

# PROBLEM 1-1

## Determining how transactions change an accounting equation and preparing a balance sheet

George Miller is starting Miller Tree Service, a tree trimming service. Miller Tree Service uses the accounts shown in the following accounting equation. Use the form given in the *Extra Problems Working Papers* to complete this problem.

Trans. No.	Assets			=	Liabilities	+	Owner's Equity		
	Cash	+	Supplies	+	Prepaid Insurance	=	Accts. Pay.— Wilson Supply	+	George Miller, Capital
New Bal.	0		0		0		0		0
1.	+ 1,700								+ 1,700
New Bal.	1,700		0		0		0		1,700
2.									

**Transactions:**

1. The owner invested \$1,700.00 in the business.
2. Bought supplies from Wilson Supply for \$600.00 on account.
3. Paid \$250.00 for insurance.
4. Paid \$175.00 cash for supplies.
5. Paid \$300.00 to Wilson Supply on account.
6. George Miller invested an additional \$500.00 in the business.

**Instructions:**

1. For each transaction, complete the following. Transaction 1 is given as an example.
  - a. Analyze the transaction to determine which accounts in the accounting equation are affected.
  - b. Write the amount in the appropriate columns, using a plus (+) if the account increases or a minus (-) if the account decreases.
  - c. Calculate the new balance for each account in the accounting equation.
  - d. Before going on to the next transaction, determine that the accounting equation is still in balance.
2. Using the final balances in the accounting equation, prepare a balance sheet for Miller Tree Service. Use November 30 of the current year as the date of the balance sheet.

## PROBLEM 2-1

### Determining how transactions change an accounting equation and preparing a balance sheet

George Miller operates a tree trimming business called Miller Tree Service. Miller Tree Service uses the accounts shown in the following accounting equation. Use the form given in the *Extra Problems Working Papers* to complete this problem.

Trans. No.	Assets				=	Liabilities		+	Owner's Equity		
	Cash	+	Accts. Rec.-- Steve Smith	+	Supplies	+	Prepaid Insurance	=	Accts. Pay. — Wilson Supply	+	George Miller, Capital
	Beg. Bal.	1,475		-0-		775		250		300	
1.	-150										-150 (expense)
New Bal.	1,325		-0-		775		250		300		2,050
2.											

#### Transactions:

1. Paid \$150.00 cash for telephone bill.
2. Received \$200.00 cash from George Miller as an investment.
3. Had cash sales totaling \$550.00.
4. Paid cash for rent, \$400.00.
5. Bought supplies from Wilson Supply for \$220.00 on account.
6. Sold services to Steve Smith on account, \$300.00.
7. Bought supplies for \$300.00 cash.
8. Paid cash for advertising, \$550.00.
9. Steve Smith paid \$200.00 on his account.
10. Paid \$300.00 cash on account to Wilson Supply.
11. Paid cash for insurance, \$250.00.
12. Received \$1,900.00 cash from sales.
13. Owner withdrew \$1,000.00 cash for personal use.

#### Instructions:

1. For each transaction, complete the following. Transaction 1 is given as an example.
  - a. Analyze the transaction to determine which accounts in the accounting equation are affected.
  - b. Write the amount in the appropriate columns, using a plus (+) if the account increases or a minus (-) if the account decreases.
  - c. For transactions that change owner's equity, write in parentheses a description of the transaction to the right of the amount.
  - d. Calculate the new balance for each account in the accounting equation.
  - e. Before going on to the next transaction, determine that the accounting equation is still in balance.
2. Using the final balances in the accounting equation, prepare a balance sheet for Miller Tree Service. Use December 31 of the current year.

# PROBLEM 3-1

## Analyzing transactions into debit and credit parts

Joan Weber owns a business called Lawns Plus. Lawns Plus uses the following accounts:

Cash	Joan Weber, Drawing
Accounts Receivable—Central Properties	Sales
Accounts Receivable—Clifton Care Center	Advertising Expense
Supplies	Miscellaneous Expense
Prepaid Insurance	Rent Expense
Accounts Payable—Davis Office Supplies	Repair Expense
Accounts Payable—Huff Supplies	Utilities Expense
Joan Weber, Capital	

### Instructions:

Use the forms given in the *Extra Problems Working Papers*.

1. Prepare a T account for each account.
2. Analyze each transaction into its debit and credit parts. Write the debit and credit amounts in the proper T accounts to show how each transaction changes account balances. Write the date of the transaction in parentheses before each amount.

### Transactions:

- June 1. Joan Weber invested \$8,000.00 cash in the business.
2. Bought supplies and paid \$120.00 cash.
3. Paid cash for rent, \$400.00.
4. Sold services for cash, \$800.00.
5. Had mower repaired for \$50.00 cash.
8. Performed \$500.00 of services for Central Properties on account.
9. Bought supplies from Huff Supplies for \$1,000.00 on account.
10. Paid insurance bill, \$200.00 cash.
11. Joan Weber invested an additional \$1,000.00 in the business.
12. Received \$600.00 cash from sales.
13. Bought supplies on account from Davis Office Supplies, \$100.00.
14. Central Properties paid \$250.00 on account.
15. Paid \$10.00 for a miscellaneous expense.
16. Paid Huff Supplies \$100.00 on account.
22. Paid the electric bill, \$70.00.
23. Ran an ad in the paper for \$60.00.
25. Sold services on account to Clifton Care Center, \$400.00.
26. Joan Weber withdrew \$1,200.00 for her personal use.
30. Received cash on account from Clifton Care Center, \$200.00.

