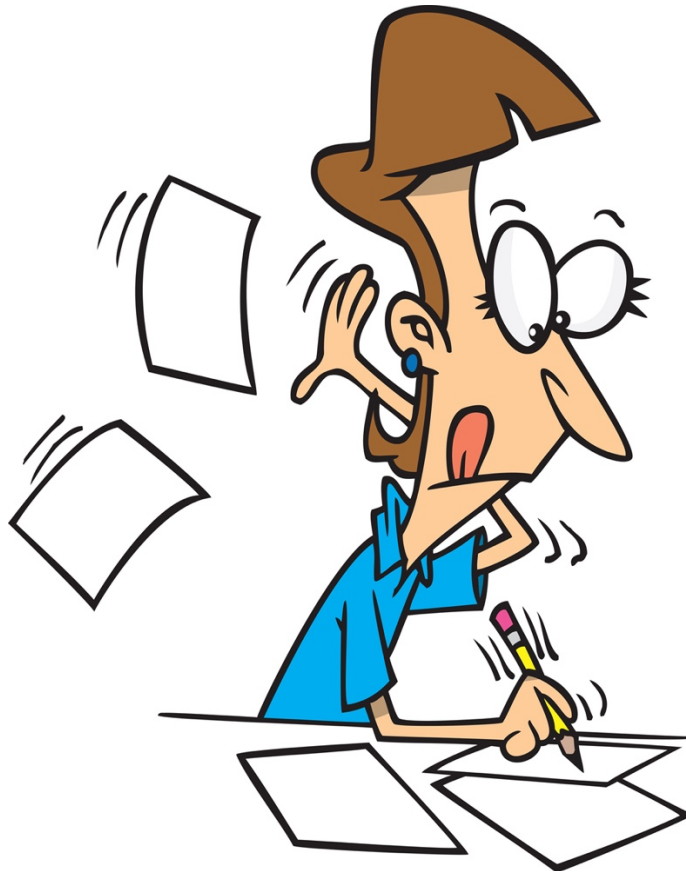


2022 UIL Student Activity Conference

Detailed Solutions for 2022 Regional, Group 9



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Detailed Solutions 2022 Regional, Group 9

READ the given information. Important facts:

- Scan the questions: Trial Balances, Adjusted Trial Balances, Jan 1, 2021 balances, COMS, book values
- Scan the Table...YES, there is a work sheet form
- Income Statement covers 12 months
- Fiscal year end is December 31, **2021**
- AJEs and closing entries **ONLY** at the end of the fiscal year
- This is a merchandising business (not a service business)
- The presence of "Allowance" account on the Work Sheet indicates the business **ESTIMATES** bad debts (NOT the direct write-off method)
- In this document "TB" means **Un**adjusted Trial Balance; and "ATB" means Adjusted TB.

There are multiple ways to begin. This solution will use the approach of "Write Down What You Know" beginning with the given "Additional Facts."

Step 1: Equipment Account and Its Respective Accumulated Depreciation Account

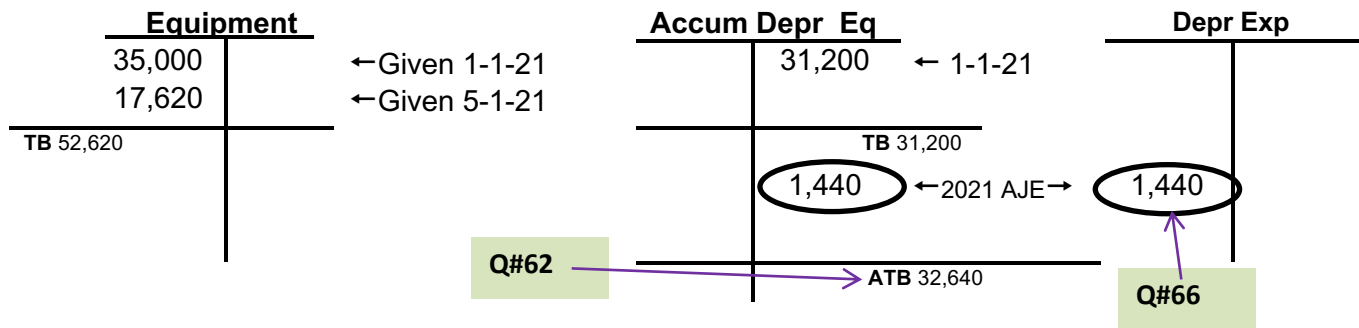
	Equipment		Accum Depr Eq
Q#70>>	35,000	← Given 1-1-21	17,620
	17,620	← Given 5-1-21	TB 31,200
	TB 52,620		TB 31,200
Q#55			

