LO 3-1

Exercise 3-9A *Recording receivables and identifying their effect on financial statements*

Davos Company performed services on account for $160,000 in 2016. Davos collected $120,000 cash from accounts receivable during 2016, and the remaining $40,000 was collected in cash during 2017.

Required

a. Record the 2016 transactions in T-accounts.

b. Record the 2016 transactions in a horizontal statements model like the following one:

Assets			=	Liab.	+	Equity	Rev.	−	Exp.	=	Net Inc.	Cash Flow
Cash	+	Accts. Rec.	=			Ret. Earn.						

c. Determine the amount of revenue Davos would report on the 2016 income statement.

d. Determine the amount of cash flow from operating activities Davos would report on the 2016 statement of cash flows.

e. Open a T-account for Retained Earnings, and close the 2016 Service Revenue account to the Retained Earnings account.

f. Record the 2017 cash collection in the appropriate T-accounts.

g. Record the 2017 transaction in a horizontal statements model like the one shown in Requirement *b*.

h. Assuming no other transactions occur in 2017, determine the amount of net income and the net cash flow from operating activities for 2017.

LO 3-1, 3-3, 3-4

Exercise 3-10A *Recording supplies and identifying their effect on financial statements*

Sye Chase started and operated a small family architectural firm in 2016. The firm was affected by two events: (1) Chase provided $25,000 of services on account, and (2) he purchased $2,800 of supplies on account. There were $250 of supplies on hand as of December 31, 2016.

Required

a. Open T-accounts and record the two transactions in the accounts.

b. Record the required year-end adjusting entry to reflect the use of supplies.

c. Record the preceding transactions in a horizontal statements model like the following one:

Assets			=	Liab.	+	Equity	Rev.	−	Exp.	=	Net Inc.	Cash Flow
Accts. Rec.	+	Supplies	=	Accts. Pay.	+	Ret. Earn.						

d. Explain why the amounts of net income and net cash flow from operating activities differ.

e. Record and post the required closing entries, and prepare a post-closing trial balance.

...	=	Ret. Earn.	

c. Determine the amount of revenue Davos would report on the 2016 income statement.

d. Determine the amount of cash flow from operating activities Davos would report on the 2016 statement of cash flows.

e. Open a T-account for Retained Earnings, and close the 2016 Service Revenue account to the Retained Earnings account.

f. Record the 2017 cash collection in the appropriate T-accounts.

g. Record the 2017 transaction in a horizontal statements model like the one shown in Requirement *b*.

h. Assuming no other transactions occur in 2017, determine the amount of net income and the net cash flow from operating activities for 2017.

LO 3-1, 3-3, 3-4

Exercise 3-10A *Recording supplies and identifying their effect on financial statements*

Sye Chase started and operated a small family architectural firm in 2016. The firm was affected by two events: (1) Chase provided $25,000 of services on account, and (2) he purchased $2,800 of supplies on account. There were $250 of supplies on hand as of December 31, 2016.

Required

a. Open T-accounts and record the two transactions in the accounts.

b. Record the required year-end adjusting entry to reflect the use of supplies.

c. Record the preceding transactions in a horizontal statements model like the following one:

Assets			=	Liab.	+	Equity	Rev.	−	Exp.	=	Net Inc.	Cash Flow
Accts. Rec.	+	Supplies	=	Accts. Pay.	+	Ret. Earn.						

d. Explain why the amounts of net income and net cash flow from operating activities differ.

e. Record and post the required closing entries, and prepare a post-closing trial balance.

LO 3-1

Exercise 3-11A *Recording unearned revenue and identifying its effect on financial statements*

Raylan received a $60,000 cash advance payment on June 1, 2016, for consulting services to be performed in the future. Services were to be provided for a one-year term beginning June 1, 2016.

Required

a. Record the June 1 cash receipt in T-accounts.

b. Record in T-accounts the adjustment required as of December 31, 2016.

c. Record the preceding transaction and related adjustment in a horizontal statements model like the following one:

Assets	=	Liab.	+	Equity	Rev.	−	Exp.	=	Net Inc.	Cash Flow

...for the given events, and solve for th...

Exercise 3-13A *Using a T-account to det...*

...Company began the accounting pe... ...account. During the accounting perio... ...The ending Accounts Payable balanc...