# PROBLEM 4-1

## Journalizing transactions

Josh Carter owns a service business called Carter Services, which use the following accounts:

Cash	Accts. Pay.—Barker Supplies	Sales	Repair Expense
Supplies	Accts. Pay.—Hall Company	Advertising Expense	Utilities Expense
Prepaid Insurance	Josh Carter, Capital	Miscellaneous Expense	
Accts. Rec.—Sue Scott	Josh Carter, Drawing	Rent Expense	

### Transactions:

- Aug. 1. Josh Carter invested \$9,000.00 of his money in the business. Receipt No. 1.
2. Wrote Check No. 1 to pay the rent for the office, \$200.00.
3. Paid \$600.00 for supplies. Check No. 2.
4. Bought supplies from Barker Supplies for \$1,000.00 on account. Memo. No. 1.
5. Paid \$2,000.00 for insurance. Check No. 3.
8. Sent Check No. 4 to Barker Supplies as payment on account, \$750.00.
8. Sold services for cash, \$450.00. Tape No. 8.
8. Sold services to Sue Scott on account, \$100.00. Sales Invoice No. 1.
9. Sent a check to pay the electric bill, \$30.00. Check No. 5.
10. Issued Check No. 6 for a miscellaneous expense, \$9.00.
10. Recorded cash sales of \$350.00. Tape No. 10.
11. Wrote Check No. 7 to pay for repairs of \$50.00.
11. Received \$425.00 cash from sales. Tape No. 11.
12. Recorded cash sales of \$350.00. Tape No. 12.
15. Wrote a \$175.00 check to Josh Carter for personal use. Check No. 8.
15. Received cash from sales, \$375.00. Tape No. 15.
16. Wrote Check No. 9 for supplies, \$750.00.
17. Received \$100.00 from Sue Scott for services performed on August 8. Receipt No. 2.
17. Bought supplies on account from Hall Company, \$375.00. Memo. No. 2.
17. Recorded cash sales of \$300.00. Tape No. 17.
18. Sold services for cash, \$200.00. Tape No. 18.
19. Received cash from sales, \$375.00. Tape No. 19.
22. Bought \$40.00 of supplies from Hall Company on account. Memo. No. 3.
22. Recorded cash sales of \$350.00. Tape No. 22.
23. Wrote Check No. 10 to pay for \$75.00 of advertising.
23. Sold \$325.00 of services on account to Sue Scott. Sales Invoice No. 2.
24. Wrote Check No. 11 for \$30.00 to pay the telephone bill.
24. Sold services for cash, \$300.00. Tape No. 24.
25. Recorded cash sales of \$275.00. Tape No. 25.
26. Wrote Check No. 12 for \$35.00 to buy supplies.
26. Recorded \$250.00 cash sales. Tape No. 26.
29. Received \$325.00 on account from Sue Scott. Issued Receipt No. 3.
30. Wrote Check No. 13 for \$150.00 to Josh Carter for personal use.
30. Recorded \$400.00 cash sales. Tape No. 30.

### Instructions:

1. Use page 1 of the journal given in the *Extra Problems Working Papers*. Journalize the transactions for August 1 through August 16 of the current year. Source documents are abbreviated as follows: check C; memorandum, M; receipt, R; sales invoice, S; calculator tape, T.
2. Use page 2 of the journal to journalize the transactions for the remainder of August.

# PROBLEM 5-1

## Journalizing transactions and posting to a general ledger

Mary Clark owns a service business called Clark Cleaning. Clark Cleaning's general ledger accounts are given in the *Extra Problems Working Papers*.

### Transactions:

- Aug. 1. Received \$8,000.00 from Mary Clark as an investment. R1.
- 3. Paid \$500.00 for rent. C1.
- 5. Sold services to Nancy Harper on account, \$200.00. S1.
- 6. Recorded cash sales of \$800.00. T6.
- 9. Paid \$250.00 cash for supplies. C2.
- 11. Wrote a \$15.00 check for a miscellaneous expense. C3.
- 13. Bought supplies from Jackson Supplies for \$700.00 on account. M1.
- 13. Received \$850.00 from cash sales. T13.
- 16. Wrote a check for \$95.00 to pay the electric bill. C4.
- 18. Paid \$400.00 on account to Jackson Supplies. C5.
- 20. Issued a check for \$50.00 to buy advertising in the newspaper. C6.
- 20. Nancy Harper sent us \$100.00 as payment on her account. R2.
- 25. Bought supplies for cash, \$50.00. C7.
- 27. Wrote a check for \$65.00 to buy supplies. C8.
- 27. Sold services for \$1,000.00 cash. T27.
- 30. Issued a \$400.00 check to Mark Clark for personal use. C9.
- 30. Recorded cash sales of \$750.00. T30.

### Instructions:

- 1. Open an account for Utilities Expense. Use the 3-digit numbering system described in the chapter.
- 2. Journalize the transactions completed during August of the current year. Use page 1 of a journal. Source documents are abbreviated as follows: check, C; memorandum, M; receipt, R; sales invoice, S; calculator tape, T.
- 3. Post from the general journal to the general ledger.
- 4. Prove cash. The balance on the next unused check stub is \$9,675.00.

# PROBLEM 6-1

## Reconciling a bank statement; journalizing a bank service charge, a dishonored check, and petty cash transactions

David Ryan owns a business called Ryan's Copies. Selected general ledger accounts are given below. Forms are given in the *Extra Problems Working Papers*.

110 Cash	140 Prepaid Insurance	535 Repair Expense
115 Petty Cash	320 David Ryan, Drawing	540 Supplies Expense
120 Accts. Rec.—Dick's Deli	520 Miscellaneous Expense	550 Utilities Expense
130 Supplies	530 Rent Expense	

### Instructions:

1. Journalize the following transactions completed during May of the current year. Use page 12 of a journal. Source documents are abbreviated as follows: check, C; memorandum, M.

### Transactions:

- May 21. Wrote a check for \$100.00 to establish a petty cash fund. C61.
  24. Issued a \$110.00 check for repairs. C62.
  26. Bought supplies for \$20.00 cash. C63.
  27. The bank notified Ryan's Copies that a check from Dick's Deli had been dishonored. The check was for \$50.00. In addition, the bank is charging a fee of \$20.00 for a total of \$70.00. M22.
  28. Issued a \$15.00 check for a miscellaneous expense. C64.
  31. Wrote a check to David Ryan for his personal use, \$200.00. C65.
  31. Replenished the petty cash fund by writing a check for \$55.00: supplies, \$45.00; miscellaneous expense, \$10.00. C66.
2. On May 31 of the current year, Ryan's Copies received a bank statement dated May 30. Prepare a bank statement reconciliation. Use May 31 of the current year as the date. The following information is obtained from the May 30 bank statement and from the records of the business.

Bank statement balance	\$1,685.00
Bank service charge	25.00
Outstanding deposit, May 31	450.00
Outstanding checks, Nos. 65 and 66	
Checkbook balance on Check Stub No. 67	\$1,885.00
3. Continue using the journal and journalize the following transaction.

### Transaction:

- May 31. Received bank statement showing May bank service charge, \$25.00. M23.

## PROBLEM 7-1

### Completing a work sheet

On February 28 of the current year, Sparkling Windows has the following general ledger accounts and balances. The business uses a monthly fiscal period.

