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Required:

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1. Compare the amounts in the columns before and after the adjusting entries to reconstruct the adjusting entries made in 2015. Provide an explanation of each.
2. Compute the amount of net income assuming that it is based on the amounts (a) before adjusting entries and (b) after adjusting entries. Which net income amount is correct? Explain why.
3. Compute earnings per share, assuming that 3,000 shares of stock are outstanding all year.
4. Compute the total asset turnover ratio, assuming total assets at December 31, 2014, were \$110,000. If the industry average is 0.49, what does this suggest to you about the company?
5. Record the closing entry at December 31, 2015.

**P4-7**

### Recording Adjusting and Closing Entries and Preparing a Balance Sheet and Income Statement Including Earnings per Share (AP4-7)

**LO4-1, 4-2, 4-4**

Tunstall, Inc., a small service company, keeps its records without the help of an accountant. After much effort, an outside accountant prepared the following unadjusted trial balance as of the end of the annual accounting period, December 31, 2014:

Account Titles	Debit	Credit
Cash	42,000	
Accounts receivable	11,600	
Supplies	900	
Prepaid insurance	800	
Service trucks	19,000	
Accumulated depreciation		9,200
Other assets	8,300	
Accounts payable		3,000
Wages payable		
Income taxes payable		
Note payable (3 years; 10% interest due each December 31)		17,000
Common stock (5,000 shares outstanding)		400
Additional paid-in capital		19,000
Retained earnings		6,000
Service revenue		61,360
Remaining expenses (not detailed; excludes income tax)	33,360	
Income tax expense		
Totals	<u>115,960</u>	<u>115,960</u>

Data not yet recorded at December 31, 2014, included:

- a. The supplies count on December 31, 2014, reflected \$300 remaining supplies on hand to be used in 2015.
- b. Insurance expired during 2014, \$800.
- c. Depreciation expense for 2014, \$3,700.
- d. Wages earned by employees not yet paid on December 31, 2014, \$640.
- e. Income tax expense, \$5,540.

*Required:*

1. Record the 2014 adjusting entries.
2. Prepare an income statement and a classified balance sheet that include the effects of the preceding five transactions.
3. Record the 2014 closing entry.

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## ALTERNATE PROBLEMS

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### AP4-1

#### Preparing a Trial Balance (P4-1)

#### LO4-1

#### Starbucks Corporation

Starbucks Corporation purchases and roasts high-quality whole bean coffees and sells them along with fresh-brewed coffees, Italian-style espresso beverages, a variety of pastries and confections, coffee-related accessories and equipment, and a line of premium teas. In addition to sales through its company-operated retail stores, Starbucks also sells coffee and tea products through other channels of distribution. The following is a simplified list of accounts and amounts reported in recent financial statements. The accounts have normal debit or credit balances, and the dollars are rounded to the nearest million. Assume that the year ended on September 30, 2015.

Accounts Payable	\$ 540	Inventories	\$ 966
Accounts Receivable	387	Long-Term Investments	479
Accrued Liabilities	1,536	Long-Term Liabilities	897
Accumulated Depreciation	3,808	Net Revenues	11,903
Additional Paid-in Capital	39	Other Current Assets	230
Cash	1,148	Other Long-Lived Assets	730
Common Stock	2	Other Operating Expenses	402
Cost of Sales	4,949	Prepaid Expenses	162
Depreciation Expense	523	Property, Plant, and	
General and Administrative Expense	636	Equipment	6,163
Income Tax Expense	563	Retained Earnings	?
Interest Expense	33	Short-Term Investments	903
Interest Income	116	Store Operating Expenses	3,665

*Required:*

1. Prepare an adjusted trial balance at September 30, 2015.
2. How did you determine the amount for retained earnings?

### AP4-2

#### Recording Adjusting Entries (P4-2)

#### LO4-1

Hannah Company's annual accounting year ends on June 30. It is June 30, 2015, and all of the entries for the current year have been made except the following adjusting entries:

- a. On March 30, 2015, Hannah paid a six-month premium for property insurance, \$3,200, for coverage starting on that date. Cash was credited and Prepaid Insurance was debited for this amount.

