

Chapter 4

Completing the Accounting Cycle

Decision Guidelines – Excel

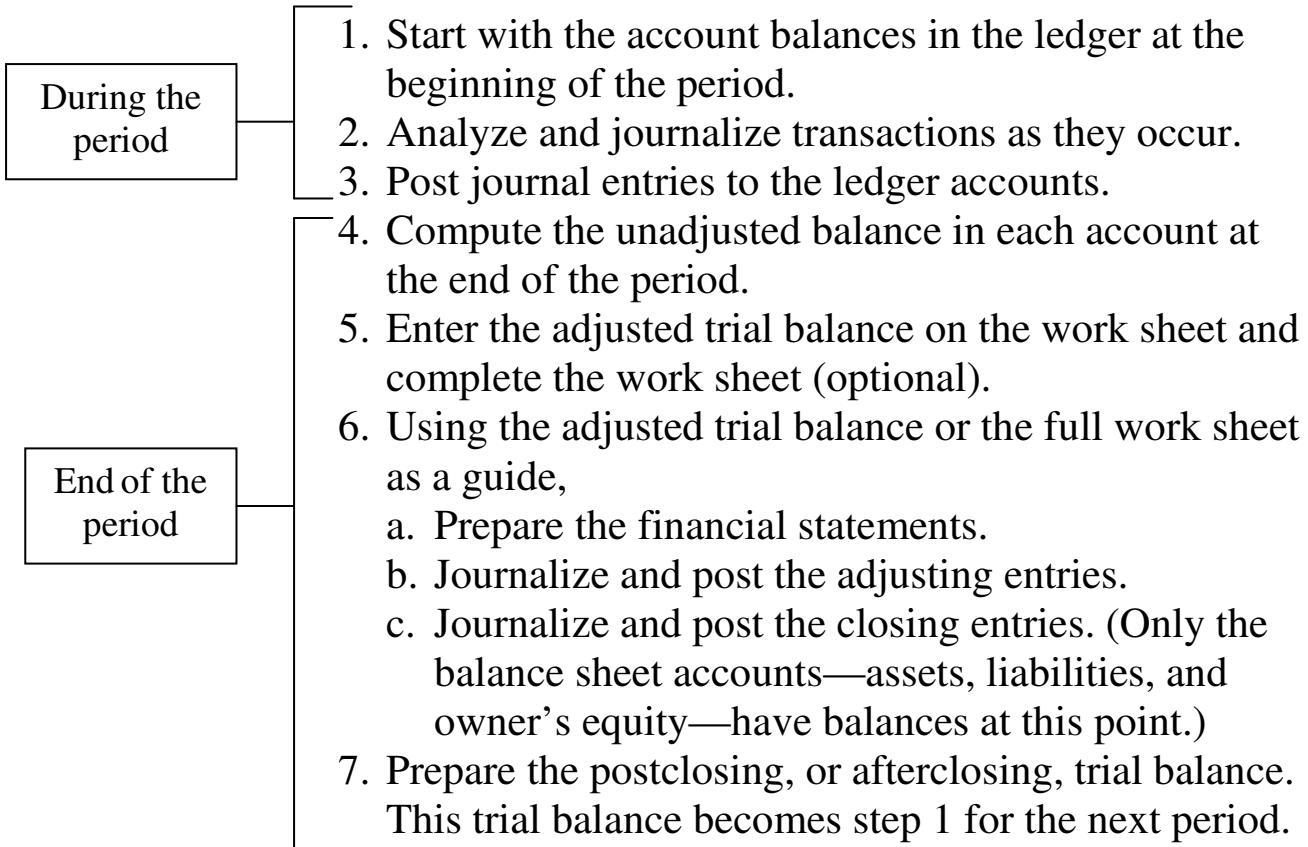
Solution

Depending on the years used for the analysis, the answers to the discussion questions may vary. The solution provided here is based on FY00, FY99, and FY98 results. The data were taken from the online annual reports found at www.targetcorp.com.

