

CHAPTER 3

Adjusting the Accounts

ASSIGNMENT CLASSIFICATION TABLE

<u>Learning Objectives</u>	<u>Questions</u>	<u>Brief Exercises</u>	<u>Do It!</u>	<u>Exercises</u>	<u>A Problems</u>	<u>B Problems</u>
1. Explain the time period assumption.	1		1	1		
2. Explain the accrual basis of accounting.	2, 3, 4, 5		1	2, 3, 10, 16		
3. Explain the reasons for adjusting entries.	6, 7	1				
4. Identify the major types of adjusting entries.	8, 18	2, 8		4, 6, 11		
5. Prepare adjusting entries for deferrals.	8, 9, 10, 11, 12, 13, 18, 19, 20	2, 3, 4, 5, 6	2	5, 6, 7, 8, 9, 10, 11, 12, 13, 15	1A, 2A, 3A, 4A, 5A, 6A	1B, 2B, 3B, 4B, 5B
6. Prepare adjusting entries for accruals.	8, 14, 15, 16, 17, 18, 19, 20	7	3	5, 6, 7, 8, 9, 10, 11, 12, 13, 15	1A, 2A, 3A, 4A, 5A, 6A	1B, 2B, 3B, 4B, 5B
7. Describe the nature and purpose of an adjusted trial balance.	21	9, 10	4	10, 11, 12, 13, 14	1A, 2A, 3A, 5A, 6A	1B, 2B, 3B, 5B
*8. Prepare adjusting entries for the alternative treatment of deferrals.	22	11		17, 18	6A	
*9. Discuss financial reporting concepts.	23, 24, 25, 26, 27, 28	12, 13, 14, 15		19, 20, 21, 22, 23		

***Note:** All **asterisked** Questions, Exercises, and Problems relate to material contained in the appendix to the chapter.

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Prepare adjusting entries, post to ledger accounts, and prepare an adjusted trial balance.	Simple	40–50
2A	Prepare adjusting entries, post, and prepare adjusted trial balance and financial statements.	Simple	50–60
3A	Prepare adjusting entries and financial statements.	Moderate	40–50
4A	Prepare adjusting entries.	Moderate	30–40
5A	Journalize transactions and follow through accounting cycle to preparation of financial statements.	Moderate	60–70
*6A	Prepare adjusting entries, adjusted trial balance, and financial statements using appendix.	Moderate	40–50
1B	Prepare adjusting entries, post to ledger accounts, and prepare an adjusted trial balance.	Simple	40–50
2B	Prepare adjusting entries, post, and prepare adjusted trial balance and financial statements.	Simple	50–60
3B	Prepare adjusting entries and financial statements.	Moderate	40–50
4B	Prepare adjusting entries.	Moderate	30–40
5B	Journalize transactions and follow through accounting cycle to preparation of financial statements.	Moderate	60–70

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CHAPTER 3
ADJUSTING THE ACCOUNTS

Number	LO	BT	Difficulty	Time (min.)
BE1	3	C	Simple	4–6
BE2	4	AN	Moderate	6–8
BE3	5	AN	Simple	3–5
BE4	5	AN	Simple	3–5
BE5	5	AN	Simple	2–4
BE6	5	AN	Simple	2–4
BE7	6	AN	Simple	4–6
BE8	4	AN	Simple	5–7
BE9	7	AP	Simple	4–6
BE10	7	AP	Simple	2–4
BE11*	8	AN	Moderate	3–5
BE12*	9	K	Simple	3–5
BE13*	9	K	Simple	2–4
BE14*	9	K	Simple	2–4
BE15*	9	K	Simple	1–2
DI1	1, 2	K	Simple	2–4
DI2	5	AN	Simple	6–8
DI3	6	AN	Simple	4–6
DI4	7	AN	Moderate	20–30
EX1	1	C	Simple	3–5
EX2	2	E	Moderate	10–15
EX3	2	AP	Simple	6–8
EX4	4	AN	Simple	5–6
EX5	5, 6	AN	Moderate	10–15
EX6	4–6	AN	Moderate	10–12
EX7	5, 6	AN	Moderate	8–10
EX8	5, 6	AN	Moderate	8–10
EX9	5, 6	AN	Simple	8–10
EX10	2, 5–7	AN	Moderate	8–10
EX11	4–7	AN	Moderate	12–15
EX12	5–7	AN	Moderate	8–10

ADJUSTING THE ACCOUNTS (Continued)

Number	LO	BT	Difficulty	Time (min.)
EX13	5–7	AN	Simple	8–10
EX14	7	AP	Simple	12–15
EX15	5, 6	AN, S	Moderate	8–10
EX16	5, 6	AN	Moderate	8–10
EX17*	8	AN	Moderate	6–8
EX18*	8	AN	Moderate	10–12
EX19*	9	K	Simple	3–5
EX20*	9	C	Simple	3–5
EX21*	9	K	Simple	6–8
EX22*	9	E	Simple	10–20
EX23*	9	E	Simple	10–20
P1A	5–7	AN	Simple	40–50
P2A	5–7	AN	Simple	50–60
P3A	5–7	AN	Moderate	40–50
P4A	5, 6	AN	Moderate	30–40
P5A	5–7	AN	Moderate	60–70
P6A	5–8	AN	Moderate	40–50
P1B	5–7	AN	Simple	40–50
P2B	5–7	AN	Simple	50–60
P3B	5–7	AN	Moderate	40–50
P4B	5, 6	AN	Moderate	30–40
P5B	5–7	AN	Moderate	60–70
BYP1	5, 6	AN	Simple	10–15
BYP2	—	AN	Simple	10–15
BYP3	—	AN	Simple	10–15
BYP4	2–7	S	Moderate	15–20
BYP5	3–6	C	Simple	10–15
BYP6	3–6	E	Moderate	10–15

BLOOM'S TAXONOMY TABLE

Correlation Chart between Bloom's Taxonomy, Learning Objectives and End-of-Chapter Exercises and Problems

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Explain the time period assumption.	DI3-1	Q3-1 E3-1				
2. Explain the accrual basis of accounting.	DI3-1	Q3-2 Q3-3	Q3-5 E3-3	E3-10		E3-2
3. Explain the reasons for adjusting entries.		Q3-6 Q3-7	BE3-1			
4. Identify the major types of adjusting entries.		Q3-8		Q3-18 E3-4 E3-16 BE3-2 E3-6 BE3-8 E3-11		
5. Prepare adjusting entries for deferrals.		Q3-8 Q3-9 Q3-10 Q3-11 Q3-12 Q3-13 Q3-19 Q3-20		Q3-18 E3-9 P3-4A E3-15 BE3-3 E3-10 P3-5A BE3-4 E3-11 P3-6A BE3-5 E3-12 P3-1B BE3-6 E3-13 P3-2B DI3-2 E3-15 P3-3B E3-5 P3-1A P3-4B E3-6 P3-2A P3-5B E3-7 P3-3A E3-8		
6. Prepare adjusting entries for accruals.		Q3-8 Q3-14 Q3-15 Q3-19 Q3-20	Q3-17	Q3-16 E3-10 P3-4A E3-15 Q3-18 E3-11 P3-5A BE3-7 E3-12 P3-6A DI3-3 E3-13 P3-1B E3-5 E3-15 P3-2B E3-6 P3-1A P3-3B E3-7 P3-2A P3-4B E3-8 P3-3A P3-5B E3-9		
7. Describe the nature and purpose of an adjusted trial balance.		Q3-21	BE3-9 BE3-10 E3-14	DI3-4 P3-1A P3-1B E3-10 P3-2A P3-2B E3-11 P3-3A P3-3B E3-12 P3-5A P3-5B E3-13 P3-6A		
*8. Prepare adjusting entries for the alternative treatment of deferrals.			Q3-22	BE3-11 E3-17 P3-6A		
*9. Discuss financial reporting concepts	Q3-23 BE3-12 BE3-13 BE3-14 BE3-15 E3-19 E3-21	Q3-24 Q3-25 Q3-26 Q3-27 Q3-28 E3-20				E3-22 E3-23
Broadening Your Perspective		Communication		Financial Reporting Comparative Analysis Real-World Focus	Decision-Making Across the Organization	Ethics Case

ANSWERS TO QUESTIONS

1. (a) Under the time period assumption, an accountant is required to determine the relevance of each business transaction to specific accounting periods.
(b) An accounting time period of one year in length is referred to as a fiscal year. A fiscal year that extends from January 1 to December 31 is referred to as a calendar year. Accounting periods of less than one year are called interim periods.
2. The two principles that relate to adjusting the accounts are:
The revenue recognition principle, which states that revenue should be recognized in the accounting period in which the performance obligation is satisfied.
The expense recognition principle, which states that efforts (expenses) should be matched with accomplishments (revenues).
3. The law firm should recognize the revenue in April. When a company agrees to perform a service for a customer it has a performance obligation. The revenue recognition principle states that revenue should be recognized in the accounting period in which the performance obligation is satisfied which is April in this case.
4. Information presented on an accrual basis is more useful than on a cash basis because it reveals relationships that are likely to be important in predicting future results. To illustrate, under accrual accounting, revenues are recognized when earned so they can be related to the economic environment in which they occur. Trends in revenues are thus more meaningful.
5. Expenses of \$4,700 should be deducted from the revenues in April. Under the expense recognition principle efforts (expenses) should be matched with accomplishments (revenues).
6. No, adjusting entries are required by the revenue recognition and expense recognition principles.
7. A trial balance may not contain up-to-date information for financial statements because:
 - (1) Some events are not journalized daily because it is not efficient to do so.
 - (2) The expiration of some costs occurs with the passage of time rather than as a result of daily transactions.
 - (3) Some items may be unrecorded because the transaction data are not yet known.
8. The two categories of adjusting entries are deferrals and accruals. Deferrals consist of prepaid expenses and unearned revenues. Accruals consist of accrued revenues and accrued expenses.
9. In the adjusting entry for a prepaid expense, an expense is debited and an asset is credited.
10. No. Depreciation is the process of allocating the cost of an asset to expense over its useful life in a rational and systematic manner. Depreciation results in the presentation of the book value of the asset, not its fair value.
11. Depreciation expense is an expense account whose normal balance is a debit. This account shows the cost that has expired during the current accounting period. Accumulated depreciation is a contra asset account whose normal balance is a credit. The balance in this account is the depreciation that has been recognized from the date of acquisition to the balance sheet date.
12. Equipment Rs 18,000,000
Less: Accumulated Depreciation—Equipment 7,000,000 Rs 11,000,000

Questions Chapter 3 (Continued)

