

a.	Accounts receivable	3,000.0	
	Sales		3,000.0
b.	Cash	3,100.0	
	Accounts receivable		3,100.0
c.	This is information for the cost of goods sold adjustment. See T-accounts.		
d.	Buildings & machinery	50.0	
	Cash		50.0
e.	Cash	1.5	
	Accumulated depreciation	8.0	
	Loss on sale of machinery	0.5	
	Buildings & machinery		10.0
f.	This is information for the depreciation adjustment.		
g.	This is information for the interest adjustment.		
h.	This is information for the interest adjustment.		
i.	Cash	14.0	
	Retained earnings		14.0
j.	This is information for the wages adjustment.		
k.	Wages expense	57.0	
	Wages payable		57.0
l.	Miscellaneous expenses	50.0	
	Cash		50.0
m.	Interest payable	7.0	
	Cash		7.0
n.	Inventory	2,820.0	
	Accounts payable		2,820.0
o.	Accounts payable	2,700.0	
	Cash		2,700.0
p.	This is information for the rent adjustment.		
q.	Prepaid rent	25.0	
	Cash		25.0
r.	Other accrued expenses	5.0	
	Cash		5.0
s.	This is information for the accrued liabilities adjustment.		

t. Tax expense	12.0	
Taxes payable		12.0

u. This is information for the taxes adjustment.

Adjusting entries—(calculations below)

A1. Cost of goods sold	2,800.0	
Inventory		2,800.0

A2. Rent expense	27.0	
Prepaid rent		27.0

A3. Wages payable	53.0	
Cash		53.0

A4. Miscellaneous expenses	9.0	
Other accrued liabilities		9.0

A5. Taxes payable	11.0	
Cash		11.0

A6. Depreciation expense	14.0	
Accumulated depreciation		14.0

A7. Interest expense	6.0	
Interest payable		6.0

A8. Interest expense	2.4	
Interest payable		2.4

(Closing entries.)

C1. Sales	3,000.0	
Income summary		3,000.0

C2. Income summary	2,800.0	
Cost of goods sold		2,800.0

C3. Income summary	57.0	
Wages expense		57.0

C4. Income summary	59.0	
Miscellaneous expense		59.0

C5. Income summary	27.0	
Rent expense		27.0

C6. Income summary	12.0	
Tax expense		12.0

C7. Income summary	8.4	
Interest expense		8.4
C8. Income summary	0.5	
Loss on sale of machinery		0.5
C9. Income summary	14.0	
Depreciation expense		14.0

(Close the balance in income summary to retained earnings.)

C10. Income summary	22.1	
Retained earnings		22.1

Calculations for adjusting entries:

The inventory, unpaid wages, prepaid rent, other accrued liabilities, and unpaid taxes at the end of the year are given, and are best analyzed in the T-accounts given below.

Depreciation:

$$\frac{1}{10} \times \$140,000 = \$14,000.$$

Interest:

Senior debt:

$$0.06 \times \$100,000 = \$6,000.$$

Subordinated debt:

$$0.08 \times \$30,000 = \$2,400.$$

2.

REVIEW Co.
Balance Sheet
as of 12/31/2006

Cash	\$254.5	Accounts Payable	\$183.0
Accounts Receivable	240.0	Wages Payable	17.0
Inventory	95.0	Interest Payable	4.4
Prepaid Rent	<u>30.0</u>	Taxes Payable	7.0
Total Current Assets	<u>\$619.5</u>	Other Accrued Liabilities	<u>9.0</u>
		Total Current Liabilities	<u>\$220.4</u>
Buildings & Machinery	\$140.0		
Less: Accumulated Depreciation	<u>(31.0)</u>	Senior Debt	\$100.0
Buildings & Machinery, net	\$109.0	Subordinated Debt	<u>30.0</u>
Land	<u>25.0</u>	Total Long-term Liabilities	<u>\$130.0</u>
Total Non-current Assets	<u>\$134.0</u>	Total Liabilities	<u>\$350.4</u>
Total Assets	<u>\$753.5</u>		
		Shareholders' Equity	
		Common Stock	\$ 15.0
		Add'l Paid-in Capital	115.0
		Retained Earnings	<u>273.1</u>
		Total Shareholders' Equity	<u>\$403.1</u>
		Total Liabilities & Shareholders' Equity	<u>\$753.5</u>

3.

REVIEW Co.
Income Statement
for Year Ended 12/31/2006

Sales	\$ 3,000.0
Cost of Goods Sold	<u>(2,800.0)</u>
Gross Margin	\$ 200.0
Other Expenses:	
Wages	(57.0)
Depreciation	(14.0)
Interest	(8.4)
Rent	(27.0)
Taxes	(12.0)
Miscellaneous	(59.0)
Loss on Sale of Machine	<u>(0.5)</u>
Net Income	<u>\$ 22.1</u>

4.

REVIEW Co.
Cash Flow Statement
for Year Ended 12/31/2006

Operations:	
Net Income	\$ 22.1
Addbacks:	
Depreciation	14.0
Loss on Sale of Machinery	0.5
Changes in accounts that require additions:	
Accounts Receivable	100.0
Prepaid Rent	2.0
Accounts Payable	120.0
Wages Payable	4.0
Interest Payable	1.4
Taxes Payable	1.0
Other Accrued Liabilities	4.0
Changes in accounts that require subtractions:	
Inventory	<u>(20.0)</u>
Cash flow from operations	<u>\$249.0</u>
Investing:	
Sale of machinery	\$ 1.5
Purchase of machinery	<u>(50.0)</u>
Cash flows for investing	<u>\$ (48.5)</u>
Financing:	
Payment of dividends	\$ (14.0)
Change in Cash	<u>\$186.5</u>
Supplemental disclosure:	
Cash paid for interest	\$ 7.0
Cash paid for taxes	\$ 11.0