

Exercise 4-1 (30 minutes)

a.	Unearned Fee Revenue	5,000	
	Fee Revenue.....		5,000
	<i>To record earned portion of fee received in advance.</i>		
b.	Wages Expense.....	8,000	
	Wages Payable.....		8,000
	<i>To record wages accrued but not yet paid.</i>		
c.	Depreciation Expense—Equipment	18,534	
	Accumulated Depreciation—Equipment		18,534
	<i>To record depreciation expense for the year.</i>		
d.	Office Supplies Expense	4,992	
	Office Supplies **		4,992
	<i>To record office supplies used (\$240 + \$5,239 - \$487).</i>		
e.	Insurance Expense	2,800	
	Prepaid Insurance *		2,800
	<i>To record insurance coverage that expired (\$4,000 - \$1,200).</i>		
f.	Interest Receivable	1,000	
	Interest Revenue		1,000
	<i>To record interest earned but not yet received.</i>		
g.	Interest Expense	2,500	
	Interest Payable		2,500
	<i>To record interest incurred but not yet paid.</i>		

Notes:

Prepaid Insurance *			Office Supplies **		
Beg. Bal.	4,000		Beg. Bal.	240	
			Purch.	5,239	
		?			?
		Used			Used
End. Bal.	1,200		End. Bal.	487	

Exercise 4-3 (15 minutes)

Adjusting entry:

2002			
Dec. 31	Wages Expense (5 workers x \$250)	1,250	
	 Wages Payable.....		1,250
	<i>To record accrued wages for one day.</i>		

Payday entry:

2003			
Jan. 4	Wages Expense.....	3,750	
	 Wages Payable.....	1,250	
	 Cash		5,000
	<i>To record accrued and current wages.</i>		

Exercise 4-6 (25 minutes)

a.

Apr. 30	Legal Fees Expense.....	3,500	
	 Legal Fees Payable.....		3,500
	<i>To record accrued legal fees.</i>		

May 12	Legal Fees Payable	3,500	
	 Cash		3,500
	<i>To pay accrued legal fees.</i>		

b.

Apr. 30	Interest Expense.....	2,667	
	 Interest Payable		2,667
	<i>To record accrued interest expense (1.0% x \$800,000 x 10/30).</i>		

May 20	Interest Payable.....	2,667	
	 Interest Expense.....	5,333	
	 Cash		8,000
	<i>To record payment of accrued and current interest expense (1.0% x \$800,000 x 20/30).</i>		

c.

Apr. 30	Salaries Expense.....	4,000	
	Salaries Payable		
4,000			
	<i>To record accrued salaries (\$10,000 x 2/5 week).</i>		
May 3	Salaries Payable.....	4,000	
	Salaries Expense.....	6,000	
	Cash		10,000
	<i>To record payment of accrued and current salaries (\$10,000 x 3/5 week).</i>		

Problem 4-2A (35 minutes)

Part 1

Adjustment (a)

Dec. 31	Office Supplies Expense	14,846	
	Office Supplies.....		14,846
	<i>To record cost of supplies used (\$4,000 + \$13,400 - \$2,554).</i>		

Adjustment (b)

Dec. 31	Insurance Expense	11,440	
	Prepaid Insurance.....		11,440
	<i>To record cost of insurance coverage for the year.</i>		

<i>Policy</i>	<i>Cost per Month</i>		<i>Months Active in 2003</i>	<i>2003 Cost</i>
A	\$600	\$14,400/24 mo.)	12	\$ 7,200
B	360	\$12,960/36 mo.)	9	3,240
C	200	\$2,400/12 mo.)	5	1,000
Total				<u>\$11,440</u>

Adjustment (c)

Dec. 31	Salaries Expense (2 days x \$1,960).....	3,920	
	Salaries Payable		3,920
	<i>To record accrued but unpaid wages.</i>		

Problem 4-2A (Continued)

Adjustment (d)

Dec. 31	Depreciation Expense—Building.....	30,500	
	Accumulated Depreciation—Building		30,500
	<i>To record annual depreciation expense</i>		
	<i>[($\\$960,000 - \\$45,000$) / 30 years = $\\$30,500$]</i>		

Adjustment (e)

Dec. 31	Rent Receivable.....	3,000	
	Rent Earned.....		3,000
	<i>To record earned but unpaid Dec. rent.</i>		

Adjustment (f)

Dec. 31	Unearned Rent (2 x \$2,800)	5,600	
	Rent Earned.....		5,600
	<i>To record the amount of rent earned for November and December.</i>		

Part 2

Cash Payment for (c)

Jan. 6	Salaries Payable	3,920	
	Salaries Expense (3 days x \$1,960)	5,880	
	Cash		9,800
	<i>To record payment of accrued and current salaries.</i>		

Cash Payment for (e)

Jan. 15	Cash.....	6,000	
	Rent Receivable		3,000
	Rent Earned.....		3,000
	<i>To record past due rent for two months.</i>		

Problem 4-3A (90 minutes)

Part 1

Cash		Equipment	
Balance	34,000	Balance	80,000 123,900

Accounts Receivable	
Balance	0
(f)	7,500
Balance	7,500

Teaching Supplies	
Balance	8,000
(b)	5,200
Balance	2,800

Prepaid Insurance	
Balance	12,000
(a)	2,400
Balance	9,600

Prepaid Rent	
Balance	3,000
(h)	3,000
Balance	0

Professional Library	
Balance	35,000

Accumulated Depreciation— Professional Library	
Balance	10,000
(d)	7,200
Balance	17,200

