

# 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		
3. Explain the reasons for adjusting entries and identify the major types of adjusting entries.	6, 7, 8, 18	1, 2, 8		4, 6, 11		
4. Prepare adjusting entries for deferrals.	8, 9, 10, 11, 12, 13, 18, 19, 20	2, 3, 4, 5, 6, 8	2	4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 15	1A, 2A, 3A, 4A, 5A, 6A	1B, 2B, 3B, 4B, 5B
5. Prepare adjusting entries for accruals.	8, 14, 15, 16, 17, 18, 19, 20	2, 7, 8	3	4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 15	1A, 2A, 3A, 4A, 5A, 6A	1B, 2B, 3B, 4B, 5B
6. 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
*7. Prepare adjusting entries for the alternative treatment of deferrals.	22	11		16, 17	6A	
*8. Discuss financial reporting concepts.	23, 24, 25, 26, 27, 28	12, 13, 14, 15		18, 19, 20, 21, 22		

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

## ASSIGNMENT CHARACTERISTICS TABLE

<b>Problem Number</b>	<b>Description</b>	<b>Difficulty Level</b>	<b>Time Allotted (min.)</b>
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

**WEYGANDT ACCOUNTING PRINCIPLES 11E**  
**CHAPTER 3**  
**ADJUSTING THE ACCOUNTS**

<b>Number</b>	<b>LO</b>	<b>BT</b>	<b>Difficulty</b>	<b>Time (min.)</b>
BE1	3	C	Simple	4–6
BE2	3, 4, 5	AN	Moderate	6–8
BE3	4	AN	Simple	3–5
BE4	4	AN	Simple	3–5
BE5	4	AN	Simple	2–4
BE6	4	AN	Simple	2–4
BE7	5	AN	Simple	4–6
BE8	3, 4, 5	AN	Simple	5–7
BE9	6	AP	Simple	4–6
BE10	6	AP	Simple	2–4
BE11*	7	AN	Moderate	3–5
BE12*	8	C	Simple	3–5
BE13*	8	C	Simple	2–4
BE14*	8	C	Simple	2–4
BE15*	8	C	Simple	1–2
DI1	1, 2	K	Simple	2–4
DI2	4	AN	Simple	6–8
DI3	5	AN	Simple	4–6
DI4	6	AN	Moderate	20–30
EX1	1	C	Simple	3–5
EX2	2	E	Moderate	10–15
EX3	2	AP	Simple	6–8
EX4	3, 4, 5	AN	Simple	5–6
EX5	4, 5	AN	Moderate	10–15
EX6	3–5	AN	Moderate	10–12
EX7	4, 5	AN	Moderate	8–10
EX8	4, 5	AN	Moderate	8–10
EX9	4, 5	AN	Simple	8–10
EX10	2, 4–6	AN	Moderate	8–10
EX11	3–6	AN	Moderate	12–15
EX12	4–6	AN	Moderate	8–10
EX13	4–6	AN	Simple	8–10
EX14	6	AP	Simple	12–15

## ADJUSTING THE ACCOUNTS (Continued)

<b>Number</b>	<b>LO</b>	<b>BT</b>	<b>Difficulty</b>	<b>Time (min.)</b>
EX15	4, 5	AN, S	Moderate	8–10
EX16*	7	AN	Moderate	6–8
EX17*	7	AN	Moderate	10–12
EX18*	8	C	Simple	3–5
EX19*	8	C	Simple	3–5
EX20*	8	C	Simple	6–8
EX21*	8	AN	Simple	10–20
EX22*	8	AN	Simple	10–20
P1A	4–6	AN	Simple	40–50
P2A	4–6	AN	Simple	50–60
P3A	4–6	AN	Moderate	40–50
P4A	4, 5	AN	Moderate	30–40
P5A	4–6	AN	Moderate	60–70
P6A	4–7	AN	Moderate	40–50
P1B	4–6	AN	Simple	40–50
P2B	4–6	AN	Simple	50–60
P3B	4–6	AN	Moderate	40–50
P4B	4, 5	AN	Moderate	30–40
P5B	4–6	AN	Moderate	60–70
BYP1	4, 5, 6	AN	Simple	10–15
BYP2	—	AN	Simple	10–15
BYP3	—	AN	Simple	10–15
BYP4	—	AN	Simple	10–15
BYP5	—	AN	Moderate	15–20
BYP6	2–6	S	Moderate	15–20
BYP7	3–6	C	Simple	10–15
BYP8	3–6	E	Moderate	10–15
BYP9	—	E	Moderate	10–15
BYP10	—	E	Moderate	10–15
BYP11	—	K	Simple	10–15

**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	Q3-4 Q3-5 E3-3	E3-10		E3-2	
3. Explain the reasons for adjusting entries and identify the major types of adjusting entries.		Q3-6 Q3-7 Q3-8	BE3-1	Q3-18 BE3-2	BE3-8 E3-4	E3-6 E3-11	
4. Prepare adjusting entries for deferrals.		Q3-8 Q3-9 Q3-10 Q3-11 Q3-12 Q3-13 Q3-19 Q3-20		Q3-18 BE3-2 BE3-3 BE3-4 BE3-5 BE3-6 BE3-8 DI3-2 E3-5 E3-6	E3-7 E3-8 E3-9 E3-10 E3-11 E3-12 E3-13 E3-15 P3-1A P3-2A	P3-3A P3-4A P3-5A P3-6A P3-1B P3-2B P3-3B P3-4B P3-5B	E3-15
5. Prepare adjusting entries for accruals.		Q3-8 Q3-14 Q3-15 Q3-19 Q3-20	Q3-17	Q3-16 Q3-18 BE3-2 BE3-7 BE3-8 DI3-3 E3-4 E3-5 E3-6 E3-7	E3-8 E3-9 E3-10 E3-11 E3-12 E3-13 E3-15 P3-1A P3-2A	P3-3A P3-4A P3-5A P3-6A P3-1B P3-2B P3-3B P3-4B P3-5B	E3-15
6. Describe the nature and purpose of an adjusted trial balance.		Q3-21	BE3-9 BE3-10 E3-14	DI3-4 E3-10 E3-11 E3-12 E3-13	P3-1A P3-2A P3-3A P3-5A P3-6A	P3-1B P3-2B P3-3B P3-5B	
*7. Prepare adjusting entries for the alternative treatment of deferrals.			Q3-22	BE3-11 E3-16	E3-17 P3-6A		
*8. Discuss financial reporting concepts	Q3-23	BE3-12 BE3-13 BE3-14 BE3-15 E3-18 E3-19	E3-20 Q3-24 Q3-25 Q3-26 Q3-27 Q3-28		E3-21 E3-22		
Broadening Your Perspective	FASB Activity	Communication		Financial Reporting Comparative Analysis Real-World Focus	Decision Making Across the Organization	All About You Ethics Case Considering P, P & P	

