CHAPTER 4: ADJUSTMENTS, FINANCIAL STATEMENTS, AND THE QUALITY OF EARNINGS

EXERCISE 4-1 Closing Entries of a Profitable Company

Snow White Services Limited closes its temporary accounts once each year on December 31. The company recently issued the following statement of income as part of its annual report:

SNOW WHITE SERVICE LIMITED
Statement of Income
For the Year Ended December 31, 2015

Revenue:		
Counseling revenue		$ 225,000
Expenses:		
Salaries expense	$ 100,000	
Advertising expense	4,450	
Depreciation expense	10,500	
Rent expense	24,000	
Supplies expense	1,200	
Utilities expense	850	
Income taxes expense	29,400	
Total expenses		170,400
Net profit		$ 54,600

The firm's statement of changes in equity indicates that a $6,000 cash dividend was declared and paid in 2015.

Required:

(a) Prepare the necessary closing entries on December 31, 2015.

GENERAL JOURNAL				
Date		**Account Titles and Explanation**	**Debit**	**Credit**
Dec	31	Counseling revenue	225,000	
		Retained earnings		54,600
		Salaries expense		100,000
		Advertising expense		4,450
		Depreciation expense		10,500
		Rent expense		24,000
		Supplies expense		1,200
		Utilities expense		850
		Income tax expense		29,400

(b) If the firm's Retained Earnings account had a $92,000 balance on January 1, 2015, at what amount should Retained Earnings be reported in the firm's statement of financial position dated December 31, 2015?

Retained Earnings @ December 31, 2015 = $140,600 credit balance

EXERCISE 4-2 Closing Entries of Unprofitable Company

Cinderella Consulting provides risk management services to individuals and to corporate clients. The company closes its temporary accounts once each year on December 31. The company recently issued the following statement of income as part of its annual report:

CINDERELLA CONSULTING
Statement of Income
For the Year Ended December 31, 2015

Revenue:		
Consulting revenue		$ 142,200
Expenses:		
Salaries expense	$ 155,500	
Advertising expense	16,000	
Depreciation expense	24,000	
Rent expense	9,600	
Supplies expense	4,400	
Utilities expense	5,200	
Interest expense	2,500	
Total expenses		217,200
Net loss		$ (75,000)

The firm's statement of changes in equity indicates that a $25,000 cash dividend was declared and paid in 2015.

Required:

(a) Prepare the necessary closing entries on December 31, 2015.

GENERAL JOURNAL				
Date		**Account Titles and Explanation**	**Debit**	**Credit**
Dec	31	Consulting revenue	142,200	
		Retained earnings	75,000	
		Salaries expense		155,500
		Advertising expense		16,000
		Depreciation expense		24,000
		Rent expense		9,600
		Supplies expense		4,400
		Utilities expense		5,200
		Interest expense		2,500

(b) If the firm's Retained Earnings account had a $300,000 balance on January 1, 2015, at what amount should Retained Earnings be reported in the firm's statement of financial position dated December 31, 2015?

Retained Earnings @ December 31, 2015 = $200,000 credit balance