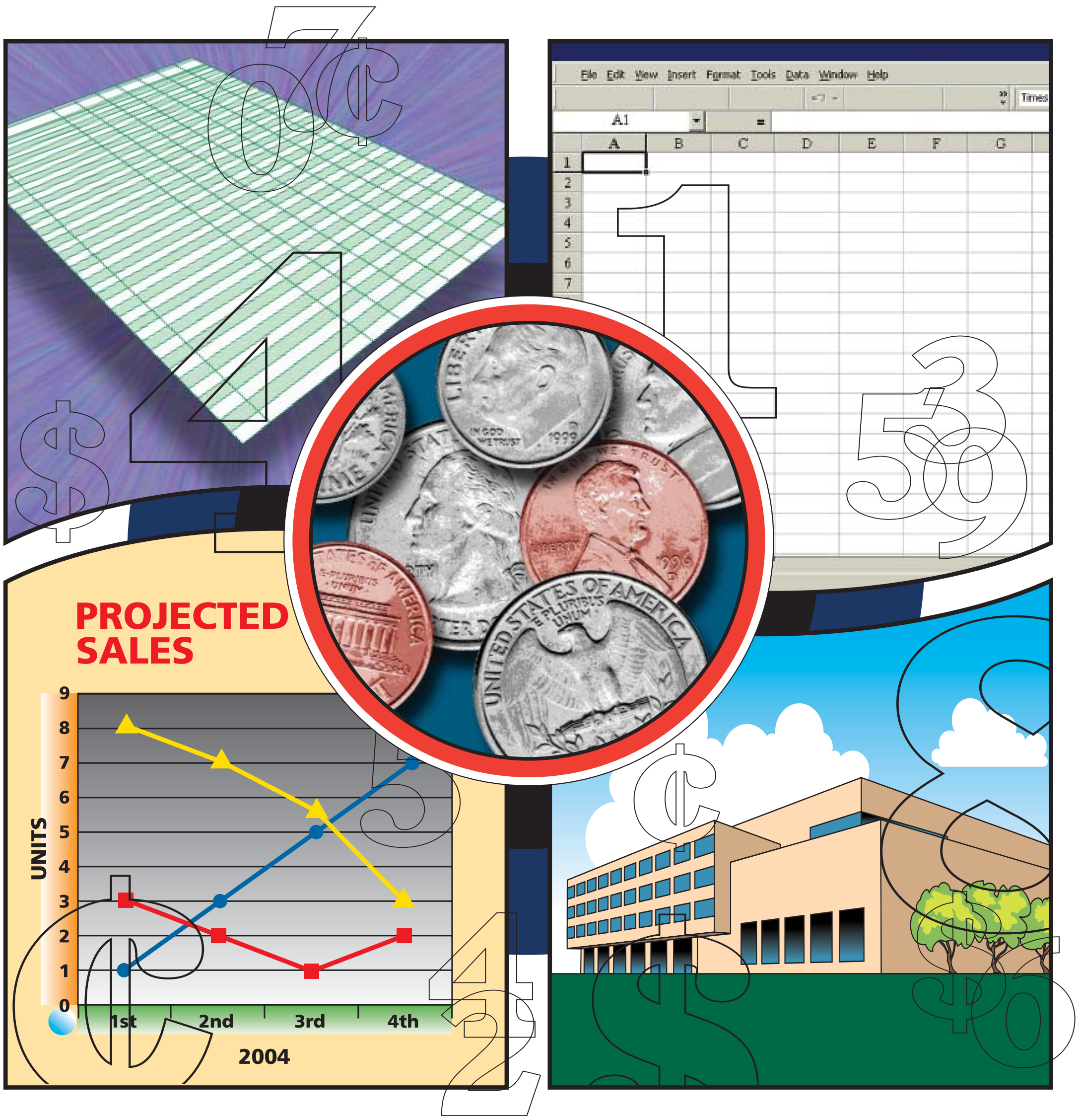
Errata sheets for:

PRACTICAL ACCOUNTING FUNDAMENTALS™



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Thank you for your continued support.

~ Insight Technical Education

Exercises - 3

Questions:

1. What is an income statement?

2. What is net income?

3. What are revenues?

4. What are expenses?

Problems:

A. Fill in the missing numbers:

Why Knot Corporation
Income Statement
For the Year Ended December 31, 2002

Revenue:		
Sales		$132,000
Deduct expenses:		
Cost of goods sold	$76,000	
Salaries expense	**A**	
Rent expense	9,000	
Miscellaneous expense	7,500	122,500
Net income		**$ B**
Earnings per share (1000 shares issued)		**$ C**

B. Given the following information, create an income statement for 2008 (make up your own company name).

Sales - $293,000
Cost of goods sold - $175,000
Salaries expense - $59,000
Rent expense - $12,000
Other expense - $10,500
1500 shares were issued

8

Everything should be made as simple as possible, but not one bit simpler.
~ Albert Einstein

Chart of Accounts

The Chart of Accounts is a listing of all of the accounts that a business has. When first setting up the accounting system for a business, you have to know what the business will do to help determine what kinds of accounts the business will need. This system can be very simple, such as would be used by a small sole proprietorship, or very complex, such as would be used by a large international corporation. The accounts are listed in financial statement order: assets, liabilities, the elements of owners' equity, revenues, and expenses. The numbering system should indicate classifications and relationships between the accounts. The number of digits depends on how much detail is required and the number of accounts the business needs. Generally there are no fewer than three digits.

Assuming a 4-digit account number is used, an explanation of the system follows.

X X X X
Sub class
Main sub class
Main class

The first digit indicates a main classification.

1--- Assets and related contra accounts
2--- Liabilities
3--- Stockholders' equity
4--- Sales and related accounts
5--- Purchases and related accounts
6--- Operating expenses
7--- Other revenues and expenses
8--- Income Tax

The second digit indicates a main subclass.

11-- Current assets
12-- Long-term investments
13-- Property, plant, and equipment and related contra accounts
14-- Intangible assets
21-- Current liabilities
24-- Long-term liabilities

The third and fourth digits are further subclassifications and relationships.

2180 Withholding, Social Security, and Medicare tax payable
2181 Federal unemployment tax payable
2182 State unemployment tax payable

The third and fourth digits are often chosen for consistency or to show relationships. In the following example, the first digit denotes whether the account is an asset or liability; the second shows it is current; the final "30" that it is an account receivable or payable; and the "40" that it's a note receivable or payable.

1130 Accounts receivable
2130 Accounts payable

1140 Note receivable
2140 Note payable

4a. Sales on account, $118,000.

Accounts receivable (Asset)	increase	118,000	
Sales (Revenue)	increase		118,000

Accounts Receivable			
1/1/03 balance	9,500		
4a.	118,000		

Sales			
		4a.	118,000

4b. Cost of goods sold, $70,000.