# 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 generally accepted accounting 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 services are performed.  
 The expense recognition principle, which states that efforts (expenses) be matched with accomplishments (revenues).
3. The law firm should recognize the revenue in April. The revenue recognition principle states that revenue should be recognized in the accounting period in which services are performed.
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 the performance obligation is satisfied so they can be related to the economic environment in which they occur. Trends in revenues are thus more meaningful.
5. Expenses of \$4,500 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.....	\$18,000	
Less: Accumulated Depreciation—Equipment.....	<u>6,000</u>	\$12,000

**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 ..... | 3,000 |       |
|        | Cash .....                       |       | 5,000 |
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 balance sheet 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 performed.
- (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 .....	4,200	
	Supplies (\$6,700 – \$2,500).....		4,200

Supplies			Supplies Expense		
	6,700	12/31	4,200	12/31	4,200
12/31 Bal.	2,500				

**BRIEF EXERCISE 3-4**

Dec. 31	Depreciation Expense.....	4,000	
	Accumulated Depreciation—		
	Equipment .....		4,000

<u>Depreciation Expense</u>		<u>Accum. Depreciation—Equipment</u>	
12/31	4,000	12/31	4,000

**Balance Sheet:**

Equipment.....	\$30,000	
Less: Accumulated Depreciation—		
Equipment .....	<u>4,000</u>	\$26,000

**BRIEF EXERCISE 3-5**

July 1	Prepaid Insurance .....	14,400	
	Cash.....		14,400
Dec. 31	Insurance Expense [(\$14,400 ÷ 3) X 1/2] .....	2,400	
	Prepaid Insurance .....		2,400

<u>Prepaid Insurance</u>				<u>Insurance Expense</u>			
7/1	14,400	12/31	2,400	12/31	2,400		
12/31 Bal.	12,000						

**BRIEF EXERCISE 3-6**

July 1	Cash .....	14,400	
	Unearned Service Revenue .....		14,400
Dec. 31	Unearned Service Revenue .....	2,400	
	Service Revenue.....		2,400

<u>Unearned Service Revenue</u>				<u>Service Revenue</u>			
12/31	2,400	7/1	14,400	12/31	2,400		
		12/31 Bal.	12,000				

**BRIEF EXERCISE 3-7**

1.	Dec. 31	Interest Expense .....	400	
		Interest Payable .....		400
2.	31	Accounts Receivable .....	1,900	
		Service Revenue.....		1,900
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**

**PARSONS COMPANY**  
**Income Statement**  
**For the Year Ended December 31, 2014**

<b>Revenues</b>		
Service revenue .....		<b>\$37,000</b>
<b>Expenses</b>		
Salaries and wages expense .....	<b>\$16,000</b>	
Rent expense .....	<b>4,000</b>	
Insurance expense .....	<b>2,000</b>	
Supplies expense .....	<b>1,500</b>	
Depreciation expense.....	<b><u>1,300</u></b>	
Total expenses .....		<b><u>24,800</u></b>
Net income .....		<b><u>\$12,200</u></b>

### BRIEF EXERCISE 3-10

**PARSONS COMPANY**  
**Owner's Equity Statement**  
**For the Year Ended December 31, 2014**

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Owner's capital, January 1.....	\$15,600
Add: Net income .....	<u>12,200</u>
	27,800
Less: Drawings .....	<u>7,000</u>
Owner's capital, December 31 .....	<u>\$20,800</u>

### \*BRIEF EXERCISE 3-11

(a) Apr. 30	Supplies.....	700	
	Supplies Expense .....		700
(b) 30	Service Revenue .....	3,000	
	Unearned Service Revenue.....		3,000

### BRIEF EXERCISE 3-12

- (a) Predictive value.
- (b) Confirmatory value.
- (c) Materiality.
- (d) Complete.
- (e) Free from error.
- (f) 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 (\$2,500 – \$1,100) .....	1,400	
	Supplies .....		1,400
	(To record supplies used)		
3.	Depreciation Expense .....	500	
	Accumulated Depreciation—Equipment .....		500
	(To record monthly depreciation)		
4.	Unearned Service Revenue (\$9,000 x 2/5) .....	3,600	
	Service Revenue .....		3,600
	(To record revenue for services provided)		

### 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 .12 x 1/12) .....	200	
	Interest Payable .....		200
	(To record accrued interest)		
3.	Accounts Receivable .....	2,400	
	Service Revenue .....		2,400
	(To record revenue for service provided)		

**DO IT! 3-4**

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

<b>Revenues</b>		
Service revenue.....	\$11,360	
Rent revenue .....	<u>1,100</u>	
Total revenues .....	\$12,460	
<b>Expenses</b>		
Salaries and wages expense.....	7,400	
Rent expense.....	1,200	
Depreciation expense .....	700	
Utilities expense.....	410	
Supplies expense.....	160	
Interest expense.....	<u>40</u>	
Total expenses .....		<u>9,910</u>
Net income .....		<u>\$ 2,550</u>

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

<b>Assets</b>		
Cash .....		\$ 5,360
Accounts receivable .....		480
Prepaid rent .....		720
Supplies .....		920
Equipment.....	\$12,000	
Less: Accumulated depreciation—		
Equipment.....	<u>700</u>	<u>11,300</u>
Total assets.....		<u>\$18,780</u>
<b>Liabilities</b>		
Notes payable.....		\$ 4,000
Accounts payable .....		790
Unearned rent revenue .....		400
Salaries and wages payable.....		300
Interest payable.....		<u>40</u>
Total liabilities .....		<u>\$ 5,530</u>

(c) Owner's Capital at June 30, 2014, can be computed in one of two ways. Using the basic accounting equation (Assets = Liabilities + Owner's Equity), we find that total assets are \$18,780 and total liabilities are \$5,530; therefore, Owner's Equity (Owner's Capital) is \$13,250 (\$18,780 – \$5,530).

Another way to compute the Owner's Capital at June 30, 2012, is as follows:

Owner's capital, April 1.....		\$	–0–
Add: Investments .....	\$11,200		
Net income .....	<u>2,550</u>		13,750
Less: Drawings.....			<u>500</u>
Owner's capital, June 30 .....			<u>\$13,250</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 federal 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 Senator,

It is my understanding, after having taken a beginning course in accounting principles, that the Federal 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 – \$25,000) + \$40,000].....	\$120,000
Expenses [(\$72,000 – \$30,000) + \$42,000] .....	<u>(84,000)</u>
Accrual-basis net income .....	<u>\$ 36,000</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 .....	400	
	Interest Payable		
	(\$10,000 X 12% X 4/12) .....		400
2.	Supplies Expense .....	1,550	
	Supplies (\$2,450 – \$900) .....		1,550
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 .....	4,200	
	Service Revenue.....		4,200
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 (\$400 X 3).....	1,200	
		Accumulated Depreciation— Equipment.....		1,200
2.	31	Unearned Rent Revenue .....	3,400	
		Rent Revenue (\$10,200 X 1/3) .....		3,400
3.	31	Interest Expense .....	500	
		Interest Payable.....		500
4.	31	Supplies Expense .....	1,900	
		Supplies (\$2,800 – \$900).....		1,900
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.....	650	
		Utilities Payable .....		650
3.	31	Depreciation Expense.....	400	
		Accumulated Depreciation— Equipment .....		400
	31	Interest Expense.....	500	
		Interest Payable .....		500
4.	31	Insurance Expense (\$24,000 ÷ 12) .....	2,000	
		Prepaid Insurance .....		2,000
5.	31	Supplies Expense (\$1,600 – \$400) .....	1,200	
		Supplies.....		1,200

