

Principles of Accounting

Lecture 8

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Subject code: MGM 227



A background collage of five vertical panels. The first panel shows hands typing on a laptop. The second panel shows a graduation cap icon. The third panel shows a target icon, a play button icon, and a group of people icon. The fourth panel shows an open book icon and a magnifying glass icon. The fifth panel is a solid light blue color.

Principles of Accounting

MGM 227

Chapter 4: Completing the Accounting Cycle

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Learning objectives:

- 1) Prepare the financial statements including the classified balance sheet
- 2) Explain the purpose of, journalize, and post closing entries
- 3) Prepare the post-closing trial balance
- 4) Describe the accounting cycle
- 5) Use the current ratio to evaluate business performance



Use the current ratio to evaluate
business performance

HOW DO WE USE THE CURRENT RATIO TO EVALUATE BUSINESS PERFORMANCE?

Accounting is designed to provide information that stockholders, managers, and lenders can use to make decisions. A bank considering lending money to a business must predict whether that business can repay the loan. If a business already has a lot of debt, repayment is less certain than if it does not owe much money. In this chapter, we will introduce another ratio that can be used to measure the business's financial position, the current ratio.

The **current ratio** measures a company's ability to pay its current liabilities with its current assets. This ratio is computed as follows:

$$\text{Current ratio} = \text{Total current assets} / \text{Total current liabilities}$$

A company prefers to have a high current ratio because that means it has plenty of current assets to pay its current liabilities. A current ratio that has increased from the prior period indicates improvement in a company's ability to pay its current debts. A current ratio that has decreased from the prior period signals deterioration in the company's ability to pay its current liabilities.

A rule of thumb: A strong current ratio is 1.50, which indicates that the business has \$1.50 in current assets for every \$1.00 in current liabilities. A current ratio of 1.00 is considered low and somewhat risky. Returning to **Kohl's Corporation**, we can now evaluate Kohl's current ratio. Kohl's had the following total current assets and current liabilities, found on the balance sheet.

	As of Jan. 30, 2016	As of Jan. 31, 2015
Total current assets (in millions)	\$ 5,076	\$ 5,580
Total current liabilities (in millions)	2,714	2,859

The current ratio for Kohl's Corporation as of January 30, 2016, follows:

$$\text{Current ratio} = \$5,076 / \$2,714 = 1.87^*$$

*rounded

In comparison, the current ratio as of January 31, 2015, for Kohl's Corporation was:

$$\text{Current ratio} = \$5,580 / \$2,859 = 1.95^*$$

*rounded

The current ratio has decreased a little from 2015 to 2016. This indicates that Kohl's Corporation has deteriorated slightly in its ability to pay its current debts. Given that the current ratio is above 1.5 for both years, Kohl's Corporation would be considered a less risky investment than another business with a lower current ratio. Similarly, creditors would be more willing to extend credit to Kohl's Corporation than another company with a lower current ratio.

S4-14 Calculating the current ratio

End of the Line Montana Refrigeration has these account balances at December 31, 2018:

Notes Payable, long-term	\$ 9,200	Accounts Payable	\$ 3,600
Prepaid Rent	2,500	Accounts Receivable	6,600
Salaries Payable	2,600	Cash	3,500
Service Revenue	15,600	Depreciation Expense—Equip.	400
Office Supplies	1,300	Equipment	24,000
Accumulated Depreciation—Equip.	4,000	Common Stock	6,000
Advertising Expense	900	Rent Expense	1,800

Requirements

1. Calculate End of the Line Montana Refrigeration's current ratio.
2. How much in *current* assets does End of the Line Montana Refrigeration have for every dollar of *current* liabilities that it owes?

S4-14

Requirement 1

$$\begin{aligned}\text{Current ratio} &= \text{Total current assets} / \text{Total current liabilities} \\ &= (\$2,500 + \$1,300 + \$6,600 + \$3,500) / (\$2,600 + \$3,600) \\ &= \$13,900 / \$6,200 = 2.24\end{aligned}$$

Requirement 2

End of the Line Montana Refrigeration has \$2.24 in current assets for every \$1.00 of current liabilities that it owes.

*Check your understanding of the chapter by completing this problem and then looking at the solution.
Use this practice to help identify which sections of the chapter you need to study more.*

The adjusted trial balance of Martinez Advertising Services, at December 31, 2018, follows. This is the first year of operations.