13. In the adjusting entry for an unearned revenue, a liability is debited and a revenue is credited.
14. Asset and revenue. An asset would be debited and a revenue would be credited.
15. An expense is debited and a liability is credited in the adjusting entry.
16. Net income was understated \$200 because prior to adjustment, revenues are understated by \$900 and expenses are understated by \$700. The difference in this case is \$200 (\$900 – \$700).
17. The entry is:
- | | | | |
|--------|----------------------------------|-------|-------|
| Jan. 9 | Salaries and Wages Payable | 2,000 | |
| | Salaries and Wages Expense | 4,000 | |
| | Cash | | 6,000 |
18. (a) Accrued revenues. (d) Accrued expenses or prepaid expenses.
 (b) Unearned revenues. (e) Prepaid expenses.
 (c) Accrued expenses. (f) Accrued revenues or unearned revenues.
19. (a) Salaries and Wages Payable. (d) Supplies Expense.
 (b) Accumulated Depreciation. (e) Service Revenue.
 (c) Interest Expense. (f) Service Revenue.
20. Disagree. An adjusting entry affects only one statement of financial position account and one income statement account.
21. Financial statements can be prepared from an adjusted trial balance because the balances of all accounts have been adjusted to show the effects of all financial events that have occurred during the accounting period.
- *22. For Supplies Expense (prepaid expense): expenses are overstated and assets are understated. The adjusting entry is:
- | | | |
|-----------------------------------|----|----|
| Assets (Supplies) | XX | |
| Expenses (Supplies Expense) | | XX |
- For Rent Revenue (unearned revenues): revenues are overstated and liabilities are understated. The adjusting entry is:
- | | | |
|---|----|----|
| Revenues (Rent Revenue) | XX | |
| Liabilities (Unearned Rent Revenue) | | XX |
- *23. (a) The primary objective of financial reporting is to provide financial information that is useful to investors and creditors for making decisions about providing capital.
 (b) The fundamental qualitative characteristics are relevance and faithful representation. The enhancing qualities are comparability, consistency, verifiability, timeliness, and understandability.
- *24. Gross is correct. Consistency means using the same accounting principles and accounting methods from period to period within a company. Without consistency in the application of accounting principles, it is difficult to determine whether a company is better off, worse off, or the same from period to period.

Questions Chapter 3 (Continued)

- *25.** Comparability results when different companies use the same accounting principles. Consistency means using the same accounting principles and methods from year to year within the same company.
- *26.** The constraint is the cost constraint. The cost constraint allows accounting standard setters to weigh the cost that companies will incur to provide information against the benefit that financial statement users will gain from having the information available.
- *27.** Accounting relies primarily on two measurement principles. Fair value is sometimes used when market price information is readily available. However, in many situations reliable market price information is not available. In these instances, accounting relies on cost as its basis.
- *28.** The economic entity assumption states that every economic entity can be separately identified and accounted for. This assumption requires that the activities of the entity be kept separate and distinct from (1) the activities of its owners (the shareholders) and (2) all other economic entities. A shareholder of a company charging personal living costs as expenses of the company is an example of a violation of the economic entity assumption.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 3-1

- (a) **Prepaid Insurance**—to recognize insurance expired during the period.
- (b) **Depreciation Expense**—to account for the depreciation that has occurred on the asset during the period.
- (c) **Unearned Service Revenue**—to record revenue earned for services provided.
- (d) **Interest Payable**—to recognize interest accrued but unpaid on notes payable.

BRIEF EXERCISE 3-2

Item	(a) Type of Adjustment	(b) Account Balances before Adjustment
1.	Prepaid Expenses	Assets Overstated Expenses Understated
2.	Accrued Revenues	Assets Understated Revenues Understated
3.	Accrued Expenses	Expenses Understated Liabilities Understated
4.	Unearned Revenues	Liabilities Overstated Revenues Understated

BRIEF EXERCISE 3-3

Dec. 31	Supplies Expense	4,800	
	Supplies (£6,700 – £1,900)		4,800

Supplies				Supplies Expense			
6,700	12/31	4,800		12/31	4,800		
12/31 Bal. 1,900							

BRIEF EXERCISE 3-4

Dec. 31	Depreciation Expense.....	6,000	
	Accumulated Depreciation—		
	Equipment		6,000

Depreciation Expense		Accum. Depreciation—Equipment	
12/31	6,000	12/31	6,000

Statement of Financial Position:

Equipment.....	\$32,000	
Less: Accumulated Depreciation—		
Equipment	<u>6,000</u>	\$26,000

BRIEF EXERCISE 3-5

July 1	Prepaid Insurance	13,200	
	Cash.....		13,200
Dec. 31	Insurance Expense [(\$13,200 ÷ 3) X 1/2]	2,200	
	Prepaid Insurance		2,200

Prepaid Insurance		Insurance Expense	
7/1	13,200	12/31	2,200
12/31 Bal. 11,000			

BRIEF EXERCISE 3-6

July 1	Cash	13,200	
	Unearned Service Revenue		13,200
Dec. 31	Unearned Service Revenue	2,200	
	Service Revenue.....		2,200

Unearned Service Revenue		Service Revenue	
12/31	2,200	7/1	13,200
		12/31 Bal. 11,000	

BRIEF EXERCISE 3-7

1.	Dec. 31	Interest Expense	360	
		Interest Payable		360
2.	31	Accounts Receivable	1,750	
		Service Revenue		1,750
3.	31	Salaries and Wages Expense	900	
		Salaries and Wages Payable		900

BRIEF EXERCISE 3-8

<u>Account</u>	<u>(a) Type of Adjustment</u>	<u>(b) Related Account</u>
Accounts Receivable	Accrued Revenues	Service Revenue
Prepaid Insurance	Prepaid Expenses	Insurance Expense
Accum. Depr.—Equipment	Prepaid Expenses	Depreciation Expense
Interest Payable	Accrued Expenses	Interest Expense
Unearned Service Revenue	Unearned Revenues	Service Revenue

BRIEF EXERCISE 3-9

KWUN COMPANY
Income Statement
For the Year Ended December 31, 2014
(in thousands)

Revenues		
Service revenue		₩ 38,400
Expenses		
Salaries and wages expense	₩16,000	
Rent expense	4,400	
Insurance expense	2,000	
Supplies expense	1,500	
Depreciation expense	<u>1,300</u>	
Total expenses		<u>25,200</u>
Net income		<u><u>₩13,200</u></u>

BRIEF EXERCISE 3-10

KWUN COMPANY
Retained Earnings Statement
For the Year Ended December 31, 2014
(in thousands)

Retained earnings, January 1	₩ 7,240
Add: Net income	<u>13,200</u>
	20,440
Less: Dividends	<u>6,000</u>
Retained earnings, December 31	<u><u>₩14,440</u></u>

*BRIEF EXERCISE 3-11

(a)	Apr. 30	Supplies	1,000	
		Supplies Expense		1,000
(b)	30	Service Revenue	2,000	
		Unearned Service Revenue		2,000

BRIEF EXERCISE 3-12

- (a) Predictive value.
- (b) Confirmatory value.
- (c) Materiality.
- (d) Complete.
- (e) Neutral.
- (g) Comparability.
- (g) Verifiability.
- (h) Timeliness.

BRIEF EXERCISE 3-13

- (a) Relevant.
- (b) Faithful representation.
- (c) Consistency.

BRIEF EXERCISE 3-14

- (a) 1. Predictive value.
- (b) 2. Neutral.
- (c) 3. Verifiable.
- (d) 4. Timely.

BRIEF EXERCISE 3-15

(c)

SOLUTIONS FOR DO IT! REVIEW EXERCISES

DO IT! 3-1

1. (d) 2. (e) 3. (h) 4. (c)

DO IT! 3-2

1.	Insurance Expense	300	
	Prepaid Insurance		300
	(To record insurance expired)		
2.	Supplies Expense (CHF2,500 – CHF1,400)	1,100	
	Supplies		1,100
	(To record supplies used)		
3.	Depreciation Expense.....	200	
	Accumulated Depreciation—Equipment.....		200
	(To record monthly depreciation)		
4.	Unearned Service Revenue (CHF9,000 x 2/5)	3,600	
	Service Revenue.....		3,600
	(To record revenue for services performed)		

DO IT! 3-3

1.	Salaries and Wages Expense	1,300	
	Salaries and Wages Payable		1,300
	(To record accrued salaries)		
2.	Interest Expense (\$20,000 x .09 x 1/12).....	150	
	Interest Payable		150
	(To record accrued interest)		
3.	Accounts Receivable.....	2,400	
	Service Revenue		2,400
	(To record revenue for service performed)		

DO IT! 3-4

- (a) The net income is determined by adding revenues and subtracting expenses. The net income is computed as follows:

Revenues

Service revenue	R\$11,360
Rent revenue	<u>900</u>
Total revenues	12,260

Expenses

Salaries and wages expense	R\$7,400
Rent expense	1,200
Depreciation expense	700
Utilities expense	380
Supplies expense	160
Interest expense	<u>40</u>
Total expenses	<u>9,880</u>

Net income	<u>R\$ 2,380</u>
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DO IT! 3-4 (Continued)

(b) Total assets and liabilities are computed as follows:

Assets		
Cash		R\$ 5,190
Accounts receivable		480
Prepaid rent		720
Supplies		920
Equipment.....	R\$12,000	
Less: Accumulated depreciation— equipment	700	11,300
Total assets.....		<u>R\$18,610</u>
Liabilities		
Notes payable.....		R\$ 4,000
Accounts payable		790
Unearned rent revenue		400
Salaries and wages payable.....		300
Interest payable.....		40
Total liabilities		<u>R\$ 5,530</u>
(c) Retained Earnings, April 1		
		R\$ -0-
Add: Net income		<u>2,380</u>
		2,380
Less: Dividends		<u>500</u>
Retained Earnings, June 30.....		<u>R\$1,880</u>

SOLUTIONS TO EXERCISES

EXERCISE 3-1

1. True.
2. True.
3. False. Many business transactions affect more than one of these artificial time periods. For example, the purchase of a building affects expenses for many years.
4. True.
5. False. A time period that lasts *less than one year*, such as monthly or quarterly periods, is called an interim period.
6. False. All *calendar* years are *fiscal* years, but not all *fiscal* years are *calendar* years. An accounting time period that is one year in length is referred to as a fiscal year. A fiscal year that starts on January 1 and ends on December 31 is a calendar year.