**EXERCISE 3-9**

1.	Oct. 31	Supplies Expense.....	2,000	
		Supplies (\$2,500 – \$500) .....		2,000
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 .....	95	
		Interest Payable.....		95
7.	31	Salaries and Wages Expense .....	1,625	
		Salaries and Wages Payable.....		1,625

**EXERCISE 3-10**

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

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<b>Revenues</b>		
Service revenue (\$5,500 + \$650) .....		\$6,150
<b>Expenses</b>		
Salaries and wages expense (\$2,300 + \$300) .....	\$2,600	
Supplies expense (\$1,200 – \$250).....	950	
Utilities expense .....	600	
Insurance expense .....	400	
Depreciation expense .....	<u>150</u>	
Total expenses.....		<u>4,700</u>
Net income.....		<u>\$1,450</u>

**EXERCISE 3-11**

<u>Answer</u>	<u>Computation</u>								
(a) Supplies balance = \$800	<table border="0" style="width: 100%;"> <tr> <td>Supplies expense</td> <td style="text-align: right;">\$ 950</td> </tr> <tr> <td>Add: Supplies (1/31)</td> <td style="text-align: right;">850</td> </tr> <tr> <td>Less: Supplies purchased</td> <td style="text-align: right;"><u>(1,000)</u></td> </tr> <tr> <td>Supplies (1/1)</td> <td style="text-align: right;"><u>\$ 800</u></td> </tr> </table>	Supplies expense	\$ 950	Add: Supplies (1/31)	850	Less: Supplies purchased	<u>(1,000)</u>	Supplies (1/1)	<u>\$ 800</u>
Supplies expense	\$ 950								
Add: Supplies (1/31)	850								
Less: Supplies purchased	<u>(1,000)</u>								
Supplies (1/1)	<u>\$ 800</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 = \$1,400	Cash paid	\$3,500
	Salaries and wages payable (1/31/14)	<u>800</u>
		4,300
	Less: Salaries and wages expense	<u>2,900</u>
	Salaries and wages payable (12/31/13)	<u>\$1,400</u>

**EXERCISE 3-12**

(a) July 10	Supplies .....	650	
	Cash .....		650
14	Cash .....	2,000	
	Service Revenue .....		2,000
15	Salaries and Wages Expense .....	1,200	
	Cash .....		1,200
20	Cash .....	1,000	
	Unearned Service Revenue .....		1,000
(b) July 31	Supplies Expense .....	800	
	Supplies .....		800
31	Accounts Receivable .....	500	
	Service Revenue .....		500
31	Salaries and Wages Expense .....	1,200	
	Salaries and Wages Payable .....		1,200
31	Unearned Service Revenue .....	1,150	
	Service Revenue .....		1,150

**EXERCISE 3-13**

Aug. 31	Accounts Receivable.....	2,000	
	Service Revenue.....		2,000
31	Supplies Expense .....	1,400	
	Supplies .....		1,400
31	Insurance Expense .....	1,500	
	Prepaid Insurance .....		1,500
31	Depreciation Expense .....	900	
	Accumulated Depreciation— Equipment.....		900
31	Salaries and Wages Expense .....	1,100	
	Salaries and Wages Payable .....		1,100
31	Unearned Rent Revenue .....	900	
	Rent Revenue .....		900

**EXERCISE 3-14**

**FRINZI COMPANY**  
**Income Statement**  
**For the Year Ended August 31, 2014**

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<b>Revenues</b>		
Service revenue.....	\$36,000	
Rent revenue .....	<u>11,900</u>	
Total revenues .....		<b>\$47,900</b>
<b>Expenses</b>		
Salaries and wages expense.....	18,100	
Rent expense.....	15,000	
Insurance expense.....	1,500	
Supplies expense.....	1,400	
Depreciation expense .....	<u>900</u>	
Total expenses.....		<u>36,900</u>
Net income.....		<u><b>\$11,000</b></u>



**EXERCISE 3-14 (Continued)**

**FRINZI COMPANY**  
**Owner's Equity Statement**  
**For the Year Ended August 31, 2014**

Owner's capital, September 1, 2013 .....	\$15,600
Add: Net income .....	<u>11,000</u>
Owner's capital, August 31, 2014.....	<u>\$26,600</u>

**FRINZI COMPANY**  
**Balance Sheet**  
**August 31, 2014**

Assets	
Cash.....	\$10,400
Accounts receivable.....	10,800
Supplies .....	900
Prepaid insurance .....	2,500
Equipment.....	\$14,000
Less: Accum. depreciation—equipment .....	<u>4,500</u> <u>9,500</u>
Total assets .....	<u>\$34,100</u>

**Liabilities and Owner's Equity**

<b>Liabilities</b>	
Accounts payable .....	\$ 5,800
Salaries and wages payable .....	1,100
Unearned rent revenue.....	<u>600</u>
Total liabilities .....	7,500
<b>Owner's equity</b>	
Owner's capital .....	<u>26,600</u>
Total liabilities and owner's equity.....	<u>\$34,100</u>

**EXERCISE 3-15**

(a) 1.	Cash .....	<b>9,000</b>	
	Accounts Receivable .....		<b>9,000</b>
2.	Unearned Service Revenue .....	<b>25,000</b>	
	Service Revenue .....		<b>25,000</b>
3.	Cash .....	<b>38,000</b>	
	Unearned Service Revenue .....		<b>38,000</b>
	Unearned Service Revenue		
	(\$38,000 – \$17,000) .....	<b>21,000</b>	
	Service Revenue .....		<b>21,000</b>
4.	Accounts Receivable .....	<b>115,000</b>	
	Service Revenue		
	(\$161,000 – \$25,000 – \$21,000) .....		<b>115,000</b>
5.	Cash .....	<b>101,000</b>	
	Accounts Receivable		
	(\$115,000 – \$14,000) .....		<b>101,000</b>

(b) Cash received by the club = \$9,000 + \$101,000 + \$38,000  
= \$148,000

**\*EXERCISE 3-16**

1.	Prepaid Insurance .....	<b>1,125</b>	
	Insurance Expense		
	(\$2,700 X 5/12) .....		<b>1,125</b>
2.	Service Revenue .....	<b>30,000</b>	
	Unearned Service Revenue		
	(\$40,000 X 3/4) .....		<b>30,000</b>
3.	Supplies .....	<b>900</b>	
	Supplies Expense .....		<b>900</b>