MARTINEZ ADVERTISING SERVICES

Adjusted Trial Balance

December 31, 2018

Account Title	Balance	
	Debit	Credit
Cash	\$ 6,000	
Accounts Receivable	6,300	
Office Supplies	200	
Land	10,000	
Building	42,000	
Accumulated Depreciation—Building		\$ 24,000
Furniture	8,000	
Accumulated Depreciation—Furniture		6,000
Accounts Payable		2,000
Salaries Payable		500
Unearned Revenue		5,000
Notes Payable (long-term)		7,000
Common Stock		12,000
Dividends	25,000	
Service Revenue		64,300
Salaries Expense	16,500	
Supplies Expense	800	
Depreciation Expense—Building	1,000	
Depreciation Expense—Furniture	2,000	
Advertising Expense	3,000	
Total	\$ 120,800	\$ 120,800

Requirements

1. Prepare the income statement for the year ended December 31, 2018 (See Learning Objective 1).
2. Prepare the statement of retained earnings for the year ended December 31, 2018 (See Learning Objective 1).
3. Prepare the classified balance sheet at December 31, 2018. Use the report form (See Learning Objective 1).
4. Calculate the current ratio at December 31, 2018 (See Learning Objective 5).
5. Journalize and post the closing entries. Indicate the balance of the Retained Earnings account after the closing entries are posted (See Learning Objective 3).
6. Prepare a post-closing trial balance at December 31, 2018 (See Learning Objective 4).

Requirement 1

MARTINEZ ADVERTISING SERVICES

Income Statement

Year Ended December 31, 2018

Revenues:

Service Revenue	\$ 64,300
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Expenses:

Salaries Expense	\$ 16,500
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Advertising Expense	3,000
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Depreciation Expense—Building	1,000
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Depreciation Expense—Furniture	2,000
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Supplies Expense	800
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Total Expenses	23,300
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Net Income	\$ 41,000
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Requirement 2

MARTINEZ ADVERTISING SERVICES

Statement of Retained Earnings

Year Ended December 31, 2018

Retained Earnings, January 1, 2018	\$ 0
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Net income for the year	41,000
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	41,000
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Dividends	(25,000)
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Retained Earnings, December 31, 2018	\$ 16,000
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MARTINEZ ADVERTISING SERVICES

Balance Sheet
December 31, 2018

Assets**Current Assets:**

Cash		\$ 6,000	
Accounts Receivable		6,300	
Office Supplies		<u>200</u>	
Total Current Assets			\$ 12,500

Property, Plant, and Equipment:

Land		10,000	
Building	\$ 42,000		
Less: Accumulated Depreciation—Building	<u>(24,000)</u>	18,000	
Furniture	8,000		
Less: Accumulated Depreciation—Furniture	<u>(6,000)</u>	<u>2,000</u>	
Total Property, Plant, and Equipment			30,000

Total Assets \$ 42,500

Liabilities**Current Liabilities:**

Accounts Payable		\$ 2,000	
Salaries Payable		500	
Unearned Revenue		<u>5,000</u>	
Total Current Liabilities			\$ 7,500

Long-term Liabilities:

Notes Payable		<u>7,000</u>	
Total Liabilities			14,500

Stockholders' Equity

Common Stock		12,000	
Retained Earnings		<u>16,000</u>	
Total Stockholders' Equity			28,000
Total Liabilities and Stockholders' Equity			<u><u>\$ 42,500</u></u>

Requirement 3

Requirement 4

$$\text{Current ratio} = \text{Total current assets} / \text{Total current liabilities} = \$12,500 / \$7,500 = 1.67^*$$

*rounded

Requirement 5

Date	Accounts and Explanation	Debit	Credit
Dec. 31	Service Revenue	64,300	
	Income Summary		64,300
	<i>To close revenue.</i>		
31	Income Summary	23,300	
	Salaries Expense		16,500
	Supplies Expense		800
	Depreciation Expense—Building		1,000
	Depreciation Expense—Furniture		2,000
	Advertising Expense		3,000
	<i>To close expenses.</i>		
31	Income Summary	41,000	
	Retained Earnings		41,000
	<i>To close Income Summary.</i>		
31	Retained Earnings	25,000	
	Dividends		25,000
	<i>To close Dividends.</i>		

Salaries Expense			
Adj. Bal.	16,500	16,500	Dec. 31
Bal.	0		
Supplies Expense			
Adj. Bal.	800	800	Dec. 31
Bal.	0		
Depreciation Expense—Building			
Adj. Bal.	1,000	1,000	Dec. 31
Bal.	0		
Depreciation Expense—Furniture			
Adj. Bal.	2,000	2,000	Dec. 31
Bal.	0		
Advertising Expense			
Adj. Bal.	3,000	3,000	Dec. 31
Bal.	0		
Service Revenue			
Dec. 31	64,300	64,300	Adj. Bal.
		0	Bal.
Retained Earnings			
		0	Adj. Bal.
Dec. 31	25,000	41,000	Dec. 31
		16,000	Bal.

