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Problem 1. Chung Chen Studio Inc performs adjusting entries every month, but closes its accounts only at year-end. The studio's unadjusted trial balance date December 31,2002, appears bellow: (30%)

Chung Chen Studio, Inc.
Unadjusted Trial Balance
December 31, 2002

Cash	$72380	
Client fees receivable	111250	
Supplies	6000	
Prepaid studio rent	2500	
Studio equipment	96000	
Accumulated depreciation: studio equipment		52000
Accounts payable		6420
Note payable		34000
Interest payable		480
Unearned client fees		8000
Income taxes payable		5000
Capital stock		50000
Retained earnings		20000
Client fees earned		170610
Supply expense	4000	
Salary expense	22250	
Interest expense	480	
Studio rent expense	11250	
Utilities expense	6600	
Depreciation expense: studio equipment	8800	
Income taxes expense	5000	
	346510	346510

Other Data

1. Supplies on hand at December 31,2002, total $3500.
2. The studio pays rent quarterly (every 3 months). The last payment was made November1, 2002. The next payment will be made early in February 2003.
3. Studio equipment has useful life in 10years.
4. On October, 2002 the studio borrowed $24000 by signing a 12 month, 12% note payable. The entire amount, plus interest, is due on September 30,2003.
5. At December 31, 2002, $3000 of previously unearned client fees had been earned.
6. Accrued, but unrecorded and uncollected client fees earned total 3690 at December 31,2002.
7. Accrued, but unrecorded and unpaid salary expense totals $6750 at December 31,2002.
8. The income tax rate is 20%.

Instructions:

a. Prepare the necessary adjusting journal entries on December 31, 2002.
b. Prepare closing entries at the dated December 31,2002.
c. prepare an Income statement
d. Prepare the necessary year-end closing entries.

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Problem 2. The following is a series of related transaction between SoGo Shoes, a shoe wholesaler, and Maga 21, a chain of retail shoe stores: (20%)

Mar. 10 Sogo shoes sold Maga 21 200 pair of hiking boots on account, terms 2/10,n/30. The cost of these boots was $50, and the sales price was $110per pair.

Mar. 15 United Express charged $100 for delivering this merchandise to Maga 21. These charge were split evenly between the buyer and seller, and were paid immediately in cash.

Mar 18 Maga 21 returned 10 pairs of boots to Sogo Shoes because they were the wrong size. Sogo Shoes allowed Maga 21 full credit for this return.

Mar 20 Maga 21 paid the remain balance due to Sogo Shoes within the discount period.

Both companies use a perpetual inventory system.

Instructions

a. Record this series of transactions in the general journal of Sogo Shoes.(The company records sales at gross sales Price.)
b. Record this series of transactions in the general journal of Maga 21.(The company records purchases of merchandise at net cost and uses a Transportation in account to record trans-portation charges on inbound shipments.)

Problem 3. (16%)

Justin Co. produces special balls and applies standard costing system. The standard for producing a ball is as follows:

Direct material: 3 square feet of rubber @ $5

Direct labor: 2 hours @ $20

Variable overhead: 2 hours @ $10

Fixed overhead: 2 hours @ $5 (based on capacity of 1,200 hours)

During August, 500 balls were produced, and the following costs were incurred:

Direct material purchased: 2,000 square feet of rubber @ $6

Direct material used: 1,400 square feet

Direct labor: 1,100 hours @ $19

Variable overhead: $11,800

Fixed overhead: $6,500

(a) Compute the two direct material variances.
(b) Compute the two direct labor variances
(c) Compute the four overhead variances.

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Problem 4. **(14%)**

Evelyn Imports received authorization on December 31, Year 1, to issue $9,000,000 face value of 8%, 20-year bonds. The interest payment dates are June 30 and December 31. All the bonds were issued at par, plus accrued interest on February 1, Year 2. The bonds are callable by Evelyn Imports at any time at 105.

(a) Prepare the journal entry to record the issuance of the bonds on February 1, Year 2.

(b) Prepare the journal to record the first interest payment on the bonds at June 30, Year 2

(c) What is the amount of bond interest expense reported in Evelyn Imports' Year 2 income statement relating to these bonds?

(d) What is the amount of bond interest payable appearing in Evelyn Imports' balance sheet at December 31, Year 2, with respect to these bonds?

(e) Evelyn exercises the call provision and retires one-third of the bond issue on July 1, Year 3. Prepare the journal entry to record this transaction on July 1, Year 3.

Problem 5. **(20%)**

Given below are comparative balance sheets and an income statement for the A&A Corporation:

A&A Corporation
Balance Sheets – 2006

	Dec. 31	Jan. 1
Cash	$ 30,000	$ 30,000
Accounts receivable	90,000	74,000
Inventory	64,000	70,000
Equipment (net)	110,000	128,000
	$294,000	$302,000
Accounts payable	$ 50,000	$ 56,000
Dividends payable	16,000	8,000
Long-term note payable	28,000	28,000
Capital stock, $10 par	140,000	140,000
Retained earnings	60,000	70,000
	$294,000	$302,000

A&A Corporation
Income Statement for the 2006

Sales	$520,000
Cost of goods sold	(324,000)
Gross profit on sales	$ 196,000
Operating expenses	(114,700)
Operating income	$ 81,300
Interest expense and income taxes	(24,750)
Net income	$ 56,550

All sales were made on account. Cash dividends declared during the year totaled $66,550. Compute the following:

(a) Average accounts receivable turnover ________ times

(b) Average inventory turnover ________ times

(c) Earnings per share of capital stock $________

(d) Book value per share of capital stock at year-end $________

(e) Current ratio at year-end ________ to 1

(f) Quick ratio at beginning of year ________ to 1

(g) Debt ratio at year-end ________ %

(h) Operating expense ratio ________ %

(i) Return on assets ________ %

(j) Return on common stockholders' equity ________ %