

EXERCISE 3-8 (10–15 minutes)

(a) Wages Expense	2,900	
Wages Payable		2,900
(b) Utilities Expense	600	
Accounts Payable.....		600
(c) Interest Expense (\$60,000 X 8% X 1/12)	400	
Interest Payable		400
(d) Telephone Expense	117	
Accounts Payable.....		117

EXERCISE 3-11 (20–25 Minutes)

(a)

**CAVAMANLIS CO.
Income Statement
For the Year Ended December 31, 2010**

Revenues		
Service revenue		\$12,590
Expenses		
Salaries expense	\$6,840	
Rent expense	2,760	
Depreciation expense	145	
Interest expense	83	<u>9,828</u>
Net Income		<u>\$ 2,762</u>

(b)

**CAVAMANLIS CO.
Statement of Retained Earnings
For the Year Ended December 31, 2010**

Retained earnings, January 1	\$11,310
Add: Net income.....	2,762
Less: Dividends	<u>3,000</u>
Retained earnings, December 31	<u>\$17,072</u>

EXERCISE 3-11 (Continued)

(c)

CAVAMANLIS CO.
Balance Sheet
December 31, 2010

<u>Assets</u>			
Current Assets			
Cash.....		\$18,972	
Accounts receivable		6,920	
Prepaid rent.....		<u>2,280</u>	
Total current assets.....			\$28,172
Property, plant, and equipment			
Equipment		18,050	
Less: Accumulated depreciation		<u>(4,895)</u>	<u>13,155</u>
Total assets.....			<u>\$41,327</u>
 <u>Liabilities and Stockholders' Equity</u>			
Current liabilities			
Notes payable			\$ 5,700
Accounts payable			4,472
Interest payable			<u>83</u>
Total current liabilities.....			10,255
Stockholders' equity			
Common Stock		\$20,000	
Retained Earnings		<u>11,072*</u>	<u>31,072</u>
Total liabilities and stockholders' equity			<u>\$41,327</u>

*Beg. Balance + Net Income – Dividends = Ending Balance
 \$11,310 + \$2,762 – \$3,000 = \$11,

EXERCISE 3-17 (10–15 minutes)

Mar.	1	Cash	60,000	
		Common Stock		60,000
		(Investment of cash in business)		
	3	Land.....	10,000	
		Building.....	22,000	
		Equipment.....	6,000	
		Cash.....		38,000
		(Purchased Michelle Wie’s Golf Land)		
	5	Advertising Expense.....	1,600	
		Cash.....		1,600
		(Paid for advertising)		
	6	Prepaid Insurance	1,480	
		Cash.....		1,480
		(Paid for one-year insurance policy)		
	10	Equipment.....	2,500	
		Accounts Payable.....		2,500
		(Purchased equipment on account)		
	18	Cash	1,200	
		Service Revenue.....		1,200
		(Received cash for services performed)		
	25	Dividends	1,000	
		Cash.....		1,000
		(Declared and paid a \$1,000 cash dividend)		
	30	Wages Expense.....	900	
		Cash.....		900
		(Paid wages expense)		
	30	Accounts Payable	2,500	
		Cash.....		2,500
		(Paid creditor on account)		
	31	Cash	750	
		Service Revenue.....		750

(Received cash for services performed)

PROBLEM 3-2

(a)	Dec. 31	Accounts Receivable.....	3,500	
		Advertising Revenue.....		3,500
	31	Unearned Advertising Revenue.....	1,400	
		Advertising Revenue.....		1,400
	31	Art Supplies Expense.....	5,400	
		Art Supplies.....		5,400
	31	Depreciation Expense.....	5,000	
		Accumulated Depreciation.....		5,000
	31	Interest Expense.....	150	
		Interest Payable.....		150
	31	Insurance Expense.....	850	
		Prepaid Insurance.....		850
	31	Salaries Expense.....	1,300	
		Salaries Payable.....		1,300

PROBLEM 3-2 (Continued)

(b)

MASON ADVERTISING AGENCY
Income Statement
For the Year Ended December 31, 2010

Revenues		
Advertising revenue		\$63,500
Expenses		
Salaries expense.....	\$11,300	
Art supplies expense.....	5,400	
Depreciation expense.....	5,000	
Rent expense	4,000	
Insurance expense.....	850	
Interest expense.....	<u>500</u>	
Total expenses		<u>27,050</u>
Net income.....		<u>\$36,450</u>