Cost of goods sold (Expense)	increase	70,000	
Inventory (Asset)	decrease		70,000

Cost of Goods Sold			
4b.	70,000		

Inventory			
1/1/03 balance	10,000	**4b.**	70,000
2.	75,000		

5. Collections from customers $123,000.

Cash (Asset)	increase	123,000	
Accounts receivable (Asset)	decrease		123,000

Cash			
1/1/03 balance	13,000	1.	3,000
5.	123,000	3.	6,000

Accounts Receivable			
1/1/03 balance	9,500	**5.**	123,000
4a.	118,000		

6. Payment to creditors, $65,000.

Accounts payable (Liability)	decrease	65,000	
Cash (Asset)	decrease		65,000

Accounts Payable			
6.	65,000	1/1/03 balance	15,500
		2.	75,000

Cash			
1/1/03 balance	13,000	1.	3,000
5.	123,000	3.	6,000
		6.	65,000

7. Paid three years' rent in advance, $18,000.

Explanation: The company has acquired the right to the future economic benefits of having the use of the rented property beyond the current period. Therefore, this qualifies as an asset acquisition.

Prepaid rent (Asset)	increase	18,000	
Cash (Asset)	decrease		18,000

Prepaid Rent			
7.	18,000		

Cash			
1/1/03 balance	13,000	1.	3,000
5.	123,000	3.	6,000
		6.	65,000
		7.	18,000

8. On September 1, 2003, $12,000 was invested in 10% bonds. The bonds specify that interest will be paid semiannually on March 1 and September 1.

Explanation: An asset, bond investment, was acquired at a cost of $12,000 in order to earn interest revenue.

Bond investment (Asset)	increase	12,000
Cash (Asset)	decrease	12,000

Bond Investment			
8.	12,000		

Cash			
1/1/03 balance	13,000	1.	3,000
5.	123,000	3.	6,000
		6.	65,000
		7.	18,000
		8.	12,000

Exercises - 10

Questions:

1. What is net income?

2. What are revenues?

3. What are expenses?

4. What are nonoperating revenues and expenses?

5. What is an accounting, or fiscal, period?

6. What is the Fiscal Period Assumption?

7. What is the Revenue Recognition Assumption?

8. What is the Matching Assumption?

9. What is the accrual basis of accounting?

10. What are the two ways of associating expenses with revenue?

11. How do you determine whether a cost outlay should be recorded as an expense or an asset?

Problems:

A. Record journal entries in a journal for the following transactions.

1. Purchased equipment for $7,500 on account. It is expected to have a useful life of 3 years.
2. Paid salaries of $4,800. Work was performed in the previous period.
3. Received $2,500 from a customer for a non-stocked item. The item is ordered and will be received next month.
4. Paid miscellaneous expenses of $1,600.
5. Purchased 6% bonds for $6,000 cash.

B. Given the following information,
1. Journalize the transaction (don't worry about specific dates – this is combined information for the year).
2. Post transactions to the ledger. Make sure you record the beginning balances from the balance sheet (each year's ending balance is the next year's beginning balance).
3. Prepare an unadjusted trial balance for 2005.

Speed Corporation sells bicycles. Their Chart of Accounts and 2004 balance sheet is as follows:

Chart of Accounts
111 Cash
113 Accounts receivable
115 Inventory
121 Bond investment
131 Land
133 Building
134 Accumulated depreciation
211 Accounts payable
219 Salaries payable
311 Capital stock
313 Retained earnings
315 Dividends
411 Sales
511 Cost of goods sold
515 Other expense
519 Salaries expense
534 Depreciation expense

Exercises – 11

Questions:

1. What are adjusting entries?

2. What is depreciation?

3. What is a single-step format income statement?

4. What is a multi-step format income statement?

5. What are selling expenses?

6. What are general and administrative expenses?

7. What are nonoperating revenues and expenses?

8. How are nonoperating items reported on the income statement?

9. What is an extraordinary item?

Problems:

A. Journalize the following adjusting entries for Speed Corporation for 2005.

1. Record December salaries of $2,600, to be paid in January, 2006.
2. Record accrued interest on bond investment. $7,500 was invested August 1 at 5% interest to be paid February 1 and August 1.
3. Recognize as expense the used portion of prepaid advertising. One year of advertising was paid for on July 1 for $2,400.

B. Given the following information,
1. Journalize the adjusting entries for We Try Harder, Inc.
2. Post the transactions to the ledger. Use the amounts from the unadjusted trial balance for the beginning balances in order to arrive at the correct final totals.
3. Prepare an adjusted trial balance for 2005.
4. Prepare a multi-step income statement for 2005. The sales salaries are $24,000. There are 9,000 shares of stock issued.

Chart of Accounts

111	Cash
113	Accounts receivable
115	Interest receivable
117	Inventory
121	Prepaid insurance
123	Bond investment
133	Delivery van
134	Accumulated depreciation
211	Accounts payable
219	Salaries payable
311	Capital stock
313	Retained earnings
315	Dividends
411	Sales

Chart of Accounts continued

413 Interest income
511 Cost of goods sold
515 Other expense
519 Salaries expense
521 Insurance expense
534 Depreciation expense

We Try Harder, Inc.
Unadjusted Trial Balance
December 31, 2005

Cash	21,000	
Accounts receivable	60,000	
Inventory	19,000	
Prepaid insurance	3,000	
Bond investment	10,000	
Delivery van	16,000	
Accounts payable		30,000
Salaries payable		0
Capital stock		63,000
Retained earnings		22,000
Dividends	2,000	
Sales		135,000
Cost of goods sold	81,000	
Other expense	5,000	
Salaries expense	33,000	
	250,000	250,000

Adjustments:
1. Record salaries for December of $3,000, to be paid in January, 2006.
2. Record interest earned on bond investment. The bonds were purchased on October 1, 2005 for $10,000 at 6% interest. The interest is to be paid annually on October 1.
3. Record depreciation expense on delivery van. The van was purchased for $16,000 with a $1,000 salvage value. It is expected to have a 5-year life.
4. A two-year insurance policy was purchased at the beginning of the year for $3,000. The portion of the insurance premium applying to this year needs to be recognized as expense.

The closing entries are posted to the ledger as follows. I am just showing you the retained earnings and dividend accounts; the revenue and expense accounts would be done in the same way as the dividend account.

Account Title Retained Earnings Account No. 313

			Ref.	Debit	Credit	Balance
2002						
Dec	31		X		4,500	4,500 Cr.
	31		X	2,500		2,000 Cr.

Account Title Dividends Account No. 315

			Ref.	Debit	Credit	Balance
2002						
Dec	31	Year-end bal before closing				2,500 Dr.
	31		X		2,500	0 Dr.

After the books are closed, an after-closing, or post-closing, trial balance should be prepared to make sure that the debits and credits are still equal.

ABC Supply Company
Post-Closing Trial Balance
December 31, 2002

	Debit	Credit
Cash	13,000	
Accounts receivable	9,500	
Inventory	10,000	
Land	15,000	
Accounts payable		15,500
Salaries payable		3,000
Capital stock		27,000
Retained earnings		2,000
	47,500	47,500

Notice that only asset and equity accounts appear on this trial balance since the temporary accounts have been closed.

Financial Statement Worksheets

Sometimes a worksheet is used to aid in preparing the end-of-period adjusting entries, financial statements, and closing entries. This puts everything in one place to reduce the possibility of errors. If an accounting software program is being used, this would not be necessary. Also, in the case of a company that has few accounts in the ledger and few adjusting entries, a financial statement worksheet would not be necessary. It is when there are many accounts and/or adjusting entries in a manual system that the worksheet is the most useful.

