

# Abdullah S. Al-Salloum



GUST ID: 0801202023  
Homework Assignment #01  
Financial and Managerial Accounting

ACC500

FINANC. & MANAGERI. ACCT.

DR. NAYIF AL-HAJRAF

HOMEWORK ASSIGNMENT #01

3/14/2009



### Susquenhanna Equipment Rentals (Page 244)

a. Journalize the December transactions.

Journal Entries			
Monday, December 31, 2007			
Date	Account Titles	Debit	Credit
1-Dec	Cash	\$ 200,000	
	Capital Stock		\$ 200,000
1-Dec	Equipment	\$ 240,000	
	Cash		\$ 140,000
	Note Payable		\$ 100,000
1-Dec	Prepaid Rent ( 3 months )	\$ 12,000	
	Cash		\$ 12,000
4-Dec	office supplies	\$ 1,000	
	account payable		\$ 1,000
8-Dec	Cash	\$ 8,000	
	Unearned Rental fees		\$ 8,000
12-Dec	salaries Expense	\$ 5,200	
	Cash		\$ 5,200
15-Dec	Cash	\$ 12,000	
	Account receivable	\$ 6,000	
	Equipment Rental fees		\$ 18,000
17-Dec	Maintainance Expense	\$ 600	
	account payable		\$ 600
23-Dec	Cash	\$ 2,000	
	Account receivable		\$ 2,000
23-Dec	Account receivable	\$ 5,250	
	Unearned Rental fees		\$ 5,250
26-Dec	salaries Expense	\$ 5,200	
	Cash		\$ 5,200
27-Dec	account payable	\$ 600	
	Cash		\$ 600
28-Dec	Dividends	\$ 2,000	
	Dividends Payable		\$ 2,000
	200,000 shares @10 Cent per shares = \$2,000		
29-Dec	Unexpired Insurance	\$ 9,600	
	account payable		\$ 9,600
31-Dec	Utilities Expense	\$ 700	
	account payable		\$ 700
31-Dec	Cash	\$ 15,600	
	Account receivable	\$ 4,400	
	Rental Fees Earned		\$ 20,000
		\$ 530,150	\$ 530,150



b. Prepare the necessary adjusting entries.

<b>Adjusting Entries</b>			
Monday, December 31, 2007			
<b>Date</b>	<b>Account Titles</b>	<b>Debit</b>	<b>Credit</b>
a.)	Rent Expense	\$ 4,000	
	Prepaid rent		\$ 4,000
b.)	Interest Expense ( $\$100,000 \times 6\% / 12 \text{ month} = 500 / \text{month}$ )	\$ 500	
	Interest Payable		\$ 500
	$\$100,000 \times 6\% / 12 \text{ month} = 500 \text{ per month}$		
c.)	Depreciation Expense	\$ 2,500	
	Accumulated Depreciation		\$ 2,500
	$8 \text{ years} \times 12 \text{ months} = 96 \text{ months } (\$240,000 / 96) = 2500$		
d.)	Office Supplies Expense	\$ 600	
	Office Supplies		\$ 600
e.)	Unearned rental fees	\$ 3,700	
	Rental fees Earned		\$ 3,700
f.)	Unearned rental fees	\$ 1,500	
	Account Receivable		\$ 1,500
g.)	salaries Expense	\$ 1,400	
	salaries Payable		\$ 1,400
h.)	Income Taxes Expense	\$ 8,400	
	Income Tax Payable		\$ 8,400
	Since total revenue is $\$21,000 \times 40\% = 8,400$		
		\$ 22,600	\$ 22,600



c. Post the December transactions and adjusting entries to ledger accounts.

Cash			
Dr.		Cr.	
1-Dec	200,000	1-Dec	140,000
8-Dec	8,000	1-Dec	12,000
15-Dec	12,000	12-Dec	5,200
23-Dec	2,000	26-Dec	5,200
31-Dec	15,600	27-Dec	600
	<u>237,600</u>		<u>163,000</u>
Balance :			
	<u>74,600</u>		

Capital Stock			
Dr.		Cr.	
		1-Dec	200,000
	<u>-</u>		<u>200,000</u>
Balance :			
			<u>(200,000)</u>

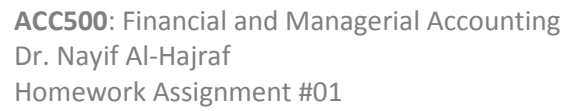
Equipment			
Dr.		Cr.	
1-Dec	240,000		
	<u>240,000</u>		<u>-</u>
Balance :			
	<u>240,000</u>		

Note Payable			
		Cr.	
			100,000
	<u>-</u>		<u>100,000</u>
Balance :			
			<u>(100,000)</u>

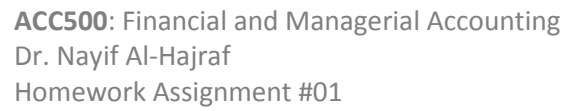
Prepaid Rent			
Dr.		Cr.	
1-Dec	12,000		4,000
	<u>12,000</u>		<u>4,000</u>
Balance :			
	<u>8,000</u>		

office supplies			
Dr.		Cr.	
4-Dec	1,000	31-Dec	600
	<u>1,000</u>		<u>600</u>
Balance :			
	<u>400</u>		









Salaries Payable	
Dr.	Cr.
	31-Dec 1,400
-	1,400
	Balance : (1,400)

Retained Earning	
Dr.	Cr.
Div. 2,000	Beg. Bal -
	31-12 12,600
<u>2,000</u>	<u>12,600</u>
	Balance : (10,600)





d. Prepare a 10 column worksheet for the year ended December 31.