MASON ADVERTISING AGENCY
Statement of Retained Earnings
For the Year Ended December 31, 2010

Retained earnings, January 1.....	\$ 3,500
Add: Net income.....	<u>36,450</u>
Retained earnings, December 31	<u>\$39,950</u>

PROBLEM 3-2 (Continued)

**MASON ADVERTISING AGENCY
Balance Sheet
December 31, 2010**

<u>Assets</u>		
Cash		\$11,000
Accounts receivable		23,500
Art supplies		3,000
Prepaid insurance		2,500
Printing equipment	\$60,000	
Less: Accumulated depreciation—printing equipment	33,000	<u>27,000</u>
Total assets		<u>\$67,000</u>
Liabilities and Stockholders' Equity		
Liabilities		
Notes payable	\$ 5,000	
Accounts payable	5,000	
Unearned advertising revenue	5,600	
Salaries payable	1,300	
Interest payable	<u>150</u>	
Total liabilities		\$17,050
Stockholders' equity		
Common stock	\$10,000	
Retained earnings	<u>39,950</u>	<u>49,950</u>
Total liabilities and stockholders' equity		<u>\$67,000</u>

- (c) 1. Interest is \$50 per month or 1% of the note payable. $1\% \times 12 = 12\%$ interest per year.

2. Salaries Expense, \$11,300 less Salaries Payable 12/31/10, \$1,300 = \$10,000. Total Payments, \$12,500 – \$10,000 = \$2,500 Salaries Payable 12/31/09.

PROBLEM 3-7

(a)	Dec. 31	Account Receivable.....	1,000	
		Service Revenue.....		1,000
	31	Unearned Service Revenue.....	1,400	
		Service Revenue.....		1,400
	31	Art Supplies Expense	5,000	
		Art Supplies		5,000
	31	Depreciation Expense	8,750	
		Accumulated Depreciation—		
		Printing Equipment		8,750
	31	Interest Expense	150	
		Interest Payable.....		150
	31	Insurance Expense	750	
		Prepaid Insurance		750
	31	Salaries Expense	1,500	
		Salaries Payable		1,500

PROBLEM 3-7 (Continued)

**(b) SORENSTAM ADVERTISING CORP.
Income Statement
For the Year Ended December 31, 2010**

Revenues		
Service revenue		\$61,000
Expenses		
Salaries expense.....	\$11,500	
Art supplies expense.....	10,000	
Depreciation expense.....	8,750	
Rent expense	4,000	
Insurance expense	750	
Interest expense	500	
Total expenses.....		<u>35,500</u>
Net income.....		<u>\$25,500</u>

**SORENSTAM ADVERTISING CORP.
Statement of Retained Earnings
For the Year Ended December 31, 2010**

Retained earnings, January 1.....	\$ 4,500
Add: Net income.....	<u>25,500</u>
Retained earnings, December 31	<u>\$30,000</u>

PROBLEM 3-7 (Continued)

SORENSTAM ADVERTISING CORP.

Balance Sheet

December 31, 2010

Assets		
Cash		\$ 7,000
Accounts receivable.....		20,000
Art supplies.....		3,500
Prepaid insurance		2,500
Printing equipment.....	\$60,000	
Less: Accum. depr.—printing equipment.....	<u>35,750</u>	<u>24,250</u>
Total assets		<u>\$57,250</u>
 Liabilities and Stockholders' Equity		
Liabilities		
Notes payable.....	\$ 5,000	
Accounts payable	5,000	
Unearned service revenue	5,600	
Salaries payable.....	1,500	
Interest payable.....	<u>150</u>	
Total liabilities		\$17,250
Stockholders' equity		
Common Stock.....	10,000	
Retained Earnings	<u>30,000</u>	
Total stockholders' equity.....		<u>40,000</u>
Total liabilities and stockholders'		
equity		<u>\$57,250</u>

PROBLEM 3-7 (Continued)

- (c) 1. **Total depreciable cost = $\$8,750 \times 6 = \$52,500$.**
Salvage value = cost $\$60,000$ less depreciable cost $\$52,500$
= $\$7,500$
2. **Based on the balance in interest payable, interest is $\$50$**
per month or 1% of the note payable.
 $1\% \times 12 = 12\%$ interest per year.
3. **Salaries Expense, $\$11,500$ less Salaries Payable 12/31/10,**
 $\$1,500 = \$10,000$. Total payments, $\$12,500 - \$10,000 =$
 $\$2,500$ Salaries Payable 12/31/09.