Income Summary			
Dec. 31	23,300	64,300	Dec. 31
		41,000	Bal.
Dec. 31	41,000		
		0	Bal.

Dividends			
Adj. Bal.	25,000	25,000	Dec. 31
Bal.	0		

MARTINEZ ADVERTISING SERVICES

Post-Closing Trial Balance

December 31, 2018

Requirement 6

	Balance	
Account Title	Debit	Credit
Cash	\$ 6,000	
Accounts Receivable	6,300	
Office Supplies	200	
Land	10,000	
Building	42,000	
Accumulated Depreciation—Building		\$ 24,000
Furniture	8,000	
Accumulated Depreciation—Furniture		6,000
Accounts Payable		2,000
Salaries Payable		500
Unearned Revenue		5,000
Notes Payable (long-term)		7,000
Common Stock		12,000
Retained Earnings		16,000
Total	<u>\$ 72,500</u>	<u>\$ 72,500</u>

1. Assets are listed on the balance sheet in the order of their
 - a. purchase date.
 - b. adjustments.
 - c. liquidity.
 - d. balance.
2. Which of the following accounts would be included in the property, plant, and equipment category of the classified balance sheet?
 - a. Land held for investment
 - b. Accumulated Depreciation
 - c. Office Supplies
 - d. Mortgage Payable
3. Which situation indicates a net loss within the Income Statement section of the worksheet?
 - a. Total credits exceed total debits
 - b. Total debits exceed total credits
 - c. Total debits equal total credits
 - d. None of the above
4. Which of the following accounts is *not* closed?
 - a. Depreciation Expense
 - b. Dividends
 - c. Service Revenue
 - d. Accumulated Depreciation
5. What do closing entries accomplish?
 - a. Zero out the revenues, expenses, and dividends
 - b. Transfer revenues, expenses, and dividends to the Retained Earnings account
 - c. Bring the Retained Earnings account to its correct ending balance
 - d. All of the above

6. Which of the following is *not* a closing entry?

Date	Accounts and Explanation	Debit	Credit
a.	Retained Earnings	xxx	
	Dividends		xxx
b.	Service Revenue	xxx	
	Income Summary		xxx
c.	Salaries Payable	xxx	
	Income Summary		xxx
d.	Income Summary	xxx	
	Rent Expense		xxx

7. Which of the following accounts may appear on a post-closing trial balance?

- a. Cash, Salaries Payable, and Retained Earnings
- b. Cash, Salaries Payable, and Service Revenue
- c. Cash, Service Revenue, and Salaries Expense
- d. Cash, Salaries Payable, and Salaries Expense

8. Which of the following steps of the accounting cycle is not completed at the end of the period?

- a. Journalize transactions as they occur.
- b. Journalize and post the closing entries.
- c. Prepare the post-closing trial balance.
- d. Prepare the financial statements.

9. Clean Water Softener Systems has Cash of \$600, Accounts Receivable of \$900, and Office Supplies of \$400. Clean owes \$500 on Accounts Payable and has Salaries Payable of \$200. Clean's current ratio is

- a. 2.71
- b. 2.50
- c. 0.63
- d. 0.37

1. c 2. b 3. b 4. d 5. d 6. c 7. a 8. a 9. a

Requirements

1. Journalize Kebby Photography's closing entries at December 31, 2018.
2. Determine Kebby Photography's ending Retained Earnings balance at December 31, 2018.

		Retained Earnings	
Clos.	6,900	49,000	Bal.
Clos.	14,000		
		28,100	Bal.