**\*EXERCISE 3-17**

(a)	Jan. 2	Insurance Expense.....	1,920	
		Cash.....		1,920
	10	Supplies Expense.....	1,700	
		Cash.....		1,700
	15	Cash.....	6,100	
		Service Revenue.....		6,100

<u>Cash</u>				<u>Service Revenue</u>			
1/15	6,100	1/2	1,920			1/15	6,100
		1/10	1,700				

<u>Insurance Expense</u>				<u>Supplies Expense</u>			
1/2	1,920			1/10	1,700		

(b)	Jan. 31	Prepaid Insurance (\$160 X 11 months) .....	1,760	
		Insurance Expense.....		1,760
	31	Supplies .....	650	
		Supplies Expense.....		650
	31	Service Revenue.....	3,600	
		Unearned Service Revenue .....		3,600

<u>Prepaid Insurance</u>		<u>Supplies</u>		<u>Unearned Service Revenue</u>	
1/31	1,760	1/31	650	1/31	3,600

<u>Insurance Expense</u>		<u>Supplies Expense</u>		<u>Service Revenue</u>	
1/2	1,920	1/31	1,760	1/31	3,600
Bal.	160	Bal.	1,050	Bal.	2,500

(c)	Prepaid insurance.....	\$1,760
	Supplies.....	650
	Unearned service revenue .....	3,600
	Service revenue .....	2,500
	Insurance expense .....	160
	Supplies expense .....	1,050

**\*EXERCISE 3-18**

- (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 3-19**

- (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 3-20**

- 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 3-21**

- (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 3-22**

- (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.**

**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)

					J4
Date	Account Titles	Ref.	Debit	Credit	
<b>2014</b>					
May 31	Supplies Expense .....	631	900		
	Supplies.....	126		900	
31	Utilities Expense .....	736	250		
	Accounts Payable.....	201		250	
31	Insurance Expense .....	722	150		
	Prepaid Insurance				
	(\$3,600 ÷ 24 months) .....	130		150	
31	Unearned Service Revenue .....	209	1,600		
	Service Revenue				
	(\$2,000 – \$400) .....	400		1,600	
31	Salaries and Wages Expense .....	726	1,080		
	Salaries and Wages Payable				
	[(3/5 X \$900) X				
	2 employees].....	212		1,080	
31	Depreciation Expense .....	717	190		
	Accumulated Depreciation—				
	Equipment.....	150		190	
31	Accounts Receivable.....	112	1,700		
	Service Revenue.....	400		1,700	

(b)

					No. 101
Date	Explanation	Ref.	Debit	Credit	Balance
<b>2014</b>					
May 31	Balance	✓			4,500

**PROBLEM 3-1A (Continued)**

**Accounts Receivable** **No. 112**

Date	Explanation	Ref.	Debit	Credit	Balance
<b>2014</b>					
May 31	Balance	✓			6,000
31	Adjusting	J4	1,700		7,700

**Supplies** **No. 126**

Date	Explanation	Ref.	Debit	Credit	Balance
<b>2014</b>					
May 31	Balance	✓			1,900
31	Adjusting	J4		900	1,000

**Prepaid Insurance** **No. 130**

Date	Explanation	Ref.	Debit	Credit	Balance
<b>2014</b>					
May 31	Balance	✓			3,600
31	Adjusting	J4		150	3,450

**Equipment** **No. 149**

Date	Explanation	Ref.	Debit	Credit	Balance
<b>2014</b>					
May 31	Balance	✓			11,400

**Accumulated Depreciation—Equipment** **No. 150**

Date	Explanation	Ref.	Debit	Credit	Balance
<b>2014</b>					
May 31	Adjusting	J4		190	190

**PROBLEM 3-1A (Continued)**

**Accounts Payable** **No. 201**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
May 31	Balance	✓			4,500
31	Adjusting	J4		250	4,750

**Unearned Service Revenue** **No. 209**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
May 31	Balance	✓			2,000
31	Adjusting	J4	1,600		400

**Salaries and Wages Payable** **No. 212**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
May 31	Adjusting	J4		1,080	1,080

**Owner's Capital** **No. 301**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
May 31	Balance	✓			17,700

**Service Revenue** **No. 400**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
May 31	Balance	✓			7,500
31	Adjusting	J4		1,600	9,100
31	Adjusting	J4		1,700	10,800

**Supplies Expense** **No. 631**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
May 31	Adjusting	J4	900		900



**PROBLEM 3-1A (Continued)**

**Depreciation Expense** **No. 717**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
May 31	Adjusting	J4	190		190

**Insurance Expense** **No. 722**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
May 31	Adjusting	J4	150		150

**Salaries and Wages Expense** **726**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
May 31	Balance	✓			3,400
31	Adjusting	J4	1,080		4,480

**Rent Expense** **No. 729**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
May 31	Balance	✓			900

**Utilities Expense** **No. 736**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
May 31	Adjusting	J4	250		250

PROBLEM 3-1A (Continued)

(c) **NARDELLI CONSULTING**  
**Adjusted Trial Balance**  
**May 31, 2014**

	<u>Debit</u>	<u>Credit</u>
Cash .....	\$ 4,500	
Accounts Receivable.....	7,700	
Supplies .....	1,000	
Prepaid Insurance.....	3,450	
Equipment .....	11,400	
Accumulated Depreciation— Equipment .....		\$ 190
Accounts Payable .....		4,750
Unearned Service Revenue.....		400
Salaries and Wages Payable.....		1,080
Owner's Capital.....		17,700
Service Revenue .....		10,800
Salaries and Wages Expense .....	4,480	
Rent Expense .....	900	
Depreciation Expense .....	190	
Insurance Expense .....	150	
Utilities Expense .....	250	
Supplies Expense .....	900	
	<u>\$34,920</u>	<u>\$34,920</u>

<b>PROBLEM 3-2A</b>
---------------------

(a)

Date	Account Titles	Ref.	Debit	Credit	J1
May 31	Insurance Expense .....	722	200		
	Prepaid Insurance				
	(\$2,400 X 1/12) .....	130		200	
31	Supplies Expense .....	631	1,330		
	Supplies (\$2,080 – \$750).....	126		1,330	
31	Depreciation Expense				
	(\$3,000 X 1/12) + (\$1,500 X 1/12).....	619	375		
	Accumulated Depreciation—				
	Buildings.....	142		250	
	Accumulated Depreciation—				
	Equipment.....	150		125	
31	Interest Expense .....	718	400		
	Interest Payable				
	[((\$40,000 X 12%) X 1/12)] .....	230		400	
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	✓			3,500

**PROBLEM 3-2A (Continued)**

**Supplies** **No. 126**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Balance	✓			2,080
31	Adjusting	J1		1,330	750

**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	✓			12,000

**Buildings** **No. 141**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Balance	✓			60,000

**Accumulated Depreciation—Buildings** **No. 142**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Adjusting	J1		250	250