Account Titles	Account Balances	
	Debit	Credit
Cash	\$1,825.00	
Petty Cash	300.00	
Accounts Receivable—Mary Baker	250.00	
Supplies	750.00	
Prepaid Insurance	1,000.00	
Accounts Payable—Davis Supplies		\$ 450.00
Thomas Hudson, Capital		3,450.00
Thomas Hudson, Drawing	500.00	
Income Summary		
Sales		2,100.00
Advertising Expense	225.00	
Insurance Expense		
Miscellaneous Expense	250.00	
Rent Expense	600.00	
Supplies Expense		
Utilities Expense	300.00	

### **Instructions:**

1. Prepare the heading and trial balance on the work sheet given in the *Extra Problems Working Papers*. Total and rule the Trial Balance columns.
2. Analyze the following adjustment information into debit and credit parts. Record the adjustments on the work sheet.

#### **Adjustment Information, February 28**

Supplies inventory	\$350.00
Value of prepaid insurance	800.00

3. Total and rule the Adjustments columns.
4. Extend the up-to-date balances to the Balance Sheet or Income Statement columns.
5. Rule a single line across the Income Statement and Balance Sheet columns. Total each column. Calculate and record the net income or net loss. Label the amount in the Account Title column.
6. Total and rule the Income Statement and Balance Sheet columns.



## PROBLEM 8-1

### Preparing financial statements

The following information is obtained from the work sheet of Judy's Car Wash for the month ended August 31 of the current year. Forms are given in the *Extra Problems Working Papers*.

		5	6	7	8	
	ACCOUNT TITLE	INCOME STATEMENT		BALANCE SHEET		
		DEBIT	CREDIT	DEBIT	CREDIT	
1	Cash			8,600.00		1
2	Accounts Receivable--Beck Car Rental			325.00		2
3	Accounts Receivable--Deluxe Limos			175.00		3
4	Supplies			600.00		4
5	Prepaid Insurance			120.00		5
6	Accounts Payable—King Supplies				440.00	6
7	Accounts Payable—Turner Company				600.00	7
8	Judy Spreen, Capital				7,860.00	8
9	Judy Spreen, Drawing			1,600.00		9
10	Income Summary					10
11	Sales		5,600.00			11
12	Advertising Expense	500.00				12
13	Insurance Expense	220.00				13
14	Miscellaneous Expense	260.00				14
15	Supplies Expense	500.00				15
16	Utilities Expense	1,600.00				16
17		3,080.00	5,600.00	11,420.00	8,900.00	17
18	Net Income	2,520.00			2,520.00	18
19		5,600.00	5,600.00	11,420.00	11,420.00	19
20						20

#### **Instructions:**

1. Prepare an income statement for the month ended August 31 of the current year.
2. Calculate and record the component percentages for total expenses and net loss. Place the percentage for net loss in parentheses to show that it is for a net loss. Round percentage calculations to the nearest 0.1%.
3. Prepare a balance sheet for August 31 of the current year.

## PROBLEM 9-1

### Journalizing adjusting and closing entries

The following information is obtained from the partial work sheet of Judy's Car Wash for the month ended August 31 of the current year.

		3	4	5	6	7	8		
ACCOUNT TITLE		ADJUSTMENTS		INCOME STATEMENT		BALANCE SHEET			
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT		
1	Cash					8,600.00			1
2	Accounts Rec. —Beck Car Rental					325.00			2
3	Accounts Rec. —Deluxe Limos					175.00			3
4	Supplies		(a) 500.00			600.00			4
5	Prepaid Insurance		(b) 220.00			120.00			5
6	Accounts Payable—King Supplies						440.00		6
7	Accounts Pay. —Turner Company						600.00		7
8	Judy Spreen, Capital						7,860.00		8
9	Judy Spreen, Drawing					1,600.00			9
10	Income Summary								10
11	Sales				5,600.00				11
12	Advertising Expense			500.00					12
13	Insurance Expense	(b) 220.00		220.00					13
14	Miscellaneous Expense			260.00					14
15	Supplies Expense	(a) 500.00		500.00					15
16	Utilities Expense			1,600.00					16
17		720.00	720.00	3,080.00	5,600.00	11,420.00	8,900.00		17
18	Net Income			2,520.00			2,520.00		18
19				5,600.00	5,600.00	11,420.00	11,420.00		19
20									20

**Instructions:**

1. Use page 16 of the journal given in the *Extra Problems Working Papers*. Journalize the adjusting entries.
2. Continue to use page 16 of the journal. Journalize the closing entries.

# PROBLEM 10-1

## Journalizing purchases, cash payments, and other transactions

Judy Barnes and Donald Evans, partners, own a music store.

### **Instructions:**

Journalize the following transactions completed during September of the current year. Journals are given in the *Extra Problems Working Papers*. Use page 9 of a purchases journal, page 17 of a cash payments journal, and page 9 of a general journal. Abbreviate source documents as follows: check, C; memorandum, M; purchase invoice, P.

### **Transactions:**

- Sept. 1. Wrote Check No. 405 for monthly rent of \$900.00.
- 2. Used Check No. 406 to purchase \$200.00 worth of merchandise.
- 4. Purchased \$1,000.00 of merchandise on account from Music Makers, Inc. Purchase Invoice No. 91.
- 5. Bought office supplies for \$75.00 cash. Check No. 407.
- 7. Bought \$250.00 worth of store supplies on account from Deluxe Display. Memo 53.
- 8. Issued Check No. 408 for \$600.00 to pay Top Tunes the amount owed on Purchase Invoice 89.
- 11. Purchased \$1,500.00 of merchandise on account from Classic Music on Purchase Invoice 92.
- 11. Wrote Check No. 409 for \$65.00 to pay the local paper for advertising.
- 12. Paid \$160.00 for electric bill with Check No. 410.
- 13. Wrote Check No. 411 for \$200.00 to purchase merchandise.
- 14. Bought \$125.00 worth of office supplies on account from Office Source. Memo 54.
- 15. Issued Check No. 412 for \$80.00 to buy store supplies.
- 15. Wrote Check No. 413 for \$1,000.00 to Judy Barnes for personal use.
- 15. Wrote Check No. 414 for \$900.00 to Donald Evans for personal use.
- 18. Paid Country Classics with Check No. 415 for \$450.00, the amount owed on Purchase Invoice No. 89.
- 19. Wrote Check No. 416 for \$1,000.00 to pay Music Makers, Inc., the amount owed on Purchase Invoice 91.
- 21. Judy Barnes took \$130.00 worth of merchandise for her personal use. Memo 55.
- 22. Paid for advertising with Check No. 417 for \$90.00.
- 25. Wrote Check No. 418 for \$200.00 to replenish the petty cash fund. Receipts were submitted for the following: office supplies, \$30.00; store supplies, \$25.00; advertising, \$90.00; miscellaneous, \$55.00.
- 25. Donald Evans took \$100.00 worth of merchandise for his personal use. Memo 56.
- 26. Issued Check No. 419 for \$86.00 to pay telephone bill.
- 27. Wrote Check No. 420 for \$250.00 to pay Deluxe Display the amount of Memo 53.
- 29. Used Check No. 421 to purchase \$220.00 worth of merchandise.
- 30. Wrote Check No. 422 for \$45.00 to replenish petty cash. Receipts were submitted for the following: office supplies, \$6.00; store supplies, \$12.00; advertising, \$18.00; miscellaneous, \$9.00.

