

# ***Work4Me Accounting Simulations***

***3<sup>rd</sup> Web-Based Edition***

## ***Problem Six***

### ***Adjusting Entries, Closing Entries, and Financial Analysis***

Emory Legal Services, Inc.  
 Trial Balance  
 For The Quarter Ended, September 30

	Debit	Credit
Cash	1,980.00	
Accounts Receivable	4,575.00	
Prepaid Rent	9,000.00	
Prepaid Insurance	1,977.00	
Office Supplies	1,440.00	
Office Equipment	10,050.00	
Accumulated Deprec. - Office Equip.		3,200.00
Automobile	30,500.00	
Accumulated Deprec. - Automobile		10,400.00
Building	40,000.00	
Land	50,000.00	
Accounts Payable		4,750.00
Short-term Notes Payable		3,000.00
Salaries and Wages Payable		650.00
Long-term Notes Payable		12,000.00
Common Stock		80,000.00
Retained Earnings		12,377.00
Cash Dividends Declared	500.00	
Legal Fees Earned		34,500.00
Consulting Fees Earned		5,110.00
Salaries and Wages Expense	12,650.00	
Vehicle Operating Expense	745.00	
Advertising Expense	1,050.00	
Delivery Expense	125.00	
Electric and Gas Expense	645.00	
Telephone Expense	475.00	
License Expense	200.00	
Miscellaneous Expense	75.00	
	-----	-----
Total	165,987.00	165,987.00
	=====	=====

**Emory Legal Services, Incorporated**  
**CHART OF ACCOUNTS**  
**Problem 6**

<b>ASSETS</b>	<b>REVENUE</b>
101 Cash	401 Legal Fees Earned
105 Accounts Receivable	405 Consulting Fees Earned
109 Notes Receivable	
121 Prepaid Rent	
122 Prepaid Insurance	<b>EXPENSES</b>
125 Prepaid Advertising	601 Salaries and Wages Expense
127 Office Supplies	602 Office Supplies Expense
131 Office Equipment	604 Vehicle Operating Expense
132 Accum. Depreciation, Office Equip.	605 Advertising Expense
139 Automobiles	606 Delivery Expense
140 Accum. Depreciation, Automobiles	610 Depreciation Exp., Office Equip.
150 Building	612 Depreciation Exp., Automobiles
151 Accum. Depreciation, Building	615 Depreciation Exp., Building
160 Land	621 Rent Expense
	622 Insurance Expense
<b>LIABILITIES</b>	624 Property Tax Expense
201 Accounts Payable	625 Electric and Gas Expense
203 Short-Term Notes Payable	626 Telephone Expense
209 Salaries & Wages Payable	628 License Expense
211 Property Taxes Payable	635 Miscellaneous Expense
213 Dividends Payable	651 Interest Expense
215 Interest Payable	
220 Unearned Consulting Fees	<b>INCOME SUMMARY</b>
231 Long-Term Notes Payable	901 Income Summary
241 Mortgage Payable	
<b>STOCKHOLDERS' EQUITY</b>	
301 Common Stock	
305 Retained Earnings	
310 Cash Dividends Declared	

## Problem 6

# Adjusting, Closing, and Analysis

### Emory Legal Services, Incorporated Adjusting, Closing and Analysis For the Quarter Ended, September 30

1. Go to [www.pklsoftware.com](http://www.pklsoftware.com), select Work4Me, and log in.
2. From the Menu Bar of the Data Entry page, select Problem 6, Adjusting, Closing, and Analysis and click.

Using the copy of the Emory Legal Services, Incorporated, September 30 Trial Balance shown on page 2 and the chart of accounts on page 3, record the required **adjusting entries** for the **end of the third quarter, September 30**. Be sure to enter your adjusting entries by selecting the **Adjusting JE** data entry format. Remember that all corrections to adjusting entries must also be entered in the **Adjusting JE** data entry format.

