

**SOLUTIONS****Learning Goal 14****Multiple Choice**

1. a
  2. c The capital balance to use on the balance sheet is the final balance from the statement of owner's equity. The capital balance showing on the worksheet does not include the net income (or loss) and any withdrawals.
  3. b Remember that an owner's investments are entered directly into the capital account. Therefore, the capital balance showing on the worksheet—which is taken from the final ledger balance—includes these investments. However, an owner's investments must be disclosed as a separate item on the statement of owner's equity. Therefore, on the statement of owner's equity, the beginning capital should exclude these investments.
  4. d Very often, the totals of the balance sheet columns on the worksheet will not be the same totals that appear on the balance sheet. This is because on the balance sheet certain items are offset or subtracted resulting in a smaller net amount. Examples: Accumulated depreciation is offset against the cost of the assets; the owner drawings are subtracted from the capital account. This is not done on the worksheet.
  5. a
  6. d If the worksheet is correct, then all the adjustments on the worksheet must be correct.
  7. c The primary purpose of the worksheet is to organize the financial information to have the correct amounts for the income statement and balance sheet. Financial statements have a time value and stakeholders usually want to see them as quickly as possible. The financial statements have first priority. The adjusting entries, the closing entries, and then the post-closing trial balance can easily be done later. (See Learning Goal 16 for an explanation of closing entries.)
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## SOLUTIONS

## Learning Goal 14, continued

## Reinforcement Problems

## LG 14-1.

Maui Quick Print Services										
Worksheet										
For the Year Ended December 31, 2008										
Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	18,300				18,300				18,300	
Accounts Receivable	4,200				4,200				4,200	
Printing Supplies	800			(a) 600	200				200	
Prepaid Insurance	1,800			(b) 1,350	450				450	
Office Equipment	7,500				7,500				7,500	
Accum. Dep'n.— Office Equipment		1,000		(c) 750		1,750				1,750
Printing/Copying Equipment	35,500				35,500				35,500	
Accum. Dep'n.—Printing/ Copying Equipment		14,500		(c) 7,000		21,500				21,500
Accounts Payable		1,400				1,400				1,400
Unearned Fees		3,500	(d) 3,500							
Notes Payable		36,000				36,000				36,000
Dave St. Jean, Capital		35,550				35,550				35,550
Dave St. Jean, Drawing	22,000				22,000				22,000	
Fees Earned		108,700		(d) 3,500		112,200		112,200		
Salaries Expense	57,300		(e) 500		57,800		57,800			
Office Supplies Expense	1,300				1,300		1,300			
Rent Expense	36,000				36,000		36,000			
Travel Expense	3,250				3,250		3,250			
Printing Supplies Expense	4,200		(a) 600		4,800		4,800			
Interest Expense	3,300		(f) 300		3,600		3,600			
Utilities Expense	5,200				5,200		5,200			
Totals	<u>200,650</u>	<u>200,650</u>								
Depreciation Expense			(c) 7,750		7,750		7,750			
Insurance Expense			(b) 1,350		1,350		1,350			
Salaries Payable				(e) 500		500				500
Interest Payable				(f) 300		300				300
Totals			<u>14,000</u>	<u>14,000</u>	<u>209,200</u>	<u>209,200</u>	121,050	112,200	88,150	97,000
Net Loss								8,850	8,850	
Totals							<u>121,050</u>	<u>121,050</u>	<u>97,000</u>	<u>97,000</u>

**SOLUTIONS****Learning Goal 14, continued****LG 14-1, continued***Adjustments information:*

The prepaid insurance is \$150 per month for nine months  $(1,800/12) \times 9 = 1,350$ . The interest expense is \$300 per month, but 11 months of it is *already* on the trial balance (Interest Expense), so only a \$300 accrual is needed for the last month. *Remember: ALWAYS check the trial balance before making an adjustment!*

<b>Maui Quick Print Service</b>		
<b>Income Statement</b>		
<b>For the Year Ended December 31, 2008</b>		
Revenues		
Fees earned		\$112,200
Expenses		
Salaries expense	57,800	
Rent expense	36,000	
Depreciation expense	7,750	
Utilities expense	5,200	
Printing supplies expense	4,800	
Interest expense	3,600	
Travel expense	3,250	
Insurance expense	1,350	
Office supplies expense	<u>1,300</u>	
Total expenses		<u>121,050</u>
Net loss		<u><u>\$ (8,850)</u></u>

<b>Maui Quick Print Service</b>			
<b>Balance Sheet</b>			
<b>December 31, 2008</b>			
<b>Assets</b>		<b>Liabilities</b>	
Cash	\$18,300	Accounts payable	\$1,400
Accounts receivable	4,200	Salaries payable	500
Printing supplies	200	Interest payable	300
Prepaid insurance	450	Notes payable	<u>36,000</u>
Office equipment	\$7,500	Total liabilities	38,200
Less: Accumulated depreciation	<u>1,750</u>	<b>Owner's Equity</b>	
	5,750	Dave St. Jean, Capital	4,700
Printing/copying equipment	\$35,500		
Less: Accumulated depreciation	<u>21,500</u>		
	<u>14,000</u>		
Total assets	<u><u>\$42,900</u></u>	Total liabilities and owner's equity	<u><u>\$42,900</u></u>

## SOLUTIONS

## Learning Goal 14, continued

## LG 14-1, continued

**Maui Quick Print Service  
Statement of Owner's Equity  
For the Year Ended December 31, 2008**

Dave St. Jean, Capital, January 1, 2008		\$25,550
Add: Owner's investments		10,000
Less: Net loss	8,850	
Drawings	22,000	
		<u>(30,850)</u>
Dave St. Jean, Capital, December 31, 2008		<u>\$ 4,700</u>

*Note:* Notice that we had to **calculate the beginning capital account balance**: \$35,550 worksheet balance – 10,000 invested during the year = \$25,550 beginning balance.