EXERCISE 3-2

- (a) Accrual-basis accounting records the transactions that change a company's financial statements in the periods in which the events occur rather than in the periods in which the company receives or pays cash. Information presented on an accrual basis is useful because it reveals relationships that are likely to be important in predicting future results. Conversely, under cash-basis accounting, revenue is recorded only when cash is received, and an expense is recognized only when cash is paid. As a result, the cash basis of accounting often leads to misleading financial statements.
- (b) Politicians might desire a cash-basis accounting system over an accrual-basis system because if an accrual-accounting system is used, it could mean that billions in government liabilities presently unrecorded would have to be reported in the national budget immediately. The recognition of these additional liabilities would make the deficit even worse. This is not what politicians would like to see and be held responsible for.

EXERCISE 3-2 (Continued)

(c) Dear Official,

It is my understanding, after having taken a beginning course in accounting principles, that the government uses a cash-basis system rather than an accrual-basis accounting system.

I am shocked at such a practice! There must be billions of dollars of liabilities hidden in many contracts that have not been recorded yet for the mere reason that they haven't been paid yet. I realize that the deficit would dramatically increase if we were to implement an accrual system, but in all fairness, we citizens should be given a more accurate picture of what our government is up to.

Sincerely,

CONCERNED STUDENT

EXERCISE 3-3

(a)	Cash received from revenue	\$105,000
	Cash paid for expenses	<u>(72,000)</u>
	Cash-basis net income	<u>\$ 33,000</u>
(b)	Revenues [(\$105,000 – \$28,000) + \$44,000]	\$121,000
	Expenses [(\$72,000 – \$30,000) + \$37,000]	<u>(79,000)</u>
	Accrual-basis net income	<u>\$ 42,000</u>

EXERCISE 3-4

1. Unearned revenue.
2. Accrued expense.
3. Accrued expense.
4. Accrued revenue.
5. Prepaid expense.
6. Unearned revenue.
7. Accrued revenue.
8. Prepaid expense.
9. Prepaid expense.
10. Prepaid expense.
11. Accrued expense.

EXERCISE 3-5

1.	Interest Expense	200	
	Interest Payable		
	(\$8,000 X 10% X 3/12)		200
2.	Supplies Expense	1,670	
	Supplies (\$2,450 – \$780)		1,670
3.	Depreciation Expense	1,000	
	Accumulated Depreciation—Equipment		1,000
4.	Insurance Expense	1,225	
	Prepaid Insurance		
	(\$2,100 X 7/12)		1,225
5.	Unearned Service Revenue	7,500	
	Service Revenue		
	(\$30,000 X 1/4)		7,500
6.	Accounts Receivable	3,900	
	Service Revenue		3,900
7.	Salaries and Wages Expense	5,400	
	Salaries and Wages Payable		
	(\$9,000 X 3/5)		5,400

EXERCISE 3-6

<u>Item</u>	<u>(a) Type of Adjustment</u>	<u>(b) Accounts before Adjustment</u>
1.	Accrued Revenues	Assets Understated Revenues Understated
2.	Prepaid Expenses	Assets Overstated Expenses Understated
3.	Accrued Expenses	Expenses Understated Liabilities Understated
4.	Unearned Revenues	Liabilities Overstated Revenues Understated
5.	Accrued Expenses	Expenses Understated Liabilities Understated
6.	Prepaid Expenses	Assets Overstated Expenses Understated

EXERCISE 3-7

1.	Mar. 31	Depreciation Expense (\$300 X 3)	900	
		Accumulated Depreciation— Equipment		900
2.	31	Unearned Rent Revenue	3,300	
		Rent Revenue (\$9,900 X 1/3)		3,300
3.	31	Interest Expense	500	
		Interest Payable		500
4.	31	Supplies Expense	2,150	
		Supplies (\$2,800 – \$650)		2,150
5.	31	Insurance Expense (\$200 X 3)	600	
		Prepaid Insurance		600

EXERCISE 3-8

1.	Jan. 31	Accounts Receivable.....	875	
		Service Revenue		875
2.	31	Utilities Expense	520	
		Accounts Payable		520
3.	31	Depreciation Expense	400	
		Accumulated Depreciation— Equipment.....		400
	31	Interest Expense	500	
		Interest Payable.....		500
4.	31	Insurance Expense (₺18,000 ÷ 6).....	3,000	
		Prepaid Insurance		3,000
5.	31	Supplies Expense (₺1,600 – ₺700)	900	
		Supplies		900

EXERCISE 3-9

1.	Oct. 31	Supplies Expense	1,700	
		Supplies (₺2,500 – ₺800).....		1,700
2.	31	Insurance Expense	100	
		Prepaid Insurance		100
3.	31	Depreciation Expense	50	
		Accumulated Depreciation— Equipment.....		50
4.	31	Unearned Service Revenue	600	
		Service Revenue		600
5.	31	Accounts Receivable.....	300	
		Service Revenue		300

EXERCISE 3-9 (Continued)

6.	Oct. 31	Interest Expense.....	70	
		Interest Payable		70
7.	31	Salaries and Wages Expense.....	1,200	
		Salaries and Wages Payable		1,200

EXERCISE 3-10

MIDLAND CO.
Income Statement
For the Month Ended July 31, 2014

Revenues			
	Service revenue (\$5,500 + \$920).....		\$6,420
Expenses			
	Salaries and wages expense (\$2,300 + \$280).....	\$2,580	
	Supplies expense (\$1,200 – \$300)	900	
	Utilities expense	500	
	Insurance expense	400	
	Depreciation expense.....	<u>150</u>	
	Total expenses		<u>4,530</u>
	Net income		<u>\$1,890</u>

EXERCISE 3-11

<u>Answer</u>	<u>Computation</u>								
(a) Supplies balance = £1,130	<table><tr><td>Supplies expense</td><td>£ 950</td></tr><tr><td>Add: Supplies (1/31)</td><td>850</td></tr><tr><td>Less: Supplies purchased</td><td><u>(670)</u></td></tr><tr><td>Supplies (1/1)</td><td><u>£ 1,130</u></td></tr></table>	Supplies expense	£ 950	Add: Supplies (1/31)	850	Less: Supplies purchased	<u>(670)</u>	Supplies (1/1)	<u>£ 1,130</u>
Supplies expense	£ 950								
Add: Supplies (1/31)	850								
Less: Supplies purchased	<u>(670)</u>								
Supplies (1/1)	<u>£ 1,130</u>								
(b) Total premium = £4,800	Total premium = Monthly premium X 12; £400 X 12 = £4,800								
Purchase date = Aug. 1, 2013	Purchase date: On Jan. 31, there are 6 months' coverage remaining (£400 X 6). Thus, the purchase date was 6 months earlier on Aug. 1, 2013.								

EXERCISE 3-11 (Continued)

(c) Salaries and wages payable = £1,600		Cash paid	£3,300
		Salaries and wages payable (1/31/14)	<u>800</u>
			4,100
		Less: Salaries and wages expense	<u>2,500</u>
		Salaries and wages payable (12/31/13)	<u>£1,600</u>

EXERCISE 3-12

(a)	July 10	Supplies	200	
		Cash		200
	14	Cash	2,000	
		Service Revenue		2,000
	15	Salaries and Wages Expense	1,200	
		Cash		1,200
	20	Cash	750	
		Unearned Service Revenue		750
(b)	July 31	Supplies Expense	800	
		Supplies		800
	31	Accounts Receivable	620	
		Service Revenue		620
	31	Salaries and Wages Expense	1,200	
		Salaries and Wages Payable		1,200
	31	Unearned Service Revenue	900	
		Service Revenue		900

EXERCISE 3-13

Aug. 31	Accounts Receivable	1,200	
	Service Revenue		1,200
31	Supplies Expense	1,600	
	Supplies		1,600
31	Insurance Expense	1,500	
	Prepaid Insurance		1,500
31	Depreciation Expense	1,300	
	Accumulated Depreciation— Equipment		1,300
31	Salaries and Wages Expense	1,100	
	Salaries and Wages Payable		1,100
31	Unearned Rent Revenue	700	
	Rent Revenue		700

EXERCISE 3-14

MATUSIAK COMPANY
Income Statement
For the Year Ended August 31, 2014

Revenues		
Service revenue		€35,200
Rent revenue		<u>11,700</u>
Total revenues		46,900
Expenses		
Salaries and wages expense	€18,100	
Rent expense	15,000	
Supplies expense	1,600	
Insurance expense	1,500	
Depreciation expense	<u>1,300</u>	
Total expenses		<u>37,500</u>
Net income		<u>€ 9,400</u>

EXERCISE 3-14 (Continued)

MATUSIAK COMPANY
Retained Earnings Statement
For the Year Ended August 31, 2014

Retained earnings, September 1, 2013	€ 3,600
Add: Net income	<u>9,400</u>
Retained earnings, August 31, 2014	<u>€13,000</u>

MATUSIAK COMPANY
Statement of Financial Position
August 31, 2014

Assets		
Equipment	€14,000	
Less: Accum. depreciation—equipment	<u>4,900</u>	€ 9,100
Prepaid insurance		2,500
Supplies		700
Accounts receivable		10,000
Cash		<u>10,400</u>
Total assets		<u>€32,700</u>

Equity and Liabilities		
Equity		
Share capital—ordinary	€12,000	
Retained earnings	<u>13,000</u>	€25,000
Liabilities		
Accounts payable	5,800	
Salaries and wages payable	1,100	
Unearned rent revenues	<u>800</u>	<u>7,700</u>
Total equity and liabilities		<u>€32,700</u>

EXERCISE 3-15

(a)	1.	Cash	9,000	
		Accounts Receivable		9,000
	2.	Unearned Service Revenue.....	20,000	
		Service Revenue		20,000
	3.	(a) Cash	35,000	
		Unearned Service Revenue		35,000
		(b) Unearned Service Revenue		
		(\$35,000 – \$17,000).....	18,000	
		Service Revenue.....		18,000
	4.	Accounts Receivable.....	115,000	
		Service Revenue		
		(\$153,000 – \$20,000 – \$18,000).....		115,000
	5.	Cash	103,000	
		Accounts Receivable		
		(\$115,000 – \$12,000).....		103,000
(b)	Cash received by the club = \$9,000 + \$103,000 + \$35,000			
	= \$147,000			

EXERCISE 3-16

(a)	Cash received from services provided.....	Rs25,200
	Cash paid for expenses	(12,000)
	Cash paid for prepaid insurance	<u>(2,600)</u>
	Cash flow from operations	<u>Rs10,600</u>
(b)	Service revenue	Rs30,000
	Operating expenses	<u>17,000</u>
	Net income	<u>Rs13,000</u>
(c)	Under the accrual basis, companies record transactions that change a company and financial statements in the period in which the events occur. Cash basis accounting fails to record revenue that a company has earned but has not collected the cash. Also it does not match expenses with earned revenue.	

