

Exercises: Set A				
E1A. Preparation of Closing Entries				
Dec.	31	Commission Revenue	25,620	
		Income Summary		25,620
		To close the revenue account		
	31	Income Summary	15,830	
		Wages Expense		8,110
		Rent Expense		1,200
		Supplies Expense		4,260
		Insurance Expense		915
		Depreciation Expense—Office Equipment		1,345
		To close the expense accounts		
	31	Income Summary	9,790	
		L. Hamilton, Capital		9,790
		To close the Income Summary account		
E2A. Reversing Entries				
1.	<p>A reversing entry for the adjustment to establish Wages Payable would be helpful because this accrual will be offset by a payment in the next accounting period. The reversing entry makes it unnecessary to determine how much of the next period's payments applies to a previous period. The adjustment for supplies is a deferral; it will not be offset by a subsequent transaction.</p>			
2.	Oct.	1	Wages Payable	1,280
			Wages Expense	1,280
			To reverse the adjusting entry for accrued wages	
3.	Oct.	25	Wages Expense	6,280
			Cash	6,280
			To record wages paid on October 25	
	<p>The amount that represents wages expense for October is \$5,000. Of the \$6,280 paid in October, \$1,280 was expensed in September. As a result of the reversing entry, the Wages Expense account will show the correct balance, \$5,000, after the entries are posted.</p>			

E5A. Preparation of Statement of Owner's Equity

Strauss's Hair Salon	
Statement of Owner's Equity	
For the Year Ended December 31, 2014	
B. Strauss, capital, Dec. 31, 2013	\$26,000
Net income	<u>19,000</u>
Subtotal	\$45,000
Less withdrawals	<u>9,000</u>
B. Strauss, capital, Dec. 31, 2014	<u>\$36,000</u>

E6A. Preparation of Adjusting and Reversing Entries from Work Sheet Columns

1.	2014					
(a)	June	30	Insurance Expense		480	
			Prepaid Insurance			480
			To record expired insurance			
(b)		30	Office Supplies Expense		1,260	
			Office Supplies			1,260
			To record supplies used during the period			
(c)		30	Depreciation Expense—Office Equipment		2,800	
			Accumulated Depreciation—Office Equipment			2,800
			To record depreciation expense for the period			
(d)		30	Depreciation Expense—Store Equipment		4,400	
			Accumulated Depreciation—Store Equipment			4,400
			To record depreciation expense for the period			
(e)		30	Office Salaries Expense		480	
			Store Salaries Expense		960	
			Salaries Payable			1,440
			To record accrued salaries for the period			

2. Adjustment (e) is the only accrual and thus is the only adjustment for which a reversing entry is appropriate.

2014						
(e)	July	1	Salaries Payable		1,440	
			Office Salaries Expense			480
			Store Salaries Expense			960
			To reverse the adjusting entry for accrued salaries from the previous period			

E7A. Preparation of Closing Entries from the Work Sheet

2014				
Dec.	31	Repair Revenue	12,810	
		Income Summary		12,810
		To close the revenue account		
	31	Income Summary	7,915	
		Wages Expense		4,055
		Rent Expense		600
		Supplies Expense		2,130
		Insurance Expense		458
		Depreciation Expense—Repair Equipment		672
		To close the expense accounts		
	31	Income Summary	4,895	
		A. Winter, Capital		4,895
		To close the Income Summary account		
	31	A. Winter, Capital	2,500	
		A. Winter, Withdrawals		2,500
		To close the Withdrawals account		

P2. Closing Entries Using T Accounts and Preparation of Financial Statements

1. and 2.

J. Kojas, Capital							
(d)	June	30	54,000	Bal.			471,150
				(c)	June	30	103,150
				Bal.			520,300
J. Kojas, Withdrawals							
Bal.			54,000	(d)	June	30	54,000
Bal.			—				
Income Summary							
(b)	June	30	584,550	(a)	June	30	687,700
(c)		30	103,150				
				Bal.			—
Revenue from Court Fees							
(a)	June	30	678,100	Bal.			678,100
				Bal.			—
Revenue from Locker Fees							
(a)	June	30	9,600	Bal.			9,600
				Bal.			—
Wages Expense							
Bal.			351,000	(b)	June	30	351,000
Bal.			—				
Maintenance Expense							
Bal.			51,600	(b)	June	30	51,600
Bal.			—				
Advertising Expense							
Bal.			39,750	(b)	June	30	39,750
Bal.			—				
Utilities Expense							
Bal.			64,800	(b)	June	30	64,800
Bal.			—				

P2. Closing Entries Using T Accounts and Preparation of Financial Statements (Continued)

Supplies Expense							
Bal.			6,000	(b)	June	30	6,000
Bal.			—				
Depreciation Expense—Building							
Bal.			30,000	(b)	June	30	30,000
Bal.			—				
Depreciation Expense—Equipment							
Bal.			12,000	(b)	June	30	12,000
Bal.			—				
Property Taxes Expense							
Bal.			22,500	(b)	June	30	22,500
Bal.			—				
Miscellaneous Expense							
Bal.			6,900	(b)	June	30	6,900
Bal.			—				