Date	Account Titles and Explanation	Post. Ref.	Debit	Credit
2008	ADJUSTING ENTRIES			
Dec.	(a)			
31	Printing Supplies Expense		600	
	Printing Supplies			600
	To adjust the amount of cleaning supplies used			
	(b)			
31	Insurance Expense		1,350	
	Prepaid Insurance			1,350
	Expiration of nine months' of prepaid insurance			
	(c)			
31	Depreciation Expense		7,750	
	Accumulated Depreciation—Office Equipment			750
	Accumulated Depreciation—Printing/Copying Equipment			7,000
	12 months' depreciation expense			
	(d)			
31	Unearned Fees		3,500	
	Fees Earned			3,500
	To record earning of fees received in advance			
	(e)			
31	Salaries Expense		500	
	Salaries Payable			500
	To accrue salary expense incurred but not recorded			
	(f)			
31	Interest Expense		300	
	Interest Payable			300
	To accrue interest expense incurred but not recorded			

## SOLUTIONS

## Learning Goal 14, continued

## LG 14-2.

Anaheim Estate Appraisal Service										
Worksheet										
For the Month Ended November 30, 2008										
Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	61,350				61,350				61,350	
Short-Term Investments	15,200				15,200				15,200	
Accounts Receivable	34,800		(a) 2,500		37,300				37,300	
Office Supplies	700			(b) 220	480				480	
Prepaid Insurance	900			(e) 600	300				300	
Prepaid Airline Tickets	3,750			(c) 1,250	2,500				2,500	
Office Equipment	18,400				18,400				18,400	
Accum. Dep'n—Off. Equip.		9,150		(d) 290		9,440				9,440
Automotive Equipment	28,000				28,000				28,000	
Accum. Dep'n—Auto. Equip.		5,000		(d) 415		5,415				5,415
Accounts Payable		4,850				4,850				4,850
Unearned Revenue		6,280	(f) 3,280			3,000				3,000
Notes Payable		41,000				41,000				41,000
J. Leamons, Capital		82,280				82,280				82,280
J. Leamons, Withdrawals	2,000				2,000				2,000	
Appraisal Revenue		39,300		(f) 3,280		45,080		45,080		
				(a) 2,500						
Wages Expense	11,900				11,900		11,900			
Rent Expense	2,150				2,150		2,150			
Auto & Gas Expense	260				260		260			
Travel Expense	4,500		(c) 1,250		5,750		5,750			
Advertising Expense	3,600				3,600		3,600			
Utilities Expense	350				350		350			
Dep'n. Expense—Off. Equip.			(d) 290		290		290			
Dep'n. Expense—Auto. Equip.			(d) 415		415		415			
Office Supplies Expense			(b) 220		220		220			
Insurance Expense			(e) 600		600		600			
Interest Expense			(g) 330		330		330			
Interest Payable				(g) 330		330				330
	<u>187,860</u>	<u>187,860</u>	<u>8,885</u>	<u>8,885</u>	<u>191,395</u>	<u>191,395</u>	25,865	45,080	165,530	146,315
Net Income							19,215			19,215
							<u>45,080</u>	<u>45,080</u>	<u>165,530</u>	<u>165,530</u>

*Note:* Frequently, depreciation expense is recorded into separate accounts, just like accumulated depreciation. We have followed that practice in this problem.

**SOLUTIONS****Learning Goal 14, continued****LG 14-2, continued**

**Anaheim Real Estate Appraisal Service  
Income Statement  
For the Month Ended November 30, 2008**

Revenues		
Appraisal revenue		\$45,080
Expenses		
Wages expense	\$11,900	
Travel expense	5,750	
Advertising expense	3,600	
Rent expense	2,150	
Insurance expense	600	
Depreciation expense—auto	415	
Depreciation expense—equipment	290	
Utilities expense	350	
Interest expense	330	
Auto expense	260	
Office supplies expense	<u>220</u>	
Total expenses		<u>25,865</u>
Net income		<u>\$19,215</u>

**Anaheim Real Estate Appraisal Service  
Statement of Owner's Equity  
For the Month Ended November 30, 2008**

J. Leamons, capital November 1	\$82,280
Net income	<u>19,215</u>
	101,495
Less: Withdrawals	<u>2,000</u>
J. Leamons, capital November 30	<u>\$ 99,495</u>

**SOLUTIONS****Learning Goal 14, continued****LG 14-2, continued**

<b>Anaheim Real Estate Appraisal Service</b>			
<b>Balance Sheet</b>			
<b>November 30, 2008</b>			
<b>Assets</b>		<b>Liabilities</b>	
Cash	\$61,350	Accounts payable	\$4,850
Short-term investments	15,200	Interest payable	330
Accounts receivable	37,300	Unearned revenue	3,000
Office supplies	480	Notes payable	<u>41,000</u>
Prepaid insurance	300	Total liabilities	49,180
Prepaid travel	2,500		
Office equipment	\$18,400	<b>Owner's Equity</b>	
Less: Accumulated dep'n.	<u>9,440</u>	J. Leamons, capital	<u>99,495</u>
Auto equipment	28,000		
Less: Accumulated dep'n	<u>5,415</u>		
Total assets	<u>22,585</u>		
	<u>\$148,675</u>	Total liabilities and owner's equity	<u>\$148,675</u>