Here are the steps for preparing a financial statement worksheet. On the following page is a prepared worksheet for ABC Supply Company for the year ended December 31, 2003.

1. Record the account balances before adjustments in the trial balance columns. Total the columns to ensure equality.
2. Enter the adjustments in the adjustments columns. Again, total the columns. Note that explanations of the adjustments are given at the bottom with corresponding numbers next to the entries in the worksheet.
3. Complete the adjusted trial balance columns by moving the amounts over from the trial balance columns. Where there are adjusting entries, they need to be combined with the trial balance amount and recorded in the adjusted trial balance columns. Total the columns to ensure continued equality.
4. Enter the amounts from the adjusted trial balance columns in the columns for the appropriate financial statement on which they appear, continuing to put debit balances in debit columns and credit balances in credit columns.
5. Determine net income by totaling the two income statement columns. The net income amount of $10,300 is then placed in the debit column as a balancing figure. Since net income increases retained earnings, it is also placed in the credit column of the retained earnings statement. Income statement columns are then totaled.
6. The retained earnings amount is determined, entered as a balance figure in the debit column of the retained earnings statement, and recorded in the credit column of the balance sheet. The retained earnings columns are totaled. Then the balance sheet columns are totaled. If they aren't in balance, an error has been made in the worksheet.

Exercises - 14

Questions:

1. What is the cash over and short account used for?

2. What is a petty cash fund?

3. What is a bank register?

4. What is a bank reconciliation?

5. What are the steps for preparing a bank reconciliation?

Problems:

A. Given the following information, prepare journal entries.

March 2 – A petty cash fund in the amount of $130 is established.
March 31 – The following is found in the fund:

Currency & coin		$17.50
Receipts for disbursements:		
	Postage expense	34.00
	Entertainment expense	26.25
	Office supplies expense	19.80
	Miscellaneous expense	32.45

March 31 - The fund is replenished and increased to $150.
April 30 – The following is found in the fund:

Currency & coin		$21.00
Receipts for disbursements:		
	Postage expense	27.50
	Travel expense	72.40
	Office supplies expense	23.10
	Miscellaneous expense	6.00

April 30 – The fund is replenished.

B. Given the following information,
1. Prepare a bank reconciliation (you will have to calculate the balance per books as of May 31).
2. Prepare any journal entries required.

Smith & Co. maintains a checking account with Forever Bank.
1. The balance per books as of April 30, 2003 is $2,439.10.
2. The total in the cash receipts journal for May is $6,222.00.
3. The total in the cash disbursements journal for May is $5,874.30.
4. The bank statement shows a balance of $4,243.20 on May 31, 2003.
5. Checks outstanding on May 31 are:
   No. 1341, $723.45; No. 1345, $572.10; No. 1350, $123.00;
   No. 1351, $174.50; No. 1352, $355.60; No. 1353, $61.75.
6. A deposit of $550.00 has been mailed to the bank but isn't on the bank statement.
7. The bank charged a service fee of $35.00 that the company hasn't recorded.
8. The bookkeeper recorded one of Smith & Co.'s checks, #1339, in the amount of $376.15 as $367.15; the account was Mirage Supply Co.
9. Interest of $40.00 was paid on the account balance. This has not been reccorded in Smith & Co.'s books.

For interest received on bond investments, GAAP is followed by recording the interest revenue in the period in which it is earned, regardless of whether it has been paid or not. This may require an adjusting entry at the end of the period (see Chapter 11 on adjusting entries for more information). If the bond was purchased between interest payments, the interest paid to the seller is not recorded as revenue when the interest payment is received. Following are some sample journal entries to illustrate these points.

Interest was received on the bond investment, with the entire amount earned in the current period:

Cash	150	
Interest revenue		150

Interest was received on the bond investment. The purchase was made between payments with the entire amount earned in the current period so there was an amount already recorded as receivable.

Cash	150	
Interest receivable		50
Interest revenue		100

Valuation of Marketable Securities

Since the value of marketable securities changes daily, how do we report what the securities are worth on the balance sheet? The two most common methods for determining this are: lower of cost or market and cost. Either of these methods works for debt securities, but equity securities should be reported at lower of cost or market. If the market value (the amount it can be bought or sold for) is lower than the cost at the end of the period, an unrealized loss (it hasn't been sold, so the loss hasn't occurred yet) is recorded. This reduces net income for the current period. If, at the end of the next period, the market value has gone up to the original cost or higher, the loss is removed and the equity securities are shown on the balance sheet at their original cost. This adds a gain on the income statement. The maximum amount that can be shown for the combined values of all marketable securities is the total of their original costs until they are sold. The combined values of the securities are shown on the balance sheet, so we combine the individual gains and losses to determine any unrealized gains or losses to be reported.

Security	Cost	Market	Unrealized Gain (Loss)
Company A stock	$15,000	$14,000	$(1,000)
Company B stock	9,500	9,750	250
	$24,500	$23,750	$(750)

The entry to record this unrealized loss is as follows:

Unrealized loss on securities	750	
Allowance for decline in market value of marketable equity securities		750

The following year the values are:

Security	Cost	Market	Unrealized Gain (Loss)
Company A stock	$15,000	$16,500	$1,500
Company B stock	9,500	11,500	2,000
	$24,500	$28,000	$3,500

The entry would be:

Allowance for decline in market value of marketable equity securities	750	
Unrealized gain on securities		750

Remember, we can only bring the valuation of the equity securities back up to their original cost, no higher. This entry, in effect, removes the loss recorded the previous year.

When a partial payment is received on an account that has been written off, we first have to determine if that's all we'll receive or if we'll be collecting the entire amount due. If we know that the partial payment of $45 from Customer A is all that we'll collect, the entries are:

Accounts receivable	45	
Allowance for bad debts		45
Cash	45	
Accounts receivable		45

If, however, we believe, due to information we have received, that the entire amount will be collected, the entries would be:

Accounts receivable	125	
Allowance for bad debts		125
Cash	45	
Accounts receivable		45

Rather than using an allowance for bad debts, a second method of dealing with bad debts is the direct write-off method. In this method, accounts are directly written off when they are determined to be worthless. The down side of this method is two-fold. First, the expense of the bad debt is not matched to the period in which the sale occurred. (Generally debts aren't deemed uncollectible until quite a bit of time has passed.) The second part is that there is an over-statement of the amount of receivables that are actually collectible. However, depending on the size of the company and the nature of its business, the direct write-off method may be quite acceptable.

When a bad debt is determined, the following entry is made. Remember, there is no allowance account under this method.

Bad debts expense	450	
Accounts receivable		450

If the amount is collected in the same period, the following entries occur. The first is to reinstate the account, the second is to record the cash received.

Accounts receivable	450	
Bad debts expense		450
Cash	450	
Accounts receivable		450

If the amount is recovered in a subsequent period, the following entries would be needed.

Accounts receivable	450	
Bad debt recoveries		450
Cash	450	
Accounts receivable		450

The bad debt recoveries is a revenue item that is reported on the income statement under Other Revenues.