***EXERCISE 3-17**

1.	Prepaid Insurance	720	
	Insurance Expense		
	(\$2,880 X 3/12)		720
2.	Service Revenue	30,000	
	Unearned Service Revenue		
	(\$40,000 X 3/4)		30,000
3.	Supplies	420	
	Supplies Expense.....		420

***EXERCISE 3-18**

(a)	Jan. 2	Insurance Expense	2,640	
		Cash		2,640
	10	Supplies Expense	1,700	
		Cash		1,700
	15	Cash	6,400	
		Service Revenue		6,400

Cash				Service Revenue			
1/15	6,400	1/2	2,640		1/15	6,400	
		1/10	1,700				

Insurance Expense				Supplies Expense			
1/2	2,640			1/10	1,700		

(b)	Jan. 31	Prepaid Insurance (€220 X 11 months)	2,420	
		Insurance Expense		2,420
	31	Supplies	650	
		Supplies Expense		650
	31	Service Revenue	3,900	
		Unearned Service Revenue		3,900

Prepaid Insurance		Supplies		Unearned Service Revenue	
1/31	2,420	1/31	650	1/31	3,900
Insurance Expense		Supplies Expense		Service Revenue	
1/2	2,640	1/31	2,420	1/31	3,900
Bal.	220	Bal.	1,050	1/15	6,400
				Bal.	2,500

(c)	Prepaid insurance.....	€2,420
	Supplies.....	650
	Unearned service revenue	3,900
	Service revenue	2,500
	Insurance expense	220
	Supplies expense	1,050

*EXERCISE 3-19

- (a) 2 Going concern assumption
 (b) 6 Economic entity assumption
 (c) 3 Monetary unit assumption
 (d) 4 Time period assumption
 (e) 5 Historical cost principle
 (f) 1 Full disclosure principle

*EXERCISE 3-20

- (a) This is a violation of the historical cost principle. The inventory was written up to its fair value when it should have remained at cost.
- (b) This is a violation of the economic entity assumption. The treatment of the transaction treats Jay Rosman and Rosman Co. as one entity when they are two separate entities. Salaries and Wages Expense should have been debited for the purchase of the truck.
- (c) This is a violation of the time period assumption. This assumption states that the economic life of a business can be divided into artificial time periods (months, quarters, or a year). By adding two more weeks to the year, Rosman Co. would be misleading financial statement readers. In addition, 2014 results would not be comparable to previous years' results. The company should use a 52 week year.

***EXERCISE 3-21**

- 1. Comparability**
- 2. Going concern assumption**
- 3. Materiality**
- 4. Full disclosure principle**
- 5. Time period assumption**
- 6. Relevance**
- 7. Historical cost principle**
- 8. Consistency**
- 9. Economic entity assumption**
- 10. Faithful representation**
- 11. Monetary unit assumption**
- 12. Expense recognition principle**

***EXERCISE 3-22**

- (a) The primary objective of financial reporting is to provide financial information that is useful to investors and creditors for making decisions about providing capital. Since Net Nanny's shares appear to be actively traded, investors must be capable of using the information made available by Net Nanny to make decisions about the company.**
- (b) The investors must feel as if the company will show earnings in the future. They must recognize that information relevant to their investment choice is indicated by more than Net Nanny's net income.**
- (c) The change from Canadian dollars to U.S. dollars for reporting purposes should make Net Nanny more comparable with companies traded on U.S. stock exchanges.**

***EXERCISE 3-23**

- (a) Accounting information is the compilation and presentation of financial information for a company. It provides information in the form of financial statements and additional disclosures that is useful for decision making.**

EXERCISE 3-23 (Continued)

The accounting rules and practices that have substantial authoritative support and are recognized as a general guide for financial reporting purposes are referred to as international financial reporting standards (IFRS). The biotechnology company that employs Ana will follow IFRS to report its assets, liabilities, equity, revenues, and expenses as it prepares financial statements.

- (b) Ana is correct in her understanding that the low success rate for new biotech products will be a cause of concern for investors. Her suggestion that detailed scientific findings be reported to prospective investors might offset some of their concerns but it probably won't conform to the qualitative characteristics of accounting information.

These characteristics consist of relevance, faithful representation, comparability, and consistency, verifiability, timeliness, and understandability. They apply to accounting information rather than the scientific findings that Ana wants to include.

SOLUTIONS TO PROBLEMS

PROBLEM 3-1A

(a)

				J3
Date	Account Titles and Explanation	Ref.	Debit	Credit
2014				
June 30	Supplies Expense	631	900	
	Supplies			
	(\$2,000 – \$1,100).....	126		900
30	Utilities Expense	732	150	
	Accounts Payable	201		150
30	Insurance Expense	722	250	
	Prepaid Insurance			
	(\$3,000 ÷ 12 months).....	130		250
30	Unearned Service Revenue.....	209	2,500	
	Service Revenue	400		2,500
30	Salaries and Wages Expense	726	1,600	
	Salaries and Wages			
	Payable	212		1,600
30	Depreciation Expense	711	300	
	Accumulated Depreciation—			
	Equipment	158		300
30	Accounts Receivable.....	112	2,100	
	Service Revenue	400		2,100

PROBLEM 3-1A (Continued)**(b)****Cash** **No. 101**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
June 30	Balance	✓			6,200

Accounts Receivable **No. 112**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
June 30	Balance	✓			6,000
30	Adjusting	J3	2,100		8,100

Supplies **No. 126**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
June 30	Balance	✓			2,000
30	Adjusting	J3		900	1,100

Prepaid Insurance **No. 130**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
June 30	Balance	✓			3,000
30	Adjusting	J3		250	2,750

Equipment **No. 157**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
June 30	Balance	✓			14,400

Accumulated Depreciation—Equipment **No. 158**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
June 30	Adjusting	J3		300	300

PROBLEM 3-1A (Continued)**Accounts Payable** **No. 201**

Date		Explanation	Ref.	Debit	Credit	Balance
2014						
June	30	Balance	✓			4,700
	30	Adjusting	J3		150	4,850

Unearned Service Revenue **No. 209**

Date		Explanation	Ref.	Debit	Credit	Balance
2014						
June	30	Balance	✓			4,000
	30	Adjusting	J3	2,500		1,500

Salaries and Wages Payable **No. 212**

Date		Explanation	Ref.	Debit	Credit	Balance
2014						
June	30	Adjusting	J3		1,600	1,600

Share Capital—Ordinary **No. 311**

Date		Explanation	Ref.	Debit	Credit	Balance
2014						
June	30	Balance	✓			20,000

Service Revenue **No. 400**

Date		Explanation	Ref.	Debit	Credit	Balance
2014						
June	30	Balance	✓			7,900
	30	Adjusting	J3		2,500	10,400
	30	Adjusting	J3		2,100	12,500

PROBLEM 3-1A (Continued)**Supplies Expense** **No. 631**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
June 30	Adjusting	J3	900		900

Depreciation Expense **No. 711**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
June 30	Adjusting	J3	300		300

Insurance Expense **No. 722**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
June 30	Adjusting	J3	250		250

Salaries and Wages Expense **No. 726**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
June 30	Balance	✓			4,000
30	Adjusting	J3	1,600		5,600

Rent Expense **No. 729**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
June 30	Balance	✓			1,000

Utilities Expense **No. 732**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
June 30	Adjusting	J3	150		150

PROBLEM 3-1A (Continued)**(c)****CUONO COMPANY
Adjusted Trial Balance
June 30, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 6,200	
Accounts Receivable	8,100	
Supplies	1,100	
Prepaid Insurance	2,750	
Equipment	14,400	
Accumulated Depreciation— Equipment		\$ 300
Accounts Payable		4,850
Unearned Service Revenue		1,500
Salaries and Wages Payable		1,600
Share Capital—Ordinary		20,000
Service Revenue		12,500
Supplies Expense	900	
Depreciation Expense	300	
Insurance Expense	250	
Salaries and Wages Expense	5,600	
Rent Expense	1,000	
Utilities Expense	150	
	<u>\$40,750</u>	<u>\$40,750</u>

PROBLEM 3-2A

(a)

				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
Aug. 31	Insurance Expense (€400 X 3).....	722	1,200	
	Prepaid Insurance	130		1,200
31	Supplies Expense (€3,300 – €900)	631	2,400	
	Supplies	126		2,400
31	Depreciation Expense			
	(€4,500 X 1/4) + (€2,400 X 1/4).....	711	1,725	
	Accumulated Depreciation—			
	Buildings	144		1,125
	Accumulated Depreciation—			
	Equipment.....	158		600
31	Unearned Rent Revenue.....	208	4,100	
	Rent Revenue	429		4,100
31	Salaries and Wages Expense.....	726	400	
	Salaries and Wages Payable	212		400
31	Accounts Receivable	112	3,700	
	Rent Revenue	429		3,700
31	Interest Expense	718	600	
	Interest Payable			
	[(€80,000 X 9%) X 1/12].....	230		600

(b)

Cash					No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Balance	✓			19,600

PROBLEM 3-2A (Continued)**Accounts Receivable** **No. 112**

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Adjusting	J1	3,700		3,700

Supplies **No. 126**

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Balance	✓			3,300
31	Adjusting	J1		2,400	900

Prepaid Insurance **No. 130**

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Balance	✓			6,000
31	Adjusting	J1		1,200	4,800

Land **No. 140**

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Balance	✓			25,000

Buildings **No. 143**

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Balance	✓			125,000

Accumulated Depreciation—Buildings **No. 144**

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Adjusting	J1		1,125	1,125

Equipment **No. 157**

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Balance	✓			26,000

PROBLEM 3-2A (Continued)**Accumulated Depreciation—Equipment** **No. 158**

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Adjusting	J1		600	600

Accounts Payable **No. 201**

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Balance	✓			6,500

Unearned Rent Revenue **No. 208**

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Balance	✓			7,400
31	Adjusting	J1	4,100		3,300

Salaries and Wages Payable **No. 212**

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Adjusting	J1		400	400

Interest Payable **No. 230**

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Adjusting	J1		600	600

Mortgage Payable **No. 275**

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Balance	✓			80,000

Share Capital—Ordinary **No. 311**

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Balance	✓			100,000

PROBLEM 3-2A (Continued)**Dividends** **No. 332**

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Balance	✓			5,000

Rent Revenue **No. 429**

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Balance	✓			80,000
31	Adjusting	J1		4,100	84,100
31	Adjusting	J1		3,700	87,800

Maintenance and Repairs Expense **No. 622**

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Balance	✓			3,600

Supplies Expense **No. 631**

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Adjusting	J1	2,400		2,400

Depreciation Expense **No. 711**

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Adjusting	J1	1,725		1,725

Interest Expense **No. 718**

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Adjusting	J1	600		600

Insurance Expense **No. 722**

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Adjusting	J1	1,200		1,200

PROBLEM 3-2A (Continued)

Salaries and Wages Expense No. 726

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Balance	✓			51,000
31	Adjusting	J1	400		51,400

Utilities Expense No. 732

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Balance	✓			9,400

(c) **LAZY RIVER RESORT, INC.**
Adjusted Trial Balance
August 31, 2014

	Debit	Credit
Cash.....	€ 19,600	
Accounts Receivable	3,700	
Supplies	900	
Prepaid Insurance	4,800	
Land.....	25,000	
Buildings	125,000	
Accumulated Depreciation—Buildings		€ 1,125
Equipment.....	26,000	
Accumulated Depreciation—Equipment		600
Accounts Payable		6,500
Unearned Rent Revenue		3,300
Salaries and Wages Payable		400
Interest Payable		600
Mortgage Payable.....		80,000
Share Capital—Ordinary		100,000
Dividends	5,000	
Rent Revenue		87,800
Maintenance and Repairs Expense	3,600	
Supplies Expense.....	2,400	
Depreciation Expense	1,725	
Interest Expense.....	600	
Insurance Expense.....	1,200	
Salaries and Wages Expense	51,400	
Utilities Expense.....	9,400	
	<u>€280,325</u>	<u>€280,325</u>

PROBLEM 3-2A (Continued)

(d) LAZY RIVER RESORT, INC.