Accounts	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Debits	Credits	Debits	Credits	Debits	Credits	Debits	Credits	Debits	Credits
Cash	\$ 74,600	\$ -			\$ 74,600				\$ 74,600	
Account Receivable	\$ 12,150	\$ -			\$ 12,150				\$ 12,150	
unexpired Insurance	\$ 9,600	\$ (1,500)	\$ 1,500		\$ 9,600				\$ 9,600	
Prepaid Rent	\$ 8,000	\$ (4,000)	\$ 4,000		\$ 8,000				\$ 8,000	
office supplies	\$ 400	\$ (600)	\$ 600		\$ 400				\$ 400	
Equipment	\$ 240,000	\$ -			\$ 240,000				\$ 240,000	
Accumulated Depreciation	\$ -	\$ -	\$ 2,500		\$ 2,500					\$ 2,500
Capital Stock	\$ -	\$ 200,000			\$ 200,000					\$ 200,000
Note Payable	\$ -	\$ 100,000			\$ 100,000					\$ 100,000
Account Payable	\$ -	\$ 11,300			\$ 11,300					\$ 11,300
Salaries Payable	\$ -	\$ -	\$ 1,400		\$ 1,400					\$ 1,400
Interest Payable	\$ -	\$ -	\$ 500		\$ 500					\$ 500
Dividends Payable	\$ -	\$ 2,000			\$ 2,000					\$ 2,000
Income Taxes Payable	\$ -	\$ 5,000	\$ 3,400		\$ 8,400					\$ 8,400
Unearned Rental fees	\$ (5,200)	\$ 8,050	\$ 5,200		\$ 8,050					\$ 8,050
Equipmnt Rental fees earned	\$ -	\$ 18,000			\$ 18,000		\$ 18,000			
Rental fees Earned	\$ -	\$ 20,000	\$ 3,700		\$ 23,700		\$ 23,700			
Dividends	\$ 2,000	\$ -			\$ 2,000					
Utilities Expense	\$ 700	\$ -			\$ 700		\$ 700			
Salaries Expenses	\$ 10,400	\$ -	\$ 1,400		\$ 11,800		\$ 11,800			
Maintainance Expense	\$ 600	\$ -			\$ 600		\$ 600			
Rent Expense	\$ -	\$ -	\$ 4,000		\$ 4,000		\$ 4,000			
Intrest Expense	\$ -	\$ -	\$ 500		\$ 500		\$ 500			
Depreciation Expense	\$ -	\$ -	\$ 2,500		\$ 2,500		\$ 2,500			
Office Supplies Expense	\$ -	\$ -	\$ 600		\$ 600		\$ 600			
Income Taxes Expense	\$ 5,000	\$ -	\$ 3,400		\$ 8,400		\$ 8,400			
Retained Earnings										\$ 10,600
	\$ 358,250	\$ 358,250	\$ 17,600	\$ 17,600	\$ 375,850	\$ 375,850	\$ 29,100	\$ 41,700	\$ 344,750	\$ 344,750
Net Income							\$ 12,600			

**Adjusted Trial Balance**  
Monday, December 31, 2007

	Debits	Credits
Cash	\$ 74,600	
Account Receivable	\$ 12,150	
unexpired Insurance	\$ 9,600	
Prepaid Rent	\$ 8,000	
office supplies	\$ 400	
Equipment	\$ 240,000	
Accumulated Depreciation		\$ 2,500
Capital Stock		\$ 200,000
Note Payable		\$ 100,000
Account Payable		\$ 11,300
Salaries Payable		\$ 1,400
Interest Payable		\$ 500
Dividends Payable		\$ 2,000
Income Taxes Payable		\$ 8,400
Unearned Rental fees		\$ 8,050
Equipmnt Rental fees earned		\$ 18,000
Rental fees Earned		\$ 23,700
Dividends	\$ 2,000	
Utilities Expense	\$ 700	
Salaries Expenses	\$ 11,800	
Maintainance Expense	\$ 600	
Rent Expense	\$ 4,000	
Intrest Expense	\$ 500	
Depreciation Expense	\$ 2,500	
Office Supplies Expense	\$ 600	
Income Taxes Expense	\$ 8,400	
	\$ 375,850	\$ 375,850



e. Prepare an income statement and statement of retained earnings for the year ended December 31, and a balance sheet (in report form) as of December 31.