**Equipment** **No. 149**

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

**Accumulated Depreciation—Equipment** **No. 150**

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

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

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 31	Balance	✓			4,800

**Unearned Rent Revenue** **No. 208**

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

**Salaries and Wages Payable** **No. 212**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 31	Adjusting	J1		750	750

**Interest Payable** **No. 230**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 31	Adjusting	J1		400	400

**Mortgage Payable** **No. 275**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 31	Balance	✓			40,000

**Owner's Capital** **No. 301**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 31	Balance	✓			41,380

**Rent Revenue** **No. 429**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 31	Balance	✓			10,300
31	Adjusting	J1		2,200	12,500

**PROBLEM 3-2A (Continued)**

**Advertising Expense** **No. 610**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 31	Balance	✓			600

**Depreciation Expense** **No. 619**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 31	Adjusting	J1	375		375

**Supplies Expense** **No. 631**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 31	Adjusting	J1	1,330		1,330

**Interest Expense** **No. 718**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 31	Adjusting	J1	400		400

**Insurance Expense** **No. 722**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 31	Adjusting	J1	200		200

**Salaries and Wages Expense** **No. 726**

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

**Utilities Expense** **No. 732**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
May 31	Balance	✓			900

PROBLEM 3-2A (Continued)

(c)

**SKYLINE MOTEL**  
**Adjusted Trial Balance**  
**May 31, 2014**

	Debit	Credit
Cash.....	\$ 3,500	
Supplies .....	750	
Prepaid Insurance .....	2,200	
Land.....	12,000	
Buildings .....	60,000	
Accumulated Depreciation—Buildings .....		\$ 250
Equipment.....	15,000	
Accumulated Depreciation—Equipment .....		125
Accounts Payable .....		4,800
Unearned Rent Revenue .....		1,100
Salaries and Wages Payable .....		750
Interest Payable .....		400
Mortgage Payable.....		40,000
Owner’s Capital .....		41,380
Rent Revenue .....		12,500
Advertising Expense .....	600	
Depreciation Expense .....	375	
Supplies Expense.....	1,330	
Interest Expense.....	400	
Insurance Expense.....	200	
Salaries and Wages Expense .....	4,050	
Utilities Expense.....	900	
	<b>\$101,305</b>	<b>\$101,305</b>

**PROBLEM 3-2A (Continued)**

**(d) SKYLINE MOTEL  
Income Statement  
For the Month Ended May 31, 2014**

---

<b>Revenues</b>		
Rent revenue.....		<b>\$12,500</b>
<b>Expenses</b>		
Salaries and wages expense .....	<b>\$4,050</b>	
Supplies expense .....	<b>1,330</b>	
Utilities expense .....	<b>900</b>	
Advertising expense .....	<b>600</b>	
Interest expense .....	<b>400</b>	
Depreciation expense .....	<b>375</b>	
Insurance expense .....	<b>200</b>	
Total expenses.....		<b><u>7,855</u></b>
<b>Net income.....</b>		<b><u>\$ 4,645</u></b>

**SKYLINE MOTEL  
Owner's Equity Statement  
For the Month Ended May 31, 2014**

---

<b>Owner's capital, May 1.....</b>	<b>\$ 0</b>
<b>Investment by owner .....</b>	<b><u>41,380</u></b>
	<b>41,380</b>
<b>Add: Net income.....</b>	<b><u>4,645</u></b>
<b>Owner's capital, May 31.....</b>	<b><u>\$46,025</u></b>



PROBLEM 3-2A (Continued)

**SKYLINE MOTEL**  
**Balance Sheet**  
**May 31, 2014**

Assets		
Cash .....		\$ 3,500
Supplies .....		750
Prepaid insurance .....		2,200
Land .....		12,000
Buildings .....	\$60,000	
Less: Accumulated depreciation— buildings .....	250	59,750
Equipment .....	15,000	
Less: Accumulated depreciation— equipment .....	125	14,875
<b>Total assets</b> .....		<b>\$93,075</b>
<b>Liabilities and Owner's Equity</b>		
<b>Liabilities</b>		
Accounts payable .....		\$ 4,800
Unearned rent revenue .....		1,100
Salaries and wages payable .....		750
Interest payable .....		400
Mortgage payable .....		40,000
<b>Total liabilities</b> .....		<b>47,050</b>
<b>Owner's equity</b>		
Owner's capital .....		46,025
<b>Total liabilities and owner's equity</b> .....		<b>\$93,075</b>

<b>PROBLEM 3-3A</b>
---------------------

(a)	Sept. 30	Accounts Receivable .....	1,100		
		Service Revenue .....			1,100
	30	Rent Expense .....	1,000		
		Prepaid Rent .....			1,000
	30	Supplies Expense.....	850		
		Supplies.....			850
	30	Depreciation Expense.....	700		
		Accum. Depreciation—Equipment .....			700
	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) **EVERETT CO.**  
**Income Statement**  
**For the Quarter Ended September 30, 2014**

<b>Revenues</b>		
Service revenue .....	\$17,100	
Rent revenue.....	<u>2,260</u>	
<b>Total revenues .....</b>	<b>\$19,360</b>	
<b>Expenses</b>		
Salaries and wages expense .....	8,725	
Rent expense .....	2,900	
Utilities expense .....	1,510	
Supplies expense .....	850	
Depreciation expense .....	700	
Interest expense .....	<u>100</u>	
<b>Total expenses.....</b>	<b><u>14,785</u></b>	
<b>Net income .....</b>		<b><u>\$ 4,575</u></b>

PROBLEM 3-3A (Continued)

**EVERETT CO.**  
**Owner's Equity Statement**  
**For the Quarter Ended September 30, 2014**

Owner's capital, July 1, 2014 .....		\$ 0
Investment by owner .....	\$22,000	
Add: Net income .....	<u>4,575</u>	<u>26,575</u>
		26,575
Less: Drawings .....		<u>1,600</u>
Owner's capital, September 30, 2014.....		<u>\$24,975</u>

**EVERETT CO.**  
**Balance Sheet**  
**September 30, 2014**

<b>Assets</b>		
Cash .....		\$ 8,700
Accounts receivable .....		11,500
Supplies .....		650
Prepaid rent .....		1,200
Equipment .....	\$18,000	
Less: Accum. depreciation—equipment .....	<u>700</u>	<u>17,300</u>
Total assets.....		<u>\$39,350</u>

**Liabilities and Owner's Equity**

<b>Liabilities</b>		
Notes payable.....		\$10,000
Accounts payable .....		2,500
Salaries and wages payable.....		725
Unearned rent revenue .....		1,050
Interest payable.....		<u>100</u>
Total liabilities .....		14,375
<b>Owner's equity</b>		
Owner's capital.....		<u>24,975</u>
Total liabilities and owner's equity .....		<u>\$39,350</u>

- (c) Interest of 12% per year equals a monthly rate of 1%; monthly interest is \$100 (\$10,000 X 1%). Since total interest expense is \$100, the note has been outstanding one month.