Income Statement

For the Three Months Ended August 31, 2014

Revenues		
Rent revenue		€87,800
Expenses		
Salaries and wages expense	€51,400	
Utilities expense	9,400	
Maintenance and repairs expense	3,600	
Supplies expense	2,400	
Depreciation expense	1,725	
Insurance expense	1,200	
Interest expense	600	
Total expenses		<u>70,325</u>
Net income		<u>€17,475</u>

LAZY RIVER RESORT, INC.

Retained Earnings Statement

For the Three Months Ended August 31, 2014

Retained Earnings, June 1	€ 0
Add: Net income	<u>17,475</u>
	17,475
Less: Dividends	<u>5,000</u>
Retained Earnings, August 31	<u>€12,475</u>

PROBLEM 3-2A (Continued)

LAZY RIVER RESORT, INC.
Statement of Financial Position
August 31, 2014

Assets		
Land		€ 25,000
Buildings	€125,000	
Less: Accum. depreciation—buildings.....	<u>1,125</u>	123,875
Equipment	26,000	
Less: Accum. depreciation—equipment	<u>600</u>	25,400
Prepaid insurance.....		4,800
Supplies.....		900
Accounts receivable.....		3,700
Cash		<u>19,600</u>
Total assets.....		<u>€203,275</u>
Equity and Liabilities		
Equity		
Share capital—ordinary.....	€100,000	
Retained earnings	<u>12,475</u>	€112,475
Liabilities		
Accounts payable	6,500	
Mortgage payable.....	80,000	
Unearned rent revenue	3,300	
Interest payable.....	600	
Salaries and wages payable.....	<u>400</u>	90,800
Total equity and liabilities		<u>€203,275</u>

PROBLEM 3-3A

(a)	Dec. 31	Accounts Receivable	3,500	
		Service Revenue		3,500
	31	Unearned Service Revenue	1,600	
		Service Revenue		1,600
	31	Supplies Expense	3,600	
		Supplies		3,600
	31	Depreciation Expense	5,000	
		Accumulated Depreciation— Equipment		5,000
	31	Interest Expense	150	
		Interest Payable		150
	31	Insurance Expense	850	
		Prepaid Insurance		850
	31	Salaries and Wages Expense	1,300	
		Salaries and Wages Payable		1,300

(b) **COSTELLO ADVERTISING AGENCY, INC.**
Income Statement
For the Year Ended December 31, 2014

Revenues			
	Service revenue		\$63,700
Expenses			
	Salaries and wages expense	\$11,300	
	Depreciation expense	5,000	
	Rent expense	4,000	
	Supplies expense	3,600	
	Insurance expense	850	
	Interest expense	500	
	Total expenses		<u>25,250</u>
	Net income		<u>\$38,450</u>

PROBLEM 3-3A (Continued)

COSTELLO ADVERTISING AGENCY, INC.
Retained Earnings Statement
For the Year Ended December 31, 2014

Retained Earnings, January 1	\$ 5,500
Add: Net income	<u>38,450</u>
	43,950
Less: Dividends	<u>12,000</u>
Retained Earnings, December 31	<u><u>\$31,950</u></u>

COSTELLO ADVERTISING AGENCY, INC.
Statement of Financial Position
December 31, 2014

Assets		
Equipment	\$60,000	
Less: Accumulated depreciation— equipment	<u>33,000</u>	\$27,000
Prepaid insurance		2,500
Supplies		5,000
Accounts receivable		23,500
Cash		<u>11,000</u>
Total assets		<u><u>\$69,000</u></u>
Equity and Liabilities		
Equity		
Share capital—ordinary	\$20,000	
Retained earnings	<u>31,950</u>	\$51,950
Liabilities		
Notes payable	5,000	
Accounts payable	5,000	
Unearned service revenue	5,600	
Salaries and wages payable	1,300	
Interest payable	<u>150</u>	<u>17,050</u>
Total equity and liabilities		<u><u>\$69,000</u></u>

PROBLEM 3-3A (Continued)

(c) (1) $I = P \times R \times T$

$$\$150 = \$5,000 \times R \times 1/2$$

$$\$150 = \$2,500R$$

$$R = \frac{\$150}{\$2,500}$$

$$R = 6\%$$

- (2) Salaries and Wages Expense, \$11,300 less Salaries and Wages Payable 12/31/14, \$1,300 = \$10,000. Total payments, \$14,500 – \$10,000 = \$4,500 Salaries and Wages Payable 12/31/13.

PROBLEM 3-4A

1.	Dec. 31	Salaries and Wages Expense	2,200	
		Salaries and Wages Payable		2,200
		$[5 \times \text{£}800 \times 2/5 = \text{£}1,600$		
		$3 \times \text{£}500 \times 2/5 = \underline{\quad 600}$		
		<u><u>£2,200</u></u>		
2.	31	Unearned Rent Revenue	74,000	
		Rent Revenue		74,000
		$[5 \times \text{£}4,000 \times 2 = \text{£}40,000$		
		$4 \times \text{£}8,500 \times 1 = \underline{\quad 34,000}$		
		<u><u>£74,000</u></u>		
3.	31	Advertising Expense	5,200	
		Prepaid Advertising		5,200
		$[\text{A}650 - \text{£}500 \text{ per month}$		
		for 8 months = $\text{£}4,000$		
		$\text{B}974 - \text{£}400 \text{ per month}$		
		for 3 months = $\underline{\quad 1,200}$		
		<u><u>£5,200</u></u>		
4.	31	Interest Expense	5,250	
		Interest Payable		
		$(\text{£}100,000 \times 9\% \times 7/12) \dots\dots\dots$		5,250

PROBLEM 3-5A

(a), (c) & (e)

Cash					No. 101
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Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1	Balance	✓			4,880
8		J1		1,700	3,180
10		J1	1,200		4,380
12		J1	3,400		7,780
20		J1		4,500	3,280
22		J1		500	2,780
25		J1		1,050	1,730
29		J1	750		2,480

Accounts Receivable					No. 112
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Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1	Balance	✓			3,520
10		J1		1,200	2,320
27		J1	1,600		3,920

Supplies					No. 126
-----------------	--	--	--	--	----------------

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1	Balance	✓			2,000
17		J1	1,200		3,200
30	Adjusting	J1		1,500	1,700

Equipment					No. 157
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Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1	Balance	✓			18,000
15		J1	3,000		21,000

PROBLEM 3-5A (Continued)**Accumulated Depreciation—Equipment** **No. 158**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1	Balance	✓			2,100
30	Adjusting	J1		140	2,240

Accounts Payable **No. 201**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1	Balance	✓			3,400
15		J1		3,000	6,400
17		J1		1,200	7,600
20		J1	4,500		3,100

Unearned Service Revenue **No. 209**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1	Balance	✓			1,400
29		J1		750	2,150
30	Adjusting	J1	1,450		700

Salaries and Wages Payable **No. 212**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1	Balance	✓			500
8		J1	500		0
30	Adjusting	J1		400	400

Share Capital—Ordinary **No. 311**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1	Balance	✓			10,000

Retained Earnings **No. 320**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 1	Balance	✓			11,000

PROBLEM 3-5A (Continued)**Service Revenue** **No. 400**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 12		J1		3,400	3,400
27		J1		1,600	5,000
30	Adjusting	J1		1,450	6,450

Supplies Expense **No. 631**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 30	Adjusting	J1	1,500		1,500

Depreciation Expense **No. 711**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 30	Adjusting	J1	140		140

Salaries and Wages Expense **No. 726**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 8		J1	1,200		1,200
25		J1	1,050		2,250
30	Adjusting	J1	400		2,650

Rent Expense **No. 729**

Date	Explanation	Ref.	Debit	Credit	Balance
Sept. 22		J1	500		500

PROBLEM 3-5A (Continued)

(b)

General Journal

J1

Date	Account Titles	Ref.	Debit	Credit
Sept. 8	Salaries and Wages Payable	212	500	
	Salaries and Wages Expense	726	1,200	
	Cash	101		1,700
10	Cash	101	1,200	
	Accounts Receivable	112		1,200
12	Cash	101	3,400	
	Service Revenue	400		3,400
15	Equipment	157	3,000	
	Accounts Payable	201		3,000
17	Supplies	126	1,200	
	Accounts Payable	201		1,200
20	Accounts Payable	201	4,500	
	Cash	101		4,500
22	Rent Expense	729	500	
	Cash	101		500
25	Salaries and Wages Expense	726	1,050	
	Cash	101		1,050
27	Accounts Receivable	112	1,600	
	Service Revenue	400		1,600
29	Cash	101	750	
	Unearned Service Revenue	209		750

PROBLEM 3-5A (Continued)

(d) & (f)

BECK EQUIPMENT REPAIR, INC.
Trial Balances
September 30, 2014

	Before Adjustment		After Adjustment	
	Dr.	Cr.	Dr.	Cr.
Cash	£ 2,480		£ 2,480	
Accounts Receivable	3,920		3,920	
Supplies	3,200		1,700	
Equipment	21,000		21,000	
Accumulated Depreciation— Equipment		£ 2,100		£ 2,240
Accounts Payable		3,100		3,100
Unearned Service Revenue		2,150		700
Salaries and Wages Payable		-0-		400
Share Capital—Ordinary		10,000		10,000
Retained Earnings		11,000		11,000
Service Revenue		5,000		6,450
Depreciation Expense			140	
Supplies Expense			1,500	
Salaries and Wages Expense ...	2,250		2,650	
Rent Expense	500		500	
	<u>£33,350</u>	<u>£33,350</u>	<u>£33,890</u>	<u>£33,890</u>