**Hint:** Move the Pointer to Help on the Menu Bar and Print the topics: “**Adjusting Prepaid Assets Recorded as Prepaid Assets or as Expenses**,” and “**Unearned Revenue, End-of-Period Adjusting Entries**.” You will find them helpful.

### Emory Legal Services, Incorporated Adjusting Entries for the Third Quarter ended September 30

- A. The ending inventory of office supplies totals **\$220**.
- B. Two insurance policies provide the insurance coverage for the law firm. Policy one was purchased on July 1, last year for **\$2,064** and provides 24 months of liability coverage. Policy two was purchased on January 2, this year for **\$1,260** and is also a 24 month policy covering the business equipment.  
  
**Note:** Use the ‘D’ key to repeat a date...very convenient for adjusting entries.
- C. Rent was prepaid for **six months on July 1**, of this year.
- D. Accrued interest on all short-term and long-term **notes payable** totals **\$425** for the quarter.
- E. An examination of the Consulting Fees Earned account disclosed that **\$1,350** of this account balance is **unearned** on September 30.
- F. Accrued property taxes for the quarter total **\$266**.

- G. Wages accrued total **11.5 hours** worked at a rate of **\$11.80 per hour**.
- H. Depreciation of office equipment totals **\$130 per month**.
- I. The automobile used by the business cost **\$30,500**. It is estimated that this vehicle will depreciated to a salvage value of **\$4,500** over 5 year period. This is a net cost of **\$26,000** that will be depreciated over 60 months at **\$5,200 per year**.
- J. Depreciation on the new building complex acquired the last day of June will be **\$1,200 per year**.
- K. All of the newspaper and radio advertisements paid for and charged to the Advertising Expense account **have been run by the end of the quarter**, September 30. **Is an adjusting entry required?**

Now that you have completed entering the adjusting entries for Emory Legal Services, Incorporated, it is time to check the accuracy of your work.

- 1) Move the pointer to **Check Figures** and click.
- 2) Move the pointer down to **Problem Check Figures** and click.
- 3) Click on **Adjusted**.
- 4) **Print** the **Adjusted** Check Figures for Problem 6 – Adjusting, Closing and Analysis.

Should you have any Incorrect Balances, follow the instructions in the **Error Correction Procedures** from **Module 1 – Demonstration Problem**.

If all of your balances are correct, move the pointer to **Administration/Files: Reset and Backup/Backup Data Files**, then continue with Instructions 1 to 11.

1. Move the pointer to **Journal/Ledgers/Statements** in the Menu Bar, then down to **Financial Statements** and select and **Print** the **Income Statement**.
2. Move the pointer to **Journal/Ledgers/Statements** in the Menu Bar, then down to **Financial Statements** and select and **Print** the **Retained Earnings Statement** and the Balance sheet.
3. Move the pointer to **Journal/Ledgers/Statements** in the Menu Bar, then down to **Financial Statements** and select and **Print** the **Balance sheet**.
4. Move the pointer to the **Journal/Ledgers/Statements** and click on **Data Entry**. The program used by Emory Legal Services, Inc., will, when directed, automatically close the books. **Click** on the **Closing JE** button and the closing entries will be recorded and posted.

5. **Print** a copy of the **Post-Closing Trial Balance**.
6. Move the pointer to **Journal/Ledgers/Statements** and down to **General Journal**. **Print** a copy of the **General Journal** adjusting and closing entries.
7. **Exit** the Program.
8. Using the required documents, **complete the Work4Me Adjusting, Closing and Analysis Evaluation** at the end of this Module.
9. Log On to your program and move the pointer to **Evaluations**, select **Exam 6: Adjusting, Closing and Analysis** and click.
10. Complete the Evaluation, using your completed Evaluation as a guide.
11. Follow the instructions at the top of the text box to **Save, Score, and Print** the Evaluation.