Required

...on this information, determine the amo... ...period. (*Hint:* Use a T-account for Ac... ...given events, and solve for the missing amou...

Exercise 3-14A *Recording events in the ge... on financial statements*

Required

Record each of the following transactions in gen... transaction in a horizontal statements model. T...

Account Title
Accounts Receivable
Service Revenue

Assets	=	Liab.	+	Equity	Rev.
8,200				8,200	8,200

a. Performed $8,200 of services on account.

b. Collected $5,600 cash on accounts receivabl...

c. Paid $1,450 cash in advance for an insuranc...

d. Paid $400 on accounts payable.

e. Recorded the adjusting entry to recognize $...

f. Recorded the adjusting entry to recognize $...

g. Received $1,600 cash for services to be perf...

h. Purchased land for $9,000 cash.

i. Purchased supplies for $350 cash.

Exercise 3-15A *Recording prepaid items... statements*

Cherokee Company began operations when i... $60,000 cash in advance for a one-year contra... signed the lease agreement on March 1, 2016, ... $98,000 of cash revenue in 2016.

Exercise 3-13A *Using a T-account to determine cash flow from operating activities* LO 3-1

The Garden Company began the accounting period with a $60,000 credit balance in its Accounts Payable account. During the accounting period, Garden Co. incurred expenses on account of $[illegible],000. The ending Accounts Payable balance was $64,000.

Required

Based on this information, determine the amount of cash outflow for expenses during the accounting period. (*Hint:* Use a T-account for Accounts Payable. Enter the debits and credits for the given events, and solve for the missing amount.)

Exercise 3-14A *Recording events in the general journal and identifying their effect on financial statements* LO 3-2

Required

Record each of the following transactions in general journal form and then show the effect of the transaction in a horizontal statements model. The first transaction is shown as an example.

Account Title	Debit	Credit
Accounts Receivable	8,200	
Service Revenue		8,200

Assets	=	Liab.	+	Equity	Rev.	−	Exp.	=	Net Inc.	Cash Flow
8,200				8,200	8,200		NA		8,200	NA

a. Performed $8,200 of services on account.
b. Collected $5,600 cash on accounts receivable.
c. Paid $1,450 cash in advance for an insurance policy.
d. Paid $400 on accounts payable.
e. Recorded the adjusting entry to recognize $300 of insurance expense.
f. Recorded the adjusting entry to recognize $200 accrued interest revenue.
g. Received $1,600 cash for services to be performed at a later date.
h. Purchased land for $9,000 cash.
i. Purchased supplies for $350 cash.

Exercise 3-15A *Recording prepaid items and identifying their effect on financial statements* LO 3-2

Cherokee Company began operations when it issued common stock for $80,000 cash. It paid $60,000 cash in advance for a one-year contract to lease delivery equipment for the business. It signed the lease agreement on March 1, 2016, which was effective immediately. Cherokee received $98,000 of cash revenue in 2016.

3-15A CONT

Required

a. Record the March 1 cash payment in general journal format.
b. Record in general journal format the adjustment required as of December 31, 2016.
c. Record all events in a horizontal statements model like the following one:

Assets			=	Liab. +	Equity		Rev. − Exp. = Net Inc.	Cash Flow
Cash	+	Prep. Rent	=		Common Stock	+ Ret. Earn.		

d. What amount of net income will Cherokee Company report on the 2016 income statement? What is the amount of net cash flow from operating activities for 2016?
e. Determine the amount of prepaid rent Cherokee Company would report on the December 31, 2016, balance sheet.

LO 3-2

Exercise 3-16A *Recording accrued salaries and identifying their effect on financial statements*

On December 31, 2016, BIG Company had accrued salaries of $6,400.

Required

a. Record in general journal format the adjustment required as of December 31, 2016.
b. Record the above adjustment in a horizontal statements model like the following one:

Assets	=	Liab.	+	Equity	Rev.	−	Exp.	=	Net Inc.	Cash Flow
		Sal. Pay.	+	Ret. Earn.						

c. Determine the amount of net income BIG would report on the 2016 income statement, assuming that BIG received $36,000 of cash revenue. What is the amount of net cash flow from operating activities for 2016?
d. What amount of salaries payable would BIG report on the December 31, 2016, balance sheet?

