

Comprehensive Example

Q.15. Page 54 from your work book:

Mohamed's retail stores maintaining its accounts on a calendar year basis, and use the periodic inventory system. The business records purchases at net cost. In Dec.31. 2004, the trial balance appeared as follow:

Accounts	Debit	Credit
Cash	93.000	
Inventory (Jan.1)	30.000	
Accounts receivable	32.000	
Notes receivable	12.000	
Marketable securities	23.700	
Unexpired insurance	4800	
Office supplies	2000	
Land	60.000	
Building	180.000	
Accumulated depreciation: Building		14400
Accounts Payable		42.000
Notes payable		15.000
Bank Loan (due in 10 years)		75.000
Mohamed capital		184.000
Mohamed drawing	16.000	
Sales		360.000
Sales returns & allowances	8000	
Sales discount	10.000	
Purchases	197.000	
Purchases returns & allowances		12.000
Purchase Discount		21.000
Transportation- in (Freight- in)	5000	
Rent revenue		3000
Salaries expense	42.000	
Utilities expense	18.600	
Advertising expense	14.000	
Interest expense	2900	
Delivery expense	2400	
Total	753.400	753.400

Other Data:

- a) Unexpired insurance at the end of the year amounted to 2800\$
- b) Office supplies on hand at Dec.31.2004, were 500.
- c) The Building is being depreciated over a 50-years useful life, and the store uses straight line method for computing depreciation.
- d) The current market value of the land is 96.000\$.
- e) Salaries earned by employees but not yet paid amount to 4000\$ in Dec.31.2004.
- f) Accrued rent revenue in Dec.31.2004 was amounted to 6000\$.
- g) Inventory of merchandise on Dec.31.2004, was 2000\$.

Required:

- 1) Prepare adjusting entries in Dec,31,2004.
- 2) prepare the classified income statement for the year ended in Dec, 31, 2004.
- 3) Prepare the statement of owner's equity for the year ended in Dec, 31, 2004.
- 4) Prepare the classified Balance sheet at Dec, 31, 2004.

Solution

An Introduction to Solution:

a) Unexpired Insurance (لم يستنفد بعد/لم يستفد منه بعد) تأمين مدفوع مقدماً

Any **prepaid Expense** is considered as an Asset, with Debit nature.

At the Beginning of the year it was 4800\$,

At the End of the year it reduced to be 2800\$.

It means that we consume within this year 2000\$ of the Asset (prepaid insurance).

So,,, the insurance ex. Must be included within the **income statement** will be $(4800-2800= 2000\$)$,, The part that relates to 2004,,,

The other Part of This Asset (prepaid insurance) **2800\$** which hasn't been consumed yet, will be included in the **Balance sheet** as **a current asset**.

b) Office Supplies:

The Office Supplies is considered as an Asset, with Debit nature.

At the Beginning of the year it was 2000\$,

At the End of the year we found only 500\$ of this office supplies.

It means that we consume within this year 1500\$ of the Asset (office supplies).

So,,, the Office Supplies expense that must be included within the **income statement** will be $(1500\$ 2000-500)$,, The part that relates to 2004,,,

The other Part of This Asset (Office supplies) **500\$** which hasn't been consumed yet, will be included in the **Balance sheet** as **a current asset**.

c) Depreciation of Building:

The **Building Depreciation expense** that's related to 2004=

$$= 180.000 \div 50 \text{ years (x)} \frac{12}{12} = 3600$$

This is the part of building that has been consumed during 2004,,
So it will be included in the Income statement.

The **Accumulated Depreciation of Building** was 14400\$ at the beginning of 2004,,

At the end of 2004,, we will transfer the building depreciation expense related to this year,, to the Accumulated Depreciation of Building,, so that **it will be included in The Balance Sheet deducted from The Fixed at amount of (14400+3600=18.000\$).**

d) As we follow The "Historical Cost" principle, this data is worthless.

e) Accrued Salaries:

Any **Accrued Expense** is considered as a Liability, with Credit nature.

