

Solution to Exercise 3-1

GENERAL JOURNAL				
Date		Account Titles and Explanation	Debit	Credit
May	1	Cash (A+)	50,000	
		Common stock (E+)		50,000
May	1	Prepaid rent (A+)	24,000	
		Cash (A-)		24,000
May	1	Equipment (A+)	30,000	
		Cash (A-)		8,000
		Accounts payable (L+)		22,000
May	1	Prepaid insurance (A+)	1,800	
		Cash (A-)		1,800
May	3	Cash (A+)	2,500	
		Unearned service revenue (L+)		2,500
May	9	Office supplies (A+)	1,300	
		Accounts payable (L+)		1,300
May	14	Cash (A+)	8,000	
		Accounts receivable (A+)	12,000	
		Service revenue (REV+, E+)		20,000
May	19	Accounts payable (L-)	400	
		Cash (A-)		400
May	21	Cash (A+)	3,000	
		Accounts receivable (A-)		3,000
May	26	Utility expense (EXP+, E-)	260	
		Accrued expenses (L+)		260
May	28	Salaries expense (EXP+, E-)	5,600	
		Cash (A-)		5,600
May	31	Retained earnings (E-)	1,200	
		Dividend payable (L+)		1,200

Dividend is always paid out of the entity's retained earnings.

110-Cash				210-Accrued Expenses							
May 1	50,000	May 1	24,000			May 26	260				
May 3	2,500	May 1	8,000								
May 14	8,000	May 1	1,800								
May 21	3,000	May 19	400								
		May 28	5,600								
	23,700										
120-Accounts receivable				220-Accounts Payable				400-Service Revenue			
May 14	12,000	May 21	3,000	May 19	400	May 1	22,000			May 14	20,000
	9,000					May 3	1,300				
							22,900				
130-Office supplies				240-Dividend Payable				500-Salaries Expense			
May 9	1,300					May 31	1,200	May 28	5,600		
140-Prepaid Rent				270-Unearned Service Revenue				530-Utility Expense			
May 1	24,000					May 3	2,500	May 26	260		
145-Prepaid Insurance				300-Common Stock				540-Rent Expense			
May 1	1,800					May 1	50,000				
180-Equipment				310-Retained Earnings				550-Insurance Expense			
May 1	30,000			May 31	1,200						

MINIONS SERVICES

Trial Balance

May 31, 2015

Account Title	Debit	Credit
Cash	23,700	
Accounts receivable	9,000	
Office supplies	1,300	
Prepaid rent	24,000	
Prepaid insurance	1,800	
Equipment	30,000	
Accrued expense		260
Accounts payable		22,900
Dividend payable		1,200
Unearned service revenue		2,500
Common stock		50,000
Retained earnings	1,200	
Service revenue		20,000
Salaries expense	5,600	
Utility expenses	260	
Rent expense		-
Insurance expense		-
Total	96,860	96,860

Retained earnings currently has a debit balance because only dividend has been recorded but net income has not. Revenue & Expense accounts needs to be "closed" to record net income into retained earnings.

MINIONS SERVICES
Statement of Income
For the months ended May 31, 2015

Revenue:		
Service revenue		\$ 20,000
Expenses:		
Salaries expense		5,600
Utilities expense		<u>260</u>
Total expenses		<u>5,860</u>
Net income		<u>\$ 14,140</u>

MINIONS SERVICES
Statement of Stockholders' Equity
For the months ended May 31, 2015

	Common Stock	Retained Earnings	Total Stockholders' Equity
Balance, May 1, 2014	\$ 50,000	\$ 0	\$ 50,000
Net income	-	14,140	14,140
Dividend	-	<u>(1,200)</u>	<u>(1,200)</u>
Balance, May 31, 2014	<u>\$ 50,000</u>	<u>\$ 12,940</u>	<u>\$ 62,940</u>

MINIONS SERVICES
Statement of Financial Position
As of May 31, 2015

Assets	
Current assets	
Cash	\$ 23,700
Accounts receivable	9,000
Office Supplies	1,300
Prepaid rent	24,000
Prepaid insurance	<u>1,800</u>
Total current assets	59,800
Equipment	<u>30,000</u>
Total assets	<u>\$ 89,800</u>

Liabilities & Stockholders' Equity	
Current liabilities	
Accrued expense	\$ 260
Accounts payable	22,900
Dividends payable	1,200
Unearned service revenue	<u>2,500</u>
Total current liabilities	<u>26,860</u>
Stockholders' Equity	
Common stock	50,000
Retained earnings	<u>12,940</u>
Total stockholders' equity	<u>62,940</u>
Total liabilities & stockholders' equity	<u>\$ 89,800</u>

Balance after closing entries.

Without closing entries, retained earnings account would have remained the same, which in this case was zero.