(e)	1.	Sept. 30	Supplies Expense	631	1,500	
			Supplies (£3,200 – £1,700)	126		1,500
2.	30		Salaries and Wages Expense	726	400	
			Salaries and Wages Payable	212		400
3.	30		Depreciation Expense	711	140	
			Accumulated Depreciation— Equipment	158		140
4.	30		Unearned Service Revenue	209	1,450	
			Service Revenue	400		1,450

PROBLEM 3-5A (Continued)

(g)

BECK EQUIPMENT REPAIR, INC.
Income Statement
For the Month Ended September 30, 2014

Revenues		
Service revenue.....		£6,450
Expenses		
Salaries and wages expense.....	£2,650	
Supplies expense.....	1,500	
Rent expense.....	500	
Depreciation expense	140	
Total expenses		<u>4,790</u>
Net income		<u>£1,660</u>

BECK EQUIPMENT REPAIR, INC.
Retained Earnings Statement
For the Month Ended September 30, 2014

Retained Earnings, September 1.....	£11,000
Add: Net income	<u>1,660</u>
Retained Earnings, September 30.....	<u>£12,660</u>

PROBLEM 3-5A (Continued)

BECK EQUIPMENT REPAIR, INC.
Statement of Financial Position
September 30, 2014

Assets		
Equipment.....	£21,000	
Less: Accumulated depreciation— equipment.....	<u>2,240</u>	£18,760
Supplies		1,700
Accounts receivable		3,920
Cash		<u>2,480</u>
Total assets.....		<u>£26,860</u>
 Equity and Liabilities		
Equity		
Share capital—ordinary	£10,000	
Retained earnings	<u>12,660</u>	£ 22,660
Liabilities		
Accounts payable.....	3,100	
Unearned service revenue.....	700	
Salaries and wages payable	<u>400</u>	<u>4,200</u>
Total equity and liabilities		<u>£26,860</u>

*PROBLEM 3-6A

(a)	1.	June 30	Supplies	680	
			Supplies Expense.....		680
	2.	30	Interest Expense		
			(\$20,000 X 9% X 5/12).....	750	
			Interest Payable		750
	3.	30	Prepaid Insurance		
			[((\$2,880 ÷ 12) X 8)]	1,920	
			Insurance Expense.....		1,920
	4.	30	Service Revenue	1,100	
			Unearned Service Revenue		1,100
	5.	30	Depreciation Expense		
			(\$2,250 ÷ 2).....	1,125	
			Accumulated Depreciation—		
			Equipment.....		1,125

***PROBLEM 3-6A (Continued)**

**(b) ALPHA GRAPHICS COMPANY, INC.
Adjusted Trial Balance
June 30, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 8,400	
Accounts Receivable	14,000	
Supplies	680	
Prepaid Insurance	1,920	
Equipment	45,000	
Accumulated Depreciation—Equipment		\$ 1,125
Notes Payable		20,000
Accounts Payable		9,000
Interest Payable		750
Unearned Service Revenue		1,100
Share Capital—Ordinary		22,000
Service Revenue (\$58,280 – \$1,100)		57,180
Salaries and Wages Expense	30,000	
Supplies Expense (\$3,900 – \$680)	3,220	
Advertising Expense	1,900	
Rent Expense	1,500	
Utilities Expense	1,700	
Depreciation Expense	1,125	
Insurance Expense (\$2,880 – \$1,920)	960	
Interest Expense	750	
	<u>\$111,155</u>	<u>\$111,155</u>

***PROBLEM 3-6A (Continued)**

(c)

ALPHA GRAPHICS COMPANY, INC.
Income Statement
For the Six Months Ended June 30, 2014

Revenues		
Service revenue.....		\$57,180
Expenses		
Salaries and wages expense.....	\$30,000	
Supplies expense.....	3,220	
Advertising expense.....	1,900	
Utilities expense.....	1,700	
Rent expense.....	1,500	
Depreciation expense.....	1,125	
Insurance expense.....	960	
Interest expense.....	750	
Total expenses		<u>41,155</u>
Net income		<u>\$16,025</u>

ALPHA GRAPHICS COMPANY, INC.
Retained Earnings Statement
For the Six Months Ended June 30, 2014

Retained Earnings, January 1	\$ 0
Add: Net income	<u>16,025</u>
Retained Earnings, June 30.....	<u>\$16,025</u>

***PROBLEM 3-6A (Continued)**

ALPHA GRAPHICS COMPANY, INC.
Statement of Financial Position
June 30, 2014

Assets		
Equipment.....	\$45,000	
Less: Accumulated depreciation— equipment	<u>1,125</u>	\$43,875
Prepaid insurance		1,920
Supplies		680
Accounts receivable		14,000
Cash		<u>8,400</u>
Total assets		<u>\$68,875</u>
 Equity and Liabilities		
Equity		
Share capital—ordinary	\$22,000	
Retained earnings	<u>16,025</u>	\$38,025
Liabilities		
Notes payable	20,000	
Accounts payable	9,000	
Unearned service revenue.....	1,100	
Interest payable	<u>750</u>	<u>30,850</u>
Total equity and liabilities		<u>\$68,875</u>

PROBLEM 3-1B

(a)

				J4
Date	Account Titles	Ref.	Debit	Credit
2014				
May 31	Supplies Expense.....	631	500	
	Supplies	126		500
31	Utilities Expense	736	200	
	Accounts Payable	201		200
31	Insurance Expense.....	722	100	
	Prepaid Insurance			
	(R\$2,400 ÷ 24 months).....	130		100
31	Unearned Service Revenue	209	1,600	
	Service Revenue			
	(R\$2,600 – R\$1,000).....	400		1,600
31	Salaries and Wages Expense.....	726	600	
	Salaries and Wages Payable			
	[(3/5 X R\$500) X			600
	2 employees]	212		
31	Depreciation Expense.....	711	200	
	Accumulated Depreciation—			
	Equipment	158		200
31	Accounts Receivable	112	1,400	
	Service Revenue	400		1,400

(b)

Cash					No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
2012					
May 31	Balance	✓			7,700

PROBLEM 3-1B (Continued)**Accounts Receivable** **No. 112**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
May 31	Balance	✓			4,000
31	Adjusting	J4	1,400		5,400

Supplies **No. 126**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
May 31	Balance	✓			1,500
31	Adjusting	J4		500	1,000

Prepaid Insurance **No. 130**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
May 31	Balance	✓			2,400
31	Adjusting	J4		100	2,300

Equipment **No. 157**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
May 31	Balance	✓			12,000

Accumulated Depreciation—Equipment **No. 158**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
May 31	Adjusting	J4		200	200

PROBLEM 3-1B (Continued)

Accounts Payable **No. 201**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
May 31	Balance	✓			4,500
31	Adjusting	J4		200	4,700

Unearned Service Revenue **No. 209**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
May 31	Balance	✓			2,600
31	Adjusting	J4	1,600		1,000

Salaries and Wages Payable **No. 212**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
May 31	Adjusting	J4		600	600

Share Capital—Ordinary **No. 311**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
May 31	Balance	✓			16,000

Service Revenue **No. 400**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
May 31	Balance	✓			8,500
31	Adjusting	J4		1,600	10,100
31	Adjusting	J4		1,400	11,500

Supplies Expense **No. 631**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
May 31	Adjusting	J4	500		500

PROBLEM 3-1B (Continued)**Depreciation Expense** **No. 711**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
May 31	Adjusting	J4	200		200

Insurance Expense **No. 722**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
May 31	Adjusting	J4	100		100

Salaries and Wages Expense **726**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
May 31	Balance	✓			3,000
31	Adjusting	J4	600		3,600

Rent Expense **No. 729**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
May 31	Balance	✓			1,000

Utilities Expense **No. 732**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
May 31	Adjusting	J4	200		200

PROBLEM 3-1B (Continued)**(c)****LIRA CONSULTING, INC.
Adjusted Trial Balance
May 31, 2014**

	Debit	Credit
Cash.....	R\$ 7,700	
Accounts Receivable	5,400	
Supplies	1,000	
Prepaid Insurance	2,300	
Equipment.....	12,000	
Accumulated Depreciation— Equipment.....		R\$ 200
Accounts Payable		4,700
Unearned Service Revenue		1,000
Salaries and Wages Payable		600
Share Capital—Ordinary		16,000
Service Revenue.....		11,500
Salaries and Wages Expense	3,600	
Rent Expense.....	1,000	
Depreciation Expense	200	
Insurance Expense.....	100	
Utilities Expense.....	200	
Supplies Expense.....	500	
	<u>R\$34,000</u>	<u>R\$34,000</u>

PROBLEM 3-2B

(a)

				J1
Date	Account Titles	Ref.	Debit	Credit
May 31	Insurance Expense	722	200	
	Prepaid Insurance			
	(\$2,400 X 1/12)	130		200
31	Supplies Expense	631	1,170	
	Supplies (\$1,520 – \$350)	126		1,170
31	Depreciation Expense			
	(\$2,640 X 1/12) + (\$1,500 X 1/12)	711	345	
	Accumulated Depreciation—			
	Buildings	142		220
	Accumulated Depreciation—			
	Equipment	158		125
31	Interest Expense	718	380	
	Interest Payable			
	[((\$38,000 X 12%) X 1/12)]	230		380
31	Unearned Rent Revenue	208	2,200	
	Rent Revenue			
	(2/3 X \$3,300)	429		2,200
31	Salaries and Wages Expense	726	750	
	Salaries and Wages Payable	212		750

(b)

Cash					No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Balance	✓			2,500

PROBLEM 3-2B (Continued)**Supplies** **No. 126**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Balance	✓			1,520
31	Adjusting	J1		1,170	350

Prepaid Insurance **No. 130**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Balance	✓			2,400
31	Adjusting	J1		200	2,200

Land **No. 140**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Balance	✓			14,000

Buildings **No. 141**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Balance	✓			58,000

Accumulated Depreciation—Buildings **No. 142**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Adjusting	J1		220	220

Equipment **No. 157**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Balance	✓			15,000

Accumulated Depreciation—Equipment **No. 158**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Adjusting	J1		125	125

PROBLEM 3-2B (Continued)**Accounts Payable** **No. 201**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Balance	✓			4,800

