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

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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

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A handwritten signature in black ink, appearing to read 'Mark Ross', is written over a horizontal line.

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Department of Accounting

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2010

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

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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 be 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 No. | Account Title | Account Balances | |
|-------------|--|------------------|---------|
| | | 12/31/2007 | |
| | | Debit | Credit |
| 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 | | 32,722 |
| 1900 | Machinery & Equipment | 53,000 | |
| 1950 | Accumulated Depreciation - Machinery & Equipment | | 18,900 |
| 2000 | Accounts Payable | | 44,800 |
| 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 | Accounting Expense | | |
| 6700 | Legal Fees Expense | | |
| 6750 | Gain / Loss on Sale of Assets | | |
| 6800 | Extraordinary Loss from Fire | | |
| | | 880,365 | 880,365 |

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 federal 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.

Accruals 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 **F** Record depreciation for the building.
- 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

| 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 | | | | |
|---------------------------|-------------|-------|--------|---------|
| Date | 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 - 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 Revenue | | | | |
|--------------------|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |

| 4100 Sales Discounts | | | | |
|----------------------|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |

| 4200 Interest Revenue | | | | |
|-----------------------|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |
| | | | | |

| 5000 Purchases | | | | |
|----------------|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |
| | | | | |

| 5100 Purchase Discounts Lost | | | | |
|------------------------------|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |

| 5200 Freight-In | | | | |
|-----------------|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |

| 5300 Cost of Goods Sold | | | | |
|-------------------------|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |

| 6000 Wage Expense | | | | |
|-------------------|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |

| 6050 Interest Expense | | | | |
|-----------------------|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |
| | | | | |
| | | | | |
| | | | | |

| 6100 Income Tax Expense | | | | |
|-------------------------|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |

| 6150 Insurance Expense | | | | |
|------------------------|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |

| 6200 Supplies Expense | | | | |
|-----------------------|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |

| 6250 Depreciation Expense - Building | | | | |
|--------------------------------------|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |

| 6300 Depreciation Exp. - Machinery & Equipment | | | | |
|--|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |

| 6350 Amortization Expense | | | | |
|---------------------------|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |

| 6400 Bad Debts Expense | | | | |
|------------------------|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |

| 6450 Research & Development Expense | | | | |
|-------------------------------------|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |

| 6500 Payroll Tax Expense | | | | |
|--------------------------|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |

| 6550 Advertising Expense | | | | |
|--------------------------|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |

| 6600 Utilities Expense | | | | |
|------------------------|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |

| 6650 Accounting Expense | | | | |
|-------------------------|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |

| 6700 Legal Fees Expense | | | | |
|-------------------------|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |

| 6750 Gain/Loss on Sale of Assets | | | | |
|----------------------------------|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |

| 6800 Extraordinary Loss | | | | |
|-------------------------|-------------|-------|--------|---------|
| Date | Explanation | Debit | Credit | Balance |
| 1/1/2008 | Balance | | | - |
| | | | | |
| | | | | |

TWELVE-COLUMN WORKSHEET

| Account Title | Trial Balance | | Adjustments | | Adjusted Trial Bal. | | Income Statement | | Retained Earnings | | Balance Sheet | |
|--|---------------|--------|-------------|--------|---------------------|--------|------------------|--------|-------------------|--------|---------------|--------|
| | Debit | Credit | Debit | Credit | Debit | Credit | Debit | Credit | Debit | 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 | | | | | | | | | | | | |
| Payroll Tax Expense | | | | | | | | | | | | |
| Advertising Expense | | | | | | | | | | | | |
| Utilities Expense | | | | | | | | | | | | |
| Accounting Expense | | | | | | | | | | | | |
| Legal Fees Expense | | | | | | | | | | | | |
| Gain / Loss on Sale of Assets | | | | | | | | | | | | |
| Extraordinary Loss from Fire | | | | | | | | | | | | |
| Totals | | | | | | | | | | | | |
| Net Income | | | | | | | | | | | | |
| Totals | | | | | | | | | | | | |

