

An aerial photograph of a stunning turquoise bay. The water is crystal clear, showing the sandy bottom and some rocks. A white sandy beach curves along the left side of the bay. Several small boats are scattered throughout the water, and a larger white boat is visible in the lower center. The surrounding cliffs are rugged and brownish-grey.

Horngren's Accounting

Accounting Cycle

Lecture Ten
Lisa, Li

Learning Objectives – Chapter 4

1. Prepare the financial statements including the classified balance sheet
2. Use the worksheet to prepare financial statements
3. Explain the purpose of, journalize, and post-closing entries

An aerial photograph of a small white boat with a red stripe on its hull, floating in crystal-clear turquoise water. The water is so clear that the sandy bottom and some dark rocks are visible beneath the surface. In the upper left, a rugged, brownish-grey rocky coastline is visible. The overall scene is bright and serene, suggesting a tropical or coastal location.

Learning Objectives – Chapter 4

4. Prepare the post-closing trial balance
5. Describe the accounting cycle
6. Use the current ratio to evaluate business performance

Review: Closing Process

- Resets revenue, expense and withdrawal account balances to **zero** at the end of the period.
- Helps summarize a period's revenues and expenses in the **Income Summary** account.
- the process of closing the books and getting ready for the next accounting period.

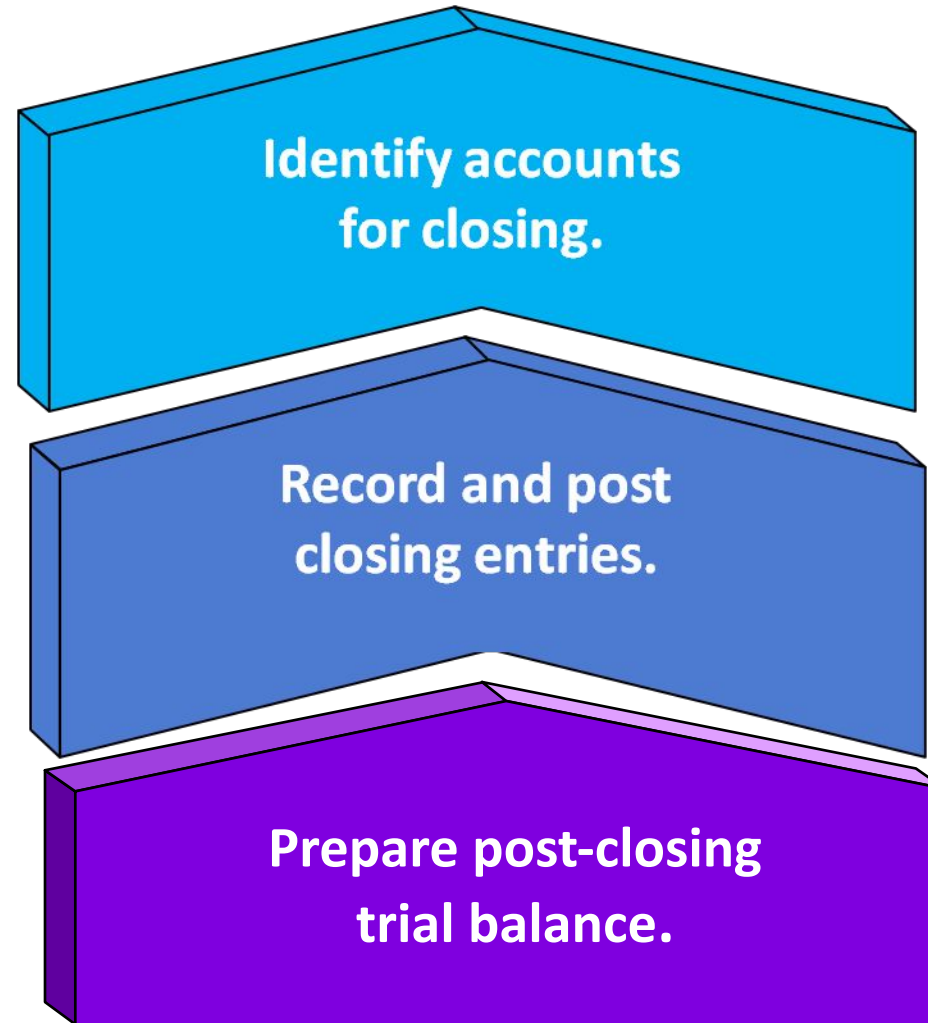
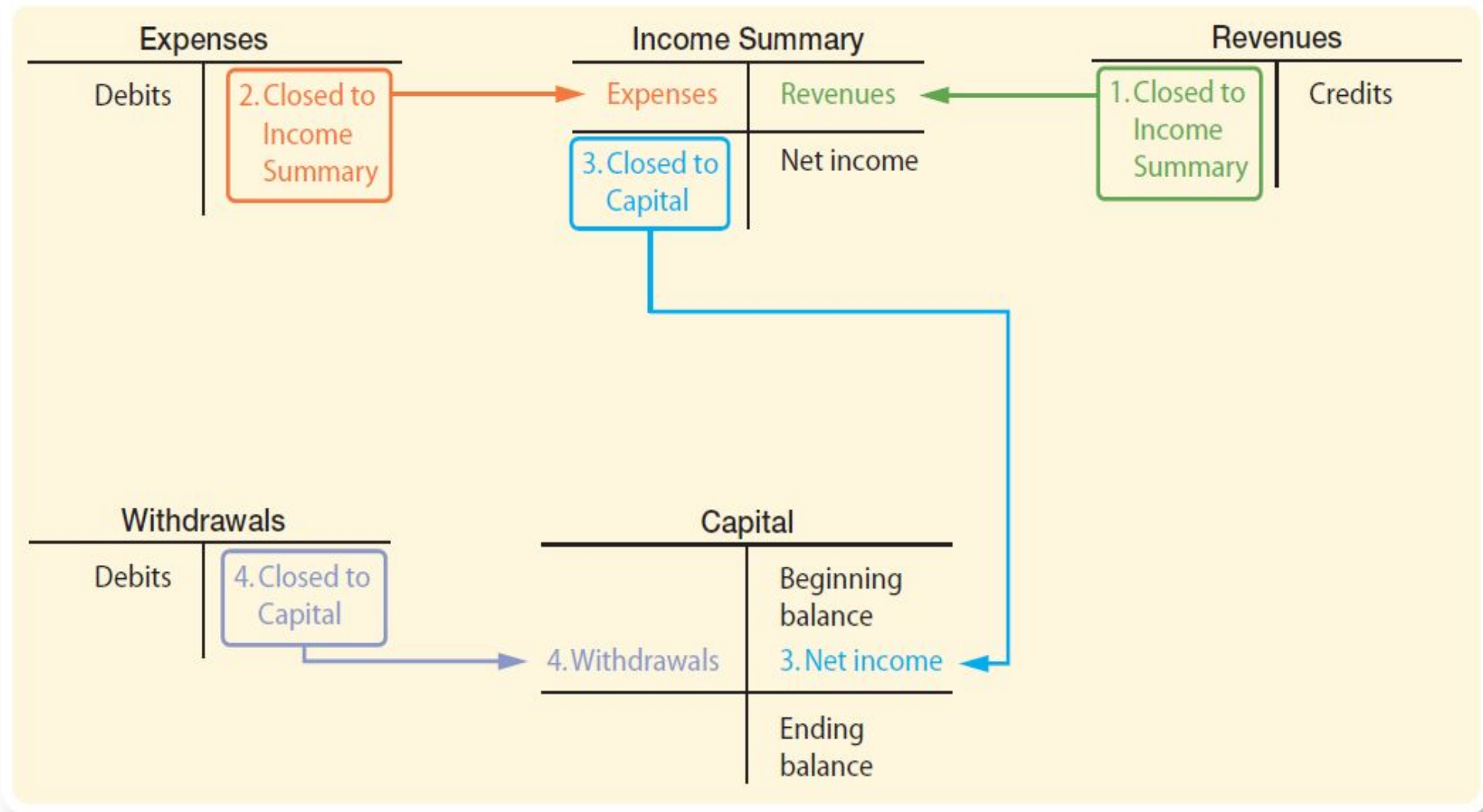


