

# Introduction to Accounting Comprehensive Problem



CERTIFIED  
GENERAL  
ACCOUNTANTS

We see more than numbers.

# Comprehensive Problem

•Ms. Lee and her family moved to Toronto, Canada in the spring of 2009. She met three like-minded friends in her English program, and they were very interested in opening a spa business. On October 1, 2009, Ms. Lee and three other friends incorporated the business called Lakeview Spa. Each of the four owners put \$15,000 into the business and received 1,500 shares each. Lakeview provides three types of services – (1) hair-dressing, (2) body-care, and (3) fitness classes. Ms. Lee was appointed as general manager of the business.

# Comprehensive Problem

The following business transactions occurred during the first 3 months of the operation:

October 1	Ms. Lee opened a bank account for the business and deposited all the money in the account. She rented a location in a Waterfront Mall for \$1,500/month, and she paid three months rent as well as the last month rent deposit.
October 2	<p>Ms. Lee went shopping for the business:</p> <ol style="list-style-type: none"><li data-bbox="426 793 1765 839">1. Purchased a computer system costing \$2,400, and she paid in full.</li><li data-bbox="426 846 1765 989">2. Purchased some furniture and fixtures for hair-dressing costing \$4,500, and she took advantage of the promotion – “You don’t need to pay for six months!”</li><li data-bbox="426 996 1765 1089">3. Purchased some fitness equipment for \$8,600, and paid \$3,600 cash and would pay the rest in a month.</li></ol> <p>Ms. Lee estimated the computer would last three years, with no residual value; hair-dressing furniture and fixtures would last five years, with \$300 of residual value; and the fitness equipment would last seven years, with \$200 of residual value.</p>

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October 25	Lakeview received a utility bill of \$400, and an advertising bill of \$750, which were due on November 7.
October 28	Ms. Lee purchased a one-year insurance policy for \$2,400, and the coverage starts on November 1.
October 30	Ms. Lee recorded the service provided for hair cut for the month of October of \$2,600 cash. She also recorded the service provided by estheticians for facial, massage, and manicure for the month of \$3,200 cash.
October 31	Ms. Lee paid \$1,800 to estheticians and hairdressers for the work they did for October.

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November 1	Lakeview signed a note to borrow \$20,000 from CHIC Bank, with an annual interest rate of nine per cent. Lakeview agreed to make a monthly interest payment on the fifth of each month, and principal is due in three years.
November 5	Ms. Lee paid the utility bill, advertising bill, and the amount owing from the purchase of fitness equipment.
November 15	Ms. Lee sold fitness lesson packages at \$600 each to eight customers. Each package has 20 lessons and is good for six months. Two customers only paid \$300 each, and agreed to pay the remaining amount on December 15.
November 25	Lakeview received a utility bill of \$550 and an advertising bill of \$1,100, which were due on December 7.

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November 30	Ms. Lee found the cash records showed that estheticians had provide facial, massage, and manicure services of \$3,800 for November, and hairdresser of \$2,700.
November 30	Ms. Lee paid \$2,200 to the estheticians and hairdressers for the work they did for November.
December 5	Ms. Lee made the interest payment for November, and paid the utility bill and advertising bill.
December 10	Ms. Lee sold 20 Day Spa gift certificates for \$150 each and five mini-fitness passes for \$100 each all for cash. These were holiday promotional items, which would expire in two months.

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December 15	Ms. Lee received a cheque for \$300 from one of the clients who purchased the fitness lessons on November 15.
December 24	Ms. Lee found the records showed that estheticians had provided facial, massage, and manicure services of \$3,600, of which half was on account for December, and hairdresser service of \$2,400, of which a quarter was on account. In addition, she found that 40 regular fitness lessons were delivered, and six of the gift certificates were redeemed by customers.
December 24	Ms. Lee made a note that the salary for estheticians, hairdressers and fitness instructors amounted to \$3,100. She would pay their salary on January 2 <sup>nd</sup> . They were closed for Christmas and New Year holidays.

# Comprehensive Problem

- The following is the Lakeview Spa's *Chart of Accounts*:

Account Number	Account Title	Account Number	Account Title
1010	Cash	3010	Share Capital
1060	Accounts Receivable	3020	Retained Earnings
1280	Prepaid Insurance	3030	Dividends
1310	Prepaid Rent	4100	Revenue – Hair Service
1610	Computer Equipment	4200	Revenue – Body Care
1615	Accum. Amort, Computer Equip	4300	Revenue – Fitness
1620	Furniture and Fixtures	5010	Advertising Expense
1625	Accum. Amort, F&F	5020	Interest Expense
1630	Fitness Equipment	5030	Insurance Expense
1635	Accum. Amort, Fitness Equip	5040	Rent Expense
2010	Accounts Payable	5050	Salary Expense
2020	Salary Payable	5060	Utilities Expense
2030	Interest Payable	5070	Amort Expense, Computer Equip
2040	Unearned Revenue	5080	Amort Expense, F&F
2200	Long-term Note Payable	5090	Amort Expense, Fitness Equip

