

## Chapter 4

### Completing the Accounting Cycle

#### Study Guide

#### Do You Know...?

##### **Learning Objective 1: Describe the flow of accounting information from the unadjusted trial balance into the adjusted trial balance and financial statements.**

- Which accounts from the adjusted trial balance will flow into each financial statement? (See exercises 1–3)

##### **Learning Objective 2: Prepare financial statements from adjusted account balances.**

- The process for preparing the income statement? (See exercises 4–6)
- How to prepare a statement of owner's equity? (See exercises 7–9)
- The difference between current and fixed assets and current and long-term liabilities? (See exercises 10–12)
- The format of the balance sheet and how to prepare one? (See exercises 13–15)

##### **Learning Objective 3: Prepare closing entries.**

- Which accounts are considered to be permanent and which are considered to be temporary? (See exercises 16–18)
- How to prepare closing entries? (See exercises 19–21)

##### **Learning Objective 4: Describe the accounting cycle.**

- The steps in the accounting cycle and the order in which they occur? (See exercises 22–24)

##### **Learning Objective 5: Illustrate the accounting cycle for one period.**

- How to perform the various steps in the accounting cycle? (See exercises 25–27)

##### **Learning Objective 6: Explain what is meant by the fiscal year and the natural business year.**

- When a company's fiscal year-end is complete? (See exercises 28–30)

**Learning Objective 7: Describe and illustrate the use of working capital and the current ratio in evaluating a company's financial condition.**

- How to calculate the working capital of a business given various amounts? (See exercises 31–33)
- How to calculate a company's current ratio and identify if there is a favorable trend in the changes? (See exercises 34–36)

**Fill-in-the-Blank Equations**

1. Working capital = \_\_\_\_\_ – Current liabilities
2. \_\_\_\_\_ = Current assets/Current liabilities
3. \_\_\_\_\_ accounts require closing entries.
4. Revenue and expense accounts are closed to \_\_\_\_\_.

**Exercises**

1. Which financial statement (income statement, balance sheet, or statement of owner's equity) would contain each of the following accounts?
  - a. Rental Revenue
  - b. Mark Kingsley, Drawing
  - c. Legal Expenses Payable
2. Which financial statement (income statement, balance sheet, or statement of owner's equity) would contain each of the following accounts?
  - a. Machinery
  - b. Legal Expense
  - c. Leonard Dennis, Capital
3. Which financial statement (income statement, balance sheet, or statement of owner's equity) would contain each of the following accounts?
  - a. Ryan Ward, Drawing
  - b. Accounts Receivable
  - c. Cost of Goods Sold

4. Nixon Corp. had rental revenue of \$40,950. Fees for the year ended December 31, 20Y5, are as follows: Utilities Expense, \$7,000; Salaries Expense, \$15,300; Miscellaneous Expense, \$2,000; and Rent Expense, \$12,450. Prepare the company's income statement for the year.
5. Green Duck earned fees of \$64,300 during 20Y5. Its expenses for the year are as follows: Rent Expense, \$15,000; Interest Expense, \$2,480; Salaries Expense, \$22,560; Utilities Expense, \$3,900; and Insurance Expense, \$12,750. Prepare the company's income statement if the fiscal year ends on June 30.
6. Nicoletti & Parks, CPAs earned fees of \$82,000 during 20Y5. For the year, it had the following expenses: Salaries Expense, \$40,000; Interest Expense, \$1,200; Supplies Expense, \$2,300; Insurance Expense, \$10,000; Advertising Expense, \$2,500; and Depreciation Expense, \$3,750. The company has a calendar year-end.
7. During its first year of operations, beginning August 1, 20Y5, Lazy Day Chairs had contributions of \$14,700 from its owner, Mike Milton. The company's net income was \$2,300, and Mike made a withdrawal of \$1,750. Prepare the statement of owner's equity if the company has a calendar year-end.
8. Oak Tree Paper Company suffered a net loss of \$3,200 during 20Y5. The company had beginning capital of \$7,400 from Pat Peat, who also made contributions of \$5,700 during the year. Pat made a withdrawal of \$900 during the year. Prepare the company's statement of owner's equity for the year ended March 31, 20Y5.
9. Mark Kinney made a contribution during 20Y5 to his proprietorship, Kinney Kare, of \$1,250. The business suffered a net loss of \$2,850 for the year. Mark did not make any withdrawals, but had a balance in his capital account of \$9,300 at the beginning of the fiscal year on October 1, 20Y4. Prepare the statement of owner's equity for the year.
10. Determine if each of the following accounts is a current asset, fixed asset, current liability, or long-term liability.
  - a. Accounts Payable
  - b. Machinery
  - c. Building
11. Determine if each of the following accounts is a current asset, fixed asset, current liability, or long-term liability.
  - a. Accounts Receivable
  - b. Accrued Expenses
  - c. Cash