Exhibit 4-5 | The Closing Process



Review: Homework

23 Preparing closing entries from an adjusted trial balance; preparing a post-closing trial balance; and calculating the current ratio

Mel's Bowling Alley's adjusted trial balance as of December 31, 2014 is presented below.

Requirements

1. Prepare the closing entries for Mel's Bowling Alley.
2. Prepare a post-closing trial balance.
3. Compute the current ratio for Mel's Bowling Alley.

MEL'S BOWLING ALLEY Adjusted Trial Balance December 31, 2014		
Account Title	Balance	
	Debit	Credit
Cash	\$ 15,400	
Accounts Receivable	2,310	
Office Supplies	450	
Prepaid Insurance	2,300	
Equipment	40,000	
Accumulated Depreciation—Equipment		\$ 12,000
Building	75,000	
Accumulated Depreciation—Building		4,500
Land	15,000	
Accounts Payable		3,400
Utilities Payable		620
Salaries Payable		2,840
Unearned Revenue		1,300
Turner, Capital		130,325
Turner, Withdrawals	28,000	
Service Revenue		94,000
Insurance Expense	20,000	
Salaries Expense	36,000	
Supplies Expense	800	
Utilities Expense	12,000	
Depreciation Expense—Equipment	1,500	
Depreciation Expense—Building	225	
Total	\$ 248,985	\$ 248,985

Homework Solutions

Date	Accounts and Explanation	Debit	Credit
Dec. 31	Service Revenue	94,000	
	Income Summary		94,000
	<i>To close revenue.</i>		
31	Income Summary	70,525	
	Insurance Expense		20,000
	Salaries Expense		36,000
	Supplies Expense		800
	Utilities Expense		12,000
	Depreciation Expense—Equipment		1,500
	Depreciated Expense—Building		225
	<i>To close expenses.</i>		
31	Income Summary	23,475	
	Turner, Capital		23,475
	<i>To close Income Summary.</i>		
31	Turner, Capital		28,000
	<i>To close withdrawals.</i>		

Current Ratio = Total current assets / Total current liabilities

$$= (\$15,400 + \$2,310 + \$450 + \$2,300) / (\$3,400 + \$620 + \$2,840 + \$1,300)$$

$$= \$20,460 / \$8,160 = 2.51$$

Accounting

MEL'S BOWLING ALLEY

Post-Closing Trial Balance

December 31, 2014

Account Title	Balance	
	Debit	Credit
Cash	\$ 15,400	
Accounts Receivable	2,310	
Office Supplies	450	
Prepaid Insurance	2,300	
Equipment	40,000	
Accumulated Depreciation—Equipment		\$ 12,000
Building	75,000	
Accumulated Depreciation—Building		4,500
Land	15,000	
Accounts Payable		3,400
Utilities Payable		620
Salaries Payable		2,840
Unearned Revenue		1,300
Turner, Capital		125,800
Total	\$ 150,460	\$ 150,460

Review: Current Ratio

- The most commonly used ratio is the Current Ratio.
- It is a measure of the company's ability to quickly pay its debts.
- A company prefers to have a high current ratio because that means it has plenty of current assets to pay its current liabilities.

$$\text{Current ratio} = \text{Total current assets} / \text{Total current liabilities}$$

A rule of thumb: A strong current ratio is 1.50,
A current ratio of 1.00 is considered low and somewhat risky.

Learning Objective 1

Prepare the financial statements including the classified balance sheet





Adjusted Trial Balance (T/B)

The financial statements come from the Adjusted Trial Balance.

Each account on the Adjusted T/B has **ONE** and only **ONE** home on one of the financial statements.

No account From Adjusted T/B is **EVER** used twice.

SMART TOUCH LEARNING Adjusted Trial Balance December 31, 2014		
Account Title	Balance	
	Debit	Credit
Cash	\$ 12,200	
Accounts Receivable	1,800	
Office Supplies	100	
Prepaid Rent	2,000	
Furniture	18,000	
Accumulated Depreciation—Furniture		\$ 300
Building	60,000	
Accumulated Depreciation—Building		250
Land	20,000	
Accounts Payable		200
Utilities Payable		100
Salaries Payable		1,200
Interest Payable		100
Unearned Revenue		400
Notes Payable		60,000
Bright, Capital		48,000
Bright, Withdrawals	5,000	
Service Revenue		17,500
Rent Expense	3,000	
Salaries Expense	4,800	
Supplies Expense	400	
Utilities Expense	100	
Depreciation Expense—Furniture	300	
Depreciation Expense—Building	250	
Interest Expense	100	
Total	\$ 128,050	\$ 128,050

3. Balance Sheet Accounts

2. Statement of Owner's Equity Accounts

1. Income Statement Accounts

How do we prepare Financial Statements?

The financial statements should be prepared in the following order:

- 1. Income statement** —reports revenues and expenses and calculates net income or net loss for the time period.
- 2. Statement of owner's equity** —shows how capital changed during the period due to owner contributions, net income (or net loss), and owner withdrawals.
- 3. Balance sheet** —reports assets, liabilities, and owner's equity as of the last day of the period.