Date	Accounts and Explanation	Debit	Credit
Dec. 31	Service Revenue	37,500	
	Income Summary		37,500
	<i>To close revenue.</i>		
31	Income Summary	44,400	
	Salaries Expense		33,200
	Supplies Expense		2,700
	Depreciation Expense—Building		7,000
	Depreciation Expense—Furniture		1,500
	<i>To close expenses.</i>		
31	Retained Earnings	6,900	
	Income Summary		6,900
	<i>To close Income Summary.</i>		
31	Retained Earnings	14,000	
	Dividends		14,000
	<i>To close dividends.</i>		

Demonstration of P4-32A

The *unadjusted* trial balance of Elliot Wilson at December 31, 2018, and the data for the adjustments follow:

ELLIOT WILSON Unadjusted Trial Balance December 31, 2018		
Account Title	Balance	
	Debit	Credit
Cash	\$18,000	
Accounts Receivable	20,000	
Prepaid Rent	5,000	
Office Supplies	3,000	
Equipment	42,000	
Accumulated Depreciation—Equipment		\$6,500
Accounts Payable		15,000
Salaries Payable		
Unearned Revenue		12,000
Common Stock		30,000
Retained Earnings		10,000
Dividends	7,100	
Service Revenue		27,100
Salaries Expense	5,500	
Rent Expense		
Depreciation Expense—Equipment		
Supplies Expense		
Total	<u>\$100,600</u>	<u>\$100,600</u>

Demonstration of P4-32A

Adjustment Data:

- a. Unearned Revenue still unearned at December 31, \$4,000.
- b. Prepaid Rent still in force at December 31, \$3,000.
- c. Office Supplies used, \$2,000.
- d. Depreciation, \$500.
- e. Accrued Salaries Expense at December 31, \$900.

Requirements

1. Open the T-accounts using the balances in the unadjusted trial balance.
2. Prepare the adjusting entries and post to the accounts.
3. Prepare an adjusted trial balance.
4. Prepare the income statement, the statement of retained earnings, and the classified balance sheet in report form.
5. Prepare the closing entries and post to the accounts.
6. Prepare a post-closing trial balance.
7. Calculate the current ratio for the company.

Demonstration of P4-32A-Req. 1

Cash	
Bal.	18,000

Accounts Receivable	
Bal.	20,000

Prepaid Rent	
Bal.	5,000

Office Supplies	
Bal.	3,000

Accounts Payable	
	15,000 Bal.

Accumulated Depreciation—Equip	
	6,500 Bal.

Salaries Payable	
	0 Bal.

Equipment	
Bal.	42,000

Demonstration of P4-32A-Req. 1

Unearned Revenue	
	12,000 Bal.

Common Stock	
	30,000 Bal.

Retained Earnings	
	10,000 Bal.

Dividends	
Bal.	7,100

Demonstration of P4-32A-Req. 1

Income Summary	

Service Revenue	
	27,100 Bal.

Salaries Expense	
Bal.	5,500

Rent Expense	
Bal.	0

Depreciation Expense—Equip	
Bal.	0

Supplies Expense	
Bal.	0

Demonstration of P4-32A-Req. 3

a. Unearned Revenue still unearned at December 31, \$4,000.

Date	Accounts and Explanation	Debit	Credit
Dec. 31	Unearned Revenue	8,000	
	Service Revenue		8,000
	<i>To adjust revenue earned.</i>		

Unearned Revenue	
	12,000 Bal.
Adj. 8,000	

Service Revenue	
	27,100 Bal.
	8,000 Adj.
	35,100 Bal.

Demonstration of P4-32A-Req. 3

b. Prepaid Rent still in force at December 31, \$3,000.

Date	Accounts and Explanation	Debit	Credit
Dec. 31	Rent Expense	2,000	
	Prepaid Rent		2,000
	<i>To adjust rent expense.</i>		

Rent Expense	
Bal.	0
Adj.	2,000
Bal.	2,000

Prepaid Rent		
Bal.	5,000	2,000 Adj.
Bal.	3,000	

Demonstration of P4-32A-Req. 3

c. Office Supplies used, \$2,000.

Date	Accounts and Explanation	Debit	Credit
Dec. 31	Supplies Expense	2,000	
	Office Supplies		2,000
	<i>To adjust office supplies.</i>		

Supplies Expense	
Bal.	0
Adj.	2,000
Bal.	2,000

Office Supplies		
Bal.	3,000	2,000 Adj.
Bal.	1,000	

Demonstration of P4-32A-Req. 3

d. Depreciation, \$500.

Date	Accounts and Explanation	Debit	Credit
Dec. 31	Depreciation Expense—Equipment	500	
	Accumulated Depreciation—Equipment		500
	<i>To adjust depreciation.</i>		

Depreciation Expense—Equip.	
Bal.	0
Adj.	500
Bal.	500

Accumulated Depreciation—Equip	
	6,500 Bal.
	500 Adj.
	7,000 Bal.

