

Smith Equipment Corporation Part II
Suggested Journal Entries

1	To summarize purchases on account for \$800,000		
	Merchandise inventory (a)	800,000	
	Accounts payable (l)		800,000
2	To summarize payments to suppliers of \$630,000 cash for merchandise purchased on account		
	Accounts payable (l)	630,000	
	Cash (a)		630,000
3	To summarize sales of merchandise totaling \$720,000 of which \$500,000 is for cash and \$220,000 is on account		
	Cash (a)	500,000	
	Accounts receivable (a)	220,000	
	Sales revenue (r)		720,000
4	To summarize cash collections of \$250,000 from customers who had purchased on account		
	Cash (a)	250,000	
	Accounts receivable (a)		250,000
5	To summarize \$120,000 cash payments for salaries.		
	Salaries (e)	120,000	
	Cash (a)		120,000
6	To summarize \$2,400 cash payments for utility bills		
	Utilities (e)	2,400	
	Cash (a)		2,400
7	January 1, 2003: To pay \$6,000 interest related to mortgage loan from 2002.		
	Interest payable (l)	6,000	
	Cash (a)		6,000
8	January 4, 2003: To pay \$800 in salaries earned during the last 4 days of 2002		
	Salaries payable (l)	800	
	Cash (a)		800
9	January 10, 2003: To record \$600 delivered to customer and \$400 reduction in inventory		
	Advances from customers (l)	600	
	Sales revenue (r)		600
	Cost of goods sold (e)	400	
	Merchandise inventory (a)		400
10	January 15, 2003: To pay \$25,000 cash for to shareholders for the dividend declared on December 31, 2002		
	Dividends payable (l)	25,000	
	Cash (a)		25,000
11	March 1, 2003: Company receives a \$1,000 principal and \$30 interest related customer note dated November 1, 2002		
	Cash (a)	1,030	
	Note receivable (a)		1,000
	Interest receivable (a)		15
	Interest revenue (r)		15
12a	March 1, 2003: To record rent revenue earned during the Jan/Feb – $(\$900/3) \times 2 = \600 .		
	Advances from tenants (l)	600	
	Rent revenue (r)		600
12b	March 1, 2003: To record \$2,400 rent received in advance.		
	Cash (a)	2,400	
	Advances from tenants (l)		2,400
12c	October 1, 2003: To record \$2,400 rent received in advance.		
	Cash (a)	2,400	
	Advances from tenants (l)		2,400
13	March 31, 2003: To pay \$93,046 in tax expense for 2002.		
	Taxes payable (l)	93,046	
	Cash (a)		93,046
14	July 1, 2003: To record \$300,000 loan		
	Cash (a)	300,000	
	Bank Loan (l)		300,000
15	At December 31, 2003: The firm records \$4,000 depreciation for the building and \$5,000 depreciation of the equipment		
	Depreciation (e)	9,000	

	Building, net of accumulated depreciation (a)	4,000	
	Equipment, net of accumulated depreciation (a)	5,000	
16	At December 31, 2003: To record \$599,600 cost of goods sold. (PLUG: $140,000+800,000-400-340,000=599,600$)		
	Cost of goods sold (e)	599,600	
	Merchandise inventory (a)		599,600
17	At December 31, 2003: To record \$500 accrued salaries payable.		
	Salaries (e)	500	
	Salaries payable (l)		500
18	At December 31, 2003: To record \$25,000 declaration of dividends.		
	Retained earnings (se)	25,000	
	Dividends payable (l)		25,000
19	At December 31, 2003: To record expiration of insurance policy – $(\$1,200/2) \times 1 = \600 .		
	Insurance (e)	600	
	Prepaid insurance (a)		600
20	At December 31, 2003: To record interest expense on the mortgage loan		
	Interest expense (e)	6,000	
	Interest payable (l)		6,000
21	At December 31, 2003: To record interest expense on the bank loan. $(\$300,000 * 7% * 6/12)$		
	Interest expense (e)	10,500	
	Interest payable (l)		10,500
22	At December 31, 2003: To record rent revenue earned March - December - $(\$300 \times 10) = \3000 .		
	Advances from tenants (l)	3,000	
	Rent revenue (r)		3,000
23	Assume no tax effect in 2003		

**Smith Equipment Corporation Part II
Suggested T-Accounts**

		Cash	
		dr	cr
BB		179,000	
2			630,000
3		500,000	
4		250,000	
5			120,000
6			2,400
7			6,000
8			800
10			25,000
11		1,030	
12b		2,400	
12c		2,400	
13			93,046
14		300,000	
EB		357,584	

		Accounts Receivable	
		dr	cr
BB		69,000	
3		220,000	
4			250,000
EB		39,000	

		Merchandise Inventory	
		dr	cr
BB		140,000	
1		800,000	
9			400
16			599,600
EB		340,000	

		Prepaid Insurance	
		dr	cr
BB		600	
19			600
EB		-	

		Interest Receivable	
		dr	cr
BB		15	
11			15
EB		-	

		Notes Receivable	
		dr	cr
BB		1,000	
11			1,000
EB		-	

		Building, Net	
		dr	cr
BB		76,000	
15			4,000
EB		72,000	

		Equipment, Net	
		dr	cr
BB		35,000	
15			5,000
EB		30,000	

		Accounts Payable	
		dr	cr
BB			50,000
1			800,000
2		630,000	
			220,000

		Adv. from Customers	
		dr	cr
BB			600
9		600	
			-

		Adv. from Tenants	
		dr	cr
BB			600
12a		600	
12b			2,400
12c			2,400
22		3,000	
			1,800

