Using T-Accounts to Record Transactions

Extension of Chapter 3

The web reading entitled "Using T-Accounts to Record Transactions—Extension of Chapter 2" described the use of T-accounts to record transactions affecting the balance sheet. This reading extends the use of T-accounts to income transactions. It covers the same concepts as pages 103–108 of the textbook, using T-accounts instead of spreadsheets.

Revenues increase retained earnings and expenses reduce it. When, for example, a retailing firm sells merchandise, it usually debits Cash or Accounts Receivable and credits Retained Earnings for the amount of sales revenue. It also debits Retained Earnings for the cost of goods sold and credits Merchandise Inventory. The journal entries for these transactions, assuming a firm sells merchandise costing $600 for $1,000, are as follows:

	Debit	Credit
(1) Cash or Accounts Receivable (Asset Increase)	1,000	
Retained Earnings (Sales Revenue) (Shareholders' Equity Increase)		1,000
(2) Retained Earnings (Cost of Goods Sold) (Shareholders' Equity Decrease)	600	
Merchandise Inventory (Asset Decrease)		600

The recording of these transactions in T-accounts is as follows:

Cash or Accounts Receivable			
(1)	1,000		

Merchandise Inventory			
		600	(2)

Retained Earnings			
		1,000	(1)
(2)	600		

Note that retained earnings increases by $400, the amount of net income from these transactions. We record other transactions affecting net income for the period in the retained earnings account and then prepare an income statement from these entries. You will find it helpful to label each entry with the type of revenue (for example, sales revenue, interest revenue) and expense (for example, cost of goods sold, depreciation expense) to ease the preparation of the income statement.

Firms that declare dividends debit Retained Earnings and credit Dividends Payable. This entry, similar to that for expenses, reduces retained earnings. Dividends, however, are not expenses. They represent distributions of earnings of the current and prior years.

Illustration of the Recording of Income Transactions

Chapter 2 illustrated the transactions of Miller Corporation for the month of January as it prepared to open for business on February 1. None of the transactions during January involved income statement accounts. **Exhibit 1** shows in T-accounts the opening balances in various accounts for Miller Corporation on February 1, taken from the ending balances in these accounts on January 31 (see **Exhibit 3** in the web reading "Using T-Accounts to Record Transactions—Extension of Chapter 2"). Note that retained earnings show a balance of zero on this date. The firm has not yet generated revenues, nor incurred expenses, nor declared a dividend. **Exhibit 1** also shows the effects of the transactions described next for the month of February. We show both the effect on the T-Accounts and the related journal entry.

EXHIBIT 1 MILLER CORPORATION
Individual T-Accounts Showing Transactions during February

Cash (Asset)

	Increases (Dr.)	Decreases (Cr.)	
Balance	34,400		
(5)	35,000	14,500	(4)
		20,000	(6)
		1,000	(10)
Balance	33,900		

Accumulated Depreciation (Contra Asset)

	Decreases (Dr.)	Increases (Cr.)	
		0	Balance
		1,000	(7)
		1,000	Balance

Accounts Receivable (Asset)

	Increases (Dr.)	Decreases (Cr.)	
Balance	0		
(2)	47,000	35,000	(5)
Balance	12,000		

Accounts Payable (Liability)

	Decreases (Dr.)	Increases (Cr.)	
		0	Balance
(6)	20,000	25,000	(1)
		5,000	Balance

Merchandise Inventory (Asset)

	Increases (Dr.)	Decreases (Cr.)	
Balance	15,000		
(1)	25,000	30,000	(3)
Balance	10,000		

Advance from Customer (Liability)

	Decreases (Dr.)	Increases (Cr.)	
		3,000	Balance
(2)	3,000		
		0	Balance

Prepaid Insurance (Asset)

	Increases (Dr.)	Decreases (Cr.)	
Balance	600		
		50	(8)
Balance	550		

Income Tax Payable (Liability)

