

Accounting Cycle Problems

Lars Retton is the founder and owner of North Coast Gymnastics, a youth gymnastics training facility. A few of the company's business transactions occurring during July are described below:

1. On July 2, collected cash of \$700 from accounts receivable.
2. On July 7, purchased gymnastics equipment for \$2,175, paying \$500 in cash and charging the remainder on the company's 30-day account at Weider Fitness Co.
3. On July 9, returned to Weider Fitness Co. \$200 of gymnastics equipment that was not needed. The return of this equipment reduced by \$200 the amount owed to Weider Fitness Co.
4. On July 25, Retton made an additional investment in North Coast Gymnastics by depositing \$5,000 cash in the company bank account.
5. On July 31, paid the remaining \$1,475 owed to Weider Fitness Co.

PROBLEM 3.2
Analyzing Transactions and Preparing Journal Entries
LO 3, 4, 5

Instructions

- a. Prepare an analysis of each of the above transactions. The form of analysis to be used is as follows, using transaction 1 as an example.
 - i(a) The asset Cash was increased. Increases in assets are recorded by debits. Debit Cash, \$700.
 - i(b) The asset Accounts Receivable was decreased. Decreases in assets are recorded by credits. Credit Accounts Receivable, \$700.
- b. Prepare journal entries, including explanations, for the above transactions.

City Flights provides transportation by helicopter between a major airport and various business centers of a large city. Among the ledger accounts used by the company are the following:

Cash	Passenger Fare Revenue
Accounts Payable	Advertising Expense
Aircraft	Fuel Expense
Accounts Receivable	Rent Expense
O. Wright, Capital	Repair & Maintenance Expense
O. Wright, Drawing	Salaries Expense

PROBLEM 3.3
Journal Entries
LO 3, 4, 5, 6, 7, 8, 12

Some of the January transactions of City Flights are listed below.

- Jan. 3 Paid \$3,520 rent for hangar space during January.
- Jan. 4 Placed advertising in local newspapers for publication during January. The agreed price of \$860 was payable within 10 days after the end of the month.
- Jan. 15 Cash receipts from passengers for the first half of January amounted to \$23,160.
- Jan. 15 O. Wright, the owner, withdrew \$7,500 cash for personal use.
- Jan. 16 Paid salaries to employees for services rendered in first half of January, \$13,200.
- Jan. 25 Provided transportation for executives of the Hurley Corporation, a long-time credit customer. Sent bill for \$470, due within 30 days.
- Jan. 29 Received a bill from Western Oil Co. for fuel used in January, amounting to \$4,340 and payable by February 10.
- Jan. 31 Paid \$3,372 to Stevens Motors for repair and maintenance work during January.

Instructions

- a. Prepare a journal entry (including an explanation) for each of the above transactions.
- b. Describe the effect of the January 29 transaction involving fuel used in January on each of the following: assets, liabilities, owner's equity, and net income. For each of the four items, indicate whether the transaction caused an increase, decrease, or no effect.

PROBLEM 3.4

Transactions and
Journal Entries
LO 1, 3, 4, 6, 7, 8, 12

Garwood Marine is a boat repair yard. During August its transactions included the following:

1. On August 1, paid rent for the month of August, \$4,400.
2. On August 3, at request of Kiwi Insurance, Inc., made repairs on boat of Michael Fay. Sent bill for \$5,620 for services rendered to Kiwi Insurance, Inc. (Credit Repair Service Revenue.)
3. On August 9, made repairs to boat of Dennis Conner and collected in full the charge of \$2,830.
4. On August 14, placed advertisement in *Yachting World* to be published in issue of August 20 at cost of \$165, payment to be made within 30 days.
5. On August 25, received a check for \$5,620 from Kiwi Insurance, Inc., representing collection of the receivable of August 3.
6. On August 26, made repairs on the vessel *Independent* totaling \$1,890. Collected \$400 cash; balance due within 30 days.
7. On August 30, sent check to *Yachting World* in payment of the liability incurred on August 14.
8. On August 31, Barbara Garwood, owner of Garwood Marine, withdrew \$7,600 for personal use.

Instructions

- a. Write an analysis of each transaction. An example of the type of analysis desired is as follows:
 1. a. Rent is an operating expense. Expenses are recorded by debits. Debit Rent Expense, \$4,400.
 - b. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash, \$4,400.
- b. Prepare a journal entry (including explanation) for each of the above transactions.
- c. Transactions 1, 7, and 8 all involve cash payments, yet only one of these transactions is recorded as an expense. Describe three situations in which a cash payment would *not* involve recognition of an expense.

PROBLEM 3.5

Journal Entries, Posting,
Preparing a Trial Balance
LO 2, 3, 4, 5, 6, 10, 12



In June 2001, Pat Campbell organized a corporation to provide crop dusting services. The company, called Campbell Crop Dusting, began operations immediately. Transactions during the month of June were as follows:

- | | |
|---------|---|
| June 1 | Campbell deposited \$60,000 cash in a bank account in the name of the business. |
| June 2 | Purchased a crop-dusting aircraft from Utility Aircraft for \$220,000. Made a \$40,000 cash down payment and issued a note payable for \$180,000. |
| June 4 | Paid Woodrow Airport \$2,500 to rent office and hangar space for the month. |
| June 15 | Billed customers \$8,320 for crop-dusting services rendered during the first half of June. |
| June 15 | Paid \$5,880 salaries to employees for services rendered during the first half of June. |
| June 18 | Paid Hannigan's Hangar \$1,890 for maintenance and repair services. |
| June 25 | Collected \$4,910 of the amounts billed to customers on June 15. |
| June 30 | Billed customers \$16,450 for crop-dusting services rendered during the second half of the month. |

- June 30 Paid \$6,000 in salaries to employees for services rendered during the second half of June.
 June 30 Received a fuel bill from Henry's Feed & Fuel for \$2,510 of aircraft fuel purchased during June. This amount is due by July 10.
 June 30 Campbell withdrew \$2,000 cash from the business for personal use.

