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Chapter 5 The Accounting Cycle: Reporting Financial Results

**LO1** **PROBLEM 5.2A**  
 Preparing Financial Statements and Closing Entries of a Profitable Company

**LO2**

**LO4**

through

**LO6**

Lawn Pride, Inc., provides lawn-mowing services to both commercial and residential customers. The company performs adjusting entries on a *monthly* basis, whereas closing entries are prepared *annually* at December 31. An *adjusted* trial balance dated December 31, 2011, follows.

LAWN PRIDE, INC. ADJUSTED TRIAL BALANCE DECEMBER 31, 2011		
	Debits	Credits
Cash .....	\$ 58,525	
Accounts receivable .....	4,800	
Unexpired insurance .....	8,000	
Prepaid rent .....	3,000	
Supplies .....	1,075	
Trucks .....	150,000	
Accumulated depreciation: trucks .....		\$120,000
Mowing equipment .....	20,000	
Accumulated depreciation: mowing equipment .....		12,000
Accounts payable .....		1,500
Notes payable .....		50,000
Salaries payable .....		900
Interest payable .....		150
Income taxes payable .....		1,050
Unearned mowing revenue .....		900
Capital stock .....		20,000
Retained earnings .....		30,000
Dividends .....	5,000	
Mowing revenue earned .....		170,000
Insurance expense .....	2,400	
Office rent expense .....	36,000	
Supplies expense .....	5,200	
Salary expense .....	60,000	
Depreciation expense: trucks .....	30,000	
Depreciation expense: mowing equipment .....	4,000	
Repair and maintenance expense .....	3,000	
Fuel expense .....	1,500	
Miscellaneous expense .....	5,000	
Interest expense .....	3,000	
Income taxes expense .....	6,000	
	<u>\$406,500</u>	<u>\$406,500</u>

**Instructions**

- Prepare an income statement and statement of retained earnings for the year ended December 31, 2011. Also prepare the company's balance sheet dated December 31, 2011.
- Prepare the necessary year-end closing entries.
- Prepare an after-closing trial balance.
- Using the financial statements prepared in part a, briefly evaluate the company's profitability and liquidity.