**12.** Determine if each of the following accounts is a current asset, fixed asset, current liability, or long-term liability.

- a.** Current portion of long-term debt
- b.** Bonds Payable (matures in 10 years)
- c.** Land

**13.** Red Boat Co. had the following assets: Machinery, \$7,450; Cash, \$1,300; Land, \$11,500; Prepaid Expenses, \$3,150; Accounts Receivable, \$2,750; Inventory, \$5,500; and a building, \$13,000. At year-end, on June 30, 20Y5, Lara Middleton's capital account had a balance of \$8,750. The company's only liabilities are Long-Term Debt, \$22,500; Accounts Payable, \$5,950; and Accrued Expenses, \$7,450. Prepare the company's balance sheet, distinguishing between current and long-term assets and liabilities.

**14.** Melissa Burns had a capital account in Burns & Company totaling \$12,280 by year-end. The company's only liabilities for the 20Y5 calendar year included Notes Payable, \$18,750; Accounts Payable, \$2,300; and Interest Payable, \$1,500. The company's asset balances were as follows: Building, \$12,000 with \$900 in accumulated depreciation; Accounts Receivable, \$1,300; Short-Term Investments, \$1,980; Land, \$18,700; and Cash, \$1,750. Prepare the company's balance sheet.

**15.** Brick Master has a September 30 year-end. At the end of 20Y5, the company's assets are as follows: Machinery, \$15,700 with \$1,600 accumulated depreciation; Prepaid Rent, \$1,200; a building bought on September 30 for \$16,500; Cash, \$2,250; and Accounts Receivable, \$3,150. The owner, Kathleen Dills, has a capital account balance of \$6,150. The liabilities include Notes Payable, \$22,700, which includes \$3,200 due within the following year; Accounts Payable, \$6,600; and Taxes Payable, \$1,750. Prepare the company's balance sheet for the year-end.

**16.** Determine if the following accounts are considered temporary or permanent.

- a.** Accounts Receivable
- b.** Wages Expense
- c.** Salaries Payable

**17.** Determine if the following accounts are considered temporary or permanent.

- a.** Fees Earned
- b.** Cost of Goods Sold
- c.** Accounts Payable

**18.** Determine if the following accounts are considered temporary or permanent.

- Investment in Securities
- Rent Revenue
- Unearned Revenue

**19.** Prepare the closing entry for Happy Smiles Corp. that had Sales Revenue of \$55,200 and Interest Revenue of \$4,200.

**20.** Happy Smiles Corp. incurred rent expense of \$17,500, salaries expense of \$18,950, utilities expense of \$7,800, and interest expense of \$750. Prepare the closing entries for these expenses.

**21.** Prepare the closing entry for Christian Coco's drawing account, which had a balance of \$8,900.

**22.** Identify which items are steps in the accounting cycle.

- Post transactions to the ledger.
- Prepare an adjusted trial balance.
- Ensure transactions are authorized by the shareholders.
- Prepare a post-closing trial balance.

**23.** Which steps in the accounting cycle are missing from the following list: Prepare financial statements, analyze transactions and record in the journal, journalize and post adjusting entries, prepare an adjusted trial balance, post transactions to the ledger, and assemble and analyze adjustment data?

**24.** Put the following steps from the accounting cycle in order, including any missing steps and omitting any that are not a step in the accounting cycle. Prepare an end-of-period spreadsheet, post transactions to the ledger, prepare financial statements, prepare a post-closing trial balance, calculate ratios to analyze the financial statements, and journalize and post the closing entries to the ledger.

