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# Assessment of the 'Accounting Cycle': Test Tools for the Accounting Professor

Nicole M. Swanson Western Kentucky University

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## ASSESSMENT OF THE 'ACCOUNTING CYCLE': TEST TOOLS FOR THE ACCOUNTING PROFESSOR

A Capstone Experience/Thesis Project

Presented in Partial Fulfillment of the Requirements of

the Degree Bachelor of Science in Accounting with

Honors Program Graduate Distinction at Western Kentucky University

By

Nicole M. Swanson

\*\*\*\*

Western Kentucky University 2010

CE/T Committee:

Professor Mark Ross, Advisor

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Approved by

Advisor

Department of Accounting

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#### **ABSTRACT**

The two main goals of this thesis are to provide an assessment tool for accounting professors as well as a learning tool for students to gain a better understanding of the accounting cycle. Many students coming out of the basic accounting courses have a pretty good understanding of the different parts of the accounting cycle, but few have a solid understanding of the bigger picture and how each part fits together. I believe this is partly due to the fact that students in 200 level courses are never required to complete the accounting cycle from beginning to end. As such, it is necessary for professors to assess the level of knowledge possessed by new students beginning a particular course. In my experience as a student, I have found that when an introductory assessment is given in order for the professor to reflect on the results of that assessment and makes changes to the course curriculum as necessary, the overall success of the students in that course is much higher than if the assessment had not been given. In order to test the knowledge retention of intermediate level accounting students, I have developed a case applicable to students who have completed the first intermediate financial accounting course and any of its prerequisites. My focus will be on the accounting cycle and issues involving financial accounting as opposed to managerial. I have provided a practice case including case requirements, blank forms and worksheets to be completed by the user, and a solution to the case.

Keywords: Accounting, Practice Case, Accounting CE/T, Assessment Tool, Financial Accounting, Accounting Cycle

## VITA

January 9, 1988	Born – Davenport, Iowa
2002 – 2006	Taylor County High School Campbellsville, Kentucky
2006 – 2009	Accountant – Print Media Bowling Green, Kentucky
2010	Accounting Intern – BKD, LLP Bowling Green, Kentucky

## FIELDS OF STUDY

Major Field: Accounting

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## **Introduction & Objective**

Are upper level accounting students retaining enough knowledge of the basic accounting functions to be successful in their future careers? Accounting outside of college courses is more than completing homework problems with the help of your textbook or class notes. It requires a strong understanding of the accounting cycle because an instructor won't always be around to give you the answer. Instead, it will be an employer expecting you to have a solution. Therefore, it is necessary to analyze the retention of student knowledge of the basic accounting functions early on.

In order to provide an assessment tool to test the knowledge retention of accounting students, I have developed a case to be completed by students in second level intermediate financial accounting courses. The focus of the case is on the accounting cycle and issues involving financial accounting as opposed to managerial. I have created accounting records for a fictitious company and included a list of typical transactions a company would expect to incur in any given year. The case requirements will be to perform all accounting functions from journalizing to preparing financial statements.

Ultimately, completion or utilization of this problem will result in information that substantiates the amount of knowledge students in upper level accounting courses have retained from their earlier courses. After the results are found, a professor may then decide to adjust their curriculum or teaching methods accordingly.

## NARRATIVE AND INSTRUCTIONS

## ProStar USA, Inc. An Accounting Practice Case

### **Narrative**

ProStar USA, Inc. is a wholesale furniture distributor. The company began operations in February 2004 and has recently decided to cease relations with their current accounting firm due to legal matters. You have been given account balances as of 12/31/2007 and are asked to produce financial statements for the year ended 12/31/2008. In addition to the list of transactions provided, the following information is necessary to complete the financial statements in accordance with GAAP.

- ❖ Accounts Receivable and Sales are recorded using the Gross Method.
- ❖ Accounts Payable and Purchases are recorded using the Net Method.
- ❖ Notes Receivable consists of a \$50,000 note issued at 12% on 2/1/05 to be paid in full 8/1/2008 and a \$75,000 5 year note issued at 8% on 7/1/07. Interest is to be received on 2/1 & 8/1, and 1/1 & 7/1 respectively.
- ❖ The building was purchased on 5/31/04 and is depreciated using the double declining balance depreciation method. It has a 25 year life and no salvage value.
- Depreciation on machinery and equipment is also calculated using the double declining balance method. However, the assets that make up this account have various lives and salvage values.
- ❖ Notes Payable consists of a \$75,000 note payable 3/1/08 and a \$195,000 note payable 4/30/15. The current note has a 7% interest rate payable semiannually on 3/1 & 9/1. The long term note was issued at a 10% interest rate payable semiannually on 4/30 & 10/30.
- ProStar USA, Inc. was authorized 50,000 shares of \$26 par common stock.
- The company uses a periodic inventory system.
- The allowance method is used to recognize bad debt expense.
- Office supplies when purchased are debited to the Office Supplies account: periodic inventory system.

#### Instructions

Transactions for 2008 are provided on the following pages in chronological order. You are to complete all phases of the accounting cycle for the 2008 including the financial statements. Perform the following tasks in order on the forms provided.

- 1. Journalize and post "Transactions FYE 12/31/2008" to each respective account ledger.
- 2. Prepare a trial balance by entering the account balances from the general ledger in the first two columns of the twelve-column worksheet.
- 3. Journalize and post the "Accruals and Adjustments". These entries will make up the adjustments columns of the worksheet and should been cross-referenced using the related alphabetic characters.
- 4. Complete the worksheet.
- 5. Prepare an income statement. Be sure to include Earnings per Share.
- 6. Prepare a statement of retained earnings.
- 7. Prepare a balance sheet.