1. Target has a current ratio each year below the desirable range of 1.5-2.0. While the ratio for all years indicates that Target has enough current assets to cover its current liabilities, the margin is slim and, therefore, would be considered a riskier investment than a company with a higher current ratio.
2. Target has a debt ratio ranging from 0.66 to 0.69, indicating that it is financed about one third with equity and two thirds debt. As the textbook notes, Federated Department Stores' bankruptcy was due largely to its high debt during recession, so for Target, a lower debt ratio is a positive sign.
3. The trend is negative for Target's current ratio. The current ratio dropped from 1.22 in FY98 to 1.11 in FY00, a 9% change. Why? Current liabilities are growing faster than current assets. As for the debt ratio, it is holding steady in the .69 – .66 range. The drop from .69 to .66 occurred two years ago, which is favorable.

T Questions

1. The accounting cycle:



2. The *work sheet* helps move data from the trial balance to the period financial statements. It summarizes the effects of all the transactions of a particular accounting period and provides an orderly way to compute net income. It helps identify the accounts needing adjustments.

3. Entering the adjusting entries on the work sheet has no effect on the ledger accounts because the work sheet is neither a journal nor a ledger. The adjusting entries must be journalized and posted to update the accounts.

4. Revenue accounts, expense accounts, and the withdrawal account are closed.

5. Closing prepares the accounts for recording the transactions of the next period.

6. The *permanent* accounts—the assets, liabilities, and capital accounts—are not closed. Examples include Cash, Accounts Receivable, Prepaid Rent or Insurance, Supplies, Plant Assets, Accounts Payable, Notes Payable, Salary Payable, and Owner Capital.

The *temporary* accounts—the revenues, expenses, and owner withdrawals—are closed at the end of the period. Examples include Service Revenue, Interest Revenue, Salary Expense, Rent Expense, Supplies Expense, Depreciation Expense, and Owner Withdrawals.

7. Income Summary is a *temporary* account that is used only at the end of the period in the closing process. The balances of the revenue accounts and the expense accounts are closed into Income Summary before closing this account’s balance into Capital.

8. Service Revenue	5,900	
Income Summary		5,900
 Income Summary	1,100	
Salary Expense		1,100
 Income Summary	2,000	
Asa Warner, Capital		2,000
 Asa Warner, Capital	2,300	
Asa Warner, Withdrawals		2,300

9. Assets are classified as current or long-term to indicate their relative liquidity to users of the financial statements. Current assets are assets that are expected to be converted to cash, sold, or consumed during the next 12 months or within the business’s normal operating cycle if longer than a year. All other assets are long-term. The classified amounts are reported on the balance sheet.

10. Current assets: Prepaid Rent, Accounts Receivable, Merchandise Inventory, Cash, Note Receivable (due within one year)
 Long-term assets: Building, Furniture, Note Receivable (due after one year)
11. Assets and liabilities are listed on the balance sheet in the order of their liquidity. The most liquid items are listed first and the least liquid items are listed last.
12. A creditor cares whether a liability is current or long-term because a current liability places a greater strain on the business's cash than does a long-term liability. Knowing how many of the entity's liabilities are current and how many are long-term helps the creditor assess the likelihood of collecting from the business.
13. The friend's statement is not correct. A *current liability* is a liability that must be paid within one year or within the entity's operating cycle. A *long-term liability* is a liability not classified as current. Therefore, the classification of a liability is based on when the debt must be paid, not on the type of creditor.

14.

$$\text{Current ratio} = \frac{\text{Total current assets}}{\text{Total current liabilities}}$$

The current ratio measures the company's ability to pay current liabilities with current assets. A high value of the current ratio is safer than a low value.

$$\text{Debt ratio} = \frac{\text{Total liabilities}}{\text{Total assets}}$$

The debt ratio measures the company's ability to pay current and long-term liabilities. A low value of the debt ratio is safer than a high value.

T Daily Exercises

(10 min.) **DE 4-1**

- a. The business has used some of the supplies.
- b. Some of the prepaid rent has expired.
- c. The furniture has depreciated.
- d. The business owes some salary to its employees.
- e. Some of the unearned service revenue has been earned.
- f. The Cash balance at April 30 is up-to-date and correct.
- g. The Furniture account carries the cost of the furniture until the furniture is disposed of.