**25.** Prepare the adjusting entries for each situation for Sibley Co., which began operations on September 1, 20Y5.

- The company records a \$1,750 depreciation expense on machinery.
- Upon inception, the company received \$21,000 for one-year membership revenues. The company also has a calendar year-end.
- The company's attorney, who bills at \$42 per hour and agrees to bill Sibley Co. upon settlement, spent 45 hours on a legal issue. He expects the issue to be resolved in March of the following year.

**26.** Prepare the closing entry for Sibley Co. when it earned membership revenues of \$5,200 and rent revenue of \$6,200, and it incurred startup expenses of \$1,550, wages expense of \$3,400, utilities expense of \$1,900, and miscellaneous expense of \$600.

**27.** Prepare Sibley Co.'s post-closing trial balance. The company's accounts on December 31, 20Y5, include Cash, \$900; Notes Payable, \$965; Accounts Receivable, \$1,500; Accounts Payable, \$2,900; Janice Sibley, Capital, \$2,185; Accrued Expenses, \$2,400; Prepaid Expenses, \$1,275; Machinery, \$4,000, with \$890 accumulated depreciation; and Land, \$1,665.

**28.** Franco Corporation began operations on August 1, 20Y5. The company adopts a fiscal year that begins September 1.

- When does the company's first fiscal year occur?
- When is the second fiscal year?

**29.** Ripa Co. adopts a fiscal year that ends March 31. It begins operations on August 1, 20Y5.

- When does the company's first fiscal year occur?
- When is the second fiscal year?

**30.** Dillman Pickle incorporates on July 2, 20Y5, and adopts a calendar year-end.

- When does the company's first fiscal year occur?
- When is the second fiscal year?

**31.** Given the following amounts, calculate the working capital.

- Current assets of \$480 and current liabilities of \$285.
- Total assets of \$5,090, long-term assets of \$2,050, total liabilities of \$3,500, and current liabilities of \$2,200.
- Total assets of \$8,450, long-term assets of \$2,600, long-term liabilities of \$2,200, and owner's equity of \$1,500.

**32.** Calculate working capital for the companies in each situation.

	<u>Company A</u>	<u>Company B</u>	<u>Company C</u>
Current assets	\$16,080	\$12,000	\$17,850
Fixed assets	13,300	10,900	5,400
Current liabilities	15,000	14,500	19,800
Long-term liabilities	9,500	4,900	2,200

**33.** Using the balance sheet below, calculate working capital.

<b>Sharp Sharks</b>	
<b>Balance Sheet</b>	
<b>June 30, 20Y5</b>	
<b>Assets</b>	
Cash	\$ 1,800
Marketable securities	1,750
Accounts receivable	5,400
Prepaid expenses	2,450
Property, plant, and equipment	<u>18,050</u>
Total assets	<u>\$29,450</u>
<b>Liabilities</b>	
Accounts payable	\$ 4,500
Unearned revenue	3,400
Accrued expenses	1,600
Current portion of long-term debt	1,300
Long-term debt	8,900
<b>Owner's Equity</b>	
Owner's equity	<u>9,750</u>
Total liabilities and owner's equity	<u>\$29,450</u>

**34.** With the following amounts, calculate the company's current ratio, rounding to two decimal places. Compare the ratios in each situation to determine which has the strongest position.

- Current assets of \$17,500 and current liabilities of \$13,050
- Total assets of \$22,780, fixed assets of \$5,760, and current liabilities of \$16,900
- Total liabilities of \$17,900, current assets of \$10,980, and long-term debt of \$10,200

**35.** Calculate Bixby Corporation's current ratio with the following information, rounding to two decimal places. Determine if the company is in a stronger position in Year 1 or Year 2.

	<b>Year 2</b>	<b>Year 1</b>
Current assets	\$ 6,500	\$ 6,550
Fixed assets	11,000	15,000
Current liabilities	7,250	9,000
Long-term liabilities	9,500	12,000

**36.** Calculate the current ratio for each situation, rounding to two decimal places.

Determine which company has the strongest position to pay current liabilities.

- a. Current assets of \$1,780, total liabilities of \$5,200, and current liabilities of \$2,800
- b. Current assets of \$2,200, fixed assets of \$8,670, shareholders' equity of \$1,700, and long-term debt of \$7,100
- c. Current liabilities of \$3,500, long-term debt of \$2,700, shareholders' equity of \$1,900, and fixed assets of \$6,800