## POST CLOSING TRIAL BALANCE (12/31/07)

## ProStar USA, Inc. Post-Closing Trial Balance December 31, 2007

		Account E	
ccount No.	Account Title	12/31/	
		<u>Debit</u>	<u>Credit</u>
1000	Cash	175,250	
1100	Accounts Receivable	115,900	
1150	Allowance for Doubtful Accounts		8,113
1200	Inventory	56,400	
1300	Prepaid Insurance	6,550	
1400	Office Supplies	765	
1500	Interest Receivable	5,500	
1550	Notes Receivable	125,000	
1600	Patent	72,000	
1650	Goodwill	26,000	
1700	Land	93,000	
1800	Building	127,000	
1850	Accumulated Depreciation - Building	127,000	32,722
1900	Machinery & Equipment	53,000	32,722
1950	Accumulated Depreciation - Machinery & Equipment	33,000	18,900
			44,800
2000	Accounts Payable		,
2100	Interest Payable		5,000
2200	Wages Payable		13,875
2300	Income Taxes Payable		
2400	Federal Tax Withholding		1,061
2500	State Tax Withholding		950
2600	Sales Tax Payable		41,280
2700	Notes Payable - current		75,000
2800	Mortgage Payable		85,000
2900	Notes Payable - long term		195,000
3000	Common Stock - 10,000 shares issued, \$26 par		260,000
3100	Additional Paid in Capital - Common		13,000
3200	Preferred Stock - 8%, \$50 par cumulative		40,000
3300	Additional Paid in Capital - Preferred		4,000
3400	Retained Earnings		41,664
3500	Dividends		
3600	Treasury Stock - 1,000 shares	24,000	
4000	Sales Revenue	•	
4100	Sales Discounts		
4200	Interest Revenue		
5000	Purchases		
5100	Purchase Discounts Lost		
5200	Freight-In		
	•		
5300	Cost of Goods Sold		
6000	Wage Expense		
6050	Interest Expense		
6100	Income Tax Expense		
6150	Insurance Expense		
6200	Supplies Expense		
6250	Depreciation Expense - Buildings		
6300	Depreciation Expense - Machinery & Equipment		
6350	Amortization Expense		
6400	Bad Debts Expense		
6450	Research & Development Expense		
6500	Payroll Tax Expense		
6550	Advertising Expense		
6600	Utilities Expense		
6650	Acccounting Expense		
6700	Legal Fees Expense		
6750	Gain / Loss on Sale of Assets		
	,		
6800	Extraordinary Loss from Fire		

## TRANSACTIONS

#### Transactions FYE 12/31/2008

- 1/1/2008 ProStar received an interest payment on its long-term Note Receivable.
- 1/1/2008 A physical count of office supplies reveals inventory of \$280 as of 12/31/07.
- 1/15/2008 ProStar paid accrued wages & taxes from 2007.
- 1/28/2008 ProStar purchased, with cash, office supplies of \$6,875.
- 1/31/2008 ProStar's current insurance policy expires 1/31/08 and will automatically renew for 1 year with a 10% increase.
- 1/31/2008 Assume the entire premium was paid for on the renewal date.
- 2/1/2008 ProStar issued 19,500 shares of common stock when the market value was \$38 per share.
- 2/1/2008 ProStar received an interest payment on its short-term Note Receivable.
- 2/5/2008 ProStar paid \$39,875 on account for inventory purchased in 2007.
- 3/1/2008 ProStar paid cash of \$77,625 for the current Note Payable (principal & interest).
- 3/1/2008 ProStar purchased inventory on account worth \$276,500; terms are 2/10, n/30.
- 3/11/2008 ProStar paid for inventory purchased on account 3/1/08.
- 3/20/2008 Prior year sales tax was paid in full.
- 4/15/2008 ProStar paid accounting fees of \$2,675.
- 4/27/2008 ProStar paid advertising costs of \$15,850.
- 4/30/2008 ProStar paid interest due on the long term Note Payable.
- 5/26/2008 After seeking legal advice, an invoice was received and paid in the amount of \$650.
- 6/30/2008 ProStar sold equipment with a cost of \$7,500 and book value of \$5,625 @ 1/1/08 and \$5,000 @ 6/30/08 for \$6,200. Record current year depreciation.
- 6/30/2008 Record the sale.
- 7/1/2008 ProStar received an interest payment on its long-term Note Receivable.
- 7/25/2008 ProStar purchased inventory on account worth \$535,000; terms are 1/10, n/60. ProStar also paid \$3,700 to UPS for shipping costs.
- 8/1/2008 ProStar received the final payment (interest & principal) on its short-term Note Receivable.
- 8/15/2008 A customer invoice in the amount of \$4,960 was deemed uncollectible.
- 9/18/2008 ProStar incurred internal costs of \$32,900 to develop a patent.
- 9/20/2008 ProStar paid for inventory purchased on account 7/25/08.
- 9/25/2008 ProStar paid preferred dividends to shareholders on record at 9/18/08.

- 10/30/2008 ProStar paid interest due on the long term Note Payable.
- 11/13/2008 A warehouse fire destroyed inventory resulting in a loss of \$12,800.
- 12/15/2008 ProStar purchased inventory on account worth \$163,700; terms are 2/10, n/30.
- 12/31/2008 Sales on account for the year totalled \$1,975,360.
- 12/31/2008 Sales discounts in the amount of \$17,200 were taken advantage of by customers on sales totalling \$172,000.
- 12/31/2008 Total customer payments for the year amount to \$1,934,700.
- 12/31/2008 Accrue wages for the year in the amount of \$360,785. Record state w/h of 24,700 and f ederal w/h due to social security and medicare of 7.65% for each the employee and employer portions.
- 12/31/2008 Net wages in the amount of \$295,600 were paid throughout the year. Federal & State w/h was also submitted to the proper authorities in the amount of \$52,900 and \$23,670 respectively.
- 12/31/2008 ProStar incurred and paid the following expenses: phone \$5,460; electric \$9,540; gas \$3,180; water \$672.
- 12/31/2008 A physical count of ending inventory revealed a total of \$307,200 of merchandise still in stock. Hint: Be sure to account for any adjustments to the inventory account during the year.
- 12/31/2008 Prepare an entry to record the net effect of monthly mortgage payments of \$534 including principal and interest. Hint: you will need to prepare an amortization schedule.
- Accrurals and Adjustments

  12/31/2008 A Accrue for prepaid insurance used during the year.

  12/31/2008 B An allowance account should be provided equaling 7% of the ending balance of Accounts Receivable.