(10-15 min.) **DE 4-2**

- a. Accounts receivable—amount that Gay Gillen’s clients owe the travel agency and that Gillen expects to collect in cash
- b. Cost of the supplies on hand for use in the business
- c. Amount of rent that Gillen has prepaid and is available for use by the business
- d. Cost of furniture purchased for use by the business
- e. Portion of the furniture’s cost that has depreciated
- f. Amount that the business owes creditors
- g. Amount that the business has collected in advance from clients and owes them in the form of service
- h. Amount that the business earned during the period
- i. Used-up portion of the prepaid rent; the cost to the entity of obtaining a place to do business.

Note: Student responses will vary.

(5 min.) **DE 4-3**

Similarity: The work sheet includes the adjusted trial balance.

Difference: The work sheet also includes columns for the income statement and the balance sheet. These columns are not part of the adjusted trial balance.

(5 min.) **DE 4-4**

1. Owner's Capital—credit balance
2. Income Statement account with a credit balance—Service Revenue
3. Income Statement accounts with a debit balance—all the *expenses* (Rent Expense, Salary Expense, Supplies Expense, Depreciation Expense, Utilities Expense)
4. Revenues ! Expenses = Net income, which is closed into the Owner's Capital account.

(5 min.) **DE 4-5**

Horizontal line comes between Gay Gillen, capital and Gay Gillen, withdrawals.

Above the line are the *asset*, *liability*, and the *owner's capital* accounts.

Do *not* close these accounts.

Below the line are the owner's *withdrawals* account and the *revenue* and the *expense* accounts. Close these accounts.

1.

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Closing entries (all at April 30):			
	a. Gay Gillen, Capital		3,200	
	Gay Gillen, Withdrawals			3,200
	b. Service Revenue		7,400	
	Income Summary			7,400
	c. Income Summary		3,875	
	Rent Expense			1,000
	Salary Expense			1,900
	Supplies Expense			300
	Depreciation Expense			275
	Utilities Expense			400
	d. Income Summary		3,525	
	Gay Gillen, Capital			3,525

2.

<u>Gay Gillen, Capital</u>		<u>Gay Gillen, Withdrawals</u>		<u>Income Summary</u>	
Clo. 3,200	Bal. 31,250	Bal. 3,200	Clo. 3,200	Clo. 3,875	Clo. 7,400
	Clo. 3,525			Clo. 3,525	Bal. 3,525
	Bal. 31,575				
<u>Service Revenue</u>		<u>Rent Expense</u>		<u>Salary Expense</u>	
Clo. 7,400	Bal. 7,400	Bal. 1,000	Clo. 1,000	Bal. 1,900	Clo. 1,900
<u>Supplies Expense</u>		<u>Depreciation Expense</u>		<u>Utilities Expense</u>	
Bal. 300	Clo. 300	Bal. 275	Clo. 275	Bal. 400	Clo. 400

3. Gay Gillen, Capital — credit balance of \$31,575
 All other accounts — balance of \$0

(5 min.) **DE 4-7**

1. Gay Gillen, Capital ending balance = \$31,575
(\$31,250 ! \$3,200 + \$7,400 ! \$1,000
! \$1,900 ! \$300 ! \$275 ! \$400)
2. Statement of owner's equity — final amount
Balance sheet — owner's equity

(5 min.) **DE 4-8**

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
1999		CLOSING ENTRIES		<i>Millions</i>	
May	31	Service Revenue		5,139	
		Income Summary			5,139
	31	Income Summary		2,643	
		Sales and Marketing Expense			2,622
		Interest Expense			21

(5 min.) **DE 4-9**

(All Amounts in Millions)

Service Revenue			
Clo.	5,139	Bal.	5,139

Sales and Marketing Expense			
Bal.	2,622	Clo.	2,622

Interest Expense			
Bal.	21	Clo.	21

(10 min.) **DE 4-10**

Oracle Corporation		
Post-Closing Trial Balance		
May 31, 1999		
<i>Millions</i>		
Cash	\$ 1,786	
Accounts receivable	2,479	
Other current assets	1,182	
Property	988	
Other assets	825	
Accounts payable		\$ 284
Short-term notes payable		4
Other current liabilities		2,759
Long-term liabilities		518
Owners' equity	<u> </u>	<u>3,695</u>
Total	<u>\$7,260</u>	<u>\$7,260</u>

(5 min.) **DE 4-11**

Current assets:

Inventory
Receivables
Prepaid expenses

Current liabilities:

Accounts payable
Accrued liabilities

Long-term assets:

