

Wells Technical Institute (WTI), a school owned by Tristana Wells, provides training to individuals who pay tuition directly to the school. WTI also offers training to groups in off-site locations. Its unadjusted trial balance as of December 31, 2015, follows. WTI initially records prepaid expenses and unearned revenues in balance sheet accounts. Descriptions of items a through h that require adjusting entries on December 31, 2015, follow.

	Problem 3-3A
	Preparing adjusting
	entries, adjusted trial
	balance, and financial
	statements
A1	P1 P2 P3

Additional Information Items

- a. An analysis of WTI's insurance policies shows that \$2,400 of coverage has expired.
- b. An inventory count shows that teaching supplies costing \$2,800 are available at year-end 2015.
- c. Annual depreciation on the equipment is \$13,200.
- d. Annual depreciation on the professional library is \$7,200.
- e. On November 1, WTI agreed to do a special six-month course (starting immediately) for a client. The contract calls for a monthly fee of \$2,500, and the client paid the first five months' fees in advance. When the cash was received, the Unearned Training Fees account was credited. The fee for the sixth month will be recorded when it is collected in 2016.
- f. On October 15, WTI agreed to teach a four-month class (beginning immediately) for an individual for \$3,000 tuition per month payable at the end of the class. The class started on October 15, but no payment has yet been received. (WTI's accruals are applied to the nearest half-month; for example, October recognizes one-half month accrual.)
- g. WTI's two employees are paid weekly. As of the end of the year, two days' salaries have accrued at the rate of \$100 per day for each employee.
- h. The balance in the Prepaid Rent account represents rent for December.

WELLS TECHNICAL INSTITUTE		
Unadjusted Trial Balance		
December 31, 2015		
	Debit	Credit
1		
2		
3	Cash	\$ 34,000
4	Accounts receivable	0
5	Teaching supplies	8,000
6	Prepaid insurance	12,000
7	Prepaid rent	3,000
8	Professional library	35,000
9	Accumulated depreciation—Professional library	\$ 10,000
10	Equipment	80,000
11	Accumulated depreciation—Equipment	15,000
12	Accounts payable	26,000
13	Salaries payable	0
14	Unearned training fees	12,500
15	T. Wells, Capital	90,000
16	T. Wells, Withdrawals	50,000
17	Tuition fees earned	123,900
18	Training fees earned	40,000
19	Depreciation expense—Professional library	0
20	Depreciation expense—Equipment	0
21	Salaries expense	50,000
22	Insurance expense	0
23	Rent expense	33,000
24	Teaching supplies expense	0
25	Advertising expense	6,000
26	Utilities expense	6,400
27	Totals	\$ 317,400 \$ 317,400
28		

Required

1. Prepare T-accounts (representing the ledger) with balances from the unadjusted trial balance.
2. Prepare the necessary adjusting journal entries for items a through h and post them to the T-accounts. Assume that adjusting entries are made only at year-end.
3. Update balances in the T-accounts for the adjusting entries and prepare an adjusted trial balance.
4. Prepare Wells Technical Institute's income statement and statement of owner's equity for the year 2015 and prepare its balance sheet as of December 31, 2015.

Check (2e) Cr. Training Fees Earned, \$5,000; (2f) Cr. Tuition Fees Earned, \$7,500; (3) Adj. trial balance totals, \$345,700; (4) Net income, \$49,600; Ending T. Wells, Capital \$89,600