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# CHAPTER 8 Completing the Accounting Cycle

## SECTION 8.1 REVIEW QUESTIONS (page 275)

1. *Year-end financial statements are superior to interim financial statements because all accounts are brought up to date, all late transactions are taken into account, all calculations have been made correctly, and all accounting principles and standards have been followed.*
2. *The aim of accounting principles and standards is to produce financial statements that are theoretically and mathematically accurate.*
3. *According to the International Financial Reporting Standards, a financial statement must be relevant, reliable, and comparable.*
4. *Accrual accounting is the practice of recording revenues and expenses when they happen regardless of whether cash is received or paid.*
5. *Dividing financial reporting into equal periods of time allows businesses to compare current financial statements to previous ones.*
6. *An adjusting entry is a journal entry that assigns an amount of revenue or expense to the appropriate accounting period and brings a related balance sheet account to its true value.*
7. *Adjusting entries are necessary because they bring the accounts to their true value. This means the financial statements for that period will be accurate and up-to-date.*
8. *Accounts are allowed to be inexact between statement dates because it too time consuming and expensive to keep the accounts exact all the time.*
9. *From the income statement perspective, adjusting entries allow the correct expenses to be subtracted from revenue, which produces a correct net income.*
10. *From the balance sheet perspective, the chief aim of adjusting entries is to accurately state assets, liabilities, and equity.*
11. *Knowledge of the income statement and balance sheet perspectives is helpful when learning about adjusting entries because every adjusting entry will affect at least one income statement account and at least one balance sheet account.*
12. *To determine the balance of the Supplies account at the end of the fiscal period, take an inventory of the supplies that remain in the business and then calculate their dollar value.*
13. *A prepaid expense is an expense paid for in advance that will be used up in the future.*
14. *The most common prepaid expense is insurance.*

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## SECTION 8.1 REVIEW QUESTIONS (continued)

15. *Prepaid expenses are listed under current assets on the balance sheet.*

16. *Prepaid Insurance is debited when insurance is paid for in advance.*

17. *To determine the balance of Prepaid Insurance at the end of the fiscal period, calculate the amount of insurance used during the fiscal period and subtract it from the total amount paid. This will give you the amount of prepaid insurance that has yet to be used.*

18. *A late-arriving purchase invoice is an invoice that arrived in the current fiscal period but belongs to the previous fiscal period.*

19. *The matching principle states that expenses are to be recognized in the same fiscal period as the revenue that they helped to earn.*

20. *During the two to three weeks after year-end, the accounting department examines all purchase invoices in order to find the ones that affect the fiscal period that just ended. These are the late-arriving purchase invoices.*

21. *Accounts Payable is credited when preparing the adjusting entry for late-arriving invoices.*

22. *Unearned Revenue is a liability account. This classification makes sense because a customer has a claim on the company's funds until the company provides the promised services that the customer bought.*

## SECTION 8.1 EXERCISES (page 276)

**Exercise 1, p. 276**

| **Supplies** | | | |
|---|---|---|---|
| | Unadjusted Balance | Inventory Count | Supplies Expense |
| 1. | $ 300 | $100 | *$200* |
| 2. | $1 400 | $650 | *$750* |
| 3. | *$ 425* | $175 | $250 |
| 4. | $ 950 | *$210* | $740 |


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**SECTION 8.1 EXERCISES** (continued)
**Exercise 1, p. 276** (continued)

| **Prepaid Insurance** | | | |
|---|---|---|---|
| | Unadjusted Balance | Year-end Prepaid Calculation | Insurance Expense |
| 1. | $ 875 | $325 | *$ 550* |
| 2. | $9 600 | $800 | *$8800* |
| 3. | $ 925 | *$610* | $ 315 |
| 4. | *$ 785* | $410 | $ 375 |

**Exercise 2, p. 277**

**A.**

**Balance Sheet Adjustments** / **Income Statement Adjustments**

**1.**

**Supplies**

| | Dr | Cr |
|---|---|---|
| Dec. 31, 20–3 | 5 050 | |
| | | *3 600* |
| | *1 450* | |

**Supplies Expense**

| Dr | Cr |
|---|---|
| *3 600* | |

**2.**

**Prepaid Insurance**

| | Dr | Cr |
|---|---|---|
| Dec. 31, 20–3 | 2 100 | |
| | | *1 050* |
| | *1 050* | |

**Insurance Expense**

| Dr | Cr |
|---|---|
| *1 050* | |

**3.**

**Accounts Payable**

| Dr | Cr |
|---|---|
| | *10 000* |

**Advertising Expense**

| Dr | Cr |
|---|---|
| *10 000* | |

**4.**

**Unearned Revenue**

| Dr | Cr |
|---|---|
| | *14 000* |

**Fees Earned**

| | Dr | Cr |
|---|---|---|
| Dec. 15, 20–3 | | 20 000 |
| | *14 000* | |
| | | *6 000* |

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**SECTION 8.1 EXERCISES** (continued)
**Exercise 2, p. 277** (continued)

**B.**

### GENERAL JOURNAL PAGE

| DATE | | PARTICULARS | P.R. | DEBIT | CREDIT |
|---|---|---|---|---|---|
| 20–3 Dec. | 31 | *Supplies Expense* | | *3600 –* | |
| | | *Supplies* | | | *3600 –* |
| | | *To adjust for the inventory count of $1450* | | | |
| | | | | | |
| | 31 | *Insurance Expense* | | *1050 –* | |
| | | *Prepaid Insurance* | | | *1050 –* |
| | | *To adjust for six months of expired insurance* | | | |
| | | | | | |
| | 31 | *Advertising Expense* | | *10000 –* | |
| | | *Accounts Payable* | | | *10000 –* |
| | | *To record a 20–3 invoice that arrived in 20–4* | | | |
| | | | | | |
| | 31 | *Fees Earned* | | *14000 –* | |
| | | *Unearned Revenue* | | | *14000 –* |
| | | *To adjust for the cash advances received* | | | |
| | | | | | |

**C.**

| Adjustment Omission | Assets | Liabilities | Net Income |
|---|---|---|---|
| 1. Supplies | *overstated* | *correctly stated* | *overstated* |
| 2. Insurance | *overstated* | *correctly stated* | *overstated* |
| 3. Late Invoices | *correctly stated* | *understated* | *overstated* |
| 4. Unearned Revenue | *correctly stated* | *understated* | *overstated* |


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## SECTION 8.1 EXERCISES (continued)

### Exercise 3, p. 277

| Inventory Item | Quantity | Unit Price | Value | |
|---|---|---|---|---|
| Rubber bands | 3 boxes | $ 1.50 per box | $ 4 | 50 |
| Envelopes #8 | 10 boxes | 32.00 per box | 320 | 00 |
| Envelopes #10 | 4 1/2 boxes | 36.00 per box | 162 | 00 |
| Envelopes, manila | 2 boxes | 28.00 per box | 56 | 00 |
| Printer cartridges | 2 boxes | 31.20 per box | 62 | 40 |
| Letterhead | 10M sheets | 22.50 per M | 225 | 00 |
| Copy paper | 4M sheets | 10.00 per M | 40 | 00 |
| File folders | 2 boxes | 6.00 per box | 12 | 00 |
| Paper clips | 12 boxes | 1.50 per box | 18 | 00 |
| Staples | 15 boxes | 4.10 per box | 61 | 50 |
| Pencils, regular | 4 dozen | 5.50 per dozen | 22 | 00 |
| Pencils, red | 2 dozen | 6.10 per dozen | 12 | 20 |
| | | Total | $995 | 60 |

**Supplies**

| Dr | Cr |
|---|---|
| 2 018.00 | 1 022.40 |
| 995.60 | |

**Supplies Expense**

| Dr | Cr |
|---|---|
| 1 022.40 | |

### Exercise 4, p. 278

**A.** $648 × 7 ÷ 12 = $378

The prepaid insurance is $378 as of December 31, 20–1.

**B.**

| Year | Insurance Expense | Prepaid Insurance (Dec. 31) |
|---|---|---|
| 20–1 | $648 × 5 ÷ 12 = $270 | $648 × 7 ÷ 12 = $378 |
| 20–2 | $648 × 7 ÷ 12 = $378 | 0 |
| Total | $648 | $378 |

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## SECTION 8.1 EXERCISES (continued)

### Exercise 5, p. 278

**A.**

| | Total number of months of insurance used as of the designated year-end | Total number of months of insurance unused as of the designated year-end | Value of the prepaid insurance at the designated year-end |
|---|---|---|---|
| **a.** | *3* | *9* | *\$360 × 9 ÷ 12 = \$270* |
| **b.** | *15* | *9* | *\$360 × 9 ÷ 24 = \$135* |
| **c.** | *1* | *11* | *\$456 × 11 ÷ 12 = \$418* |
| **d.** | *10* | *2* | *\$720 × 2 ÷ 12 = \$120* |
| **e.** | *1* | *11* | *\$900 × 11 ÷ 12 = \$825* |
| **f.** | *18* | *6* | *\$1080 × 6 ÷ 24 = \$270* |

**B.**

GENERAL JOURNAL PAGE

| | DATE | | PARTICULARS | P.R. | DEBIT | CREDIT |
|---|---|---|---|---|---|---|
| **a.** | *20–4 Dec.* | *31* | *Insurance Expense* | | *90 –* | |
| | | | *Prepaid Insurance* | | | *90 –* |
| | | | *(360 × 3 ÷ 12)* | | | |
| | | | | | | |
| **b.** | *20–5 Dec.* | *31* | *Insurance Expense* | | *225 –* | |
| | | | *Prepaid Insurance* | | | *225 –* |
| | | | *(360 × 12 ÷ 24)* | | | |
| | | | | | | |
| **c.** | *20–4 Oct.* | *31* | *Insurance Expense* | | *38 –* | |
| | | | *Prepaid Insurance* | | | *38 –* |
| | | | *(456 × 1 ÷ 12)* | | | |
| | | | | | | |
| **d.** | *20–1 Dec.* | *31* | *Insurance Expense* | | *600 –* | |
| | | | *Prepaid Insurance* | | | *600 –* |
| | | | *(720 × 10 ÷ 12)* | | | |
| | | | | | | |


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## SECTION 8.1 EXERCISES (continued)

### Exercise 5, p. 278 (continued)

**B.**

**GENERAL JOURNAL** PAGE

| | DATE | | PARTICULARS | P.R. | DEBIT | CREDIT |
|---|---|---|---|---|---|---|
| e. | 20–6 Jun. | 30 | *Insurance Expense* | | *75 –* | |
| | | | *Prepaid Insurance* | | | *75 –* |
| | | | *(900 × 1 ÷ 12)* | | | |
| | | | | | | |
| f. | 20–5 Dec. | 31 | *Insurance Expense* | | *810 –* | |
| | | | *Prepaid Insurance* | | | *810 –* |
| | | | *(1080 × 12 ÷ 24)* | | | |
| | | | | | | |

### Exercise 6, p. 278

**A.**

**Prepaid Licenses**

| | Dr | Cr |
|---|---|---|
| *Jan. 1, 20–1* | *720* | |

**Bank**

| | Dr | Cr |
|---|---|---|
| *Jan. 1, 20–1* | | *720* |

**B.** *$720 × 3 ÷ 12 = $180*

*The prepaid license was $180 as of September 30, 20–1.*

**C.** *$720 × 9 ÷ 12 = $540*

*The truck license expense was $540 as of September 30, 20–1.*

**D.**

**Prepaid Licenses**

| | Dr | Cr |
|---|---|---|
| | 720 | |
| *Sep. 30, 20–1* | | *540* |
| *Sep. 30, 20–1* | *180* | |

**Truck License Expense**

| | Dr | Cr |
|---|---|---|
| *Sep. 30, 20–1* | *540* | |
| *Sep. 30, 20–1* | *540* | |

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## SECTION 8.1 EXERCISES (continued)

**Exercise 6, p. 278** (continued)

**E.**

**Prepaid Licenses**

| | Dr | Cr |
|---|---|---|
| | 180 | |
| *Jan. 1, 20–2* | *720* | |
| *Jan. 1, 20–2* | *900* | |

**Bank**

| | Dr | Cr |
|---|---|---|
| *Jan. 1, 20–2* | | *720* |

**F.** *\$900 × 3 ÷ 15 = \$180*

*The prepaid license was \$180 as of September 30, 20–2.*

**G.**

**Prepaid Licenses**

| | Dr | Cr |
|---|---|---|
| | 900 | |
| *Sep. 30, 20–2* | | *720* |
| *Sep. 30, 20–2* | *180* | |

**Truck License Expense**

| | Dr | Cr |
|---|---|---|
| *Sep. 30, 20–2* | *720* | |
| *Sep. 30, 20–2* | *720* | |

## SECTION 8.2 REVIEW QUESTIONS (page 288)

Note: After the first printing of the student textbook, question 2 was deleted and the questions renumbered. If working with the first printing, answer questions 1, 3, 4, and 5 only. All other printings will list the four correct questions only.

1. *Adjusting entries are first recorded in the worksheet.*

2. *The process of extending the worksheet involves assigning each line on the worksheet to one of the last four columns. Evaluate each item in the first four columns. Add or subtract the adjustments to arrive at a single figure. Then transfer this figure to the appropriate Income Statement or the Balance Sheet column.*

3. *Adjusting entries must be journalized and posted to update the ledger accounts.*

4. *The last day of the fiscal period is the date used for journalizing the adjusting entries.*


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## SECTION 8.2 EXERCISES (page 288)

### Exercise 1, p. 288

**A.**

**P. Tang and Company** — **Worksheet** — **Year Ended Dec. 31, 20–4**

| ACCOUNTS | TRIAL BALANCE Dr | TRIAL BALANCE Cr | ADJUSTMENTS Dr | ADJUSTMENTS Cr | INCOME STATEMENT Dr | INCOME STATEMENT Cr | BALANCE SHEET Dr | BALANCE SHEET Cr |
|---|---|---|---|---|---|---|---|---|
| Bank | 1 900 – | | | | | | 1 900 – | |
| Accounts Receivable | 19 500 – | | | | | | 19 500 – | |
| Supplies | 1 000 – | | | ① 300 – | | | 700 – | |
| Prepaid Insurance | 1 668 – | | | ② 695 – | | | 973 – | |
| Equipment | 22 000 – | | | | | | 22 000 – | |
| Automobile | 21 000 – | | | | | | 21 000 – | |
| Accounts Payable | | 4 360 – | | ③ 475 – | | | | 4 835 – |
| Bank Loan | | 5 000 – | | | | | | 5 000 – |
| HST Payable | | 2 325 – | | | | | | 2 325 – |
| HST Recoverable | 950 – | | | | | | 950 – | |
| P. Tang, Capital | | 54 058 – | | | | | | 54 058 – |
| P. Tang, Drawings | 15 000 – | | | | | | 15 000 – | |
| Fees Earned | | 69 925 – | | | | 69 925 – | | |
| Car Expense | 3 800 – | | ③ 275 – | | 4 075 – | | | |
| General Expense | 2 950 – | | ③ 200 – | | 3 150 – | | | |
| Miscellaneous Expense | 700 – | | | | 700 – | | | |
| Rent Expense | 17 200 – | | | | 17 200 – | | | |
| Wages Expense | 28 000 – | | | | 28 000 – | | | |
| | 135 668 – | 135 668 – | | | | | | |
| *Supplies Expense* | | | ① 300 – | | 300 – | | | |
| *Insurance Expense* | | | ② 695 – | | 695 – | | | |
| | | | | | | | | |
| | | | 1 470 – | 1 470 – | 54 120 – | 69 925 – | 82 023 – | 66 218 – |
| *Net Income* | | | | | 15 805 – | | | 15 805 – |
| | | | | | 69 925 – | 69 925 – | 82 023 – | 82 023 – |
| | | | | | | | | |

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## SECTION 8.2 EXERCISES (continued)