Equipment
Land and buildings
Accumulated depreciation

Long-term liabilities:

None

(10 min.) **DE 4-12**

All Amounts in Millions

- a. Total current assets = \$4,173
- b. Total current liabilities = \$3,788
- c. Book value of property, plant, and equipment = \$5,266
- d. Total long-term assets = \$13,378 (\$5,266 + \$4,735 + \$2,846 + \$531
= \$13,378 *or* \$17,551 ! \$4,173 = \$13,378)
- e. Total long-term liabilities = \$6,882 (\$2,812 + \$4,070 = \$6,882)

(All Amounts in Millions)

$$\begin{aligned}
 \text{Current Ratio} &= \frac{\text{Total current assets}}{\text{Total current liabilities}} = \frac{\$1,786 + \$2,479 + \$1,182}{\$284 + \$4 + \$2,759} \\
 &= \frac{\$5,447}{\$3,047} \\
 &= 1.79
 \end{aligned}$$

$$\begin{aligned}
 \text{Debt Ratio} &= \frac{\text{Total liabilities}}{\text{Total assets}} = \frac{\$3,047 + \$518}{\$5,447 + \$988 + \$825} \\
 &= \frac{\$3,565}{\$7,260} \\
 &= 0.49
 \end{aligned}$$

1. For every dollar of current liabilities, Oracle has \$1.79 of current assets.
2. 49% of Oracle's total assets are financed with debt.
3. Oracle's owners own 51% (100% ! 49%) of the company's total assets free and clear of debt.

1. *Gay Gillen eTravel:*

$$\text{Current ratio} = \frac{\text{Total current assets}}{\text{Total current liabilities}} = \frac{\$29,700}{\$14,350} = 2.07$$

$$\text{Debt ratio} = \frac{\text{Total liabilities}}{\text{Total assets}} = \frac{\$14,350}{\$45,925} = 0.31$$

PepsiCo:

$$\text{Current ratio} = 1.10 (\$4,173 / \$3,788)$$

$$\text{Debt ratio} = 0.61 [(\$3,788 + \$2,812 + \$4,070) / \$17,551]$$

Comparison:

Based solely on these ratios, Gary Gillen eTravel looks stronger because its current ratio is *higher*, and its debt ratio is *lower*, than the corresponding ratios of PepsiCo.

2. Evaluation:

The current ratio and the debt ratio do *not* tell the complete story of a business's financial position and ability to pay debts. Other factors to consider include the company's history (how long in business) and its size (total assets).

(20-30 min.) **E 4-1**

Pfeiffer Pack-n-Mail Service										
Work Sheet										
Month Ended September 30, 20X6										
ACCOUNT TITLE	TRIAL BALANCE		ADJUSTMENTS		ADJUSTED TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	3,560				3,560				3,560	
Accounts receivable	3,440		(a) 600		4,040				4,040	
Prepaid rent	1,200			(d) 800	400				400	
Supplies	3,390			(e) 1,650	1,740				1,740	
Equipment	32,600				32,600				32,600	
Accumulated depreciation		1,840		(b) 40		1,880				1,880
Accounts payable		3,600				3,600				3,600
Salary payable				(c) 500		500				500
Gail Pfeiffer, capital		36,030				36,030				36,030
Gail Pfeiffer, withdrawals	2,000				2,000				2,000	
Service revenue		7,300		(a) 600		7,900		7,900		
Depreciation expense			(b) 40		40		40			
Salary expense	1,800		(c) 500		2,300		2,300			
Rent expense			(d) 800		800		800			
Utilities expense	780				780		780			
Supplies expense			(e) 1,650		1,650		1,650			
	<u>48,770</u>	<u>48,770</u>	<u>3,590</u>	<u>3,590</u>	<u>49,910</u>	<u>49,910</u>	<u>5,570</u>	<u>7,900</u>	<u>44,340</u>	<u>42,010</u>
Net income							<u>2,330</u>			<u>2,330</u>
							<u>7,900</u>	<u>7,900</u>	<u>44,340</u>	<u>44,340</u>

Net income: \$2,330.