	Decreases (Dr.)	Increases (Cr.)	
		0	Balance
		1,780	(9)
		1,780	Balance

Equipment (Asset)

	Increases (Dr.)	Decreases (Cr.)	
Balance	60,000		
Balance	60,000		

Common Stock (Shareholders' Equity)

	Decreases (Dr.)	Increases (Cr.)	
		107,000	Balance
		107,000	Balance

Retained Earnings (Shareholders' Equity)

			0	Balance	
CGS	(3)	30,000	50,000	(2)	Sales Revenue
S&A Exp	(4)	14,500			
S&A Exp	(7)	1,000			
S&A Exp	(8)	50			
IncTax Exp	(9)	1,780			
Div Dec & Paid	(10)	1,000			
			1,670	Balance	

Transaction 1: On February 5, Miller Corporation purchases an additional $25,000 of merchandise on account. This transaction increases inventory and accounts payable.

(1)	Merchandise Inventory (Asset Increase)	25,000	
	Accounts Payable (Liability Increase)		25,000

Transaction 2: During the month of February, Miller Corporation sells merchandise to customers for $50,000. Of this amount, $3,000 represents sales to customers who paid $3,000 to Miller Corporation on January 31, which we recorded at the end of January as Advances from Customers. Miller Corporation makes the remaining $47,000 of sales on account.

Retail firms typically recognize revenue at the time of delivery of merchandise to customers, regardless of whether or not they have yet received cash from the customers. The journal entry to record these sales is:

(2) Advances from Customers (Liability Decrease)	3,000	
Accounts Receivable (Asset Increase)	47,000	
Retained Earnings (Sales Revenue) (Shareholders' Equity Increase)		50,000

Assets minus liabilities, or net assets, increase by $50,000 [= $47,000 – (–$3,000)] and retained earnings, a shareholders' equity account, increases by $50,000. We enter Sales Rev next to the entry in the Retained Earnings accounts to designate the name of the income account affected by this transaction.

Transactions 3: The historical, or acquisition, cost of the merchandise sold to customers in **Transaction 2** is $30,000. Because Miller no longer holds this merchandise in inventory, it is no longer an asset. We must reduce the inventory account and recognize the cost of the inventory as an expense to match against the sales revenue in **Transaction 2**. Thus,

(3) Retained Earnings (Cost of Goods Sold) (Shareholders' Equity Decrease)	30,000	
Merchandise Inventory (Asset Decrease)		30,000

Firms generally use the account, Cost of Goods Sold, for the cost of items sold and do not include the word "Expense" in the account title, although the account is an expense. Note that expenses reduce retained earnings and shareholders' equity. We enter COGS next to the entry in the Retained Earnings account to remind ourselves of the account title when we are ready to prepare the income statement for February.

Transaction 4: Miller Corporation incurs and pays selling and administrative expenses in the aggregate of $14,500 during February. We record this transaction as follows:

(4) Retained Earnings (Selling and Administrative Expense) (Shareholders' Equity Decrease)	14,500	
Cash (Asset Decrease)		14,500

Miller Corporation presumably received all of the benefits of these selling and administrative services during February. Thus, the full amount is an expense for the month, which we match against revenues. None of the expenditure results in an asset that would appear on the balance sheet at the end of February.

Transaction 5: Miller Corporation collects $35,000 from customers for sales previously made on account. The firm recognized revenue from these sales at the time of sale (see **Transaction 2** for February). The collection of the cash increases cash and decreases accounts receivable. Thus,

(5) Cash (Asset Increase)	35,000	
Accounts Receivable (Asset Decrease)		35,000

Transaction 6: The firm pays $20,000 to suppliers for merchandise previously purchased on account. We record this transaction as follows:

(6) Accounts Payable (Liability Decrease)	20,000	
Cash (Asset Decrease)		20,000

Transactions 1 to **6** involved transactions, or exchanges, with other entities during the month of February. The transactions trigger the making of an entry in the accounts. The passage of time may also trigger the need to make entries. For example, interest expense on borrowing accrues as time passes. Most firms do not make entries related to the passage of time during the accounting period, but instead wait until the end of the period.[1] Miller Corporation makes the next three entries at the end of February.