  12/31/2008 C Accrue interest on the long-term Note Receivable.

  12/31/2008 D Make the appropriate entry to amortize intangibles. The patent has a remaining legal life of 18 years and an economic life of 8 years. Goodwill has an economic life equal to its maximum legal life and was acquired on 7/15/2004.

  12/31/2008 E Current depreciation on Machinery & Equipment on record @ 12/31/08 totalled \$6,700.

  12/31/2008 G Accrue interest due on long term Note Payable.
- 12/31/2008 **H** Sales tax of 6% is accrued.
- 12/31/2008 I A physical count of office supplies reveals inventory of \$345.
- 12/31/2008 J The tax rate is 35%.

## GENERAL LEDGER

	1000 Cash					
Date	Explanation	Debit	Credit	Balance		
1/1/2008	Balance			175,250		

	1100 Accounts Receivable						
Date	Explanation	Debit	Credit	Balance			
1/1/2008	Balance			115,900			

	1150 Allowance for Doubtful Accounts				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			8,113	

	1200 Inventory					
Date	Explanation	Debit	Credit	Balance		
1/1/2008	Balance			56,400		

	1300 Prepaid Insurance					
Date	Explanation	Debit	Credit	Balance		
1/1/2008	Balance			6,550		

	1400 Office Supplies					
Date	Explanation	Debit	Credit	Balance		
1/1/2008	Balance			765		

	1500 Interest Receivable					
Date	Explanation	Debit	Credit	Balance		
1/1/2008	Balance			5,500		

	1550 Notes Receivable				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			125,000	
-					

	1600 Patent				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			72,000	

1650 Goodwill				
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			26,000

1700 Land				
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			93,000

1800 Building				
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			127,000

1850 Accumulated Depreciation - Building				
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			32,722

1900 Machinery & Equipment				
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			53,000

1950 Accumulated Depreciation - Machinery & Equipment				
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			18,900

	2000 Accounts Payable				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			44,800	

2100 Interest Payable				
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			5,000

	2200 Wages Payable				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			13,875	

2300 Income Taxes Payable				
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			-

2400 Federal Tax Withholding				
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			1,061

2500 State Tax Withholding				
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			950

	2600 Sales Tax Payable			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			41,280

	2700 Notes Payable			
	Explanation	Debit	Credit	Balance
1/1/2008	Balance			270,000

	2800 Mortgage Payable			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			85,000

	3000 Common Stock			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			260,000

	3100 Additional Paid in Capital -	Common		
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			13,000

	3200 Preferred Stock			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			40,000

	3300 Additional Paid in Capital - l	Preferred		
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			4,000

	3400 Retained Earnings			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			41,664

	3500 Dividends			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			-

	3600 Treasury Stock			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			24,000

		4000 Sales Ro	evenue			
Date		Explanation		Debit	Credit	Balanc
1/1/2008	Balance					
_		4100 Sales Di	scounts			
Date		Explanation		Debit	Credit	Balance
1/1/2008	Balance					
		4200 Interest	Povonuo			
Date		Explanation	Reveilue	Debit	Credit	Balance
1/1/2008	Ralance	Explanation		Debit	Credit	Dalarice
1/1/2000	Dalarice					
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		5000 Purch	nases			
Date		Explanation		Debit	Credit	Balance
1/1/2008	Balance					
Data		5100 Purchase Dis	scounts Lost		Consults.	Dalama
Date	5.1	Explanation		Debit	Credit	Balance
1/1/2008	Balance					
	<b>1</b>				1	
		5200 Freig	ht-In			
Date		Explanation		Debit	Credit	Balance
1/1/2008	Balance	·			<del> </del>	
			•			
		5300 Cost of Go	oods Sold			
Date		Explanation		Debit	Credit	Balance
1/1/2008	Balance					
		6000 Wage E	xpense			
Date		Explanation		Debit	Credit	Balance
1/1/2008	Balance				<b> </b>	
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1/1/2008   Balance	Debit Cre Debit Cre Debit Cre Debit Cre	edit Balance
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	ipment	
	Debit Cre	edit Balance
1/1/2008 Balance		
6350 Amortization Expense		
	Debit Cre	edit Balance
1/1/2008 Balance		
6400 Bad Debts Expense	) - L: L	alia D. I
·	Debit Cre	edit Balance
1/1/2008 Balance	I	

	6450 Res	earch & Developm	ent Expense		
Date	Explanatio	n	Debit	Credit	Balanc
1/1/2008	Balance				
D-t-		500 Payroll Tax Exp		Constitution 1	D-I
Date	Explanation	on	Debit	Credit	Balanc
1/1/2008	Balance				
	6:	550 Advertising Exp	ense		
Date	Explanatio		Debit	Credit	Balanc
1/1/2008					
Data		6600 Utilities Expe		l Constitution	Dalasa
Date	Explanation	n	Debit	Credit	Balanc
1/1/2008	Balance				
		550 A			
Date	Explanation	550 Accounting Exp	Debit	Credit	Balanc
1/1/2008		'''	Debit	Credit	Dalatic
1/1/2008	Balance				
	6	700 Legal Fees Exp	ense		
Date	Explanatio		Debit	Credit	Balanc
1/1/2008	Balance				
	6750	Gain/Loss on Sale o	of Assets	•	
Date	Explanatio	n	Debit	Credit	Balanc
1/1/2008	Balance				
		800 Extraordinary	Loss		
Date	Explanatio		Debit	Credit	Balanc