Unearned Rent Revenue **No. 208**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Balance	✓			3,300
31	Adjusting	J1	2,200		1,100

Salaries and Wages Payable **No. 212**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Adjusting	J1		750	750

Interest Payable **No. 230**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Adjusting	J1		380	380

Mortgage Payable **No. 275**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Balance	✓			38,000

Share Capital—Ordinary **No. 311**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Balance	✓			40,000

Rent Revenue **No. 429**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Balance	✓			12,300
31	Adjusting	J1		2,200	14,500

PROBLEM 3-2B (Continued)**Advertising Expense** **No. 610**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Balance	✓			780

Supplies Expense **No. 631**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Adjusting	J1	1,170		1,170

Depreciation Expense **No. 711**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Adjusting	J1	345		345

Interest Expense **No. 718**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Adjusting	J1	380		380

Insurance Expense **No. 722**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Adjusting	J1	200		200

Salaries and Wages Expense **No. 726**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Balance	✓			3,300
31	Adjusting	J1	750		4,050

Utilities Expense **No. 732**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Balance	✓			900

PROBLEM 3-2B (Continued)

**(c) BADGER MOTEL, INC.
Adjusted Trial Balance
May 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 2,500	
Supplies	350	
Prepaid Insurance	2,200	
Land	14,000	
Buildings	58,000	
Accumulated Depreciation—Buildings		\$ 220
Equipment	15,000	
Accumulated Depreciation—Equipment		125
Accounts Payable		4,800
Unearned Rent Revenue		1,100
Salaries and Wages Payable		750
Interest Payable		380
Mortgage Payable		38,000
Share Capital—Ordinary		40,000
Rent Revenue		14,500
Advertising Expense	780	
Supplies Expense	1,170	
Depreciation Expense	345	
Interest Expense	380	
Insurance Expense	200	
Salaries and Wages Expense	4,050	
Utilities Expense	900	
	<u>\$99,875</u>	<u>\$99,875</u>

PROBLEM 3-2B (Continued)

(d)

**BADGER MOTEL, INC.
Income Statement
For the Month Ended May 31, 2014**

Revenues		
Rent revenue		\$14,500
Expenses		
Salaries and wages expense.....	\$4,050	
Supplies expense.....	1,170	
Utilities expense.....	900	
Advertising expense.....	780	
Interest expense.....	380	
Depreciation expense	345	
Insurance expense.....	200	
Total expenses		<u>7,825</u>
Net income		<u>\$ 6,675</u>

**BADGER MOTEL, INC.
Retained Earnings Statement
For the Month Ended May 31, 2014**

Retained Earnings, May 1	\$ 0
Add: Net income	<u>6,675</u>
Retained Earnings, May 31	<u>\$6,675</u>

PROBLEM 3-2B (Continued)

BADGER MOTEL, INC.
Statement of Financial Position
May 31, 2014

Assets		
Land.....		\$14,000
Buildings.....	\$58,000	
Less: Accumulated depreciation—		
buildings.....	<u>220</u>	57,780
Equipment.....	15,000	
Less: Accumulated depreciation—		
equipment	<u>125</u>	14,875
Prepaid insurance		2,200
Supplies		350
Cash		<u>2,500</u>
Total assets		<u>\$91,705</u>
Equity and Liabilities		
Equity		
Share capital—ordinary	\$40,000	
Retained earnings	<u>6,675</u>	\$46,675
Liabilities		
Accounts payable.....	4,800	
Mortgage payable	38,000	
Unearned rent revenue	1,100	
Salaries and wages payable	750	
Interest payable	<u>380</u>	45,030
Total equity and liabilities		<u>\$91,705</u>

PROBLEM 3-3B

(a)	Sept. 30	Accounts Receivable.....	1,100	
		Service Revenue		1,100
	30	Rent Expense	1,000	
		Prepaid Rent.....		1,000
	30	Supplies Expense	1,250	
		Supplies		1,250
	30	Depreciation Expense	1,125	
		Accum. Depreciation—Equipment.....		1,125
	30	Interest Expense	100	
		Interest Payable.....		100
	30	Unearned Rent Revenue	850	
		Rent Revenue		850
	30	Salaries and Wages Expense	725	
		Salaries and Wages Payable.....		725

(b) **LAUSANNE CO., INC.**
Income Statement
For the Quarter Ended September 30, 2014

Revenues		
Service revenue.....		CHF17,900
Rent revenue		<u>2,560</u>
Total revenues		20,460
Expenses		
Salaries and wages expense.....	CHF8,725	
Rent expense.....	2,900	
Utilities expense.....	1,510	
Supplies expense.....	1,250	
Depreciation expense	1,125	
Interest expense.....	<u>100</u>	
Total expenses		<u>15,610</u>
Net income		<u><u>CHF 4,850</u></u>

PROBLEM 3-3B (Continued)

LAUSANNE CO., INC.
Retained Earnings Statement
For the Quarter Ended September 30, 2014

Retained Earnings, July 1, 2014.....	CHF	0
Add: Net income		<u>4,850</u>
		4,850
Less: Dividends.....		<u>1,000</u>
Retained Earnings, September 30, 2014	CHF	<u><u>3,850</u></u>

LAUSANNE CO., INC.
Statement of Financial Position
September 30, 2014

Assets		
Equipment.....	CHF20,000	
Less: Accum. depreciation—equipment.....	<u>1,125</u>	CHF18,875
Prepaid rent		1,200
Supplies		650
Accounts receivable		11,500
Cash		<u>8,700</u>
Total assets		<u><u>CHF40,925</u></u>
Equity and Liabilities		
Equity		
Share capital—ordinary	CHF22,000	
Retained earnings	<u>3,850</u>	
Total equity.....		CHF25,850
Liabilities		
Notes payable	10,000	
Accounts payable.....	3,200	
Salaries and wages payable	725	
Unearned rent revenue	1,050	
Interest payable	<u>100</u>	
Total liabilities		<u>15,075</u>
Total equity and liabilities		<u><u>CHF40,925</u></u>

- (c) Interest of 12% per year equals a monthly rate of 1%; monthly interest is CHF100 (CHF10,000 X 1%). Since total interest expense is CHF100, the note has been outstanding one month.

PROBLEM 3-4B

1.	Dec. 31	Insurance Expense..... 4,400 Prepaid Insurance 4,400 [(€6,000 ÷ 3) = €2,000 (€4,800 ÷ 2) = <u>2,400</u> <u>€4,400]</u>	
2.	Dec. 31	Unearned Rent Revenue..... 84,000 Rent Revenue..... 84,000 Nov. 5 X €5,000 X 2 = €50,000 Dec. 4 X €8,500 X 1 = <u>34,000</u> <u>€84,000</u>	
3.	Dec. 31	Interest Expense..... 1,800 Interest Payable (€120,000 X 9% X 2/12) 1,800	
4.	Dec. 31	Salaries and Wages Expense..... 2,820 Salaries and Wages Payable 2,820 [5 X €640 X 3/5 = €1,920 3 X €500 X 3/5 = <u>900</u> <u>€2,820]</u>	

PROBLEM 3-5B

(a), (c) & (e)

Cash					No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 1	Balance	✓			2,400
8		J1		1,500	900
10		J1	3,420		4,320
12		J1	3,100		7,420
20		J1		2,700	4,720
22		J1		500	4,220
25		J1		1,500	2,720
29		J1	350		3,070

Accounts Receivable					No. 112
Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 1	Balance	✓			4,450
10		J1		3,420	1,030
27		J1	1,900		2,930

Supplies					No. 126
Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 1	Balance	✓			1,800
17		J1	700		2,500
30	Adjusting	J1		1,100	1,400

Equipment					No. 157
Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 1	Balance	✓			16,000
15		J1	2,000		18,000

PROBLEM 3-5B (Continued)

Accumulated Depreciation—Equipment No. 158

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 1	Balance	✓			2,000
30	Adjusting	J1		200	2,200

Accounts Payable No. 201

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 1	Balance	✓			2,600
15		J1		2,000	4,600
17		J1		700	5,300
20		J1	2,700		2,600

Unearned Service Revenue No. 209

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 1	Balance	✓			1,360
29		J1		350	1,710
30	Adjusting	J1	1,380		330

Salaries and Wages Payable No. 212

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 1	Balance	✓			700
8		J1	700		0
30	Adjusting	J1		350	350

Share Capital—Ordinary No. 311

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 1	Balance	✓			10,000

Retained Earnings No. 320

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 1	Balance	✓			7,990

PROBLEM 3-5B (Continued)**Service Revenue** **No. 400**

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 12		J1		3,100	3,100
27		J1		1,900	5,000
30	Adjusting	J1		1,380	6,380

Supplies Expense **No. 631**

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30	Adjusting	J1	1,100		1,100

Depreciation Expense **No. 711**

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30	Adjusting	J1	200		200

Salaries and Wages Expense **No. 726**

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 8		J1	800		800
25		J1	1,500		2,300
30	Adjusting	J1	350		2,650

Rent Expense **No. 729**

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 22		J1	500		500

PROBLEM 3-5B (Continued)

(b)

General Journal

J1

Date	Account Titles and Explanation	Ref.	Debit	Credit
Nov. 8	Salaries and Wages Payable	212	700	
	Salaries and Wages Expense	726	800	
	Cash	101		1,500
10	Cash	101	3,420	
	Accounts Receivable	112		3,420
12	Cash	101	3,100	
	Service Revenue	400		3,100
15	Equipment	157	2,000	
	Accounts Payable	201		2,000
17	Supplies	126	700	
	Accounts Payable	201		700
20	Accounts Payable	201	2,700	
	Cash	101		2,700
22	Rent Expense	729	500	
	Cash	101		500
25	Salaries and Wages Expense	726	1,500	
	Cash	101		1,500
27	Accounts Receivable	112	1,900	
	Service Revenue	400		1,900
29	Cash	101	350	
	Unearned Service Revenue	209		350

PROBLEM 3-5B (Continued)

(d) & (f)

SAMONE EQUIPMENT REPAIR, INC.

