

Chapter 4 Handouts

1. Assets and liabilities are listed on the balance sheet in order of their

- A. purchase date.
 - B. adjustments.
 - C. liquidity.
 - D. balance.
-

2. Which of the following accounts would be included in the plant assets category of the classified balance sheet?

- A. Land held for investment
 - B. Accumulated Depreciation
 - C. Office Supplies
 - D. Mortgage Payable
-

3. Which situation indicates a net loss within the Income Statement section of the worksheet?

- A. Total credits exceed total debits
 - B. Total debits exceed total credits
 - C. Total debits equal total credits
 - D. None of the above
-

4. Which of the following accounts is *not* closed?

- A. Depreciation Expense
 - B. Dividends
 - C. Service Revenue
 - D. Accumulated Depreciation
-

5. What do closing entries accomplish?

- A. Zero out the revenues, expenses, and dividends
 - B. Transfer revenues, expenses, and dividends to the Retained Earnings account
 - C. Bring the Retained Earnings account to its correct ending balance
 - D. All of the above
-

6. Which of the following is *not* a closing entry?

Date	Accounts and Explanation	Debit	Credit
<input type="radio"/> A.	Retained Earnings Dividends	xxx	xxx
<input type="radio"/> B.	Service Revenue Income Summary	xxx	xxx
<input type="radio"/> C.	Salaries Payable Income Summary	xxx	xxx
<input type="radio"/> D.	Income Summary Rent Expense	xxx	xxx

7. Which of the following accounts may appear on a post-closing trial balance?

- A. Cash, Salaries Payable, and Retained Earnings
- B. Cash, Salaries Payable, and Service Revenue
- C. Cash, Service Revenue, and Salaries Expense
- D. Cash, Salaries Payable, and Salaries Expense

8. Which of the following steps of the accounting cycle is not completed at the end of the period?

- A. Journalize transactions as they occur.
- B. Journalize and post the closing entries.
- C. Prepare the post-closing trial balance.
- D. Prepare the financial statements.

9. Clean Water Softener Systems has Cash of \$600, Accounts Receivable of \$900, and Office Supplies of \$400. Clean owes \$500 on Accounts Payable and has Salaries Payable of \$200. Clean's current ratio is (Round the current ratio to two decimal places.)

Review Only

Click the icon to see the Worked Solution.

- A. 2.71
- B. 2.50
- C. 0.63
- D. 0.37

10. Which of the following statements concerning reversing entries is true?

- A. Reversing entries are required by Generally Accepted Accounting Principles.
 - B. Reversing entries are most often used with accrual-type adjustments.
 - C. Reversing entries are dated December 31, the end of the fiscal year.
 - D. Reversing entries are recorded before adjusting entries.
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11. The adjusted trial balance for Web Advertising Services is presented below:

¹(Click on the icon to view the adjusted trial balance.)

Requirements

1. Prepare the income statement for the year ending December 31, 2016.
2. Prepare the statement of retained earnings for the year ending December 31, 2016.
3. Prepare the classified balance sheet as of December 31, 2016. Use the report form.

Requirement 1. Prepare the income statement for the year ending December 31, 2016. (Use a minus sign or parentheses to show a net loss. If a box is not used in the statement, leave the box empty; do not select a label or enter a zero.)

**Web Advertising Services
Income Statement
Year Ended December 31, 2016**

(1)		
(2)		
(3)		
(4)		
(5)		
(6)		
(7)		
(8)		
(9)		
(10)		
Net Income (Loss)		

Requirement 2. Prepare the statement of retained earnings for the year ending December 31, 2016. (Use a minus sign or parentheses to show a decrease in retained earnings.)

**Web Advertising Services
Statement of Retained Earnings
Year Ended December 31, 2016**

Retained Earnings, January 1, 2016	
(11)	
(12)	
Retained Earnings, December 31, 2016	

Requirement 3. Prepare the classified balance sheet as of December 31, 2016. Use the account form.

Begin by preparing the asset section of the balance sheet and then prepare the liabilities and stockholders' equity sections. (If a box is not used in the balance sheet, leave the box empty; do not select a label or enter a zero. Abbreviation used: Accum. = Accumulated.)