Cash	\$ 12,200	
Accounts Receivable	1,800	
Office Supplies	100	
Prepaid Rent	2,000	
Furniture	18,000	
Accumulated Depreciation—Furniture		\$ 300
Building	60,000	
Accumulated Depreciation—Building		250
Land	20,000	
Accounts Payable		200
Utilities Payable		100
Salaries Payable		1,200
Interest Payable		100
Unearned Revenue		400
Notes Payable		60,000
Bright, Capital		48,000
Bright, Withdrawals	5,000	
Service Revenue		17,500
Rent Expense	3,000	
Salaries Expense	4,800	
Supplies Expense	400	
Utilities Expense	100	
Depreciation Expense—Furniture	300	
Depreciation Expense—Building	250	
Interest Expense	100	

SMART TO UCH LEARNING		
Income Statement		
Two Months Ended December 31, 2014		
Revenues		
Service Revenue		\$ 17,500
Expenses		
Rent Expense	\$ 3,000	
Salaries Expense	4,800	
Supplies Expense	400	
Utilities Expense	100	
Depr Exp - Furniture	300	
Depr Exp - Building	250	
Interest Expense	100	
Total expenses		<u>8,950</u>
Net income		<u><u>\$ 8,550</u></u>

Income Statement Amounts



Cash	\$ 12,200	
Accounts Receivable	1,800	
Office Supplies	100	
Prepaid Rent	2,000	
Furniture	18,000	
Accumulated Depreciation—Furniture		\$ 300
Building	60,000	
Accumulated Depreciation—Building		250
Land	20,000	
Accounts Payable		200
Utilities Payable		100
Salaries Payable		1,200
Interest Payable		100
Unearned Revenue		400
Notes Payable		60,000
Bright, Capital		48,000
Bright, Withdrawals	5,000	
Service Revenue		17,500
Rent Expense	3,000	
Salaries Expense	4,800	
Supplies Expense	400	
Utilities Expense	100	
Depreciation Expense—Furniture	300	
Depreciation Expense—Building	250	
Interest Expense	100	

SMART TOUCH LEARNING Income Statement Two Months Ended December 31, 2014		
Revenues		
Service Revenue		\$ 17,500
Expenses		
Rent Expense	\$ 3,000	
Salaries Expense	4,800	
Supplies Expense	400	
Utilities Expense	100	
Depr Exp - Furniture	300	
Depr Exp - Building	250	
Interest Expense	100	
Total expenses		<u>8,950</u>
Net income		<u>\$ 8,550</u>

SMART TOUCH LEARNING Statement of Owner's Equity Two Months Ended December 31, 2014		
Bright Capital, Nov 1, 2014	\$	-
Owner Contribution		48,000
Net income for the month		<u>8,550</u>
		56,550
Owner Withdrawal		<u>(5,000)</u>
Bright Capital, Dec 31, 2014	\$	<u>51,550</u>

Cash	\$ 12,200	
Accounts Receivable	1,800	
Office Supplies	100	
Prepaid Rent	2,000	
Furniture	18,000	
Accumulated Depreciation—Furniture		\$ 300
Building	60,000	
Accumulated Depreciation—Building		250
Land	20,000	
Accounts Payable		200
Utilities Payable		100
Salaries Payable		1,200
Interest Payable		100
Unearned Revenue		400
Notes Payable		60,000
Bright, Capital		48,000

SMART TOUCH LEARNING	
Balance Sheet	
December 31, 2014	
Assets	
Cash	\$ 12,200
Accounts Receivable	1,800
Office Supplies	100
Prepaid rent	2,000
Furniture	18,000
Less: Accum Depr - Furniture	(300)
Building	60,000
Less: Accum Depr - Building	(250)
Land	20,000
Total assets	<u>\$ 113,550</u>
Liabilities	
Accounts Payable	\$ 200
Utilities Payable	\$ 100
Salaries Payable	\$ 1,200
Interest Payable	\$ 100
Unearned Revenue	\$ 400
Notes Payable	\$ 60,000
Total Liabilities	<u>\$ 62,000</u>
Owner's Equity	
Bright Capital, December 31, 2014	51,550
Total Liabilities and Owner's Equity	<u>\$ 113,550</u>

SMART TOUCH LEARNING	
Statement of Owner's Equity	
Two Months Ended December 31, 2014	
Bright Capital, Nov 1, 2014	\$ -
Owner Contribution	48,000
Net income for the month	8,550
	<u>56,550</u>
Owner Withdrawal	(5,000)
Bright Capital, Dec 31, 2014	<u>\$ 51,550</u>