- b. On June 1, 2015, Hannah collected two months' maintenance revenue of \$450. At that date, Hannah debited Cash and credited Unearned Maintenance Revenue for \$450.
- c. At June 30, 2015, wages of \$900 were earned by employees but not yet paid. The employees will be paid on the next payroll date, July 15, 2015.
- d. Depreciation of \$3,000 must be recognized on a service truck that cost \$15,000 when purchased on July 1, 2014.
- e. Cash of \$4,200 was collected on May 1, 2015, for services to be rendered evenly over the next year beginning on May 1, 2015. Unearned Service Revenue was credited when the cash was received.
- f. On February 1, 2015, the company borrowed \$18,000 from a local bank and signed a 9 percent note for that amount. The principal and interest are payable on the maturity date, January 31, 2016.
- g. On June 30, 2015, the company estimated that it owed \$500 in property taxes on land it owned in the first half of 2015. The taxes will be paid when billed in August 2015.
- h. The company earned service revenue of \$2,000 on a special job that was completed June 29, 2015. Collection will be made during July 2015; no entry has been recorded.

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CP4-2 CP4-2

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## Finding Financial Information

LO4-2, 4-3, 4-4



Refer to the financial statements of Urban Outfitters in Appendix C at the end of this book.



*Required:*

1. How much is in the Prepaid Expenses and Other Current Assets account at the end of the most recent year (for the year ended January 31, 2012)? Where did you find this information?
2. What did the company report for Deferred Rent and Other Liabilities at January 31, 2012? Where did you find this information?
3. What is the difference between prepaid rent and deferred rent?
4. Describe in general terms what accrued liabilities are.
5. What would generate the interest income that is reported on the income statement?
6. What company accounts would not have balances on a post-closing trial balance?
7. Prepare the closing entry, if any, for Prepaid Expenses.
8. What is the company's earnings per share (basic only) for the three years reported?
9. Compute the company's total asset turnover ratio for the three years reported. What does the trend suggest to you about Urban Outfitters?

CP4-3

## Comparing Companies within an Industry and Over Time

LO4-2, 4-3



Refer to the financial statements of American Eagle Outfitters in Appendix B, Urban Outfitters in Appendix C, and the Industry Ratio Report in Appendix D at the end of this book.



*Required:*

1. What was Advertising Expense for each company for the most recent year? Where did you find the information?
2. Compute the percentage of Advertising Expense to Net Sales for the most recent year for both companies. Which company incurred the higher percentage? Show computations. Are you able to perform the same comparison for the previous two years? If so, show the computations. If not, explain why not.
3. Compare the Advertising Expense to Net Sales ratio for the most recent year computed in requirement (2) to the industry average found in the Industry Ratio Report (Appendix D). Were these two companies spending more or less than their average competitor on advertising (on a relative basis)? What does this ratio tell you about the general effectiveness of each company's advertising strategy?
4. Both companies include a note to the financial statements explaining the accounting policy for advertising. How do the policies differ, if at all?
5. Compute each company's total asset turnover ratio for the three years reported. What do your results suggest to you about each company over time and in comparison to each other?
6. Compare each company's total asset turnover ratio for the most recent year to the industry average total asset turnover ratio in the Industry Ratio Report. Were these two companies performing better or worse than the average company in the industry?

## Financial Reporting and Analysis Cases

### CP4-4

#### Computing Amounts on Financial Statements and Finding Financial Information

#### LO4-1, 4-2

The following information was provided by the records of Liberty Circle Apartments (a corporation) at the end of the annual fiscal period, December 31, 2014:

#### Rent

- a. Rent revenue collected in cash during 2014 for occupancy in 2014, \$500,000.
- b. Rent revenue earned for occupancy in December 2014; not collected until 2015, \$10,000.
- c. In December 2014, rent revenue collected in advance for January 2015, \$14,000.

#### Salaries

- d. Cash payment in January 2014 to employees for work in December 2013 (accrued in 2013), \$6,000.
- e. Salaries incurred and paid during 2014, \$70,000.

- f. Salaries earned by employees during December 2014 that will be paid in January 2015, \$3,000.
- g. Cash advances to employees in December 2014 for salaries that will be earned in January 2015, \$2,000.