2. Total the amount columns of cash payments journal page 17. Prove the equality of debits and credits and rule the cash payments journal page 17 to carry the totals forward.
3. Record the totals brought forward from cash payments journal page 17 to line 1 of page 18 of the cash payments journal. Prove the equality of debits and credits again.
4. Journalize the following transactions:

***Transactions:***

- Sept. 30. Issued Check No. 423 for \$1,000.00 to Judy Barnes for personal use.
  - 30. Issued Check No. 424 for \$900.00 to Donald Evans for personal use.
5. Total and rule page 9 of the purchases journal.
  6. Total the amount columns of cash payments journal page 18. Prove the equality of debits and credits of cash payments journal page 18.
  7. Rule page 18 of the cash payments journal.

# PROBLEM 11-1

## Journalizing sales and cash receipts transactions; proving and ruling a journal

Tina Flores and James Kelly, partners, own TJ's Gifts. Sales journal page 17 and cash receipts journal page 18 for TJ's Gifts are given in the *Extra Problems Working Papers*. Balances brought forward are provided on line 1 of each journal.

### **Instructions:**

1. Journalize the following transactions completed during the remainder of August of the current year in the appropriate journal. Sales tax rate is 6%. Source documents are abbreviated as follows: receipt, R; sales invoice, S; cash register tape, T.

### **Transactions:**

- Aug. 25. Received a check from Timothy Cole for \$84.80 as payment on his account covering S69. R100.
  25. Sold \$150.00 worth of merchandise on account to Doretha Hunt. Sales tax was \$9.00 for a total of \$159.00. S74.
  26. Valerie Seeley paid \$106.00 on her account covering S70. R101.
  26. Weekly cash and credit card sales were \$5,370.00 plus sales tax of \$322.20 for a total collected of \$5,692.20. T26.
  29. Anthony Zolte bought \$230.00 worth of merchandise on account. Sales tax was \$13.80 for a total of \$243.80. S75.
  30. Weekly cash and credit card sales were \$3,590.00 plus sales tax of \$215.40 for a total collected of \$3,805.40. T31.
2. Total and prove the equality of debits and credits for the sales journal.
  3. Rule the sales journal.
  4. Total and prove the equality of debits and credits for the cash receipts journal.
  5. Prove cash. The August 1 cash account balance in the general ledger was \$15,425.75. The August 31 cash credit total in the cash payments journal was \$25,145.55. On August 31, the balance on the next unused check stub was \$19,865.80.
  6. Rule the cash receipts journal.

## PROBLEM 12-1

### Posting to general and subsidiary ledgers

The journal and ledgers for Towne Shoes are given in the *Extra Problems Working Papers*.

#### **Instructions:**

1. Post the separate items in the following journals to the general and subsidiary ledgers.
  - a. Sales journal to the accounts receivable ledger.
  - b. Purchases journal to the accounts payable ledger.
  - c. General journal to the general ledger and the accounts payable ledger.
  - d. Cash receipts journal to the accounts receivable ledger.
  - e. Cash payments journal to the general ledger and the accounts payable ledger.
2. Prove and rule the sales journal. Post the totals of the special amount columns.
3. Total and rule the purchases journal. Post the total.
4. Prove and rule the cash receipts journal. Post the totals of the special amount columns.
5. Prove and rule the cash payments journal. Post the totals of the special amount columns.
6. Using the current year, prepare a schedule of accounts payable and a schedule of accounts receivable. Compare the total of the schedules with the balances of the controlling accounts in the general ledger. If the totals are not the same, find and correct the errors.

## PROBLEM 13-1

### Preparing a semimonthly payroll

The following information is for the semimonthly pay period May 1–15 of the current year. Forms are given in the *Extra Problems Working Papers*.

EMPL. NO.	EMPLOYEE'S NAME	MARITAL STATUS	NO. OF ALLOWANCES	EARNINGS		DEDUCTIONS
				REGULAR	OVERTIME	HEALTH INSURANCE
3	Cortez, Robert H.	S	2	836.00		35.00
4	Edwards, Jennifer L.	M	3	739.20	12.60	45.00
7	Harper, Keith M.	S	1	880.00	60.00	
1	Lawson, Nancy C.	S	1	774.40		
5	Schmidt, Fred E.	M	2	765.60	26.10	35.00
6	Turner, Ruth A.	M	3	915.20		45.00
8	Wilson, Gayle R.	M	2	809.60	55.20	

#### **Instructions:**

1. Prepare a payroll register. The date of payment is May 15. Use the federal income tax withholding tables shown on pages 310–311 to find the income tax withholding for each employee. Calculate social security and Medicare tax withholdings using 6.5% and 1.5% tax rates, respectively. None of the employee accumulated earnings has exceeded the social security tax base.
2. Prepare a check for the total amount of the net pay. Make the check payable to Payroll Account 982-561-4732, and sign your name as a partner of Powell Company. The beginning check stub balance is \$11,530.50.
3. Prepare payroll checks for Keith M. Harper, Check No. 286, and Ruth A. Turner, Check No. 289. Sign your name as a partner of Powell Company. Record the two payroll check numbers in the payroll register.

# PROBLEM 14-1

## Journalizing payroll taxes

Levett Manufacturing completed payroll transactions during the period January 31 to April 30 of the current year. Payroll tax rates are as follows: social security, 6.5%; Medicare, 1.5%; federal unemployment, 0.8%; and state unemployment, 5.4%. No total earnings have exceeded the tax base for calculating unemployment taxes.

### Instructions:

1. Journalize the following transactions on page 3 of the cash payments journal and the general journal given in the *Extra Problems Working Papers*. Source documents are abbreviated as follows: check, C, and memorandum, M.