Web Advertising Services

Balance Sheet

December 31, 2016

Assets

(13)			
(14)			
(15)			
(16)			
(17)			
(18)			
(19)			
(20)			
Less: (21)			
(22)			
Less: (23)			
(24)			
(25)			
(26)			

Liabilities

(27)			
(28)			
(29)			
(30)			
(31)			
(32)			

Stockholders' Equity

(33)			
(34)			
(35)			
(36)			

1: Data Table

Web Advertising Services

Adjusted Trial Balance

December 31, 2016

Account Title	Balance	
	Debit	Credit
Cash	\$ 13,800	
Accounts Receivable	15,800	
Office Supplies	7,800	
Furniture	19,500	
Accumulated Depreciation—Furniture		\$ 13,400
Building	52,500	
Accumulated Depreciation—Building		36,100
Land	18,400	
Accounts Payable		10,300
Salaries Payable		8,000
Unearned Revenue		13,000
Common Stock		28,500
Retained Earnings		46,600
Dividends	17,700	
Service Revenue		40,200
Salaries Expense	27,000	
Supplies Expense	9,700	
Depreciation Expense—Furniture	900	
Depreciation Expense—Building	3,000	
Advertising Expense	10,000	
Total	<u>\$ 196,100</u>	<u>\$ 196,100</u>

12. The adjusted trial balance of Spanelli Sign Company follows:
²(Click the icon to view the adjusted trial balance.)

Requirements

1. Assume Spanelli Sign Company has a January 31 year-end. Journalize Spanelli's closing entries at January 31.
2. How much net income or net loss did Spanelli earn for the year ended January 31? How can you tell?

Review Only

Click the icon to see the Worked Solution.

Requirement 1. Assume Spanelli Sign Company has a January 31 year-end. Journalize Spanelli's closing entries at January 31. (Record debits first, then credits. Select the explanation on the last line of the journal entry table.)

First, we will close the Service Revenue account.

Date	Accounts and Explanation	Debit	Credit
Jan. 31	(1)		
	(2)		
	(3)		
	(4)		
	(5)		

Next we will close the expense accounts.

Date	Accounts and Explanation	Debit	Credit
Jan. 31	(6)		
	(7)		
	(8)		
	(9)		
	(10)		
	(11)		
	(12)		
	(13)		

Now we will close the Income Summary account.

Date	Accounts and Explanation	Debit	Credit
Jan. 31	(14)		
	(15)		
	(16)		
	(17)		
	(18)		

Finally, close the Dividends account.

Date	Accounts and Explanation	Debit	Credit
Jan. 31	(19)		
	(20)		
	(21)		
	(22)		
	(23)		

Requirement 2. How much net income or net loss did Spanelli earn for the year ended January 31? How can you tell?

Spanelli had a (24) _____ of \$ _____. We know this because (25) _____ exceeded (26) _____ by this amount and this was the balance in (27) _____ when it was closed.

2: Data Table

Spanelli Sign Company

Adjusted Trial Balance

January 31, 2016

Account Title	Balance	
	Debit	Credit
Cash	\$ 13,700	
Office Supplies	1,800	
Prepaid Rent	900	
Equipment	52,000	
Accumulated Depreciation—Equipment		\$ 5,600
Accounts Payable		4,800
Salaries Payable		400
Unearned Revenue		5,100
Notes Payable (long-term)		4,700
Common Stock		39,800
Dividends	900	
Service Revenue		17,000
Salaries Expense	5,100	
Rent Expense	2,000	
Depreciation Expense—Equipment	200	
Supplies Expense	300	
Utilities Expense	500	
Total	\$ 77,400	\$ 77,400

13. The adjusted trial balance of Estella Real Estate Appraisal at June 30, 2016, follows:

³(Click the icon to view the adjusted trial balance.)

Read the [requirements](#)⁴.

Requirement 1. Prepare the company's income statement for the year ended June 30, 2016. (If a box is not used in the statement, leave the box empty; do not select a label or enter a zero. Use a minus sign or parentheses to show a net loss.)

**Estella Real Estate Appraisal
Income Statement
Year Ended June 30, 2016**

(1)	
(2)	
(3)	
(4)	
(5)	
(6)	
(7)	
(8)	
(9)	
(10)	
(11)	
(12)	
Net Income (Loss)	

Requirement 2. Prepare the company's statement of retained earnings for the year ended June 30, 2016. (Use a minus sign or parentheses to show a decrease in retained earnings.)

**Estella Real Estate Appraisal
Statement of Retained Earnings
Year Ended June 30, 2016**

Retained Earnings, July 1, 2015	
(13)	
(14)	
Retained Earnings, June 30, 2016	

Requirement 3. Prepare the company's classified balance sheet in report form at June 30, 2016. (If a box is not used in the balance sheet, leave the box empty; do not select a label or enter a zero.)