[1] Accountants refer to these end-of-the-period entries as *adjusting entries* because they adjust the amounts of various accounts to properly reflect net income for the period and the balance sheet at the end of the period.

Transaction 7: The firm recognizes depreciation on the $60,000 of equipment purchased during January. Miller Corporation purchased the equipment during January and recorded it as an asset. It did not begin consuming the services of the equipment until it starting using it on February 1. Miller Corporation estimates that the equipment has a five-year life and zero salvage at the end of five years. It will depreciate, or write off, the equipment straight line over the useful life. Thus, depreciation each month is $1,000 (= $60,000/60 months). Miller Corporation includes depreciation of equipment as part of selling and administrative expenses. The firm could record depreciation by reducing the equipment account by $1,000 and reducing retaining earnings by $1,000. Instead of reducing the equipment account directly, firms typically use an account called Accumulated Depreciation to record the write-down in the cost of the equipment for services used during the period. The Accumulated Depreciation account appears on the balance sheet as a subtraction from the acquisition cost of the Equipment. Accountants refer to accounts such as Accumulated Depreciation as *contra accounts*, because they appear as subtractions from the amounts in other related accounts. Thus:

(7) Retained Earnings (Selling and Administrative Expense) (Shareholders' Equity Decrease)	1,000	
Accumulated Depreciation (Asset Decrease)		1,000

Transaction 8: Miller Corporation records the portion of the cost of the prepaid insurance of $600 attributable to insurance services received during February. The firm paid the one-year insurance premium on January 31 for insurance coverage from February 1 of this year through January 31 of next year. Assuming the allocation of an equal amount of this insurance premium to each month of the year, $50 (= $600/12) applies to February. Miller Corporation includes the cost of insurance in selling and administrative expenses. The entries are:

(8) Retained Earnings (Selling and Administrative Expense) (Shareholders' Equity Decrease)	50	
Prepaid Insurance (Asset Decrease)		50

The remaining $550 of prepaid insurance becomes an expense during the next eleven months. Note that firms typically reduce the Prepaid Insurance account directly, instead of using an account similar to accumulated depreciation for equipment.

Transaction 9: Miller Corporation recognizes income tax expense on the income before income taxes for February. Assume an income tax rate of 40 percent. Income before income taxes for February equals $4,450 (= $50,000 – $30,000 – $14,500 – $1,000 – $50). Income tax expense is therefore $1,780 (= 0.40 x $4,450). Firms pay their income taxes quarterly. Thus, the income taxes remain unpaid at the end of February. Even though the income taxes are not yet payable, they represent an expense that Miller Corporation must match against the net income before taxes for February under the accrual basis of accounting. The entry is:

(9) Retained Earnings (Income Tax Expense) (Shareholders' Equity Decrease)	1,780	
Income Tax Payable (Liability Increase)		1,780

Transaction 10: Miller Corporation declares and pays a dividend to shareholders of $1,000. The entry to record the dividend is:

(10) Retained Earnings (Dividend) (Shareholders' Equity Decrease)	1,000	
Cash (Asset Decrease)		1,000

Note that the effect of a dividend on retained earnings is the same as an expense. Dividends, however, do not appear on the income statement as an expense in measuring net income.

The balances in the T-accounts after adding all increases and subtracting all decreases during the month to the balances on February 1 are the amounts for the balance sheet at the end of February. Using the descriptive titles of entries in the Retained Earnings account and the corresponding amounts for revenues and expenses, we can prepare an income statement for the month of February. **Exhibit 2** shows the income statement for February and **Exhibit 3** shows a comparative balance sheet for January 31 and February 28.