Demonstration of P4-32A-Req. 3

e. Accrued Salaries Expense at December 31, \$900.

Date	Accounts and Explanation	Debit	Credit
Dec. 31	Salaries Expense	900	
	Salaries Payable		900
	<i>To adjust accrued salaries.</i>		

Salaries Expense		
Bal.	5,500	
Adj.	900	
Bal.	6,400	

Salaries Payable		
	0	Bal.
	900	Adj.
	900	Bal.

Demonstration of P4-32A-Req. 4

ELLIOT WILSON Adjusted Trial Balance December 31, 2018		
Account Title	Balance	
	Debit	Credit
Cash	\$18,000	
Accounts Receivable	20,000	
Prepaid Rent	3,000	
Office Supplies	1,000	
Equipment	42,000	
Accumulated Depreciation—Equipment		\$ 7,000
Accounts Payable		15,000
Salaries Payable		900
Unearned Revenue		4,000
Common Stock		30,000
Retained Earnings		10,000
Dividends	7,100	
Service Revenue		35,100
Salaries Expense	6,400	
Rent Expense	2,000	
Depreciation Expense—Equipment	500	
Supplies Expense	2,000	
Total	<u>\$102,000</u>	<u>\$102,000</u>

Demonstration of P4-32A-Req. 5

Service Revenue	\$35,100
Salaries Expense	6,400
Rent Expense	2,000
Depreciation Expense—Equipment	500
Supplies Expense	2,000

ELLIOT WILSON	
Income Statement	
Year Ended December 31, 2018	
Revenues:	
Service Revenue	\$35,100
Expenses:	
Salaries Expense	\$6,400
Rent Expense	2,000
Depreciation Expense—Equipment	500
Supplies Expense	2,000
Total Expenses	<u>10,900</u>
Net Income	<u><u>\$24,200</u></u>

Demonstration of P4-32A-Req. 5

Retained Earnings, January 1, 2018	\$10,000
Net income for the year	24,200
Dividends	7,100

ELLIOT WILSON	
Statement of Retained Earnings	
Year Ended December 31, 2018	
Retained Earnings, January 1, 2018	\$10,000
Net income for the year	24,200
	34,200
Dividends	(7,100)
Retained Earnings, December 31, 2018	<u><u>\$27,100</u></u>

Demonstration of P4-32A-Req. 5

Cash	\$18,000	Accumulated Depreciation-Eq.	\$7,000
Accounts Receivable	20,000	Accounts Payable	15,000
Prepaid Rent	3,000	Salaries Payable	900
Office Supplies	1,000	Unearned Revenue	4,000
Equipment	42,000	Common Stock	30,000
		Retained Earnings	27,100

ELLIOT WILSON Balance Sheet December 31, 2018			
Assets			
Current Assets:			
Cash	\$18,000		
Accounts Receivable	20,000		
Prepaid Rent	3,000		
Office Supplies	1,000		
Total Current Assets			\$42,000
Plant Assets:			
Equipment	42,000		
Less: Accumulated Depreciation—Equipment	7,000		
Total Plant Assets			35,000
Total Assets			<u>\$77,000</u>
Liabilities			
Current Liabilities:			
Accounts Payable	\$15,000		
Salaries Payable	900		
Unearned Revenue	4,000		
Total Current Liabilities			\$19,900
Total Liabilities			<u>19,900</u>
Stockholders' Equity			
Common Stock			30,000
Retained Earnings			27,100
Total Stockholders' Equity			<u>57,100</u>
Total Liabilities and Stockholders' Equity			<u>\$77,000</u>

Demonstration of P4-32A-Req. 6

Date	Accounts and Explanation	Debit	Credit
Dec. 31	Service Revenue	35,100	
	Income Summary		35,100
	<i>To close revenue.</i>		

Service Revenue			
		27,100	Bal.
		8,000	Adj.
Clos.	35,100	35,100	Bal.
		0	Bal.

Income Summary			
		35,100	Clos.

Demonstration of P4-32A-Req. 6

Date	Accounts and Explanation	Debit	Credit
Dec. 31	Income Summary	10,900	
	Salaries Expense		6,400
	Rent Expense		2,000
	Depreciation Expense—Equipment		500
	Supplies Expense		2,000
	<i>To close expenses.</i>		

Income Summary			
Clos.	10,900	35,100	Clos.
		24,200	Bal.