<b>Income Statement for the year end</b>			
Monday, December 31, 2007			
<b>Revenue:</b>			
Rental fees Earned		\$	23,700
Equipmnt Rental fees earned		\$	18,000
<b>Total Revenue:</b>		<b>\$</b>	<b>41,700</b>
<b>( - )Expenses:</b>			
Utilities Expense	\$	700	
Salaries Expenses	\$	11,800	
Maintainance Expense	\$	600	
Rent Expense	\$	4,000	
Intrest Expense	\$	500	
Depreciation Expense	\$	2,500	
Office Supplies Expense	\$	600	
<b>Total Expenses:</b>		<b>\$</b>	<b>20,700</b>
Net Income Befor Taxes		\$	21,000
Income Taxes expense ( 40%)		<b>\$</b>	<b>8,400</b>
Net Income		<b>\$</b>	<b>12,600</b>

<b>Statement of Retained Earning</b>			
Monday, December 31, 2007			
Retained Earing Balance 15, Jan 2007		\$	-
Net Income:		\$	12,600
Subtotal :		\$	12,600
Less: dividends		\$	2,000
Retained Earning as of Dec. 31, 2007		\$	10,600



<b>Balance Sheet</b>			
Monday, December 31, 2007			
<b><u>Assets</u></b>			
Cash		\$	74,600
Account Receivable		\$	12,150
unexpired Insurance		\$	9,600
Prepaid Rent		\$	8,000
office supplies		\$	400
Equipment	\$ 240,000		
Less: Accum. Dep. on Equipment	<u>\$ 2,500</u>	\$	237,500
<i>Total assets:</i>		<b>\$</b>	<b><u>342,250</u></b>
<b><u>Liabilities &amp; Stockholders' Equity</u></b>			
<b><i>Liabilities:</i></b>			
Note Payable		\$	100,000
Account Payable		\$	11,300
Salaries Payable		\$	1,400
Interest Payable		\$	500
Dividends Payable		\$	2,000
Income Taxes Payable		\$	8,400
Unearned Rental fees		\$	8,050
<i>Total Liabilities:</i>		<b>\$</b>	<b><u>131,650</u></b>
<b><i>Stockholders' Equity:</i></b>			
Capital Stock		\$	200,000
Retained Earning		\$	10,600
Total Stockholders equity:		\$	210,600
Total Liabilities & Stockholder's equity		<b>\$</b>	<b><u>342,250</u></b>



f. Prepare required disclosures to accompany the December 31 financial statements. Your solution should include a separate note addressing each of the following areas: (1) depreciation policy, (2) maturity dates of major liabilities, and (3) potential liability due to pending litigation.

(1) Depreciation Policy: Company has chosen to the straight line method for the equipment which has an estimated life time of 8 years.

(2) Maturity Dates of Major Liabilities: A note payable that is due on 1<sup>st</sup> of December 2008.

(3) Potential Liability due to pending ligation: The company might be sued to pay 25,000 for the accident happened on 29<sup>th</sup> of December 2007.

h. Prepare closing entries and post to ledger accounts.

<b>Closing Entries</b>			
Monday, December 31, 2007			
Date	Account Titles	Debit	Credit
31-Dec	Rental fees Earned	\$ 23,700	
	Equipmnt Rental fees earned	\$ 18,000	
	Income Summary		\$ 41,700
31-Dec	Income Summary	\$ 29,100	
	Utilities Expense		\$ 700
	Salaries Expenses		\$ 11,800
	Maintainance Expense		\$ 600
	Rent Expense		\$ 4,000
	Intrest Expense		\$ 500
	Depreciation Expense		\$ 2,500
	Office Supplies Expense		\$ 600
	Income Taxes expense ( 40%)		\$ 8,400
31-Dec	Retained Earning	\$ 2,000	
	Dividends		\$ 2,000
		\$ 72,800	\$ 72,800

Closing entries were posted to ledger accounts in part (c).



h. Prepare an after-closing trial balance as of December 31.

<b>After-Closing Trial Balance</b>		
Monday, December 31, 2007		
	<b>Debits</b>	<b>Credits</b>
Cash	\$ 74,600	
Account Receivable	\$ 12,150	
unexpired Insurance	\$ 9,600	
Prepaid Rent	\$ 8,000	
office supplies	\$ 400	
Equipment	\$ 240,000	
Accumulated Depreciation		\$ 2,500
Capital Stock		\$ 200,000
Note Payable		\$ 100,000
Account Payable		\$ 11,300
Salaries Payable		\$ 1,400
Interest Payable		\$ 500
Dividends Payable		\$ 2,000
Income Taxes Payable		\$ 8,400
Unearned Rental fees		\$ 8,050
Retained earning		\$ 10,600
	<b>\$ 344,750</b>	<b>\$ 344,750</b>

i. During December, this company's cash balance has fallen from \$200,000 to \$65,000. Does it appear headed for insolvency in the near future? Explain your reasoning.

Since it is an established company, it would be obvious that cash will decrease. However, since the NET income is positive, then it does not appear headed for insolvency in the near future.

j. Would it be ethical for Patty Driver to maintain the accounting records for this company, or must they be maintained by someone who is independent of the organization?

If maintaining here is meant to be auditing, then it must be maintained by someone who is independent for the sake of ethics. Otherwise, if maintaining is meant to be the process of accounting then it would be fine if Patty Driver maintains its accounting records.