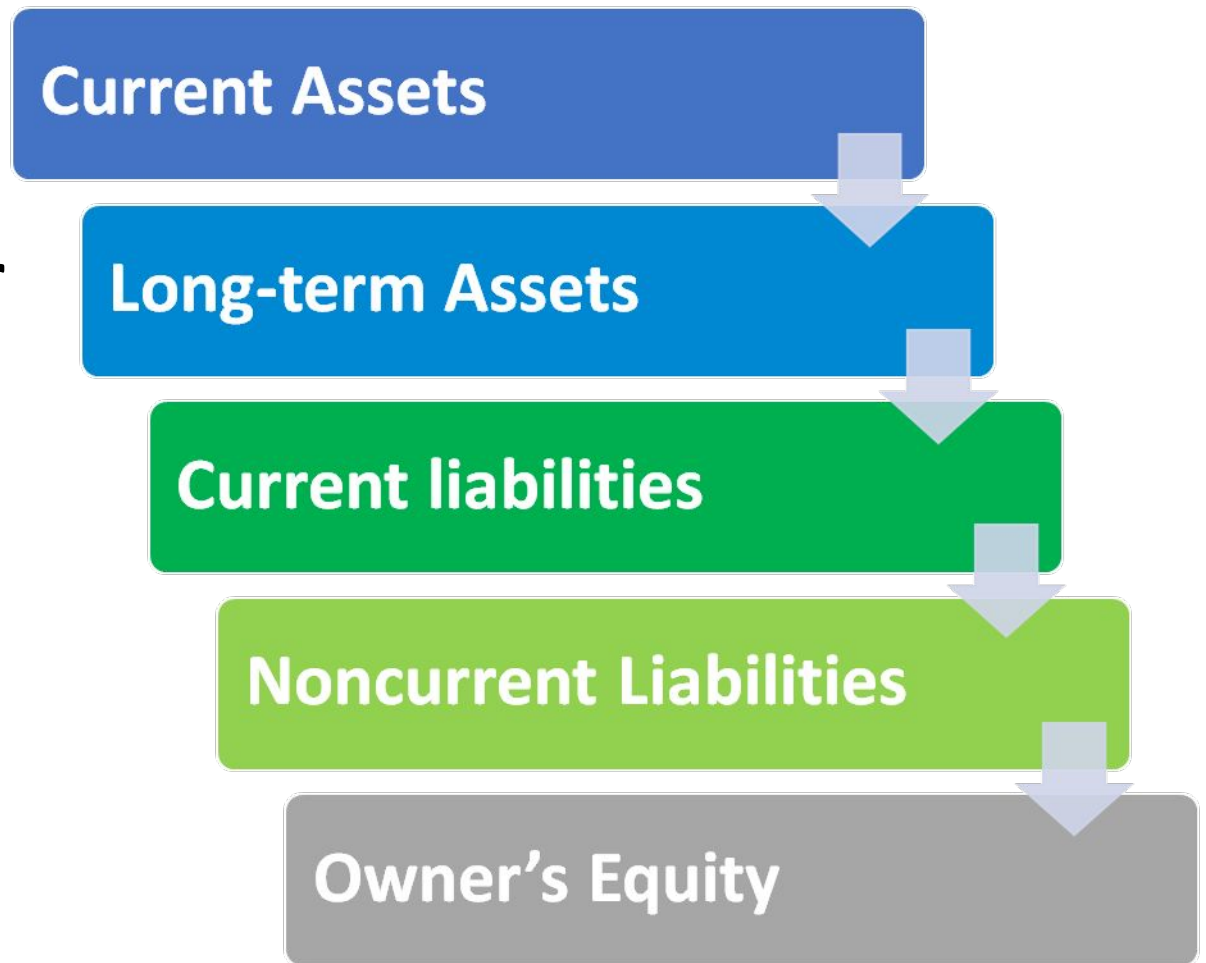
The Classified Balance Sheet

Classified balance sheet that places each asset and each liability into a specific category.

The balance sheet lists assets in order of **liquidity***.

- **CA:** will be converted to cash, sold, or used up within one fiscal year.
- **NCA(LTA):** more than one fiscal year.
- **CL:** must be paid either with cash or with goods and services within the business operating cycle.
- **LTL(NCL):** more than one fiscal year.

* A measure of how quickly an item can be converted to cash.





The Classified Balance Sheet

SMART TOUCH LEARNING	
Balance Sheet	
December 31, 2014	
Assets	
Current Assets:	
Cash	\$ 12,200
Accounts Receivable	1,800
Office Supplies	100
Prepaid rent	2,000
Total Current Assets	16,100
Plant Assets:	
Furniture	18,000
Less: Accum Depr - Furniture	(300)
Building	60,000
Less: Accum Depr - Building	(250)
Land	20,000
Total Plant Assets	97,450
Total assets	\$ 113,550



Liabilities	
Current Liabilities:	
Accounts Payable	\$ 200
Utilities Payable	100
Salaries Payable	1,200
Interest Payable	100
Unearned Revenue	400
Total Current Liabilities	2,000
Long-term Liabilities	
Notes Payable	60,000
Total Liabilities	62,000
Owner's Equity	
Bright, Capital, Dec. 31, 2014	51,550
Total Liabilities & Owner's Equity	\$ 113,550



SMART TOUCH LEARNING
Balance Sheet
December 31, 2014

Assets

Current Assets:

Cash	\$ 12,200
Accounts Receivable	1,800
Office Supplies	100
Prepaid rent	2,000
Total Current Assets	16,100

Plant Assets:

Furniture	18,000
Less: Accum Depr - Furniture	(300)
Building	60,000
Less: Accum Depr - Building	(250)
Land	20,000
Total Plant Assets	97,450

Total assets

\$ 113,550

- The Asset section is sub-divided into current and long-term groups.
- Sometimes, there is also a sub-grouping for plant assets, intangible assets and long-term investments.

Liabilities

Current Liabilities:

Accounts Payable	\$ 200
Utilities Payable	100
Salaries Payable	1,200
Interest Payable	100
Unearned Revenue	400
Total Current Assets	2,000

Long-term Liabilities

Notes Payable	60,000
Total Liabilities	62,000

Owner's Equity

Bright, Capital, Dec. 31, 2014	51,550
Total Liabilities & Owner's Equity	<u>\$ 113,550</u>



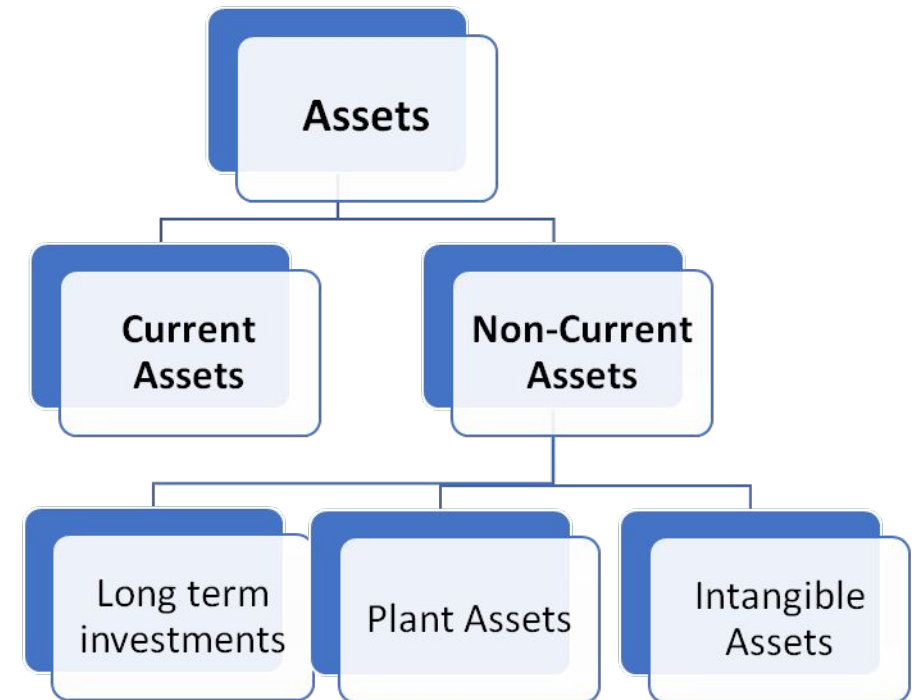
Classified Balance Sheet - Assets

Current Assets:

Cash »AR »Inventories » Office Supplies »
Prepaid expenses ...

Long-term Assets:

- **Plant Assets:** Equipments, Furniture, buildings, lands...
- **Long-term investments:** bonds or stocks hold longer than 1 year, Notes Receivable...
- **Intangible Assets:** assets with no physical form, such as patents, copyrights, trademarks ,goodwill...



SMART TOUCH LEARNING
Balance Sheet
December 31, 2014

Assets

Current Assets:

Cash	\$ 12,200
Accounts Receivable	1,800
Office Supplies	100
Prepaid rent	2,000
Total Current Assets	16,100

Plant Assets:

Furniture	18,000
Less: Accum Depr - Furniture	(300)
Building	60,000
Less: Accum Depr - Building	(250)
Land	20,000
Total Plant Assets	97,450
Total assets	\$ 113,550

- Liabilities are also sub-divided into current and long-term groups.
- Equity is usually not sub-divided.

Liabilities

Current Liabilities:

Accounts Payable	\$ 200
Utilities Payable	100
Salaries Payable	1,200
Interest Payable	100
Unearned Revenue	400
Total Current Assets	2,000

Long-term Liabilities

Notes Payable	60,000
Total Liabilities	62,000

Owner's Equity

Bright, Capital, Dec. 31, 2014	51,550
Total Liabilities & Owner's Equity	\$ 113,550

> Try It!