## TWELVE-COLUMN WORKSHEET

Account Title	Trial B	Trial Balance	Adius	Adiustments	Adjusted Tr	ial Bal.	Income State	ment	Retained	arnings	Balance Sheet	Sheet
	Debit	Credit	Debit	Credit	Debit Crec	Credit	Debit Crec	Credit	Debit Credit	Credit	Debit	Credit
Cash												
Accounts Receivable												
Allowance for Doubtful Accounts												
Inventory												
Prepaid Insurance												
Office Supplies												
Interest Receivable												
Notes Receivable												
Patent												
Goodwill												
Land												
Building												
Accumulated Depreciation - Building												
Machinery & Equipment												
Accumulated Depreciation - M & E												
Accounts Payable												
Interest Payable												
Wages Payable												
Income Taxes Payable												
Federal Tax Withholding												
State Tax Withholding												
Sales Tax Payable												
Notes Payable												
Mortgage Payable												
Common Stock												
Additional Paid in Capital - Common												
Preferred Stock												
Additional Paid in Capital - Preferred												
Retained Earnings												
Dividends												
Treasury Stock												
Sales Revenue												
Sales Discounts												
Interest Revenue												
Purchases												
Purchase Discounts Lost												
Freight-In												
Cost of Goods Sold												
Wage Expense												
Interest Expense												
Income Tax Expense												
Insurance Expense												
Supplies Expense												
Depreciation Expense - Buildings												
Depreciation Expense - M & E												
Amortization Expense												
Bad Debts Expense												
Research & Development Expense												
Advortising Expense												
Advertisming Lyperiae												
Accounting Expense												
Legal Fees Expense												
Gain / Loss on Sale of Assets												
Extraordinary Loss from Fire												
-												
Totals												
Net Income		1			+	1	+	1	1		1	
Totals					_							

## TRANSACTIONS – SOLVED

#### Transactions FYE 12/31/2008

1/1/2008 ProStar received an interest payment on its long-term Note Receiv	able.	
Cash	3,000	
Interest Receivable		3,000
1/1/2008 A physical count of office supplies reveals inventory of \$280 as of 1	2/31/07 resulting	g in
a tax effect due to the missing expense of \$160.	325	
Prior Period Adjustment Income Taxes Payable	323 160	
Office Supplies	100	485
1/15/2008 ProStar paid accrued wages & taxes from 2007.		403
Wages Payable	13,875	
Federal Tax Withholding	1,061	
State Tax Withholding	950	
Cash		15,886
1/28/2008 ProStar purchased, with cash, office supplies of \$6,875.		
Office Supplies	6,875	
Cash		6,875
1/31/2008 ProStar's current insurance policy expires 1/31/08 and will automa	atically	
renew for 1 year with a 10% increase.		
Insurance Expense	6,550	
Prepaid Insurance		6,550
1/31/2008 Assume the entire premium was paid for on the renewal date.	06.460	
Prepaid Insurance	86,460	06.460
Cash	.1 620	86,460
2/1/2008 ProStar issued 19,500 shares of common stock when the market va	_	snare.
Casn Common Stock	741,000	507,000
Additional Paid in Capital - Common	1	234,000
2/1/2008 ProStar received an interest payment on its short-term Note Recei		234,000
Cash	3,000	
Interest Receivable	.,	2,500
Interest Revenue		500
2/5/2008 ProStar paid \$39,875 on account for inventory purchased in 2007.		
Accounts Payable	39,875	
Cash		39,875
3/1/2008 ProStar paid cash of \$77,625 for the current Note Payable (princip	oal & interest).	
Interest Payable	1,750	
Notes Payable - current	75,000	
Interest Expense	875	(O.
Cash	2/10 /20	77,625
3/1/2008 ProStar purchased inventory on account worth \$276,500; terms ar		
Purchases Accounts Payable	270,970	270,970
3/11/2008 ProStar paid for inventory purchased on account 3/1/08.		270,970
Accounts Payable	270,970	
Cash	270,570	270,970
3/20/2008 Prior year sales tax was paid in full.		270,770
Sales Tax Payable	41,280	
Cash	,	41,280
4/15/2008 ProStar paid accounting fees of \$2,675.		
Accounting Expense	2,675	
Cash		2,675
4/27/2008 ProStar paid advertising costs of \$15,850.		
Advertising Expense	15,850	
Cash		15,850
4/30/2008 ProStar paid interest due on the long term Note Payable.		
Interest Payable	3,250	
Interest Expense	6,500	0
Cash		9,750
5/26/2008 After seeking legal advice, an invoice was received and paid in the		
Legal Fees Expense Cash	650	650
6/30/2008 ProStar sold equipment with a cost of \$7,500 and book value of \$5,	625 @ 1/1/08	030
and \$5,000 @ 6/30/08 for \$6,200. Record current year depreciation		
Depreciation Expense - Mach. & Equipment	625	
Accumulated Depreciation - M & E	020	625
· · · · · · · · · · · · · · · · · · ·		

			6/20/2009 Dagged A
	6,200	Cash	6/30/2008 Record t
	2,500	Accumulated Depreciation - M & E	
7,500		Machinery & Equipment	
1,200		Gain on Sale of Assets	#11 /2000 P. C.
	seceivable.	an interest payment on its long-term Note l Cash	7/1/2008 ProStar
3,000	3,000	Interest Revenue	
5,000	ms are 1/10, n/60.	d inventory on account worth \$535,000; ter	7/25/2008 ProStar
	•	\$3,700 to UPS for shipping costs.	
	3,700	Freight-In	
3,700	520 (50	Cash	
529,650	529,650	Purchases Accounts Payable	
	its short-term Note I	the final payment (interest & principal) on	8/1/2008 ProStar
	53,000	Cash	
3,00		Interest Revenue	
50,000		Note Receivable	0/4 #/2000
	4,960	e in the amount of \$4,960 was deemed unc Allowance for Doubtful Accounts	8/15/2008 A custon
4,960	4,900	Accounts Receivable	
-,	t <b>.</b>	internal costs of \$32,900 to develop a pater	9/18/2008 ProStar
	32,900	Research & Development Expense	
32,90		Cash	
	520 (50	nventory purchased on account 7/25/08.	9/20/2008 ProStar
	529,650 5,350	Accounts Payable Purchase Discounts Lost	
535,000	2,330	Cash	
	it 9/18/08.	erred dividends to shareholders on record	9/25/2008 ProStar
	3,200	Dividends	
3,20		Cash	10/20/2000 D Ct
	9,750	rest due on the long term Note Payable.  Interest Expense	10/30/2008 ProStar
9,75	5,750	Cash	
	2,800.	destroyed inventory resulting in a loss of \$	11/13/2008 A wareh
	12,800	Extraordinary Loss from Fire	
12,800	2/10/20	Inventory d inventory on account worth \$163,700; te	12/15/2000 DucSton
	160,426	Purchases	12/15/2006 F105tar
160,42	100,120	Accounts Payable	
		or the year totalled \$1,975,360.	12/31/2008 Sales on
	1,975,360	Accounts Receivable	
1,975,360	<b>f b</b> t	Sales Revenue	12/21/2000 Calas dia
j	ge of by customers	the amount of \$17,200 were taken advanta \$172,000.	
	154,800	Cash	on saics
	17,200	Sales Discounts	
172,000		Accounts Receivable	4.0 (0.4 (0.000 T) + 1
	1,779,900	yments for the year amount to \$1,934,700.  Cash	12/31/2008 Total cu
1,779,900	1,779,900	Accounts Receivable	
	state w/h of 24,700	the year in the amount of \$360,785. Record	12/31/2008 Accrue v
loyer portio	employee & employ	ecurity and medicare of 7.65% for each th	w/h due
	360,750	Wage Expense	
	27,600	Payroll Tax Expense Wages Payable	
308,450 55,200		Federal Tax Withholding	
24,70		State Tax Withholding	
State w/h w		mount of \$295,600 were paid throughout t	
		the proper authorities in the amount of \$52	also sub
	295,600	Wages Payable	
	52,900 23,670	Federal Tax Withholding	
372,170	23,670	State Tax Withholding Cash	
	,460; electric - \$9,54	and paid the following expenses: phone - \$	12/31/2008 ProStar
•	. ,		gas - \$3,
	18,852	Utilities Expense	
18,852		Cash 23	
2	18,852		gas - \$3,