Estella Real Estate Appraisal

Balance Sheet

June 30, 2016

Assets

(15)			
(16)			
(17)			
(18)			
(19)			
(20)			
(21)			
(22)			
(23)			
Less: (24)			
(25)			
(26)			
(27)			

Liabilities

(28)			
(29)			
(30)			
(31)			
(32)			
(33)			
(34)			
(35)			
(36)			
(37)			

Stockholders' Equity

(38)			
(39)			
(40)			
(41)			

Requirement 4. Journalize the closing entries. (Record debits first, then credits. Select the explanation on the last line of the journal entry table.)

Start by closing revenues.

Date	Accounts and Explanation	Debit	Credit
Jun. 30	(42)		
Clos. (1)	(43)		
	(44)		
	(45)		
	(46)		

Close expenses for the period.

Date	Accounts and Explanation	Debit	Credit
Jun. 30	(47)		
Clos. (2)	(48)		
	(49)		
	(50)		
	(51)		
	(52)		
	(53)		
	(54)		

Close Income Summary.

Date	Accounts and Explanation	Debit	Credit
Jun. 30	(55)		
Clos. (3)	(56)		
	(57)		
	(58)		
	(59)		

Close Dividends.

Date	Accounts and Explanation	Debit	Credit
Jun. 30	(60)		
Clos. (4)	(61)		
	(62)		
	(63)		
	(64)		

Requirement 5. T-accounts have been opened using the balances from the adjusted trial balance. Post the closing entries to the T-accounts.

Use "Clos." and the corresponding number as shown in the journal entry as posting references—"Clos.(1)", "Clos.(2)", etc. The adjusted balance of each account has been entered for you. Post any closing entries to the accounts and then calculate the post-closing balance ("Bal.") of each account (including those that were not closed). For any accounts with a zero balance after closing, enter a "0" on the normal side of the account. For Income Summary, calculate and enter the balance ("Bal.") before posting the entry to close out the account. Post the entry to close Income Summary account on the same line as you entered the balance prior to closing (the second line) and then show the post-closing balance ("Bal.") on the last (third) line of the account.

Review the closing journal entries you prepared above.

Cash				Accounts Payable				Service Revenue			
Bal.	4,100		(65)	(66)		19,600	Bal.	(67)		49,000	Bal.
(68)			(69)	(70)			(71)	(72)			(73)
Accounts Receivable				Interest Payable				Insurance Expense			
Bal.	4,700		(74)	(75)		8,600	Bal.	Bal.	3,900		(76)
(77)			(78)	(79)			(80)	(81)			(82)
Office Supplies				Salaries Payable				Salaries Expense			
Bal.	2,300		(83)	(84)		1,900	Bal.	Bal.	32,400		(85)
(86)			(87)	(88)			(89)	(90)			(91)
Prepaid Insurance				Unearned Revenue				Supplies Expense			
Bal.	1,500		(92)	(93)		6,350	Bal.	Bal.	250		(94)
(95)			(96)	(97)			(98)	(99)			(100)
Building				Notes Payable				Interest Expense			
Bal.	78,000		(101)	(102)		36,000	Bal.	Bal.	8,600		(103)
(104)			(105)	(106)			(107)	(108)			(109)
Accumulated Depr.—Building				Common Stock				Utilities Expense			
(110)		26,000	Bal.	(111)		1,000	Bal.	Bal.	1,900		(112)
(113)			(114)	(115)			(116)	(117)			(118)
Land				Dividends				Depreciation Expense—Building			
Bal.	13,600		(119)	Bal.	26,900		(120)	Bal.	7,800		(121)
(122)			(123)	(124)			(125)	(126)			(127)
Retained Earnings				Income Summary							
(128)		37,500	Bal.	(133)			(134)				
(129)			(130)	(135)			(136)				
(131)			(132)				(137)				

Requirement 6. Prepare the company's post-closing trial balance at June 30, 2016.

Review the ending balances of the T-accounts that you prepared in Requirement 5.