EXHIBIT 2 Income Statement for Miller Corporation For the Month of February

Sales Revenue	$ 50,000
Cost of Goods Sold	(30,000)
Selling and Administrative Expenses	(15,550)
Income before Income Taxes	$ 4,450
Income Tax Expense	(1,780)
Net Income	$ 2,670

EXHIBIT 3 Comparative Balance Sheet for Miller Corporation

	January 31	February 28
ASSETS		
Cash	$ 34,400	$ 33,900
Accounts Receivable	—	12,000
Inventory	15,000	10,000
Prepaid Insurance	600	550
Total Current Assets	$ 50,000	$ 56,450
Equipment (at acquisition cost)	$ 60,000	$ 60,000
Less Accumulated Depreciation	—	(1,000)
Equipment-Net	$ 60,000	$ 59,000
Total Assets	$110,000	$115,450
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts Payable	$ —	$ 5,000
Advance from Customer	3,000	—
Income Tax Payable	—	1,780
Total Current Liabilities	$ 3,000	$ 6,780
Noncurrent Liabilities	—	—
Total Liabilities	$ 3,000	$ 6,780
Common Stock	$107,000	$107,000
Retained Earnings	—	1,670
Total Shareholders' Equity	$107,000	$108,670
Total Liabilities and Shareholders' Equity	$110,000	$115,450

Note that retained earnings increases for the month by $1,670, from zero at the end of January to $1,670 at the end of February. The change in retained earnings equals net income of $2,670 minus dividends of $1,000. Retained earnings begins the month of March with a balance of $1,670. Net income minus dividends for the month of March added to $1,670 will yield the balance in retained earnings at the end of March, assuming that Miller declares a dividend. Thus, the retained earnings account, as with all other balance sheet accounts, reflects the *cumulative* effect of transactions affecting that account.

Problems

T-ACCOUNTS 3.1. T-account analysis of transactions and preparation of income statement and balance sheet. Refer to the information for Moulton Corporation as of December 31, Year 12, in the problem **T-ACCOUNTS 2.1** in web-based "Using T-Accounts to Record Transactions—Extension of Chapter 2". Moulton Corporation opened for business on January 1, Year 13. It uses the accrual basis of accounting. Transactions and events during Year 13 were as follows:

(1) During Year 13: Purchased inventory on account costing $1,100,000 from various suppliers.
(2) During Year 13: Sold merchandise to customers for $2,000,000 on account.
(3) During Year 13: The cost of merchandise sold to customers totaled $1,200,000.
(4) During Year 13: Collected $1,400,000 from customers for sales made previously on account.
(5) During Year 13: Paid merchandise suppliers $950,000 for purchases made previously on account.
(6) During Year 13: Paid various suppliers of selling and administrative services $625,000. The firm consumed all of the benefits of these services during Year 13.
(7) June 30, Year 13: Repaid the note payable to a supplier with interest (see transaction **(7)** in problem **T-ACCOUNTS 2.1**).

(8) December 31, Year 13: Recognized interest on the long-term bank loan (see transaction **(6)** in problem **T-ACCOUNTS 2.1**).

(9) December 31, Year 13: Recognized insurance expense for Year 13 (see transaction **(5)** in problem **T-ACCOUNTS 2.1**).

(10) December 31, Year 13: Recognized depreciation expense for Year 13 (see transactions **(2)** and **(7)** of problem **T-ACCOUNTS 2.1**).

(11) December 31, Year 13: Recognize income tax expense and income tax payable for Year 13. The income tax rate is 40 percent. Assume that income taxes for Year 13 are payable by March 15, Year 14.

- **a.** Enter the balances in balance sheet accounts on January 1, Year 13 (see problem **T-ACCOUNTS 2.1**) and the effects of the 11 transactions above in T-accounts. Be sure that you enter the dual effects of each transaction so that you maintain the balance sheet equality of assets with liabilities and shareholders' equity.
- **b.** Prepare an income statement for Year 13.
- **c.** Prepare a comparative balance sheet as of December 31, Year 12 and December 31, Year 13.