Net Method of Purchase Discounts

When we use the net method, we assume that we'll pay the invoice within the discount period. Using the same information as above, we would record the purchase as follows:

Inventory	1,470	
Accounts payable		1,470

If we do, in fact, pay within the discount period, the journal entry would be:

Accounts payable	1,470	
Cash		1,470

If, however, we don't pay within the discount period, the entry would be:

Accounts payable	1,470	
Discounts lost	30	
Cash		1,500

At the end of the period, if there are any invoices on which the discount period has passed, an adjusting entry needs to be made debiting Discounts Lost and crediting Account Payable for those lost discounts.

This net method of recording purchases is beneficial for three reasons: 1) it gives management information on discounts lost so decisions can be made about payment policies; 2) it records purchases at the price at which goods can be acquired; and 3) it presents liabilities more closely to the amounts that will actually be spent. If the net method is used, it should be noted on the balance sheet that accounts payable are shown net of available discounts.

The discounts lost account can be shown in two places on the financial statements. First, it can be shown on the income statement as an administrative expense. This is based on the thought that net price is the correct measure of cost and that it's the responsibility of management to ensure that accounts are paid within the discount period. The other option for reporting discounts lost is to add the balance in this account to the inventory. The thought behind this is that cost is the entire amount paid. The choice is up to the company. Neither is wrong. However, whichever method is chosen must be applied consistently.

The unit sold is recorded at a cost of $21.00 with the remaining units in inventory at a total cost of $63.00 (84.00 – 21.00). When the second sale occurs, its cost is calculated thus:

Cost of goods available for sale:		
3 units @ $21	$63.00	
2 units @ $20 (2nd purchase)	40.00	
1 unit @ $22 (3rd purchase)	22.00	$125.00
Total units available for sale		6
Average unit cost ($125.00 ÷ 6)		$20.83 (rounded)

The units sold are recorded at a total cost of $41.66 with the remaining inventory at a cost of $83.34 (125 – 41.66).

First-In, First-Out Method

The first-in, first-out (FIFO) method assigns cost to inventory using the oldest cost first. This leaves the value of the inventory at the most recent purchase price(s). This works well for those companies that sell the oldest inventory first, such as perishable goods. It is also good merchandising practice to sell the oldest goods first. The first unit sold would have a cost of $20 since it would be considered to have come out of beginning inventory. That leaves us with the following inventory at the time of the second sale:

2 units @ $20 (beg. inventory)	$40.00
1 unit @ $24 (1st purchase)	24.00
2 units @ $20 (2nd purchase)	40.00
1 unit @ $22 (3rd purchase)	22.00

The second sale would have a cost of $40 (the remaining 2 items in beginning inventory). The third sale would have a cost of $44 (the 1st unit purchased for $24 and one of the units from the second purchase for $20).

Last-In, First-Out Method

The last-in, first-out (LIFO) method assigns cost to inventory in reverse of FIFO. The most recent purchase determines the amount of cost of goods sold. This leaves the value of inventory at the older purchase prices. In our example, the first unit sold would have a cost of $24, the amount at which a unit had just been purchased. The second sale would have recorded cost of goods sold at $42, one unit from the 3rd purchase at $22 and one unit from the 2nd purchase at $20.

In addition to the valuation of inventory varying from method to method, the company's gross margin and net income amounts also would be different. Once an inventory valuation method is chosen, it must be applied consistently from period to period.

There are many factors that go into deciding which inventory method to use. In the 1970's the LIFO method was popular because, due to rising prices, it reduced the company's net income, thereby reducing income taxes and increasing the cash available for expansion. To illustrate the difference in gross margin and ending inventory between FIFO and LIFO, assume the company has one unit in inventory at a value of $100. Its sales price is $140. Before making a sale another unit is purchased for $115. The company decides it must raise its selling price to $160. It then sells one unit for $160.

	FIFO	LIFO
Sale	$160	$160
Cost of inventory sold	100	115
Gross margin	$60	$45
Ending inventory	$115	$100

The books of the partnership are kept in the same way as a sole proprietorship, just with multiple capital and drawing accounts. To record the original investment, the journal entry would look something like this:

Cash	36,000	
W. Smith, capital		20,000
K. Jones, capital		16,000
To record original investment		

If the two partners previously had sole proprietorships and are combining their businesses, the entry to record the initial investment would be:

Cash	18,000	
Accounts receivable	12,000	
Inventory	7,500	
Accounts payable		17,500
W. Smith, capital		20,000
To record initial investment of partner		

Cash	12,000	
Delivery truck	8,000	
Inventory	5,000	
Accumulated depreciation, truck		2,000
Accounts payable		7,000
K. Jones, capital		16,000
To record initial investment of partner		

If the partners do not specify how to allocate the net income or loss, it is assumed to be split equally. The income statement looks the same as that of any other business, except that the allocation of net income may be shown.

Smith & Jones
Income Statement
For the Year Ended December 31, 2003

Sales		$125,000
Sales returns & allowances		2,000
Net sales		$123,000
Cost of goods sold	$80,000	
Operating expenses	33,000	113,000
Net income		$10,000
Allocation of net income:		
W. Smith – 60%	$6,000	
K. Jones – 40%	4,000	$10,000

A partnership has a statement of partners' capitals in place of the corporation's statement of retained earnings. Because each partner's capital is shown, it is necessary to refer to the capital and drawing ledger accounts for all partners.

Smith & Jones
Statement of Partners' Capitals
For the Year Ended December 31, 2003

	W. Smith	K. Jones	Total
Investment, January 1, 2003	$20,000	$16,000	$36,000
Add:			
Additional investment	3,000	3,000	6,000
Net income	6,000	4,000	10,000
Totals	$29,000	$23,000	$52,000
Deduct withdrawals	2,500	2,000	4,500
Balance, December 31, 2003	$26,500	$21,000	$47,500

Questions:

1. What is a sole proprietorship?
2. What equity accounts are used in a sole proprietorship?
3. What is a partnership?
4. What equity accounts are used in a partnership?
5. What is a limited liability company?
6. How does an LLC differ from a partnership?

Problem:

A. Given the following account information, prepare a balance sheet, statement of owner's equity, income statement, and cash flow statement for the sole proprietorship of Ralph Smart for the year 2001.

	12/31/2000	12/31/2001
Sales		$95,000
Sales discounts		750
Cost of goods sold		55,000
Rent expense		6,000
Office expense		4,000
Miscellaneous expense		1,500
Depreciation expense		1,000
Owner's equity	$20,000	
R. Smart, drawing		5,000
Cash	11,000	18,000
Accounts receivable	10,000	12,000
Inventory	12,000	16,000
Delivery truck	6,000	6,000
Accumulated depreciation	2,000	3,000
Accounts payable	27,000	21,000
Note payable (short-term)	10,000	7,250

B. Given the following account information, prepare a balance sheet, statement of members' capitals, income statement, and cash flow statement for Yankee Doodle, LLC for 2003. The members share profits equally.