**Trial Balances
November 30, 2014**

	Before Adjustment		After Adjustment	
	Dr.	Cr.	Dr.	Cr.
Cash	\$ 3,070		\$ 3,070	
Accounts Receivable.....	2,930		2,930	
Supplies	2,500		1,400	
Equipment	18,000		18,000	
Accumulated Depreciation— Equipment		\$ 2,000		\$ 2,200
Accounts Payable		2,600		2,600
Unearned Service Revenue.....		1,710		330
Salaries and Wages Payable....		—0—		350
Share Capital—Ordinary		10,000		10,000
Retained Earnings		7,990		7,990
Service Revenue		5,000		6,380
Depreciation Expense			200	
Supplies Expense			1,100	
Salaries and Wages Expense ...	2,300		2,650	
Rent Expense	500		500	
	<u>\$29,300</u>	<u>\$29,300</u>	<u>\$29,850</u>	<u>\$29,850</u>

(e) 1.	Nov. 30	Supplies Expense.....	631	1,100	
		Supplies (\$2,500 – \$1,400).....	126		1,100
2.	30	Salaries and Wages Expense.....	726	350	
		Salaries and Wages Payable.....	212		350
3.	30	Depreciation Expense	711	200	
		Accumulated Depreciation— Equipment.....	158		200
4.	30	Unearned Service Revenue	209	1,380	
		Service Revenue	400		1,380

PROBLEM 3-5B (Continued)

**(g) SAMONE EQUIPMENT REPAIR, INC.
Income Statement
For the Month Ended November 30, 2014**

Revenues		
Service revenue.....		\$6,380
Expenses		
Salaries and wages expense.....	\$2,650	
Supplies expense.....	1,100	
Rent expense.....	500	
Depreciation expense	<u>200</u>	
Total expenses		<u>4,450</u>
Net Income		<u><u>\$1,930</u></u>

**SAMONE EQUIPMENT REPAIR, INC.
Retained Earnings Statement
For the Month Ended November 30, 2014**

Retained Earnings, November 1	\$7,990
Plus: Net income.....	<u>1,930</u>
Retained Earnings, November 30.....	<u><u>\$9,920</u></u>

PROBLEM 3-5B (Continued)

SAMONE EQUIPMENT REPAIR, INC.
Statement of Financial Position
November 30, 2014

Assets		
Equipment.....	\$18,000	
Less: Accumulated depreciation— equipment.....	<u>2,200</u>	\$15,800
Supplies		1,400
Accounts receivable		2,930
Cash		<u>3,070</u>
Total assets.....		<u>\$23,200</u>
 Equity and Liabilities		
Equity		
Share capital—ordinary	\$10,000	
Retained earnings	<u>9,920</u>	\$19,920
Liabilities		
Accounts payable.....	2,600	
Unearned service revenue.....	330	
Salaries and wages payable	<u>350</u>	<u>3,280</u>
Total equity and liabilities		<u>\$23,200</u>

(a)

GENERAL JOURNAL

J2

Date	Account Titles and Explanation	Debit	Credit
Nov. 30	Supplies Expense.....	35	
	Supplies.....		35
30	Depreciation Expense.....	20	
	Accumulated Depreciation—Equipment [($\$300 + \900) \div 60 months]		20
30	Interest Expense.....	5	
	Interest Payable ($\$2,000 \times .06 \times 1/12 \times .5$)		5
30	Accounts Receivable	300	
	Service Revenue		300
30	Utilities Expense.....	45	
	Accounts Payable.....		45

CCC3 (Continued)

(a) (Continued)

Cash					
Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30	Balance	✓			245

Accounts Receivable					
Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30		J2	300		300

Supplies					
Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30	Balance	✓			125
30		J2		35	90

Prepaid Insurance					
Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30	Balance	✓			1,320

Equipment					
Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30	Balance	✓			1,200

Accumulated Depreciation—Equipment					
Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30		J2		20	20

CCC3 (Continued)**(a) (Continued)****Accounts Payable**

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30		J2		45	45

Interest Payable

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30		J2		5	5

Unearned Service Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30	Balance	✓			30

Notes Payable

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30	Balance	✓			2,000

Share Capital—Ordinary

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30	Balance	✓			800

Service Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30	Balance	✓			125
30		J2		300	425

CCC3 (Continued)**(a) (Continued)****Utilities Expense**

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30		J2	45		45

Advertising Expense

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30	Balance	✓	65		65

Supplies Expense

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30		J2	35		35

Depreciation Expense

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30		J2	20		20

Interest Expense

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30		J2	5		5

CCC3 (Continued)

(b)

COOKIE CREATIONS
Adjusted Trial Balance
November 30, 2014

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Cash	\$ 245	
Accounts Receivable	300	
Supplies	90	
Prepaid Insurance	1,320	
Equipment.....	1,200	
Accumulated Depreciation—Equipment.....		\$ 20
Accounts Payable		45
Interest Payable.....		5
Unearned Service Revenue		30
Notes Payable.....		2,000
Share Capital—Ordinary.....		800
Service Revenue.....		425
Utilities Expense.....	45	
Advertising Expense.....	65	
Supplies Expense.....	35	
Depreciation Expense.....	20	
Interest Expense.....	5	
Totals	<u>\$3,325</u>	<u>\$3,325</u>

CCC3 (Continued)

(c)

Service revenue.....		\$425
Advertising expense	\$65	
Utilities expense.....	45	
Supplies expense.....	35	
Depreciation expense	20	
Interest expense.....	<u>5</u>	<u>170</u>
Net income.....		<u>\$255</u>

Yes, Cookie Creations has been profitable in November. It has a profit of \$255 which is more than one half of the revenue recognized in November.

- (a) Items that may result in adjusting entries for prepayments are:
1. Prepaid expenses and other current assets (per statement of financial position).
 2. Property, plant and equipment, net of depreciation (per statement of financial position).
 3. Amortizable intangible assets, net (per statement of financial position)—amortization is similar to depreciation (explained later in Chapter 9).
- (b) Accrual adjusting entries were probably made for trade payable and other current liabilities, finance (interest) expense, and income tax payable.

	<u>Nestlé</u>	<u>Zetar</u>
(a) Net increase (decrease) in property, plant, and equipment (net) for current fiscal year.	(CHF161,000,000)	£1,697,000
(b) Increase in marketing and administrative expenses, for current fiscal year.	CHF1,018,000,000	£449,000
(c) Increase (decrease) in non-current liabilities for current fiscal year.	(CHF2,305,000,000)	£2,029,000
(d) Increase in net income for current fiscal year.	CHF23,591,000,000	£214,000
(e) Increase in cash and cash equivalents for current fiscal year.	CHF5,323,000,000	£25,000

Answers will vary depending on the company and article chosen by the student.

(a) **HAPPY TRAILS PARK, INC.**
Income Statement
For the Quarter Ended March 31, 2014

Revenues		
Rent revenue (\$88,000 – \$14,000)		\$74,000
Expenses		
Salaries and wages expense		
[\$28,800 + (\$300 X 2)]	\$29,400	
Advertising expense (\$5,200 + \$130)	5,330	
Supplies expense (\$6,200 – \$1,450)	4,750	
Maintenance and repairs expense		
(\$4,000 + \$260)	4,260	
Insurance expense (\$7,500 X 3/12)	1,875	
Utilities expense (\$750 + \$120)	870	
Depreciation expense	800	
Interest expense (\$12,000 X 10% X 3/12)	300	
Total expenses		<u>47,585</u>
Net income		<u>\$26,415</u>

- (b) The international financial reporting standards pertaining to the income statement that were not recognized by Alicia were the revenue recognition principle and the expense recognition principle. The revenue recognition principle states that revenue is recognized in the accounting period in which the performance obligation is satisfied. The \$14,000 for summer rentals is a prepayment for services to be performed in a later period. As a result, the performance obligation is not satisfied and, therefore, should not be reported in income for the quarter ended March 31. The expense recognition principle dictates that efforts (expenses) be matched with accomplishments (revenues) whenever it is reasonable and practicable to do so. This means that the expenses should include amounts incurred in March but not paid until April. The difference in expenses was \$8,035 (\$47,585 – \$39,550). The overstatement of revenues (\$14,000) plus the understatement of expenses (\$8,035) equals the difference in reported income of \$22,035 (\$48,450 – \$26,415).

Dear Ms. Danon:

Upon reviewing the accounts of your company at the end of the year, I discovered that adjusting entries were not made.

Adjusting entries are made at the end of the accounting period to ensure that the revenue recognition and expense recognition principles required under international financial reporting standards are followed. The use of adjusting entries makes it possible to report on the statement of financial position the appropriate assets, liabilities, and equity at the statement date and to report on the income statement the proper net income (or loss) for the year.

Adjusting entries are needed because the trial balance may not contain an up-to-date and complete record of transactions and events for the following reasons:

- 1. Some events are not journalized daily because it is not efficient to do so. Examples are the use of supplies and the earning of wages by employees.**
- 2. The expiration of some costs is not journalized during the accounting period because these costs expire with the passage of time rather than as a result of recurring daily transactions. Examples of such costs are building and equipment depreciation, rent, and insurance.**
- 3. Some expenses, such as the cost of utility service and property taxes, may be unrecorded because the bills for the costs have not been received.**

There are four types of adjusting entries:

- 1. Prepaid expenses—expenses paid in cash and recorded as assets before they are used or consumed.**
- 2. Unearned revenues—revenues received in cash and recorded as liabilities before they are earned.**

BYP 3-5 (Continued)

- 3. Accrued revenues—revenues earned but not yet received in cash or recorded.**
- 4. Accrued expenses—expenses incurred but not yet paid in cash or recorded.**

I will be happy to answer any questions you may have on adjusting entries.

Signature

(a) The shareholders in this situation are:

- ▶ **Diane Leno, controller.**
- ▶ **The president of Watkin Company.**
- ▶ **Watkin Company shareholders.**

(b) 1. It is unethical for the president to place pressure on Diane to misstate net income by requesting her to prepare incorrect adjusting entries.

- 2. It is customary for adjusting entries to be dated as of the statement of financial position date although the entries are prepared at a later date. Diane did nothing unethical by dating the adjusting entries December 31.**

(c) Diane can accrue revenues and defer expenses through the preparation of adjusting entries and be ethical so long as the entries reflect economic reality. Intentionally misrepresenting the company's financial condition and its results of operations is unethical (it is also illegal).

GAAP EXERCISES

GAAP 3-1

IFRS might choose to revalue land and buildings at fair value because it provides more relevant information. GAAP, on the other hand, requires land and buildings be valued at cost because it is more verifiable and therefore provides information that is representationally faithful.

GAAP 3-2

No. GAAP classifies revenues as the economic benefit that arises from an entity's normal operating activities and gains as the benefits associated with activities outside the normal sales of goods and services.

GAAP also classifies expenses as those costs associated with an entity's normal operations and losses as those costs associated with activities outside the normal sales of goods and services.

GAAP FINANCIAL REPORTING PROBLEM

GAAP 3-3

- (a) Tootsie Roll could have adjustments for prepayments such as: Prepaid Expenses, Supplies, and Depreciation Expense.**
- (b) Tootsie Roll could have adjustments for accruals such as: Accounts Receivable (trade), Accounts Payable, and Accrued Liabilities.**