<b>PROBLEM 3-4A</b>
---------------------

1.	Dec. 31	<b>Insurance Expense</b> .....	4,890	
		<b>Prepaid Insurance</b> .....		4,890
		$[(\$7,920 \div 3) = \$2,640$		
		$(\$4,500 \div 2) = \underline{2,250}$		
		<u><b>\$4,890]</b></u>		
2.	Dec. 31	<b>Unearned Rent Revenue</b> .....	84,000	
		<b>Rent Revenue</b> .....		84,000
		Nov. 5 X \$5,000 X 2 = <u>\$50,000</u>		
		Dec. 4 X \$8,500 X 1 = <u>34,000</u>		
		<u><b>\$84,000</b></u>		
3.	Dec. 31	<b>Interest Expense</b> .....	1,800	
		<b>Interest Payable</b>		
		$(\$120,000 \times 9\% \times 2/12)$ .....		1,800
4.	Dec. 31	<b>Salaries and Wages Expense</b> .....	2,000	
		<b>Salaries and Wages Payable</b> .....		2,000
		$[5 \times \$700 \times 2/5 = \$1,400$		
		$3 \times \$500 \times 2/5 = \underline{600}$		
		<u><b>\$2,000]</b></u>		

<b>PROBLEM 3-5A</b>
---------------------

(a), (c) & (e)

<b>Cash</b>						<b>No. 101</b>
Date	Explanation	Ref.	Debit	Credit	Balance	
Nov. 1	Balance	✓			2,400	
8		J1		1,700	700	
10		J1	3,420		4,120	
12		J1	3,100		7,220	
20		J1		2,700	4,520	
22		J1		400	4,120	
25		J1		1,700	2,420	
29		J1	600		3,020	

<b>Accounts Receivable</b>						<b>No. 112</b>
Date	Explanation	Ref.	Debit	Credit	Balance	
Nov. 1	Balance	✓			4,250	
10		J1		3,420	830	
27		J1	1,900		2,730	

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

<b>Equipment</b>						<b>No. 153</b>
Date	Explanation	Ref.	Debit	Credit	Balance	
Nov. 1	Balance	✓			12,000	
15		J1	2,000		14,000	

**PROBLEM 3-5A (Continued)**

**Accumulated Depreciation—Equipment** **No. 154**

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	✓			1,200
29		J1		600	1,800
30	Adjusting	J1	1,250		550

**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

**Owner's Capital** **No. 301**

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 1	Balance	✓			13,950

**PROBLEM 3-5A (Continued)**

<b>Service Revenue</b>					<b>No. 407</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Nov. 12		J1		3,100	3,100
27		J1		1,900	5,000
30	Adjusting	J1		1,250	6,250

<b>Depreciation Expense</b>					<b>No. 615</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Nov. 30	Adjusting	J1	200		200

<b>Supplies Expense</b>					<b>No. 631</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Nov. 30	Adjusting	J1	1,100		1,100

<b>Salaries and Wages Expense</b>					<b>No. 726</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Nov. 8		J1	1,000		1,000
25		J1	1,700		2,700
30	Adjusting	J1	350		3,050

<b>Rent Expense</b>					<b>No. 729</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Nov. 22		J1	400		400

**PROBLEM 3-5A (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	1,000		
	Cash.....	101		1,700	
10	Cash .....	101	3,420		
	Accounts Receivable .....	112		3,420	
12	Cash .....	101	3,100		
	Service Revenue .....	407		3,100	
15	Equipment .....	153	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	400		
	Cash .....	101		400	
25	Salaries and Wages Expense.....	726	1,700		
	Cash .....	101		1,700	
27	Accounts Receivable .....	112	1,900		
	Service Revenue .....	407		1,900	
29	Cash .....	101	600		
	Unearned Service Revenue .....	209		600	



PROBLEM 3-5A (Continued)

(d) & (f) **SCHILLING EQUIPMENT REPAIR**  
**Trial Balances**  
**November 30, 2014**

	Before Adjustment		After Adjustment	
	Dr.	Cr.	Dr.	Cr.
Cash.....	\$ 3,020		\$ 3,020	
Accounts Receivable .....	2,730		2,730	
Supplies .....	2,500		1,400	
Equipment.....	14,000		14,000	
Accumulated Depreciation— Equipment.....		\$ 2,000		\$ 2,200
Accounts Payable .....		2,600		2,600
Unearned Service Revenue .....		1,800		550
Salaries and Wages Payable ....		—0—		350
Owner’s Capital .....		13,950		13,950
Service Revenue.....		5,000		6,250
Depreciation Expense.....			200	
Supplies Expense.....			1,100	
Salaries and Wages Expense ...	2,700		3,050	
Rent Expense.....	400		400	
	<u>\$25,350</u>	<u>\$25,350</u>	<u>\$25,900</u>	<u>\$25,900</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 .....	615	200	
		Accumulated Depreciation— Equipment .....	154		200
4.	30	Unearned Service Revenue.....	209	1,250	
		Service Revenue .....	407		1,250

**PROBLEM 3-5A (Continued)**

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

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<b>Revenues</b>		
Service revenue .....		<b>\$6,250</b>
<b>Expenses</b>		
Salaries and wages expense .....	<b>\$3,050</b>	
Supplies expense .....	<b>1,100</b>	
Rent expense .....	<b>400</b>	
Depreciation expense .....	<b>200</b>	
Total expenses .....		<b><u>4,750</u></b>
<b>Net Income .....</b>		<b><u>\$1,500</u></b>

**SCHILLING EQUIPMENT REPAIR  
Owner's Equity Statement  
For the Month Ended November 30, 2014**

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<b>Owner's capital, November 1 .....</b>	<b>\$13,950</b>
<b>Plus: Net income .....</b>	<b><u>1,500</u></b>
<b>Owner's capital, November 30 .....</b>	<b><u>\$15,450</u></b>

PROBLEM 3-5A (Continued)

**SCHILLING EQUIPMENT REPAIR**  
**Balance Sheet**  
**November 30, 2014**

Assets		
Cash .....		\$ 3,020
Accounts receivable .....		2,730
Supplies .....		1,400
Equipment .....	\$14,000	
Less: Accumulated depreciation— equipment .....	<u>2,200</u>	<u>11,800</u>
<b>Total assets .....</b>		<b><u>\$18,950</u></b>
<b>Liabilities and Owner's Equity</b>		
<b>Liabilities</b>		
Accounts payable .....		\$ 2,600
Unearned service revenue .....		550
Salaries and wages payable.....		<u>350</u>
<b>Total liabilities .....</b>		<b>3,500</b>
<b>Owner's equity</b>		
Owner's capital.....		<u>15,450</u>
<b>Total liabilities and owner's equity.....</b>		<b><u>\$18,950</u></b>