For each account listed, identify the category in which it would appear on a classified balance sheet.

1. Patents
2. Mortgage Payable (due in 5 years)
3. Land
4. Office Supplies
5. Unearned Revenue
6. Investments in stock of another company held long-term
7. Accumulated Depreciation—Furniture

Check your answers at the end of the chapter.

> Try It!

For each account listed, identify the category in which it would appear on a classified balance sheet.

1. Patents
2. Mortgage Payable (due in 5 years)
3. Land
4. Office Supplies
5. Unearned Revenue
6. Investments in stock of another company held long-term
7. Accumulated Depreciation—Furniture

Check your answers at the end of the chapter.

Try It! Solutions

1. Intangible assets
2. Long-term liabilities
3. Plant assets
4. Current assets
5. Current liabilities
6. Long-term investments
7. Plant assets

Learning Objective 2

Use the worksheet to prepare financial statements





Account Title	Adjusted Trial Balance		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash	\$ 12,200				\$ 12,200	
Accounts Receivable	1,800				1,800	
Office Supplies	100				100	
Prepaid Rent	2,000				2,000	
Furniture	18,000				18,000	
Accumulated Depreciation—Furniture		\$ 300				\$ 300
Building	60,000				60,000	
Accumulated Depreciation—Building		250				250
Land	20,000				20,000	
Accounts Payable		200				200
Utilities Payable		100				100
Salaries Payable		1,200				1,200
Interest Payable		100				100
Unearned Revenue		400				400
Notes Payable		60,000				60,000
Bright, Capital		48,000				48,000
Bright, Withdrawals	5,000				5,000	
Service Revenue		17,500		\$ 17,500		
Rent Expense	3,000		\$ 3,000			
Salaries Expense	4,800		4,800			
Supplies Expense	400		400			
Utilities Expense	100		100			
Depreciation Expense—Furniture	300		300			
Depreciation Expense—Building	250		250			
Interest Expense	100		100			
	\$128,050	\$128,050	\$ 8,950	\$ 17,500	\$119,100	\$110,550
		Net Income	8,550			8,550
			\$ 17,500	\$ 17,500	\$119,100	\$119,100



Account Title	Adjusted Trial Balance		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash	\$ 12,200				\$ 12,200	
Accounts Receivable	1,800				1,800	
Office Supplies	100				100	
Prepaid Rent	2,000				2,000	
Furniture	18,000				18,000	
Accumulated Depreciation—Furniture		\$ 300				\$ 300
Building	60,000				60,000	
Accumulated Depreciation—Building		250				250
Land	20,000				20,000	
Accounts Payable		200				200
Utilities Payable		100				100
Salaries Payable		1,200				1,200
Interest Payable		100				100
Unearned Revenue		400				400
Notes Payable		60,000				60,000
Bright, Capital		48,000				48,000
Bright, Withdrawals	5,000				5,000	
Service Revenue		17,500		\$ 17,500		
Rent Expense	3,000		\$ 3,000			
Salaries Expense	4,800		4,800			
Supplies Expense	400		400			
Utilities Expense	100		100			
Depreciation Expense—Furniture	300		300			
Depreciation Expense—Building	250		250			
Interest Expense	100		100			
	\$128,050	\$128,050	\$ 8,950	\$ 17,500	\$119,100	\$110,550
		Net Income	8,550			8,550
			\$ 17,500	\$ 17,500	\$119,100	\$119,100



Account Title	Adjusted Trial Balance		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash	\$ 12,200				\$ 12,200	
Accounts Receivable	1,800				1,800	
Office Supplies	100				100	
Prepaid Rent	2,000				2,000	
Furniture	18,000				18,000	
Accumulated Depreciation—Furniture		\$ 300				\$ 300
Building	60,000				60,000	
Accumulated Depreciation—Building		250				250
Land	20,000				20,000	
Accounts Payable		200				200
Utilities Payable		100				100
Salaries Payable		1,200				1,200
Interest Payable		100				100
Unearned Revenue		400				400
Notes Payable		60,000				60,000
Bright, Capital		48,000				48,000
Bright, Withdrawals	5,000				5,000	
Service Revenue		17,500		\$ 17,500		
Rent Expense	3,000		\$ 3,000			
Salaries Expense	4,800		4,800			
Supplies Expense	400		400			
Utilities Expense	100		100			
Depreciation Expense—Furniture	300		300			
Depreciation Expense—Building	250		250			
Interest Expense	100		100			
	\$ 128,050	\$ 128,050	\$ 8,950	\$ 17,500	\$ 119,100	\$ 110,550
		Net Income	8,550			8,550
			\$ 17,500	\$ 17,500	\$ 119,100	\$ 119,100

Exhibit 4-4 | Completed Worksheet

SMART TOUCH LEARNING											
Worksheet											
December 31, 2014											
Account Names	Unadjusted Trial Balance		Adjustments			Adjusted Trial Balance		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	
Cash	\$ 12,200				\$ 12,200					\$ 12,200	
Accounts Receivable	1,000		(h) \$ 800		1,800					1,800	
Office Supplies	500			\$ 400 (b)	100					100	
Prepaid Rent	3,000			1,000 (a)	2,000					2,000	
Furniture	18,000				18,000					18,000	
Accumulated Depreciation—Furniture				300 (c)		\$ 300					\$ 300
Building	60,000				60,000					60,000	
Accumulated Depreciation—Building				250 (d)		250					250
Land	20,000				20,000					20,000	
Accounts Payable		\$ 200				200					200
Utilities Payable		100				100					100
Salaries Payable				1,200 (f)		1,200					1,200
Interest Payable				100 (g)		100					100
Unearned Revenue		600 (e)	200			400					400
Notes Payable		60,000				60,000					60,000
Bright, Capital		48,000				48,000					48,000
Bright, Withdrawals	5,000				5,000					5,000	
Service Revenue		16,500		1,000 (e,h)		17,500		\$ 17,500			
Rent Expense	2,000		(a) 1,000		3,000		\$ 3,000				
Salaries Expense	3,600		(f) 1,200		4,800		4,800				
Supplies Expense			(b) 400		400		400				
Utilities Expense	100				100		100				
Depreciation Expense—Furniture			(c) 300		300		300				
Depreciation Expense—Building			(d) 250		250		250				
Interest Expense			(g) 100		100		100				
Total	\$ 125,400	\$ 125,400	\$ 4,250	\$ 4,250	\$ 128,050	\$ 128,050	\$ 8,950	\$ 17,500	\$ 119,100	\$ 119,100	
							Net Income	8,550			8,550
Total							\$ 17,500	\$ 17,500	\$ 119,100	\$ 119,100	

Section 1-4

Net Income = \$17,500 - \$8,950

Section 7



Determining net loss using a worksheet

S4-7 Determining net loss using a worksheet

A partial worksheet for Ace Adjusters is presented below. Solve for the missing information.