12/31/2008		of ending inventory revealed a total of \$307,200 of re to account for any adjustments to the inventor		
	stock. Hint. De sui	Ending Inventory	307,200	ng the year.
		Cost of Goods Sold	701,146	
		Beginning Inventory	701,140	56,400
		Inventory (lost in fire)	12,800	30,400
		Purchases	12,800	961,046
				3,700
12/21/2009	Duomana an antoni t	Freight-In to record the net effect of monthly mortgage pays		,
12/31/2000		rest. Hint: you will need to prepare an amortizati		nciuunig
	principal and inte	Interest Expense		
		1	5,063	
		Mortgage Payable	1,345	6 400
		Cash		6,408
		Accrurals and Adjustments		
12/31/2008		d insurance used during the year.	_	
	A	Insurance Expense	79,255	
		Prepaid Insurance		79,255
12/31/2008	An allowance acco Accounts Receival	ount should be provided equaling 7% of the endir ble.	ig balance of	
	В	Bad Debts Expense	6,255	
		Allowance for Doubtful Accounts	-,	6,255
12/31/2008	Accrue interest on	the long-term Note Receivable.		-,
12/01/2000	C	Interest Receivable	3,000	
		Interest Revenue	2,000	3,000
12/31/2008	Make the annronr	iate entry to amortize intangibles. The patent ha	s a remaining l	,
12/31/2000	of 18 years and an	economic life of 8 years. Goodwill has an econom	_	-
		e and was acquired on 7/15/2004.		
	D	Amortization Expense	9,000	
		Patent		9,000
12/31/2008	3 Current depreciat	ion on Machinery & Equipment on record @ 12/	31/08 totalled	\$6,700.
	$\mathbf{E}$	Depreciation Expense - Mach. & Equipment	6,700	
		Accumulated Depreciation - M & E		6,700
12/31/2008	Record depreciation	e		
	F	Depreciation Expense - Building	7,542	
		Accumulated Depreciation - Bldg.		7,542
12/31/2008	Accrue interest du	ie on long term Note Payable.		
	G	Interest Expense	3,250	
		Interest Payable		3,250
12/31/2008	Sales tax of 6% is	accrued.		
	H	Sales Revenue	111,813	
		Sales Tax Payable		111,813
12/31/2008	A physical count o	of office supplies reveals inventory of \$345.		•
	I	Supplies Expense	6,810	
		Office Supplies		6,810
12/31/2008	The tax rate is 35%	**		,
	J	Income Tax Expense	185,605	
	-	Income Tax Payable	,	185,605
				,

## GENERAL LEDGER – SOLVED

	1000 Cash			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			175,250
1/1/2008	Received Interest	3,000		178,250
1/15/2008	Paid Accrued Wages		15,886	162,364
1/28/2008	Purchased Office Supplies		6,875	155,489
1/31/2008	Paid for Insurance Renewal		86,460	69,029
2/1/2008	Issued Common Stock	741,000		810,029
2/1/2008	Received Interest	3,000		813,029
2/5/2008	Paid on Account		39,875	773,154
3/1/2008	Paid Note & Interest		77,625	695,529
	Paid on Account		270,970	424,559
3/20/2008	Paid Sales Tax		41,280	383,279
4/15/2008	Paid Accounting Fees		2,675	380,604
4/27/2008	Paid Advertising Costs		15,850	364,754
4/30/2008	Paid Interest		9,750	355,004
	Paid Legal Fees		650	354,354
6/30/2008	Sold Machinery & Equipment	6,200		360,554
7/1/2008	Received Interest	3,000		363,554
7/25/2008	Paid for Freight on Purchase		3,700	359,854
	Received Interest & Note Payment	53,000		412,854
9/18/2008	Developed Patent		32,900	379,954
9/20/2008	Paid on Account		535,000	(155,046)
9/25/2008	Paid Dividends		3,200	(158,246)
10/30/2008	Paid Interest		9,750	(167,996)
	Customer Payments	154,800		(13,196)
	Customer Payments	1,779,900		1,766,704
	Paid Accrued Wages		372,170	1,394,534
	Paid for Utilities		18,852	1,375,682
	Paid Mortgage & Interest		6,408	1,369,274
12/31/2008	Balance			1,369,274

	1100 Accounts Receivabl	e		
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			115,900
8/15/2008	Write-Off Uncollectible Account		4,960	110,940
12/31/2008	2008 Sales on Account	1,975,360		2,086,300
12/31/2008	Customer Payments		172,000	1,914,300
12/31/2008	Customer Payments		1,779,900	134,400
12/31/2008	Balance			134,400