**Exercise 1, p. 288** (continued)

**B.**

*P. TANG AND COMPANY*

*INCOME STATEMENT*

*YEAR ENDED DECEMBER 31, 20–4*

| | | |
|---|---|---|
| *REVENUE* | | |
| *Fees Earned* | | *$69 925 –* |
| | | |
| *OPERATING EXPENSES* | | |
| *Car Expense* | *$ 4 075 –* | |
| *General Expense* | *3 150 –* | |
| *Insurance Expense* | *695 –* | |
| *Miscellaneous Expense* | *700 –* | |
| *Rent Expense* | *17 200 –* | |
| *Supplies Expense* | *300 –* | |
| *Wages Expense* | *28 000 –* | |
| *Total Expenses* | | *54 120 –* |
| *NET INCOME* | | *$15 805 –* |


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## SECTION 8.2 EXERCISES (continued)

**Exercise 1, p. 288** (continued)

**B.** (continued)

*P. TANG AND COMPANY*

*BALANCE SHEET*

*DECEMBER 31, 20–4*

| | | | |
|---|---|---|---|
| *ASSETS* | | | |
| *Current Assets* | | | |
| *Bank* | | *$ 1 900 –* | |
| *Accounts Receivable* | | *19 500 –* | |
| *Supplies* | | *700 –* | |
| *Prepaid Insurance* | | *973 –* | |
| *Total Current Assets* | | | *$23 073 –* |
| *Long-Term Assets* | | | |
| *Equipment* | | *$22 000 –* | |
| *Automobile* | | *21 000 –* | |
| *Total Long-Term Assets* | | | *43 000 –* |
| *Total Assets* | | | *$66 073 –* |
| | | | |
| *LIABILITIES* | | | |
| *Accounts Payable* | | *$ 4 835 –* | |
| *Bank Loan* | | *5 000 –* | |
| *HST Payable* | *$ 2 325 –* | | |
| *Less: HST Recoverable* | *950 –* | | |
| *HST Owed* | | *1 375 –* | |
| *Total Liabilities* | | | *$11 210 –* |
| | | | |
| *OWNER'S EQUITY* | | | |
| *P. Tang, Capital* | | | |
| *Balance January 1* | | *$54 058 –* | |
| *Net Income* | *$15 805 –* | | |
| *Less: Drawings* | *(15 000 –)* | | |
| *Increase in Capital* | | *805 –* | |
| *Balance December 31* | | | *54 863 –* |
| *Total Liabilities and Equity* | | | *$66 073 –* |
| | | | |

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## SECTION 8.2 EXERCISES (continued)

### Exercise 2, p. 289

**A.**

**Mission Marketing** — **Worksheet** — **Year Ended Dec. 31, 20–3**

| ACCOUNTS | TRIAL BALANCE Dr | TRIAL BALANCE Cr | ADJUSTMENTS Dr | ADJUSTMENTS Cr | INCOME STATEMENT Dr | INCOME STATEMENT Cr | BALANCE SHEET Dr | BALANCE SHEET Cr |
|---|---|---|---|---|---|---|---|---|
| Bank | 2 490 – | | | | | | 2 490 – | |
| Accounts Receivable | 21 600 – | | | | | | 21 600 – | |
| Supplies | 4 250 – | | | (1) 3 300 – | | | 950 – | |
| Prepaid Insurance | 1 254 – | | | (2) 574 – | | | 680 – | |
| Equipment | 69 200 – | | | | | | 69 200 – | |
| Automobile | 44 200 – | | | | | | 44 200 – | |
| Accounts Payable | | 6 565 – | | (4) 515 – | | | | 7 080 – |
| HST Payable | | 780 – | | | | | | 780 – |
| HST Recoverable | 510 – | | | | | | 510 – | |
| C. Ans, Capital | | 151 275 – | | | | | | 151 275 – |
| C. Ans, Drawings | 20 000 – | | | | | | 20 000 – | |
| Fees Earned | | 135 700 – | (3) 2 000 – | | | 133 700 – | | |
| Car Expense | 13 214 – | | (4) 150 – | | 13 364 – | | | |
| Miscellaneous Expense | 1 563 – | | (4) 50 – | | 1 613 – | | | |
| Rent Expense | 18 000 – | | | | 18 000 – | | | |
| Utilities Expense | 2 800 – | | (4) 315 – | | 3 115 – | | | |
| Wages Expense | 95 239 – | | | | 95 239 – | | | |
| | 294 320 – | 294 320 – | | | | | | |
| *Supplies Expense* | | | (1) 3 300 – | | 3 300 – | | | |
| *Insurance Expense* | | | (2) 574 – | | 574 – | | | |
| *Unearned Revenue* | | | | (3) 2 000 – | | | | 2 000 – |
| | | | 6 389 – | 6 389 – | 135 205 – | 133 700 – | 159 630 – | 161 135 – |
| *Net Loss* | | | | | | 1 505 – | 1 505 – | |
| | | | | | 135 205 – | 135 205 – | 161 135 – | 161 135 – |
| | | | | | | | | |
| | | | | | | | | |



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## SECTION 8.2 EXERCISES (continued)

**Exercise 2, p. 289** (continued)

**B.**

*MISSION MARKETING*

*INCOME STATEMENT*

*YEAR ENDED DECEMBER 31, 20–3*

| | | |
|---|---|---|
| *REVENUE* | | |
| *Fees Earned* | | *$133 700 –* |
| | | |
| *OPERATING EXPENSES* | | |
| *Car Expense* | *$13 364 –* | |
| *Miscellaneous Expense* | *1 613 –* | |
| *Insurance Expense* | *574 –* | |
| *Rent Expense* | *18 000 –* | |
| *Utilities Expense* | *3 115 –* | |
| *Supplies Expense* | *3 300 –* | |
| *Wages Expense* | *95 239 –* | |
| *Total Expenses* | | *135 205 –* |
| *NET LOSS* | | *$ (1 505 –)* |

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## SECTION 8.2 EXERCISES (continued)

**Exercise 2, p. 289** (continued)

**B.** (continued)

*MISSION MARKETING*

*BALANCE SHEET*

*DECEMBER 31, 20–3*

| | | | |
|---|---|---|---|
| *ASSETS* | | | |
| *Current Assets* | | | |
| *Bank* | | *$ 2490 –* | |
| *Accounts Receivable* | | *21600 –* | |
| *Supplies* | | *950 –* | |
| *Prepaid Insurance* | | *680 –* | |
| *Total Current Assets* | | | *$ 25720 –* |
| *Long-Term Assets* | | | |
| *Equipment* | | *$ 69200 –* | |
| *Automobile* | | *44200 –* | |
| *Total Long-Term Assets* | | | *113400 –* |
| *Total Assets* | | | *$139120 –* |
| | | | |
| *LIABILITIES* | | | |
| *Accounts Payable* | | *$ 7080 –* | |
| *Unearned Revenue* | | *2000 –* | |
| *HST Payable* | *$ 780 –* | | |
| *Less: HST Recoverable* | *510 –* | | |
| *HST Owed* | | *270 –* | |
| *Total Liabilities* | | | *$ 9350 –* |
| | | | |
| *OWNER'S EQUITY* | | | |
| *C. Ans, Capital* | | | |
| *Balance January 1* | | *$151275 –* | |
| *Net Loss* | *$ (1505 –)* | | |
| *Less: Drawings* | *(20000 –)* | | |
| *Decrease in Capital* | | *(21505 –)* | |
| *Balance December 31* | | | *129770 –* |
| *Total Liabilities and Equity* | | | *$139120 –* |
| | | | |



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## SECTION 8.2 EXERCISES (continued)

**Exercise 2, p. 289** (continued)

**C.** *Although you have a large capital account balance, there are several problems this year that resulted in a net loss. One issue is the large expenses you had for the automobile, wages, and rent. Wages are especially high compared to your fees earned. You should try to reduce these expenses in the future in order to make your company profitable.*

## SECTION 8.3 REVIEW QUESTIONS (page 297)

1. *Adjusting entries must be journalized and posted before completing the closing procedures because these steps ensure that ledger account balances match the amounts that appear on the year-end financial statements.*
2. *A real account is an account whose balance continues into the next fiscal period.*
3. *Another name for a real account is a permanent account.*
4. *A nominal account is an account whose balance relates to only one fiscal period. The account balance does not continue into the next fiscal period.*
5. *Nominal accounts are also known as temporary accounts.*
6. *All accounts in the equity section of the ledger, except Capital, are nominal accounts.*
7. *Closing an account means to make the account have a nil balance.*
8. *For Global Logistics, the accounting software reset the income statement accounts to zero, reset the drawings account to zero, and updated the capital account balance by adding net income and subtracting drawings.*
9. *All the information for the closing journal entries can be found on the worksheet.*
10. *The first closing journal entry brings the revenue account(s) to zero.*
11. *The Income Summary account is a temporary equity account that accountants use to record debit and credit amounts during the closing process.*
12. *The information for the second closing entry is obtained from the Income Statement debits column of the worksheet. Each expense amount listed in this column becomes a credit in the second closing entry. The subtotal in the Income Statement debits column is used as the total that is debited to the Income Summary account.*
13. *Income Summary is a good name for the ledger account used in closing because it subtracts Total Expenses from Total Revenue to produce Net Income.*
14. *Right before it is closed out, the balance in the Income Summary account represents the net income or net loss.*
15. *The purpose of the post-closing trial balance is to make sure the ledger is still in balance after all the adjusting and closing entries have been made.*

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## SECTION 8.3 REVIEW QUESTIONS (continued)

**16.** *Four ways computers have modified the accounting cycle are as follows. Steps 2 to 4 in the accounting cycle occur virtually at the same time with a computer. Interim financial statements with unadjusted balances can be printed at any time. The worksheet is used less frequently. Although the outcomes of the closing procedures are needed in a computerized accounting system, actual closing journal entries are for the most part unnecessary.*

## SECTION 8.3 EXERCISES (page 298)

### Exercise 1, p. 298

*The nominal accounts are: Advertising Expense; Bank Charges Expense; Car Expense; Delivery Expense; Sylvia Magill, Drawings; Insurance Expense; Legal Expense; Postage Expense; Rent Expense; Revenue from Commissions; Salaries Expense; Sales; Supplies Expense; Telephone Expense; Wages Expense*

### Exercise 2, p. 298

**A.** Accounting is *cyclical* in nature.

**B.** The *time-period concept* states that financial reporting is done in equal periods of time.

**C.** Assets and liability accounts are considered to be *real* accounts.

**D.** *Real accounts* have their balances continue on into the succeeding fiscal period.

**E.** Revenue expense, and drawing accounts are considered to be *nominal* accounts.

**F.** The balances in *nominal accounts* do not continue into the *next* fiscal period.

**G.** Another name for nominal account is a *temporary equity account*.

**H.** Nominal accounts begin each fiscal period with *a nil balance*.

**I.** The process of removing the "old" balances from the nominal accounts is known as *closing the accounts*.

**J.** *Closing an account* means to cause it to have no balance.

**K.** During a fiscal period, the Capital account shows *the balance at the beginning of the period*.

**L.** Changes in equity during a fiscal period (except for additional investments by the owner) are contained in *revenue, expense, and drawings* accounts.

**M.** At the end of the fiscal period, the ledger is brought up to date by *journalizing and posting the adjustment entries*.

**N.** One of the final steps in the accounting cycle is to bring the Capital account *up to date* and to *close out* the nominal accounts.

**O.** The final step in the accounting cycle is *the post-closing trial balance*.


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## SECTION 8.3 EXERCISES (continued)

**Exercise 3, p. 299**

Indicate whether each of the following statements is true or false by entering a T or an F in the space provided. Explain the reason for each F response in the space provided.

**A.** Journalizing and posting the adjusting and closing entries is a routine task that can be done by any knowledgeable accounting clerk. *F*

**B.** All of the data required to journalize the adjusting and closing entries can be found on the worksheet. *T*

**C.** It can be assumed that all adjustments have been thought of once the worksheet is completed. *T*

**D.** The adjusting entries must be journalized and posted to bring the ledger into agreement with the figures on the financial statements. *T*

**E.** An explanation is needed for each individual adjusting entry being journalized. *F*

**F.** The adjusting and closing entries in the journal are dated as of the end of the fiscal period. *T*

**G.** The closing entries can be processed only by using the four-step method. *F*

**H.** The figures for the first closing entry are taken from the income statement section, debit column, of the work sheet. *F*

**I.** Since revenue accounts have debit balances, credit entries are needed to close them out. *F*

**J.** The second closing entry transfers the balances in the expense accounts to the Income Summary account. *T*

**K.** When the adjusting entries and the first two closing entries are journalized and posted, all but three of the accounts in the equity section of the ledger will have nil balances. *T*

**L.** A loss has occurred if the Income Summary account as a credit balance before it is closed out. *F*

**M.** The first two entries in the Income Summary account are the same as the subtotals of the income statement section of the worksheet. *T*

**N.** The Income Summary account is not closed out if a loss occurs. *F*

### Explanation for F Responses

*A. Adjusting and closing entries are the responsibility of senior staff.*

*E. For the adjusting entries, only a heading is needed.*

*G. The four-step method is a common method but there are others.*

*H. The first closing entry figure comes from the credit column of the Income Statement section of the worksheet.*

*I. Revenue accounts have credit balances and need debit entries to close them out.*

*L. A loss has occurred if the Income Summary account has a debit balance before it is closed out.*

*N. If a loss occurs, the Income Summary account is still closed out.*

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**SECTION 8.3 EXERCISES** (continued)
**Exercise 4, p. 300**

## GENERAL JOURNAL

PAGE

| DATE | | PARTICULARS | P.R. | DEBIT | CREDIT |
|---|---|---|---|---|---|
| | | Adjusting Entries | | | |
| 20–3 Dec. | 31 | Supplies Expense | | 7 250 – | |
| | | Supplies | | | 7 250 – |
| | | | | | |
| | 31 | Insurance Expense | | 4 050 – | |
| | | Prepaid Insurance | | | 4 050 – |
| | | | | | |
| | 31 | Bond Interest Receivable | | 2 500 – | |
| | | Interest Earned | | | 2 500 – |
| | | | | | |
| | | | | | |
| | | Closing Entries | | | |
| Dec. | 31 | Fees Earned | | 220 374 – | |
| | | Interest Earned | | 10 000 – | |
| | | Income Summary | | | 230 374 – |
| | | | | | |
| | 31 | Income Summary | | 195 924 50 | |
| | | Bank Charges Expense | | | 170 – |
| | | Miscellaneous Expense | | | 1 436 50 |
| | | Rent Expense | | | 30 000 – |
| | | Telephone Expense | | | 2 759 – |
| | | Utilities Expense | | | 2 957 – |
| | | Wages and Salaries Expense | | | 147 302 – |
| | | Supplies Expense | | | 7 250 – |
| | | Insurance Expense | | | 4 050 – |
| | | | | | |
| | 31 | Income Summary | | 34 449 50 | |
| | | E. Santala, Capital | | | 34 449 50 |
| | | | | | |
| | 31 | E. Santala, Capital | | 80 000 – | |
| | | E. Santala, Drawings | | | 80 000 – |
| | | | | | |
| | | | | | |


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## SECTION 8.3 EXERCISES (continued)

### Exercise 5, p. 300

**A.** *There are two adjustments to the Supplies account because the first is due to a late invoice (the debit) and the second is needed to record the adjustment for the supplies inventory (the credit).*

