

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

An unadjusted trial balance of Deana's Decorators dated December 31, 2014 is as follows.

DEANA'S DECORATORS
Unadjusted Trial Balance
December 31, 2014

Accounts	Debit	Credit
Cash	43,450	
Supplies	1,800	
Accounts Receivable	4,000	
Prepaid Rent	12,000	
Prepaid Insurance	6,000	
Certificate of Deposit	20,000	
Interest Receivable	0	
Property, Plant & Equipment	40,000	
Accumulated Depreciation		0
Accounts Payable		250
Dividend Payable		0
Unearned Revenue		500
Notes Payable		30,000
Interest Payable		0
Income Tax Payable		0
Common Stock		10,000
Retained Earnings		0
Decorating Revenue		120,000
Investment Income		0
Wage Expense	32,000	
Utilities Expense	1,000	
Telephone Expense	500	
Supplies Expense	0	
Rent Expense	0	
Insurance Expense	0	
Depreciation Expense	0	
Interest Expense	0	
Income Tax Expense	0	
Totals	160,750	160,750

Prepare the required adjusting journal entry for each situation as of December 31, 2014.

Step 1: Analyze the information available for preparing journal entries at the end of the accounting period.

Step 2: Journalize the adjusting entries.

- a. Suppose Deana's had received a \$1,800 shipment of supplies in September 2014. When counting the supplies on December 31, 2014, Deana's found only \$800 worth of supplies on hand.
- b. Suppose Deana's had paid \$12,000 for six months' rent on November 1, 2014. As of December 31, 2014, two months' (November & December) prepaid rent has expired.
- c. Suppose Deana's had paid \$6,000 for one year's insurance on June 1, 2014.
- d. The company had acquired Property, Plant & Equipment costing \$40,000 on January 1, 2014. Suppose that the depreciation on this Equipment was calculated to be \$2,000 for 2014.
- e. On December 1, 2014, the company had sold \$500 in gift certificates for decorating services to a customer. On December 31, 2014, the accountant received an envelope containing \$400 worth of redeemed gift certificates, not yet recorded in the company's books.
- f. On June 30, 2014, the company invested \$20,000 in a certificate of deposit that will yield 12% interest at the end of one year.
- g. The company borrowed a note payable from the bank for \$30,000 on January 1, 2014, due with all interest on June 30, 2015. The note payable requires 10% interest.
- h. The company calculated its income taxes as \$26,110 for the year ended December 31, 2014.
- i. On December 15, 2014, the company declared a \$750 dividend, payable January 15, 2015.

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	Date		Account Titles and Explanation	Credit
a.				
b.				
c.				
d.				
e.				
f.				
g.				
h.				
i.				

Step 3: Post the adjusting entries to T-accounts to bring the accounts up to date at the end of the accounting period.

Shown in the T-accounts below are the unadjusted account balances from page 1. Post the adjusting journal entries on previous page to the T-accounts below.

Assets				Liabilities				Stockholders' Equity			
+ Cash –				- Accounts Payable +				- Common Stock +			
Unadj.	43,450					Unadj.	250			Unadj.	10,000
+ Supplies –				- Dividend Payable +				- Retained Earnings +			
Unadj.	1,800					Unadj.	0			Unadj.	0
+ Accounts Receivable –				- Unearned Revenue +				- Decorating Revenue +			
Unadj.	4,000					Unadj.	500			Unadj.	120,000
+ Prepaid Rent –				- Notes Payable +				- Investment Income +			
Unadj.	12,000					Unadj.	30,000				
+ Prepaid Insurance –				- Interest Payable +				+ Wage Expense –			
Unadj.	6,000					Unadj.	0	Unadj.	32,000		
+ Certificate of Deposit –				- Income Tax Payable +				+ Utilities Expense –			
Unadj.	20,000					Unadj.	0	Unadj.	1,000		
+ Interest Receivable –								+ Telephone Expense –			
Unadj.	0							Unadj.	500		
+ Property, Plant & Equipment –								+ Supplies Expense –			
Unadj.	40,000										
- Accumulated Depr. +								+ Rent Expense –			
			Unadj.				0				
								+ Insurance Expense –			
								+ Depreciation Expense –			
								+ Interest Expense –			
								+ Income Tax Expense –			

Step 4: Prepare an adjusted trial balance as of December 31, 2014

DEANA'S DECORATORS
Trial Balance
As at December 31, 2014

[Balances from Page 1]

[Closing Entry from Page 8]

Accounts	Unadjusted Trial Balance		Adjustments		Adjusted Trial Balance		Closing Entry		Post-Closing Trial Balance	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash	43,450				43,450				43,450	
Supplies	1,800									
Accounts Receivable	4,000				4,000				4,000	
Prepaid Rent	12,000									
Prepaid Insurance	6,000									
Certificate of Deposit	20,000				20,000				20,000	
Interest Receivable	0									
Property, Plant & Equipment	40,000				40,000				40,000	
Accumulated Depreciation		0								
Accounts Payable		250				250				250
Dividend Payable		0								
Unearned Revenue		500								
Notes Payable		30,000				30,000				30,000
Interest Payable		0								
Income Tax Payable		0								
Common Stock		10,000				10,000				10,000
Retained Earnings		0								
Decorating Revenue		120,000								
Investment Income		0								
Wage Expense	32,000									
Utilities Expense	1,000									
Telephone Expense	500									
Supplies Expense	0									
Rent Expense	0									
Insurance Expense	0									
Depreciation Expense	0									
Interest Expense	0									
Income Tax Expense	0									
Totals	160,750	160,750								

Step 5: Prepare the Statement of Comprehensive Income, Statement of Stockholders' Equity, and Statement of Financial Position

Use balances from the adjusted trial balance on the previous page to prepare (1) Statement of Income; (2) Statement of Stockholders' Equity; and (3) Statement of Financial Position for Deana's Decorators as of and for the year ended December 31, 2014.

DEANA'S DECORATORS
Statement of Income
For the year ended December 31, 2014

Revenues:	
Decorating revenue	_____
Investment income	_____
Total revenues	_____
Expenses:	
Wages expense	_____
Utilities expense	_____
Telephone expense	_____
Supplies expense	_____
Rent expense	_____
Insurance expense	_____
Depreciation expense	_____
Interest expense	_____
Total expenses	_____
Pretax income	_____
Less: Income tax expense	_____
Net income	_____

DEANA'S DECORATORS
Statement of Stockholders' Equity
For the year ended December 31, 2014

	Common Stock	Retained Earnings	Total Stockholders' Equity
Balance, January 1, 2014	_____	_____	_____
Net income	_____	_____	_____
Dividend	_____	_____	_____
Balance, December 31, 2014	_____	_____	_____

DEANA'S DECORATORS
Statement of Financial Position
As of December 31, 2014

Assets

Current assets	
Cash	_____
Certificate of deposit	_____
Supplies	_____
Accounts receivable	_____
Interest receivable	_____
Prepaid rent	_____
Prepaid insurance	_____
Total current assets	_____
Property, plant and equipment – net of accumulated depreciation	_____
Total assets	_____

Liabilities & Stockholders' Equity

Current liabilities	
Accounts payable	_____
Dividends payable	_____
Unearned revenue	_____
Notes payable	_____
Interest payable	_____
Income tax payable	_____
Total current liabilities	_____
Stockholders' Equity	
Common stock	_____
Retained earnings	_____
Total stockholders' equity	_____
Total liabilities & stockholders' equity	_____

Step 6: Close the book.

For Deana's Decorators, prepare the required closing entries. Post the entries to the T-accounts shown on the next page. Then, prepare a post-closing trial balance.

[illegible]