	1150 Allowance for Doubtful Ac	ecounts		
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			8,113
8/15/2008	Write-Off Uncollectible Account	4,960		3,153
12/31/2008	Provision for Bad Debts		6,255	9,408
12/31/2008	Balance			9,408

	1200 Inventory			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			56,400
11/13/2008	Inventory Destroyed by Fire		12,800	43,600
12/31/2008	Inventory Destroyed by Fire	12,800		56,400
12/31/2008	Beginning Inventory		56,400	-
12/31/2008	Ending Inventory	307,200		307,200
12/31/2008	Balance			307,200

	1300 Prepaid Insurance			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			6,550
1/31/2008	Insurance Expired		6,550	-
1/31/2008	Paid for Insurance Renewal	86,460		86,460
12/31/2008	Insurance Expired		79,255	7,205
12/31/2008	Balance			7,205

	1400 Office Supplies			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			765
1/1/2008	Supplies used in 2007		485	280
1/28/2008	Purchased Office Supplies	6,875		7,155
12/31/2008	Supplies used in 2008		6,810	345
12/31/2008	Balance			345

	1500 Interest Receivable			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			5,500
1/1/2008	Received Interest		3,000	2,500
2/1/2008	Received Interest		2,500	-
12/31/2008	Accrued Interest	3,000		3,000
12/31/2008	Balance			3,000

	1550 Notes Receivable			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			125,000
8/1/2008	Received Note Payment		50,000	75,000
12/31/2008	Balance			75,000

	1600 Patent			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			72,000
12/31/2008	Amortize Patent		9,000	63,000
12/31/2008	Balance			63,000

	1650 Goodwill				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			26,000	
12/31/2008	Balance			26,000	

	1700 Land			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			93,000
12/31/2008	Balance			93,000

1800 Building				
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			127,000
12/31/2008	Balance			127,000

	1850 Accumulated Depreciation - Building				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			32,722	
12/31/2008	Record Depreciation		7,542	40,264	
12/31/2008	Balance			40,264	

	1900 Machinery & Equipment				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			53,000	
6/30/2008	Sold Machinery & Equipment		7,500	45,500	
12/31/2008	Balance			45,500	

	1950 Accumulated Depreciation - Machinery & Equipment				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			18,900	
6/30/2008	Current Year Depr. On M &E Sold		625	19,525	
6/30/2008	Sold Machinery & Equipment	2,500		17,025	
12/31/2008	Record Depreciation		6,700	23,725	
12/31/2008	Balance			23,725	

	2000 Accounts Payable			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			44,800
2/5/2008	Paid on Account	39,875		4,925
	Purchased Inventory on Account		270,970	275,895
3/11/2008	Paid on Account	270,970		4,925
	Purchased Inventory on Account		529,650	534,575
9/20/2008	Paid on Account	529,650		4,925
12/15/2008	Purchased Inventory on Account		160,426	165,351
12/31/2008	Balance			165,351

	2100 Interest Payable			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			5,000
3/1/2008	Paid Interest	1,750		3,250
4/30/2008	Paid Interest	3,250		-
12/31/2008	Accrue Interest		3,250	3,250
12/31/2008	Balance			3,250

	2200 Wages Payable			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			13,875
1/15/2008	Paid Accrued Wages	13,875		-
12/31/2008	2008 Accrued Wages		308,450	308,450
12/31/2008	Paid Accrued Wages	295,600		12,850
12/31/2008	Balance			12,850

	2300 Income Taxes Payable				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			-	
1/1/2008	Prior Period Adjustment	160		(160)	
12/31/2008	Income Tax 2008		185,605	185,445	
12/31/2008	Balance			185,445	

	2400 Federal Tax Withholding				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			1,061	
1/15/2008	Paid Accrued Wages	1,061		-	
12/31/2008	2008 Accrued Wages		55,200	55,200	
12/31/2008	Paid Accrued Wages	52,900		2,300	
12/31/2008	Balance			2,300	

	2500 State Tax Withholding				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			950	
1/15/2008	Paid Accrued Wages	950		-	
12/31/2008	2008 Accrued Wages		24,700	24,700	
12/31/2008	Paid Accrued Wages	23,670		1,030	
12/31/2008	Balance			1,030	

	2600 Sales Tax Payable				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			41,280	
3/20/2008	Paid Sales Tax	41,280		-	
12/31/2008	Sales Tax Accrual		111,813	111,813	
12/31/2008	Balance		·	111,813	

	2700 Notes Payable				
	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			270,000	
3/1/2008	Paid Note	75,000		195,000	
12/31/2008	Balance			195,000	

	2800 Mortgage Payable				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			85,000	
12/31/2008	Paid Mortgage	1,345		83,655	
12/31/2008	Balance			83,655	

	3000 Common Stock				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			260,000	
2/1/2008	Issued Common Stock		507,000	767,000	
12/31/2008	Balance			767,000	

	3100 Additional Paid in Capital - Common				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			13,000	
2/1/2008	Issued Common Stock		234,000	247,000	
12/31/2008	Balance			247,000	

3200 Preferred Stock				
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			40,000
12/31/2008	Balance			40,000

3300 Additional Paid in Capital - Preferred					
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			4,000	
12/31/2008	Balance			4,000	

3400 Retained Earnings				
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			41,664
1/1/2008	Prior Period Adjustment - Supplies Expense	325		41,339
12/31/2008	Balance			41,339

	3500 Dividends				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			-	
9/25/2008	Paid Dividends	3,200		3,200	
12/31/2008	Balance			3,200	

3600 Treasury Stock				
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			24,000
12/31/2008	Balance			24,000

	4000 Sales Revenue				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			-	
12/31/2008	Sales on Account		1,975,360	1,975,360	
12/31/2008	Sales Tax Accrual	111,813		1,863,547	
12/31/2008	Balance			1,863,547	

4100 Sales Discounts				
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			-
12/31/2008	Customer Discounts	17,200		17,200
12/31/2008	Balance			17,200