The salaries expense which relates to 2004 = (salaries incurred& paid + accrued salaries which relate to 2004 but not paid yet)

$$(42.000\$+4000\$= 46.000\$),,,,$$

This amount of **46.000\$** which relates to 2004,, will be included in the **income statement as Salaries Expense.**

And because of the accrued salaries of 4000\$ is not paid yet,, it will be included in the balance sheet as a Current Liability.

f) Accrued Rent Revenue:

Any **Accrued Revenue** is considered as an Asset, with Debit nature.

The Rent Revenue which relates to 2004 = (Rent Revenue earned& received + accrued rent revenues which relate to 2004 but not received yet)

(30.000\$+6000\$= **36.000\$**) ,,,

This amount of **36.000\$** which relates to 2004,, will be included in the **income statement** as **Rent Revenue**.

And because of the **Accrued Revenue of 6000\$ is not received yet,,** it will be included in the **balance sheet** as a **current Asset**.

1) Adjusting journal entries:

Date	Description	Debit	Credit
31/12	Insurance Expense	2000	
	Prepaid Insurance Expense		2000
31/12	Office Supplies Expense	1500	
	Office Supplies		1500
31/12	Building Depreciation Expense	3600	
	Acc. Depreciation of Building		3600
31/12	Salaries Expense	4000	
	Accrued Salaries Expense		4000
31/12	Accrued Rent Revenue	6000	
	Rent Revenue		6000

2) The Classified Income Statement for the year ended in Dec.31.2004

Sales revenue			360.000	
(-) Sales returns and allowances		(8000)		
(-) Sales discount		(10.000)	(18.000)	
Net sales (1)				342.000
<u>(-) Cost of goods sold:</u>				
Beginning Inventory, January 1			30.000	
+ Purchases	197.000			
(-) Purchases returns and allowances	(12.000)			
(-) Purchases discount	(21.000)			
= Net purchases		164.000		
+ Freight – in		5000		
Cost of goods purchased			169.000	
(a)Cost of goods available for sale			199.000	
(b)Ending Inventory, Dec. 31			(2000)	
= Cost of goods sold (2) = (a-b)				197.000
Gross profit (1-2)				145.000
<u>(-) Operating expenses:</u>				
Insurance expense			2000	
Office Supplies expenses			1500	
Building Depreciation expense			3600	
Salaries Expense			46.000	
Utilities Expense			18.600	
Advertising expense			14.000	
Delivery Expense			2400	
Total Operating expenses				(88.100)
Income from operation				(56.900)
<u>+ Other revenues and gains:</u>				
Rent Revenue			36.000	-
<u>(-) Other expenses and losses:</u>				
Interest Expense			(2900)	-
Net Income				(90.000)

3) The Statement of Owners equity for the year ended in Dec.31:

Owner's Equity:		
Mohamed's Capital		184.000
Add:		
Net Income		90.000
Less:		
Drawing		(16.000)
Owner's Equity		258.000

4) Balance Sheet at 31.Dec.2004

Assets				Liabilities & Owner's Equity			
<u>Fixed Assets:</u>				<u>Liabilities:</u>			
Land		60.000		<u>Current Lia:</u>			
Building	180.000			Acc. Pay.	42.000		
(-)				Notes. Pay.	15.000		
Acc.D.	(18.000)	162.000		Accrued Salaries.	4.000		
Total Current Assets:			222.000	Total: C.L:			61.000
- Cash		93.000		<u>Long-term Lia:</u>			
-Inventory in Dec.31		2000		Bank Loan			75.000
-Notes receivables		12.000		Total Lia.			136.000
-Accounts receivable.		32.000		Owner's equity			258.000
-Marketable securities.		23.700					
-Office Supplies		500					
-Prepaid insurance		2800					

- Accrued rent revenue.		6000					
Total:			172.000				
Total Assets			394.000	Liabilities & Owner's Equity			394.000