***PROBLEM 3-8**

(a), (b), (d)

Cash	Prepaid Insurance	Salaries Expense
Bal. 15,000	Bal. 9,000 Adj. 3,500	Bal. 80,000 Close 83,600
	<u>5,500</u>	Adj. 3,600
		<u>83,600</u>
	Common Stock	
	Bal. 400,000	
Accounts Receivable	Retained Earnings	Maintenance Expense
Bal. 13,000	Bal. 82,000	Bal. <u>24,000</u> Close <u>24,000</u>
	Inc. <u>31,640</u>	
	113,640	
Allow. for Doubtful Accts.	Dues Revenue	Depr. Expense—Buildings
Bal. 1,100	Adj. 8,900 Bal. 200,000	Adj. <u>4,000</u> Close <u>4,000</u>
Adj. <u>460</u>	Cls. <u>191,100</u>	
1,560	<u>200,000</u>	
	Rev. 8,900	
	<u>200,000</u>	
Land	Greens Fee Revenue	Depr. Expense—Equipment
Bal. 350,000	Close <u>5,900</u> Bal. <u>5,900</u>	Adj. <u>15,000</u> Close <u>15,000</u>
Buildings	Rental Revenue	Accum. Depr.—Equipment
Bal. 120,000	Close 19,200 Bal. 17,600	Bal. 70,000
	<u>19,200</u>	Adj. <u>15,000</u>
	Rev. 1,600	<u>85,000</u>
	<u>19,200</u>	
Accum. Depr.—Buildings	Utilities Expense	Insurance Expense
Bal. 38,400	Bal. <u>54,000</u> Close <u>54,000</u>	Adj. <u>3,500</u> Close <u>3,500</u>
Adj. <u>4,000</u>		
42,400		
Rent Receivable	Bad Debt Expense	Income Summary
Adj. <u>\$1,600</u> Rev. <u>1,600</u>	Adj. <u>460</u> Close <u>460</u>	Exp. 184,560 Rev. 216,200

Inc.	<u>31,640</u>	<u> </u>
	<u>216,200</u>	<u>216,200</u>

***PROBLEM 3-8 (Continued)**

Salaries Payable		Unearned Dues Revenue	
	Adj. <u>3,600</u>		Adj. <u>8,900</u>
Equipment			
Bal. 150,000			

(b)		-1-	
	Depreciation Expense—Buildings.....		4,000
	Accumulated Depreciation—Buildings (1/30 X \$120,000).....		4,000
		-2-	
	Depreciation Expense—Equipment		15,000
	Accumulated Depreciation—Equipment (10% X \$150,000)		15,000
		-3-	
	Insurance Expense		3,500
	Prepaid Insurance		3,500
		-4-	
	Rent Receivable		1,600
	Rental Revenue (1/11 X \$17,600).....		1,600
		-5-	
	Bad Debt Expense		460
	Allowance for Doubtful Accounts [(13,000 X 12%) – 1,100].....		460
		-6-	
	Salaries Expense		3,600
	Salaries Payable		3,600
		-7-	

Dues Revenue.....	8,900	
Unearned Dues Revenue		8,900

***PROBLEM 3-8 (Continued)**

**(c) CRESTWOOD GOLF CLUB, INC.
Adjusted Trial Balance
December 31, XXXX**

	<u>Dr.</u>	<u>Cr.</u>
Cash.....	\$ 15,000	
Accounts Receivable.....	13,000	
Allowance for Doubtful Accounts.....		\$ 1,560
Prepaid Insurance.....	5,500	
Land.....	350,000	
Building.....	120,000	
Accum. Depreciation—Buildings.....		42,400
Equipment.....	150,000	
Accum. Depreciation—Equipment.....		85,000
Salaries Payable.....		3,600
Common Stock.....		400,000
Retained Earnings.....		82,000
Dues Revenue.....		191,100
Greens Fee Revenue.....		5,900
Rental Revenue.....		19,200
Utilities Expense.....	54,000	
Salaries Expense.....	83,600	
Maintenance Expense.....	24,000	
Bad Debt Expense.....	460	
Unearned Dues Revenue.....		8,900
Rent Receivable.....	1,600	
Depreciation Expense—Buildings.....	4,000	
Depreciation Expense—Equipment.....	15,000	