	A	J	K	L	M
5		Income Statement		Balance Sheet	
6		Debit	Credit	Debit	Credit
32	Total	\$ 20,600	(a)	(b)	\$ 60,100
33	Net (c)		4,200	(d)	
34	Total	(e)	(f)	(g)	\$ 60,100
35					



Determining net loss using a worksheet

S4-7 Determining net loss using a worksheet

A partial worksheet for Ace Adjusters is presented below. Solve for the missing information.

	A	J	K	L	M
5		Income Statement		Balance Sheet	
6		Debit	Credit	Debit	Credit
32	Total	\$ 20,600	(a)	(b)	\$ 60,100
33	Net (c)		4,200	(d)	
34	Total	(e)	(f)	(g)	\$ 60,100
35					

a. \$16,400 ($\$20,600 - \$4,200$)

b. \$55,900 ($\$60,100 - \$4,200$)

c. Loss d. \$4,200

e. \$20,600

f. \$20,600 ($\$16,400 + \$4,200$)

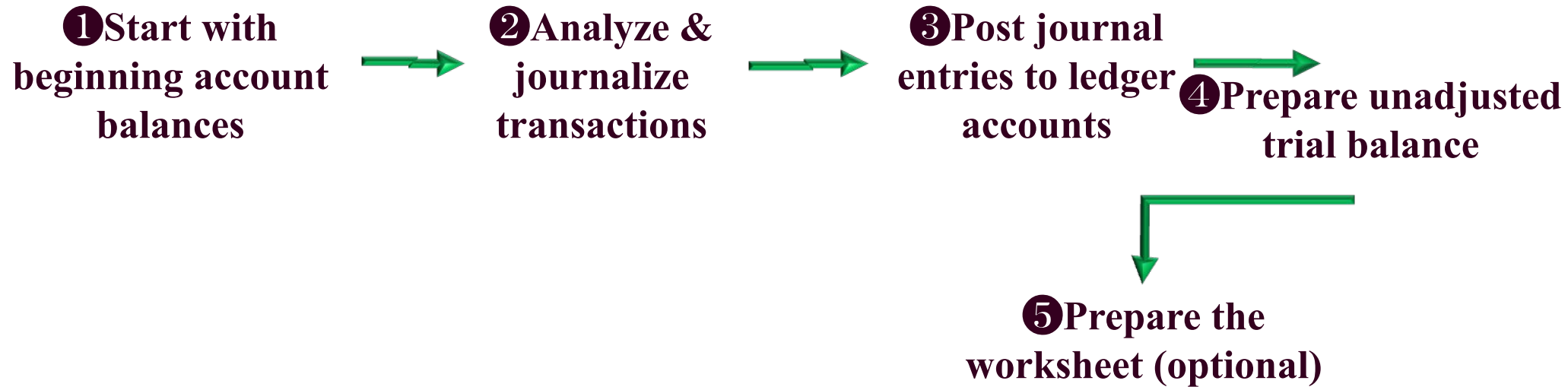
g. \$60,100 ($\$55,900 + \$4,200$)

Learning Objective 5

**Describe the
accounting cycle**



Summary of the Accounting Cycle





Summary of the Accounting Cycle

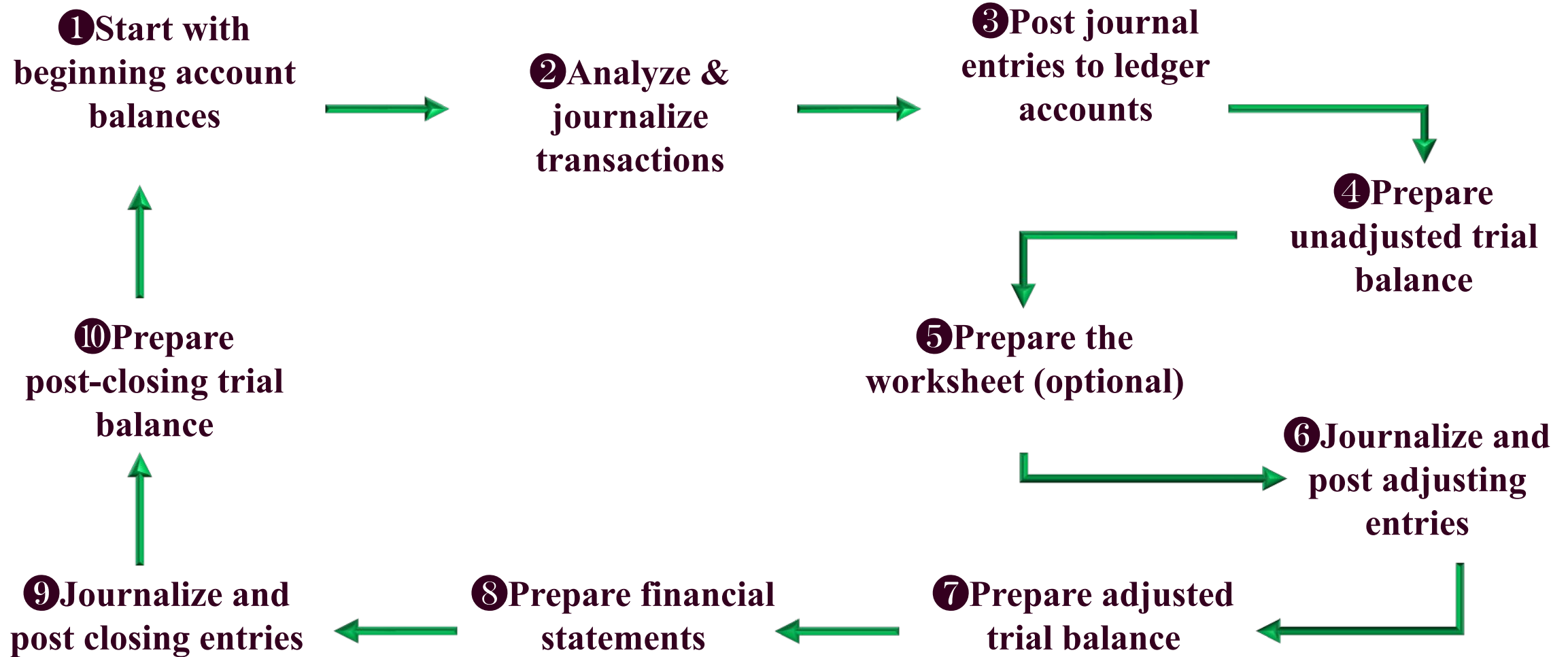
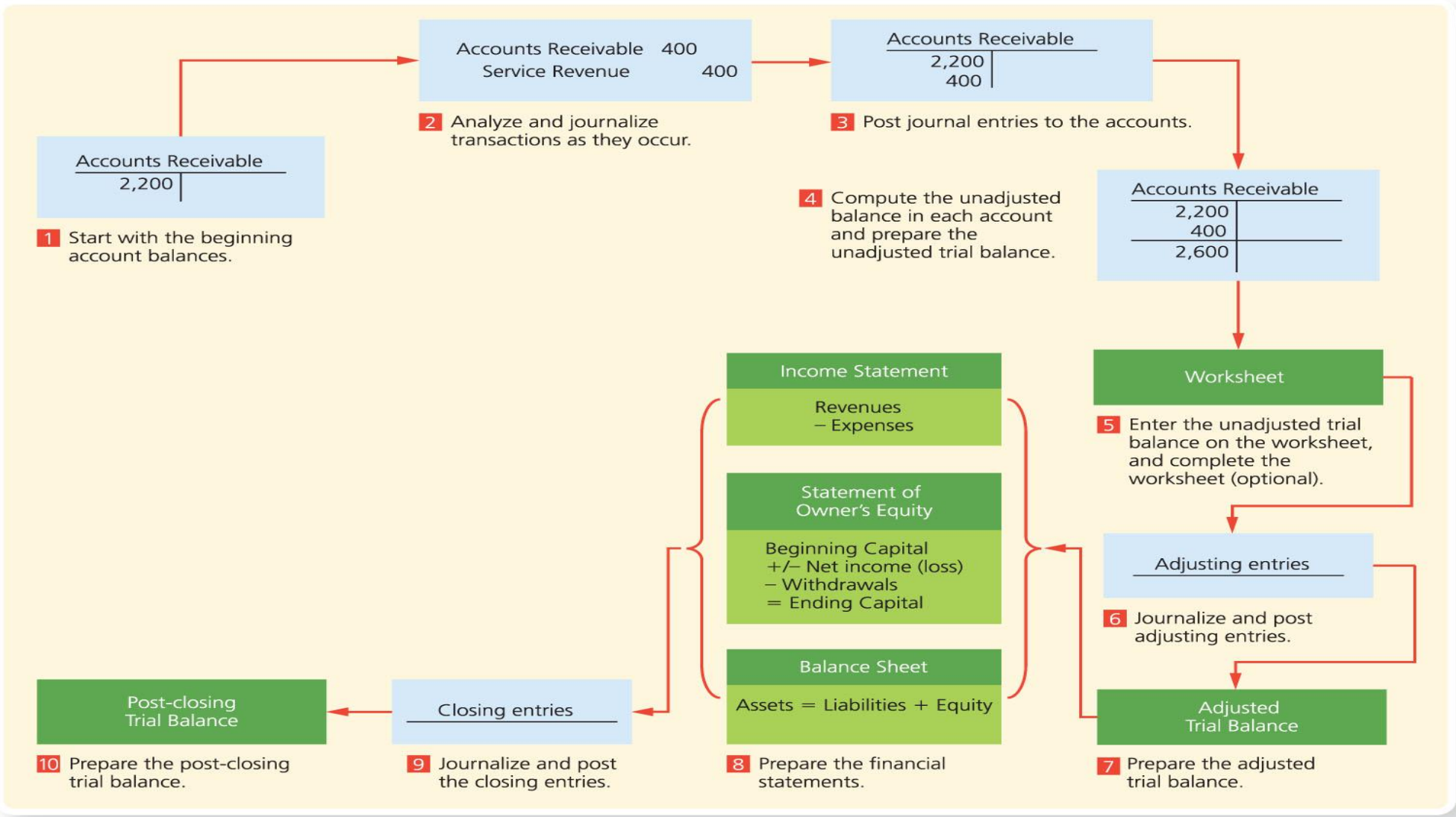