T-ACCOUNTS 3.2. T-account analysis of transactions and preparation of income statement and balance sheet. Refer to the information for Regaldo Department Stores as of January 31, Year 8 in problem **T-ACCOUNTS 2.2** in web-based "Using T-Accounts to Record Transactions—Extension of Chapter 2". Regaldo Department Stores opened for business during February, Year 8. It uses the accrual basis of accounting. Transactions and events during February were as follows.

(1) February 1: Purchased display counters and computer equipment for Ps90,000. The firm borrowed Ps90,000 from a local bank to finance the purchases. The bank loan bears interest at a rate of 12 percent each year and is repayable with interest on February 1, Year 9.

(2) During February: Purchased merchandise on account totaling Ps217,900.

(3) During February: Sold merchandise costing Ps162,400 to various customers for Ps62,900 cash and Ps194,600 on account. *Hint:* Enter the sales transaction and the recognition of the cost of goods sold in separate entries in the T-accounts.

(4) During February: Paid to employees compensation totaling Ps32,400 for services rendered during the month.

(5) During February: Paid utility (electric, water, gas) bills totaling Ps2,700 for services received during February.

(6) During February: Collected Ps84,600 from customers from sales on account (see transaction **(3)** above).

(7) During February: Paid invoices from suppliers of merchandise (see transaction **(2)** above) with an original purchase price of Ps210,000 in time to receive a 2-percent discount for prompt payment and Ps29,000 to other suppliers after the discount period had elapsed. The firm treats discounts taken as a reduction in the acquisition cost of merchandise. *Hint:* Enter the payment of accounts payable within the discount period and after the discount period in separate entries in the T-accounts.

(8) February 28: Compensation that employees earned during the last several days in February and that the firm will pay early in March totaled Ps6,700.

(9) February 28: Utility services that the firm used during February and that the firm will not pay until March totaled Ps800.

(10) February 28: The display counters and computer equipment purchased in transaction **(1)** have an expected useful life of five years and zero salvage value at the end of the five years. The firm depreciates such equipment on a straight-line basis over the expected life and uses an Accumulated Depreciation account.

(11) February 28: The firm recognizes an appropriate portion of the prepaid rent as of January 31 (see problem **T-ACCOUNTS 2.2**).

(12) February 28: The firm recognizes an appropriate portion of the prepaid insurance as of January 31 (see problem **T-ACCOUNTS 2.2**).

(13) February 28: The firm amortizes (that is, recognizes as an expense) the patent over 60 months (see problem **T-ACCOUNTS 2.2**). The firm does not use a separate Accumulated Amortization account for the patent.

(14) February 28: The firm recognizes an appropriate amount of interest expense on the loan in transaction **(1)** above.

(15) February 28: The firm is subject to an income tax rate of 30 percent of net income before income taxes. The income tax law requires firms to pay income taxes on the fifteenth day of the month after the end of each quarter (that is, April 15, July 15, October 15, and January 15).

- **a.** Enter the balances in balance sheet accounts on February 1, Year 8 (see problem **T-ACCOUNTS 2.2**) and the effects of the 15 transactions above in t-accounts. Be sure that you enter the dual effects of each transaction so that you maintain the balance sheet equality of assets with liabilities and shareholders' equity.
- **b.** Prepare an income statement for the month of February, Year 8.
- **c.** Prepare a comparative balance sheet as of January 31 and February 28, Year 8.

T-ACCOUNTS 3.3. T-account analysis of transactions and preparation of income statement and balance sheet. Refer to the information for Patterson Corporation for January, Year 13, in problem T-ACCOUNTS 2.3 problem in "Using T-Accounts to Record Transactions—Extension of Chapter 2". The following transactions occur during February.

(1) February 1: The firm pays the two-year insurance premium of $2,400 for fire and liability coverage beginning February 1.