**B.**

**GENERAL JOURNAL** PAGE

| DATE | | PARTICULARS | P.R. | DEBIT | CREDIT |
|---|---|---|---|---|---|
| | | *Adjusting Entries* | | | |
| 20–6 Dec. | 31 | *Supplies* | ✓ | 800 – | |
| | | *Accounts Payable* | ✓ | | 800 – |
| | | | | | |
| | 31 | *Supplies Expense* | ✓ | 1 055 – | |
| | | *Supplies* | ✓ | | 1 055 – |
| | | | | | |
| | 31 | *Insurance Expense* | ✓ | 1 625 – | |
| | | *Prepaid Insurance* | ✓ | | 1 625 – |
| | | | | | |
| | | *Closing Entries* | | | |
| | 31 | *Revenue* | ✓ | 98 370 – | |
| | | *Income Summary* | ✓ | | 98 370 – |
| | | | | | |
| | 31 | *Income Summary* | ✓ | 46 682 – | |
| | | *Advertising Expense* | ✓ | | 1 200 – |
| | | *Bank Charges Expense* | ✓ | | 96 – |
| | | *Miscellaneous Expense* | ✓ | | 1 902 – |
| | | *Rent Expense* | ✓ | | 6 000 – |
| | | *Supplies Expense* | ✓ | | 8 005 – |
| | | *Utilities Expense* | ✓ | | 2 104 – |
| | | *Wages Expense* | ✓ | | 25 750 – |
| | | *Insurance Expense* | ✓ | | 1 625 – |
| | | | | | |
| | 31 | *Income Summary* | ✓ | 51 688 – | |
| | | *R. Tompko, Capital* | ✓ | | 51 688 – |
| | | | | | |
| | 31 | *R. Tompko, Capital* | ✓ | 42 000 – | |
| | | *R. Tompko, Drawings* | ✓ | | 42 000 – |
| | | | | | |

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## SECTION 8.3 EXERCISES (continued)

### Exercise 5, p. 300 (continued)

**C.**

### GENERAL LEDGER

**Bank**

| | |
|---|---|
| 790 | |

**Supplies**

| | |
|---|---|
| 2 755 | 1 005 ② |
| ① 800 | |
| 2 500 | |

**Prepaid Insurance**

| | |
|---|---|
| 2 450 | 1 625 ③ |
| 825 | |

**Equipment**

| | |
|---|---|
| 17 005 | |

**Accounts Payable**

| | |
|---|---|
| | 1 075 |
| | 800 ① |
| | 1 875 |

**HST Payable**

| | |
|---|---|
| | 580 |

**HST Recoverable**

| | |
|---|---|
| 365 | |

**R. Tompko, Capital**

| | |
|---|---|
| 42 000 | 9 342 |
| | 51 688 |
| | 19 030 |

**R. Tompko, Drawings**

| | |
|---|---|
| 42 000 | 42 000 |
| 0 | |

**Revenue**

| | |
|---|---|
| 98 370 | 98 370 |
| 0 | |

**Advertising Expense**

| | |
|---|---|
| 1 200 | 1 200 |
| 0 | |

**Bank Charges Expense**

| | |
|---|---|
| 96 | 96 |
| 0 | |

**Supplies Expense**

| | |
|---|---|
| 6 950 | 8 005 |
| ② 1 055 | |
| 0 | |

**Miscellaneous Expense**

| | |
|---|---|
| 1 902 | 1 902 |
| 0 | |

**Rent Expense**

| | |
|---|---|
| 6 000 | 6 000 |
| 0 | |

**Utilities Expense**

| | |
|---|---|
| 2 104 | 2 104 |
| 0 | |

**Wages Expense**

| | |
|---|---|
| 25 750 | 25 750 |
| 0 | |

**Insurance Expense**

| | |
|---|---|
| ③ 1 625 | 1 625 |
| 0 | |

**Income Summary**

| | |
|---|---|
| 46 682 | 98 370 |
| 51 688 | |
| 0 | |


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## SECTION 8.3 EXERCISES (continued)

**Exercise 5, p. 300** (continued)

**D.**

*GOLDEN TRESSES HAIR STYLISTS*
*POST-CLOSING TRIAL BALANCE*
*DECEMBER 31, 20–*

| | | |
|---|---|---|
| *Bank* | 790 – | |
| *Supplies* | 2500 – | |
| *Prepaid Insurance* | 825 – | |
| *Equipment* | 17005 – | |
| *Accounts Payable* | | 1875 – |
| *HST Payable* | | 580 – |
| *HST Recoverable* | 365 – | |
| *R. Tompko, Capital* | | 19030 – |
| | 21485 – | 21485 – |

## SECTION 8.4 REVIEW QUESTIONS (page 311)

1. *A long-term asset is an asset the company plans to keep and use to generate income for many years*
2. *Some accountants avoid using the term fixed assets because it implies the assets do not change, which gives the wrong impression.*
3. *Long-term assets are also called long-lived assets, capital equipment, plant and equipment, and property, plant, and equipment.*
4. *Depreciation is a means of allocating the cost of a long-term asset over its useful, productive life.*
5. *A precise calculation of depreciation cannot be made until the end of the asset's useful life because that is when you can determine the salvage value of the asset and how long it lasted.*
6. *The simplest depreciation method is the straight-line method of depreciation.*
7. *The formula for calculating straight-line depreciation is: straight-line depreciation for one year = (original cost of asset – estimated salvage value) ÷ estimated number of periods in the life of the asset.*
8. *The advantage of using an accumulated depreciation account is that it shows the relative age of the asset, how much the asset has depreciated, and the original cost of the asset.*

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## SECTION 8.4 REVIEW QUESTIONS (continued)

9. *This is the adjusting entry for depreciation.*

| | Dr | Cr |
|---|---|---|
| *Depreciation Expense* | *$$$$* | |
| *Accumulated Depreciation (Asset name)* | | *$$$$* |

10. *The Canada Revenue Agency requires the declining-balance method of depreciation be used for income tax purposes.*

11. *The declining-balance method of depreciation is calculated by multiplying the undepreciated cost of the asset by a fixed percentage, which is set by the government.*

12. *Taxation is a challenging area of study because the rules of taxation are often complex and they change frequently.*

13. *Under Canada Revenue Agency rules, one half of the cost of an asset can be used for calculating the first year's depreciation. The CRA assumes that the asset was owned for an entire year even if it was purchased mid-year.*

14. *The half-year rule simplifies an accountant's work because any asset's initial depreciation amount is based on a standard 50% of its cost rather than the number of months it was owned in the first year.*

15. *The half-year rule might give a business incentive to purchase long-term assets near the end of the year because they can claim an entire six months of depreciation on the asset even it was owned for only a few weeks.*

## SECTION 8.4 EXERCISES (page 311)

### Exercise 1, p. 311

**A.**

| 20–1 | 20–2 | 20–3 | 20–4 | 20–5 |
|---|---|---|---|---|
| *$3 000* | *$3 000* | *$3 000* | *$3 000* | *$3 000* |

**B.**

| 20–1 | 20–2 | 20–3 | 20–4 | 20–5 |
|---|---|---|---|---|
| *$200* | *$1 200* | *$1 200* | *$1 200* | *$1 000* |

**C.**

| 20–1 | 20–2 | 20–3 | 20–4 | 20–5 |
|---|---|---|---|---|
| – | *$20 160* | *$30 240* | *$30 240* | *$30 240* |


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## SECTION 8.4 EXERCISES (continued)

### Exercise 1, p. 311 (continued)

**D.**

| 20–1 | 20–2 | 20–3 | 20–4 | 20–5 |
|---|---|---|---|---|
| $10 800– | $8 640– | $6 912– | $5 529.60 | $4 423.68 |

**E.**

| 20–1 | 20–2 | 20–3 | 20–4 | 20–5 |
|---|---|---|---|---|
| $33 840– | $32 486.40 | $31 186.94 | $29 939.47 | $28 741.89 |

**F.**

| 20–1 | 20–2 | 20–3 | 20–4 | 20–5 |
|---|---|---|---|---|
| $16 920– | $33 163.20 | $31 836.67 | $30 563.21 | $29 340.68 |

### Exercise 2, p. 312

**A.**

| Year | Straight-line Depreciation | |
|---|---|---|
| | Depreciation ($) | Balance ($) |
| | | 100 000 |
| 1 | 13 500 | 86 500 |
| 2 | 13 500 | 73 000 |
| 3 | 13 500 | 59 500 |
| 4 | 13 500 | 46 000 |
| 5 | 13 500 | 32 500 |

**B.**

| Year | Declining-balance Depreciation | |
|---|---|---|
| | Depreciation ($) | Balance ($) |
| | | 100 000.00 |
| 1 | 55 000.00 | 45 000.00 |
| 2 | 24 750.00 | 20 250.00 |
| 3 | 11 137.50 | 9 112.50 |
| 4 | 5 011.88 | 4 100.62 |
| 5 | 2 255.34 | 1845.28 |

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## SECTION 8.4 EXERCISES (continued)

### Exercise 2, p. 312 (continued)

**C.**

| | | | | Debit | Credit |
|---|---|---|---|---|---|
| | | *Straight-line method* | | | |
| | | *Depreciation Expense* | | *13 500 –* | |
| | | *Accum. Depreciation—Equipment* | | | *13 500 –* |
| | | | | | |
| | | *Declining-balance method* | | | |
| | | *Depreciation Expense* | | *11 137 50* | |
| | | *Accum. Depreciation—Equipment* | | | *11 137 50* |
| | | | | | |
| | | | | | |
| | | | | | |

*In year three, the amount of straight-line depreciation is greater. Therefore, the net income will be lower, as will be the amount owed for income tax. Therefore, in year three, the straight-line method will save the company the most money.*

### Exercise 3, p. 312

**A.**

| | 20–1 | 20–2 | 20–3 | 20–4 | 20–5 |
|---|---|---|---|---|---|
| Revenues | *$57 560* | *$65 250* | *$68 354* | *$65 270* | *$59 230* |
| Expenses | | | | | |
| Depreciation—Van | *$22 500* | *–* | *–* | *–* | *–* |
| Other Expenses | *$36 750* | *38 256* | *39 954* | *42 570* | *45 320* |
| Total Expenses | *$59 250* | *$38 256* | *$39 954* | *$42 570* | *$45 320* |
| Net Income | *$(1 690)* | *$26 994* | *$28 400* | *$22 700* | *$13 910* |
| Net Income (from p. 302) | *$16 310* | *$22 494* | *$23 900* | *$18 200* | *$ 9 410* |
| | | | | | |


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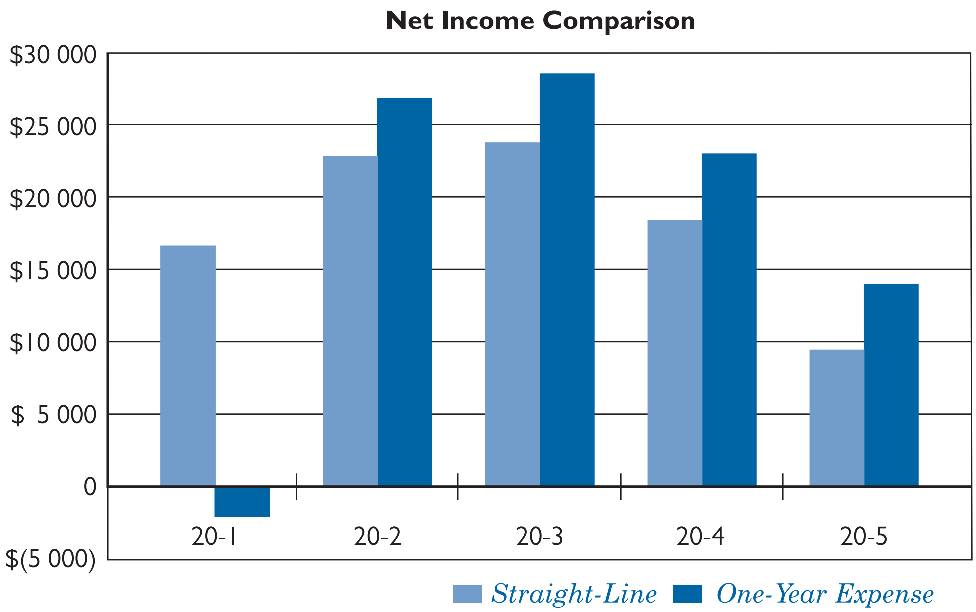
## SECTION 8.4 EXERCISES (continued)

**Exercise 3, p. 312** (continued)

**B.**




**C.** *The year 20–1 misrepresents net income the most dramatically. In fact, applying the entire cost of the van in 20–1 produces a net loss. The net incomes for the other years are all overstated by $4500. The least amount of tax would be paid in 20–1 (zero).*

**Exercise 4, p. 313**

**A.**

### GENERAL LEDGER

| Bank | | Accounts Receivable | | Supplies | |
|---|---|---|---|---|---|
| 400 | | 8 285 | | 1 900 | *1 050* (1) |
| | | | | *850* | |

| Prepaid Insurance | | Land | | Buildings | |
|---|---|---|---|---|---|
| 1 800 | *1 175* (2) | 50 000 | | 70 000 | |
| *625* | | | | | |

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## SECTION 8.4 EXERCISES (continued)
### Exercise 4, p. 313 (continued)

A. (continued)

**Accum. Depr.—Buildings**

| | |
|---|---|
| | 6 750 |
| | 1 125 ③ |
| | 7 875 |

**Equipment**

| | |
|---|---|
| 96 500 | |

**Accum. Depr.—Equipment**

| | |
|---|---|
| | 24 000 |
| | 6 000 ③ |
| | 30 000 |

**Accounts Payable**

| | |
|---|---|
| | 3 200 |

**J. Salk, Capital**

| | |
|---|---|
| | 144 985 |

**J. Salk, Drawings**

| | |
|---|---|
| 30 000 | |

**Revenue**

| | |
|---|---|
| | 140 700 |

**Bank Charges Expense**

| | |
|---|---|
| 450 | |

**Delivery Expense**

| | |
|---|---|
| 1 500 | |

**Miscellaneous Expense**

| | |
|---|---|
| 490 | |

**Telephone Expense**

| | |
|---|---|
| 390 | |

**Utilities Expense**

| | |
|---|---|
| 1 300 | |

**Wages Expense**

| | |
|---|---|
| 56 620 | |

**Supplies Expense**

| | |
|---|---|
| ① 1 050 | |

**Insurance Expense**

| | |
|---|---|
| ② 1 175 | |

**Depreciation Expense—Buildings**

| | |
|---|---|
| ③ 1 125 | |

**Depreciation Expense—Equipment**

| | |
|---|---|
| ③ 6 000 | |


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**SECTION 8.4 EXERCISES** (continued)
**Exercise 4, p. 313** (continued)

**B.**

*SHAHID COMPANY*
*ADJUSTED TRIAL BALANCE*
*–DATE–*

| | | |
|---|---|---|
| *Bank* | 400 – | |
| *Accounts Receivable* | 8 285 – | |
| *Supplies* | 850 – | |
| *Prepaid Insurance* | 625 – | |
| *Land* | 50 000 – | |
| *Buildings* | 70 000 – | |
| *Accum. Deprec.—Buildings* | | 7 875 – |
| *Equipment* | 96 500 – | |
| *Accum. Deprec.—Equipment* | | 30 000 – |
| *Accounts Payable* | | 3 200 – |
| *J. Salk, Capital* | | 144 985 – |
| *J. Salk, Drawings* | 30 000 – | |
| *Revenue* | | 140 700 – |
| *Bank Charges Expense* | 450 – | |
| *Delivery Expense* | 1 500 – | |
| *Miscellaneous Expense* | 490 – | |
| *Telephone Expense* | 390 – | |
| *Utilities Expense* | 1 300 – | |
| *Wages Expense* | 56 620 – | |
| *Supplies Expense* | 1 050 – | |
| *Insurance Expense* | 1 175 – | |
| *Deprec. Expense—Buildings* | 1 125 – | |
| *Deprec. Expense—Equipment* | 6 000 – | |
| | 326 760 – | 326 760 – |
| | | |
| | | |
| | | |

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## SECTION 8.4 EXERCISES (continued)
### Exercise 5, p. 314