Exhibit 4-8 | The Accounting Cycle



Identify steps in the accounting cycle

S4-11 Identifying steps in the accounting cycle

Organize the following steps in sequence as they occur in the accounting cycle.

- Journalize and post the adjusting entries and the closing entries
- Analyze and journalize transactions as they occur
- Prepare the post-closing trial balance
- Start with the beginning account balances
- Enter the trial balance on the work sheet, and complete the work sheet
- Post to the accounts
- Compute the unadjusted balance in each account
- Prepare the financial statements



Identify steps in the accounting cycle

S4-11 Identifying steps in the accounting cycle

Organize the following steps in sequence as they occur in the accounting cycle.

- 6 • Journalize and post the adjusting entries and the closing entries
- 2 • Analyze and journalize transactions as they occur
- 8 • Prepare the post-closing trial balance
- 1 • Start with the beginning account balances
- 5 • Enter the trial balance on the work sheet, and complete the work sheet
- 3 • Post to the accounts
- 4 • Compute the unadjusted balance in each account
- 7 • Prepare the financial statements



Determine net income using a worksheet

S4-6 Determining net income using a worksheet

A partial worksheet for Robson Law Firm is presented below. Solve for the missing information.

	A	J	K	L	M
5		Income Statement		Balance Sheet	
6		Debit	Credit	Debit	Credit
32	Total	(a)	\$ 20,450	\$ 205,400	\$ 200,175
33	Net (b)	5,225			(c)
34	Total	(d)	\$ 20,450	(e)	(f)
35					



Determine net income using a worksheet

S4-6 Determining net income using a worksheet

A partial worksheet for Robson Law Firm is presented below. Solve for the missing information.

	A	J	K	L	M
5		Income Statement		Balance Sheet	
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33	Net (b)	5,225			(c)
34	Total	(d)	\$ 20,450	(e)	(f)
35					

a. \$15,225 ($\$20,450 - \$5,225$)

b. Income

c. \$5,225

d. \$20,450 ($\$15,225 + \$5,225$)

e. \$205,400

f. \$205,400 ($\$200,175 + \$5,225$)

Practice : closing entries

> Try It!

Benson Auto Repair had the following account balances after adjustments. Assume all accounts had normal balances.

Cash	\$ 4,000	Benson, Capital	\$ 35,700
Accounts Receivable	3,200	Benson, Withdrawals	2,100
Prepaid Rent	1,900	Service Revenue	1,600
Office Supplies	3,000	Depreciation Expense—Equipment	300
Equipment	34,800	Salaries Expense	800
Accumulated Depreciation—Equipment	1,600	Rent Expense	500
Accounts Payable	5,400	Utilities Expense	600
Notes Payable (long-term)	7,000	Supplies Expense	100

14. Prepare the closing entries for Benson at December 31.

15. What is the balance of Benson, Capital after closing entries have been recorded? (Use a T-account to determine the balance.)



closing entries

Date	Accounts and Explanation	Debit	Credit
Dec. 31	Service Revenue	1,600	
	Income Summary		1,600
	<i>To close revenue.</i>		
31	Income Summary	2,300	
	Depreciation Expense—Equipment		300
	Salaries Expense		800
	Rent Expense		500
	Utilities Expense		600
	Supplies Expense		100
	<i>To close expenses.</i>		
31	Benson, Capital	700	
	Income Summary		700
	<i>To close Income Summary.</i>		
31	Benson, Capital	2,100	
	Benson, Withdrawals		2,100
	<i>To close withdrawals.</i>		

Benson, Capital		
		35,700 Adj. Bal.
Clos. 3	700	
Clos. 4	2,100	
		32,900 Bal.