LO 3-4

Exercise 3-17A *Preparing closing entries*

The following financial information was taken from the books of Zone Health Club, a small spa and fitness club:

Account Balances as of December 31, 2016	
Accounts Receivable	$12,450

d. What amount of net income will Cherokee Company report on the 2016 income statement? What is the amount of net cash flow from operating activities for 2016?

e. Determine the amount of prepaid rent Cherokee Company would report on the December 31, 2016, balance sheet.

LO 3-2

Exercise 3-16A *Recording accrued salaries and identifying their effect on financial statements*

On December 31, 2016, BIG Company had accrued salaries of $6,400.

Required

a. Record in general journal format the adjustment required as of December 31, 2016.

b. Record the above adjustment in a horizontal statements model like the following one:

Assets	=	Liab.	+	Equity	Rev.	−	Exp.	=	Net Inc.	Cash Flow
		Sal. Pay.	+	Ret. Earn.						

c. Determine the amount of net income BIG would report on the 2016 income statement, assuming that BIG received $36,000 of cash revenue. What is the amount of net cash flow from operating activities for 2016?

d. What amount of salaries payable would BIG report on the December 31, 2016, balance sheet?

LO 3-4

Exercise 3-17A *Preparing closing entries*

The following financial information was taken from the books of Zone Health Club, a small spa and fitness club:

Account Balances as of December 31, 2016	
Accounts Receivable	$12,450
Accounts Payable	6,200
Salaries Payable	3,150
Cash	36,750
Dividends	2,000
Operating Expense	35,300
Prepaid Rent	1,200
Rent Expense	8,400
Retained Earnings 1/1/2016	41,250
Salaries Expense	14,500
Service Revenue	65,400
Supplies	650
Supplies Expense	3,150
Common Stock	7,000
Unearned Revenue	6,400
Land	15,000

Collected $34,500 of accounts re

Paid a $3,000 dividend to the sto

Performed $9,500 of services for

Paid $5,500 of the accounts paya

Required

Record the preceding transactio

Post the entries to T-accounts ar

Determine the amount of total a

Determine the amount of net in

Exercise 3-19A *Preparing a tri*

Required

On December 31, 2016, Morgan C general ledger. Use this information

Land
Unearned Rev
Dividends
Prepaid Rent
Cash
Salaries Expe
Accounts Pay
Common Stoc
Operating Exp
Office Supplie
Advertising E
Retained Ear
Service Reve
Accounts Rec

Exercise 3-20A *Determining th*

Required

Explain how each of the following balance will be out of balance beca balance will have a higher amount does not affect the equality of debi cause an inequality and explain wh

a. An $900 credit to Unearned Re

b. A $3,400 credit to Accounts Pa

c. An $900 debit to Rent Expense

d. A $1,250 debit to Office Suppli

e. A $560 debit to Cash was post

3-17A CONT

Required

a. Prepare the journal entries necessary to close the temporary accounts at December 31, 2016, for Zone Health Club.

b. What is the balance in the Retained Earnings account after the closing entries are posted?

Exercise 3-18A ***Recording transactions in the general journal and T-accounts*** LO 3-1, 3-2

The following events apply to Montgomery Company for 2016, its first year of operation:

1. Received cash of $36,000 from the issue of common stock.
2. Performed $48,000 of services on account.
3. Incurred $6,500 of other operating expenses on account.
4. Paid $21,000 cash for salaries expense.
5. Collected $34,500 of accounts receivable.
6. Paid a $3,000 dividend to the stockholders.
7. Performed $9,500 of services for cash.
8. Paid $5,500 of the accounts payable.

Required

a. Record the preceding transactions in general journal form.

b. Post the entries to T-accounts and determine the ending balance in each account.

c. Determine the amount of total assets at the end of 2016.

d. Determine the amount of net income for 2016.

Exercise 3-19A ***Preparing a trial balance*** LO 3-3

Required

On December 31, 2016, Morgan Company had the following normal account balances in its general ledger. Use this information to prepare a trial balance.

