

- b. From the adjusted trial balance prepared in part a, prepare an income statement and statement of retained earnings for the year ended December 31, current year. Also prepare the company's balance sheet dated December 31, current year.
- c. Prepare the necessary year-end closing entries.
- d. Prepare an after-closing trial balance.
- e. Compute the company's average monthly insurance expense for January and February of current year.
- f. Compute the company's average monthly rent expense for January through September of current year.
- g. If the company purchased all of its office equipment when it first incorporated, for how long has it been in business as of December 31, current year?

**L05-1, L05-2, L05-3, L05-4,
L05-6**

PROBLEM 5.6A

Short Comprehensive
Problem Including Both
Adjusting and Closing
Entries

Brushstroke Art Studio, Inc., provides quality instruction to aspiring artists. The business adjusts its accounts monthly, but performs closing entries annually on December 31. This is the studio's unadjusted trial balance dated December 31, current year.

**BRUSHSTROKE ART STUDIO, INC.
UNADJUSTED TRIAL BALANCE
DECEMBER 31, CURRENT YEAR**

	Debits	Credits
Cash	\$ 22,380	
Client fees receivable	71,250	
Supplies	6,000	
Prepaid studio rent	2,500	
Studio equipment	96,000	
Accumulated depreciation: studio equipment		\$ 52,000
Accounts payable		6,420
Note payable		24,000
Interest payable		480
Unearned client fees		8,000
Income taxes payable		5,000
Capital stock		50,000
Retained earnings		20,000
Client fees earned		82,310
Supplies expense	4,000	
Salary expense	17,250	
Interest expense	480	
Studio rent expense	11,250	
Utilities expense	3,300	
Depreciation expense: studio equipment	8,800	
Income taxes expense	5,000	
	<u>\$248,210</u>	<u>\$248,210</u>

Other Data

1. Supplies on hand at December 31, current year, total \$1,000.
2. The studio pays rent quarterly (every three months). The last payment was made November 1, current year. The next payment will be made early in February, next year.
3. Studio equipment is being depreciated over 120 months (10 years).
4. On October 1, current year, the studio borrowed \$24,000 by signing a 12-month, 12 percent note payable. The entire amount, plus interest, is due on September 30, next year.

5. At December 31, current year, \$3,000 of previously unearned client fees had been earned.
6. Accrued, but unrecorded and uncollected client fees earned total \$690 at December 31, current year.
7. Accrued, but unrecorded and unpaid salary expense totals \$750 at December 31, current year.
8. Accrued income taxes expense for the entire year ending December 31, current year, total \$7,000. The full amount is due early in the next year.

Instructions

- a. Prepare the necessary adjusting journal entries on December 31, current year. Prepare also an adjusted trial balance dated December 31, current year.
- b. From the adjusted trial balance prepared in part a, prepare an income statement and statement of retained earnings for the year ended December 31, current year. Also prepare the company's balance sheet dated December 31, current year.
- c. Prepare the necessary year-end closing entries.
- d. Prepare an after-closing trial balance.
- e. Has the studio's monthly rent remained the same throughout the year? If not, has it gone up or down? Explain.

Refer to the Demonstration Problem illustrated in the previous chapter. Prepare a 10-column worksheet for Internet Consulting Service, Inc., dated December 31, current year. At the bottom of your worksheet, prepare a brief explanation keyed to each adjusting entry.

EM 5.7A

Comprehensive
Including Adjusting
Closing Entries, and
Net Preparation

A recent annual report issued by **Best Buy** revealed the following data.

EM 5.8A

Profitability and

	End of Year	Beginning of Year
Current assets	\$11,729 million	\$10,485 million
Current liabilities	\$7,777 million	\$7,436 million
Stockholders' equity	\$4,995 million	\$3,986 million

The company's income statement reported total annual revenue of \$40,339 million and net income for the year of \$1,233 million.

Instructions

- a. Evaluate Best Buy's profitability by computing its net income percentage and its return on equity for the year.
- b. Evaluate Best Buy's liquidity by computing its working capital and its current ratio at the beginning of the year and at the end of the year.
- c. Does Best Buy appear to be both profitable and liquid? Explain.

* Supplemental Topic, "The Worksheet."