

I-04.05

On January 1, 20X7, Jacqueline Fernandez formed a corporation to purchase wheat harvesting equipment and provide contract support services to farmers throughout the Midwest. Information about the first year of operation follows:

- Jan. 1 Investors provided \$2,500,000 of cash in exchange for stock of Fernandez Corporation.
- Jan. 1 Purchased combines and trucks in exchange for \$1,000,000 cash and a \$3,000,000 note payable.
- Feb. 7 Purchased \$40,000 of supplies on account that will be needed during the upcoming harvest.
- Mar. 3 Paid wages of \$65,400.
- Apr. 1 Billed customers for services in the amount of \$230,000.
- Apr. 11 Paid \$30,000 toward the purchase of February 7.
- May 1 Purchased a \$24,000 insurance policy. This transaction was recorded as prepaid insurance.
- June 6 Collected \$210,000 on accounts receivable.
- June 9 Paid wages of \$130,600.
- June 15 Paid \$30,200 for fuel costs.
- June 20 Paid \$12,500 for lodging costs incurred by crew.
- June 30 Paid \$120,000 of interest and \$80,000 to reduce the balance of the note payable.
- Aug. 1 Billed customers for services provided in the amount of \$812,000.
- Sept. 3 Collected \$715,000 on accounts receivable.
- Sept. 16 Purchased \$25,000 of supplies on account.
- Sept. 25 Paid \$61,200 for fuel costs.
- Oct. 20 Paid \$8,100 for lodging costs incurred by crew.
- Nov. 3 Paid wages of \$125,900.
- Dec. 15 Collected \$100,000 as deposits from customers who contracted for 20X8 harvesting services.
- Dec. 31 Declared and paid a \$25,000 dividend to shareholders.

Fernandez Corporation uses the following accounts:

- Cash
- Accounts Receivable
- Supplies
- Prepaid Insurance
- Equipment
- Accumulated Depreciation
- Accounts Payable
- Interest Payable
- Unearned Revenue
- Notes Payable
- Capital Stock
- Retained Earnings
- Dividends
- Revenues
- Wage Expense
- Fuel Expense
- Lodging Expense
- Insurance Expense
- Supplies Expense
- Interest Expense
- Depreciation Expense
- Income Summary

- (a) Journalize the listed transactions.
- (b) Post the transactions to the appropriate general ledger accounts.
- (c) Prepare a trial balance as of December 31.
- (d) Journalize and post adjusting entries based on the following additional information.

The equipment had 25-year life, with no salvage value.

Supplies on hand at year end amount to \$20,000.

At year end, \$115,000 of additional interest is due on the note payable.

The insurance policy covered a 12-month period commencing on May 1.

At year end, Fernandez had provided \$30,000 of unbilled services to customers.

These services will be billed in early 20X8.

- (e) Prepare an adjusted trial balance as of December 31.
- (f) Prepare an income statement and statement of retained earnings for 20X7, and a classified balance sheet as of the end of the year.
- (g) Journalize and post closing entries.
- (h) Prepare a post-closing trial balance as of December 31.