### Transactions:

- Jan. 31. Paid January payroll, \$4,958.40 (total payroll, \$6,120.00, less deductions: employee income tax, \$672.00; social Security tax, \$397.80; Medicare tax, \$91.80). C217.
  - 31. Recorded employer payroll taxes expense. M54.
  - Feb. 15. Wrote a check for January liability for employee income tax, \$672.00; social security tax, \$795.60; and Medicare tax, \$183.60; total, \$1,651.20. C242.
  - 28. Paid February payroll, \$4,989.36 (total payroll, \$6,158.00, less deductions: employee income tax \$676.00; social security tax, \$400.27; Medicare tax, \$92.37). C285.
  - 28. Recorded employee payroll taxes expense. M59.
  - Mar. 15. Wrote a check for February liability for employee income tax \$676.00; social security tax, \$800.54; and Medicare tax, \$184.74; total, \$1,661.28. C310.
  - 31. Paid March payroll, \$5,253.28 (total payroll, \$6,484.00, less deductions: employee income tax, \$712.00; social security tax, \$421.46; Medicare tax, \$97.26). C330.
  - 31. Recorded employer payroll taxes expense. M64.
  - Apr. 15. Wrote a check for March liability for employee income tax, \$712.00; social security tax, \$842.92; and Medicare tax, \$194.52; total, \$1,749.44. C351.
  - 30. Wrote a check for federal unemployment tax liability for quarter ended March 31, \$150.09. C372.
  - 30. Wrote a check for state unemployment tax liability for quarter ended March 31, \$1,013.15. C373.
2. Prove and rule the cash payments journal.



## PROBLEM 15-1

### Preparing an 8-column work sheet for a merchandising business

York Hardware's trial balance as of December 31 of the current year is recorded on a work sheet in the *Extra Problems Working Papers*.

#### **Instructions:**

1. Analyze the following adjustment information and record the adjustments on the work sheet.

#### **End-of-Fiscal-Period Information**

Merchandise inventory	\$260,340.00
Office supplies inventory	2,580.00
Store supplies inventory	2,730.00
Value of prepaid insurance	3,000.00

2. Complete the work sheet.

# PROBLEM 16-1

## Preparing financial statements

Keller Appliances prepared the following work sheet for the year ended December 31 of the current year. Forms are given in the *Extra Problems Working Papers*.

Keller Appliances  
Work Sheet  
For Year Ended December 31, 20--

	ACCOUNT TITLE	1	2	3	4	5	6	7	8	
		TRIAL BALANCE		ADJUSTMENTS		INCOME STATEMENT		BALANCE SHEET		
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	
1	Cash	24,350.00						24,350.00		1
2	Petty Cash	300.00						300.00		2
3	Accounts Receivable	11,170.00						11,170.00		3
4	Mdse. Inventory	294,500.00			(a) 14,200.00			280,300.00		4
5	Supplies—Office	5,890.00			(b) 3,730.00			2,160.00		5
6	Supplies—Store	5,610.00			(c) 3,920.00			1,690.00		6
7	Prepaid Insurance	5,500.00			(d) 3,500.00			2,000.00		7
8	Accounts Payable		9,700.00						9,700.00	8
9	Sales Tax Payable		1,150.00						1,150.00	9
10	Frank Keller, Capital		136,400.00						136,400.00	10
11	Frank Keller, Drawing	18,200.00						18,200.00		11
12	Rick Sloan, Capital		134,250.00						134,250.00	12
13	Rick Sloan, Drawing	18,400.00						18,400.00		13
14	Income Summary			(a) 14,200.00		14,200.00				14
15	Sales		268,500.00				268,500.00			15
16	Purchases	130,500.00				130,500.00				16
17	Advertising Expense	6,240.00				6,240.00				17
18	Credit Card Fee Exp.	2,600.00				2,600.00				18
19	Insurance Expense			(d) 3,500.00		3,500.00				19
20	Miscellaneous Exp.	2,860.00				2,860.00				20
21	Rent Expense	21,000.00				21,000.00				21
22	Supplies Exp. —Office			(b) 3,730.00		3,730.00				22
23	Supplies Exp. —Store			(c) 3,920.00		3,920.00				23
24	Utilities Expense	2,880.00				2,880.00				24
25		550,000.00	550,000.00	25,350.00	25,350.00	191,430.00	268,500.00	358,570.00	281,500.00	25
26	Net Income					77,070.00			77,070.00	26
27						268,500.00	268,500.00	358,570.00	358,570.00	27
28										28

**Instructions:**

1. Prepare an income statement. Calculate and record the following component percentages: (a) cost of merchandise sold, (b) gross profit on sales, (c) total expenses, and (d) net income or loss. Round percentage calculations to the nearest 0.1%.
2. Prepare a distribution of net income statement. Net income or loss is to be shared equally.
3. Prepare an owners' equity statement. No additional investments were made.
4. Prepare a balance sheet in report form.

## PROBLEM 17-1

### Journalizing adjusting and closing entries

Use the following partial work sheet of Newtown Furniture for the year ended December 31 of the current year.

	3	4	5	6
ACCOUNT TITLE	ADJUSTMENTS		INCOME STATEMENT	
	DEBIT	CREDIT	DEBIT	CREDIT
4 Merchandise Inventory		(a) 10,700.00		
5 Supplies—Office		(b) 3,150.00		
6 Supplies—Store		(c) 3,200.00		
7 Prepaid Insurance		(d) 3,450.00		
22 Income Summary	(a) 10,700.00		10,700.00	
23 Sales				356,800.00
24 Purchases			148,600.00	
25 Advertising Expense			5,400.00	
26 Credit Card Fee Expense			4,650.00	
27 Insurance Expense	(d) 3,450.00		3,450.00	
28 Miscellaneous Expense			2,500.00	
29 Payroll Taxes Expense			7,250.00	
30 Rent Expense			16,200.00	
31 Salary Expense			70,700.00	
32 Supplies Expense—Office	(b) 3,150.00		3,150.00	
33 Supplies Expense—Store	(c) 3,200.00		3,200.00	
34 Utilities Expense			3,300.00	
35	20,500.00	20,500.00	279,100.00	356,800.00
36 Net Income			77,700.00	
37			356,800.00	356,800.00
38				

### Instructions:

- Use page 25 of the general journal given in the *Extra Problems Working Papers*. Journalize the adjusting entries using information from the partial work sheet.
- Continue using page 25 of the journal. Journalize the closing entries using information from the work sheet. The distribution of net income statement shows equal distribution of earnings. The partners' drawing accounts show the following debit balances in the work sheet's Balance Sheet Debit column: Jeff Cole, Drawing, \$22,260.00; Greg Moore, Drawing, \$22,570.00.