Additional Fact #1: The Equipment \$35,000 is fully depreciated. It has a salvage value of \$3,800. Therefore, the total amount that is allowed to be depreciated over the life of this equipment is the difference: Cost 35,000 – Salvage Value 3,800 = Accumulated Depreciation \$31,200 <<Q#56

Step 2: Depreciation of the Equipment Purchased on 5-1-21

Additional Fact #2:

	Cost		17,620
	Salvage Value	-	2,500
	Amount to depreciate over full life	=	15,120
	Estimated life	/	7 years
	Annual depreciation	=	2,160
		/	12 months
	Monthly depreciation	=	180
	Depreciation for partial year 2021 (May thru Dec) (8 mo)	x	8
	Depreciation for year 2021	=	1,440

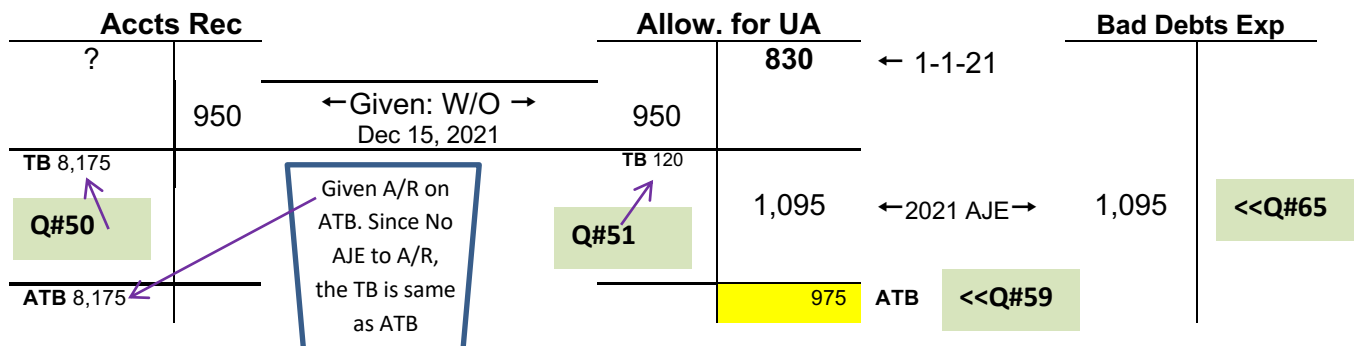


Trace each of the above T-accounts to the Work Sheet:

	Unadjusted		Adjustments		Adjusted	
	Trial Balance		Trial Balance		Trial Balance	
	Debit	Credit	Debit	Credit	Debit	Credit
Equipment	52,620				52,620	
Accum Depr—Equip		31,200		1,440		32,640
Depreciation Expense			1,440		1,440	

Step 3: Uncollectible Accounts Receivable

Read Additional Facts #3 and #4. Make T-Accounts. The business uses the aging method.



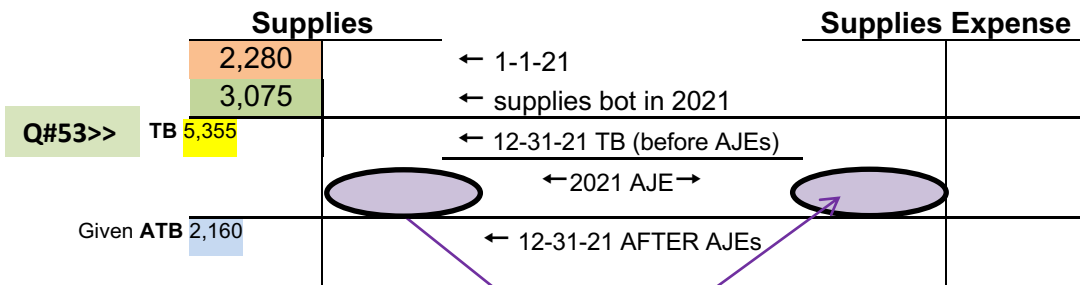
The given information states: “The aging (report) on 12-31-21 indicates that \$975 is estimated to be uncollectible.” Therefore, we need the ENDING balance of the Allowance account to agree to the aging report. Don’t let the “weird” TB debit balance of \$120 throw you. It just means that in the PREVIOUS year 2020, we did not estimate enough bad debt expense. We wrote off more in 2021 than we estimated at the end of year 2020. The bad debt adjustment amount is calculated: 975 PLUS 120 = 1,095

