

MSc in Financial Management

Course: Introduction to Accounting

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Review Exercise

The balance sheet of KLM Inc. on 31/12/20X2 is as follows (the firm uses the perpetual inventory system):

Balance Sheet KLM Inc. 31/12/20X2			
ASSETS		LIABILITIES	
Current Assets		Current liabilities	
Cash	10.000	Short-term loan	2.000
Accounts receivable	5.000	Accounts payable	10.000
Notes receivable	2.000	Notes payable	9.800
Prepaid insurance	2.000	Long-term liabilities	
Office supplies	800	Long-term loan	60.000
Non-Current Assets		SHAREHOLDERS' EQUITY	
Buildings	150.000	Capital stock	80.000
Office furniture	2.000	Retained earnings	10.000
Total	171.800	Total	171.800

The following accounting events that took place during 20X3:

5/1: Purchased merchandise on account for €5.000.

25/2: Paid €1.500 in cash for repair and maintenance expenses.

15/3: Sold to Johnson Inc. merchandises for €15.000; €10.000 in cash and the rest on account. The cost of the merchandise was €4.000.

5/5: Collected revenues from rent of €4.000.

10/6: Signed a €5.000 note to Johnson Inc. in settlement of its account balance.

31/12: Ending office supplies on hand: €300.

31/12: Prepaid insurance expired during the period: €1.000.



31/12: Depreciation expense on furniture: €700 and on buildings: €10.000.

31/12: Salaries owed but not yet paid: €1.200.

31/12: The income tax rate is 24%; the income tax expense is estimated to €24.

Required:

- 1) Journalize the above transactions.
- 2) Prepare the adjusted trial balance.
- 3) Prepare the Income Statement, the Statement of Retained Earnings and the Balance Sheet.
- 4) Prepare the Closing entries and the Post-Closing Trial Balance.