# PROBLEM 18-1

## Journalizing and posting purchases and cash payment transactions

The general ledger and accounts payable ledger accounts of Perez Paint Store are given in the *Extra Problems Working Papers*. The balances are recorded as of July 1 of the current year. Use the following account titles.

### PARTIAL GENERAL LEDGER

1105 Cash  
1110 Petty Cash  
1140 Supplies  
2115 Accounts Payable  
5105 Purchases  
5110 Purchases Discount  
5115 Purchases Returns and Allowances  
6105 Advertising Expense  
6110 Cash Short and Over  
6135 Miscellaneous Expense  
6145 Rent Expense

### ACCOUNTS PAYABLE LEDGER

210 Donovan Company  
220 Fletcher, Inc.  
230 Hudson Supply  
240 Mueller Company  
250 Stewart Company

### Instructions:

1. Journalize the following transactions affecting purchases and cash payments completed during July of the current year. Use page 7 of a purchases journal, page 11 of a cash payments journal, and page 7 of a general journal.

### Transactions:

- July 1. Wrote a check for \$800.00 to pay rent for July. C461.  
3. Purchased \$3,500.00 worth of merchandise on account from Fletcher, Inc. P215.  
4. Issued a check to Donovan Company to pay amount owed for P210, \$1,350.00, less the 2% discount. C462.  
5. Bought \$200.00 worth of supplies on account from Hudson Supply. M235.  
9. Purchased merchandise on account for \$1,100.00 from Donovan Company. P216.  
9. Wrote a check to Stewart Company to pay amount owed for P211, \$2,500.00, less the 2% discount. C463.  
10. Wrote a check for \$525.00 to buy supplies. C464.  
12. Purchased \$375.00 worth of merchandise on account from Mueller Company. P217.  
14. Wrote a check to Donovan Company to pay on account for P216, less the 2% discount. C465.

**Posting.** Post the items that are to be posted individually. Post from the journals in the following order: purchases, general, cash payments. Some transactions will not be in order by date in the accounts.

16. One box of merchandise costing \$550.00 from Fletcher, Inc., P215, was returned because it was defective. DM47.
18. Issued a check to Ingram Company for merchandise with a list price of \$195.00. Took the 60% trade discount Ingram offers its customers. C466.
21. Purchased merchandise on account from Stewart Company for \$400.00. P218.

22. Issued a check to Fletcher, Inc., for \$2,950.00 covering the remaining balance for P215. No discount was taken. C467.
23. Wrote a check for \$90.00 to pay a miscellaneous expense. C468.
24. Bought \$650.00 worth of supplies on account from Hudson Supply. M242.
25. Returned \$75.00 worth of merchandise to Mueller Company from P217. DM48.
29. Purchased \$760.00 worth of merchandise on account from Donovan Company. P220.
31. Wrote a check to replenish the petty cash fund. The petty cash report listed payments for the following: supplies, \$25.00; advertising, \$40.00; miscellaneous, \$15.00. Cash is short \$1.00. C469.

**Posting:** Post the items that are to be posted individually.

2. Total and rule the purchases journal. Post the total.
3. Prove and rule the cash payments journal. Post the totals of the special columns.
4. Prepare a schedule of accounts payable. Compare the schedule total with the balance of the accounts payable account in the general ledger. The total and balance should be the same.

# PROBLEM 19-1

## Journalizing and posting sales transactions

The general ledger and accounts receivable accounts for Madison Supply are given in the *Extra Problems Working Papers*. The balances are recorded as of March 1 of the current year. Use the following account titles.

### PARTIAL GENERAL LEDGER

1105 Cash  
1125 Accounts Receivable  
1130 Time Drafts Receivable  
2140 Sales Tax Payable  
4105 Sales  
4110 Sales Discount  
4115 Sales Returns and Allowances

### ACCOUNTS RECEIVABLE LEDGER

110 Sally Arnold  
120 Bartlett, Inc.  
130 Bartley Company  
140 Thomas Kelley  
150 Jeanne Norris  
160 Renner Company  
170 Shelton Supply  
180 Valley High School  
190 York Associates

### Instructions:

1. Journalize the following transactions affecting sales and cash receipts completed during March of the current year. Use page 3 of a sales journal, a general journal, and a cash receipts journal. Madison Supply offers terms of 2/10, n/30. The sales tax rate is 8%. Source documents are abbreviated as follows: credit memorandum, CM; memorandum, M; receipt, R; sales invoice, S; cash register tape, T; time draft, TD.

### Transactions:

- Mar. 1. Sold \$750.00 worth of merchandise on account to Sally Arnold, plus sales tax. S63.
2. Thomas Kelley returned merchandise for credit, \$75.00, plus sales tax. CM21.
3. Received a 30-day time draft from Alicia Alcott for an international sale of merchandise, \$4,500.00. TD10.
4. Cash was received on account from Bartley Company, \$449.82, covering S59 for \$459.00 (\$425.00 plus sales tax, \$34.00), less discount and less sales tax on discount. R47.
5. Received payment on account from Renner Company, \$529.20, covering S60 for \$540.00 (\$500.00 plus sales tax, \$40.00), less discount and less sales tax on discount. R48.
5. Recorded cash and credit card sales \$2,760.00, plus sales tax, \$220.80; total, \$2,980.80. T5.
7. Shelton Supply bought merchandise on account, \$830.00, plus sales tax. S64.
9. Recorded international cash sale, \$6,600.00. M12.
12. Cash was received on account from Sally Arnold, \$810.00, covering S63; no discount. R49.
12. Granted credit to Jeanne Norris for damaged merchandise, \$130.00, plus sales tax, from S61. CM22.
12. Recorded cash and credit card sales \$2,540.00, plus sales tax, \$203.20; total, \$2,743.20. T12.
14. Cash was received for the value of Time Draft No. 7, \$8,300.00. R50.
- Mar. 15. Discovered that the February 16 sale on account to Bartley Company for \$378.00, S52, was incorrectly charged to the account of Bartlett, Inc. M9.

**Posting.** Post the items that are to be posted individually. Post from the journals in this order: sales journal, general journal, and cash receipts journal.

