

B EXERCISES

(LO 4) E3-1B (Transaction Analysis—Service Company) Brown is a licensed CPA. During the first month of operations of her business (a sole proprietorship), the following events and transactions occurred.

- April 2 Invested \$73,600 cash and equipment valued at \$32,200 in the business.
- 2 Hired a secretary-receptionist at a salary of \$667 per week, payable monthly.
- 3 Purchased supplies on account \$1,610. (Debit an asset account.)
- 7 Paid office rent of \$1,380 for the month.
- 11 Completed a tax assignment and billed client \$2,530 for services rendered. (Use Service Revenue account.)
- 12 Received \$7,360 advance on a management consulting engagement.
- 17 Received cash of \$5,290 for services completed for Calunga Co.
- 21 Paid insurance expense \$253.
- 30 Paid secretary-receptionist \$2,668 for the month.
- 30 A count of supplies indicated that \$276 of supplies had been used.
- 30 Purchased a new computer for \$14,030 with personal funds. (The computer will be used exclusively for business purposes.)

Instructions

Journalize the transactions in the general journal. (Omit explanations.)

E3-2B (Corrected Trial Balance) The trial balance of Cervantes Corporation, below, does not balance.

CERVANTES CORPORATION
TRIAL BALANCE
APRIL 30, 2007

	Debit	Credit
Cash	\$11,824	
Accounts Receivable	10,480	
Supplies on Hand	5,934	
Furniture and Equipment	12,200	
Accounts Payable		\$14,088
Common Stock		16,000
Retained Earnings		4,000
Service Revenue		10,400
Office Expense	8,640	
	\$49,078	\$44,488

An examination of the ledger shows these errors.

1. Cash received from a customer on account was recorded (both debit and credit) as \$2,760 instead of \$3,660.
2. The purchase on account of a computer costing \$6,400 was recorded as a debit to Office Expense and a credit to Accounts Payable.
3. Services were performed on account for a client, \$4,500, for which Accounts Receivable was debited \$4,500 and Service Revenue was credited \$450.
4. A payment of \$190 for telephone charges was entered as a debit to Office Expenses and a debit to Cash.
5. The Service Revenue account was totaled at \$10,400 instead of \$10,560.

Instructions

From this information prepare a corrected trial balance.

(LO 5) E3-3B (Adjusting Entries) The ledger of Chan Rental Agency on March 31 of the current year includes the following selected accounts before adjusting entries have been prepared.

	Debit	Credit
Prepaid Insurance	\$ 2,700	
Supplies	2,100	
Equipment	18,750	
Accumulated Depreciation—Equipment		\$ 6,300
Notes Payable		15,000
Unearned Rent Revenue		6,975
Rent Revenue		45,000
Interest Expense	—0—	
Wage Expense	10,500	

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An analysis of the accounts shows the following.

1. The equipment depreciates \$188 per month.
2. One-third of the unearned rent was earned during the quarter.
3. Interest of \$375 is accrued on the notes payable.
4. Supplies on hand total \$637.
5. Insurance expires at the rate of \$225 per month.

Instructions

Prepare the adjusting entries at March 31, assuming that adjusting entries are made quarterly. Additional accounts are: Depreciation Expense; Insurance Expense; Interest Payable; and Supplies Expense.

(L0 5) E3-4B (Adjusting Entries) Cheng, D.D.S., opened a dental practice on January 1, 2007. During the first month of operations the following transactions occurred.

1. Performed services for patients who had dental plan insurance. At January 31, \$375 of such services was earned but not yet billed to the insurance companies.
2. Utility expenses incurred but not paid prior to January 31 totaled \$260.
3. Purchased dental equipment on January 1 for \$40,000, paying \$10,000 in cash and signing a \$30,000, 3-year note payable. The equipment depreciates \$200 per month. Interest is \$250 per month.
4. Purchased a one-year malpractice insurance policy on January 1 for \$6,000.
5. Purchased \$800 of dental supplies. On January 31, determined that \$250 of supplies were on hand.