P2. Closing Entries Using T Accounts and Preparation of Financial Statements (Continued)

3.	Carlton Tennis Club		
	Income Statement		
	For the Year Ended June 30, 2014		
	Revenue		
	Revenue from court fees		\$678,100
	Revenue from locker fees		<u>9,600</u>
	Total revenue		\$687,700
	Expenses		
	Wages expense	\$351,000	
	Maintenance expense	51,600	
	Advertising expense	39,750	
	Utilities expense	64,800	
	Supplies expense	6,000	
	Depreciation expense—building	30,000	
	Depreciation expense—equipment	12,000	
	Property taxes expense	22,500	
	Miscellaneous expense	<u>6,900</u>	
	Total expenses		<u>584,550</u>
	Net income		<u>\$103,150</u>
	Carlton Tennis Club		
	Statement of Owner's Equity		
	For the Year Ended June 30, 2014		
	J. Kojas, capital, June 30, 2013		\$471,150
Net income		<u>103,150</u>	
Subtotal		\$574,300	
Less withdrawals		<u>54,000</u>	
J. Kojas, capital, June 30, 2014		<u>\$520,300</u>	

P2. Closing Entries Using T Accounts and Preparation of Financial Statements (Concluded)

Carlton Tennis Club		
Balance Sheet		
June 30, 2014		
Assets		
Cash		\$ 26,200
Prepaid advertising		9,600
Supplies		1,200
Land		100,000
Building	\$645,200	
Less accumulated depreciation	<u>260,000</u>	385,200
Equipment	\$156,000	
Less accumulated depreciation	<u>50,400</u>	<u>105,600</u>
Total assets		<u>\$627,800</u>
Liabilities		
Accounts payable	\$ 73,000	
Wages payable	9,000	
Property taxes payable	22,500	
Unearned revenue—locker fees	<u>3,000</u>	
Total liabilities		\$107,500
Owner's Equity		
J. Kojas, capital		<u>520,300</u>
Total liabilities and owner's equity		<u>\$627,800</u>
4.	Closing entries are journal entries made at the end of the accounting period to accomplish two purposes: (1) to set the stage for the next accounting period by clearing the temporary accounts (income statement accounts and withdrawals) of their balances and transferring them to owner's capital, and (2) to summarize revenues and expenses. Closing entries help to achieve periodicity and accrual accounting.	

P9. Preparation of a Work Sheet, Financial Statements, and Adjusting, Closing, and Reversing Entries

1.

Julio Theater Company—Work Sheet—For the Year Ended June 30, 2014

Account Name	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash	63,600				63,600				63,600	
Accounts Receivable	37,088				37,088				37,088	
Prepaid Insurance	39,200			(a) 34,800	4,400				4,400	
Office Supplies	1,560			(b) 1,072	488				488	
Cleaning Supplies	7,180			(c) 6,244	936				936	
Land	40,000				40,000				40,000	
Building	800,000				800,000				800,000	
Accumulated Depreciation—Building		78,800		(d) 28,000		106,800				106,800
Theater Furnishings	740,000				740,000				740,000	
Accumulated Depreciation—Theater Furnishings		130,000		(e) 72,000		202,000				202,000
Office Equipment	63,200				63,200				63,200	
Accumulated Depreciation—Office Equipment		31,120		(f) 6,320		37,440				37,440
Accounts Payable		91,012				91,012				91,012
Gift Books Liability		83,800	(g) 75,600			8,200				8,200
Mortgage Payable		600,000				600,000				600,000
P. Julio, Capital		625,296				625,296				625,296
P. Julio, Withdrawals	120,000				120,000				120,000	
Ticket Sales Revenue		822,800		(g) 75,600		898,400		898,400		
Theater Rental Revenue		90,400				90,400		90,400		
Usher Wages Expense	314,000		(h) 1,720		315,720		315,720			
Office Wages Expense	48,000				48,000		48,000			
Utilities Expense	225,400				225,400		225,400			
Interest Expense	54,000				54,000		54,000			
	2,553,228	2,553,228								
Insurance Expense			(a) 34,800		34,800		34,800			
Office Supplies Expense			(b) 1,072		1,072		1,072			
Cleaning Supplies Expense			(c) 6,244		6,244		6,244			
Depreciation Expense—Building			(d) 28,000		28,000		28,000			
Depreciation Expense—Theater Furnishings			(e) 72,000		72,000		72,000			
Depreciation Expense—Office Equipment			(f) 6,320		6,320		6,320			
Wages Payable				(h) 1,720		1,720				1,720
			225,756	225,756	2,661,268	2,661,268	791,556	988,800	1,869,712	1,672,468
Net Income							197,244			197,244
							988,800	988,800	1,869,712	1,869,712

P9. Preparation of a Work Sheet, Financial Statements, and Adjusting, Closing, and Reversing Entries (Continued)