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
		<i>Adjusting Entries</i>			
Sep.	30	Account Receivable		600	
		Service Revenue			600
	30	Depreciation Expense		40	
		Accumulated Depreciation			40
	30	Salary Expense		500	
		Salary Payable			500
	30	Rent Expense		800	
		Prepaid Rent			800
	30	Supplies Expense		1,650	
		Supplies			1,650
		<i>Closing Entries</i>			
	30	Service Revenue		7,900	
		Income Summary			7,900
	30	Income Summary		5,570	
		Depreciation Expense			40
		Salary Expense			2,300
		Rent Expense			800
		Utilities Expense			780
		Supplies Expense			1,650
	30	Income Summary (\$7,900 ! \$5,570)		2,330	
		Gail Pfeiffer, Capital			2,330
	30	Gail Pfeiffer, Capital		2,000	
		Gail Pfeiffer, Withdrawals			2,000

(20-30 min.) **E 4-3**

Accounts Receivable

	3,440		
Adj.	600		
Bal.	4,040		

Supplies

	3,390	Adj.	1,650
Bal.	1,740		

Salary Payable

		Adj.	500
		Bal.	500

Gail Pfeiffer, Withdrawals

	2,000	Clo.	2,000
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Service Revenue

			7,300
		Adj.	600
Clo.	7,900	Bal.	7,900

Salary Expense

	1,800		
Adj.	500		
Bal.	2,300	Clo.	2,300

Utilities Expense

	780		
Bal.	780	Clo.	780

Prepaid Rent

	1,200	Adj.	800
Bal.	400		

Accumulated Depreciation

			1,840
		Adj.	40
		Bal.	1,880

Gail Pfeiffer, Capital

			36,030
Clo.	2,000	Clo.	2,330
		Bal.	36,360

Income Summary

Clo.	5,570	Clo.	7,900
Clo.	2,330	Bal.	2,330

Depreciation Expense

Adj.	40		
Bal.	40	Clo.	40

Rent Expense

Adj.	800		
Bal.	800	Clo.	800

Supplies Expense

Adj.	1,650		
Bal.	1,650	Clo.	1,650

(10-15 min.) **E 4-4**

Pfeiffer Pack-n-Mail Service		
Postclosing Trial Balance		
September 30, 20X6		
ACCOUNT	DEBIT	CREDIT
Cash	\$ 3,560	
Accounts receivable (\$3,440 + \$600)	4,040	
Prepaid rent (\$1,200 ! \$800)	400	
Supplies (\$3,390 ! \$1,650)	1,740	
Equipment	32,600	
Accumulated depreciation (\$1,840 + \$40)		\$ 1,880
Accounts payable		3,600
Salary payable (\$0 + \$500)		500
Gail Pfeiffer, capital (see solution to Ex. 4-3)		36,360
Total	<u>\$42,340</u>	<u>\$42,340</u>

Req. 1

Prepaid Insurance		Insurance Expense	
12/31/X1	1,400		
12/31/X2	1,600		

Unearned Service Revenue		Service Revenue	
	12/31/01	4,100	
	12/21/02	3,700	

Req. 2

Journal				
	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
a.	Cash		17,000	
	Unearned Service Revenue			17,000
b.	Unearned Service Revenue		17,400	
	Service Revenue			17,400
c.	Prepaid Insurance		4,400	
	Cash			4,400
d.	Insurance Expense (\$1,400 + \$4,400 ! \$1,600)		4,200	
	Prepaid Insurance			4,200

Req. 2 (continued)

Prepaid Insurance	
1,400	
4,400	4,200
1,600	

Insurance Expense	
4,200	

Unearned Service Revenue	
	4,100
17,400	17,000
	3,700

Service Revenue	
	17,400

Req. 3

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	<i>Closing Entries</i>			
	Service Revenue		17,400	
	Income Summary			17,400
	Income Summary		4,200	
	Insurance Expense			4,200

Insurance Expense	
4,200	Clo. 4,200

Service Revenue	
Clo. 17,400	17,400

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
		<i>Closing Entries</i>			
June	30	Service Revenue		101,100	
		Interest Revenue		700	
		Income Summary			101,800
	30	Income Summary		32,500	
		Salary Expense			12,500
		Supplies Expense			1,700
		Interest Expense			2,200
		Depreciation Expense			10,200
		Rent Expense			5,900
	30	Income Summary			
		(\$101,800 ! \$32,500)		69,300	
		Liu Hyundai, Capital			69,300
	30	Liu Hyundai, Capital		40,000	
		Liu Hyundai, Withdrawals			40,000