Estella Real Estate Appraisal

Post-Closing Trial Balance

June 30, 2016

Account Title	Balance	
	Debit	Credit
(138)		
(139)		
(140)		
(141)		
(142)		
(143)		
(144)		
(145)		
(146)		
(147)		
(148)		
(149)		
(150)		
(151)		
Total		

3: Data Table

Estella Real Estate Appraisal
Adjusted Trial Balance
June 30, 2016

Account Title	Balance	
	Debit	Credit
Cash	\$ 4,100	
Accounts Receivable	4,700	
Office Supplies	2,300	
Prepaid Insurance	1,500	
Building	78,000	
Accumulated Depreciation—Building		\$ 26,000
Land	13,600	
Accounts Payable		19,600
Interest Payable		8,600
Salaries Payable		1,900
Unearned Revenue		6,350
Notes Payable (long-term)		36,000
Common Stock		1,000
Retained Earnings		37,500
Dividends	26,900	
Service Revenue		49,000
Insurance Expense	3,900	
Salaries Expense	32,400	
Supplies Expense	250	
Interest Expense	8,600	
Utilities Expense	1,900	
Depreciation Expense—Building	7,800	
	\$ 185,950	\$ 185,950
Total	\$ 185,950	\$ 185,950

4: Requirements

1. Prepare the company's income statement for the year ended June 30, 2016.
2. Prepare the company's statement of retained earnings for the year ended June 30, 2016.
3. Prepare the company's classified balance sheet in report form at June 30, 2016.
4. Journalize the closing entries.
5. T-accounts have been opened using the balances from the adjusted trial balance. Post the closing entries to the T-accounts.
6. Prepare the company's post-closing trial balance at June 30, 2016.

1. C. liquidity.

2. B. Accumulated Depreciation

3. B. Total debits exceed total credits

4. D. Accumulated Depreciation

5. D. All of the above

6. C.

Salaries Payable		xxx		xxx
Income Summary				

7. A. Cash, Salaries Payable, and Retained Earnings

8. A. Journalize transactions as they occur.

9. A. 2.71

10. B. Reversing entries are most often used with accrual-type adjustments.

11.

Web Advertising Services
Income Statement
Year Ended December 31, 2016

Revenues:

Service Revenue	\$	40,200
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Expenses:

Salaries Expense	\$	27,000
Advertising Expense		10,000
Supplies Expense		9,700
Depreciation Expense—Building		3,000
Depreciation Expense—Furniture		900

		50,600
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Net Income (Loss)	\$	(10,400)
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Web Advertising Services
Statement of Retained Earnings
Year Ended December 31, 2016

Retained Earnings, January 1, 2016	\$	46,600
Net loss for the year		(10,400)
Dividends		(17,700)
Retained Earnings, December 31, 2016	\$	18,500

Web Advertising Services

Balance Sheet

December 31, 2016

Assets

Current Assets:

Cash		\$	13,800
Accounts Receivable			15,800
Office Supplies			7,800

Total Current Assets \$ 37,400

Plant Assets:

Furniture	\$	19,500	
Less: Accum. Depreciation—Furniture		(13,400)	6,100
Building		52,500	
Less: Accum. Depreciation—Building		(36,100)	16,400
Land			18,400

Total Plant Assets 40,900

Total Assets \$ 78,300

Liabilities

Current Liabilities:

Accounts Payable	\$	10,300
Salaries Payable		8,000
Unearned Revenue		13,000

Total Liabilities 31,300

Stockholders' Equity

Common Stock		28,500
Retained Earnings		18,500

Total Stockholders' Equity 47,000

Total Liabilities and Stockholders' Equity \$ 78,300

12.	Date	Accounts and Explanation	Debit	Credit
	Jan. 31	Service Revenue	17,000	
		Income Summary		17,000
		<i>To close revenue.</i>		
	Date	Accounts and Explanation	Debit	Credit
	Jan. 31	Income Summary	8,100	
		Salaries Expense		5,100
		Rent Expense		2,000
		Depreciation Expense—Equipment		200
		Supplies Expense		300
		Utilities expense		500
		<i>To close expenses.</i>		
	Date	Accounts and Explanation	Debit	Credit
	Jan. 31	Income Summary	8,900	
		Retained Earnings		8,900
		<i>To close Income Summary.</i>		
	Date	Accounts and Explanation	Debit	Credit
	Jan. 31	Retained Earnings	900	
		Dividends		900
		<i>To close Dividends.</i>		

(24) net income

8,900

(25) service revenue

(26) total expenses

(27) Income Summary

13.

