

Handout 1

The Happy Retail Store recorded the following transactions during 2019:

Jan 25	Purchased \$600 of office supplies.
Feb 1	Rented a warehouse from Alpha Company, paying 1 year's rent of \$4,800 in advance. Recorded the \$4,800 payment as rent expense.
Mar. 1	Borrowed \$20,000 from the bank, signing a 1-year note at an annual interest rate of 12%.
May 1	Purchased office equipment for \$30,000, paying \$6,000 down and signing a 2-year, 12% (annual rate) note payable for the balance. The office equipment is expected to have a useful life of 10 years and a salvage value of \$3,000. Straight-line depreciation is used.
July 1	Purchased a 3-year comprehensive insurance policy for \$1,200.
Aug. 1	Sold land for \$18,000. The purchaser made a \$6,000 down payment and signed a 1-year, 10% note for the balance. The interest and principal will be collected on the maturity date.
Oct. 1	Rented a portion of the retail floor space to a florist for \$300 per month, collecting 8 months' rent in advance. Recorded the \$2,400 receipt as rent revenue.

On December 31, 2019, the following additional information is available:

1. Property taxes are due on December 1, 2019. The company has not paid or recorded its \$4,000 property taxes for 2019.
2. The \$500 December utility bill has not been recorded or paid.
3. Salaries accrued but not paid total \$1,200.
4. The Office Supplies account had a balance of \$300 on January 1, 2019. A physical count on December 31, 2019 showed \$150 of office supplies on hand.
5. On January 1, 2011, the Buildings account and the Equipment account had balances of \$200,000 and \$130,000, respectively. The buildings are expected to have a \$16,000 salvage value, while the equipment is expected to have a \$4,000 salvage value at the end of their respective lives. They are being depreciated using the straight-line method over 20 and 10 years, respectively.
6. Income tax of \$7,500 for 2019 is payable on March 15 of 2020.

Required: On the basis of the preceding information (both the transactions and additional information), prepare AJEs to adjust the company's books as of December 31, 2019.

Hint: There are 14 AJEs if you record three separate entries for depreciation, 13 AJEs if you record two, and 12 AJEs if you record one single compound entry.