Insurance Expense	<u>3,500</u>	<u> </u>
Totals	<u>\$839,660</u>	<u>\$839,660</u>

***PROBLEM 3-8 (Continued)**

(d)	-Dec. 31-		
Dues Revenue.....		191,100	
Greens Fee Revenue		5,900	
Rental Revenue.....		19,200	
Income Summary			216,200
	-31-		
Income Summary.....		184,560	
Utilities Expense.....			54,000
Bad Debt Expense.....			460
Salaries Expense.....			83,600
Maintenance Expense			24,000
Depreciation Expense—Buildings			4,000
Depreciation Expense—Equipment			15,000
Insurance Expense.....			3,500
	-31-		
Income Summary.....		31,640	
Retained Earnings.....			31,640

***PROBLEM 3-10**

(a)

**ARKANSAS SALES AND SERVICE
Income Statement
For the Month Ended January 31, 2010**

	<u>(1)</u> <u>Cash Basis</u>	<u>(2)</u> <u>Accrual Basis</u>
Revenues	\$ 75,000	\$98,400*
Expenses		
Cost of computers & printers:		
Purchased and paid.....	82,500**	
Cost of goods sold		59,500***
Salaries.....	9,600	12,600
Rent	6,000	2,000
Other operating expenses.....	<u>8,400</u>	<u>10,400</u>
Total expenses.....	<u>106,500</u>	<u>84,500</u>
Net income (loss)	<u>\$(31,500)</u>	<u>\$13,900</u>

*(\$2,550 X 30) + (\$3,600 X 4) + (\$500 X 15)

**(\$1,500 X 40) + (\$2,500 X 6) + (\$300 X 25)

***(\$1,500 X 30) + (\$2,500 X 4) + (\$300 X 15)

***PROBLEM 3-10 (Continued)**

**(b) ARKANSAS SALES AND SERVICE
Balance Sheet
As of January 31, 2010**

	(1) <u>Cash Basis</u>	(2) <u>Accrual Basis</u>
<u>Assets</u>		
Cash.....	\$58,500 ^a	\$ 58,500 ^a
Accounts Receivable.....		23,400
Inventory		23,000 ^b
Prepaid rent.....		4,000
Total assets	<u>\$58,500</u>	<u>\$108,900</u>
<u>Liabilities and Owners' Equity</u>		
Salaries payable.....		\$ 3,000
Accounts payable		2,000
Owners' equity.....	\$58,500 ^c	<u>103,900^d</u>
Total liabilities and owners' equity.....	<u>\$58,500</u>	<u>\$108,900</u>

^a Original investment	\$ 90,000
Cash sales	75,000
Cash purchases	(82,500)
Rent paid	(6,000)
Salaries paid	(9,600)
Other operating expenses	<u>(8,400)</u>
Cash balance Jan. 31	<u>\$ 58,500</u>

^b(10 @ \$1,500) + (2 @ \$2,500) + (10 @ \$300).

^cInitial investment minus net loss: \$90,000 – \$31,500.

^dInitial investment plus net income: \$90,000 + \$13,900.

***PROBLEM 3-10 (Continued)**

- (c) 1. The \$23,400 in receivables from customers is an asset and a future cash flow resulting from sales that is ignored. The cash basis under-states the amount of revenues and inflow of assets in January from the sale of computers and printers by \$23,400.
2. The cost of computers and printers sold in January is overstated by \$23,000. The unsold computers and printers are an asset of \$23,000 in the form of inventory.
3. The cash basis ignores \$3,000 of the salaries that have been earned by the employees in January and will be paid in February.
4. Rent expense on the cash basis is overstated by \$4,000 under the cash basis. This prepayment is an asset in the form of two months' future right to the use of office, showroom, and repair space and should appear on the balance sheet.
5. Other operating expenses on a cash basis are understated by \$2,000 as is the liability for the unpaid portion of these expenses incurred in January.