	4200 Interest Revenue				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			-	
2/1/2008	Received Interest Payment		500	500	
7/1/2008	Received Interest Payment		3,000	3,500	
8/1/2008	Received Interest Payment		3,000	6,500	
12/31/2008	Accrued Interest		3,000	9,500	
12/31/2008	Balance			9,500	

	5000 Purchases			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			-
3/1/2008	Purchased Inventory on Account	270,970		270,970
7/25/2008	Purchased Inventory on Account	529,650		800,620
12/15/2008	Purchased Inventory on Account	160,426		961,046
12/31/2008	Cost of Goods Sold		961,046	-
12/31/2008	Balance			-

	5100 Purchase Discounts Lost				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			-	
9/20/2008	Paid for Inventory Purchased on Account	5,350		5,350	
12/31/2008	Balance			5,350	

	5200 Freight-In			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			-
7/25/2008	Paid for Freight on Purchase	3,700		3,700
12/31/2008	Cost of Goods Sold		3,700	-
12/31/2008	Balance			-

	5300 Cost of Goods Sold			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			-
12/31/2008	Cost of Goods Sold	701,146		701,146
12/31/2008	Balance			701,146

	6000 Wage Expense			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			-
12/31/2008	2008 Accrued Wages	360,750		360,750
12/31/2008	Balance			360,750

	6050 Interest Expense				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			-	
3/1/2008	Paid Interest	875		875	
4/30/2008	Paid Interest	6,500		7,375	
10/30/2008	Paid Interest	9,750		17,125	
12/31/2008	Paid Interest	5,063		22,188	
12/31/2008	Accrue Interest	3,250		25,438	
12/31/2008	Balance			25,438	

	6100 Income Tax Expense			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			-
12/31/2008	Income Tax 2008	185,605		185,605
12/31/2008	Balance			185,605

	6150 Insurance Expense			
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			-
1/31/2008	Insurance Expired	6,550		6,550
12/31/2008	Insurance Expired	79,255		85,805
12/31/2008	Balance			85,805

6200 Supplies Expense				
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			-
12/31/2008	Supplies used in 2008	6,810		6,810
12/31/2008	Balance			6,810

	6250 Depreciation Expense - Building				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			-	
12/31/2008	Record Depreciation	7,542		7,542	
12/31/2008	Balance			7,542	

	6300 Depreciation Exp Machinery & Equipment				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			•	
6/30/2008	Current Year Dep. On M&E Sold	625		625	
12/31/2008	Record Depreciation	6,700		7,325	
12/31/2008	Balance			7,325	

6350 Amortization Expense				
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			-
12/31/2008	Amortize Patent	9,000		9,000
12/31/2008	Balance			9,000

	6400 Bad Debts Expense				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			-	
12/31/2008	Provision for Bad Debts	6,255		6,255	
12/31/2008	Balance			6,255	

	6450 Research & Development Expense				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			-	
9/18/2008	Developed Patent	32,900		32,900	
12/31/2008	Balance			32,900	

6500 Payroll Tax Expense				
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			-
12/31/2008	SS & Medicare - 2008	27,600		27,600
12/31/2008	Balance			27,600

	6550 Advertising Expense				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			-	
4/27/2008	Paid Advertising Costs	15,850		15,850	
12/31/2008	Balance			15,850	

6600 Utilities Expense				
Date	Explanation	Debit	Credit	Balance
1/1/2008	Balance			-
12/31/2008	Paid for Utilities	18,852		18,852
12/31/2008	Balance			18,852

	6650 Accounting Expense				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			-	
4/15/2008	Paid Accounting Fees	2,675		2,675	
12/31/2008	Balance			2,675	

	6700 Legal Fees Expense				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			-	
5/26/2008	Paid Legal Fees	650		650	
12/31/2008	Balance			650	

	6750 Gain/Loss on Sale of Assets				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			-	
6/30/2008	Sold Machinery & Equipment		1,200	(1,200)	
12/31/2008	Balance			(1,200)	

	6800 Extraordinary Loss				
Date	Explanation	Debit	Credit	Balance	
1/1/2008	Balance			-	
11/13/2008	Inventory Destroyed by Fire	12,800		12,800	
12/31/2008	Balance			12,800	