**Viera Associates** **Worksheet** **Year Ended December 31, 20–**

| ACCOUNTS | TRIAL BALANCE Dr | TRIAL BALANCE Cr | ADJUSTMENTS Dr | ADJUSTMENTS Cr | INCOME STATEMENT Dr | INCOME STATEMENT Cr | BALANCE SHEET Dr | BALANCE SHEET Cr |
|---|---|---|---|---|---|---|---|---|
| Bank | 5 080 20 | | | | | | *5 080 20* | |
| Accounts Receivable | 17 491 – | | | | | | *17 491 –* | |
| Supplies | 2 635 – | | | *① 1 600 –* | | | *1 035 –* | |
| Prepaid Insurance | 1 800 – | | | *② 980 –* | | | *820 –* | |
| Equipment | 10 200 – | | | | | | *10 200 –* | |
| Accum. Deprec.—Equip. | | 6 022 08 | | *③ 835 58* | | | | *6 857 66* |
| Automobiles | 32 500 – | | | | | | *32 500 –* | |
| Accum. Deprec.—Auto. | | 16 575 – | | *④ 4 777 50* | | | | *21 352 50* |
| Accounts Payable | | 4 802 50 | | | | | | *4 802 50* |
| HST Payable | | 940 20 | | | | | | *940 20* |
| HST Recoverable | 516 80 | | | | | | *516 80* | |
| C. Viera, Capital | | 21 821 04 | | | | | | *21 821 04* |
| C. Viera, Drawings | 48 000 – | | | | | | *48 000 –* | |
| Consulting Fees | | 154 326 – | | | | *154 326 –* | | |
| Automobile Expense | 32 756 04 | | | | *32 756 04* | | | |
| General Expense | 1 575 – | | | | *1 575 –* | | | |
| Rent Expense | 10 000 – | | | | *10 000 –* | | | |
| Telephone Expense | 1 567 – | | | | *1 567 –* | | | |
| Wages Expense | 40 365 78 | | | | *40 365 78* | | | |
| | 204 486 82 | 204 486 82 | | | | | | |
| *Supplies Expense* | | | *① 1 600 –* | | *1 600 –* | | | |
| *Insurance Expense* | | | *② 980 –* | | *980 –* | | | |
| *Deprec.—Equipment* | | | *③ 835 58* | | *835 58* | | | |
| *Deprec.—Automobiles* | | | *④ 4 777 50* | | *4 777 50* | | | |
| | | | *8 193 08* | *8 193 08* | *94 456 90* | *154 326 –* | *115 643 –* | *55 773 90* |
| *Net Income* | | | | | *59 869 10* | | | *59 869 10* |
| | | | | | *154 326 –* | *154 326 –* | *115 643 –* | *115 643 –* |



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## SECTION 8.4 EXERCISES (continued)

**Exercise 6, p. 314**

**A., B.**

### GENERAL JOURNAL

PAGE

| DATE | PARTICULARS | P.R. | DEBIT | CREDIT |
|---|---|---|---|---|
| | *True declining-balance method* | | | |
| *Year 1* | *Depreciation Expense—Equipment* | | *12 000 –* | |
| | *Accumulated Depreciation—Equipment* | | | *12 000 –* |
| | | | | |
| *Year 2* | *Depreciation Expense—Equipment* | | *9 600 –* | |
| | *Accumulated Depreciation—Equipment* | | | *9 600 –* |
| | | | | |
| | *50% rule* | | | |
| *Year 1* | *Depreciation Expense—Equipment* | | *6 000 –* | |
| | *Accumulated Depreciation—Equipment* | | | *6 000 –* |
| | | | | |
| *Year 2* | *Depreciation Expense—Equipment* | | *10 800 –* | |
| | *Accumulated Depreciation—Equipment* | | | *10 800 –* |
| | | | | |
| | | | | |

## SECTION 8.5 REVIEW QUESTIONS (page 320)

1. *The structure of the IF function is prefix FUNCTION NAME (Condition, True Response, False Response) or =IF (Condition, True Response, False Response).*
2. *In a spreadsheet function, the data inside the brackets are called arguments.*
3. *The commas in the IF function separate the arguments.*
4. *The false response in an IF function will automatically show a predetermined result in the spreadsheet if a condition is not met.*
5. *In an IF function, labels for true and false responses are entered inside quotation marks.*
6. *If you want the true response of an IF function to be a blank cell, you must enter two quotation marks with nothing inside them: "".*

Name ______________________ Date ______________________

## SECTION 8.5 EXERCISES (page 320)

### Exercise 1, p. 320

**A.**

Andrews Landscaping — Worksheet — Three Months Ended March 31, 20-3

| Accounts | Trial Balance Debit | Trial Balance Credit | Adjustments Debit | Adjustments Credit | Income Statement Debit | Income Statement Credit | Balance Sheet Debit | Balance Sheet Credit |
|---|---|---|---|---|---|---|---|---|
| Bank | 7 100.68 | | | | | | 7 100.68 | |
| Accounts Receivable | 1 600.00 | | | | | | 1 600.00 | |
| Prepaid Insurance | 1 485.00 | | | 371.25 | | | 1 113.75 | |
| Supplies | 1 064.21 | | | 461.86 | | | 602.35 | |
| Equipment | 3 898.21 | | 912.60 | | | | 4 810.81 | |
| Truck | 6 000.00 | | | | | | 6 000.00 | |
| Bank Loan | | 5 000.00 | | | | | | 5 000.00 |
| Accounts Payable | | 3 468.41 | | 1 031.24 | | | | 4 499.65 |
| HST Payable | | 2 162.83 | | | | | | 2 162.83 |
| HST Recoverable | 573.99 | | 118.64 | | | | 692.63 | |
| O. Andrews, Capital | | 14 969.27 | | | | | | 14 969.27 |
| O. Andrews, Drawings | 6 400.00 | | | | | | 6 400.00 | |
| Fees Earned | | 30 897.55 | | | | 30 897.55 | | |
| Advertising Expense | 5 531.54 | | | | 5 531.54 | | | |
| Bank Charges Expense | 97.00 | | | | 97.00 | | | |
| General Expense | 330.66 | | | | 330.66 | | | |
| Rent Expense | 3 200.00 | | | | 3 200.00 | | | |
| Telephone Expense | 289.64 | | | | 289.64 | | | |
| Utilities Expense | 481.37 | | | | 481.37 | | | |
| Wages Expense | 18 445.76 | | | | 18 445.76 | | | |
| | 56 498.06 | 56 498.06 | | | | | | |
| Supplies Expense | | | 461.86 | | 461.86 | | | |
| Insurance Expense | | | 371.25 | | 371.25 | | | |
| | | | | | 0.00 | 0.00 | 0.00 | 0.00 |
| | | | 1 864.35 | 1 864.35 | 29 209.08 | 30 897.55 | 28 320.22 | 26 631.75 |
| Net Income | | | | | 1 688.47 | 0.00 | 0.00 | 1 688.47 |
| | | | | | 30 897.55 | 30 897.55 | 28 320.22 | 28 320.22 |


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## SECTION 8.5 EXERCISES (continued)
### Exercise 1, p. 320 (continued)

**B.** *The formulas are shown in the worksheet.*

AndrewsMarch.xls

Andrews Landscaping — Worksheet — Three Months Ended March 31, 20-3

| Accounts | Trial Balance Debit | Trial Balance Credit | Adjustments Debit | Adjustments Credit | Income Statement Debit | Income Statement Credit | Balance Sheet Debit | Balance Sheet Credit |
|---|---|---|---|---|---|---|---|---|
| Bank | 7100.68 | | | | | | =C5+E5-F5 | |
| Accounts Receivable | 1600 | | | | | | =C6+E6-F6 | |
| Prepaid Insurance | 1485 | | | =C7*3/12 | | | =C7+E7-F7 | |
| Supplies | 1064.21 | | | =C8-602.35 | | | =C8+E8-F8 | |
| Equipment | 3898.21 | | 912.6 | | | | =C9+E9-F9 | |
| Truck | 6000 | | | | | | =C10+E10-F10 | |
| Bank Loan | | 5000 | | | | | | =D11-E11+F11 |
| Accounts Payable | | 3468.41 | | 1031.24 | | | | =D12-E12+F12 |
| HST Payable | | 2162.83 | | | | | | =D13-E13+F13 |
| HST Recoverable | 573.99 | | 118.64 | | | | =C14+E14-F14 | |
| O. Andrews, Capital | | 14969.27 | | | | | | =D15-E15+F15 |
| O. Andrews, Drawings | 6400 | | | | | | =C16+E16-F16 | |
| Fees Earned | | 30897.55 | | | | =D17-E17+F17 | | |
| Advertising Expense | 5531.54 | | | | =C18+E18-F18 | | | |
| Bank Charges Expense | 97 | | | | =C19+E19-F19 | | | |
| General Expense | 330.66 | | | | =C20+E20-F20 | | | |
| Rent Expense | 3200 | | | | =C21+E21-F21 | | | |
| Telephone Expense | 289.64 | | | | =C22+E22-F22 | | | |
| Utilities Expense | 481.37 | | | | =C23+E23-F23 | | | |
| Wages Expense | 18445.76 | | | | =C24+E24-F24 | | | |
| | =SUM(C5:C24) | =SUM(D5:D24) | | | | | | |
| Supplies Expense | | | =F8 | | =C26+E26-F26 | | | |
| Insurance Expense | | | =F7 | | =C27+E27-F27 | | | |
| | | | | | =C28+E28-F28 | =D28-E28+F28 | =C28+E28-F28 | =D28-E28+F28 |
| | | | =SUM(E5:E28) | =SUM(F5:F28) | =SUM(G5:G28) | =SUM(H5:H28) | =SUM(I5:I28) | =SUM(J5:J28) |
| =IF(H29>G29,"Net Income","Net Loss") | | | | | =IF(H29>G29,H29-G29,0) | =IF(G29>H29,G29-H29,0) | =H30 | =G30 |
| | | | | | =G29+G30 | =H29+H30 | =I29+I30 | =J29+J30 |

Worksheet

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## SECTION 8.5 EXERCISES (continued)

**Exercise 1, p. 320** (continued)

**B.** (continued)

AndrewsMarch.xls

| | A | B | C | D | E | F |
|---|---|---|---|---|---|---|
| 1 | | | Andrews Landscaping | | | |
| 2 | | | Income Statement | | | |
| 3 | | | Three Months Ended March 31, 20-3 | | | |
| 4 | | | | | | |
| 5 | | *Revenue* | | | | |
| 6 | | | Fees Earned | | $ 30 897.55 | |
| 7 | | *Operating Expenses* | | | | |
| 8 | | | Advertising Expense | $ 5 531.54 | | |
| 9 | | | Bank Charges Expense | 97.00 | | |
| 10 | | | General Expense | 330.66 | | |
| 11 | | | Rent Expense | 3 200.00 | | |
| 12 | | | Telephone Expense | 289.64 | | |
| 13 | | | Utilities Expense | 481.37 | | |
| 14 | | | Wages Expense | 18 445.76 | | |
| 15 | | | Supplies Expense | 461.86 | | |
| 16 | | | Insurance Expense | 371.25 | | |
| 17 | | | Total Expenses | | 29 209.08 | |
| 18 | | *Net Income* | | | $ 1 688.47 | |
| 19 | | | | | | |

Worksheet | Income Statement


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## SECTION 8.5 EXERCISES (continued)
### Exercise 1, p. 320 (continued)

**B.** (continued)

AndrewsMarch.xls

| | A/B | C | E | G |
|---|---|---|---|---|
| 1 | | Andrews Landscaping | | |
| 2 | | Balance Sheet | | |
| 3 | | March 31, 20-3 | | |
| 4 | **ASSETS** | | | |
| 5 | *Current Assets* | | | |
| 6 | Bank | | $ 7 100.68 | |
| 7 | Accounts Receivable | | 1 600.00 | |
| 8 | Prepaid Insurance | | 1 113.75 | |
| 9 | Supplies | | 602.35 | |
| 10 | Total Current Assets | | | $ 10 416.78 |
| 11 | *Long-Term Assets* | | | |
| 12 | Equipment | | $ 4 810.81 | |
| 13 | Truck | | 6 000.00 | |
| 14 | Total Long-Term Assets | | | 10 810.81 |
| 15 | **Total Assets** | | | $ 21 227.59 |
| 16 | | | | |
| 17 | **LIABILITIES** | | | |
| 18 | *Current Liabilities* | | | |
| 19 | Bank Loan | | | $ 5 000.00 |
| 20 | Accounts Payable | | | 4 499.65 |
| 21 | HST Payable | | $ 2 162.83 | |
| 22 | HST Recoverable | | ( 692.63) | |
| 23 | HST Owed | | | 1 470.20 |
| 24 | Total Current Liabilities | | | $ 10 969.85 |
| 25 | | | | |
| 26 | **OWNER'S EQUITY** | | | |
| 27 | Opening Balance | | $ 14 969.27 | |
| 28 | Net Income | $ 1 688.47 | | |
| 29 | Less: Drawings | (6 400.00) | | |
| 30 | Decrease in Capital | | (4 711.53) | |
| 31 | Ending Balance | | | 10 257.74 |
| 32 | Total Liabilities and Equity | | | $ 21 227.59 |
| 33 | | | | |

Worksheet | Income Statement | Balance Sheet

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## SECTION 8.5 SPREADSHEET EXTENSIONS (page 320)

*The formula for a flexible label in the income statement at cell B18 is: =IF(E18>=0,"Net Income","Net Loss").*

AndrewsMarch.xls

| | A | B | C | D | E |
|---|---|---|---|---|---|
| 1 | | Andrews Landscaping | | | |
| 2 | | Income Statement | | | |
| 3 | | Three Months Ended March 31, 20-3 | | | |
| 4 | | | | | |
| 5 | | *Revenue* | | | |
| 6 | | | Fees Earned | | $ 28 897.55 |
| 7 | | *Operating Expenses* | | | |
| 8 | | | Advertising Expense | $ 5 531.54 | |
| 9 | | | Bank Charges Expense | 97.00 | |
| 10 | | | General Expense | 330.66 | |
| 11 | | | Rent Expense | 3 200.00 | |
| 12 | | | Telephone Expense | 289.64 | |
| 13 | | | Utilities Expense | 481.37 | |
| 14 | | | Wages Expense | 18 445.76 | |
| 15 | | | Supplies Expense | 461.86 | |
| 16 | | | Insurance Expense | 371.25 | |
| 17 | | | Total Expenses | | 29 209.08 |
| 18 | | *Net Loss* | | | $ ( 311.53) |
| 19 | | | | | |

Worksheet | Income Statement | Balance Sheet

*The formulas for the equity section of the balance sheet.*

AndrewsMarch.xls

| | A | B | C | D | E | F | G |
|---|---|---|---|---|---|---|---|
| 26 | | | | | | | |
| 27 | | OWNER'S EQUITY | | | | | |
| 28 | | Opening Balance | | | =Worksheet!J15 | | |
| 29 | | ='Income Statement'!B18 | ='Income Statement'!E18 | | | | |
| 30 | | Less: Drawings | =Worksheet!I16*-1 | | | | |
| 31 | | =IF(E31>=0,"Increase in Capital","Decrease in Capital") | | | =C29+C30 | | |
| 32 | | Ending Balance | | | | | =E28+E31 |
| 33 | | Total Liabilities and Equity | | | | | =G25+G32 |
| 34 | | | | | | | |

Worksheet | Income Statement | Balance Sheet


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## SECTION 8.5 SPREADSHEET EXTENSIONS (continued)

