

Intermediate accounting  
Assignment I

Question I

The unadjusted trial balance of Tower Window Cleaning is as follows:

**TOWER WINDOW CLEANING**  
**Unadjusted Trial Balance**  
**December 31, 1993**

Cash . . . . .	\$ 890	
Accounts receivable . . . . .	1,400	
Cleaning supplies . . . . .	470	
Prepaid insurance . . . . .	2,100	
Prepaid rent . . . . .	350	
Trucks . . . . .	18,235	
Accumulated amortization, trucks . . . . .		\$ 7,295
Cleaning equipment . . . . .	4,930	
Accumulated amortization, cleaning equipment . . . . .		1,970
Accounts payable . . . . .		985
Unearned cleaning services revenue . . . . .		800
Marian Stone, capital . . . . .		10,115
Marian Stone, withdrawals . . . . .	15,000	
Cleaning services revenue . . . . .		52,850
Office salaries expense . . . . .	9,600	
Cleaning wages expense . . . . .	15,840	
Rent expense . . . . .	3,500	
Gas, oil, and repairs expense . . . . .	1,220	
Telephone expense . . . . .	480	
Totals . . . . .	\$74,015	\$74,015

*Required*

1. Enter the unadjusted trial balance on a work sheet form and complete the work sheet using the information that follows:
  - a. Insurance expired on the cleaning equipment, \$130, and on the truck, \$1,450.
  - b. An inventory showed \$265 of cleaning supplies on hand.
  - c. Estimated amortization on the cleaning equipment, \$495.
  - d. Estimated amortization on the truck, \$3,650.
  - e. In December 1992, the company had prepaid the January 1993 rent for garage and office space occupied by the window cleaning service. This amount appears as the balance of the Prepaid Rent account. Rents for February through November were paid each month and debited to the Rent Expense account. As of the trial balance date, the December 1993 rent had not been paid.
  - f. Three office buildings signed contracts with Tower, agreeing to pay a fixed fee for the cleaning services. Two of the office buildings made advance payments on the contracts, and the amounts received were credited to the Unearned Cleaning Services Revenue account. An examination of the contracts shows \$600 of the \$800 received was earned by the end of the accounting period. The third building's contract provides for a \$250 monthly fee to be paid at the end of each month's service. It was signed on December 15, and one half of a month's revenue has accrued but is unrecorded.
  - g. A \$45 December telephone bill and a \$190 bill for repairs to the truck used in the business arrived in the mail on December 31. Neither bill was paid or recorded before the trial balance was prepared.
  - h. Office salaries, \$145, and cleaning wages, \$255, have accrued but are unpaid and unrecorded.
2. Journalize and post the adjusting entries. (Omit posting if you are not using the working papers.)
3. Prepare an income statement, a statement of changes in owner's equity, and a classified balance sheet. Stone did not make additional investments in the business during 1993.
4. Journalize and post the closing entries and prepare a post-closing trial balance. (Omit this requirement if you are not using the working papers.)

Question II

Presented below is information related to Will Smith Corp., for the year 2004.

Net sales	\$ 650,000
Cost of goods sold	400,000
Selling expenses	32,000
Administrative expenses	24,000
Dividend revenue	10,000
Interest revenue	7,000
Interest expense	15,000
Write-off of goodwill due to impairment	25,000
Depreciation expense omitted in 2002	35,000
Uninsured loss due to flood (unusual and infrequent)	60,000
Dividends declared	42,000
Retained earnings at December 31, 2003	1,800,000
Cumulative effect on prior years of change in accounting principle (credit)	75,000
Federal tax rate of 30% on all items	

**Instructions**

- (a) Prepare a multiple-step income statement for 2004. Assume that 50,000 shares of common stock were outstanding during 2004.
- (b) Prepare a retained earnings statement for 2004.

### Question III

Margaret Moylan had the following selected transactions and events occur during 2004. The corporation is subject to a 30% tax rate on all items. All amounts are material. The corporation is engaged in the sale of energy products.

1. The corporation experienced an uninsured flood loss in the amount of \$60,000 during the year. A flood is unusual and infrequent in the region where the corporation resides.
2. At the beginning of 2002, the corporation purchased an office machine for \$108,000 (salvage value of \$18,000) that has a useful life of six years. The bookkeeper used straight-line depreciation for 2002 and 2003, but failed to deduct the salvage value in computing the depreciable base. The same depreciation calculations were used for tax purposes.
3. Sale of securities held as a part of Moylan's portfolio resulted in a loss of \$62,200 (pretax).
4. When its president died, the corporation realized \$100,000 from an insurance policy. The cash surrender value of this policy had been carried on the books as an investment in the amount of \$34,000 (the gain is nontaxable).
5. The corporation disposed of a component of business at a loss of \$140,000 before taxes.
6. The corporation decided to change its method of inventory pricing from average cost to the FIFO method. The effect of this change on prior years would be to increase 2002 income by \$64,000 and decrease 2003 income by \$20,000 before taxes. The FIFO method has been used for 2004.

Describe how each of the items above will be reported in a multiple-step income statement for 2004. Indicate the amount that will be reported and the section of the income statement in which the amount will appear.