Estella Real Estate Appraisal**Income Statement****Year Ended June 30, 2016**

Revenues:

Service Revenue	\$	49,000
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Expenses:

Salaries Expense	\$	32,400
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Interest Expense		8,600
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Depreciation Expense—Building		7,800
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Insurance Expense		3,900
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Utilities Expense		1,900
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Supplies Expense		250
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Total Expenses	54,850
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Net Income (Loss)	\$ (5,850)
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Estella Real Estate Appraisal
Statement of Retained Earnings

Year Ended June 30, 2016

Retained Earnings, July 1, 2015	\$	37,500
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Net loss for the year		(5,850)
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Dividends		(26,900)
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Retained Earnings, June 30, 2016	\$	4,750
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Estella Real Estate Appraisal

Balance Sheet

June 30, 2016

Assets

Current Assets:

Cash	\$	4,100
Accounts Receivable		4,700
Office Supplies		2,300
Prepaid Insurance		1,500

Total Current Assets		\$ 12,600
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Plant Assets:

Building	78,000	
Less: Accumulated Depreciation—Building	(26,000)	52,000
Land		13,600

Total Plant Assets		65,600
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Total Assets		\$ 78,200
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Liabilities

Current Liabilities:

Accounts Payable	\$	19,600
Interest Payable		8,600
Salaries Payable		1,900
Unearned Revenue		6,350

Total Current Liabilities		\$ 36,450
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Long-term Liabilities:

Notes Payable		36,000
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Total Liabilities		72,450
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Stockholders' Equity

Common Stock		1,000
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Retained Earnings		4,750
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Total Stockholders' Equity		5,750
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Total Liabilities and Stockholders' Equity		\$ 78,200
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Date	Accounts and Explanation	Debit	Credit
Jun. 30	Service Revenue	49,000	
Clos. (1)	Income Summary		49,000
	<i>To close revenue.</i>		

Date	Accounts and Explanation	Debit	Credit
Jun. 30	Income Summary	54,850	
Clos. (2)	Insurance Expense		3,900
	Salaries Expense		32,400
	Supplies Expense		250
	Interest Expense		8,600
	Utilities Expense		1,900
	Depreciation Expense—Building		7,800
	<i>To close expenses.</i>		

Date	Accounts and Explanation	Debit	Credit
Jun. 30	Retained Earnings	5,850	
Clos. (3)	Income Summary		5,850
	<i>To close Income Summary.</i>		

Date	Accounts and Explanation	Debit	Credit
Jun. 30	Retained Earnings	26,900	
Clos. (4)	Dividends		26,900
	<i>To close Dividends.</i>		

Cash		Accounts Payable		Service Revenue			
Bal.	4,100		19,600 Bal.	Clos. (1)	49,000	49,000 Bal.	
Bal.	4,100		19,600 Bal.			0 Bal.	
Accounts Receivable		Interest Payable		Insurance Expense			
Bal.	4,700		8,600 Bal.	Bal.	3,900	3,900 Clos. (2)	
Bal.	4,700		8,600 Bal.	Bal.	0		
Office Supplies		Salaries Payable		Salaries Expense			
Bal.	2,300		1,900 Bal.	Bal.	32,400	32,400 Clos. (2)	
Bal.	2,300		1,900 Bal.	Bal.	0		
Prepaid Insurance		Unearned Revenue		Supplies Expense			
Bal.	1,500		6,350 Bal.	Bal.	250	250 Clos. (2)	
Bal.	1,500		6,350 Bal.	Bal.	0		
Building		Notes Payable		Interest Expense			
Bal.	78,000		36,000 Bal.	Bal.	8,600	8,600 Clos. (2)	
Bal.	78,000		36,000 Bal.	Bal.	0		
Accumulated Depr.—Building		Common Stock		Utilities Expense			
	26,000 Bal.		1,000 Bal.	Bal.	1,900	1,900 Clos. (2)	
	26,000 Bal.		1,000 Bal.	Bal.	0		
Land		Dividends		Depreciation Expense—Building			
Bal.	13,600	Bal.	26,900	26,900 Clos. (4)	Bal.	7,800	7,800 Clos. (2)
Bal.	13,600	Bal.	0		Bal.	0	
		Retained Earnings					
		Clos. (3)	5,850	37,500 Bal.			
		Clos. (4)	26,900				
				4,750 Bal.			
		Income Summary					
		Clos. (2)	54,850	49,000 Clos. (1)			
		Bal.	5,850	5,850 Clos. (3)			
				0 Bal.			

Estella Real Estate Appraisal

Post-Closing Trial Balance

June 30, 2016

Account Title	Balance	
	Debit	Credit
Cash	\$ 4,100	
Accounts Receivable	4,700	
Office Supplies	2,300	
Prepaid Insurance	1,500	
Building	78,000	
Accumulated Depreciation—Building		26,000
Land	13,600	
Accounts Payable		19,600
Interest Payable		8,600
Salaries Payable		1,900
Unearned Revenue		6,350
Notes Payable		36,000
Common Stock		1,000
Retained Earnings		4,750
Total	<u>\$ 104,200</u>	<u>\$ 104,200</u>