Land	$30,000
Unearned Revenue	32,000
Dividends	8,000
Prepaid Rent	5,600
Cash	90,000
Salaries Expense	18,000
Accounts Payable	7,000
Common Stock	80,000
Operating Expense	41,000
Office Supplies	2,500
Advertising Expense	3,500
Retained Earnings, 1/1/2016	9,000
Service Revenue	86,000
Accounts Receivable	15,400

Problem 3-31A *Effect of errors on the trial balance*

LO 3-3

CHECK FIGURE
Corrected Cash Balance: $69,710

The following trial balance was prepared from the ledger accounts of Ricardo Company:

RICARDO COMPANY
Trial Balance
April 30, 2016

Account Title	Debit	Credit
Cash	$ 68,900	
Accounts Receivable	30,000	
Supplies	1,800	
Prepaid Insurance	3,600	
Land		$ 12,000
Accounts Payable		9,600
Common Stock		100,000
Retained Earnings		27,510
Dividends	8,000	
Service Revenue		60,000
Rent Expense	9,600	
Salaries Expense	31,500	
Operating Expense	32,400	
Totals	$185,800	$209,110

When the trial balance failed to balance, the accountant reviewed the records and discovered the following errors:

1. The company received $560 as payment for services rendered. The credit to Service Revenue was recorded correctly, but the debit to Cash was recorded as $650.
2. A $900 receipt of cash that was received from a customer on accounts receivable was not recorded.
3. A $600 purchase of supplies on account was properly recorded as a debit to the Supplies account. However, the credit to Accounts Payable was not recorded.
4. Land valued at $12,000 was contributed to the business in exchange for common stock. The entry to record the transaction was recorded as a $12,000 credit to both the Land account and the Common Stock account.
5. A $500 rent payment was properly recorded as a credit to Cash. However, the Salaries Expense account was incorrectly debited for $500.

Required

Based on this information, prepare a corrected trial balance for Ricardo Company.

Problem 3-32A *Comprehensive problem: single cycle*

LO 3-1, 3-2, 3-3, 3-4

CHECK FIGURE
d. Net Income: $50,880
Total Assets: $98,180

The following transactions pertain to Smith Training Company for 2016:

Jan.	30	Established the business when it acquired $45,000 cash from the issue of common stock.
Feb.	1	Paid rent for office space for two years, $24,000 cash.
Apr.	10	Purchased $3,200 of supplies on account.
July	1	Received $24,000 cash in advance for services to be provided over the next year.

Required

a. Record the events in general journal format.
b. Open general ledger T-accounts with the appropriate beginning balances and post the journal entries to the T-accounts.
c. Prepare a multistep income statement, a balance sheet, and a statement of cash flows.
d. Why would Prentise agree to keep the damaged goods? Who benefits more?

LO 4-2, 4-3, 4-4, 4-5

Exercise 4-17A *Comprehensive exercise with sales discounts*

Junker's Stash started the 2016 accounting period with the balances given in the financial statements model shown below. During 2016 Junker's Stash experienced the following business events:

1. Paid cash to purchase $70,000 of merchandise inventory.
2. The goods that were purchased in Event 1 were delivered FOB destination. Freight costs of $1,400 were paid in cash by the responsible party.
3a. Sold merchandise for $72,000 under terms 1/10, n/30.
3b. Recognized $41,900 of cost of goods sold.
4a. Junker's Stash customers returned merchandise that was sold for $2,100.
4b. The merchandise returned in Event 4a had cost Junker's Stash $1,250.
5. The merchandise in Event 3a was sold to customers FOB destination. Freight costs of $1,650 were paid in cash by the responsible party.
6a. The customers paid for the merchandise sold in Event 3a within the discount period. Recognized the sales discount.
6b. Collected the balance in the accounts receivable account.
7. Paid cash of $6,850 for selling and administrative expenses.
8. Sold the land for $9,100 cash.

Required

a. Record the above transactions in a financial statements model like the one shown below:

Event No.	Cash	+	Accts. Rec.	+	Inventory	+	Land	=	Com. Stk.	+	Ret. Earn.	Rev./Gain	−	Exp.	=	Net Inc.	Cash Flow
Bal.	80,000	+	0	+	15,000	+	11,000	=	70,000	+	36,000	NA	−	NA	=	NA	NA

b. Determine the amount of net sales.
c. Prepare a multistep income statement. Include common size percentages on the income statement.
d. Junker's Stash return on sales ratio in 2015 was 12 percent. Based on the common size data in the income statement, did Junker's Stash expenses increase or decrease in 2016?
e. Explain why the term *loss* is used to describe the results due to the sale of land.

LO 4-5

Exercise 4-18A *Using ratios to make comparisons*

The following income statements were drawn from the annual reports of the Denver Company and the Reno Company: