

NAME ANSWER KEY

PROFESSOR'S NAME \_\_\_\_\_

SECTION \_\_\_\_\_

SCORE \_\_\_\_\_

ACC 255 FALL 2011  
 COVER SHEET FOR  
 COMPREHENSIVE PROBLEM 1 (CHAPTERS 1, 3 & 4)

**INSTRUCTIONS:** COMPLETE ALL REQUIREMENTS FOR THE COMPREHENSIVE PROBLEM AND TURN IN THE ORIGINAL OF YOUR PROBLEM (STAPLED PLEASE) BY THE DUE DATE & TIME SPECIFIED BY YOUR PROFESSOR. NO LATE PROBLEMS WILL BE ACCEPTED FOR ANY REASON!!! YOU SHOULD MAKE A COPY OF YOUR SOLUTION TO CHECK YOUR ANSWERS WITH THE SOLUTIONS WHICH WILL BE PROVIDED TO YOU BY YOUR PROFESSOR.

**REQUIREMENTS:**

- (1) PREPARE JOURNAL ENTRIES \_\_\_\_\_
- (2) POST JOURNAL ENTRIES \_\_\_\_\_
- (3) PREPARE UNADJUSTED TRIAL BALANCE \_\_\_\_\_
- (4) PREPARE ADJUSTING JOURNAL ENTRIES \_\_\_\_\_
- (5) POST ADJUSTING JOURNAL ENTRIES \_\_\_\_\_
- (6) PREPARE ADJUSTED TRIAL BALANCE \_\_\_\_\_
- (7) PREPARE FINANCIAL STATEMENTS:
  - INCOME STATEMENT \_\_\_\_\_
  - STATEMENT OF RETAINED EARNINGS \_\_\_\_\_
  - BALANCE SHEET \_\_\_\_\_
- (8) PREPARE CLOSING ENTRIES \_\_\_\_\_
- (9) POST CLOSING ENTRIES \_\_\_\_\_
- (10) PREPARE POST CLOSING TRIAL BALANCE \_\_\_\_\_

The purpose of Comprehensive Problem 1 is to review and reinforce your understanding of the accounting cycle. The number of transactions included in this comprehensive problem has been kept to a minimum so that you can simulate what might happen in actual practice without unnecessary redundancy or excessive time requirements.

### BACKGROUND

Larry Looker is an avid hiker, and always wanted to combine his love of the outdoors with a way to earn a living. He decided that a way to do this would be to use llamas, which he raised as a hobby, to carry gear for hikers on long distance hikes in remote sections of northern Arizona that are not accessible by vehicle. This is a livery service, providing guaranteed transport and delivery of camping gear to the hikers' final destination for each day's hike. The fees charged will be based on a combination of the distance covered, the number of llamas required to carry the gear and the number of employees required to manage the llamas.

Larry incorporated his new business on June 1, 2011 as Larry's Llama Livery Service, Inc. Larry has hired you to perform the accounting and record-keeping for the business. He expects your work as an accounting professional to be neat and properly formatted. You have established the following chart of accounts for Larry's Llama Livery, Inc.:

ACCT #	ACCOUNT TITLE	ACCT #	ACCOUNT TITLE
111	Cash	311	Common Stock
112	Accounts Receivable	312	Retained Earnings
113	Supplies	313	Dividends
114	Prepaid Insurance	314	Income Summary
141	Building	411	Service Revenue
142	Accumulated Depreciation—Building	511	Wages Expense
143	Equipment	512	Advertising Expense
144	Accumulated Depreciation—Equipment	513	Utilities Expense
211	Notes Payable	514	Supplies Expense
212	Accounts Payable	515	Insurance Expense
213	Wages Payable	521	Depreciation Expense
214	Unearned Service Revenue	531	Interest Expense
215	Interest Payable	532	Income Tax Expense
216	Income Taxes Payable		

**USE THESE ACCOUNT TITLES FOR YOUR JOURNAL ENTRIES!!!**

**DISCOVERY OF ERRORS:** Refer to the page following the transactions for suggestions in case you make an error.

**COMPREHENSIVE PROBLEM 1 REQUIREMENTS**

- (1) Prepare journal entries to record the June 2011 transactions listed on the following page (refer to the chart of accounts for the appropriate account titles to use). *Leave a space after each entry!*  
Check figure: Total Debits = \$369,885.
- (2) Post the journal entries to the T-accounts and calculate the account balances. Check figure: Cash Balance = \$52,810.
- (3) Prepare an unadjusted trial balance. Check figure: Total Debits = \$302,420.
- (4) Prepare adjusting journal entries in the general journal based on the following information (all AJEs are dated December 31):
  - (a) The building (barn and office space) has an estimated useful life of 25 years. Record depreciation for one month.
  - (b) The equipment has an estimated useful life of 7 years. Record depreciation for one month.
  - (c) Record insurance expired for one month.
  - (d) Supplies on hand at the end of June have a cost of \$310.
  - (e) Accrue employee wages for 4 days from Monday June 27 through Thursday June 30 (payroll is \$3,600 for the two week pay period totaling 10 days for a Monday-Friday workweek).
  - (f) Accrue interest for June on the \$180,000 Mountain High Bank note payable. The annual interest rate is 4%.
  - (g) As of the end of June, \$975 of the services have been performed for customers for which payment had been received in advance on June 17.
  - (h) In June, entered into a contact with Barr & Associates, CPAs to provide gear transport services for the firm's professionals. Larry's Llama Livery will bill Barr & Associates in the following month for services provided. Services totaling \$700 were performed in June and will be billed in July 2011.
  - (i) Income taxes to accrue for June are estimated to be \$1,033.

Check figure: Total Debits = \$6,643.
- (5) Post the adjusting entries to the T-accounts and calculate the account balances.
- (6) Prepare an adjusted trial balance. Check figure: Total Debits = \$307,073.
- (7) Prepare the financial statements:
  - (a) Income Statement: Check figure: Net Income = \$2,592.
  - (b) Statement of Retained Earnings: Check figure: Retained Earnings, June 30, 2011 = \$1,567.
  - (c) Balance Sheet: Check figure: Total Assets = \$292,560.
- (8) Prepare the closing entries in the general journal (all CJE's are dated June 30). Check figure: Total Debits = \$31,425.
- (9) Post the closing entries to the T-accounts and calculate account balances.
- (10) Prepare a post-closing trial balance. Check figure: Total Debits = \$293,440. Transactions:

## COMPREHENSIVE PROBLEM 1 (CHAPTERS 1, 3 &amp; 4)

- June 1 Larry's Llama Livery, Inc. sold 50,000 shares of \$2 par value common stock for \$100,000.
- 1 Found the perfect building with barn and office space in which to locate the business. Negotiated a price of \$225,000; Larry's Llama Livery paid \$45,000 in cash and signed a promissory note for the \$180,000 remainder to Mountain High Bank.
- 2 Purchased equipment for the business for \$10,920 on account (credit) from Llama Equipment Company.
- 2 Paid the \$2,100 premium for a 1-year insurance policy.
- 3 Paid \$700 for advertising in the Tree Tops Press Newspaper to run throughout the month.
- 5 Purchased \$1,150 of supplies on account.
- 13 Paid \$5,000 on account to Llama Equipment Company for the equipment purchased on June 2.
- 13 Employee wages are paid bi-weekly on the Monday following the payroll period (Monday-Friday workweek). Paid employee wages of \$2,880 for the payroll period ending June 10.
- 14 Gear transport services provided to customers on account totaled \$3,475.
- 16 Gear transport services provided to customers for cash during the first half of June totaled \$4,750.
- 17 Received \$1,825 cash in advance (deposits) from customers for services to be performed in late June and early July.
- 23 Paid utility bills (water, electric, telephone) for the month totaling \$460.
- 24 Received \$1,700 from customers for payments on their accounts.
- 27 Paid employee wages of \$3,600 for the payroll period ending June 24.
- 30 Gear transport services provided to customers for cash during the second half of June totaled \$5,300.
- 30 Declared and paid cash dividends to the stockholders, \$1,025.

**DISCOVERY OF ERRORS**

If your **TRIAL BALANCE** doesn't balance:

- (1) Determine the difference between the totals.
- (2) Possible sources of the error:
  - (a) If difference is 10, 100, 1,000, etc., it may be the result of an addition error.
  - (b) Look for an omission of a dr. or cr. posting in the amount of the difference.
  - (c) If difference is evenly divisible by 2, half of the difference may be the result of a dr. posted as a cr. or vice versa.
  - (d) If difference evenly divisible by 9, it could be a:
    - ==> transposition error (erroneous arrangement of digits; e.g. 542 instead of 452).
    - ==> slide error (entire number moved 1 or more spaces to right or left; e.g. 542 instead of 5,420).

If error not found, retrace steps of accounting process beginning with the last and working backwards:

- (1) Double check trial balance column totals.
- (2) Compare listings in trial balance with balance per T-account (also make sure items in dr. column have dr. balance; same for cr. items).
- (3) Recompute each balance in T-accounts.
- (4) Trace postings in T-accounts back to journal, placing a check by each item; then look for unchecked items in the journal.
- (5) Verify equality of dr. and cr. in journal by computing total of all debits and total of all credits.

If your **FINANCIAL STATEMENT** amounts do not agree with the check figures (and your trial balance balanced):

- (1) Look for accounts that are:
  - (a) included but should not be on that statement, or
  - (b) omitted.
- (2) Reexamine your journal entries; you may have recorded a transaction incorrectly.

**ANY TIME YOU HAVE AN ERROR THAT MAKES YOUR NUMBERS NOT BALANCE AND YOU CANNOT FIND THE ERROR, YOU SHOULD WRITE A NOTE ON YOUR WORK TO STATE THAT YOU KNOW THAT AMOUNT "A" SHOULD EQUAL AMOUNT "B".**

## GENERAL JOURNAL

DATE	ACCOUNT TITLES	Post ref	DEBIT	CREDIT
2011				
June 1	Cash	111	100,000	
	Common Stock	311		100,000
June 1	Building	141	225,000	
	Cash	111		45,000
	Notes Payable	211		180,000
June 2	Equipment	143	10,920	
	Accounts Payable	212		10,920
June 2	Prepaid Insurance	114	2,100	
	Cash	111		2,100
June 3	Advertising Expense	512	700	
	Cash	111		700
June 5	Supplies	113	1,150	
	Accounts Payable	212		1,150
June 13	Accounts Payable	212	5,000	
	Cash	111		5,000
June 13	Wages Expense	511	2,880	
	Cash	111		2,880
June 14	Accounts Receivable	112	3,475	
	Service Revenue	411		3,475

GENERAL JOURNAL

DATE	ACCOUNT TITLES	Post ref	DEBIT	CREDIT
2011				
June 16	Cash	111	4,750	
	Service Revenue	411		4,750
June 17	Cash	111	1,825	
	Unearned Service Revenue	214		1,825
June 23	Utilities Expense	513	460	
	Cash	111		460
June 24	Cash	111	1,700	
	Accounts Receivable	112		1,700
June 27	Wages Expense	511	3,600	
	Cash	111		3,600
June 30	Cash	111	5,300	
	Service Revenue	411		5,300
June 30	Dividends	313	1,025	
	Cash	111		1,025
	<b>ADJUSTING ENTRIES</b>			
June 30	Depreciation Expense (\$225,000 / 25 x 1/12)	521	750	
	Accumulated Depreciation—Building	142		750
June 30	Depreciation Expense (\$10,920 / 7 x 1/12)	521	130	
	Accumulated Depreciation—Equipment	144		130

## GENERAL JOURNAL

DATE	ACCOUNT TITLES	Post ref	DEBIT	CREDIT
2011				
June 30	Insurance Expense (\$2,100 x 1/12)	515	175	
	Prepaid Insurance	114		175
June 30	Supplies Expense (\$1,150 - \$310)	514	840	
	Supplies	113		840
June 30	Wages Expense (\$3,600 x 4/10)	511	1,440	
	Wages Payable	213		1,440
June 30	Interest Expense (\$180,000 x 4% x 1/12)	531	600	
	Interest Payable	215		600
June 30	Unearned Service Revenue	214	975	
	Service Revenue	411		975
June 30	Accounts Receivable	112	700	
	Service Revenue	411		700
June 30	Income Tax Expense	532	1,033	
	Income Taxes Payable	216		1,033
	<b>CLOSING ENTRIES</b>			
June 30	Service Revenue	411	15,200	
	Income Summary	314		15,200





## COMPREHENSIVE PROBLEM 1 (CHAPTERS 1, 3 &amp; 4)

## GENERAL LEDGER T-ACCOUNTS

<b>Cash</b>		<b>#111</b>		<b>Accounts Receivable</b>		<b>#112</b>	
6/1	100,000	6/1	45,000	6/14	3,475	6/24	1,700
6/16	4,750	6/2	2,100	Balance	1,775		
6/17	1,825	6/3	700	6/30 AJE	700		
6/24	1,700	6/13	5,000	Adj Bal	2,475		
6/30	5,300	6/13	2,880				
		6/23	460				
		6/27	3,600	<b>Supplies</b>			<b>#113</b>
		6/30	1,025	6/5	1,150		
Balance	52,810					6/30 AJE	840
				Adj Bal	310		
				<b>Prepaid Insurance</b>			<b>#114</b>
				6/2	2,100		
						6/30 AJE	175
				Adj Bal	1,925		
<b>Building</b>		<b>#141</b>		<b>Accumulated Depreciation-Building</b>		<b>#142</b>	
6/1	225,000					6/30 AJE	750
<b>Equipment</b>		<b>#143</b>		<b>Accumulated Depreciation-Equipment</b>		<b>#144</b>	
6/2	10,920					6/30 AJE	130

GENERAL LEDGER T-ACCOUNTS

Notes Payable		#211
	6/1	180,000

Accounts Payable		#212
6/13	5,000	6/2 10,920
		6/5 1,150
		Balance 7,070

Wages Payable		#213
	6/30 AJE	1,440

Unearned Service Revenue		#214
		6/17 1,825
6/30 AJE	975	
		Adj Bal 850

Interest Payable		#215
	6/30 AJE	600

Income Taxes Payable		#216
		6/30 AJE 1,033

Common Stock		#311
	6/1	100,000

Retained Earnings		#312
6/30 CJE	1,025	6/30 CJE 2,592
		Balance 1,567

Dividends		#313
6/30	1,025	6/30 CJE 1,025
Balance	0	

Income Summary		#314
6/30 CJE	12,608	6/30 CJE 15,200
6/30 CJE	2,592	
Balance	0	

## COMPREHENSIVE PROBLEM 1 (CHAPTERS 1, 3 &amp; 4)

## GENERAL LEDGER T-ACCOUNTS

Service Revenue		#411	Wages Expense		#511
	6/14	3,475	6/13	2,880	
	6/16	4,750	6/27	3,600	
	6/30	5,300	Balance	6,480	
	Balance	13,525	6/30 AJE	1,440	
	6/30 AJE	975	Adj Bal	7,920	
	6/30 AJE	700			6/30 CJE
	Adj Bal	15,200			7,920
6/30 CJE	15,200		Balance	0	
	Balance	0			

Advertising Expense		#512	Utilities Expense		#513
6/3	700	6/30 CJE	700	6/23	460
Balance	0			6/30 CJE	460
				Balance	0

Supplies Expense		#514	Insurance Expense		#515
6/30 AJE	840	6/30 CJE	840	6/30 AJE	175
Balance	0			6/30 CJE	175
				Balance	0

Depreciation Expense		#521	Interest Expense		#531
6/30 AJE	750		6/30 AJE	600	6/30 CJE
6/30 AJE	130		Balance	0	600
Adj Bal	880				
		6/30 CJE			880
Balance	0				

Income Tax Expense		#532
6/30 AJE	1,033	6/30 CJE
Balance	0	1,033



## COMPREHENSIVE PROBLEM 1 (CHAPTERS 1, 3 &amp; 4)

LARRY'S LLAMA LIVERY, INC.  
 ADJUSTED TRIAL BALANCE  
 JUNE 30, 2011

ACCOUNT TITLES	DEBIT	CREDIT
Cash	\$ 52,810	
Accounts Receivable	2,475	
Supplies	310	
Prepaid Insurance	1,925	
Building	225,000	
Accumulated Depreciation—Building		\$ 750
Equipment	10,920	
Accumulated Depreciation—Equipment		130
Notes Payable		180,000
Accounts Payable		7,070
Wages Payable		1,440
Unearned Service Revenue		850
Interest Payable		600
Income Taxes Payable		1,033
Common Stock		100,000
Dividends	1,025	
Service Revenue		15,200
Wages Expense	7,920	
Advertising Expense	700	
Utilities Expense	460	
Supplies Expense	840	
Insurance Expense	175	
Depreciation Expense	880	
Interest Expense	600	
Income Tax Expense	1,033	
	_____	_____
<b>TOTALS</b>	<b><u>\$ 307,073</u></b>	<b><u>\$ 307,073</u></b>

LARRY'S LLAMA LIVERY, INC.  
INCOME STATEMENT

COMPLETE THE  
DATE LINE ⇒

FOR THE MONTH ENDED JUNE 30, 2011

<b>REVENUES</b>		
Service Revenue		\$ 15,200
<b>EXPENSES</b>		
Wages Expense	\$ 7,920	
Advertising Expense	700	
Utilities Expense	460	
Supplies Expense	840	
Insurance Expense	175	
Depreciation Expense	880	
Interest Expense	600	
Income Tax Expense	<u>1,033</u>	
Total Expenses		<u>12,608</u>
<b>NET INCOME</b>		<u>\$ 2,592</u>

LARRY'S LLAMA LIVERY, INC.  
RETAINED EARNINGS STATEMENT

COMPLETE THE  
DATE LINE ⇒

FOR THE MONTH ENDED JUNE 30, 2011

Beginning Retained Earnings, June 1, 2011		\$ 0
Net Income		2,592
Less Dividends		<u>(1,025)</u>
<b>Ending Retained Earnings, June 30, 2011</b>		<u>\$ 1,567</u>

**LARRY'S LLAMA LIVERY, INC.**  
**BALANCE SHEET**

**COMPLETE THE  
DATE LINE ⇒**

**JUNE 30, 2011**

<b>ASSETS</b>		
Cash		\$ 52,810
Accounts Receivable		2,475
Supplies		310
Prepaid Insurance		1,925
Building	\$ 225,000	
Accumulated Depreciation—Building	<u>(750)</u>	224,250
Equipment	\$ 10,920	
Accumulated Depreciation—Equipment	<u>(130)</u>	<u>10,790</u>
<b>Total Assets</b>		<b><u>\$ 292,560</u></b>
<b>LIABILITIES</b>		
Notes Payable	\$ 180,000	
Accounts Payable	7,070	
Wages Payable	1,440	
Unearned Service Revenue	850	
Interest Payable	600	
Income Taxes Payable	<u>1,033</u>	
<b>Total Liabilities</b>		<b>\$ 190,993</b>
<b>STOCKHOLDERS' EQUITY</b>		
Common Stock	\$ 100,000	
Retained Earnings	<u>1,567</u>	
<b>Total Stockholders' Equity</b>		<b><u>101,567</u></b>
<b>Total Liabilities and Stockholders' Equity</b>		<b><u>\$ 292,560</u></b>





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