Instructions

Prepare the adjusting entries on January 31. Account titles are:

Accumulated Depreciation—Dental Equipment	Interest Payable
Depreciation Expense	Prepaid Insurance
Service Revenue	Supplies
Accounts Receivable	Supplies Expense
Insurance Expense	Utilities Expense
Interest Expense	Utilities Payable

(L0 5) E3-5B (Analyze Adjusted Data) A partial adjusted trial balance of Coy Company at January 31, 2007, shows the following.

COY COMPANY
ADJUSTED TRIAL BALANCE
JANUARY 31, 2007

	Debit	Credit
Supplies	\$1,120	
Prepaid Insurance	3,840	
Salaries Payable		\$1,280
Unearned Revenue		1,200
Supplies Expense	1,520	
Insurance Expense	640	
Salaries Expense	2,880	
Service Revenue		3,200

Instructions

Answer the following questions, assuming the year begins January 1.

- (a) If the amount in Supplies Expense is the January 31 adjusting entry, and \$1,360 of supplies was purchased in January, what was the balance in Supplies on January 1?
- (b) If the amount in Insurance Expense is the January 31 adjusting entry, and the original insurance premium was for one year, what was the total premium and when was the policy purchased?
- (c) If \$4,000 of salaries was paid in January, what was the balance in Salaries Payable at December 31, 2006?
- (d) If \$2,560 was received in January for services performed in January, what was the balance in Unearned Revenue at December 31, 2006?

(LO 5) E3-6B (Adjusting Entries) Dement is the new owner of Fung Computer Services. At the end of August 2007, his first month of ownership, Dement is trying to prepare monthly financial statements. Below is some information related to unrecorded expenses that the business incurred during August.

- At August 31, Dement owed his employees \$2,280 in wages that will be paid on September 1.
- At the end of the month he had not yet received the month's utility bill. Based on past experience, he estimated the bill would be approximately \$720.
- On August 1, Dement borrowed \$36,000 from a local bank on a 15-year mortgage. The annual interest rate is 6%.
- A telephone bill in the amount of \$140 covering August charges is unpaid at August 31.

Instructions

Prepare the adjusting journal entries as of August 31, 2007, suggested by the information above.

E3-7B (Adjusting Entries) Gonzalez Resort opened for business on June 1 with eight air-conditioned units. Its trial balance on August 31 is as follows.

GONZALEZ RESORT
TRIAL BALANCE
AUGUST 31, 2007

	Debit	Credit
Cash	\$ 1,960	
Prepaid Insurance	440	
Supplies	260	
Land	2,000	
Cottages	12,000	
Furniture	1,600	
Accounts Payable		\$ 450
Unearned Rent Revenue		460
Mortgage Payable		6,000
Common Stock		9,100
Retained Earnings		890
Dividends	500	
Rent Revenue		7,620
Salaries Expense	4,480	
Utilities Expense	920	
Repair Expense	360	
	\$24,520	\$24,520

Other data:

- The balance in prepaid insurance is a one-year premium paid on June 1, 2007.
- An inventory count on August 31 shows \$45 of supplies on hand.
- Annual depreciation rates are cottages (10%) and furniture (15%). Salvage value is estimated to be 10% of cost.
- Unearned Rent Revenue of \$380 was earned prior to August 31.
- Salaries of \$38 were unpaid at August 31.
- Rentals of \$80 were due from tenants at August 31.
- The mortgage interest rate is 6% per year.

Instructions

- Journalize the adjusting entries on August 31 for the 3-month period June 1–August 31.
- Prepare an adjusted trial balance on August 31.

(LO 6) E3-8B (Closing Entries) The adjusted trial balance of Guevara Company shows the following data pertaining to sales at the end of its fiscal year, October 31, 2007:

Sales	\$320,000	Sales Returns and Allowances	\$9,600
Freight-out	\$4,800	Sales Discounts	\$6,000

Instructions

- Prepare the sales revenues section of the income statement.
- Prepare separate closing entries for (1) sales, and (2) the contra accounts to sales.

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(LO 8) E3-9B (Missing Amounts) Presented below is financial information for two different companies.

	<u>Hirsch Company</u>	<u>Ho Company</u>
Sales	\$30,000	(d)
Sales returns	(a)	\$ 1,600
Net sales	27,000	31,600
Cost of goods sold	18,600	(e)
Gross profit	(b)	12,600
Operating expenses	5,000	7,600
Net income	(c)	5,000

Instructions

Compute the missing amounts.

