

Demonstration Problem 2

Use the following adjusted trial balance to answer questions 1–4.

CHOI COMPANY Adjusted Trial Balance December 31

	Debit	Credit
Cash	\$ 3,050	
Accounts receivable	400	
Prepaid insurance	830	
Supplies	80	
Equipment	217,200	
Accumulated depreciation—Equipment		\$ 29,100
Wages payable		880
Interest payable		3,600
Unearned rent		460
Long-term notes payable		150,000
Common stock		10,000
Retained earnings		30,340
Dividends	21,000	
Rent earned		57,500
Wages expense	25,000	
Utilities expense	1,900	
Insurance expense	3,200	
Supplies expense	250	
Depreciation expense—Equipment	5,970	
Interest expense	3,000	
Totals	<u>\$281,880</u>	<u>\$281,880</u>

1. Prepare the annual income statement from the adjusted trial balance of Choi Company.

Answer:

CHOI COMPANY Income Statement For Year Ended December 31

Revenues		
Rent earned		\$57,500
Expenses		
Wages expense	\$25,000	
Utilities expense	1,900	
Insurance expense	3,200	
Supplies expense	250	
Depreciation expense—Equipment	5,970	
Interest expense	3,000	
Total expenses		<u>39,320</u>
Net income		<u>\$18,180</u>

2. Prepare a statement of retained earnings from the adjusted trial balance of Choi Company.

Answer:

CHOI COMPANY Statement of Retained Earnings For Year Ended December 31

Retained earnings, December 31 (prior year)	\$30,340
Plus: Net income	<u>18,180</u>
	48,520
Less: Cash dividends	<u>21,000</u>
Retained earnings, December 31 (current year)	<u>\$27,520</u>

3. Prepare a classified balance sheet from the adjusted trial balance of Choi Company.

Answer:

CHOI COMPANY
Balance Sheet
December 31

Assets	
Current assets	
Cash	\$ 3,050
Accounts receivable	400
Prepaid insurance	830
Supplies	80
Total current assets	4,360
Property, plant and equipment	
Equipment	\$217,200
Less accumulated depreciation	29,100
Total property, plant and equipment, net ..	188,100
Total assets	\$192,460
Liabilities	
Current liabilities	
Wages payable	\$ 880
Interest payable	3,600
Unearned rent	460
Total current liabilities	4,940
Long-term liabilities	
Long-term notes payable	150,000
Total liabilities	154,940
Equity	
Common stock	10,000
Retained earnings	27,520
Total liabilities and equity	\$192,460

4. Prepare the closing entries for Choi Company.

Dec. 31	Rent Earned	57,500	
	Income Summary		57,500
	<i>To close revenue accounts.</i>		
Dec. 31	Income Summary	39,320	
	Wages Expense		25,000
	Utilities Expense		1,900
	Insurance Expense		3,200
	Supplies Expense		250
	Depreciation Expense—Equip.		5,970
	Interest Expense		3,000
	<i>To close expense accounts.</i>		
Dec. 31	Income Summary	18,180	
	Retained Earnings		18,180
	<i>To close Income Summary account.</i>		
Dec. 31	Retained Earnings	21,000	
	Dividends		21,000
	<i>To close the Dividends account.</i>		