts Payable	\$ 1,140
Accounts Receivable	14,400
Advertising Expense	150
Cash	9,200
Insurance Expense	40
Sara, Capital, January 1	16,500
Sara, Drawing	1,500
Prepaid Insurance	440
Rent Expense	560
Salaries Expense	3,000
Service Fees Earned	14,100
Supplies Expense	600
Supplies on Hand	1,600
Utilities Expense	250

REQUIRED

- Take a trial balance from the given data to check debit - credit equality.
- Prepare an income statement for the month of January.
- Prepare a statement of owner's equity for the month of January.
- Prepare a balance sheet at January 31.

PROBLEM 17 – T-ACCOUNTS AND TRIAL

BALANCE

Make T accounts for the following accounts that appear in the general ledger of Vita Lobo, a neurosurgeon: Cash; Accounts Receivable; Supplies on Hand; Office Equipment; Accounts Payable; Lobo, Capital; Lobo, Drawing; Professional Fees; Salaries Expense; and Rent Expense. Record the following transactions in the T accounts and key all entries with the number identifying the transaction. Finally, prove equality of debits and credits by preparing a trial balance.

- (1) Lobo opened a chequing account on December 1 at the Royal Bank in the name of *Lobo's Brain Repair* and deposited \$25,000.
- (2) Paid rent for December, \$600.
- (3) Purchased office equipment on account, as follows: desks, \$900; type-writers, \$1,450; filing cabinets, \$750; and chairs, \$600.
- (4) Purchased supplies for cash, \$800.
- (5) Billed clients for services rendered, \$5,600.
- (6) Paid secretary's salary, \$950.
- (7) Paid \$1,500 on account for the equipment purchased in transaction (3).
- (8) Collected \$3,800 from clients previously billed for services.
- (9) Withdrew \$1,600 for personal use.

PROBLEM 18 – THE ACCOUNT EQUATION

Compute the unknown amount required in each of the following five independent situations. The answer to situation (a) is given as an example. For each account, the beginning balance, ending balance and description of a relevant transaction is provided.

- (a) Cash \$ 5,200, \$4,450 (Total cash disbursed, \$5600)
- (b) Accounts Receivable \$4,900, \$3,700 (Services on account, \$6,000)
- (c) Supplies on Hand \$750, \$680 (Supplies used, \$560)
- (d) Prepaid Insurance \$150, \$400 (Premiums paid in advance \$600)
- (e) Capital \$22,000, \$33,000 (Capital contributions, \$3,000)

Unknown Amounts Required

- (a) Total cash received \$4,850
- (b) Total amount received from credit customers?
- (c) Supplies purchased during the period?
- (d) Amount of insurance expense for the period?
- (e) Net income, if no withdrawals were made?

PROBLEM 19 – ERROR ANALYSIS

Indicate how each of the following errors would affect the trial balance totals. For each error, specify whether the debit or credit totals would be overstated, understated, or whether both totals would be unaffected.

- (a) The Accounts Receivable balance of \$62,100 was listed in the trial balance as \$81,200.
- (b) A \$480 payment for Utilities Expense was debited to Miscellaneous Expense during the accounting period.
- (c) The Accounts Payable balance of \$32,600 was omitted from the trial balance. (d) Salaries Expense of \$2,100 was listed in the trial balance as a credit.
The owner's drawing account, with a debit balance of \$7,500, was listed as a credit in the trial balance.

PRACTICE PROBLEM 20 - ADJUSTING ENTRIES

Elaine Carpet Cleaners ended its first month of operations on June 30 of the current year. The unadjusted account balances are as follows:

Elaine Carpet Cleaners
Trial Balance
June 30, 19XX

	Debit	Credit
Cash	\$ 800	
Accounts Receivable	400	
Prepaid Rent	1,200	
Supplies on Hand	900	
Equipment	5,400	
Accounts Payable		\$ 500
Elaine, Capital		6,000
Elaine, Drawing	300	
Service Fees		3,200
Wages Expense	700	
	11,700	12,700

The following information is also available:

- (1) The balance in Prepaid Rent was the amount paid on June 1 for the first three months' rent.
- (2) Supplies on hand at June 30 were \$540.
- (3) The equipment, purchased June 1, has an estimated life of six years.
- (4) Unpaid wages at June 30 were \$200.
- (5) Utility services used during June were estimated at \$165. A bill is expected early in July.
- (6) Fees earned for services performed but not yet billed on June 30 were \$300.

REQUIRED

In general journal form, make the adjusting entries needed at June 30.

PRACTICE PROBLEM 21– TRIAL BALANCE AND ADJUSTMENTS

The Ali, Inc., a commercial photography studio, has just completed its first full year of operations on December 31 of the current year. The 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.