### **DO YOU NEED TO RESTORE YOUR WORK BACK TO THE ADJUSTING ENTRIES TO CORRECT AN ERROR?**

It is possible to **restore** your closed General Ledger to the **Adjusted Trial Balance** totals if you discover an error after you have closed the General Ledger. Move the pointer to Administration/Files: Reset and Backup/Restore Backed-up Data Files. Click on the Restore Data Files button and account balances will be restored to their pre-closing totals. Select the General Ledger and the Adjusted Trial Balance will appear on the screen.

You may then make corrections to adjusting entries using the Adjusting JE data entry process. When all correction entries have been completed, print a new Adjusted Trial Balance, new Financial Statements, and Close the General Ledger again. Print a Post-Closing Trial Balance and Exit the system.

Using your printed documents, carefully answer the questions on the Emory Legal Services, Incorporated, Problem Six Evaluation.

**WORK4ME - PROBLEM SIX  
ADJUSTING, CLOSING AND  
ANAYLSIS**

NAME \_\_\_\_\_  
CLASS DAY & TIME \_\_\_\_\_ DATE \_\_\_\_\_

1. The last account on a corporation Post-Closing Trial Balance is the Common Stock account. **Answer only T for True or F for False for all True/False questions.** \_\_\_\_\_
2. If the Income Summary account has a debit balance after the revenues and expenses have been closed, the business has a net loss. \_\_\_\_\_
3. If the business has net income for the period, this income will be closed into the Retained Earnings account with a debit to Retained Earnings and a credit to Income Summary. \_\_\_\_\_
4. A net loss for the period will result in a debit balance in the Income Summary account (before the account is closed) because the expenses are greater than the revenues. \_\_\_\_\_
5. Cash Dividends Declared is an account that is closed into the Income Summary account. \_\_\_\_\_
6. The Cash Dividends Declared account is an account that is closed at the end of each accounting period. \_\_\_\_\_
7. Expense accounts are closed by being debited. \_\_\_\_\_
8. All revenue accounts can be closed with a single journal entry. \_\_\_\_\_
9. If a work sheet is used in the accounting process, the adjusting entries are entered on the work sheet **after** being recorded in the general journal. \_\_\_\_\_
10. The final step in the accounting cycle is the journalizing and posting of the closing entries. \_\_\_\_\_
11. Income from Operations for the second quarter totaled \$9,352 and total revenues were \$28,955. Has Income from Operations as a percentage of total revenues improved during the third quarter? **Answer only Y for Yes or N for No.** \_\_\_\_\_

12. For the third quarter ended September 30, what is the Income from Operations as a percentage of Total Revenues? \_\_\_\_\_
- A. Less than 34.00%
  - B. More than 40.00%
  - C. 34.87%
  - D. 33.78%
13. Using information from questions 11 and 12, what has been the percentage increase in **third** quarter revenues over **second** quarter revenues? \_\_\_\_\_
- A. **32.44%**
  - B. **33.42%**
  - C. **32.14%**
  - D. **More than 35.00%**
  - E. **None of the above.**
14. Salaries Expense is what percent of total revenues? \_\_\_\_\_
- A. **32.44%**
  - B. **33.42%**
  - C. **32.14%**
  - D. **More than 35.00%**
  - E. **None of the above.**
15. Is the building owned by the company: \_\_\_\_\_
- A. **Very Old**
  - B. **Very New**
  - C. **About six years old**
  - D. **Fully depreciated**
16. What is the book value of Office Equipment? \_\_\_\_\_
17. What has been the total amount of **net increase** in retained earnings during the third quarter ended September 30? \$ \_\_\_\_\_
18. Emory Legal Services, Incorporated, began with an investment of \$80,000. What is the current “net worth” of Emory Legal Services, Incorporated on September 30? \$ \_\_\_\_\_



19. If the depreciation entries for Emory had not been recorded because of a clerical error, what would have been the reported Income from Operations of the business? \$ \_\_\_\_\_
20. **If during the fourth quarter of this year,** the Emory Legal Services sustained a net loss of \$4,500, and at the same time paid a dividend of \$3,000, what would be the new Retained Earnings balance when the books are closed on **December 31**? \$ \_\_\_\_\_