Trace each of the above T-accounts to the Work Sheet:

	Unadjusted		Adjustments		Adjusted	
	Trial Balance		Trial Balance		Trial Balance	
	Debit	Credit	Debit	Credit	Debit	Credit
Accounts Receivable	8,175				8,175	
Allowance for Uncoll. Accts.	120			1,095		975
Bad Debt Expense			1,095		1,095	

Step 4: Supplies

Read Additional Facts #5 and #6.



Calculate Supplies Expense: Supplies (the asset) on TB \$5,355 – Supplies on the Adjusted Trial Balance \$2,160 = Supplies Expense \$3,195 <<Q#67

The following is provided to show you the given information for 2021 in MODIFIED work sheet presentation (horizontal). The colors help you compare the T-account to the MODIFIED work sheet. (Please don't try to find "modified work sheet" in a textbook. This is my way of utilizing the extra space on a worksheet form.)

Beg.	Hazel's Gift Shop						
Bal.	Worksheet						
Jan. 1	For the Twelve Months Ended December 31, 2021						
	Account Title	Trial Balance		Adjustments		Adjusted Trial Balance	
		Debit	Credit	Debit	Credit	Debit	Credit
2,280	Supplies	3,075	5,355		3,195	2,160	
	Supplies Expense			3,195		3,195	

Step 5: Prepaid Insurance

Read Additional Facts #7. Use a “spreadsheet approach” to analyze the two insurance premium payments given.

Pmt Date	Annual Amt	Monthly Amt	Expense by Year		
			2020	2021	2022
6-1-20	2,820	235	1,645	1,175	---
6-1-21	3,480	290	---	2,030	1,450
			1,645	3,205	xxxxxxx

The following is provided to show you the given information in T-account presentation (vertical).

Prepaid Insurance			Insurance Expense	
1-1-20				
bought during 2020	2,820			
12-31-20 TB		See Note		
		1,645	2020 AJE	1,645
Q#69	12-31-20 ATB & 1-1-21	1,175		
	bought during 2021	3,480		
	12-31-21 TB	4,655		
Q#54		3,205	2021 AJE	3,205 <<Q#68
	12-31-21 ATB & 1-1-22	1,450		
	Q#61			

Note: The 2020 AJE amount assumes that either the business started in 2020, or prior to 2020 it had no insurance. This has no effect on the outcome of this problem. It is shown here to trace from the top spreadsheet to the Prepaid Insurance T-account.

The following is provided to show you the given information for 2021 in MODIFIED work sheet presentation (horizontal). The colors help you compare the T-account to the MODIFIED work sheet.

Hazel's Gift Shop							
Worksheet							
For the Twelve Months Ended December 31, 2021							
Beg. Bal. Jan. 1	Account Title	Trial Balance		Adjustments		Adjusted Trial Balance	
		Debit	Credit	Debit	Credit	Debit	Credit
	1,175 Prepaid Ins	3,480	4,655		3,205	1,450	
	Insurance Expense			3,205		3,205	

Step 6: Merchandise Inventory

Read Additional Facts #8. The given information has been written in the Modified work sheet below.

Beg.	Hazel's Gift Shop						
Bal.	Worksheet						
Jan. 1	For the Twelve Months Ended December 31, 2021						
	Account Title	Trial Balance		Adjustments		Adjusted Trial Balance	
		Debit	Credit	Debit	Credit	Debit	Credit
31,760	Merchandise Inventory	31,760					
		<<Q#52					
	Income Summary			1,325			

There was an adjusting entry DEBIT of \$1,325 to Income Summary; therefore, the Merchandise Inventory account has to be credited in the AJE for the same amount.