## TWELVE-COLUMN WORKSHEET – SOLVED

		liai balailce	_	Adjustinents		Halasten	Adjusted Irlai Bai.	IIICOILIE	Income Statement	Ketained Earnings	arnings	balance sneet	leer.
	<u>Debit</u>	Credit	Debit		Credit	Debit	Credit	Debit	Credit	<u>Debit</u>	Credit	<u>Debit</u>	Credit
Cash	1,369,274			1		1,369,274						1,369,274	
Accounts Receivable	134,400					134,400						134,400	
Allowance for Doubtful Accounts		3,153		8	6,255		9,408						9,408
Inventory	307,200			•		307,200						307,200	
Office Cumplier	7 155			₹ -	69,73	202,7						2,203	
Interest Receivable	CCT',			3 000	0100	2000						000 %	
Notes Receivable	75,000	,		200		75.000						75,000	
Patent	72,000			٥	9.000	63,000						63,000	
Goodwill	26,000				200/2	26,000						26,000	
Land	93.000					93,000						93,000	
Building	127,000					127,000						127,000	
Accumulated Depreciation - Building	200	32.722		ш	7.542	200/121	40.264					0000	40.264
Machinery & Equipment	45,500					45,500						45,500	
Accumulated Depreciation - M & E		17.025		ш	6.700		23.725						23.725
Accounts Payable		165,351					165,351						165,351
Interest Pavable				G	3.250		3,250						3,250
Wages Pavable		12.850					12.850						12,850
Income Taxes Pavable	160	,		-	185605		185 445						185 445
Federal Tax Withholding	2	2 300		,	2		2 300						2 300
State Tay Withholding		1,030					1,030						1,300
Saler Tay Davable		000		3	111 012		111 012						111 013
Notes lay rayable		105 000		1	C10/111		105,000						105,000
Notes Payable		193,000		+			193,000						193,000
Mortgage Payable		83,655					83,655						83,655
Common Stock		767,000					767,000						767,000
Additional Paid in Capital - Common		247,000		+			247,000						247,000
Preferred Stock		40,000		1			40,000						40,000
		4,000					4,000			00000	000		4,000
S Retained Earnings	0000	41,339				000	41,539			302,033	41,339		302,033
Ulvidends	3,200			+		3,200				3,200		000 80	
reasury stock	74,000	000 100 1		24.0		24,000	1000		1000			24,000	
Sales Revenue	11,000	T 797.5000		CT0,		7,000	T,005,347	1,000	T,003,347				
Sales Discounts	17,200	001		(	000 0	17,200	00	17,200	001				
nitel est nevellue		0000		١	nnn's		0000		000%				
Purchase Discounts Lost	5 350			+		- 250		5 350					
Freight-In	מרריר '					טנייו י		טיניי '					
FIEIght-III	701 146					701 146		701 146					
Ware Expense	260.750					260 750		260 750					
Interest Expense	22,130			3.250		25.438		25,438					
Income Tay Expense	001/11			185605		185,605		185,605					
Insurance Expense	0529	δ 4		79.255		85.805		85,805					
Supplies Expense	-			6.810		6,810		6,810					
Depreciation Expense - Buildings		-		7.542		7,542		7,542					
Depreciation Expense - M & E	625	ш		6,700		7,325		7,325					
Amortization Expense		٥		9,000		000'6		000'6					
Bad Debts Expense		В		6,255		6,255		6,255					
Research & Development Expense	32,900					32,900		32,900					
Payroll Tax Expense	27,600					27,600		27,600					
Advertising Expense	15,850					15,850		15,850					
Utilities Expense	18,852					18,852		18,852					
Acccounting Expense	2,675			1		2,675		2,675					
Legal Fees Expense	920					650		650					
Gain / Loss on Sale of Assets Extraordinary Loss from Fire	12 800	1,200				12 800	1,200	12 800	T,200				
Totals	3,595,485	3,595,485	419	419,230	419,230	3,807,677	3,807,677	1,529,553	1,874,247	386,033	41,339	2,274,924	2,274,924
Net Income								344,694			344,694		
Totals				_				1,874,247	1,874,247	386,033	386,033	2,274,924	2,274,924

## FINANCIAL STATEMENTS

### ProStar, Inc.

### Income Statement

### For the Year Ended December 31, 2008

Revenue		
Sales Revenue	1,863,547	
Sales Discounts	(17,200)	
Net Sales		1,846,347
Cost of Goods Sold		701,146
Gross Profit	_	1,145,201
Operating Expenses		
Accounting Expense	2,675	
Advertising Expense	15,850	
Amortization Expense	9,000	
Bad Debts Expense	6,255	
Depreciation Expense - Buildings	7,542	
Depreciation Expense - Machinery & Equipment	7,325	
Insurance Expense	85,805	
Legal Fees Expense	650	
Payroll Tax Expense	27,600	
Research & Development Expense	32,900	
Supplies Expense	6,810	
Utilities Expense	18,852	
Wage Expense	360,750	582,014
Operating Income		563,187
Other Revenue / Expense		
Interest Revenue	9,500	
Interest Expense	(25,438)	
Purchase Discounts Lost	(5,350)	
Gain on Sale of Assets	1,200	(20,088)
Income Before Tax		543,099
Tax (35%)	_	190,085
Income Before Extraordinary Item		353,014
Extraordinary Loss from Fire	(12,800)	
Tax (35%)	(4,480)	(8,320)
Net Income	_	344,694
	_	
Earnings Per Share:		
Income Before Extraordinary Item		13.02
Extraordinary Loss from Fire	_	(0.31)
Net Income	=	12.71

## ProStar USA, Inc. Statement of Retained Earnings December 31, 2008

Retained Earnings, 1/1/2007	41,664
Less: Prior Period Adjustment	325
Adjusted Retained Earnings, 1/1/2007	41,339
Plus: Net Income	344,694
Less: Dividends	(3,200)
Retained Earnings, 12/31/2008	382,833

#### ProStar USA, Inc. Balance Sheet December 31, 2008

#### **ASSETS**

7.00210			
Current Assets		1 200 274	
Cash	124 400	1,369,274	
Accounts Receivable Allowance for Doubtful Accountants	134,400	124.002	
Interest Receivable	(9,408)	124,992	
Notes Receivable		3,000	
		75,000	
Inventory		307,200	
Prepaid Insurance Office Supplies		7,205 345	
Total Current Assets	-	343	1,887,016
Property, Plant, and Equipment			1,887,010
Land		93,000	
Building	127,000	33,000	
Accumulated Depreciation - Building	(40,264)	86,736	
Machinery and Equipment	45,500	00,730	
Accumulated Depreciation - Machinery & Equipment	(23,725)	21,775	
Total Property, Plant, and Equipment	(23,723)	21,773	201,511
Intangible Assets			201,511
Patent		63,000	
Goodwill		26,000	
Total Intangible Assets	-	20,000	89,000
Total Assets			2,177,527
101417189010			
LIABILITIES AND STOCKHOLDE	RS' FOLLITY		
Current Liabilities	ins Equili		
Accounts Payable		165,351	
Interest Payable		3,250	
Wages Payable		12,850	
Income Taxes Payable		185,445	
Federal Tax Withholding		2,300	
State Tax Withholding		1,030	
Sales Tax Payable		111,813	
Mortgage Payable		1,427	
Total Current Liabilities	-		483,466
Long-Term Liabilities			,
Notes Payable		195,000	
Mortgage Payable		82,228	
Total Long Term Liabilities	-	- , -	277,228
Total Liabilities			760,694
Stockholders' Equity			, , , ,
Common Stock		767,000	
Additional Paid in Capital - Common		247,000	
Preferred Stock		40,000	
Additional Paid in Capital - Preferred		4,000	
Treasury Stock		(24,000)	
Retained Earnings		382,833	
Total Stockholders' Equity	-	, -	1,416,833
Total Liabilities and Stockholders' Equity			2,177,527
, ,			<u> </u>