(LO 7) E3-10B (Find Missing Amounts—Periodic Inventory) Financial information is presented below for four different companies.

	<u>Huynh's Cosmetics</u>	<u>Jadhaw's Grocery</u>	<u>Jia Wholesalers</u>	<u>Khan Supply Co.</u>
Sales	\$156,000	(c)	\$288,000	\$200,000
Sales returns	(a)	\$ 10,000	24,000	18,000
Net sales	148,000	188,000	264,000	(g)
Beginning inventory	32,000	(d)	88,000	48,000
Purchases	176,000	200,000	(e)	170,000
Purchase returns	12,000	20,000	16,000	(h)
Ending inventory	(b)	96,000	60,000	56,000
Cost of goods sold	128,000	144,000	(f)	144,000
Gross profit	20,000	44,000	32,000	(i)

Instructions

Determine the missing amounts (a–i). Show all computations.

(LO 7) E3-11B (Cost of Goods Sold Section—Periodic Inventory) The trial balance of Kiboma Company at the end of its fiscal year, August 31, 2007, includes the following accounts: Merchandise Inventory \$19,250; Purchases \$164,340; Sales \$220,000; Freight-in \$4,400; Sales Returns and Allowances \$4,400; Freight-out \$1,100; and Purchase Returns and Allowances \$2,200. The ending merchandise inventory is \$27,500.

Instructions

Prepare a cost of goods sold section for the year ending August 31.

(LO 6) E3-12B (Closing Entries for a Corporation) Presented below are selected account balances for Kirby Co. as of December 31, 2007.

Merchandise Inventory 12/31/07	\$24,000	Sales	\$164,000
Common Stock	30,000	Cost of Goods Sold	90,280
Retained Earnings	18,000	Selling Expenses	6,400
Dividends	7,200	Administrative Expenses	15,200
Sales Returns and Allowances	4,800	Income Tax Expense	12,000
Sales Discounts	6,000		

Instructions

Prepare closing entries for Kirby Co. on December 31, 2007.

(LO 4) E3-13 (Transactions of a Corporation, Including Investment and Dividend) Scott Loder opened Ledford Miniature Golf and Driving Range Inc. on March 1. The following selected events and transactions occurred during March.

- Mar. 1 Invested \$62,500 cash in the business in exchange for common stock.
- 3 Purchased Moises Moreno's Golf Land for \$47,500 cash. The price consists of land \$12,500; building \$27,500; and equipment \$7,500. (Make one compound entry.)
- 5 Advertised the opening of the driving range and miniature golf course, paying advertising expenses of \$2,000.
- 6 Paid cash \$1,850 for a one-year insurance policy.
- 10 Purchased golf equipment for \$3,125 from Moore Company, payable in 30 days.
- 18 Received golf fees of \$1,500 in cash.
- 25 Declared and paid a \$625 cash dividend.
- 30 Paid wages of \$1,125.
- 30 Paid Moore Company in full.
- 31 Received \$950 of fees in cash.

Ledford uses the following accounts:

Cash	Equipment	Service Revenue
Prepaid Insurance	Accounts Payable	Advertising Expense
Land	Common Stock	Wages Expense
Buildings	Dividends	

Instructions

Journalize the March transactions.

- (L0 9) *E3-14B (Cash to Accrual Basis)** June Murray, M.D., maintains the accounting records of Murray Clinic on a cash basis. During 2007, Dr. Murray collected \$285,200 from her patients and paid \$110,940 in expenses. At January 1, 2007, and December 31, 2007, she had accounts receivable, unearned service revenue, accrued expenses, and prepaid expenses as follows. All long-lived assets are rented.

	January 1, 2007	December 31, 2007
Accounts receivable	\$18,500	\$31,854
Unearned service revenue	5,680	8,222
Accrued expenses	6,870	4,216
Prepaid expenses	3,834	6,464

Instructions

Prepare a schedule that converts Dr. Murray's "excess of cash collected over cash disbursed" for the year 2007 to net income on an accrual basis for the year 2007.