Ending Merchandise Inventory (12-31-21) is calculated: Beginning MI debit \$31,760 minus AJE credit 1,325 = Ending MI \$30,435 <<Q#60

At this point, your Work Sheet should look like this:

1-1-21	Account Title (During the Year)	Trial Balance		Adjustments		Adjusted Trial Balance	
		Debit	Credit	Debit	Credit	Debit	Credit
	Cash in Bank	12,360				12,360	
	Accounts Receivable	8,175				8,175	
830	Allowance for UA 950	120			1,095		975
31,760	Merchandise Inventory	31,760			1,325	30,435	
2,280	Supplies 3,075	5,355			3,195	2,160	
1,175	Prepaid Insurance 3,480	4,655			3,205	1,450	
35,000	Equipment 17,620	52,620				52,620	
31,200	Accum Depreciation		31,200		1,440		32,640
	Income Summary			1,325		1,325	
	Bad Debt Expense			1,095		1,095	
	Depreciation Expense			1,440		1,440	
	Supplies Expense			3,195		3,195	
	Insurance Expense			3,205		3,205	

Step 7: Focus on Income Statement Questions

Use Additional Facts #9 and the Work Sheet and “Write Down What You Know.” Make a circle (or oval) for the things you do NOT yet know. This will enable you to see a path. After this process, you will often see multiple paths. (Note: you will not have time on an actual test to make a formal Income Statement. This Income Statement is shown for instructional purposes only.) Brackets were added for clarity.

Hazel's Gift Shop
Income Statement
For the Twelve Months Ended December 31, 2021

Revenue:			
Sales			
Sales Returns & Allowances		<2,870 >	
Sales Discounts		<960 >	
Net Sales			
Cost of Merchandise Sold:			
Merchandise Inventory on 01-01-21		31,760	
Purchases			
Transportation In	4,890		
Cost of Delivered Merchandise	93,120		
Purchases Returns & Allowances	<3,970 >		
Purchases Discounts	<2,315 >		
Net Purchases			
Cost of Merchandise Available for Sale (COMAS)			
Merchandise Inventory on 12-31-21		<30,435 >	
Cost of Merchandise Sold (COMS)			
Gross Profit on Sales			

Calculate Purchases: Cost of Delivered Merchandise (GIVEN) 93,120 – Transportation In 4,890 = Purchases **88,230** <<Q#64

Calculate Net Purchases: Cost of Delivered Merchandise (GIVEN) 93,120 – PRA 3,970 – PD 2,315 = Net Purchases **86,835** <<Q#72

Calculate COMAS: Beginning Inventory 31,760 + Net Purchases 86,835 = COMAS **118,595** <<Q#73

Calculate COMS: COMAS 118,595 – Ending Merchandise Inventory 30,435 = COMS **88,160** <<Q#74

**Hazel's Gift Shop
Income Statement
For the Twelve Months Ended December 31, 2021**

Revenue:				
Sales				
Sales Returns & Allowances		<2,870	>	
Sales Discounts		<960	>	
Net Sales				100%
Cost of Merchandise Sold:				
Merchandise Inventory on 01-01-21		31,760		
Purchases	88,230			
Transportation In	4,890			
Cost of Delivered Merchandise	93,120			
Purchases Returns & Allowances	<3,970	>		
Purchases Discounts	<2,315	>		
Net Purchases		86,835		
Cost of Merchandise Available for Sale (COMAS)		118,595		
Merchandise Inventory on 12-31-21		<30,435	>	
Cost of Merchandise Sold (COMS)				88,160
Gross Profit on Sales				

Step 8: Gross Profit and COMS

Read Additional Facts #9. The Gross Profit Percentage is 42% and is based on NET Sales. After working this far, are you getting hungry? How about some chocolate pie?

Pretend that Net Sales is an ENTIRE chocolate pie (100%). Every time a sale is made, we recover our COST of the merchandise item (COMS) AND we make a PROFIT (GP). So, if Net Sales equal 100% and our gross profit is equal to 42%, what is the remaining percentage, which is the recovery of our cost (COMS)? $100\% - GP\ 42\% = COMS\ 58\%$

Calculate Net Sales: $COMS\ 88,160 / COMS\% \text{ expressed as a decimal } .58 = 152,000$ <<Q#71
A very common error is to think that Net Sales is the amount in the General Ledger account called Sales. It is not. We need the amount of GROSS Sales for the Work Sheet.