TRANSACTIONS – SOLVED

Transactions FYE 12/31/2008

| | | | |
|--|---------|---------|---------|
| 1/1/2008 ProStar received an interest payment on its long-term Note Receivable. | | | |
| Cash | 3,000 | | |
| Interest Receivable | | 3,000 | |
| 1/1/2008 A physical count of office supplies reveals inventory of \$280 as of 12/31/07 resulting in a tax effect due to the missing expense of \$160. | | | |
| Prior Period Adjustment | 325 | | |
| Income Taxes Payable | 160 | | |
| Office Supplies | | | 485 |
| 1/15/2008 ProStar paid accrued wages & taxes from 2007. | | | |
| 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 automatically 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. | | | |
| Prepaid Insurance | 86,460 | | |
| Cash | | | 86,460 |
| 2/1/2008 ProStar issued 19,500 shares of common stock when the market value was \$38 per share. | | | |
| Cash | 741,000 | | |
| Common Stock | | 507,000 | |
| Additional Paid in Capital - Common | | 234,000 | |
| 2/1/2008 ProStar received an interest payment on its short-term Note Receivable. | | | |
| 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 (principal & interest). | | | |
| Interest Payable | 1,750 | | |
| Notes Payable - current | 75,000 | | |
| Interest Expense | 875 | | |
| Cash | | | 77,625 |
| 3/1/2008 ProStar purchased inventory on account worth \$276,500; terms are 2/10, n/30. | | | |
| Purchases | 270,970 | | |
| Accounts Payable | | 270,970 | |
| 3/11/2008 ProStar paid for inventory purchased on account 3/1/08. | | | |
| Accounts Payable | 270,970 | | |
| Cash | | | 270,970 |
| 3/20/2008 Prior year sales tax was paid in full. | | | |
| 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 | | |
| Cash | | | 9,750 |
| 5/26/2008 After seeking legal advice, an invoice was received and paid in the amount of \$650. | | | |
| Legal Fees Expense | 650 | | |
| Cash | | | 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. | | | |
| Depreciation Expense - Mach. & Equipment | 625 | | |
| Accumulated Depreciation - M & E | | 625 | |

| | | | |
|---|----------------------------------|-----------|-----------|
| 6/30/2008 Record the sale. | Cash | 6,200 | |
| | Accumulated Depreciation - M & E | 2,500 | |
| | Machinery & Equipment | | 7,500 |
| | Gain on Sale of Assets | | 1,200 |
| 7/1/2008 ProStar received an interest payment on its long-term Note Receivable. | Cash | 3,000 | |
| | Interest Revenue | | 3,000 |
| 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. | Freight-In | 3,700 | |
| | Cash | | 3,700 |
| | Purchases | 529,650 | |
| | Accounts Payable | | 529,650 |
| 8/1/2008 ProStar received the final payment (interest & principal) on its short-term Note Receivable. | Cash | 53,000 | |
| | Interest Revenue | | 3,000 |
| | Note Receivable | | 50,000 |
| 8/15/2008 A customer invoice in the amount of \$4,960 was deemed uncollectible. | Allowance for Doubtful Accounts | 4,960 | |
| | Accounts Receivable | | 4,960 |
| 9/18/2008 ProStar incurred internal costs of \$32,900 to develop a patent. | Research & Development Expense | 32,900 | |
| | Cash | | 32,900 |
| 9/20/2008 ProStar paid for inventory purchased on account 7/25/08. | Accounts Payable | 529,650 | |
| | Purchase Discounts Lost | 5,350 | |
| | Cash | | 535,000 |
| 9/25/2008 ProStar paid preferred dividends to shareholders on record at 9/18/08. | Dividends | 3,200 | |
| | Cash | | 3,200 |
| 10/30/2008 ProStar paid interest due on the long term Note Payable. | Interest Expense | 9,750 | |
| | Cash | | 9,750 |
| 11/13/2008 A warehouse fire destroyed inventory resulting in a loss of \$12,800. | Extraordinary Loss from Fire | 12,800 | |
| | Inventory | | 12,800 |
| 12/15/2008 ProStar purchased inventory on account worth \$163,700; terms are 2/10, n/30. | Purchases | 160,426 | |
| | Accounts Payable | | 160,426 |
| 12/31/2008 Sales on account for the year totalled \$1,975,360. | Accounts Receivable | 1,975,360 | |
| | Sales Revenue | | 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. | Cash | 154,800 | |
| | Sales Discounts | 17,200 | |
| | Accounts Receivable | | 172,000 |
| 12/31/2008 Total customer payments for the year amount to \$1,934,700. | Cash | 1,779,900 | |
| | Accounts Receivable | | 1,779,900 |
| 12/31/2008 Accrue wages for the year in the amount of \$360,785. Record state w/h of 24,700 and federal w/h due to social security and medicare of 7.65% for each the employee & employer portions. | Wage Expense | 360,750 | |
| | Payroll Tax Expense | 27,600 | |
| | Wages Payable | | 308,450 |
| | Federal Tax Withholding | | 55,200 |
| | State Tax Withholding | | 24,700 |
| 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. | Wages Payable | 295,600 | |
| | Federal Tax Withholding | 52,900 | |
| | State Tax Withholding | 23,670 | |
| | Cash | | 372,170 |
| 12/31/2008 ProStar incurred and paid the following expenses: phone - \$5,460; electric - \$9,540; gas - \$3,180; water - \$672. | Utilities Expense | 18,852 | |
| | Cash | | 18,852 |