Liu Hyundai, Capital

			21,600
Withdrawals	40,000	Net income	69,300
		Balance	50,900

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
		<i>Closing Entries</i>			
Dec.	31	Service Revenue			
		(\$211,000 + \$9,500)		220,500	
		Income Summary			220,500
	31	Income Summary		35,800	
		Salary Expense			
		(\$26,000 + \$700)			26,700
		Supplies Expense			2,000
		Depreciation Expense - Furniture			1,100
		Depreciation Expense - Building			6,000
	31	Income Summary			
		(\$220,500 ! \$35,800)		184,700	
		Felix Rohr, Capital			184,700
	31	Felix Rohr, Capital		61,400	
		Felix Rohr, Withdrawals			61,400

Felix Rohr, Capital

			52,400
Withdrawals	61,400	Net inc.	184,700
		Balance	175,700

(5-10 min.) **E 4-8**

Lubricon Chemical Company	
Statement of Owner's Equity	
Year Ended December 31, 20X2	
Matthew Knowles, capital, January 1, 20X2	\$436,000
Add: Investments by owner	28,000
Net income	<u>143,000</u>
	607,000
Less: Withdrawals	<u>(142,000)</u>
Matthew Knowles, capital, December 31, 20X2	<u><u>\$ 465,000</u></u>

Req. 1

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
		<i>Adjusting Entries</i>			
April	30	Unearned Service Revenue		4,300	
		Service Revenue (\$19,100 ! \$14,800)			4,300
	30	Salary Expense (\$3,800 ! \$3,000)		800	
		Salary Payable			800
	30	Rent Expense (\$1,400 ! \$1,200)		200	
		Prepaid Rent			200
	30	Depreciation Expense (\$300 ! \$0)		300	
		Accumulated Depreciation			300
	30	Supplies Expense (\$400 ! \$0)		400	
		Supplies			400
		<i>Closing Entries</i>			
April	30	Service Revenue		19,100	
		Income Summary			19,100
	30	Income Summary		6,700	
		Salary Expense			3,800
		Rent Expense			1,400
		Depreciation Expense			300
		Supplies Expense			400
		Utilities Expense			800
	30	Income Summary (\$19,100 ! \$6,700)		12,400	
		H. B. Fuller, Capital			12,400
	30	H. B. Fuller, Capital		1,000	
		H. B. Fuller, Withdrawals			1,000

Req. 2

The business had a net income of \$12,400. Service revenues (\$19,100) exceeded total expenses (\$6,700).

Req. 1

H. B. Fuller Polling Company		
Balance Sheet		
April 30, 20XX		
ASSETS		
Current:		
Cash		\$ 5,200
Supplies (\$2,400 ! \$400)		2,000
Prepaid rent [\$1,100 ! (\$1,400 ! \$1,200)]		<u>900</u>
Total current assets		8,100
Plant:		
Computer equipment	\$51,100	
Less accumulated depreciation		
(\$6,200 + \$300)	<u>(6,500)</u>	<u>44,600</u>
Total assets		<u>\$52,700</u>
LIABILITIES		
Current:		
Accounts payable		\$ 4,600
Salary payable (\$3,800 ! \$3,000)		800
Unearned service revenue		
[\$4,400 ! (\$19,100 ! \$14,800)]		<u>100</u>
Total current liabilities		5,500
Long-term note payable		<u>10,000</u>
Total liabilities		15,500
OWNER'S EQUITY		
H.B. Fuller, capital		
(\$25,800 + \$12,400 ! \$1,000)		<u>37,200</u>
Total liabilities and owner's equity		<u>\$52,700</u>

Req. 2

				Current Year	Prior Year
<i>Current Ratio</i>	=	$\frac{\text{Total current assets}}{\text{Total current liabilities}}$	=	$\frac{\$8,100}{\$5,500}$	=
				1.47	1.20

The ability to pay current liabilities with current assets has improved.

<i>Debt Ratio</i>	=	$\frac{\text{Total liabilities}}{\text{Total assets}}$	=	$\frac{\$15,500}{\$52,700}$	=
				0.29	0.30

The overall ability to pay total liabilities hasn't changed much.