- (L0 5, 10) *E3-15B (Adjusting and Reversing Entries)** When the accounts of David Nguyen Inc. are examined, the adjusting data listed below are uncovered on December 31, the end of an annual fiscal period.

- The prepaid insurance account shows a debit of \$7,200, representing the cost of a 2-year fire insurance policy dated August 1 of the current year.
- On November 1, Rental Revenue was credited for \$1,500, representing revenue from a subrental for a 3-month period beginning on that date.
- Purchase of advertising materials for \$1,000 during the year was recorded in the Advertising Expense account. On December 31, advertising materials of \$300 are on hand.
- Interest of \$850 has accrued on notes payable.

Instructions

Prepare the following in general journal form.

- The adjusting entry for each item.
- The reversing entry for each item where appropriate.

- (L0 5) E3-16B (Accrual Accounting)** Tara Co. owns an office building and leases the offices under a variety of rental agreements involving rent paid in advance monthly or annually. Not all tenants make timely payments of their rent. Tara's balance sheets contained the following data:

	<u>2006</u>	<u>2007</u>
Receivables	\$ 9,600	\$12,400
Unearned revenues	32,000	24,000

During 2007, Tara received \$80,000 cash from tenants.

Instructions

What amount of rental revenue should Tara record?

- (L0 2) E3-17B (Effects of Transactions)** Indicate the effect (increase, decrease, or no effect) of the following transactions on total assets, total liabilities and total equity. Ignore any income tax effects.

- Issued stock on January 1 for cash.
- Purchased a building by signing a 30-year mortgage on February 1, interest payable semiannually.
- Purchased a one-year insurance policy (recorded as Prepaid Insurance) on May 1.
- Purchased equipment for cash on June 1.
- Paid 6 months' interest on mortgage on August 1.
- Recorded first year's depreciation on equipment on December 31.
- Recorded the expiration of 8 months of the insurance policy on December 31.
- Recorded interest incurred, but unpaid, on mortgage note on December 31.

- (L0 5) E3-18B (Adjusting Entries)** Record the necessary adjusting entries for each of the following cases. Each case is independent. Assume that adjusting entries are made at year-end only.

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Case 1

- (a) On August 1, 2006, Tang paid \$18,000 in advance for a 3-year insurance policy. Tang has a December 31 fiscal year-end. Assume that Tang debited a balance sheet account when recording the cash payment and that no reversing entry was made on January 1, 2007. Record the appropriate adjusting entries for Tang on December 31, 2006 and December 31, 2007.

Case 2

- (b) On September 1, 2006, Thao paid \$108,000 in advance for a 3-year lease of an office building. Thao has a December 31 fiscal year-end. Assume that Thao debited an income statement account at the time of the cash exchange. Record the appropriate adjusting entries for Thao on December 31, 2006.

Case 3

- (c) On September 1, 2006, Bogart borrowed \$48,000 from Marlowe Bank, issuing a 6-month, 8% note. Interest is payable when the note is due. The interest rate is an annual rate. Record the adjusting entry for Bogart on December 31, 2006, and the entry on March 1, 2007, payment of the note.

- (LO 5) E3-19B (Adjusting Entries)** Lee Corp. purchased equipment on April 1, 2007, for \$72,000. The equipment has an estimated salvage value of \$12,000. Lee uses straight-line depreciation. On December 31, 2011, before recording the 2011 depreciation expense, the balance in the accumulated depreciation account for this equipment was \$22,500.

Instructions

- (a) Record the depreciation journal entry for this equipment for 2007.
(b) Record the depreciation journal entry for this equipment for 2011.
(c) What is the estimated total life of the equipment on April 1, 2007?

- (LO 7) E3-20B (Inventory Closing Entry)** Below is selected information from Bergman Co.

Sales	\$1,200,000
Sales returns and allowances	5,000
Beginning inventory	100,000
Sales discounts	2,000
Purchases	700,000
Purchase returns	30,000
Operating expenses	100,000
Freight-in	10,000
Freight-out	12,000
Purchase discounts	4,000

A year-end count of inventory revealed an ending balance of \$50,000. Bergman uses the periodic inventory system.

Instructions

Prepare the year-end Cost of Goods Sold closing entry.