<b>*PROBLEM 3-6A</b>
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(a) 1.	June 30	Supplies.....	1,500	
		Supplies Expense .....		1,500
2.	30	Interest Expense		
		(\$20,000 X 9% X 5/12) .....	750	
		Interest Payable .....		750
3.	30	Prepaid Insurance		
		[((\$2,700 ÷ 12) X 8)] .....	1,800	
		Insurance Expense .....		1,800
4.	30	Service Revenue.....	1,300	
		Unearned Service Revenue .....		1,300
5.	30	Accounts Receivable .....	2,000	
		Service Revenue .....		2,000
6.	30	Depreciation Expense		
		(\$2,250 ÷ 2) .....	1,125	
		Accumulated Depreciation—		
		Equipment .....		1,125

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

**(b)**

**SOMMER GRAPHICS COMPANY**  
**Adjusted Trial Balance**  
**June 30, 2014**

	Debit	Credit
Cash.....	\$ 8,600	
Accounts Receivable (\$14,000 + \$2,000).....	16,000	
Supplies .....	1,500	
Prepaid Insurance .....	1,800	
Equipment.....	45,000	
Accumulated Depreciation—Equipment.....		\$ 1,125
Notes Payable.....		20,000
Accounts Payable .....		9,000
Interest Payable.....		750
Unearned Service Revenue .....		1,300
Owner's Capital .....		22,000
Sales Revenue .....		52,100
Service Revenue (\$6,000 – \$1,300 + \$2,000) .		6,700
Salaries and Wages Expense.....	30,000	
Supplies Expense (\$3,700 – \$1,500) .....	2,200	
Advertising Expense.....	1,900	
Rent Expense.....	1,500	
Utilities Expense.....	1,700	
Depreciation Expense.....	1,125	
Insurance Expense (\$2,700 – \$1,800) .....	900	
Interest Expense.....	750	
	<b>\$112,975</b>	<b>\$112,975</b>

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

**(c) SOMMER GRAPHICS COMPANY  
Income Statement  
For the Six Months Ended June 30, 2014**

<b>Revenues</b>		
Sales revenue .....	\$52,100	
Service revenue .....	<u>6,700</u>	
Total revenues .....	58,800	
<b>Expenses</b>		
Salaries and wages expense .....	30,000	
Supplies expense .....	2,200	
Advertising expense .....	1,900	
Utilities expense .....	1,700	
Rent expense .....	1,500	
Depreciation expense .....	1,125	
Insurance expense .....	900	
Interest expense .....	<u>750</u>	
Total expenses .....		<u>40,075</u>
Net income .....		<u>\$18,725</u>

**SOMMER GRAPHICS COMPANY  
Owner's Equity Statement  
For the Six Months Ended June 30, 2014**

Owner's capital, January 1 .....	\$ 0
Investment by owner .....	<u>22,000</u>
	22,000
Add: Net income .....	<u>18,725</u>
Owner's capital, June 30 .....	<u>\$40,725</u>

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

**SOMMER GRAPHICS COMPANY**  
**Balance Sheet**  
**June 30, 2014**

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Assets	
Cash .....	\$ 8,600
Accounts receivable .....	16,000
Supplies .....	1,500
Prepaid insurance .....	1,800
Equipment .....	\$45,000
Less: Accumulated depreciation— equipment .....	1,125
Total assets .....	<u>\$71,775</u>
Liabilities and Owner's Equity	
Liabilities	
Notes payable .....	\$20,000
Accounts payable .....	9,000
Unearned service revenue .....	1,300
Interest payable .....	750
Total liabilities .....	31,050
Owner's equity	
Owner's capital .....	40,725
Total liabilities and owner's equity .....	<u>\$71,775</u>

**PROBLEM 3-1B**

(a)

Date	Account Titles and Explanation	Ref.	Debit	Credit
<b>2014</b>				
June 30	Supplies Expense .....	631	1,250	
	Supplies			
	(\$2,000 – \$750).....	126		1,250
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	2,800	
	Service Revenue .....	400		2,800
30	Salaries and Wages Expense .....	726	1,900	
	Salaries and Wages			
	Payable .....	212		1,900
30	Depreciation Expense .....	711	250	
	Accumulated Depreciation—			
	Equipment .....	158		250
30	Accounts Receivable.....	112	1,200	
	Service Revenue .....	400		1,200

**J3**



**PROBLEM 3-1B (Continued)**

(b)

**Cash** **No. 101**

Date	Explanation	Ref.	Debit	Credit	Balance
<b>2014</b>					
June 30	Balance	✓			7,150

**Accounts Receivable** **No. 112**

Date	Explanation	Ref.	Debit	Credit	Balance
<b>2014</b>					
June 30	Balance	✓			6,000
30	Adjusting	J3	1,200		7,200

**Supplies** **No. 126**

Date	Explanation	Ref.	Debit	Credit	Balance
<b>2014</b>					
June 30	Balance	✓			2,000
30	Adjusting	J3		1,250	750

**Prepaid Insurance** **No. 130**

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

**Equipment** **No. 157**

Date	Explanation	Ref.	Debit	Credit	Balance
<b>2014</b>					
June 30	Balance	✓			15,000

**Accumulated Depreciation—Equipment** **No. 158**

Date	Explanation	Ref.	Debit	Credit	Balance
<b>2014</b>					
June 30	Adjusting	J3		250	250

**PROBLEM 3-1B (Continued)**

<b>Accounts Payable</b>					<b>No. 201</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
June 30	Balance	✓			4,500
30	Adjusting	J3		150	4,650

<b>Unearned Service Revenue</b>					<b>No. 209</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
June 30	Balance	✓			4,000
30	Adjusting	J3	2,800		1,200

<b>Salaries and Wages Payable</b>					<b>No. 212</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
June 30	Adjusting	J3		1,900	1,900

<b>Owner's Capital</b>					<b>No. 301</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
June 30	Balance	✓			21,750

<b>Service Revenue</b>					<b>No. 400</b>
<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
June 30	Balance	✓			7,900
30	Adjusting	J3		2,800	10,700
30	Adjusting	J3		1,200	11,900

**PROBLEM 3-1B (Continued)**

**Supplies Expense** **No. 631**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
June 30	Adjusting	J3	1,250		1,250

**Depreciation Expense** **No. 711**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
June 30	Adjusting	J3	250		250

**Insurance Expense** **No. 722**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
June 30	Adjusting	J3	250		250

**Salaries and Wages Expense** **No. 726**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
June 30	Balance	✓			4,000
30	Adjusting	J3	1,900		5,900

**Rent Expense** **No. 729**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
June 30	Balance	✓			1,000

**Utilities Expense** **No. 732**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
<b>2014</b>					
June 30	Adjusting	J3	150		150

PROBLEM 3-1B (Continued)

(c)