	12/31/2002	12/31/2003
Sales		$174,000
Sales returns & allowances		4,000
Cost of goods sold		110,000
Salaries expense		17,000
Salaries payable		2,500
Office expense		5,000
Miscellaneous expense		3,000
Depreciation expense		2,000
G. Washington, capital 1/1/03	$18,000	
G. Washington, drawing		2,500
P. Revere, capital 1/1/03	17,500	
P. Revere, drawing		3,000
T. Jefferson, capital 1/1/03	17,500	
T. Jefferson, drawing		2,000
Cash	54,500	32,000
Accounts receivable	28,000	25,000
Inventory	15,500	14,500
Land	5,500	5,500
Building	0	60,000
Accumulated depreciation	0	2,000
Accounts payable	48,000	50,000
Advances from customers	0	4,000

PAYROLL REGISTER

FOR WEEK ENDING FEBRUARY 25, 20XX

	EMP. NO.	NAME	MARITAL STATUS	WITHHOLDING ALLOWANCE	TIME: S	M	T	W	T	F	S	REG. EARNINGS: REG. HOURS	RATE PER HOUR	AMMOUNT	OT EARNINGS: OT HOURS	RATE PER HOUR	AMMOUNT	TOTAL EARNINGS	DEDUCTIONS: FICA OASDI	FICA HI	FEDERAL INCOME TAX	STATE INCOME TAX	INSURANCE	NET PAID: CHECK NUMBER	AMMOUNT	TAXABLE EARNINGS: FICA OASDI	FICA HI	FUTA & SUTA
1	12	Pickrel, Margret	M	7		8.0	8.0	8.0	8.0	8.0	6.0	40.00	19.00	760.00	6.00	28.50	171.00	931.00	26.53	4.42	33.00	11.00	0.00	1447	856.05	931.00	931.00	931.00
2	14	Spade, Sam	M	3		8.0	8.0	6.0	8.0	8.5		38.50	18.00	693.00			0.00	693.00	20.19	3.37	24.50	8.17	0.00	1448	636.78	693.00	693.00	693.00
3	25	Howard, Cal	S	1		1.0	8.0	0.0	9.5	0.0		18.50	23.00	425.50			0.00	425.50	12.57	2.09	16.77	5.59	0.00	1449	388.48	425.50	425.50	425.50
4	29	Shovel, Roy	M	3		3.0	0.0	8.0	8.0	8.0		27.00	18.00	486.00			0.00	486.00	13.98	2.33	17.90	5.97	0.00	1450	445.82	486.00	486.00	486.00
5	32	Green, Petunia	S	0		1.0	4.0	0.0	8.0	8.0		21.00	15.00	315.00			0.00	315.00	9.45	1.58	13.60	4.53	0.00	1451	285.84	315.00	315.00	315.00
		TOTALS												3000.00			250.00	3250.00	200.00	50.00	225.00	125.00	0.00		2650.00	3250.00	3250.00	3250.00

EMPLOYEE'S EARNINGS RECORD

WEEK	WEEK	TOTAL WORKED: DAYS	TOTAL WORKED: HRS	REGULAR EARNINGS: HRS	RATE	AMOUNT	OVERTIME EARNINGS: HRS	RATE	AMOUNT	TOTAL PERIOD GROSS	DEDUCTIONS: FICA OASDI	FICA HI	FEDERAL INCOME TAX	STATE INCOME TAX	INSURANCE	TOTAL DEDUCTIONS	NET PAID: CHK. #	AMOUNT	TOTAL EARNINGS TO DATE
1	1/3/2004	4	32	32	25.00	800.00	0.0	37.50	0.00	800.00	40.00	24.00	160.00	24.00	36.00	284.00	10129	516.00	110,563.27
2	1/10/2004	5	42	40	25.00	1,000.00	2.0	37.50	75.00	1,075.00	53.75	32.25	215.00	32.25	36.00	369.25	10543	705.75	111,269.02
3	1/17/2004	7	60	40	25.00	1,000.00	20.0	37.50	750.00	1,750.00	87.50	52.50	350.00	52.50	36.00	578.50	10958	1,171.50	112,440.52
4	1/24/2004	4	32	32	25.00	800.00	0.0	37.50	0.00	800.00	40.00	24.00	160.00	24.00	36.00	284.00	11111	516.00	112,956.52
13																			
QUARTER TOTAL																			
SEMIANNUAL TOTAL																			

EMPLOYEE INFORMATION

SEX:	DEPT.:	OCCUPATION:	WORKS IN STATE:	SOC. SEC.:	LAST:	FIRST:	M.I.	MARRIED:	W/H ALLOWANCE:
F	Eng.	DRAFTER	AK	XXXX-XXX-XXXX	Dunkmeister	Glory	B.	Y	6

In the journal entry for payroll, the earnings are recorded as wages expense and the taxes withheld are recorded in the appropriate liability (payable) accounts. The above payroll activity would be recorded as follows:

Wages expense	3,250	
FICA taxes payable – OASDI		200
FICA taxes payable – HI		50
FIT payable		225
SIT payable		125
Cash		2,650
To record wages expense and withholdings		

Employer Taxes

The taxes withheld from employees' wages are not taxes on the business. They are just being collected from the employee and passed on to the appropriate taxing authority. There are, however, employment taxes that a business pays that aren't withheld from the employees' wages. These are separate from the wages expense of the business. These taxes include the employer's share of FICA – OASDI and HI as well as FUTA and SUTA. Following is the journal entry to record these taxes for the period.

Payroll taxes	355	
FICA taxes payable – OASDI		200
FICA taxes payable – HI		50
FUTA taxes payable		25
SUTA taxes payable		80
To record payroll taxes		

When these taxes are paid, the following journal entry is made.
Note: There would actually be multiple entries - one each for paying the taxes to the separate taxing authorities. For simplicity in illustration, we have combined them into one.

FICA taxes payable – OASDI	400	
FICA taxes payable – HI	100	
FUTA taxes payable	25	
SUTA taxes payable	80	
FIT payable	225	
SIT payable	125	
Cash		955
Payment of payroll taxes		

End-of-Period Adjustments

At the end of the period, any wages that have been earned but not yet paid must be recorded as an expense and a liability. Only the wages are recognized; no entry needs to be made for any withholding accounts until the wages are actually paid. For example, the company pays wages every other Friday and the fiscal year ends on the Wednesday before payday. The wages for the last eight working days must be recognized as expense. If the employees earn $200 per day, the entry would be as follows:

Wages expense	1,600	
Wages payable		1,600
To record wages incurred but not paid at end of fiscal period		

Note that the entire amount of earnings is accrued as an expense and a liability. This entry would be reversed at the beginning of the new fiscal period and the full two weeks' wages would be recorded normally on Friday.

Expenses

510	Cost of Goods Sold	20,000	
516	Advertising Expense	100	
517	Bank Fees	175	
518	Depreciation Expense	0	
519	Insurance Expense	300	
520	Miscellaneous Expense	110	
521	Office Supplies Expense	265	
522	Postage Expense	80	
523	Rent Expense	4,125	
524	Sales Salaries Expense	10,000	
525	Office Salaries Expense	4,000	
526	Payroll Tax Expense - Administrative	597	
527	Payroll Tax Expense - Sales	896	
530	Bad Debt Expense	0	

Other Revenues and Expenses

550	Cash Over and Short	0	
555	Interest Revenue		0
558	Unrealized Gain (Loss) on Securities		0

Transactions:

12-2 Paid $500 on account, check # 3240.
12-3 Purchased inventory on account – 20 units @ $20 each. A 3% discount is offered if paid within 10 days. Mega Munch uses the gross method of purchase discounts.
12-5 Bought office supplies for $50. Paid with check #3241.
12-6 Sold 4 units for $40 each on account. Mega Munch Corporation uses the LIFO method for inventory valuation. Terms are 2/10, net 30.
12-9 Received $220 on account.
12-11 Sold 6 units for $38 each in cash.
12-11 Paid for inventory purchased on 12-3, taking advantage of the discount, check #3242.
12-12 Received payment in full, less discount, from sale on 12-6.
12-14 Replenished petty cash fund, check #3243. There was $7.50 in the cash box and receipts as follows:
Office supplies $40.00
Postage 17.60
Misc. expenses 10.00
12-15 Sold 3 units on account for $40 each, terms: 2/10, net 30.
12-17 Customer returned 1 unit from sale on 12-6. Mega Munch is reimbursing the customer for the invoice amount less discount taken, check #3244.
12-18 Paid miscellaneous expenses of $125, check #3245.
12-18 Received $50 from a customer for a unit that must be special-ordered. The unit is expected to be received Jan. 3, 2005.
12-20 Paid salary (one sales employee), check #3246
Wages expense ($750 was recorded as payable on Nov. 30) $1,500
Withholdings:
FICA – OASDI $93.00
FICA – HI 2.18
FIT 100.00
12-20 Recorded employer taxes payable:
Matching FICA – OASDI & HI
FUTA – 0.8%
SUTA – 2.4%
12-21 It is determined that an amount due from customer of $120 is uncollectible. Mega Munch Corp. uses the direct write-off method.
12-23 Purchased 20 units of inventory on account for $19 each. Terms are 3/10, net 30.
12-26 Sold 3 units @$40 each for cash.
12-28 Bought office supplies for $35, check #3247.
12-29 Paid rent for month of $375, check #3248.
12-31 Paid payroll taxes and withholdings, check #3249.
12-31 Dividends of $600 were declared and paid. $120 to each shareholder with checks #3250, 3251, 32452, 3253, 3254.

Community Bank
Statement of Account

Acct #0023001

Mega Munch Corporation
4321 Main St.
Somewhere, USA

Statement Period:
From: Dec. 1, 2004
Thru: Dec. 31, 2004

Beg. Balance	Total Withdrawals	Total Deposits	End. Balance
8959.50	2579.02	724.80	7105.28

Date	Withdrawals	Deposits	Transaction Description
12/09		220.00	Customer deposit
12/11		228.00	Customer deposit
12/12		156.80	Customer deposit
12/26		120.00	Customer deposit
12/31	20.00		Service charge

Detail of Checks Paid:

Check #	Date Paid	Amount	Check #	Date Paid	Amount
3238	12/01	135.00	3242	12/18	388.00
3239	12/06	74.50	3243	12/16	67.50
3240	12/10	500.00	3244	12/28	39.20
3241	12/11	50.00	*3246	12/24	1304.82

* Denotes check out of sequence.

Adjusting Entries:
1. 5% bonds were purchased on Sept. 1. Interest is paid Sept. 1 and March 1.
2. The value of the equity securities as of Dec. 31 is $2,900.
3. The delivery van was purchased in January of 2003 and has an expected life of 6 years with a salvage value of $1,000. Mega Munch Corporation uses straight-line depreciation and recognizes salvage value.
4. Magazine advertising was paid in advance for 1 year in October. The first of 4 issues came out in December.
5. Office employee wages earned in December, but not yet paid are $750.

Account balances as of January 1, 2004 (for preparation of cash flow statement). Note: the allowance for decline in market value is not taken into consideration for increases and decreases in asset values, since it is not necessarily a permanent increase or decrease in the value of the securities, as is depreciation to an asset such as delivery vans.

Current Assets		Debit	Credit
110	Cash	12,593	
111	Petty Cash	75	
112	Accounts Receivable	490	
113	Interest Receivable	0	
114	Inventory	1,500	
115	Purchase Discounts		0
116	Prepaid Advertising	300	
117	Marketable Equity Securities	3,000	
118	Allowance for Decline in Market Value		0
119	Bond Investment	0	

Property, Plant and Equipment

130	Delivery Van	10,000	
131	Accumulated Depreciation – Delivery Van		1,500

Current Liabilities

212	Accounts Payable		3,145
213	Advances from Customers		0
219	Salaries Payable		500
222	FICA Payable – OASDI		0
223	FICA Payable – HI		0
224	FIT Payable		0
225	FUTA Payable		0
226	SUTA Payable		0

Stockholders' Equity

310	Capital Stock, 1,000 shares issued		10,000
311	Retained Earnings		12,713
312	Dividends	0	

Answer Key

Chapter 1 Exercises

Questions:
1. The accounting information system is used to provide financial data to those who need to make decisions about a company.
2. Accounting is part of the accounting information system which is involved in data analysis.
3. Accounting is used to produce financial statements, analyze and interpret financial data, and ensure that GAAP is followed.

Chapter 2 Exercises

Questions:
1. A balance sheet is a financial statement that shows a picture of a business at a particular moment in time. It tells what the assets, liabilities, and owners' equity are at that moment.
2. Assets are future economic benefits of which the business owns a right to.
3. Liabilities are economic obligations of the business.
4. Owners' equity is the excess of assets over liabilities

Problems:
A.
- A. $29,500
- B. $13,500
- C. $49,000
- D. $3,000
- E. $11,000

B.
Your Company
Balance Sheet
December 31, 2001

Assets		
Current assets:		
Cash	$36,000	
Accounts receivable	27,000	
Inventory	32,000	$95,000
Long-term assets:		
Land	$54,000	
Building	72,000	126,000
Total assets		$221,000

Equities		
Current Liabilities:		
Accounts payable	$21,000	
Salaries payable	7,500	$28,500
Stockholders' equity:		
Capital stock	$150,000	
Retained earnings	42,500	192,500
Total equities		$221,000

Chapter 3 Exercises

Questions:
1. The income statement is a financial statement that shows the net income, or earnings, of the company.
2. Net income is the excess of revenues over expenses.
3. Revenues are assets coming in, such as cash received for goods sold.
4. Expenses are assets going out; the cost of goods or services used to generate income.

Problems:
A.
- A. $30,000
- B. $9,500
- C. $9.50

B.
Your Company
Income Statement
For the Year Ended December 31, 2008

Revenue:		
Sales		$293,000
Deduct expenses:		
Cost of goods sold	$175,000	
Salaries expense	59,000	
Rent expense	12,000	
Other expense	10,500	256,500
Net income		$36,500
Earnings per share		$24.33

Chapter 6 Exercises

Questions:

1. Transactions are economic events that change the assets or equities, or both, of the company.
2. The basic accounting equation is Assets = Equities.

Problems:

A. See page 126 for the transaction worksheet.

B. 1. See page 127 for the transaction worksheet.

2.

Smiling Onion Company
Balance Sheet
December 31, 2001

Assets			Equities		
Current assets:			Current liabilities:		
Cash	$88,500		Accounts Payable	$40,000	
Accounts Receivable	30,000		Salaries Payable	5,000	$45,000
Inventory	22,500	$141,000			
			Stockholders' equity:		
Long-term investment:			Capital stock	$90,000	
Investment in land		20,000	Retained earnings	26,000	116,000
Total assets		$161,000	Total equities		$161,000

Smiling Onion Company
Statement of Retained Earnings
For the Year Ended December 31, 2001

Retained earnings, January 1, 2001	$0
Net income for 2001	28,500
Total	$28,500
Dividends paid	2,500
Retained earnings, December 31, 2001	$26,000

Smiling Onion Company
Income Statement
For the Year Ended December 31, 2001

Revenue:		
Sales of merchandise		$124,000
Deduct expenses:		
Cost of goods sold	$65,500	
Salaries expense	21,000	
Rent expense	7,500	
Advertising expense	1,500	95,500
Net income		$28,500

Smiling Onion Company
Statement of Cash Flow
For the Year Ended December 31, 2001

Sources of financial resources:		
Cash provided from operations:		
Net Income		$28,500
Adjustments to reconcile net income to net cash provided by operating activities:		
Increase in Accounts receivable	$(30,000)	
Increase in Inventory	(22,500)	
Increase in Accounts payable	40,000	
Increase in Salaries payable	5,000	(7,500)
Cash provided from operations for period		$21,000
Cash provided from other sources:		
Issuance of Capital stock		90,000
Total financial resources provided for period		$111,000
Uses of financial resources:		
Cash applied		
Purchase of land	$20,000	
Dividends paid	,500	
Total financial resources used for period		22,500
Increase in cash for period		$88,500
Summary:		
Increase in cash for period		$88,500
Cash balance at beginning of period		0
Cash balance at end of period		$88,500

Chapter 7 Exercises

Questions:

1. A journal entry is the record of a transaction listing the date, the accounts affected by the transaction, and the amounts.
2. A compound journal entry is one in which there are more than one debit and one credit.
3. An account is the record of the activity for a particular asset or equity.
4. The ledger is a book, which holds all of the account records for a company.
5. Debits are entries made to the left side of an account. They increase assets and decrease equities. Credits are entries made to the right side of an account. They decrease assets and increase equities.
6. The accounts that normally carry a debit balance are assets, expenses, and dividends.
7. The accounts that normally carry a credit balance are liabilities, capital stock, retained earnings, and revenues.
8. Double entry accounting refers to the requirement of debits equaling credits in every transaction.

Problems:

A.

Journal — Page 1

20XX

		Inventory		65,000	
		Accounts payable			65,000
		Purchased inventory on account			
		Cash		70,000	
		Sales			70,000
		Cash sales			
		Cost of goods sold		42,000	
		Inventory			42,000
		Cost of sales			
		Miscellaneous expenses		3,500	
		Cash			3,500
		Paid for miscellaneous expenses			
		Salaries expense		20,000	
		Cash			20,000
		Paid salaries			
		Accounts payable		30,000	
		Cash			30,000
		Paid on account			

Account Title Rent Expense Account No. 517

			Ref.	Debit	Credit	Balance
2002						
May	1		1	375		375 Dr.

Account Title Salaries Expense Account No. 519

			Ref.	Debit	Credit	Balance
2002						
May	11		1	250		250 Dr.
	18		2	350		600 Dr.
	25		3	350		950 Dr.
	31		4	300		1,250 Dr.

3.
Up 'N Down Corp.
Trial Balance
May 31, 2002

	Debit	Credit
Cash	3,995	
Accounts receivable	960	
Inventory	2,400	
Accounts payable		2,500
Advertising payable		30
Salaries payable		300
Capital stock		5,000
Dividends	500	
Sales		5,700
Cost of goods sold	3,600	
Advertising expense	350	
Office expense	100	
Rent expense	375	
Salaries expense	1,250	
	13,530	13,530

4.

Up 'N Down Corp.
Balance Sheet
May 31, 2002

Assets		
Current assets:		
Cash	$3,995	
Accounts receivable	960	
Inventory	2,400	
Total assets		$7,355
Equities		
Current liabilities:		
Accounts payable	$2,500	
Advertising payable	30	
Salaries payable	300	$2,830
Stockholders' equity:		
Capital stock (500 shares)	$5,000	
Retained earnings	(475)	4,525
Total equities		$7,355

Up 'N Down Corp.
Statement of Retained Earnings
For the Year Ended May 31, 2002

Retained earnings, May 1, 2002	$0
Net income	25
Total	$25
Dividends paid	500
Retained earnings, May 31, 2002	($475)

Up 'N Down Corp.
Income Statement
For the Year Ended May 31, 2002

Revenue:		
Sales		$5,700
Deduct expenses:		
Cost of goods sold	$3,600	
Advertising expense	350	
Office expense	100	
Rent expense	375	
Salaries expense	1,250	5,675
Net income		$25

Account Title Sales Account No. 411

			Ref.	Debit	Credit	Balance
2005						
	3		1		43,000	43,000 Cr.
	7		1		78,000	121,000 Cr.

Account Title Cost of Goods Sold Account No. 511

			Ref.	Debit	Credit	Balance
2005						
	3		1	27,000		27,000 Dr.
	7		1	51,000		78,000 Dr.

Account Title Other Expense Account No. 515

			Ref.	Debit	Credit	Balance
2005						
	8		1	2,400		2,400 Dr.

Account Title Salaries Expense Account No. 519

			Ref.	Debit	Credit	Balance
2005						
	9		2	28,000		28,000 Dr.

3.
Speed Corporation
Unadjusted Trial Balance
December 31, 2005

Cash	17,600	
Accounts receivable	81,500	
Inventory	12,000	
Bond investment	7,500	
Land	10,000	
Building	165,500	
Accumulated depreciation		3,500
Accounts payable		24,500
Salaries payable		0
Capital stock		200,000
Retained earnings		56,000
Dividends	2,500	
Sales		121,000
Cost of goods sold	78,000	
Other expense	2,400	
Salaries expense	28,000	
Depreciation expense	0	
	405,000	405,000

Chapter 11 Exercises

Questions:

1. Adjusting entries are those entries made at the end of the year to adjust account balances to accurately reflect the activities of the year.
2. Depreciation is the cost of the benefit received from using an asset. It recognizes the decreased value of the asset over time.
3. A single-step format income statement is one in which total expenses are deducted from total revenues in order to reach net income in one step.
4. A multi-step format income statement is one in which we show groups of data and report income for each group before arriving at net income.
5. Selling expenses are those expenses directly related to the effort put into promoting and selling the product of the company.
6. General and administrative expenses are the costs of actually running the company.
7. Nonoperating revenues and expenses are items not directly related to the primary operations of the company.
8. Nonoperating items are reported net on the income statement. In a single-step format, they would be a line item in either the revenue or expense section, depending on whether they are a revenue or an expense. In a multi-step format, they are reported together under the "Nonoperating items" section.
9. An extraordinary item is one which is unusual for the business and which rarely happens, such as a tornado in the Pacific Northwest.