| | | | | |
|---------------------------------|--|--|---------|---------|
| 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. | | | |
| | Ending Inventory | | 307,200 | |
| | Cost of Goods Sold | | 701,146 | |
| | Beginning Inventory | | | 56,400 |
| | Inventory (lost in fire) | | 12,800 | |
| | Purchases | | | 961,046 |
| | Freight-In | | | 3,700 |
| 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. | | | |
| | Interest Expense | | 5,063 | |
| | Mortgage Payable | | 1,345 | |
| | Cash | | | 6,408 |
| Accruals and Adjustments | | | | |
| 12/31/2008 | Accrue for prepaid insurance used during the year. | | | |
| A | Insurance Expense | | 79,255 | |
| | Prepaid Insurance | | | 79,255 |
| 12/31/2008 | An allowance account should be provided equaling 7% of the ending balance of Accounts Receivable. | | | |
| B | Bad Debts Expense | | 6,255 | |
| | Allowance for Doubtful Accounts | | | 6,255 |
| 12/31/2008 | Accrue interest on the long-term Note Receivable. | | | |
| C | Interest Receivable | | 3,000 | |
| | Interest Revenue | | | 3,000 |
| 12/31/2008 | 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. | | | |
| D | Amortization Expense | | 9,000 | |
| | Patent | | | 9,000 |
| 12/31/2008 | Current depreciation on Machinery & Equipment on record @ 12/31/08 totalled \$6,700. | | | |
| E | Depreciation Expense - Mach. & Equipment | | 6,700 | |
| | Accumulated Depreciation - M & E | | | 6,700 |
| 12/31/2008 | Record depreciation for the building. | | | |
| F | Depreciation Expense - Building | | 7,542 | |
| | Accumulated Depreciation - Bldg. | | | 7,542 |
| 12/31/2008 | Accrue interest due 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 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 |
| 3/11/2008 | 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 |
| 5/26/2008 | 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 |
| 8/1/2008 | 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) |
| 12/31/2008 | Customer Payments | 154,800 | | (13,196) |
| 12/31/2008 | Customer Payments | 1,779,900 | | 1,766,704 |
| 12/31/2008 | Paid Accrued Wages | | 372,170 | 1,394,534 |
| 12/31/2008 | Paid for Utilities | | 18,852 | 1,375,682 |
| 12/31/2008 | Paid Mortgage & Interest | | 6,408 | 1,369,274 |
| 12/31/2008 | Balance | | | 1,369,274 |