Practice: Current Ratio

> Try It!

22. Benson Auto Repair has the following account balances at December 31, 2015, from its adjusted trial balance. Compute Benson's current ratio.

Cash	\$ 4,000	Benson, Capital	\$ 35,700
Accounts Receivable	3,200	Benson, Withdrawals	2,100
Prepaid Rent	1,900	Service Revenue	1,600
Office Supplies	3,000	Depreciation Expense—Equipment	300
Equipment	34,800	Salaries Expense	800
Accumulated Depreciation—Equipment	1,600	Rent Expense	500
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Current Ratio

> Try It!

22. Benson Auto Repair has the following account balances at December 31, 2015, from its adjusted trial balance. Compute Benson's current ratio.

Cash	\$ 4,000	Benson, Capital	\$ 35,700
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Accumulated Depreciation—Equipment	1,600	Rent Expense	500
Accounts Payable	5,400	Utilities Expense	600
Notes Payable (long-term)	7,000	Supplies Expense	100

$$\begin{aligned} 22. \text{ Current ratio} &= \text{Total current assets} / \text{Total current liabilities} \\ &= (\$4,000 + \$3,200 + \$1,900 + \$3,000) / \$5,400 \\ &= \$12,100 / \$5,400 = 2.24 \text{ (rounded)} \end{aligned}$$

Summary problem

Requirements

1. Prepare the income statement for the year ended December 31, 2016.
2. Prepare the statement of owner's equity for the year ended December 31, 2016. Assume the owner had no additional contributions during the year.
3. Prepare the classified balance sheet at December, 31, 2016. Use the report form.
4. Calculate the current ratio at December 31, 2016.
5. Journalize and post the closing entries. Indicate the balance of the Martinez, Capital account after the closing entries are posted.
6. Prepare a post-closing trial balance at December 31, 2016.

MARTINEZ ADVERTISING SERVICES

Adjusted Trial Balance
December 31, 2016

Account Title	Balance	
	Debit	Credit
Cash	\$ 6,000	
Accounts Receivable	6,300	
Office Supplies	200	
Furniture	8,000	
Accumulated Depreciation—Furniture		\$ 6,000
Building	42,000	
Accumulated Depreciation—Building		24,000
Land	10,000	
Accounts Payable		2,000
Salaries Payable		500
Unearned Revenue		5,000
Notes Payable (long-term)		7,000
Martinez, Capital		12,000
Martinez, Withdrawals	25,000	
Service Revenue		64,300
Salaries Expense	16,500	
Supplies Expense	800	
Depreciation Expense—Furniture	2,000	
Depreciation Expense—Building	1,000	
Advertising Expense	3,000	
Total	\$ 120,800	\$ 120,800

Solution

MARTINEZ ADVERTISING SERVICES Income Statement Year Ended December 31, 2016

Revenues:	
Service Revenue	\$ 64,300
Expenses:	
Salaries Expense	\$ 16,500
Advertising Expense	3,000
Depreciation Expense—Furniture	2,000
Depreciation Expense—Building	1,000
Supplies Expense	800
Total Expenses	<u>23,300</u>
Net Income	<u><u>\$ 41,000</u></u>

MARTINEZ ADVERTISING SERVICES Statement of Owner's Equity Year Ended December 31, 2016

Martinez, Capital, January 1, 2016	\$ 12,000
Owner contribution	0
Net income for the year	41,000
	<u>53,000</u>
Owner withdrawal	(25,000)
Martinez, Capital, December 31, 2016	<u><u>\$ 28,000</u></u>

MARTINEZ ADVERTISING SERVICES Balance Sheet December 31, 2016

Assets	
Current Assets:	
Cash	\$ 6,000
Accounts Receivable	6,300
Office Supplies	200
Total Current Assets	<u>\$ 12,500</u>
Plant Assets:	
Furniture	\$ 8,000
Less: Accumulated Depreciation—Furniture	(6,000) 2,000
Building	42,000
Less: Accumulated Depreciation—Building	(24,000) 18,000
Land	10,000
Total Plant Assets	<u>30,000</u>
Total Assets	<u><u>\$ 42,500</u></u>
Liabilities	
Current Liabilities:	
Accounts Payable	\$ 2,000
Salaries Payable	500
Unearned Revenue	5,000
Total Current Liabilities	<u>\$ 7,500</u>
Long-term Liabilities:	
Notes Payable	7,000
Total Liabilities	<u>14,500</u>
Owner's Equity	
Martinez, Capital	28,000
Total Liabilities and Owner's Equity	<u><u>\$ 42,500</u></u>

Solution

Requirement 4

$$\text{Current ratio} = \text{Total current assets} / \text{Total current liabilities} = \$12,500 / \$7,500 = 1.67^*$$

Martinez, Capital			
	12,000	Adj. Bal.	
Dec. 31	25,000	41,000	Dec. 31
		28,000	Bal.

Martinez, Withdrawals			
	Adj. Bal.	25,000	Dec. 31
	Bal.	0	

Service Revenue			
Dec. 31	64,300	64,300	Adj. Bal.
		0	Bal.

Salaries Expense			
	Adj. Bal.	16,500	Dec. 31
	Bal.	0	

Supplies Expense			
	Adj. Bal.	800	Dec. 31
	Bal.	0	

Depreciation Expense—Furniture			
	Adj. Bal.	2,000	Dec. 31
	Bal.	0	

Depreciation Expense—Building			
	Adj. Bal.	1,000	Dec. 31
	Bal.	0	

Advertising Expense			
	Adj. Bal.	3,000	Dec. 31
	Bal.	0	

Income Summary			
Dec. 31	23,300	64,300	Dec. 31
Dec. 31	41,000	41,000	Bal.
		0	Bal.

Date	Accounts and Explanation	Debit	Credit
Dec. 31	Service Revenue	64,300	
	Income Summary		64,300
	<i>To close revenue.</i>		
31	Income Summary	23,300	
	Salaries Expense		16,500
	Supplies Expense		800
	Depreciation Expense—Furniture		2,000
	Depreciation Expense—Building		1,000
	Advertising Expense		3,000
	<i>To close expenses.</i>		
31	Income Summary	41,000	
	Martinez, Capital		41,000
	<i>To close Income Summary.</i>		
31	Martinez, Capital	25,000	
	Martinez, Withdrawals		25,000
	<i>To close withdrawals.</i>		

An aerial photograph of a bay with clear, vibrant blue water and rocky cliffs. Several small white boats are scattered across the water. A semi-transparent white rectangular box is overlaid on the left side of the image, containing the text "See you Next Week!".

See you
Next Week!