Accumulated Depreciation— Equipment	
Balance	15,000
(c)	13,200
Balance	28,200

Accounts Payable	
Balance	26,000

Salaries Payable	
Balance	0
(g)	400
Balance	400

Unearned Training Fees	
Balance	12,500
(e)	5,000
Balance	7,500

J. Thomas, Capital	
Balance	70,000

J. Thomas, Withdrawals	
Balance	30,000

Problem 4-3A (Continued)

Tuition Fees Earned	
Balance	123,900
(f)	7,500
Balance	131,400

Rent Expense	
Balance	33,000
(h)	3,000
Balance	36,000

Training Fees Earned	
Balance	40,000
(e)	5,000
Balance	45,000

Teaching Supplies Expense	
Balance	0
(b)	5,200
Balance	5,200

Depreciation Expense— Professional Library	
Balance	0
(d)	7,200
Balance	7,200

Advertising Expense	
Balance	6,000

Depreciation Expense— Equipment	
Balance	0
(c)	13,200
Balance	13,200

Utilities Expense	
Balance	6,400

Salaries Expense	
Balance	50,000
(g)	400
Balance	50,400

Insurance Expense	
Balance	0
(a)	2,400
Balance	2,400

Problem 4-3A (Continued)
Part 2

	<u>Adjustment (a)</u>		
Dec. 31	Insurance Expense	2,400	
	Prepaid Insurance.....		2,400
	<i>To record the insurance expired.</i>		
	<u>Adjustment (b)</u>		
31	Teaching Supplies Expense	5,200	
	Teaching Supplies		5,200
	<i>To record supplies used (\$8,000-\$2,800).</i>		
	<u>Adjustment (c)</u>		
31	Depreciation Expense—Equipment	13,200	
	Accumulated Depreciation—Equip.....		13,200
	<i>To record equipment depreciation.</i>		
	<u>Adjustment (d)</u>		
31	Depreciation Expense—Profess. Library	7,200	
	Accumulated Depreciation— Professional Library		7,200
	<i>To record professional library depreciation.</i>		
	<u>Adjustment (e)</u>		
31	Unearned Training Fees	5,000	
	Training Fees Earned		5,000
	<i>To record training fees earned that were collected in advance.</i>		
	<u>Adjustment (f)</u>		
31	Accounts Receivable.....	7,500	
	Tuition Fees Earned.....		7,500
	<i>To record tuition earned (\$3,000 x 2 1/2 months).</i>		
	<u>Adjustment (g)</u>		
31	Salaries Expense	400	
	Salaries Payable.....		400
	<i>To record accrued salaries (2 days x \$100 x 2).</i>		
	<u>Adjustment (h)</u>		
31	Rent Expense	3,000	
	Prepaid Rent.....		3,000
	<i>To record expiration of prepaid rent.</i>		

Problem 4-3A (Continued)
Part 3

Thomas Technical Institute
Adjusted Trial Balance
December 31, 2002

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 34,000	
Accounts receivable	7,500	
Teaching supplies	2,800	
Prepaid insurance	9,600	
Prepaid rent	0	
Professional library	35,000	
Accumulated depreciation—Professional library		\$ 17,200
Equipment	80,000	
Accumulated depreciation—Equipment.....		28,200
Accounts payable		26,000
Salaries payable.....		400
Unearned training fees		7,500
J. Thomas, Capital		70,000
J. Thomas, Withdrawals	30,000	
Tuition fees earned		131,400
Training fees earned.....		45,000
Depreciation expense—Equipment	13,200	
Depreciation expense—Professional library	7,200	
Salaries expense	50,400	
Insurance expense.....	2,400	
Rent expense.....	36,000	
Teaching supplies expense	5,200	
Advertising expense.....	6,000	
Utilities expense.....	6,400	
Totals	<u>\$325,700</u>	<u>\$325,700</u>

Problem 4-3A (Continued)
Part 4

THOMAS TECHNICAL INSTITUTE Income Statement For Year Ended December 31, 2002		
Revenues:		
Tuition fees earned	\$131,400	
Training fees earned	<u>45,000</u>	
Total revenues		\$176,400
Expenses:		
Depreciation expense—Equipment.....	13,200	
Depreciation expense—Professional library ...	7,200	
Salaries expense	50,400	
Insurance expense	2,400	
Rent expense	36,000	
Teaching supplies expense.....	5,200	
Advertising expense	6,000	
Utilities expense	<u>6,400</u>	
Total expenses		<u>126,800</u>
Net income		<u>\$ 49,600</u>

THOMAS TECHNICAL INSTITUTE Statement of Changes in Owner's Equity For Year Ended December 31, 2002	
J. Thomas, Capital, January 1, 2002.....	\$ 70,000
Plus net income	<u>49,600</u>
	\$119,600
Less withdrawals by owner.....	<u>30,000</u>
J. Thomas, Capital, December 31, 2002 ...	<u>\$ 89,600</u>

Problem 4-3A (Concluded)

THOMAS TECHNICAL INSTITUTE		
Balance Sheet		
December 31, 2002		
Assets		
Cash.....		\$ 34,000
Accounts receivable		7,500
Teaching supplies		2,800
Prepaid insurance		9,600
Professional library	\$35,000	
Accumulated depreciation—Professional library	(17,200)	17,800
Equipment.....	80,000	
Accumulated depreciation—Equipment	(28,200)	51,800
Total assets.....		<u>\$123,500</u>
Liabilities		
Accounts payable.....	\$26,000	
Salaries payable	400	
Unearned training fees	7,500	
Total liabilities		\$ 33,900
Equity		
J. Thomas, Capital.....		89,600
Total liabilities and equity		<u>\$123,500</u>

Part 5

$$\text{Profit margin} = \frac{\$49,600}{\$176,400} = \underline{\underline{28.1\%}}$$