16. Sold \$245.00 worth of merchandise on account to Bartlett, Inc., plus sales tax. S65.
19. Received a check for \$896.40 from Shelton Supply covering S64; no discount. R51.
19. Recorded cash and credit card sales, \$2,190.00, plus sales tax, \$175.20; total, \$2,365.20. T19.
22. York Associates returned damaged merchandise for credit, \$30.00, plus sales tax, from S62. CM23.
23. Received cash for the value of Time Draft No. 8, \$7,800.00. R52.
24. Valley High School bought merchandise on account for \$685.00, no sales tax. S66.
25. Bartlett, Inc. returned merchandise for credit, \$25.00, plus sales tax, from S65. CM24.
26. Recorded cash and credit card sales, \$2,530.00, plus sales tax, \$202.40; total \$2,732.40. T26.
30. Jeanne Norris paid \$167.00 on account covering the unpaid portion of S61; no discount. R53.
31. Received a 30-day time draft from Fernando Cortez for an international sale of merchandise, \$5,800.00. TD11.

**Posting.** Post the items that are to be posted individually.

2. Prove the sales journal.
3. Post the totals of the special columns of the sales journal.
4. Prove and rule the cash receipts journal.
5. Post the totals of the special columns of the cash receipts journal.
6. Prepare a schedule of accounts receivable account in the general ledger. The total and balance should be the same.



# PROBLEM 20-1

## Recording entries for uncollectible accounts

The accounts receivable and general ledger accounts for Maddox Corporation are given in the *Extra Problems Working Papers*. The following transactions relating to uncollectible accounts receivable occurred during the final quarter of the current fiscal year.

### **Instructions:**

1. Journalize the transactions completed during October using page 10 of a general journal. Post the transactions to the customer accounts and general ledger accounts.

### **Transactions:**

- Oct. 6. Received a letter from Bullock Corporation stating that the company had serious cash flow problems and would not be able to pay the \$575.00 it owes. M216.
  - 19. An officer of Edwards Corporation called stating that the company was filing bankruptcy and would not be able to pay its \$385.00 account balance. M221.
2. Journalize the transactions completed during November using page 11 of a general journal and page 11 of a cash receipts journal. Prove the cash receipts journal. Post the transactions to the customer accounts and general ledger accounts.

### **Transactions:**

- Nov. 5. Received notice that Anderson Company was going out of business and would not be able to pay the \$820.00 owed on its account. M236.
  - 12. Received a \$575.00 check from Bullock Corporation in full payment of its account. A letter explained that the company had been purchased and could now pay its debt. M241 and R616.
  - 17. Received a check from Duncan, Inc., in full payment of its \$486.00 account. The account was written off in September after all efforts to collect had failed. M243 and R627.
3. Journalize the transactions for December. Use page 12 of a general journal and page 12 of a cash receipts journal. Prove the cash receipts journal. Post the transactions to the customer accounts and general ledger accounts.

### **Transactions:**

- Dec. 4. After numerous unsuccessful attempts to collect the \$720.00 owed by Goodman Company, the past-due account was written off. M257.
  - 10. Received a check for \$820.00 from Anderson Company in full payment of its account that had been written off in November. M259 and R702.
  - 21. Received a \$385.00 check from Edwards Corporation in full payment of its account, previously written off as uncollectible. M265 and R729.
4. Journalize the December 31 adjusting entry for estimated uncollectible accounts expense for the year. Use page 13 of the general journal. Uncollectible accounts expense is estimated as 1.2% of total sales on account. Total sales on account for the year were \$978,550.00. Post the transaction to the general ledger accounts.

# PROBLEM 21-1

## Recording transactions for plant assets

Eagle Antiques records plant assets in two accounts: Store Equipment, Account No. 1215, and Office Equipment, Account No. 1205. Store equipment is depreciated using the straight-line method. Office equipment is depreciated using the double declining-balance method. Journals and plant asset records are given in the *Extra Problems Working Papers*.

### **Instructions:**

1. Record the following transactions completed during 20X1 on page 1 of a cash payments journal.

### **Transactions:**

- Jan. 3. Bought a color printer for \$1,000.00; estimated salvage value, \$100.00; estimated useful life, 5 years; plant asset No. 635; serial number ZE532N34. C168.
  - Feb. 26. Wrote a check for property tax on plant assets with a total assessed value of \$650,000.00. The county tax rate is 1.4%. C216.
  - Apr. 3. Bought a store display case for \$4,460.00; estimated salvage value, \$500.00; estimated useful life, 6 years; plant asset No. 636; serial number, 754NFE. C275.
2. Complete Section 1 of a plant asset record for each new plant asset.
  3. Prepare a depreciation table for each new plant asset.
  4. Complete Section 3 of the plant asset record for 20X1–20X5.
  5. Record the following transactions completed during 20X6. Use page 2 of a cash receipts journal and page 2 of a general journal.

### **Transactions:**

- Jan. 3. Sold a color printer, plant asset No. 635, for \$80.00. R7.
  - June 29. Received \$1,075.00 from the sale of a store display case, plant asset No. 636. M69 and R171.
  - Dec. 31. Recorded the adjusting entry for depreciation expense—store equipment. Total 20X6 depreciation expense of store equipment was \$17,850.00.
6. Complete the plant asset records for each plant asset sold during 20X6.

## PROBLEM 22-1

### Determining the cost of inventory using the fifo, lifo, and weighted-average inventory costing methods

Winters Company made the following purchases of a part during the fiscal year. There are 30 units in ending inventory. Forms for costing inventory are given in the *Extra Problems Working Papers*.

Purchase Date	Quantity	Unit Price
January 1, beginning inventory	5	\$12.30
January 3, purchases	15	13.00
March 29, purchases	15	13.20
August 15, purchases	12	13.25
November 13, purchases	12	13.45

#### **Instructions:**

1. Calculate the cost of ending inventory using the fifo, lifo, and weighted-average methods.
2. Which of the inventory costing methods resulted in the highest cost of merchandise sold?

# PROBLEM 23-1

## Journalizing notes payable and notes receivable transactions

The following transactions related to notes payable and notes receivable were completed by Nelson Company during April of the current year. Journals are provided in the *Extra Problems Working Papers*.

