

The purpose of Comprehensive Problem 1 is to review and reinforce your understanding of the accounting cycle. The number of transactions included in this comprehensive problem has been kept to a minimum so that you can simulate what might happen in actual practice without unnecessary redundancy or excessive time requirements.

BACKGROUND

Segway Adventure Tours, Inc. opened for business in Sedona, AZ in July 2019. Its owner and founder, Lauren McKay, envisioned an eco-friendly way for customers to experience the beautiful red rock vistas Sedona has to offer, while having fun riding a segway.

Lauren has hired you to perform the accounting and record-keeping for the business and expects your work as an accounting professional to be neat and properly formatted. You have established the following chart of accounts for Segway Adventure Tours, Inc.:

ACCT #	ACCOUNT TITLE	ACCT #	ACCOUNT TITLE
111	Cash	311	Common Stock
112	Accounts Receivable	312	Retained Earnings
113	Prepaid Insurance	313	Dividends
114	Office Supplies	314	Income Summary
141	Segway	411	Service Revenue
142	Accumulated Depreciation—Segway	511	Salaries & Wages Expense
143	Computer	512	Utilities Expense
144	Accumulated Depreciation—Computer	513	Advertising Expense
211	Accounts Payable	514	Rent Expense
212	Notes Payable	515	Office Supplies Expense
213	Unearned Service Revenue	520	Insurance Expense
214	Salaries & Wages Payable	530	Depreciation Expense
215	Interest Payable	540	Interest Expense
216	Income Tax Payable	550	Income Tax Expense

USE THESE ACCOUNT TITLES FOR YOUR JOURNAL ENTRIES!!!

DISCOVERY OF ERRORS: Refer to the page following the transactions for suggestions in case you make an error.

COMPREHENSIVE PROBLEM 1 REQUIREMENTS

PART A:

- (1) Prepare journal entries to record the July 2019 transactions listed on the following page (refer to the chart of accounts for the appropriate account titles to use). *Prepare a separate journal entry for each transaction and leave a space after each entry!* Check figure: Total debits = \$125,420.

OPTIONAL: Post the journal entries to the T-accounts and calculate the account balances. Prepare an unadjusted trial balance. Check figures: Cash balance = \$20,810; Trial balance total debits = \$94,760.

- (2) Prepare adjusting journal entries in the general journal based on the following information (all AJEs are dated July 31):

- (a) Record insurance expired for one month.
- (b) Employees earn salaries & wages of \$350 per day. Accrue wages and salaries for July 27-31.
- (c) There were \$75 of supplies on hand at the end of the month.
- (d) The segways have a useful life of 5 years. Record one month of depreciation.
- (e) The computers have a useful life of 3 years. Record one month of depreciation.
- (f) Annual interest on the note payable is 8%. Record accrued interest for July.
- (g) On July 31, Segway Adventure Tours provided a tour to customers. The customers will be billed in August, \$800.
- (h) By the end of July, 80% of the tours have been provided for customers for which payment had been received in advance.
- (i) Accrue estimated income taxes for July of \$1,430.

Check figure: Total debits = \$6,995.

OPTIONAL: Post the adjusting entries to the T-accounts and calculate the account balances. Prepare an adjusted trial balance. Check figure: Total debits = \$99,880.

Transactions:

- July 1 Segway Adventure Tours, Inc. began business by selling 35,000 shares of \$1 par value common stock for \$35,000.
- 1 Paid \$2,300 to rent a building and office space in Sedona for the month of July.
- 2 Purchased 10 Segways for \$45,000. Paid \$6,000 cash down and signed a promissory note for the remainder.
- 3 Purchased two computers and paid \$4,680 cash.
- 3 Purchased a one-year liability insurance policy for \$3,600.
- 4 Provided tour services to customers and received \$5,000 cash.
- 5 Purchased \$370 of office supplies on account.
- 7 Paid \$300 to advertise the new business on Facebook. All ads ran in July.
- 9 Received \$1,600 cash in advance from 10 customers to reserve spots for future tours.
- 12 Paid employee salaries and wages for July 1 - 12 of \$4,200.
- 16 Provided a tour to new employees of the Marriott Hotel. The service was provided on account, \$4,000.
- 18 Paid for the office supplies purchased on July 5.
- 20 Received \$3,500 cash for tours provided to customers.
- 23 Received \$3,000 from Marriott Hotel for payment on their account.
- 25 Received utility bills (water, electric, telephone) for the month totaling \$560.
- 26 Paid employee salaries and wages for July 13 - 26 of \$4,900.
- 30 Provided tours for \$6,100 to customers on account.
- 31 Declared and paid cash dividends to the stockholders, \$940.