**Smith Equipment Corporation Part II
Suggested T-Accounts**

		Salaries Payable	
		dr	cr
BB			800
8		800	
17			500
			500

		Dividends Payable	
		dr	cr
BB			25,000
10		25,000	
18			25,000
			25,000

		Interest Payable	
		dr	cr
BB			6,000
7		6,000	
20			6,000
21			10,500
			16,500

Taxes Payable	
dr	cr
93,046	93,046
-	

BB
13

dr	cr

Bank Loan	
dr	cr
	300,000
300,000	

BB
14

Mortgage Loan	
dr	cr
	60,000
60,000	

BB

Common Stock	
dr	cr
	150,000
150,000	

BB

Retained Earnings	
dr	cr
	114,569
25,000	
24,785	
64,784	

BB
18
NI

Sales Revenue	
dr	cr
	720,000
	600
720,600	

3
9

Interest Revenue	
dr	cr
	15
15	

11

Rent Revenue	
dr	cr
	600
	3,000
3,600	

12a
22

Cost of Sales	
dr	cr
400	
599,600	
600,000	

9
16

Salaries	
dr	cr
120,000	
500	
120,500	

5
17

Utilites	
dr	cr
2,400	
2,400	

6

Depreciation	
dr	cr
9,000	
9,000	

15

Interest Expense	
dr	cr
6,000	
10,500	
16,500	

20
21

Insurance	
dr	cr
600	
600	

19

Smith Equipment Corporation
Income Statement
For the Year Ended December 31, 2003

Sales	720,600
Cost of goods sold	600,000
Gross profit	<u>120,600</u>
Less operating expenses	
Salaries	120,500
Insurance	600
Depreciation	9,000
Utilities	2,400
Operating income	<u>(11,900)</u>
Other income (expense)	
Rental income	3,600
Interest income	15
Interest expense	(16,500)
Other income (expense)	<u>(12,885)</u>
Earnings before tax	(24,785)
Tax expense	-
Net income	<u><u>(24,785)</u></u>

Smith Equipment Corporation
Balance Sheet
December 31, 2003

Assets

Cash	357,584
Accounts receivable	39,000
Merchandise inventory	340,000
Prepaid insurance	-
Note receivable	-
Interest receivable	-
Total current assets	736,584
Equipment, net of accumulated depreciation	30,000
Building, net of accumulated depreciation	72,000
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Total assets	838,584
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Liabilities and Equities

Accounts payable	220,000
Salaries payable	500
Interest payable	16,500
Advances from customers	-
Advances from tenants	1,800
Divdends payable	25,000
Taxes payable	-
Total current liabilities	263,800
	<hr/>
Bank loan	300,000
Mortgage loan	60,000
Total liabilities	623,800
	<hr/>
Common stock	150,000
Retained earnings	64,784
Total Equities	214,784
	<hr/>
Total liabilities and equities	838,584
	<hr/> <hr/>

Smith Equipment Corporation

Operating cash flows

Net Loss	(24,785)
Depreciation	9,000
Changes in working capital accounts	
Accounts receivable	30,000
Merchandise inventory	(200,000)
Prepaid insurance	600
Note receivable	1,000
Interest receivable	15
Accounts payable	170,000
Salaries payable	(300)
Interest payable	10,500
Advances from customers	(600)
Advances from tenants	1,200
Taxes payable	(93,046)
	<hr/>
Total operating cash flows	(96,416)

Investing cash flows

-

Total investing cash flows

-

Financing cash flows

Issuance of Bank Loan	300,000
Dividends	(25,000)
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Total financing cash flows

275,000

Total cash flows

178,584

Beginning cash balance

179,000

Ending cash balance

357,584

Smith Equipment Corporation Part II
Suggested T-Accounts

	Cash	
	dr	cr
BB		
EB	-	

	Accounts Receivable	
	dr	cr
BB		
EB	-	

	Merchandise Inventory	
	dr	cr
BB		
EB	-	

	Prepaid Insurance	
	dr	cr
BB		
EB	-	

	Interest Receivable	
	dr	cr
BB		
EB	-	

	Notes Receivable	
	dr	cr
BB		
EB	-	

	Building, Net	
	dr	cr
BB		
EB	-	

	Equipment, Net	
	dr	cr
BB		
EB	-	

	Accounts Payable	
	dr	cr
BB		
EB	-	

	Adv. from Customers	
	dr	cr
BB		
EB	-	

	Adv. from Tenants	
	dr	cr
BB		
EB	-	

Smith Equipment Corporation Part II
Suggested T-Accounts

Salaries Payable	
dr	cr
-	

BB

Dividends Payable	
dr	cr
-	

BB

Interest Payable	
dr	cr
-	

BB

Taxes Payable	
dr	cr
-	

BB

dr	cr
-	

Bank Loan	
dr	cr
-	

BB

Mortgage Loan	
dr	cr
-	

BB

Common Stock	
dr	cr
-	

BB

Retained Earnings	
dr	cr
-	

BB

Sales Revenue	
dr	cr
-	

Interest Revenue	
dr	cr
-	

Rent Revenue	
dr	cr
-	

Cost of Sales	
dr	cr
-	

Salaries	
dr	cr
-	

Utilites	
dr	cr
-	

Depreciation	
dr	cr
-	

Interest Expense	
dr	cr
-	

Insurance	
dr	cr
-	