### Transactions:

- Mar. 8. Signed a \$20,000.00, 12%, 90-day note with the First National Bank. R34.
- 9. Carl Worth requested more time to pay his account. Nelson Company agreed and accepted his 90-day, 15% note for the \$700.00 balance of his account. NR18.
- 12. Received a check from June Smith for the maturity value of her \$1,000.00, 60-day, 18% note. R67.
- 16. Granted Ann Hilton an extension of time on her \$2,600.00 account by accepting a 60-day, 14% note. NR19.
- 19. Received a check from Norm Becker for the maturity value of his \$600.00, 18%, 60-day note due today. R74.
- 24. Signed a \$3,600.00, 15%, 90-day note with Rogers Supply for an extension of time on this account payable. M49.
- 26. A \$4,000.00, 90-day, 15% note receivable from Jason Young was due today, but no payment has been received. Recorded the dishonored note. M53.
- 29. Signed a 120-day, 12% note, for \$30,000.00 with the First Commerce Bank. R84.
- 30. A check was received from Bonnie Green for the maturity value of her 90-day, 18% note for \$2,800.00. R89.

### Instructions:

1. Journalize each transaction using page 3 of a general journal and page 6 of a cash receipts journal. Source documents are abbreviated as follows: check, C; receipt, R; memorandum, M; note receivable, NR.
2. Determine the maturity date and maturity value of each note signed by Nelson Company.
3. Journalize the following transactions on page 10 of a cash payments journal. Use the maturity dates and maturity values calculated in the previous step.

### Transactions:

- Wrote a check for the maturity value of the \$20,000.00 note dated March 8. C452.
- Wrote a check for the maturity value of the \$3,600.00 note dated March 24. C489.
- Wrote a check for the maturity value of the \$30,000.00 note dated March 29. C672.

# PROBLEM 24-1

## Journalizing and posting entries for accrued interest revenue and expense

The accounting forms for Drake Company are given in the *Extra Problems Working Papers*. The balances are recorded as of December 31 of the current year before adjusting entries.

Drake Company completed the following transactions related to notes receivable and notes payable during the current year and the following year. The first two transactions have already been journalized and posted. One note receivable and one note payable are the only notes on hand at the end of the fiscal period. Source documents are abbreviated as follows: receipt, R; check, C; note receivable, NR.

### **Transactions:**

#### **20X1**

- Nov. 19. Issued a 90-day, 18% note from Carol Jones for an extension of time on her account, \$900.00. NR18.
- Dec. 6 Signed a 120-day, 12% note, \$4,500.00 with First National Bank. R364.

#### **20X2**

- Feb. 17. Received cash for the maturity value of NR18. R132.
- Apr. 5. Paid cash for the maturity value of the First National Bank note. C342.

### **Instructions:**

1. Plan the adjustments on a work sheet.
2. Journalize and post the adjusting entries for accrued interest income and accrued interest expense on December 31. Use page 15 of a general journal.
3. Journalize and post the closing entries for interest income and interest expense. Continue to use page 15 of a general journal.
4. Journalize and post the reversing entries for accrued interest income and accrued interest expense. Use page 16 of a general journal.
5. Journalize the receipt of cash for the maturity value of NR18. Use page 13 of a cash receipts journal. Post the amounts in the General columns of the cash receipts journal.
6. Journalize the cash payment for the maturity value of the note payable. Use page 18 of a cash payments journal. Post the amounts in the General columns of the cash payments journal.

# PROBLEM 25-1

## Journalizing dividends and preparing a work sheet for a corporation

Accounting forms are given in the *Extra Problems Working Papers*. Austin Corporation completed the following transactions during December of the current year and January of the next year.

**Transactions:**

- Dec. 15. The board of directors declared a dividend of \$0.15 per share; capital stock issued is 80,000 shares. M232.
- Jan. 15. Paid cash for dividend declared December 15. C798.

**Instructions:**

1. Use page 12 of a general journal. Journalize the dividend declared on December 15.
2. Use page 18 of a cash payments journal. Journalize payment of the dividend on January 15.
3. Prepare Austin Corporation's work sheet for the current year ended December 31. Record the adjustments on the work sheet using the following information. Do not total the Adjustments columns.

**Adjustment Information, December 31**

Accrued interest income.....	\$ 55.00
Uncollectible accounts expense estimated as 1.0% of sales on account. Sales on account for year, \$825,000.00.	
Merchandise inventory.....	209,326.00
Supplies inventory.....	396.00
Value of prepaid insurance.....	3,400.00
Annual depreciation expense—office equipment .....	5,225.00
Annual depreciation expense—store equipment .....	4,000.00
Accrued interest expense .....	500.00

4. Extend all amounts except Federal Income Tax Expense to the appropriate Income Statement and Balance Sheet columns. Do not total the columns.
5. On the form provided in the *Extra Problems Working Papers*, total the work sheet's Income Statement columns. Calculate the difference between the debit and credit totals. This difference becomes the net income before federal income tax expense.
6. Using the tax table on page 647 of the textbook, calculate the federal income tax expense and record the income tax adjustment on the work sheet. Complete the work sheet.

# PROBLEM 26-1

## Preparing financial statements and end-of-fiscal-period entries for a corporation

Use the work sheet provided in the *Extra Problems Working Papers* for Austin Corporation to prepare the financial statements and end-of-fiscal-period entries for the corporation for the current year.

**Instructions:**

1. Prepare an income statement. Calculate and record the following component percentages. (a) cost of merchandise sold; (b) gross profit on operations; (c) total operating expenses; (d) income from operations; (e) net addition or deduction resulting from other revenue and expenses; and (f) net income before federal income tax. Round percentage calculations to the nearest 0.1%.
2. Analyze the corporation's income statement by determining if component percentages are within acceptable levels. If any component percentage is not within an acceptable level, suggest steps that the company should take. The corporation considers the following component percentages acceptable.

Cost of merchandise sold	Not more than 64.0%
Gross profit on operations	Not less than 36.0%
Total operating expenses	Not more than 20.0%
Income from operations	Not less than 16.0%
Net deduction from other revenue and expenses	Not more than 1.0%
Net income before federal income tax	Not less than 15.0%

3. Prepare a statement of stockholders' equity. Use the following additional information.

January 1 balance of capital stock account .....	\$80,000.00
(80,000 shares issued for \$1.00 per share)	
Shares issued during the year .....	None

4. Prepare a balance sheet.
5. Calculate the corporation's (a) working capital and (b) current ratio. Determine if these items are within acceptable levels. The corporation considers the following levels acceptable.

Working capital .....	Not less than \$200,000.00
Current ratio .....	Between 3.0 to 1 and 4.0 to 1

6. Journalize the adjusting entries using page 15 of a general journal.
7. Journalize the closing entries using page 16 of a general journal.
8. Journalize the reversing entries using page 17 of a general journal.