The account titles used by Campbell Crop Dusting were:

Cash	Pat Campbell, Drawing
Accounts Receivable	Crop-Dusting Revenue
Aircraft	Maintenance Expense
Notes Payable	Fuel Expense
Accounts Payable	Salaries Expense
Pat Campbell, Capital	Rent Expense

Instructions

Based on the foregoing transactions:

- Prepare journal entries.
 a. Post to ledger accounts.
 c. Prepare a trial balance at June 30, 2001.
 d. Using the trial balance at June 30, 2001 (part c), compute each of the following at June 30, 2001: total assets, total liabilities, total owner's equity. Are these amounts the figures that would be reported for assets, liabilities, and owner's equity in the balance sheet at June 30, 2001? Explain your answer briefly.

Environmental Solutions prepares financial statements and closes its accounts at the end of each calendar year. The following adjusted trial balance was prepared at December 31, 2001.

PROBLEM 3.6
 Adjusted Trial Balance, Part I—
 Preparing Financial Statements
 LO 6, 7, 9, 10, 11

ENVIRONMENTAL SOLUTIONS Adjusted Trial Balance December 31, 2001			
Cash	5	42,750	
Notes Receivable		12,740	
Accounts Receivable		65,090	
Supplies		5,300	
Land		196,000	
Building		126,000	
Accumulated Depreciation: Building			\$ 33,600
Office Equipment		33,600	
Accumulated Depreciation: Office Equipment			13,440
Notes Payable			112,000
Accounts Payable			22,880
Frank L. Adams, Capital, December 31, 2000			230,300
Frank L. Adams, Drawing		70,000	
Consulting Fees Earned			487,200
Advertising Expense		31,500	
Insurance Expense		38,720	
Utilities Expense		15,040	
Salaries Expense		245,280	
Supplies Expense		9,640	
Depreciation Expense: Building		4,200	
Depreciation Expense: Office Equipment		3,260	
		<u>\$899,220</u>	<u>\$899,220</u>

Instructions

- a. Prepare an income statement and a statement of owner's equity for the year ended December 31, 2001.
 b. Prepare a balance sheet (in report form) as of December 31, 2001.

PROBLEM 3.7

Adjusted Trial Balance, Part II—
Preparing Closing Entries

LO 13

Using the data shown in the adjusted trial balance in Problem 3.6:

- Prepare journal entries to close the accounts. Use four entries: (1) to close the revenue account, (2) to close the expense accounts, (3) to close the Income Summary account, and (4) to close the owner's drawing account.
- Does the amount of net income or net loss appear in the closing entries? Explain fully.

PROBLEM 3.8

Preparing Financial Statements
from an Adjusted Trial Balance

LO 7, 8, 10, 11, 12

NP Enterprises operates several miniature golf courses, all of which are located on rented land within city parks. Shown below is the company's adjusted trial balance at December 31, 2001. The company closes its accounts at the end of each calendar year.

NP ENTERPRISES	
Adjusted Trial Balance	
December 31, 2001	
Cash	5 41,100
Accounts Receivable	7,800
Buildings	180,000
Accumulated Depreciation: Buildings	\$ 30,000
Golf Course Structures	270,000
Accumulated Depreciation: Golf Course Structures	90,000
Accounts Payable	23,100
Salaries Payable	6,900
Nick Palmer, Capital (December 31, 2000)	331,500
Nick Palmer, Drawing	75,000
Admissions Revenue	570,000
Advertising Expense	45,000
Rent Expense	108,000
Repairs Expense	15,600
Salaries Expense	237,000
Light & Power Expense	12,600
Depreciation Expense: Buildings	18,000
Depreciation Expense: Golf Course Structures	45,000
Insurance Expense	7,500
	<u>\$1,003,500</u> <u>\$1,003,500</u>

Instructions:

- Prepare an income statement and a statement of owner's equity for the year ended December 31, 2001.

- Prepare a balance sheet (in report form) as of December 31, 2001.
- In 2001 the first year of operations for NP Enterprises? Support your answer.
- Assume that Nick Palmer invested \$300,000 to start NP Enterprises. Does the difference between the owner's capital at December 31, 2001, and this \$300,000 initial investment equal the amount of profits generated by the business since inception? Explain briefly.

Using the adjusted trial balance presented in Problem 3.8:

- a. Prepare journal entries to close the accounts. Use four entries: (1) to close the revenue account, (2) to close the expense accounts, (3) to close the Income Summary account, and (4) to close the owner's drawing account.
- b. Assume that in the following year *NP* Enterprises again had \$576,000 of admissions revenue, but that expenses increased to \$600,000. Assuming that the revenue account and all the expense accounts had been closed into the Income Summary account at December 31, prepare a journal entry to close the Income Summary account.

PROBLEM 3.9

Preparing Closing E
Adjusted Trial Balan

LO 13