(2) February 5: Acquires merchandise costing $1,050,000. Of this amount, $1,455 is from suppliers to whom Patterson returned defective merchandise during January but for which the firm had not yet received a refund for amounts paid. Patterson Corporation acquired the remaining purchases on account.

(3) During February: Sells merchandise to customers totaling $1,500,000. Of this amount, $4,500 was to customers who had advanced Patterson Corporation cash during January. Patterson Corporation makes the remaining sales on account.
(4) During February: The cost of the goods sold in transaction **(3)** was $950,000.
(5) During February: Pays in cash selling and administrative expenses of $235,000.
(6) During February: Collects $1,206,000 from customer for sales previously made on account.
(7) During February: Pays $710,000 to suppliers of merchandise for purchases previously made on account.
(8) February 28: Recognizes rent expense for February.
(9) February 28: Recognizes depreciation expense of $2,500 for February. Patterson Corporation uses an Accumulated Depreciation account.
(10) February 28: Recognizes amortization expense of $450 on the patent. Patterson Corporation does not use an Accumulated Amortization account for patents.
(11) February 28: Recognizes an appropriate amount of insurance expense for February.
(12) February 28: Recognizes interest expense on the mortgage payable (see problem **T-ACCOUNTS 2.3**).
(13) February 28: Recognizes income tax expense for February. The income tax rate is 40 percent. Income taxes for February are payable by April 15.

a. Enter the balances in balance sheet accounts on February 1, Year 13 (see problem **T-ACCOUNTS 2.3**) and the effects of the 13 transactions above in T-accounts. Be sure that you enter the dual effects of each transaction so that you maintain the balance sheet equality of assets with liabilities and shareholders' equity.
b. Prepare an income statement for the month of February, Year 13.
c. Prepare a comparative balance sheet as January 31 and February 28, Year 13.

T-ACCOUNTS 3.4. T-account analysis of transactions and preparation of income statement and balance sheet. Zealock Bookstore opened a bookstore near a college campus on July 1, Year 10. Transactions and events of Zealock Bookstore during Year 10 appear below. The firm uses the calendar year as its reporting period.

(1) July 1: Receives $25,000 from Quinn Zealock for 25,000 shares of the bookstore's $1-par value common stock.
(2) July 1: Obtains a $30,000 loan from a local bank for working capital needs. The loan bears interest at 6 percent per year. The loan is repayable with interest on June 30, Year 11.
(3) July 1: Signs a rental agreement for three years at an annual rental of $20,000. Pays the first year's rent in advance.
(4) July 1: Acquires bookshelves for $4,000 cash. The bookshelves have an estimated useful life of 5 years and zero salvage value.
(5) July 1: Acquires computers for $10,000 cash. The computers have an estimated useful life of 3 years and $1,000 salvage value.
(6) July 1: Makes security deposits with various book distributors totaling $8,000. The deposits are refundable on June 30, Year 11 if the bookstore pays on time all amounts due for books purchased from the distributors between July 1, Year 10 and June 30, Year 11.
(7) During Year 10: Purchases books on account from various distributors costing $160,000.
(8) During Year 10: Sells books costing $140,000 for $172,800. Of the total sales, $24,600 is for cash and $148,200 is on account. *Hint:* Enter the sales transaction in a separate entry than the recognition of the cost of goods sold.
(9) During Year 10: Returns unsold books and books ordered in error costing $14,600. The firm had not yet paid for these books.
(10) During Year 10: Collects $142,400 from sales on account.
(11) During Year 10: Pays employees compensation of $16,700.
(12) During Year 10: Pays book distributors $139,800 of the amounts due for purchases on account.
(13) December 28, Year 10: Receives advances from customers of $850 for special order books that the bookstore will order and expects to receive during Year 11.
(14) December 31, Year 10: Records an appropriate amount of interest expense on the loan in **(2)** for Year 10.
(15) December 31, Year 10: Records an appropriate amount of rent expense for Year 10.
(16) December 31, Year 10: Records an appropriate amount of depreciation expense on the bookshelves in **(4)**.
(17) December 31, Year 10: Records an appropriate amount of depreciation expense on the computers in **(5)**.
(18) December 31, Year 10: Records an appropriate amount of deposit expense from **(6)**.
(19) December 31, Year 10: Records an appropriate amount of income tax expense for Year 10. The income tax rate is 40 percent. The taxes are payable on March 15, Year 11.