AndrewsMarch.xls

| | A | B | C | D | E | F | G |
|---|---|---|---|---|---|---|---|
| 1 | | | Andrews Landscaping | | | | |
| 2 | | | Balance Sheet | | | | |
| 3 | | | March 31, 20-3 | | | | |
| 4 | | **ASSETS** | | | | | |
| 5 | | *Current Assets* | | | | | |
| 6 | | Bank | | | $ 7 100.68 | | |
| 7 | | Accounts Receivable | | | 1 600.00 | | |
| 8 | | Prepaid Insurance | | | 1 113.75 | | |
| 9 | | Supplies | | | 602.35 | | |
| 10 | | Total Current Assets | | | | | $ 10 416.78 |
| 11 | | *Long-Term Assets* | | | | | |
| 12 | | Equipment | | | $ 4 810.81 | | |
| 13 | | Truck | | | 6 000.00 | | |
| 14 | | Total Long-Term Assets | | | | | 10 810.81 |
| 15 | | **Total Assets** | | | | | $ 21 227.59 |
| 16 | | | | | | | |
| 17 | | **LIABILITIES** | | | | | |
| 18 | | *Current Liabilities* | | | | | |
| 19 | | Bank Loan | | | | | $ 5 000.00 |
| 20 | | Accounts Payable | | | | | 4 499.65 |
| 21 | | Unearned Revenue | | | | | 2 000.00 |
| 22 | | HST Payable | | | $ 2 162.83 | | |
| 23 | | HST Recoverable | | | 692.63 | | |
| 24 | | HST Owed | | | | | 1 470.20 |
| 25 | | Total Current Liabilities | | | | | $ 12 969.85 |
| 26 | | | | | | | |
| 27 | | **OWNER'S EQUITY** | | | | | |
| 28 | | Opening Balance | | | $ 14 969.27 | | |
| 29 | | Net Loss | $ (311.53) | | | | |
| 30 | | Less: Drawings | (6 400.00) | | | | |
| 31 | | Decrease in Capital | | | (6 711.53) | | |
| 32 | | Ending Balance | | | | | 8 257.74 |
| 33 | | Total Liabilities and Equity | | | | | $ 21 227.59 |

Worksheet | Income Statement | Balance Sheet

Name ______________________________ Date ______________________________

## CHAPTER 8 | REVIEW EXERCISES (page 322)

### Using Your Knowledge

**Exercise 1, p. 322**

**A.** *No, the clerk has not done anything seriously wrong. Regardless of whether an expense or a prepaid asset is debited at the time of purchase, the senior accountant can easily make the appropriate adjusting entry to achieve account balances that comply with accounting standards.*

**B.**

**Bank**

| Debit | Credit |
| --- | --- |
| | *Jul. 1 7 200* |

**Prepaid Insurance**

| Debit | Credit |
| --- | --- |
| *Dec. 31 3 600* | |
| *3 600* | |

**Insurance Expense**

| Debit | Credit |
| --- | --- |
| *Jul. 1 7 200* | |
| | *Dec. 31 3 600* |
| *3 600* | |

| | | | | | |
| --- | --- | --- | --- | --- | --- |
| *Dec.* | *31* | *Prepaid Insurance* | | *3 600 –* | |
| | | *Insurance Expense* | | | *3 600 –* |
| | | | | | |
| | | | | | |

**Exercise 2, p. 322**

**A. to C.**

**ACCOUNT** *Supplies* **No.**

| DATE | | PARTICULARS | P.R. | DEBIT | CREDIT | Dr/Cr | BALANCE |
| --- | --- | --- | --- | --- | --- | --- | --- |
| *20–1* | | *Purchases* | | *2 852 12* | | *Dr* | *2 852 12* |
| | | *Adjustment* | | | *1 526 52* | *Dr* | *1 325 60* |
| *20–2* | | *Purchases* | | *2 956 75* | | *Dr* | *4 282 35* |
| | | *Adjustment* | | | *2 781 85* | *Dr* | *1 500 50* |

**ACCOUNT** *Supplies Expense* **No.**

| DATE | | PARTICULARS | P.R. | DEBIT | CREDIT | Dr/Cr | BALANCE |
| --- | --- | --- | --- | --- | --- | --- | --- |
| *20–1* | | *Adjustment* | | *1 526 52* | | *Dr* | *1 526 52* |
| | | *Closing Entry* | | | *1 526 52* | *–* | *0* |
| *20–2* | | *Adjustment* | | *2 781 85* | | *Dr* | *2 781 85* |
| | | *Closing Entry* | | | *2 781 85* | *–* | *0* |


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## CHAPTER 8 REVIEW EXERCISES (continued)
### Exercise 3, p. 322

| | | Prepaid Insurance (Dr) | Prepaid Insurance (Cr) | | Insurance Expense (Dr) | Insurance Expense (Cr) |
|---|---|---|---|---|---|---|
| | *Mar. 1, 20–1* | *2 400* | | | | |
| *C.* | *Dec. 31, 20–1* | | *2 000* | *Dec. 31, 20–1* | *2 000* | |
| *D.* | | *400* | | | *2 000* | |
| | *Mar. 1, 20–2* | *1 800* | | *Dec. 31, 20–1* | | *2 000* |
| | *Sep. 1, 20–2* | *1 440* | | | *0* | |
| | *Nov. 1, 20–2* | *1 200* | | | | |
| | *Dec. 31, 20–2* | *4 840* | | | | |
| *G.* | *Dec. 31, 20–2* | | *2 580* | *Dec. 31, 20–2* | *2 580* | |
| | *Dec. 31, 20–2* | *2 260* | | | *2 580* | |

**A.** *$2400 × 2 ÷ 12 = $400*

*The prepaid insurance at December 31, 20–1 is $400.*

**B.** *$2400 × 10 ÷ 12 = $2000*

*The insurance expense for the fiscal year 20–1 is $2000.*

**C.** *This is the adjusting journal entry for insurance used in 20–1,*

| | Dr | Cr |
|---|---|---|
| *Insurance Expense* | *$2 000* | |
| *Prepaid Insurance* | | *$2 000* |

**D.** *$400 + $1800 + 1440 + $1200 = $4840*

*The balance in the Prepaid Insurance account at the end of 20–2, before any adjusting entry, is $4840.*

**E.** *$1800 × 2 ÷ 12 = $300* *$1440 × 8 ÷ 12 = $960* *$1200 × 10 ÷ 12 = $1000*

*$300 + $960 + $1000 = $2260*

*The value of the prepaid insurance at the end of 20–2 is $2260.*

**F.** *$4840 – $2260 = $2580*

*The insurance expense for 20–2 is $2580.*

**G.** *This is the adjusting journal entry for insurance used in 20–2,*

| | Dr | Cr |
|---|---|---|
| *Insurance Expense* | *$2 580* | |
| *Prepaid Insurance* | | *$2 580* |

**H.** *Change the focus from unused portions (assets) to used portions (expenses).*

*National: $2400 × 2 ÷ 12 = $400* *$1800 × 10 ÷ 12 = $1500*

*Regal: $1440 × 4 ÷ 12 = $480*

*Standard: $1200 × 2 ÷ 12 = $200*

*Total: $400 + $1500 + $480 + $200 = $2580*

*The insurance expense for 20–2 is $2580.*

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## CHAPTER 8 REVIEW EXERCISES (continued)

### Exercise 4, p. 323

**A.**

**J. Soo and Associates** — **Worksheet** — **Year Ended Dec. 31, 20–5**

| ACCOUNTS | Trial Balance Dr | Trial Balance Cr | Adjustments Dr | Adjustments Cr | Income Statement Dr | Income Statement Cr | Balance Sheet Dr | Balance Sheet Cr |
|---|---|---|---|---|---|---|---|---|
| Bank | 5 160 – | | | | | | 5 160 – | |
| Accounts Receivable | 8 500 – | | | | | | 8 500 – | |
| Supplies | 1 950 – | | | ① 1 310 – | | | 640 – | |
| Prepaid Insurance | 624 – | | | ② 364 – | | | 260 – | |
| Equipment | 9 200 – | | | | | | 9 200 – | |
| Automobile | 18 350 – | | | | | | 18 350 – | |
| Accounts Payable | | 5 920 – | | ④ 115 – | | | | 6 035 – |
| HST Payable | | 310 – | | | | | | 310 – |
| HST Recoverable | 340 – | | | | | | 340 – | |
| J. Soo, Capital | | 36 662 – | | | | | | 36 662 – |
| J. Soo, Drawings | 7 500 – | | | | | | 7 500 – | |
| Commissions | | 35 650 – | ③ 3 000 – | | | 32 650 – | | |
| Car Expense | 3 214 – | | ④ 50 – | | 3 264 – | | | |
| Miscellaneous Expense | 902 – | | ④ 65 – | | 967 – | | | |
| Rent Expense | 6 000 – | | | | 6 000 – | | | |
| Utilities Expense | 1 563 – | | | | 1 563 – | | | |
| Wages Expense | 15 239 – | | | | 15 239 – | | | |
| | 78 542 – | 78 542 – | | | | | | |
| *Supplies Expense* | | | ① 1 310 – | | 1 310 – | | | |
| *Insurance Expense* | | | ② 364 – | | 364 – | | | |
| *Unearned Revenue* | | | | ③ 3 000 – | | | | ③ 3 000 – |
| | | | 4 789 – | 4 789 – | 28 707 – | 32 650 – | 49 950 – | 46 007 – |
| *Net Income* | | | | | 3 943 – | | | 3 943 – |
| | | | | | 32 650 – | 32 650 – | 49 950 – | 49 950 – |
| | | | | | | | | |
| | | | | | | | | |



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## CHAPTER 8 REVIEW EXERCISES (continued)

**Exercise 4, p. 323** (continued)

**B.**

### GENERAL JOURNAL

PAGE

| DATE | | PARTICULARS | P.R. | DEBIT | CREDIT |
|---|---|---|---|---|---|
| *20–5 Dec.* | *31* | *Supplies Expense* | | *1 310 –* | |
| | | *Supplies* | | | *1 310 –* |
| | | | | | |
| | *31* | *Insurance Expense* | | *364 –* | |
| | | *Prepaid Insurance* | | | *364 –* |
| | | | | | |
| | *31* | *Commissions* | | *3 000 –* | |
| | | *Unearned Revenue* | | | *3 000 –* |
| | | | | | |
| | *31* | *Car Expense* | | *50 –* | |
| | | *Miscellaneous Expense* | | *65 –* | |
| | | *Accounts Payable* | | | *115 –* |
| | | | | | |

**C.**

### GENERAL LEDGER

| Account | Debit | Credit |
|---|---|---|
| Bank | 5 160 | |
| Accounts Receivable | 8 500 | |
| Supplies | 1 950<br>*640* | *1 310* (1) |
| Prepaid Insurance | 624<br>*260* | *364* (2) |
| Equipment | 9 200 | |
| Automobile | 18 350 | |
| Accounts Payable | | 5 920<br>*115* (3)<br>*6 035* |
| Unearned Revenue | | *3 000* (3)<br>*3 000* |
| HST Payable | | 310 |
| HST Recoverable | 340 | |
| J. Soo, Capital | | 36 662 |
| J. Soo, Drawings | 7 500 | |

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## CHAPTER 8 REVIEW EXERCISES (continued)

**Exercise 4, p. 323** (continued)

**C.** (continued)

**Commissions**

| | |
|---|---|
| 3 3 000 | 35 650 |
| | 32 650 |

**Car Expense**

| | |
|---|---|
| 3 214 | |
| 3 50 | |
| 3 264 | |

**Miscellaneous Expense**

| | |
|---|---|
| 902 | |
| 3 65 | |
| 967 | |

**Rent Expense**

| | |
|---|---|
| 6 000 | |

**Utilities Expense**

| | |
|---|---|
| 1 563 | |

**Wages Expense**

| | |
|---|---|
| 15 239 | |

**Supplies Expense**

| | |
|---|---|
| 1 1 310 | |

**Insurance Expense**

| | |
|---|---|
| 3 364 | |

*J. SOO AND ASSOCIATES*

*ADJUSTED TRIAL BALANCE*

*DECEMBER 31, 20–5*

| | | |
|---|---|---|
| *Bank* | 5 160 – | |
| *Accounts Receivable* | 8 500 – | |
| *Supplies* | 640 – | |
| *Prepaid Insurance* | 260 – | |
| *Equipment* | 9 200 – | |
| *Automobile* | 18 350 – | |
| *Accounts Payable* | | 6 035 – |
| *Unearned Revenue* | | 3 000 – |
| *HST Payable* | | 310 – |
| *HST Recoverable* | 340 – | |
| *J. Soo, Capital* | | 36 662 – |
| *J .Soo, Drawings* | 7 500 – | |
| *Commissions* | | 32 650 – |
| *Car Expense* | 3 264 – | |
| *Miscellaneous Expense* | 967 – | |
| *Rent Expense* | 6 000 – | |
| *Utilities Expense* | 1 563 – | |
| *Wages Expense* | 15 239 – | |
| *Supplies Expense* | 1 310 – | |
| *Insurance Expense* | 364 – | |
| | 78 657 – | 78 657 – |
| | | |



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## CHAPTER 8 REVIEW EXERCISES (continued)

**Exercise 4, p. 323** (continued)

**D.**

J. SOO AND ASSOCIATES
INCOME STATEMENT
YEAR ENDED DECEMBER 31, 20–5

| | | |
|---|---|---|
| REVENUE | | |
| Commissions | | $32 650 – |
| | | |
| EXPENSES | | |
| Car Expense | $ 3 264 – | |
| Miscellaneous Expense | 967 – | |
| Rent Expense | 6 000 – | |
| Utilities Expense | 1 563 – | |
| Wages Expense | 15 239 – | |
| Supplies Expense | 1 310 – | |
| Insurance Expense | 364 – | |
| Total Expenses | | 28 707 – |
| NET INCOME | | $ 3 943 – |

Name ______________________________ Date ______________________________

## CHAPTER 8 REVIEW EXERCISES (continued)

**Exercise 4, p. 323** (continued)

**D.** (continued)

*J. SOO AND ASSOCIATES*

*BALANCE SHEET*

*DECEMBER 31, 20–5*

| | | | |
|---|---|---|---|
| *ASSETS* | | | |
| *Current Assets* | | | |
| *Bank* | | *$ 5 160 –* | |
| *Accounts Receivable* | | *8 500 –* | |
| *Supplies* | | *640 –* | |
| *Prepaid Insurance* | | *260 –* | |
| *Total Current Assets* | | | *$14 560 –* |
| *Long-Term Assets* | | | |
| *Equipment* | | *$ 9 200 –* | |
| *Automobile* | | *18 350 –* | |
| *Total Long-Term Assets* | | | *27 550 –* |
| *Total Assets* | | | *$42 110 –* |
| | | | |
| *LIABILITIES* | | | |
| *Accounts Payable* | | *$ 6 035 –* | |
| *Unearned Revenue* | | *3 000 –* | |
| *HST Payable* | *$ 310 –* | | |
| *Less: HST Recoverable* | *340 –* | | |
| *HST Owed* | | *(30 –)* | |
| *Total Liabilities* | | | *$ 9 005 –* |
| | | | |
| *OWNER'S EQUITY* | | | |
| *J. Soo, Capital* | | | |
| *Balance December 1* | | *$36 662 –* | |
| *Net Income* | *$3 943 –* | | |
| *Less: Drawings* | *7 500 –* | | |
| *Decrease in Capital* | | *(3 557) –* | |
| *Balance December 31* | | | *33 105 –* |
| *Total Liabilities and Equity* | | | *$42 110 –* |
| | | | |
| | | | |



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## CHAPTER 8 REVIEW EXERCISES (continued)