Calculate GROSS Sales: $Net\ Sales\ 152,000 + SRA\ 2,870 + SD\ 960 =$
Gross Sales 155,830 <<Q#58

Calculate Gross Profit: $Net\ Sales\ 152,000 - COMS\ 88,160 = GP\ 63,840$ <<Q#75

Step 9: Calculate Total Expenses

$Rent\ 15,600 + Utilities\ 5,996 + Advertising\ 730 + Bad\ Debts\ 1,095 + Depreciation\ 1,440 +$
 $Supplies\ Expense\ 3,195 + Insurance\ Expense\ 3,205 = Total\ Expenses\ 31,261$

Step 10: Calculate Net Income

$Gross\ Profit\ \$63,840 - Total\ Expenses\ \$31,261 = Net\ Income\ 32,579$ <<Q#76

Step 11: Calculate the Owner's Withdrawals

See Additional Fact #10: $\$2,500 \times 12\ months = 30,000$

Step 12: Calculate Total Assets

Cash 12,360 + AR 8,175 – Allow 975 + MI 30,435 + Sup 2,160 + Prep Ins 1,450 + EQ 52,620 – Accum Depr 32,640 = Total (net) Assets 73,585 <<Q#79

Step 13: Book Values:

Book Value of Accounts Receivable

Accounts Receivable 8,175
 – Allowance for Uncollectible Accounts 975
 = Book Value of Accounts Receivable 7,200 <<Q#77

Book Value of Equipment

Equipment in the ATB 52,620
 – Accumulated Depreciation in the ATB 32,640
 = Book Value of Equipment 19,980 ← Q#78

Step 14: The Owner’s Capital Account

See Additional Fact #11

Hazel Higgins, Capital	
	58,592 1-1-21
	3,000 Owner contribution
	61,592 TB 12-31-21 ← Q#57
Owner Drawing 30,000	32,579 Net Income
	64,171 After Closing Entries

\$64,171 does NOT show up on the Work Sheet Form...only in the General Ledger AFTER Closing Entries are posted on 12-31-21

Q#63 Hazel Higgins, Capital on the ADJUSTED Trial Balance will be the same amount as the TB 61,592 because in high school first-year Accounting, we are not taught any of the possible adjustments that might affect the Capital account. Those types of adjustments are for higher level Accounting courses.

Consider this approach to “double check” Ending Capital.

The Accounting Equation states that Assets = Liabilities + Owner’s Equity. (The Balance Sheet)
 On December 31, 2021 in the ATB, Total (Net) Assets are \$73,585
 – ATB Accounts Payable 8,344
 – ATB Sales Tax Payable 1,070
 = Owner’s Capital in the General Ledger AFTER all Closing Entries are posted on 12-31-21 is Equal to \$64,171 <<Q#80

This is the completed Work Sheet. (The bold font with shading indicates the given information.)

	Unadjusted		Adjustments		Adjusted	
	Trial Balance		Adjustments		Trial Balance	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash in Bank	12,360				12,360	
Accounts Receivable	8,175				8,175	
Allowance for Uncol. Accts	120			1,095		975
Merchandise Inventory	31,760			1,325	30,435	
Supplies	5,355			3,195	2,160	
Prepaid Insurance	4,655			3,205	1,450	
Equipment	52,620				52,620	
Accum Depr—Equip		31,200		1,440		32,640
Accounts Payable		8,344				8,344
Sales Tax Payable		1,070				1,070
Hazel Higgins, Capital		61,592				61,592
Hazel Higgins, Drawing	30,000				30,000	
Income Summary			1,325		1,325	
Sales		155,830				155,830
Sales Returns & Allow.	2,870				2,870	
Sales Discounts	960				960	
Purchases	88,230				88,230	
Transportation In	4,890				4,890	
Purchases Ret. & Allow.		3,970				3,970
Purchases Discounts		2,315				2,315
Rent Expense	15,600				15,600	
Utilities Expense	5,996				5,996	
Advertising Expense	730				730	
Bad Debt Expense			1,095		1,095	
Depreciation Expense			1,440		1,440	
Supplies Expense			3,195		3,195	
Insurance Expense			3,205		3,205	
	264,321	264,321	10,260	10,260	266,736	266,736