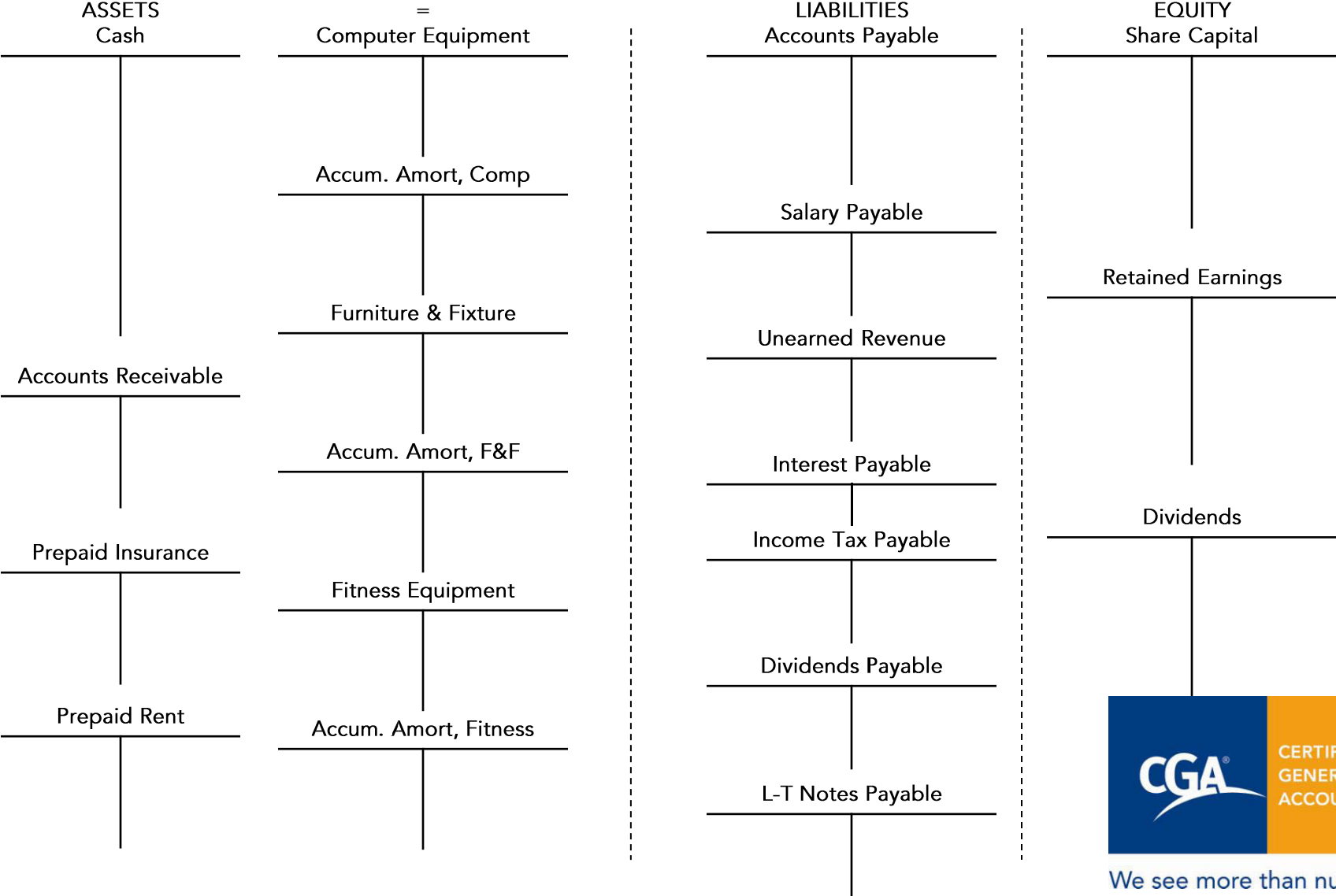
# Comprehensive Problem

- **Required:**

1. Record the Journal Entries in T-accounts for October and prepare the Trial Balance on October 31, 2009 in the Worksheet.
2. Prepare Income Statement for October 2009.
3. Record the Journal Entries, including the Adjusting Entries in T-accounts, for November and December.
4. Prepare the Adjusted Trial Balance on December 31, 2009, by using the Worksheet.
5. Prepare the Income Statement and the Statement of Retained Earnings for the first three months of operations, and the Balance Sheet on December 31, 2009. Assume Lakeview pays income taxes at a rate of 20 per cent.
6. Prepare the Closing Entries in the General Journal and the Post-Closing Trial Balance in the Worksheet.

# Comprehensive Problem

T-Account (General Ledger)



We see more than numbers.



# Comprehensive Problem

Acct #	Account Title	Unadjusted Trial Balance		Adjusted Trial Balance		Post-Closing Trial Balance	
		Dr	Cr	Dr	Cr	Dr	Cr
1010	Cash						
1060	Accounts Receivable						
1280	Prepaid Insurance						
1310	Prepaid Rent						
1610	Computer Equipment						
1615	Accum. Amort, Computer Equip						
1620	Furniture and Fixtures						
1625	Accum. Amort, Furniture and Fixtures						
1630	Fitness Equipment						
1635	Accum. Amort, Fitness Equip						
2010	Accounts Payable						
2020	Salary Payable						
2030	Unearned Revenue						
2040	Interest Payable						
2050	Income Tax Payable						
2060	Dividends Payable						
2200	Long-term Note Payable						

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Acct #	Account Title	Unadjusted Trial Balance		Adjusted Trial Balance		Post-Closing Trial Balance	
		Dr	Cr	Dr	Cr	Dr	Cr
3010	Share Capital						
3020	Retained Earnings						
3030	Dividends						
4100	Revenue – Hair Service						
4200	Revenue – Body Care						
4300	Revenue - Fitness						
5010	Advertising Expense						
5020	Interest Expense						
5030	Insurance Expense						
5040	Rent Expense						
5050	Salary Expense						
5060	Utilities Expense						
5070	Amort Expense, Computer Equip						
5080	Amort Expense, Fitness Equip						
5090	Amort Expense, Furniture and Fixtures						
5100	Income Tax Expense						
	Totals						