**Exercise 5, p. 324**

**Karen Millette Real Estate** — **Worksheet** — **Year Ended Sep. 30, 20–4**

| ACCOUNTS | TRIAL BALANCE Dr | TRIAL BALANCE Cr | ADJUSTMENTS Dr | ADJUSTMENTS Cr | INCOME STATEMENT Dr | INCOME STATEMENT Cr | BALANCE SHEET Dr | BALANCE SHEET Cr |
|---|---|---|---|---|---|---|---|---|
| Bank | 3 800 – | | | | | | 3 800 – | |
| Accounts Receivable | 10 900 – | | | | | | 10 900 – | |
| Supplies | 500 – | | | ① 300 – | | | 200 – | |
| Prepaid Insurance | 1 000 – | | | ② 700 – | | | 300 – | |
| Land | 50 000 – | | | | | | 50 000 – | |
| Building | 70 000 – | | | | | | 70 000 – | |
| Acc. Dep.—Building | | 6 778 – | | ③ 2 529 – | | | | 9 307 – |
| Furniture and Equipment | 15 000 – | | | | | | 15 000 – | |
| Acc. Dep.—Furn. & Equip. | | 6 360 – | | ④ 1 728 – | | | | 8 088 – |
| Automotive Equipment | 17 000 – | | | | | | 17 000 – | |
| Acc. Dep.—Auto. Equip. | | 7 208 – | | ⑤ 1 958 – | | | | 9 166 – |
| Accounts Payable | | 2 400 – | | | | | | 2 400 – |
| Bank Loan | | 60 000 – | | | | | | 60 000 – |
| HST Payable | | 4 100 – | | | | | | 4 100 – |
| HST Recoverable | 751 – | | | | | | 751 – | |
| Karen Millette, Capital | | 87 205 – | | | | | | 87 205 – |
| Karen Millette, Drawings | 30 000 – | | | | | | 30 000 – | |
| Commissions Revenue | | 99 600 – | | | | 99 600 – | | |
| Advertising Expense | 4 700 – | | | | 4 700 – | | | |
| Bank Charges | 8 100 – | | | | 8 100 – | | | |
| Car Expense | 8 000 – | | | | 8 000 – | | | |
| Commissions Expense | 18 000 – | | | | 18 000 – | | | |
| Miscellaneous Expense | 200 – | | | | 200 – | | | |
| Office Expense | 600 – | | | | 600 – | | | |

Name ______________________ Date ______________________

## CHAPTER 8 REVIEW EXERCISES (continued)

**Exercise 5, p. 324** (continued)

**Karen Millette Real Estate** — **Worksheet** — **Year Ended Sep. 30, 20–4**

| ACCOUNTS | TRIAL BALANCE Dr | TRIAL BALANCE Cr | ADJUSTMENTS Dr | ADJUSTMENTS Cr | INCOME STATEMENT Dr | INCOME STATEMENT Cr | BALANCE SHEET Dr | BALANCE SHEET Cr |
|---|---|---|---|---|---|---|---|---|
| Telephone Expense | 900 – | | | | 900 – | | | |
| Utilities Expense | 2 200 – | | | | 2 200 – | | | |
| Wages Expense | 32 200 – | | | | 32 000 – | | | |
| | 273 651 – | 273 651 – | | | | | | |
| *Supplies Expense* | | | ① 300 – | | 300 – | | | |
| *Insurance Expense* | | | ② 700 – | | 700 – | | | |
| *Dep. Exp.—Building* | | | ③ 2 529 – | | 2 529 – | | | |
| *Dep. Exp.—Furn. & Equip.* | | | ④ 1 728 – | | 1 728 – | | | |
| *Dep. Exp.—Auto. Equip.* | | | ⑤ 1 958 – | | 1 958 – | | | |
| | | | 7 215 – | 7 215 – | 81 915 – | 99 600 – | 197 951 – | 180 266 – |
| *Net Income* | | | | | 17 685 – | | | 17 685 – |
| | | | | | 99 600 – | 99 600 – | 197 951 – | 197 951 – |
| | | | | | | | | |
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## CHAPTER 8 REVIEW EXERCISES (continued)

### Exercise 6, p. 324

**Tom's Plastering** — **Worksheet** — **Year Ended Oct. 31, 20–5**

| ACCOUNTS | TRIAL BALANCE Dr | TRIAL BALANCE Cr | ADJUSTMENTS Dr | ADJUSTMENTS Cr | INCOME STATEMENT Dr | INCOME STATEMENT Cr | BALANCE SHEET Dr | BALANCE SHEET Cr |
|---|---|---|---|---|---|---|---|---|
| Bank | 1 412 01 | | | | | | 1 412 01 | |
| Accounts Receivable | 7 545 – | | | | | | 7 545 – | |
| Supplies | 1 416 70 | | ① 56 20 | ② 1 112 90 | | | 360 – | |
| Small Tools | 1 903 – | | | ⑤ 1 553 – | | | 350 – | |
| Prepaid Insurance | 2 107 80 | | | ③ 1 596 85 | | | 510 95 | |
| Equipment | 9 500 – | | | | | | 9 500 – | |
| Accum. Dep.—Equipment | | 3 200 – | | ④ 800 – | | | | 4 000 – |
| Truck | 19 500 – | | | | | | 19 500 – | |
| Accum. Dep.—Truck | | 8 000 – | | ④ 3 200 – | | | | 11 200 – |
| Accounts Payable | | 2 407 35 | | ① 646 90 | | | | 3 054 25 |
| HST Payable | | 702 – | | | | | | 702 – |
| HST Recoverable | 480 – | | | | | | 480 – | |
| Bank Loan | | 10 000 – | | | | | | 10 000 – |
| Tom Michaud, Capital | | 17 510 28 | | | | | | 17 510 28 |
| Tom Michaud, Drawings | 35 534 – | | | | | | 35 534 – | |
| Revenue | | 120 365 – | | | | 120 365 – | | |
| Bank Interest and Charges | 1 325 15 | | | | 1 325 15 | | | |
| Materials Used | 25 369 20 | | | ⑥ 2 850 – | 22 519 20 | | | |
| Miscellaneous Expense | 756 32 | | ① 26 85 | | 783 17 | | | |
| Rent Expense | 6 000 – | | | | 6 000 – | | | |
| Telephone Expense | 864 32 | | | | 864 32 | | | |
| Truck Expense | 8 325 40 | | ① 563 85 | | 8 889 25 | | | |
| Utilities Expense | 4 563 26 | | | | 4 563 26 | | | |
| Wages Expense | 35 582 47 | | | | 35 582 47 | | | |
| | 162 184 63 | 162 184 63 | | | | | | |

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## CHAPTER 8 REVIEW EXERCISES (continued)

**Exercise 6, p. 324** (continued)

**Tom's Plastering** — **Worksheet** — **Year Ended Oct. 31, 20–5**

| ACCOUNTS | TRIAL BALANCE Dr | TRIAL BALANCE Cr | ADJUSTMENTS Dr | ADJUSTMENTS Cr | INCOME STATEMENT Dr | INCOME STATEMENT Cr | BALANCE SHEET Dr | BALANCE SHEET Cr |
|---|---|---|---|---|---|---|---|---|
| *Supplies Expense* | | | ② 1 112.90 | | 1 112.90 | | | |
| *Insurance Expense* | | | ③ 1 596.85 | | 1 596.85 | | | |
| *Dep. Exp.—Equipment* | | | ④ 800.– | | 800.– | | | |
| *Dep. Exp.—Truck* | | | ④ 3 200.– | | 3 200.– | | | |
| *Small Tools Expense* | | | ⑤ 1 553.– | | 1 553.– | | | |
| *Materials* | | | ⑥ 2 850.– | | | | 2 850.– | |
| | | | 11 759.65 | 11 759.65 | 88 789.57 | 120 365.– | 78 041.96 | 46 466.53 |
| *Net Income* | | | | | 31 575.43 | | | 31 575.43 |
| | | | | | 120 365.– | 120 365.– | 78 041.96 | 78 041.96 |



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## CHAPTER 8 REVIEW EXERCISES (continued)

### Exercise 6, p. 324 (continued)

*TOM'S PLASTERING*

*INCOME STATEMENT*

*YEAR ENDED OCTOBER 31, 20–5*

| | | |
|---|---|---|
| *REVENUE* | | |
| *Revenue* | | *$120 3 6 5 –* |
| | | |
| *EXPENSES* | | |
| *Bank Interest and Charges* | *$ 1 3 2 5 15* | |
| *Materials Used* | *22 5 1 9 20* | |
| *Miscellaneous Expense* | *7 8 3 17* | |
| *Rent Expense* | *6 0 0 0 –* | |
| *Telephone Expense* | *8 6 4 32* | |
| *Truck Expense* | *8 8 8 9 25* | |
| *Utilities Expense* | *4 5 6 3 26* | |
| *Wages Expense* | *35 5 8 2 47* | |
| *Supplies Expense* | *1 1 1 2 90* | |
| *Insurance Expense* | *1 5 9 6 85* | |
| *Depreciation Expense—Equipment* | *8 0 0 –* | |
| *Depreciation Expense—Truck* | *3 2 0 0 –* | |
| *Small Tools Expense* | *1 5 5 3 –* | |
| *Total Expenses* | | *88 7 8 9 57* |
| *NET INCOME* | | *$ 31 5 7 5 43* |

Name ______________________ Date ______________________

## CHAPTER 8 REVIEW EXERCISES (continued)

**Exercise 6, p. 324** (continued)

*TOM'S PLASTERING*

*BALANCE SHEET*

*OCTOBER 31, 20–5*

| | | | |
|---|---|---|---|
| *ASSETS* | | | |
| *Current Assets* | | | |
| *Bank* | | *$1412 01* | |
| *Accounts Receivable* | | *7545 –* | |
| *Supplies* | | *360 –* | |
| *Small Tools* | | *350 –* | |
| *Prepaid Insurance* | | *510 95* | |
| *Materials* | | *2850 –* | |
| *Total Current Assets* | | | *$13027 96* |
| *Long-Term Assets* | | | |
| *Equipment* | *$9500 –* | | |
| *Less: Acc. Deprec.—Equipment* | *4000 –* | *$5500 –* | |
| *Truck* | *$19500 –* | | |
| *Less: Acc. Deprec.—Truck* | *11200 –* | *8300 –* | |
| *Total Long-Term Assets* | | | *13800 –* |
| *Total Assets* | | | *$26827 96* |
| | | | |
| *LIABILITIES* | | | |
| *Accounts Payable* | | *$3054 25* | |
| *HST Payable* | *$702 –* | | |
| *Less: HST Recoverable* | *480 –* | | |
| *HST Owed* | | *222 –* | |
| *Bank Loan* | | *10000 –* | |
| *Total Liabilities* | | | *$13276 25* |
| | | | |
| *OWNER'S EQUITY* | | | |
| *Tom Michaud, Capital* | | | |
| *Balance October 1* | | *$17510 28* | |
| *Net Income* | *$31575 43* | | |
| *Less: Drawings* | *35534 –* | | |
| *Decrease in Capital* | | *(3958 57)* | |
| *Balance October 31* | | | *13551 71* |
| *Total Liabilities and Equity* | | | *$26827 96* |
| | | | |


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## CHAPTER 8 REVIEW EXERCISES (continued)

### Exercise 7, p. 326

**A.**

**Oakville Journal** — **Worksheet** — **Year Ended December 31, 20–8**

| ACCOUNTS | TRIAL BALANCE Dr | TRIAL BALANCE Cr | ADJUSTMENTS Dr | ADJUSTMENTS Cr | INCOME STATEMENT Dr | INCOME STATEMENT Cr | BALANCE SHEET Dr | BALANCE SHEET Cr |
|---|---|---|---|---|---|---|---|---|
| Bank | 2 000 – | | | | | | 2 000 – | |
| Accounts Receivable | 15 317 20 | | | | | | 15 317 20 | |
| Supplies and Materials | 23 795 16 | | ① 509 60 | ② 16 291 20 | | | 8 013 56 | |
| Prepaid Insurance | 4 200 – | | | ③ 2 875 – | | | 1 325 – | |
| Land | 775 000 – | | | | | | 775 000 – | |
| Buildings | 630 000 – | | | | | | 630 000 – | |
| Acc. Dep.—Buildings | | 45 000 – | | ⑤ 15 000 – | | | | 60 000 – |
| Equipment | 95 700 – | | | | | | 95 700 – | |
| Acc. Dep.—Equipment | | 22 710 – | | ⑤ 7 570 – | | | | 30 280 – |
| Automotive Equipment | 75 325 – | | | | | | 75 325 – | |
| Acc. Dep.—Auto. Equip. | | 30 000 – | | ⑤ 10 000 – | | | | 40 000 – |
| Accounts Payable | | 9 216 42 | | ① 1 490 80 | | | | 10 707 22 |
| HST Payable | | 1 280 – | | | | | | 1 280 – |
| HST Recoverable | 750 – | | | | | | 750 – | |
| Bank Loan | | 100 000 – | | | | | | 100 000 – |
| Mortgage Payable | | 660 000 – | | | | | | 660 000 – |
| R. Lucht, Capital | | 729 448 91 | | | | | | 729 448 91 |
| R. Lucht, Drawings | 50 000 – | | | | | | 50 000 – | |
| Revenue—Advertising | | 218 946 – | ④ 8 903 – | | | 210 043 – | | |
| Revenue—Circulation | | 91 315 – | | | | 91 315 – | | |
| Bank Int. & Charges Exp. | 12 150 – | | | | 12 150 – | | | |
| Building Maintenance Expense | 3 220 – | | | | 3 220 – | | | |
| Car Expense | 4 960 50 | | ① 200 – | | 5 160 50 | | | |
| Miscellaneous Expense | 5 940 13 | | ① 35 – | | 2 975 13 | | | |
| Mortgage Interest Expense | 36 300 – | | | | 36 300 – | | | |
| Office Expense | 1 240 – | | | | 1 240 – | | | |
| Office Salaries Expense | 34 319 15 | | | | 34 319 15 | | | |
| Sales Promotions Expense | 2 750 – | | | | 2 750 – | | | |



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## CHAPTER 8 REVIEW EXERCISES (continued)

### Exercise 7, p. 326 (continued)

**Oakville Journal** — **Worksheet** — **Year Ended December 31, 20–8**

| ACCOUNTS | TRIAL BALANCE Dr | TRIAL BALANCE Cr | ADJUSTMENTS Dr | ADJUSTMENTS Cr | INCOME STATEMENT Dr | INCOME STATEMENT Cr | BALANCE SHEET Dr | BALANCE SHEET Cr |
|---|---|---|---|---|---|---|---|---|
| Telephone Expense | 2 946 – | | | | 2 946 – | | | |
| Truck Expense | 26 334 19 | | ① 746 20 | | 27 080 39 | | | |
| Utilities Expense | 11 350 – | | | | 11 350 – | | | |
| Wages Expense | 94 319 – | | | | 94 319 – | | | |
| | 1907 916 33 | 1907 916 33 | | | | | | |
| *Sup. & Materials Exp.* | | | ② 16 291 20 | | 16 291 20 | | | |
| *Insurance Expense* | | | ③ 2 875 – | | 2 875 – | | | |
| *Unearned Rev—Ads* | | | | ④ 8 903 – | | | | 8 903 – |
| *Dep.—Buildings* | | | ⑤ 15 000 – | | 15 000 – | | | |
| *Dep.—Equipment* | | | ⑤ 7 570 – | | 7 570 – | | | |
| *Dep.—Auto. Equip.* | | | ⑤ 10 000 – | | 10 000 – | | | |
| | | | 62 130 – | 62 130 – | 288 546 37 | 301 358 – | 1653 430 76 | 1640 619 13 |
| *Net Income* | | | | | 12 811 63 | | | 12 811 63 |
| | | | | | 301 358 – | 301 358 – | 1653 430 76 | 1653 430 76 |



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**CHAPTER 8 REVIEW EXERCISES** (continued)