Req. 1

		<i>Closing Entries</i>		
Dec.	31	Service Revenue	3,200	
		Income Summary		3,200
	31	Income Summary	1,510	
		Rent Expense		500
		Utilities Expense		200
		Salary Expense		500
		Depreciation Expense – Equipment		50
		Depreciation Expense – Furniture		60
		Supplies Expense		200
	31	Income Summary (\$3,200 ! \$1,510)	1,690	
		Amos Faraday, Capital		1,690
	31	Amos Faraday, Capital	1,600	
		Amos Faraday, Withdrawals		1,600

Req. 1

Income Summary

Clo.	1,510	Clo.	3,200
Clo.	1,690		

Amos Faraday, Capital

		Dec. 2	14,000
Clo.	1,600	Clo.	1,690
		Bal.	14,090

Amos Faraday, Withdrawals

Dec. 30	1,600	Clo.	1,600
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Service Revenue

		Dec. 9	1,700
		Dec. 18	800
		Bal.	2,500
		Adj.	400
		Adj.	300
Clo.	3,200	Bal.	3,200

Rent Expense

Dec. 2	500	Clo.	500
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Utilities Expense

Dec. 12	200	Clo.	200
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Salary Expense

Adj.	500	Clo.	500
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Depreciation Expense – Equipment

Adj.	50	Clo.	50
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Depreciation Expense – Furniture

Adj.	60	Clo.	60
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Supplies Expense

Adj.	200	Clo.	200
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Req. 2

Amos Faraday, Consultant			
Balance Sheet			
December 31, 20XX			
ASSETS		LIABILITIES	
Current assets:		Current liabilities:	
Cash	\$11,700	Accounts payable	\$ 3,600
Accounts receivable	1,500	Salary payable	500
Supplies	<u>100</u>	Unearned service	
Total current assets	13,300	revenue	<u>600</u>
Plant assets:		Total current liabilities	4,700
Equipment \$2,000			
Less accum.			
depr. <u>(50)</u>	1,950	OWNER'S EQUITY	
Furniture \$3,600		Amos Faraday, capital	14,090
Less accum.			
depr. <u>(60)</u>	<u>3,540</u>	Total liabilities and	
Total assets	<u>\$18,790</u>	owner's equity	<u>\$18,790</u>

(continued) **E 4-11***Req. 3*

Amos Faraday, Consultant										
Accounting Work Sheet										
December 31, 20XX										
ACCOUNT TITLE	TRIAL BALANCE		ADJUSTMENTS		ADJUSTED TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	11,700				11,700				11,700	
Accounts receivable	1,100		(a) 400		1,500				1,500	
Supplies	300			(c) 200	100				100	
Equipment	2,000				2,000				2,000	
Accumulated depr. – equip.				(d1) 50		50				50
Furniture	3,600				3,600				3,600	
Accumulated depr. – furn.				(d2) 60		60				60
Accounts payable		3,600				3,600				3,600
Salary payable				(e) 500		500				500
Unearned service revenue		900	(b) 300			600				600
Amos Faraday, capital		14,000				14,000				14,000
Amos Faraday, withdrawals	1,600				1,600				1,600	
Service revenue		2,500		(a) 400 (b) 300		3,200		3,200		
Rent expense	500				500		500			
Utilities expense	200				200		200			
Salary expense			(e) 500		500		500			
Depreciation expense – equip.			(d1) 50		50		50			
Depreciation expense – furn.			(d2) 60		60		60			
Supplies expense			(c) 200		200		200			
	<u>21,000</u>	<u>21,000</u>	<u>1,510</u>	<u>1,510</u>	<u>22,010</u>	<u>22,010</u>	1,510	3,200	20,500	18,810
Net income							<u>1,690</u>			<u>1,690</u>
							<u>3,200</u>	<u>3,200</u>	<u>20,500</u>	<u>20,500</u>

(20 min.) **E 4-12**

Links Resorts		
Income Statement		
Year Ended December 31, 20X2		
Service revenue:		
(\$93,600 + \$3,600 + \$8,100)		\$105,300
Expenses:		
Salary expense (\$42,700 + \$1,400)	\$44,100	
Depreciation expense	2,900	
Supplies expense	600	
Insurance expense	1,800	
Utilities expense	<u>2,800</u>	<u>52,200</u>
Net income		<u>\$ 53,100</u>