Julio Theater Company		
Income Statement		
For the Year Ended June 30, 2014		
Revenues		
Ticket sales revenue	\$898,400	
Theater rental revenue	<u>90,400</u>	
Total revenues		\$988,800
Expenses		
Usher wages expense	\$315,720	
Office wages expense	48,000	
Utilities expense	225,400	
Interest expense	54,000	
Insurance expense	34,800	
Office supplies expense	1,072	
Cleaning supplies expense	6,244	
Depreciation expense—building	28,000	
Depreciation expense—theater furnishings	72,000	
Depreciation expense—office equipment	<u>6,320</u>	
Total expenses		<u>791,556</u>
Net income		<u>\$197,244</u>
Julio Theater Company		
Statement of Owner's Equity		
For the Year Ended June 30, 2014		
P. Julio, capital, June 30, 2013		\$625,296
Net income		<u>197,244</u>
Subtotal		\$822,540
Less withdrawals		<u>120,000</u>
P. Julio, capital, June 30, 2014		<u>\$702,540</u>

P9. Preparation of a Work Sheet, Financial Statements, and Adjusting, Closing, and Reversing Entries (Continued)

Julio Theater Company		
Balance Sheet		
June 30, 2014		
Assets		
Cash		\$ 63,600
Accounts receivable		37,088
Prepaid insurance		4,400
Office supplies		488
Cleaning supplies		936
Land		40,000
Building	\$800,000	
Less accumulated depreciation	<u>106,800</u>	693,200
Theater furnishings	\$740,000	
Less accumulated depreciation	<u>202,000</u>	538,000
Office equipment	\$ 63,200	
Less accumulated depreciation	<u>37,440</u>	<u>25,760</u>
Total assets		<u>\$1,403,472</u>
Liabilities		
Accounts payable	\$ 91,012	
Gift books liability	8,200	
Wages payable	1,720	
Mortgage payable	<u>600,000</u>	
Total liabilities		\$ 700,932
Owner's Equity		
P. Julio, capital	<u>\$702,540</u>	
Total owner's equity		<u>702,540</u>
Total liabilities and owner's equity		<u>\$1,403,472</u>

P9. Preparation of a Work Sheet, Financial Statements, and Adjusting, Closing, and Reversing Entries (Continued)

3.

General Journal			
Date	Description	Debit	Credit
	Adjusting entries:		
2014			
June 30	Insurance Expense	34,800	
	Prepaid Insurance		34,800
	To record expired insurance		
	30 Office Supplies Expense	1,072	
	Office Supplies		1,072
	To record office supplies used		
	\$1,560 – \$488 = \$1,072		
	30 Cleaning Supplies Expense	6,244	
	Cleaning Supplies		6,244
	To record cleaning supplies used		
	\$7,180 – \$936 = \$6,244		
	30 Depreciation Expense—Building	28,000	
	Accumulated Depreciation—Building		28,000
	To record depreciation on building for the year		
	30 Depreciation Expense—Theater Furnishings	72,000	
	Accumulated Depreciation—Theater Furnishings		72,000
	To record depreciation on theater furnishings for the year		
	30 Depreciation Expense—Office Equipment	6,320	
	Accumulated Depreciation—Office Equipment		6,320
	To record depreciation on office equipment for the year		
	30 Gift Books Liability	75,600	
	Ticket Sales Revenue		75,600
	To record gift books redeemed		
	30 Usher Wages Expense	1,720	
	Wages Payable		1,720
	To record accrued wages at the end of the period		

P9. Preparation of a Work Sheet, Financial Statements, and Adjusting, Closing, and Reversing Entries (Concluded)

General Journal				
Date		Description	Debit	Credit
		Closing entries:		
2014				
June	30	Ticket Sales Revenue	898,400	
		Theater Rental Revenue	90,400	
		Income Summary		988,800
		To close the revenue accounts		
	30	Income Summary	791,556	
		Usher Wages Expense		315,720
		Office Wages Expense		48,000
		Utilities Expense		225,400
		Interest Expense		54,000
		Insurance Expense		34,800
		Office Supplies Expense		1,072
		Cleaning Supplies Expense		6,244
		Depreciation Expense—Building		28,000
		Depreciation Expense—Theater Furnishings		72,000
		Depreciation Expense—Office Equipment		6,320
		To close the expense accounts		
	30	Income Summary	197,244	
		P. Julio, Capital		197,244
		To close the Income Summary account		
	30	P. Julio, Capital	120,000	
		P. Julio, Withdrawals		120,000
		To close the Withdrawals account		
		Reversing entry:		
July	1	Wages Payable	1,720	
		Usher Wages Expense		1,720

4. Even though the work sheet has columns for the income statement and balance sheet, it is not a substitute for the financial statements. First, the work sheet does not show the statement of owner's equity and the balance sheet is not updated for the change in owner's capital. Second, financial statements are arranged in a way to provide useful information to users. The work sheet is an internal tool for the accountant.