**Exercise 7, p. 326** (continued)

**B.**

*OAKVILLE JOURNAL*

*INCOME STATEMENT*

*YEAR ENDED DECEMBER 31, 20–8*

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *REVENUE* | | | | | | | | | | |
| *Advertising* | *$210* | *0* | *4* | *3* | *–* | | | | | |
| *Circulation* | *91* | *3* | *1* | *5* | *–* | | | | | |
| *Total Revenue* | | | | | | *$301* | *3* | *5* | *8* | *–* |
| | | | | | | | | | | |
| *EXPENSES* | | | | | | | | | | |
| *Bank Interest and Charges Expense* | *$ 12* | *1* | *5* | *0* | *–* | | | | | |
| *Building Maintenance Expense* | *3* | *2* | *2* | *0* | *–* | | | | | |
| *Car Expense* | *5* | *1* | *6* | *0* | *50* | | | | | |
| *Miscellaneous Expense* | *5* | *9* | *7* | *5* | *13* | | | | | |
| *Mortgage Interest Expense* | *36* | *3* | *0* | *0* | *–* | | | | | |
| *Office Expense* | *1* | *2* | *4* | *0* | *–* | | | | | |
| *Office Salaries Expense* | *34* | *3* | *1* | *9* | *15* | | | | | |
| *Sales Promotions Expense* | *2* | *7* | *5* | *0* | *–* | | | | | |
| *Telephone Expense* | *2* | *9* | *4* | *6* | *–* | | | | | |
| *Truck Expense* | *28* | *0* | *8* | *0* | *39* | | | | | |
| *Utilities Expense* | *11* | *3* | *5* | *0* | *–* | | | | | |
| *Wages Expense* | *94* | *3* | *1* | *9* | *–* | | | | | |
| *Supplies and Materials Expense* | *16* | *2* | *9* | *1* | *20* | | | | | |
| *Insurance Expense* | *2* | *8* | *7* | *5* | *–* | | | | | |
| *Depreciation—Buildings* | *15* | *0* | *0* | *0* | *–* | | | | | |
| *Depreciation—Equipment* | *7* | *5* | *7* | *0* | *–* | | | | | |
| *Depreciation—Automobile Equipment* | *10* | *0* | *0* | *0* | *–* | | | | | |
| *Total Expenses* | | | | | | *288* | *5* | *4* | *6* | *37* |
| *NET INCOME* | | | | | | *$ 12* | *8* | *1* | *1* | *63* |
| | | | | | | | | | | |
| | | | | | | | | | | |
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## CHAPTER 8 REVIEW EXERCISES (continued)

**Exercise 7, p. 326** (continued)

**B.** (continued)

*OAKVILLE JOURNAL*

*BALANCE SHEET*

*DECEMBER 31, 20–8*

| | | | |
|---|---|---|---|
| *ASSETS* | | | |
| *Current Assets* | | | |
| *Bank* | | *$ 2 000 –* | |
| *Accounts Receivable* | | *15 317 20* | |
| *Supplies and Materials* | | *8 013 56* | |
| *Prepaid Insurance* | | *1 325 –* | |
| *Total Current Assets* | | | *$ 26 655 76* |
| *Long-Term Assets* | | | |
| *Land* | | *$775 000 –* | |
| *Buildings* | *$630 000 –* | | |
| *Less: Accumulated Depreciation* | *60 000 –* | *570 000 –* | |
| | | | |
| *Equipment* | *$ 95 700 –* | | |
| *Less: Accumulated Depreciation* | *30 280 –* | *65 420 –* | |
| | | | |
| *Automotive Equipment* | *$ 75 325 –* | | |
| *Less: Accumulated Depreciation* | *40 000 –* | *35 325 –* | |
| *Total Long-Term Assets* | | | *1445 745 –* |
| *Total Assets* | | | *$1472 400 76* |
| | | | |
| *LIABILITIES* | | | |
| *Current Liabilities* | | | |
| *Accounts Payable* | | *$ 10 707 22* | |
| *HST Payable* | *$ 1 280 –* | | |
| *Less: HST Recoverable* | *750 –* | | |
| *HST Owed* | | *530 –* | |
| *Unearned Revenue—Advertising* | | *8 903 –* | |
| *Bank Loan* | | *100 000 –* | |
| *Total Current Liabilities* | | | *$ 120 140 22* |
| *Long-Term Liabilities* | | | |
| *Mortgage Payable* | | | *660 000 –* |
| *Total Liabilities* | | | *$ 780 140 22* |
| | | | |


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## CHAPTER 8 REVIEW EXERCISES (continued)

### Exercise 7, p. 326 (continued)

**B.** (continued)

| | | | |
|---|---|---|---|
| *OWNER'S EQUITY* | | | |
| *R. Lucht, Capital* | | | |
| *Balance December 1* | | *$729 448 91* | |
| *Net Income* | *$ 12 811 63* | | |
| *Less: Drawings* | *50 000 –* | | |
| *Decrease in Capital* | | *(37 188 37)* | |
| *Balance December 31* | | | *692 260 54* |
| *Total Liabilities and Equity* | | | *$1472 400 76* |
| | | | |

**C.**

**GENERAL JOURNAL** PAGE

| DATE | | PARTICULARS | P.R. | DEBIT | CREDIT |
|---|---|---|---|---|---|
| | | *Adjusting Entries* | | | |
| *20–8 Dec.* | *31* | *Supplies and Materials* | | *509 60* | |
| | | *Car Expense* | | *200 –* | |
| | | *Miscellaneous Expense* | | *35 –* | |
| | | *Truck Expense* | | *746 20* | |
| | | *Accounts Payable* | | | *1 490 80* |
| | | | | | |
| | *31* | *Supplies and Materials Expense* | | *16 291 20* | |
| | | *Supplies and Materials* | | | *16 291 20* |
| | | | | | |
| | *31* | *Insurance Expense* | | *2 875 –* | |
| | | *Prepaid Insurance* | | | *2 875 –* |
| | | | | | |
| | *31* | *Revenue—Advertising* | | *8 903 –* | |
| | | *Unearned Revenue—Advertising* | | | *8 903 –* |
| | | | | | |
| | *31* | *Depreciation—Buildings* | | *15 000 –* | |
| | | *Accum. Dep.—Buildings* | | | *15 000 –* |
| | | | | | |
| | *31* | *Depreciation—Equipment* | | *7 570 –* | |
| | | *Accum. Dep.—Equipment* | | | *7 570 –* |
| | | | | | |
| | *31* | *Depreciation—Automotive Equipment* | | *10 000 –* | |
| | | *Accum. Dep.—Automotive Equipment* | | | *10 000 –* |
| | | | | | |

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## CHAPTER 8 REVIEW EXERCISES (continued)

### Exercise 7, p. 326 (continued)

**C.** (continued)

### GENERAL JOURNAL PAGE

| DATE | | PARTICULARS | P.R. | DEBIT | | | | | CREDIT | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | *Closing Entries* | | | | | | | | | | | |
| 20–8 Dec. | 31 | *Revenue—Advertising* | | 210 | 0 | 4 | 3 | – | | | | | |
| | | *Revenue—Circulation* | | 91 | 3 | 1 | 5 | – | | | | | |
| | | *Income Summary* | | | | | | | 301 | 3 | 5 | 8 | – |
| | | | | | | | | | | | | | |
| | 31 | *Income Summary* | | 288 | 5 | 4 | 6 | 37 | | | | | |
| | | *Bank Interest and Charges Expense* | | | | | | | 12 | 1 | 5 | 0 | – |
| | | *Building Maintenance Expense* | | | | | | | 3 | 2 | 2 | 0 | – |
| | | *Car Expense* | | | | | | | 5 | 1 | 6 | 0 | 50 |
| | | *Miscellaneous Expense* | | | | | | | 5 | 9 | 7 | 5 | 13 |
| | | *Mortgage Interest Expense* | | | | | | | 36 | 3 | 0 | 0 | – |
| | | *Office Expense* | | | | | | | 1 | 2 | 4 | 0 | – |
| | | *Office Salaries Expense* | | | | | | | 34 | 3 | 1 | 9 | 15 |
| | | *Sales Promotion Expense* | | | | | | | 2 | 7 | 5 | 0 | – |
| | | *Telephone Expense* | | | | | | | 2 | 9 | 4 | 6 | – |
| | | *Truck Expense* | | | | | | | 27 | 0 | 8 | 0 | 39 |
| | | *Utilities Expense* | | | | | | | 11 | 3 | 5 | 0 | – |
| | | *Wages Expense* | | | | | | | 94 | 3 | 1 | 9 | – |
| | | *Supplies and Materials Expense* | | | | | | | 16 | 2 | 9 | 1 | 20 |
| | | *Insurance Expense* | | | | | | | 2 | 8 | 7 | 5 | – |
| | | *Depreciation—Building* | | | | | | | 15 | 0 | 0 | 0 | – |
| | | *Depreciation—Equipment* | | | | | | | 7 | 5 | 7 | 0 | – |
| | | *Depreciation—Automotive Equipment* | | | | | | | 10 | 0 | 0 | 0 | – |
| | | | | | | | | | | | | | |
| | 31 | *Income Summary* | | 12 | 8 | 1 | 1 | 63 | | | | | |
| | | *R. Lucht, Capital* | | | | | | | 12 | 8 | 1 | 1 | 63 |
| | | | | | | | | | | | | | |
| | 31 | *R. Lucht, Capital* | | 50 | 0 | 0 | 0 | – | | | | | |
| | | *R. Lucht, Drawings* | | | | | | | 50 | 0 | 0 | 0 | – |
| | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |


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**CHAPTER 8 REVIEW EXERCISES** (continued)
**Exercise 7, p. 326** (continued)

**D.**

## GENERAL LEDGER

### Bank

| | |
|---|---|
| 2 000 | |

### Accounts Receivable

| | |
|---|---|
| 15 317.20 | |

### Supplies & Materials

| | | | |
|---|---|---|---|
| | 23 795.16 | 16 291.20 | 2 |
| 1 | 509.60 | | |
| | 8013.56 | | |

### Prepaid Insurance

| | | |
|---|---|---|
| 4 200 | 2 875 | 3 |
| 1 325 | | |

### Land

| | |
|---|---|
| 775 000 | |

### Buildings

| | |
|---|---|
| 630 000 | |

### Accum. Dep.—Buildings

| | | |
|---|---|---|
| | 45 000 | |
| | 15 000 | 4 |
| | 60 000 | |

### Equipment

| | |
|---|---|
| 95 700 | |

### Accum. Dep.—Equipment

| | | |
|---|---|---|
| | 22 710 | |
| | 7 570 | 5 |
| | 30 280 | |

### Automotive Equipment

| | |
|---|---|
| 75 325 | |

### Accum. Dep.— Auto. Equip.

| | | |
|---|---|---|
| | 30 000 | |
| | 10 000 | 5 |
| | 40 000 | |

### Unearned Revenue

| | | |
|---|---|---|
| | 8 903 | 4 |

### Accounts Payable

| | | |
|---|---|---|
| | 9 216.42 | |
| | 1 490.80 | 1 |
| | 10 707.22 | |

### HST Payable

| | |
|---|---|
| | 1 280 |

### HST Recoverable

| | |
|---|---|
| 750 | |

### Bank Loan

| | |
|---|---|
| | 100 000 |

### Mortgage Payable

| | |
|---|---|
| | 660 000 |

### R. Lucht, Capital

| | |
|---|---|
| 50 000 | 729 448.91 |
| | 12 811.63 |
| | 692 260.54 |

### R. Lucht, Drawings

| | |
|---|---|
| 50 000 | 50 000 |
| 0 | |

### Revenue—Advertising

| | |
|---|---|
| 48 903 | 218 946 |
| 210 043 | |
| 0 | |

### Revenue—Circulation

| | |
|---|---|
| 91 315 | 91 315 |
| 0 | |

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## CHAPTER 8 REVIEW EXERCISES (continued)

### Exercise 7, p. 326 (continued)

**D.** (continued)

**Bank Interest & Charges**

| | |
|---|---|
| 12 150 | 12 150 |
| 0 | |

**Building Maintenance Expense**

| | |
|---|---|
| 3 220 | 3 220 |
| 0 | |

**Car Expense**

| | |
|---|---|
| 4 960.50 | 5 160.50 |
| 1 200.00 | |
| 0 | |

**Miscellaneous Expense**

| | |
|---|---|
| 5 940.13 | 5 975.13 |
| 1 35.00 | |
| 0 | |

**Mortgage Interest Expense**

| | |
|---|---|
| 36 300 | 36 300 |
| 0 | |

**Office Salaries Expense**

| | |
|---|---|
| 34 319.15 | 34 319.15 |
| 0 | |

**Office Expense**

| | |
|---|---|
| 1 240 | 1 240 |
| 0 | |

**Sales Promotion Expense**

| | |
|---|---|
| 2 750 | 2 750 |
| 0 | |

**Telephone Expense**

| | |
|---|---|
| 2 946 | 2 946 |
| 0 | |

**Truck Expense**

| | |
|---|---|
| 26 334.19 | 27 080.39 |
| 1 746.20 | |
| 0 | |

**Utilities Expense**

| | |
|---|---|
| 11 350 | 11 350 |
| 0 | |

**Wages Expense**

| | |
|---|---|
| 94 319 | 94 319 |
| 0 | |

**Depreciation Expense—Buildings**

| | |
|---|---|
| 5 15 000 | 15 000 |
| 0 | |

**Depreciation Expense—Equipment**

| | |
|---|---|
| 5 7 570 | 7 570 |
| 0 | |

**Depreciation Expense—Automotive Equipment**

| | |
|---|---|
| 5 10 000 | 10 000 |
| 0 | |

**Supplies and Materials Expense**

| | |
|---|---|
| 2 16 291.20 | 16 291.20 |
| 0 | |

**Insurance Expense**

| | |
|---|---|
| 3 2 875 | 2 875 |
| 0 | |

**Income Summary**

| | |
|---|---|
| 288 546.37 | 301 358.00 |
| 12 811.63 | |
| 0 | |



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## CHAPTER 8 REVIEW EXERCISES (continued)

**Exercise 7, p. 326** (continued)

**E.**

*OAKVILLE JOURNAL*

*POST-CLOSING TRIAL BALANCE*

*DECEMBER 31, 20–8*

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Bank* | 2 | 0 | 0 | 0 | – | | | | | |
| *Accounts Receivable* | 15 | 3 | 1 | 7 | 20 | | | | | |
| *Supplies and Materials* | 8 | 0 | 1 | 3 | 56 | | | | | |
| *Prepaid Insurance* | 1 | 3 | 2 | 5 | – | | | | | |
| *Land* | 775 | 0 | 0 | 0 | – | | | | | |
| *Buildings* | 630 | 0 | 0 | 0 | – | | | | | |
| *Acc. Dep.—Buildings* | | | | | | 60 | 0 | 0 | 0 | – |
| *Equipment* | 95 | 7 | 0 | 0 | – | | | | | |
| *Acc. Dep.—Equipment* | | | | | | 30 | 2 | 8 | 0 | – |
| *Automotive Equipment* | 75 | 3 | 2 | 5 | – | | | | | |
| *Acc. Dep.—Automotive Equipment* | | | | | | 40 | 0 | 0 | 0 | – |
| *Accounts Payable* | | | | | | 10 | 7 | 0 | 7 | 22 |
| *HST Payable* | | | | | | 1 | 2 | 8 | 0 | – |
| *HST Recoverable* | | 7 | 5 | 0 | – | | | | | |
| *Unearned Revenue—Advertising* | | | | | | 8 | 9 | 0 | 3 | – |
| *Bank Loan* | | | | | | 100 | 0 | 0 | 0 | – |
| *Mortgage Payable* | | | | | | 660 | 0 | 0 | 0 | – |
| *R. Lucht, Capital* | | | | | | 692 | 2 | 6 | 0 | 54 |
| | 1603 | 4 | 3 | 0 | 76 | 1603 | 4 | 3 | 0 | 76 |

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## CHAPTER 8 REVIEW EXERCISES (continued)
### Exercise 8, p. 327

