

Question 1

✓ Correct.

Exercise BE4-1

Transactions that affect earnings do not necessarily affect cash.

Identify the effect, if any, that each of the following transactions would have upon cash and net income. The first transaction has been completed as an example. *(If an amount has a decreasing effect use either a negative sign preceding the number, e.g. -45 or parenthesis, e.g. (45). Do not use a dollar sign \$ for negative answers.)*

	Cash	Net Income
(a) Purchased \$100 of supplies for cash.	-\$100	\$0
(b) Recorded an adjusting entry to record use of \$40 of the above supplies.	0	-40
(c) Made sales of \$1,300, all on account.	0	1300
(d) Received \$800 from customers in payment of their accounts.	800	0
(e) Purchased equipment for cash, \$2,500.	-2,500	0
(f) Recorded depreciation of building for period used, \$600.	0	-600

Problem P4-2A

Question 2

Nick Waege started his own consulting firm, Waegelein Consulting, on June 1, 2010. The trial balance at June 30 is as follows.

WAEGELEIN CONSULTING		
Trial Balance		
June 30, 2010		
	Debit	Credit
Cash	\$6,850	
Accounts Receivable	7,000	
Prepaid Insurance	2,640	
Supplies	2,000	
Office Equipment	15,000	
Accounts Payable		\$4,540
Unearned Service Revenue		5,200
Common Stock		21,750
Service Revenue		8,000
Salaries Expense	4,000	
Rent Expense	2,000	
	\$39,490	\$39,490

Other data:

- Supplies on hand at June 30 total \$980.
- A utility bill for \$180 has not been recorded and will not be paid until next month.

3. The insurance policy is for a year.
4. \$3,900 of unearned service revenue has been earned at the end of the month.
5. Salaries of \$1,250 are accrued at June 30.
6. The office equipment has a 5-year life with no salvage value and is being depreciated at \$250 per month for 60 months.
7. Invoices representing \$3,500 of services performed during the month have not been recorded as of June 30.

Solution

$$\text{Supplies} = (\$2,000 - \$980) = \$1,020$$

$$\text{Prepaid Insurance} = (\$2,640 \div 12 \text{ months}) = \$220$$

Prepare the adjusting entries for the month of June.

Date	Account/Description	Debit	Credit
1. June 30	Supplies Expense	1,020	
	Supplies		1,020
2. June 30	Utilities Expense	180	
	Utilities Payable		180
3. June 30	Insurance Expense	220	
	Prepaid Insurance		220
4. June 30	Unearned Service Revenue	3,900	
	Service Revenue		3,900
5. June 30	Salaries Expense	1,250	
	Salaries Payable		1,250
6. June 30	Depreciation Expense	250	
	Accum. Depr.-Office Equipment		250
7. June 30	Accounts Receivable	3,500	
	Service Revenue		3,500

Post the adjusting entries to the ledger accounts. Enter the totals from the trial balance as beginning account balances. Use T-Accounts.

Question 2

Post the adjusting entries to the ledger accounts. Enter the totals from the trial balance as beginning account balances.

Cash		
6/30 Bal.	6,850	
		6/30 Bal.
		6/30 Bal.
Accounts Receivable		
6/30 Bal.	7,000	
6/30	3,500	
6/30 Bal.	10,500	
		6/30 Bal.
		6/30 Bal.
Office Equipment		
6/30 Bal.	15,000	
		6/30 Bal.
		6/30
Accumulated Depreciation - Office Equipment		
	6/30	250
	6/30 Bal.	250
		6/30 Bal.
Accounts Payable		
	6/30 Bal.	4,540
		6/30 Bal.
Utilities Payable		
	6/30	180
	6/30 Bal.	180
		6/30 Bal.
Salaries Payable		
	6/30	1,250
	6/30 Bal.	1,250
		6/30 Bal.
Unearned Service Revenue		
6/30	3,900	
	6/30 Bal.	5,200
	6/30 Bal.	1,300
		6/30 Bal.
Common Stock		
	6/30 Bal.	21,750
		6/30 Bal.
Service Revenue		
	6/30 Bal.	8,000
	6/30	3,900
	6/30	3,500
	6/30 Bal.	15,400