Cash	\$1,400
Unearned Photography Fees	\$ 1,150
Accounts Receivable.....	2,200
Capital Stock	10,000
Prepaid Rent	7,740
Photography Fees.....	20,900
Supplies on Hand.....	3,650
Wages Expense.....	6,000
Equipment.....	8,640
Insurance Expense.....	1,930
Accounts Payable.....	1,820
Utilities Expense.....	2,310

An analysis of the firm's records discloses the following items:

- (1) Photography services of \$600 have been rendered, but customers have not yet been billed.
- (2) The equipment, purchased January 1, has an estimated life of nine years.
- (3) Utilities expense for December is estimated to be \$260, but the bill will not arrive until January of next year.
- (4) The balance in Prepaid Rent represents the amount paid on January 1 for a three-year lease on the studio.
- (5) In November, customers paid \$1,150 in advance for pictures to be taken for the holiday season. When received, these fees were credited to Un-earned Photography Fees. By December 31, all these fees are earned.
- (6) A two-year insurance premium paid on January 1 was debited to In-surance Expense.
- (7) Supplies on hand at December 31 are \$1,200.
- (8) At December 31, wages expense of \$120 has been incurred but not paid.

REQUIRED

- (a) Prove that debits equal credits for the unadjusted account balances shown above by preparing a trial balance.
- (b) Record adjusting entries in general journal form.

PRACTICE PROBLEM 22 - ADJUSTING ENTRIES

For the *unrelated* accounts given below, the current balances and the balances they should have after adjusting entries have been posted are indicated.

Account Title	Current Balance	Adjusted Balance
(1) Supplies on Hand	\$940	\$410
(2) Depreciation Expense-Building	600	800
(3) Utilities Payable	-	325
(4) Insurance Expense	560	640
(5) Wages Payable	-	750
(6) Unearned Service Fees	850	400
(7) Accumulated Depreciation-Equipment	770	825
(8) Prepaid Rent	900	600
(9) Unearned Commissions Revenue	480	200
(10) Prepaid Advertising	-	500
(11) Interest Receivable	-	100

REQUIRED

For each item listed, prepare the most *probable* general journal entry (including an explanation) for each adjustment.

PRACTICE PROBLEM 23 – ADJUSTING ENTRIES

The following information relates to December 31 adjustments for Ashley Print, a printing company:

- (1) Weekly salaries for a five-day week total \$900, payable on Fridays. December 31 of the current year is a Wednesday.
- (2) Ashley Print received \$1,000 during December for printing services to be performed during the following year. When received, this amount was credited to Printing Fees.
- (3) During December, Ashley Print provided \$400 worth of printing services to clients, who will be billed on January 2.
- (4) All maintenance work on Ashley Print's equipment is handled by Prompt Repair Company under an agreement whereby Ashley Print pays a fixed monthly charge of \$125. Ashley Print paid four months' service charge in advance on December 1, debiting Prepaid Maintenance for \$500.
- (5) The firm paid \$800 on December 5 for a series of radio commercials to run during December and January. One-half of the commercials have aired by December 31. The \$800 payment was debited to Advertising Expense.
- (6) Starting December 16, Ashley Print rented 20 square metres of storage space from a neighbouring business. The monthly rent of \$16 per square metre is due in advance on the first of each month. Nothing was paid in December, however, because the neighbour agreed to add the rent for one-half of December to the January 1 payment.
- (7) Ashley Print invested \$4,000 in securities on December 1 and earned interest of \$35 on these securities by December 31. No interest will be received until January.
- (8) The monthly depreciation on the firm's equipment is \$180.

REQUIRED

Prepare the required December 31 adjusting entries in general journal form

PRACTICE PROBLEM 24 – ADJUSTING ENTRIES

Every summer the Kramer Music Society sponsors a series of six classical music concerts. For 19X3, two concerts monthly are scheduled for June, July, and August. Season tickets are on sale June 1-16, 19X3 (the first concert is June 16), and cost \$48 for the six concerts. Tickets for individual concerts cost \$10 each and go on sale June 15, 19X3. The Society sold 600 season tickets during June 1-16 and credited the \$28,800 proceeds to the Unearned Ticket Revenue account. The concerts are given in a pavilion located in a city park. The Society rents the facility from the city for \$500 per concert. The city requires advance payment for all concerts by June 5. On June 3, 19X3, the Society mailed a \$3,000 cheque to the city and debited the amount to the Prepaid Rent account. The Society incurs no other rent costs. The two concerts for June were presented as scheduled. Individual tickets sold for the June concerts totalled \$6,000 and were credited to the Ticket Revenue account. Other than the season tickets sold during June 1-16, no advance tickets have been sold by June 30 for the July and August concerts.

REQUIRED

- (a) Prepare the necessary adjusting entries at June 30, 19X3, for rent expense, and ticket revenue
- (b) After the adjustments made in (a) have been posted, what are the June 30, 19X3, balances in the following accounts: Prepaid Rent, Unearned Ticket Revenue, Ticket Revenue, and Rent Expense?
- (c) Assume the Society credited the \$28,800 season ticket sales amount to the Ticket Revenue account rather than to the Unearned Ticket Revenue account. Also assume the Society debited Rent Expense rather than Pre-paid Rent for the \$3,000 payment on June 3, 19X3. Given these assumptions, prepare the necessary adjusting entries at June 30, 19X3, for rent expense and ticket revenue.
- (d) After the adjustments made in (c) have been posted, what are the June 30, 19X3, balances in the following accounts: Prepaid Rent, Unearned Ticket Revenue Ticket Revenue and Rent Expense?