| 1100 Accounts Receivable | | | | |
|---------------------------------|---------------------------------|-----------|-----------|----------------|
| 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 Accounts | | | | |
|---|---------------------------------|-------|--------|--------------|
| 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 | <i>Provision for Bad Debts</i> | | 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 | <i>Insurance Expired</i> | | 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 | <i>Supplies used in 2008</i> | | 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 | <i>Accrued Interest</i> | 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 | <i>Amortize Patent</i> | | 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 |
| 3/1/2008 | Purchased Inventory on Account | | 270,970 | 275,895 |
| 3/11/2008 | Paid on Account | 270,970 | | 4,925 |
| 7/25/2008 | 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

| Account Title | Trial Balance | | Adjustments | | Adjusted Trial Bal. | | Income Statement | | Retained Earnings | | Balance Sheet | |
|--|---------------|-----------|-------------|---------|---------------------|-----------|------------------|-----------|-------------------|---------|---------------|-----------|
| | Debit | Credit | Debit | Credit | Debit | Credit | Debit | Credit | Debit | Credit | Debit | Credit |
| Cash | 1,369,274 | | | | 1,369,274 | | | | | | 1,369,274 | |
| Accounts Receivable | 134,400 | | | | 134,400 | | | | | | 134,400 | |
| Allowance for Doubtful Accounts | | 3,153 | | | | 9,408 | | | | | | 9,408 |
| Inventory | 307,200 | | | | 307,200 | | | | | | 307,200 | |
| Prepaid Insurance | 86,460 | | | | 7,205 | | | | | | 7,205 | |
| Office Supplies | 7,155 | | | | 345 | | | | | | 345 | |
| Interest Receivable | | | C | 3,000 | | | | | | | | |
| Notes Receivable | 75,000 | | | | 3,000 | | | | | | 3,000 | |
| Patent | 72,000 | | D | 9,000 | | | | | | | | |
| Goodwill | 26,000 | | | | 63,000 | | | | | | 63,000 | |
| Land | 93,000 | | | | 26,000 | | | | | | 26,000 | |
| Building | 127,000 | | | | 93,000 | | | | | | 93,000 | |
| Accumulated Depreciation - Building | | 32,722 | F | 7,542 | | 40,264 | | | | | | 40,264 |
| Machinery & Equipment | 45,500 | | | | 45,500 | | | | | | 45,500 | |
| Accumulated Depreciation - M & E | | 17,025 | E | 6,700 | | 23,725 | | | | | | 23,725 |
| Accounts Payable | | 165,351 | | | 165,351 | | | | | | | 165,351 |
| Interest Payable | | | G | 3,250 | | 3,250 | | | | | | 3,250 |
| Wages Payable | | 12,850 | | | 12,850 | | | | | | | 12,850 |
| Income Taxes Payable | 160 | | J | 185,605 | | 185,445 | | | | | | 185,445 |
| Federal Tax Withholding | | 2,300 | | | 2,300 | | | | | | | 2,300 |
| State Tax Withholding | | 1,030 | | | 1,030 | | | | | | | 1,030 |
| Sales Tax Payable | | | H | 111,813 | | 111,813 | | | | | | 111,813 |
| Notes Payable | | 195,000 | | | 195,000 | | | | | | | 195,000 |
| 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 | | | 40,000 | | | | | | | 40,000 |
| Additional Paid in Capital - Preferred | | 4,000 | | | 4,000 | | | | | | | 4,000 |
| Retained Earnings | | 41,339 | | | 41,339 | | | | | | | 382,833 |
| Dividends | 3,200 | | | | 3,200 | | | | | | | 3,200 |
| Treasury Stock | 24,000 | | | | 24,000 | | | | | | | 24,000 |
| Sales Revenue | | 1,975,360 | H | 111,813 | | 1,863,547 | | | | | | 1,863,547 |
| Sales Discounts | 17,200 | | | | 17,200 | | | | | | | 17,200 |
| Interest Revenue | | 6,500 | C | 3,000 | | 9,500 | | | | | | 9,500 |
| Purchases | | | | | | | | | | | | |
| Purchase Discounts Lost | | | | | | | | | | | | |
| Freight-In | 5,350 | | | | 5,350 | | | | | | | |
| Cost of Goods Sold | 701,146 | | | | 701,146 | | | | | | | |
| Wage Expense | 360,750 | | | | 360,750 | | | | | | | |
| Interest Expense | 22,188 | | G | 3,250 | | 25,438 | | | | | | |
| Income Tax Expense | | | J | 185,605 | | 185,605 | | | | | | |
| Insurance Expense | 6,550 | | A | 79,255 | | 85,805 | | | | | | |
| Supplies Expense | | | I | 6,810 | | 6,810 | | | | | | |
| Depreciation Expense - Buildings | | | F | 7,542 | | 7,542 | | | | | | |
| Depreciation Expense - M & E | 625 | | E | 6,700 | | 7,325 | | | | | | |
| Amortization Expense | | | D | 9,000 | | 9,000 | | | | | | |
| Bad Debts Expense | | | B | 6,255 | | 6,255 | | | | | | |
| Research & Development Expense | 32,900 | | | | 32,900 | | | | | | | |
| Payroll Tax Expense | 27,600 | | | | 27,600 | | | | | | | |
| Advertising Expense | 15,850 | | | | 15,850 | | | | | | | |
| Utilities Expense | 18,852 | | | | 18,852 | | | | | | | |
| Accounting Expense | 2,675 | | | | 2,675 | | | | | | | |
| Legal Fees Expense | 650 | | | | 650 | | | | | | | |
| Gain / Loss on Sale of Assets | | 1,200 | | | 1,200 | | | | | | | |
| Extraordinary Loss from Fire | | | | | | | | | | | | |
| Totals | 3,595,485 | 3,595,485 | 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 | <u>1,846,347</u> | |
| Cost of Goods Sold | | <u>701,146</u> |
| 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 | | <u>563,187</u> |
| 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 | | <u>543,099</u> |
| Tax (35%) | | <u>190,085</u> |
| Income Before Extraordinary Item | | 353,014 |
| Extraordinary Loss from Fire | (12,800) | |
| Tax (35%) | (4,480) | (8,320) |
| Net Income | | <u><u>344,694</u></u> |
| Earnings Per Share: | | |
| Income Before Extraordinary Item | | 13.02 |
| Extraordinary Loss from Fire | | <u>(0.31)</u> |
| Net Income | | <u><u>12.71</u></u> |