a. Enter the 19 transactions and events above in T-accounts.
b. Prepare an income statement for Year 10.
c. Prepare a balance sheet on December 31, Year 10. Classify assets and liabilities as current and noncurrent.
d. Evaluate the operating performance for Year 10 and financial health of Zealock Bookstore at the end of Year 10.

T-ACCOUNTS 3.5. T-account analysis of transactions and preparation of comparative income statements and balance sheets. Refer to the information for Zealock Bookstore in problem **T-ACCOUNTS 3.4**. The following transactions relate to Year 11.

(1) March 15: Pays income taxes for Year 10.
(2) June 30: Repays the bank loan with interest.

(3) July 1: Obtains a new bank loan for $75,000. The loan is repayable on June 30, Year 12 with interest due at maturity of 8 percent.
(4) July 1: Receives the security deposit back from the book distributors.
(5) July 1: Pays the rent due for the period July 1, Year 11 to June 30, Year 12.
(6) During Year 11: Purchases books on account costing $310,000.
(7) During Year 11: Sells books costing $286,400 for $353,700. Of the total sales, $24,900 is for cash, $850 is from special orders received during December Year 10, and $327,950 is on account.
(8) During Year 11: Returns unsold books costing $22,700. The firm had not yet paid for these books.
(9) During Year 11: Collects $320,600 from sales on account.
(10) During Year 11: Pays employees compensation of $29,400.
(11) During Year 11: Pays book distributors $281,100 for purchases of books on account.
(12) December 31, Year 11: Declares and pays a dividend of $4,000.

a. Enter in T-accounts the amounts for the balance sheet on December 31, Year 10, from problem **T-ACCOUNTS 3.4**, the effects of the 12 transactions above, and any required entries on December 31, Year 11 to properly measure net income for Year 11 and financial position on December 31, Year 11.
b. Prepare a comparative income statement for Year 10 and Year 11.
c. Prepare a comparative balance sheet for December 31, Year 10 and December 31, Year 11.
d. Evaluate the operating performance and financial health of Zealock Bookstore.

T-ACCOUNTS 3.6. **Working backwards to the balance sheet at the beginning of the period.** Work problem **3.37** for the Prima Company in the textbook using T-accounts instead of a transactions spreadsheet. (*Hint:* Set up T-accounts for each of the accounts on the balance sheet and enter the ending balances in the T-accounts. Starting with information from the income statement and statement of cash receipts and disbursements, reconstruct the transactions that took place during the year and enter the amounts in the appropriate T-accounts.)

T-ACCOUNTS 3.7. **Working backwards to cash receipts and disbursements.** Work problem **3.38** for the Secunda Company in the textbook using T-accounts instead of a transactions spreadsheet. (*Hint:* Set up T-accounts for each of the balance sheet accounts and enter the amounts shown as of January 1, Year 2, and December 31, Year 2. Starting with the cash receipts and disbursements for the year, reconstruct the transactions that took place during the year, and enter them in the appropriate T-accounts. The Retained Earnings account reflects the effect of earnings activities for the year.)

T-ACCOUNTS 3.8. **Working backwards to the income statement.** Work problem **3.39** for the Tertia Company in the textbook using T-accounts instead of a transactions spreadsheet. (*Hint:* Set up T-accounts for each of the accounts on the balance sheet and enter the amounts shown on January 1, Year 2, and December 31, Year 2. Starting with the cash receipts and disbursements for the year, reconstruct the transactions that took place during the year, and enter them in the appropriate T-accounts. The Retained Earnings account reflects the effect of earnings activities for the year.)