Demonstration of P4-32A-Req. 6

Salaries Expense		
Bal.	5,500	
Adj.	900	
Bal.	6,400	6,400 Clos.
Bal.	0	

Rent Expense		
Bal.	0	
Adj.	2,000	
Bal.	2,000	2,000 Clos.
Bal.	0	

Depreciation Expense—Equip.		
Bal.	0	
Adj.	500	
Bal.	500	500 Clos.
Bal.	0	

Supplies Expense		
Bal.	0	
Adj.	2,000	
Bal.	2,000	2,000 Clos.
Bal.	0	

Demonstration of P4-32A-Req. 6

Date	Accounts and Explanation	Debit	Credit
Dec. 31	Income Summary	24,200	
	Retained Earnings		24,200
	<i>To close Income Summary.</i>		

Income Summary			
Clos.	10,900	35,100	Clos.
		24,200	Bal.
Clos.	24,200		
		0	Bal.

Retained Earnings	
	10,000 Bal.
	24,200 Clos.

Demonstration of P4-32A-Req. 6

Date	Accounts and Explanation	Debit	Credit
Dec. 31	Retained Earnings	7,100	
	Dividends		7,100
	<i>To close dividends.</i>		

Dividends		
Bal.	7,100	
		7,100 Clos.
Bal.	0	

Retained Earnings			
		10,000	Bal.
Clos.	7,100	24,200	Clos.
		27,100	Bal.

Demonstration of P4-32A-Req. 7

Cash	\$18,000	Accumulated Depreciation—Eq.	\$7,000
Accounts Receivable	20,000	Accounts Payable	15,000
Prepaid Rent	3,000	Salaries Payable	900
Office Supplies	1,000	Unearned Revenue	4,000
Equipment	42,000	Common Stock	30,000
		Retained Earnings	27,100

ELLIOT WILSON Post-Closing Trial Balance December 31, 2018

Account Title	Balance	
	Debit	Credit
Cash	\$18,000	
Accounts Receivable	20,000	
Prepaid Rent	3,000	
Office Supplies	1,000	
Equipment	42,000	

Demonstration of P4-32A-Req. 7

Cash	\$18,000	Accumulated Depreciation—Eq.	\$7,000
Accounts Receivable	20,000	Accounts Payable	15,000
Prepaid Rent	3,000	Salaries Payable	900
Office Supplies	1,000	Unearned Revenue	4,000
Equipment	42,000	Common Stock	30,000
		Retained Earnings	27,100

ELLIOT WILSON Post-Closing Trial Balance December 31, 2018		
Account Title	Balance	
	Debit	Credit
Cash	\$18,000	
Accounts Receivable	20,000	
Prepaid Rent	3,000	
Office Supplies	1,000	
Equipment	42,000	
Accumulated Depreciation—Equipment		\$7,000
Accounts Payable		15,000
Salaries Payable		900
Unearned Revenue		4,000
Common Stock		30,000
Retained Earnings		27,100

Demonstration of P4-32A-Req. 7

Cash	\$18,000	Accumulated Depreciation—Eq.	\$7,000
Accounts Receivable	20,000	Accounts Payable	15,000
Prepaid Rent	3,000	Salaries Payable	900
Office Supplies	1,000	Unearned Revenue	4,000
Equipment	42,000	Common Stock	30,000
		Retained Earnings	27,100

ELLIOT WILSON Post-Closing Trial Balance December 31, 2018		
Account Title	Balance	
	Debit	Credit
Cash	\$18,000	
Accounts Receivable	20,000	
Prepaid Rent	3,000	
Office Supplies	1,000	
Equipment	42,000	
Accumulated Depreciation—Equipment		\$7,000
Accounts Payable		15,000
Salaries Payable		900
Unearned Revenue		4,000
Common Stock		30,000
Retained Earnings		27,100
Total	<u>\$84,000</u>	<u>\$84,000</u>

Demonstration of P4-32A-Req. 8

Cash	\$18,000	Accumulated Depreciation—Eq.	\$7,000
Accounts Receivable	20,000	Accounts Payable	15,000
Prepaid Rent	3,000	Salaries Payable	900
Office Supplies	1,000	Unearned Revenue	4,000
Equipment	42,000		

Current Ratio = $\frac{\text{Total current assets}}{\text{Total current liabilities}}$

$$= \frac{(\$18,000 + \$20,000 + \$3,000 + \$1,000)}{(\$15,000 + \$900 + \$4,000)}$$

$$= \frac{\$42,000}{\$19,900}$$

$$= 2.1^*$$

*rounded



Thank You