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

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

ProStar USA, Inc.
Balance Sheet
December 31, 2008

ASSETS

| | | |
|--|-----------------|-------------------------|
| Current Assets | | |
| Cash | | 1,369,274 |
| Accounts Receivable | 134,400 | |
| Allowance for Doubtful Accountants | <u>(9,408)</u> | 124,992 |
| Interest Receivable | | 3,000 |
| Notes Receivable | | 75,000 |
| Inventory | | 307,200 |
| Prepaid Insurance | | 7,205 |
| Office Supplies | | <u>345</u> |
| Total Current Assets | | 1,887,016 |
| Property, Plant, and Equipment | | |
| Land | | 93,000 |
| Building | 127,000 | |
| Accumulated Depreciation - Building | <u>(40,264)</u> | 86,736 |
| Machinery and Equipment | 45,500 | |
| Accumulated Depreciation - Machinery & Equipment | <u>(23,725)</u> | 21,775 |
| Total Property, Plant, and Equipment | | 201,511 |
| Intangible Assets | | |
| Patent | | 63,000 |
| Goodwill | | <u>26,000</u> |
| Total Intangible Assets | | 89,000 |
| Total Assets | | <u><u>2,177,527</u></u> |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|--|--|-------------------------|
| Current Liabilities | | |
| 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 | | <u>1,427</u> |
| Total Current Liabilities | | 483,466 |
| Long-Term Liabilities | | |
| Notes Payable | | 195,000 |
| Mortgage Payable | | <u>82,228</u> |
| 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 | | <u>382,833</u> |
| Total Stockholders' Equity | | 1,416,833 |
| Total Liabilities and Stockholders' Equity | | <u><u>2,177,527</u></u> |