DISCOVERY OF ERRORS

If your TRIAL BALANCE doesn't balance:

- (1) Determine the difference between the totals.
- (2) Possible sources of the error:
 - (a) If difference is 10, 100, 1,000, etc., it may be the result of an addition error.
 - (b) Look for an omission of a dr. or cr. posting in the amount of the difference.
 - (c) If difference is evenly divisible by 2, half of the difference may be the result of a dr. posted as a cr. or vice versa.
 - (d) If difference evenly divisible by 9, it could be a:
 - ⇒ transposition error (erroneous arrangement of digits; e.g. 542 instead of 452).
 - ⇒ slide error (entire number moved 1 or more spaces to right or left; e.g. 542 instead of 5,420).

If error not found, retrace steps of accounting process beginning with the last and working backwards:

- (1) Double check trial balance column totals.
- (2) Compare listings in trial balance with balance per T-account (also make sure items in dr. column have dr. balance; same for cr. items).
- (3) Recalculate each balance in T-accounts.
- (4) Trace postings in T-accounts back to journal, placing a check by each item; then look for unchecked items in the journal.
- (5) Verify equality of dr. and cr. in journal by computing total of all debits and total of all credits.

COMPREHENSIVE PROBLEM 1 PART B (CHAPTERS 1, 3, 4)

The purpose of Comprehensive Problem 1 is to review and reinforce your understanding of the accounting cycle. The number of accounts included in this comprehensive problem has been kept to a minimum so that you can simulate what might happen in actual practice without unnecessary redundancy or excessive time requirements.

BACKGROUND

The first year of operations of Segway Adventure Tours surpassed Lauren's expectations. It has been a year full of adventure and much success. Lauren has asked you to prepare the company's financial statements and perform the year-end closing process.

After all the transactions and adjusting entries from the fiscal year were recorded and posted to the accounts, the *June 30, 2020 year-end* adjusted trial balance (with accounts listed in alphabetical order) was prepared and is presented on the following page.

COMPREHENSIVE PROBLEM 1 REQUIREMENTS

Part B (use the June 30, 2020 adjusted trial balance on the following page to complete the below requirements):

- (3) Prepare, *in good form*, the 2020 fiscal year financial statements:
 - (a) Income Statement: Check figure: Net Income = \$56,830.
 - (b) Statement of Retained Earnings: Check figure: Retained Earnings, June 30, 2020 = \$45,530.
 - (c) Balance Sheet: Check figure: Total Assets = \$127,730.
- (4) Prepare the year-end closing entries in the general journal (all CJE's are dated June 30). Check figure: Total debits = \$539,300.
- (5) Post the closing entries to Income Summary and Retained Earnings in the general ledger and compute the ending balances of these accounts.

DISCOVERY OF ERRORS

If your FINANCIAL STATEMENT amounts do not agree with the check figures:

- (1) Remember that each account is included in only one statement; check each account off as it is used.
- (2) Calculate the difference between your amount and the check figure and then look for accounts that are:
 - (a) included on a particular statement but should not be, or
 - (b) omitted.

SEGWAY ADVENTURE TOURS, INC.
ADJUSTED TRIAL BALANCE
JUNE 30, 2020

ACCOUNT TITLES	DEBIT	CREDIT
Accounts Payable		\$ 1,350
Accounts Receivable	\$ 8,740	
Accumulated Depreciation—Computer		1,560
Accumulated Depreciation—Segway		9,000
Advertising Expense	7,000	
Cash	75,150	
Common Stock		35,000
Computer	4,680	
Depreciation Expense	10,560	
Dividends	11,300	
Income Tax Expense	17,850	
Income Tax Payable		1,800
Insurance Expense	3,600	
Interest Expense	3,120	
Interest Payable		3,120
Notes Payable		39,000
Office Supplies	520	
Office Supplies Expense	2,940	
Prepaid Insurance	4,200	
Rent Expense	27,600	
Retained Earnings (July 1, 2019)		0
Salaries & Wages Expense	126,000	
Salaries & Wages Payable		1,400
Segway	45,000	
Service Revenue		264,000
Unearned Service Revenue		530
Utilities Expense	8,500	
	_____	_____
TOTALS	<u>\$ 356,760</u>	<u>\$ 356,760</u>