**GENERAL JOURNAL** PAGE

| DATE | | PARTICULARS | P.R. | DEBIT | CREDIT |
|---|---|---|---|---|---|
| | | *Closing Entries* | | | |
| 20–<br>Nov. | 30 | Revenue | | 1 800 – | |
| | | Income Summary | | | 1 800 – |
| | | | | | |
| | 30 | Income Summary | | 1 150 – | |
| | | General Expense | | | 50 – |
| | | Utilities Expense | | | 100 – |
| | | Wages Expense | | | 1 000 – |
| | | | | | |
| | 30 | Income Summary | | 650 – | |
| | | O. Como, Capital | | | 650 – |
| | | | | | |
| | 30 | O. Como, Capital | | 500 – | |
| | | O. Como, Drawings | | | 50 – |
| | | | | | |

### Questions for Further Thought, p. 328

1. *The time period concept pertains more to the income statement than to the balance sheet because the income statement covers a period of financial activity while the balance sheet shows financial position for only one day. The time period concept is necessary to ensure that income statements from different periods and companies use the same unit of time (usually a year) so they can be compared in a meaningful way. Balance sheets can always be compared because they are always for one day.*

2. *The Bank account is ongoing or continuous in nature because there is activity in the Bank account every business day. The activities of the business are always increasing or decreasing the balance in the account. There is never a time, except by sheer coincidence, that the Bank balance becomes zero like the nominal accounts of the business.*

3. *The owner's Capital account is not a nominal account. Its balance is updated at the end of a fiscal period by the net income or net loss and drawings but this new balance will continue into the next fiscal period. It is not cleared out.*


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## CHAPTER 8 REVIEW EXERCISES (continued)

### Questions for Further Thought, p. 328 (continued)

4. *If the nominal accounts were not cleared out at the end of the fiscal period, the entries for the new period would be added on to the old balances in the accounts. The account balances would soon become meaningless. Revenues on the first day of a fiscal year, for example, would be huge because the balance would include amounts from the previous years.*

5. *After the accounts are updated and closed out at the end of an accounting period, the account balances will remain accurate for various lengths of time. Accounts for services that are billed monthly, such as Rent Expense or Telephone Expense, may remain accurate for weeks if the bills come in at the end of the month. Supplies, if used daily, would be inexact on the first business day.*

6. *Experienced users of financial data will simply add net income and subtract drawings if they want to know the current, true balance of the capital account.*

7. *The best first step towards balancing a post-closing trial balance that does not balance is to compare the post-closing trial balance figures with the just-completed balance sheet.*

8. *During the first years of an asset's life, the declining-balance method of depreciation is more beneficial to a business than the straight-line method. The Canada Revenue Agency allows businesses to use the declining-balance method because it is an incentive for businesses to invest in long-term assets. The method allows businesses to claim more depreciation expense in the early years, resulting in lower net income and thus lower initial tax bills. The lower tax bills reduce the impact that equipment purchases have on the Bank account.*

9. *The owner is not correct in his assumption that lower amounts of depreciation expense in later years of an asset's life will free up funds to pay for repairs and maintenance expenses. Depreciation is a non-cash expense. The cash is spent at or near the time of an asset's purchase. After the asset is bought, there are no cheques written for depreciation. Depreciation is simply a mathematical calculation used to calculate net income in a theoretically accurate manner.*

## CASE STUDIES (page 329)

### Case 1 *A Balancing Act* (p. 329)

1. *To quickly tell which figure or figures on the post-closing trial balance are probably incorrect, compare the post-closing trial balance figures with those in the balance sheet.*

2. *The Owner's Equity figure in the post-closing trial balance is incorrect.*

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## CASE STUDIES (continued)

**Case 1** *A Balancing Act* (continued)

3. *The error Piran made was to treat the net loss the same as net income. When Piran closed the Income Summary account, his entry debited Income Summary and credited Owner's Equity, as if the amount he was clearing was a debit. Instead, he should have debited Owner's Equity and credited Income Summary. The error is easy to spot once you notice that the amount of the error, $1752, is double the amount of the net loss, $876.*

**Case 2** *A Mix-Up in Year-End Accounting* (p. 330)

1. *Alicia can tell if something is wrong with the figures on the list of adjusting and closing entries by comparing them to figures on the statements or in the ledger.*
2. *No, the list of adjusting and closing entries is not correct. The figures on the list do not correspond with the statements or the ledger.*
3. *Yes, the list supplied is related to the Academy of Music. The account titles match the business's accounts and the owner's name, F. Oke, on the accounts is correct.*
4. *The most likely explanation for the error is that Alicia supplied the company with last year's list of adjusting and closing entries.*

**5., 6.**

**GENERAL JOURNAL** PAGE

| DATE | | PARTICULARS | P.R. | DEBIT | CREDIT |
|---|---|---|---|---|---|
| | | *Adjusting Entries* | | | |
| | | *Supplies Used* | | 650 – | |
| | | *Supplies* | | | 650 – |
| | | | | | |
| | | *Insurance Used* | | 1420 – | |
| | | *Prepaid Insurance* | | | 1420 – |
| | | | | | |
| | | *Car Expense* | | 515 – | |
| | | *Utilities Expense* | | 150 – | |
| | | *Telephone Expense* | | 50 – | |
| | | *Accounts Payable* | | | 715 – |
| | | | | | |
| | | | | | |


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## CASE STUDIES (continued)

**Case 2** *A Mix-Up in Year-End Accounting* (continued)

**5., 6.** (continued)

**GENERAL JOURNAL** PAGE

| DATE | | PARTICULARS | P.R. | DEBIT | CREDIT |
|---|---|---|---|---|---|
| | | *Closing Entries* | | | |
| | | *Fees Earned* | | 95 300 – | |
| | | *Income Summary* | | | 95 300 – |
| | | | | | |
| | | *Income Summary* | | 57 494 – | |
| | | *Bank Charges Expense* | | | 102 – |
| | | *Car Expense* | | | 16 222 – |
| | | *Utilities Expense* | | | 3 825 – |
| | | *Miscellaneous Expense* | | | 370 – |
| | | *Rent Expense* | | | 6 000 – |
| | | *Telephone Expense* | | | 500 – |
| | | *Wages Expense* | | | 78 375 – |
| | | *Supplies Used* | | | 650 – |
| | | *Insurance Used* | | | 1 420 – |
| | | | | | |
| | | *Income Summary* | | 37 836 – | |
| | | *F. Oke, Capital* | | | 37 836 – |
| | | | | | |
| | | *F. Oke, Capital* | | 27 000 – | |
| | | *F. Oke, Drawings* | | | 27 000 – |
| | | | | | |

## CASE STUDIES (continued)

**Case 3: Challenge** *Can You Meet This Deadline?* (p. 333)

*The key to solving this case study is to reconstruct the worksheet. First, enter the pre-adjustment trial balance and income statement figures. The remaining figures can be filled in by deduction and reasoning. Once the worksheet is balanced, all the data for the balance sheet and adjusting entries will be obtained.*

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## CASE STUDIES (continued)

**Case 3: Challenge** *Can You Meet This Deadline?* (continued)

**Stetsko and Company** — **Worksheet** — **Six Months Ended June 30, 20–**

| ACCOUNTS | TRIAL BALANCE Dr | TRIAL BALANCE Cr | ADJUSTMENTS Dr | ADJUSTMENTS Cr | INCOME STATEMENT Dr | INCOME STATEMENT Cr | BALANCE SHEET Dr | BALANCE SHEET Cr |
|---|---|---|---|---|---|---|---|---|
| Bank | 4 172 50 | | | | | | 4 172 50 | |
| Accounts Receivable | 27 421 – | | | | | | 27 421 – | |
| Supplies | 1 365 – | | | 955 – | | | 410 – | |
| Prepaid Insurance | 2 280 – | | | 1 580 – | | | 700 – | |
| Furniture and Equipment | 12 596 – | | | | | | 12 596 – | |
| Accum. Dep.—Furn. & Equip. | | 2 500 – | | 500 – | | | | 3 000 – |
| Automotive Equipment | 24 800 – | | | | | | 24 800 – | |
| Accum. Dep.—Auto. Equip. | | 6 500 – | | 1 250 – | | | | 7 750 – |
| Accounts Payable | | 6 521 92 | | 650 – | | | | 7 171 92 |
| Bank Loan | | 20 000 – | | | | | | 20 000 – |
| Sales Tax Payable | | 560 – | | | | | | 560 – |
| I. Stetsko, Capital | | 25 558 20 | | | | | | 25 558 20 |
| I. Stetsko, Drawings | 15 000 – | | | | | | 15 000 – | |
| Sales | | 58 072 50 | | | | 58 072 50 | | |
| Bank Charges Expense | 1 132 10 | | | | 1 132 10 | | | |
| Automotive Expense | 4 547 52 | | 450 – | | 4 997 52 | | | |
| Miscellaneous Expense | 761 50 | | 90 – | | 851 50 | | | |
| Rent Expense | 2 600 – | | | | 2 600 – | | | |
| Telephone Expense | 1 712 – | | 110 – | | 1 822 – | | | |
| Wages Expense | 21 325 – | | | | 21 325 – | | | |
| | 119 712 62 | 119 712 62 | | | | | | |
| *Dep. Exp.—Furn. & Equip.* | | | 500 – | | 500 – | | | |
| *Dep. Exp.—Auto. Equip.* | | | 1 250 – | | 1 250 – | | | |
| *Supplies Expense* | | | 955 – | | 955 – | | | |
| *Insurance Expense* | | | 1 580 – | | 1 580 – | | | |
| | | | 4 935 – | 4 935 – | 37 013 12 | 58 072 50 | 85 099 50 | 64 040 12 |
| *Net Income* | | | | | 21 059 38 | | | 21 059 38 |
| | | | | | 58 072 50 | 58 072 50 | 82 099 50 | 85 099 50 |


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## CASE STUDIES (continued)

**Case 3: Challenge** *Can You Meet This Deadline?* (continued)

*STETSKO AND COMPANY*

*BALANCE SHEET*

*JUNE 30, 20–*

| | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *ASSETS* | | | | | | | | | | | | | | | |
| *Current Assets* | | | | | | | | | | | | | | | |
| *Bank* | | | | | | $4 | 1 | 7 | 2 | 50 | | | | | |
| *Accounts Receivable* | | | | | | 27 | 4 | 2 | 1 | – | | | | | |
| *Supplies* | | | | | | | 4 | 1 | 0 | – | | | | | |
| *Prepaid Insurance* | | | | | | | 7 | 0 | 0 | – | | | | | |
| *Total Current Assets* | | | | | | | | | | | $32 | 7 | 0 | 3 | 50 |
| *Long-Term Assets* | | | | | | | | | | | | | | | |
| *Furniture and Equipment* | $12 | 5 | 9 | 6 | – | | | | | | | | | | |
| *Less: Accum. Dep.—Furniture and Equip.* | 3 | 0 | 0 | 0 | – | $9 | 5 | 9 | 6 | – | | | | | |
| | | | | | | | | | | | | | | | |
| *Automotive Equipment* | $24 | 8 | 0 | 0 | – | | | | | | | | | | |
| *Less: Accum. Dep.—Automobile Equip.* | 7 | 7 | 5 | 0 | – | 17 | 0 | 5 | 0 | – | | | | | |
| *Total Long-Term Assets* | | | | | | | | | | | 26 | 6 | 4 | 6 | – |
| *Total Assets* | | | | | | | | | | | $59 | 3 | 4 | 9 | 50 |
| | | | | | | | | | | | | | | | |
| *LIABILITIES* | | | | | | | | | | | | | | | |
| *Accounts Payable* | | | | | | $7 | 1 | 7 | 1 | 92 | | | | | |
| *Bank Loan* | | | | | | 20 | 0 | 0 | 0 | – | | | | | |
| *Sales Tax Payable* | | | | | | | 5 | 6 | 0 | – | | | | | |
| *Total Liabilities* | | | | | | | | | | | $27 | 7 | 3 | 1 | 92 |
| | | | | | | | | | | | | | | | |
| *OWNER'S EQUITY* | | | | | | | | | | | | | | | |
| *I. Stetsko, Capital* | | | | | | | | | | | | | | | |
| *Balance June 1* | | | | | | $25 | 5 | 5 | 8 | 20 | | | | | |
| *Net Income* | $21 | 0 | 5 | 9 | 38 | | | | | | | | | | |
| *Less: Drawings* | 15 | 0 | 0 | 0 | – | | | | | | | | | | |
| *Increase in Capital* | | | | | | 6 | 0 | 5 | 9 | 38 | | | | | |
| *Balance June 30* | | | | | | | | | | | 31 | 6 | 1 | 7 | 58 |
| *Total Liabilities and Equity* | | | | | | | | | | | $59 | 3 | 4 | 9 | 50 |
| | | | | | | | | | | | | | | | |

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## CASE STUDIES (continued)

**Case 3: Challenge** *Can You Meet This Deadline?* (continued)

### GENERAL JOURNAL PAGE

| DATE | | PARTICULARS | P.R. | DEBIT | CREDIT |
|---|---|---|---|---|---|
| | | Adjusting Entries | | | |
| 20–<br>Jun. | 30 | Supplies Expense | | 955 – | |
| | | Supplies | | | 955 – |
| | | | | | |
| | 30 | Insurance Expense | | 1580 – | |
| | | Prepaid Insurance | | | 1580 – |
| | | | | | |
| | 30 | Dep. Exp.—Furn. & Equip. | | 500 – | |
| | | Accum. Dep.—Furniture and Equipment | | | 500 – |
| | | | | | |
| | 30 | Dep. Exp.—Auto. Equipment | | 1250 – | |
| | | Accum. Dep.—Automobile Equipment | | | 1250 – |
| | | | | | |
| | 30 | Automotive Expense | | 450 – | |
| | | Miscellaneous Expense | | 90 – | |
| | | Telephone Expense | | 110 – | |
| | | Accounts Payable | | | 650 – |
| | | | | | |
| | | | | | |
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## CASE STUDIES (continued)

**Case 4: Co-operative Learning** *A Better Way of Depreciating a Truck?* (p. 334)

1.

| Year | Distance Travelled (km) | Declining-balance Depreciation ($) | Distance-used Depreciation ($) |
|---|---|---|---|
| *20–1* | *21 468* | *9 450.00* | *2 546.96* |
| *20–2* | *35 698* | *6 615.00* | *4 235.21* |
| *20–3* | *42 654* | *4 630.50* | *5 060.47* |
| *20–4* | *45 965* | *3 241.35* | *5 453.29* |
| *20–5* | *40 365* | *2 268.80* | *4 788.90* |
| *20–6* | *35 632* | *1 588.16* | *4 227.38* |
| *20–7* | *27 526* | *1 111.71* | *3 265.68* |
| *20–8* | *16 201* | *778.19* | *1 922.09* |
| *Total* | *265 509* | *29 683.21* | *31 499.98* |

2. *The distance-used method results in a more even yearly depreciation expense and a larger total depreciation expense than the declining-balance method. Once you add in the salvage value of the truck when it was sold, the distance-used method is a more accurate way to account for the truck's depreciation value. However, if we switch to the distance-used method, we will still have to use the declining-balance method for our financial statements because it is approved by the Canada Revenue Agency. We recommend staying with the declining-balance method for this reason.*

## CAREER Nitasha Ragnauth/Manager, Audit and Assurance Services, McGovern, Hurley, Cunningham, LLP, Toronto (page 335)

**Discussion** **(p. 336)**

1. *Nitasha became interested in accounting in third-year university when she saw that CA's had many career opportunities.*
2. *Nitasha has worked in the insurance, energy, automotive, consumer products, and mining industries.*
3. *An example of the work performed by an external auditor is going to a company's operations, such as a mine, and assessing the value of the property and the company's right to the minerals or ore.*
4. *Nitasha decided to take the required accounting courses in first and second year, even though she had not thought of going into accounting. This gave her the option of getting a CA designation after graduation.*

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