Problems:

A.

Journal Page 1

2005					
	1	Salaries expense		2,600.00	
		Salaries payable			2,600.00
		December salaries owed			
	2	Interest receivable		156.25	
		Interest income			156.25
		Interest earned on bond			
	3	Advertising expense		1,200.00	
		Prepaid advertising			1,200.00
		Expense advertising for 2005			

B.
Smith & Company
Bank Reconciliation
May 31, 2003

Balance, per books		$2,786.80
Add Interest on account		40.00
		$2,826.80
Deduct:		
Bank service fee	$35.00	
Error on recording check #1339	9.00	44.00
Adjusted cash balance		$2,782.80
Balance per bank		$4,243.20
Add deposit in transit		550.00
		$4,793.20
Deduct outstanding checks:		
#1341	$723.45	
#1345	572.10	
#1350	123.00	
#1351	174.50	
#1352	355.60	
#1353	61.75	2,010.40
Adjusted cash balance		$2,782.80

Journal Page 1

2003					
May	31	Bank service fee		35.00	
		Cash			35.00
		Bank service fee			
	31	Accounts payable		9.00	
		Cash			9.00
		Error recording check #1339			
	31	Cash		40.00	
		Interest revenue			40.00
		Received interest on bank account			

Chapter 15 Exercises

Questions:
1. Marketable securities are an investment in corporate stocks or bonds or in government securities for the short-term.
2. Current is usually the normal operating cycle or one year, whichever is longer.
3. The cost of marketable securities is made up of the purchase price plus any brokerage fees, taxes, etc. related to the purchase.
4. Marketable equity securities are investments in stocks which can pay dividends. Marketable debt securities are investments in bonds which pay interest.
5. The value of marketable securities can be reported on the balance sheet either at cost or at lower of cost or market. They are never reported greater than the original cost.

Problem:
1.

Journal Page 1

2001					
Jan	5	Marketable equity securities		7600.00	
		Cash			7600.00
		Investment in 100 shares A Co. stock			
Feb	15	Marketable debt securities		4800.00	
		Interest receivable		31.25	
		Cash			4831.25
		Investment in 5% bonds of B Co.			
Mar	31	Cash		75.00	
		Dividend revenue			75.00
		Received dividends on A Co. stock			
Apr	10	Marketable equity securities		5475.00	
		Cash			5475.00
		Investment in 600 shares C Co. stock			
July	1	Cash		125.00	
		Interest revenue			93.75
		Interest receivable			31.25
		Received interest on B Co. bonds			
Sep	20	Cash		1600.00	
		Marketable equity securities			1520.00
		Gain on sale			80.00
		Sold 20 shares A Co. stock			
Dec	30	Cash		120.00	
		Dividend revenue			120.00
		Received dividend on C Co. stock			

Yankee Doodle, LLC
Income Statement
For the Year Ended December 31, 2003

Sales		$174,000
Sales returns & allowances		4,000
Net sales		$170,000
Cost of goods sold		110,000
Gross margin		$60,000
Operating expenses:		
Salaries expense	$17,000	
Office expense	5,000	
Miscellaneous expense	3,000	
Depreciation expense	2,000	27,000
Net income		$33,000

Yankee Doodle, LLC
Statement of Cash Flow
For the year ended December 31, 2003

Sources of financial resources:		
Cash provided from operations:		
Net Income		$33,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease in Accounts receivable	$3,000	
Decrease in Inventory	1,000	
Increase in Accounts payable	2,000	
Increase in Advances from customers	4,000	
Increase in Depreciation	2,000	12,000
Total financial resources provided for period		$45,000
Uses of financial resources:		
Cash applied		
Purchased building	$60,000	
Partners' draw	7,500	
Total financial resources used for period		67,500
Decrease in cash for period		$(22,500)
Summary:		
Cash balance at beginning of period		$54,500
Decrease in cash		(22,500)
Cash balance at end of period		$32,000

Chapter 21 Exercises

Questions:

1. A payroll register is where all the earning information for each employee is recorded in each payroll period. This information includes name, employee number, marital status, number of hours worked, regular and overtime earnings, all deductions, net amount paid, and check number.
2. Some of the withholdings from employees' wages are FICA, FIT, SIT, insurance premiums, 401-K contributions, etc.
3. Employer's payroll taxes include FICA, FUTA, and SUTA.

Problems:

A.

Earnings:		
Regular	$2,500	
Overtime	350	
Total earnings		$2,850
Withholdings:		
FICA – OASDI	$175	
FICA – HI	40	
FIT	190	
Total withholdings		405
Net Pay		$2,445

B.

Regular earnings	$2,500	
Overtime earnings	350	
Total earnings		$2,850
FICA tax withheld – OASDI	$175	
FICA tax withheld – HI	40	
FIT withheld	190	
Total deductions		$405
Total net pay		2,445
Total earnings		$2,850

Mega Munch Corporation
Statement of Cash Flow
For the Year Ended December 31, 2004

Sources of financial resources:		
Cash provided from operations:		
Net income (loss)		($3,151.75)
Adjustments to reconcile net income to net cash provided by operating activities:		
Decrease (increase) in Accounts receivable	$370.00	
Decrease (increase) in Interest receivable	(83.33)	
Decrease (increase) in Inventory	469.00	
Increase (decrease) in Accounts payable	(765.00)	
Increase (decrease) in Advances from customers	50.00	
Increase (decrease) in Salaries payable	250.00	
Increase in Depreciation	1,500.00	1,790.67
Total financial resources provided for period		$(1,361.08)
Uses of financial resources:		
Cash applied:		
Purchase of bonds	$5,000.00	
Dividends paid	600.00	
Total financial resources used for period		5,600.00
Increase (decrease) in cash for period		$(6,961.08)
Summary:		
Increase (decrease) in cash for period		$(6,961.08)
Cash balance at beginning of period		12,593.00
Cash balance at end of period		$5,631.92

G. Closing Entries

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2004					
Dec	31	Sales	410	42,628.00	
		Cash over and short	550	0.10	
		Interest revenue	555	83.33	
		Retained earnings	311	3,151.75	
		Sales discounts	412		603.20
		Sales returns and allowances	411		159.20
		Cost of goods sold	510		20,317.00
		Advertising expense	516		200.00
		Depreciation expense	518		1,500.00
		Payroll tax expense – sales	527		1,039.18
		Sales salaries expense	524		10,750.00
		Bank fees	517		195.00
		Insurance expense	519		300.00
		Miscellaneous expense	520		245.00
		Office supplies expense	521		390.00
		Postage expense	522		97.60
		Rent expense	523		4,500.00
		Office salaries expense	525		4,750.00
		Payroll tax expense – administrative	526		597.00
		Bad debt expense	530		120.00
		Unrealized loss on securities	558		100.00
		To close revenue and expense accounts			
		and transfer net income to retained			
		earnings			
	31	Retained earnings	311	600.00	
		Dividends	312		600.00
		To close dividend account and transfer			
		to retained earnings			