**Problem I Adjusting Entries**

The following account balances were taken from the trial balance of the Sno-Top Ski Resort on December 31, 2010. For the month ended December 31, 2010, make the necessary adjusting entries using the account balances along with the added information supplied below. (Assume normal DR or CR balances.)

Prepaid Insurance $4,080

Office Supplies 700

Storage Revenues 6,000

Salaries Expense 203,900

Ski lifts 325,000

Accumulated Depr. – lifts 73,000

Note payable (12%, due in 7 months) 450,000

1. Monthly insurance expense amounts to $4000.
2. One-third of the storage revenue fees collected was for ski storage during the next year.
3. Employees have earned $5000 for working in December but will not be paid until January.
4. A physical inventory determined that $150 of the office supplies were still on hand.
5. Depreciation on the ski lifts for the month amounts to $8,000.

6. At month-end they did not pay the monthly interest owed on their note payable.

2. ABC Company finally decides to sell its buggy whip manufacturing division in 2006. Its operating loss for 2006 for the division is $120,000 and at December 31 2006 believes that it will have to sell the division at a loss of $100,000. However, it does not enter into an agreement to sell until March of 2007, after the 2006 financial statements are released. The final sales agreement causes ABC Company to sell the division at a loss of $80,000. The operating loss for the buggy whip division prior to disposal in 2007 is $50,000.ABC has a 40% tax rate.

Show in good form how ABC would report these events for the disposal in their **2007 comparative** income statement (i.e. for both 2006 & 2007). (Ignore EPS disclosures)

**Problem III**

The adjusted trial balance for Chai Tea Company at December 31, 2010 is presented below:

Debit Credit

Cash 10,500

Accounts receivable 130,000

Allowance for uncollectible accounts 10,000

Prepaid rent 5,000

Inventory 25,000

Equipment 300,000

Accumulated depreciation-equipment 125,000

Accounts payable 20,000

Notes payable – due in three months 30,000

Salaries payable 4,000

Interest payable 1,000

Common stock 200,000

Retained earnings 50,000

Dividends 20,000

Sales revenue 400,000

Costs of goods sold 180,000

Salaries expense 120,000

Rent expense 15,000

Depreciation expense 30,000

Interest expense 2,000

Bad debt expense 2,500 \_\_\_\_\_\_\_

Totals $840,000 $840,000

**Required**: Prepare the closing entries for Chai Tea Company for the year 2010.