**ELSNER COMPANY**  
**Adjusted Trial Balance**  
**June 30, 2014**

	Debit	Credit
Cash .....	\$ 7,150	
Accounts Receivable.....	7,200	
Supplies .....	750	
Prepaid Insurance.....	2,750	
Equipment .....	15,000	
Accumulated Depreciation— Equipment .....		\$ 250
Accounts Payable .....		4,650
Unearned Service Revenue.....		1,200
Salaries and Wages Payable.....		1,900
Owner's Capital.....		21,750
Service Revenue .....		11,900
Supplies Expense .....	1,250	
Depreciation Expense .....	250	
Insurance Expense .....	250	
Salaries and Wages Expense .....	5,900	
Rent Expense .....	1,000	
Utilities Expense .....	150	
	<b>\$41,650</b>	<b>\$41,650</b>

<b>PROBLEM 3-2B</b>
---------------------

(a)

Date	Account Titles and Explanation	Ref.	Debit	Credit	J1
Aug. 31	Insurance Expense (\$300 X 3).....	722	900		
	Prepaid Insurance .....	130		900	
31	Supplies Expense (\$3,300 – \$800).....	631	2,500		
	Supplies .....	126		2,500	
31	Depreciation Expense (\$6,000 X 1/4) + (\$2,400 X 1/4).....	620	2,100		
	Accumulated Depreciation— Buildings .....	144		1,500	
	Accumulated Depreciation— Equipment.....	150		600	
31	Unearned Rent Revenue.....	208	4,800		
	Rent Revenue .....	429		4,800	
31	Salaries and Wages Expense.....	726	400		
	Salaries and Wages Payable ....	212		400	
31	Accounts Receivable .....	112	4,000		
	Rent Revenue .....	429		4,000	
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 3-2B (Continued)****Accounts Receivable** **No. 112**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 31	Adjusting	J1	4,000		4,000

**Supplies** **No. 126**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 31	Balance	✓			3,300
31	Adjusting	J1		2,500	800

**Prepaid Insurance** **No. 130**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 31	Balance	✓			6,000
31	Adjusting	J1		900	5,100

**Land** **No. 140**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 31	Balance	✓			25,000

**Buildings** **No. 143**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 31	Balance	✓			125,000

**Accumulated Depreciation—Buildings** **No. 144**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 31	Adjusting	J1		1,500	1,500

**Equipment** **No. 149**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 31	Balance	✓			26,000

**PROBLEM 3-2B (Continued)****Accumulated Depreciation—Equipment** **No. 150**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 31	Adjusting	J1		600	600

**Accounts Payable** **No. 201**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 31	Balance	✓			6,500

**Unearned Rent Revenue** **No. 208**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 31	Balance	✓			7,400
31	Adjusting	J1	4,800		2,600

**Salaries and Wages Payable** **No. 212**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 31	Adjusting	J1		400	400

**Interest Payable** **No. 230**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 31	Adjusting	J1		600	600

**Mortgage Payable** **No. 275**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 31	Balance	✓			80,000

**Owner's Capital** **No. 301**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 31	Balance	✓			100,000

**PROBLEM 3-2B (Continued)****Owner's Drawings** **No. 306**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 31	Balance	✓			5,000

**Rent Revenue** **No. 429**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 31	Balance	✓			80,000
31	Adjusting	J1		4,800	84,800
31	Adjusting	J1		4,000	88,800

**Depreciation Expense** **No. 620**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 31	Adjusting	J1	2,100		2,100

**Maintenance and Repairs Expense** **No. 622**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 31	Balance	✓			3,600

**Supplies Expense** **No. 631**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 31	Adjusting	J1	2,500		2,500

**Interest Expense** **No. 718**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 31	Adjusting	J1	600		600

**Insurance Expense** **No. 722**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Aug. 31	Adjusting	J1	900		900



**PROBLEM 3-2B (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)

**MAQUOKETA RIVER RESORT  
Adjusted Trial Balance  
August 31, 2014**

	Debit	Credit
Cash.....	\$ 19,600	
Accounts Receivable .....	4,000	
Supplies .....	800	
Prepaid Insurance .....	5,100	
Land.....	25,000	
Buildings .....	125,000	
Accumulated Depreciation—Buildings .....		\$ 1,500
Equipment.....	26,000	
Accumulated Depreciation—Equipment .....		600
Accounts Payable .....		6,500
Unearned Rent Revenue .....		2,600
Salaries and Wages Payable .....		400
Interest Payable .....		600
Mortgage Payable.....		80,000
Owner’s Capital .....		100,000
Owner’s Drawings .....	5,000	
Rent Revenue .....		88,800
Depreciation Expense .....	2,100	
Maintenance and Repairs Expense .....	3,600	
Supplies Expense.....	2,500	
Interest Expense.....	600	
Insurance Expense.....	900	
Salaries and Wages Expense .....	51,400	
Utilities Expense.....	9,400	
	<u>\$281,000</u>	<u>\$281,000</u>

**PROBLEM 3-2B (Continued)**

**(d) MAQUOKETA RIVER RESORT  
Income Statement  
For the Three Months Ended August 31, 2014**

<b>Revenues</b>		
Rent revenue.....		<b>\$88,800</b>
<b>Expenses</b>		
Salaries and wages expense .....	<b>\$51,400</b>	
Utilities expense .....	<b>9,400</b>	
Maintenance and repairs expense .....	<b>3,600</b>	
Supplies expense .....	<b>2,500</b>	
Depreciation expense .....	<b>2,100</b>	
Insurance expense .....	<b>900</b>	
Interest expense .....	<b>600</b>	
Total expenses.....		<b><u>70,500</u></b>
Net income .....		<b><u>\$18,300</u></b>

**MAQUOKETA RIVER RESORT  
Owner's Equity Statement  
For the Three Months Ended August 31, 2014**

Owner's Capital, June 1 .....		<b>\$ 0</b>
Investment by owner .....	<b>\$100,000</b>	
Add: Net income.....	<b><u>18,300</u></b>	<b><u>118,300</u></b>
		<b>118,300</b>
Less: Drawings.....		<b><u>5,000</u></b>
Owner's Capital, August 31.....		<b><u>\$113,300</u></b>

PROBLEM 3-2B (Continued)

**MAQUOKETA RIVER RESORT**  
**Balance Sheet**  
**August 31, 2014**

<b>Assets</b>		
Cash .....		\$ 19,600
Accounts receivable .....		4,000
Supplies .....		800
Prepaid insurance .....		5,100
Land .....		25,000
Buildings .....	\$125,000	
Less: Accum. depreciation—buildings .....	1,500	123,500
Equipment .....	26,000	
Less: Accum. depreciation—equipment .....	600	25,400
Total assets .....		<b>\$203,400</b>
<b>Liabilities and Owner's Equity</b>		
<b>Liabilities</b>		
Accounts payable .....		\$ 6,500
Mortgage payable .....		80,000
Unearned rent revenue .....		2,600
Interest payable .....		600
Salaries and wages payable .....		400
Total liabilities .....		90,100
<b>Owner's equity</b>		
Owner's capital .....		113,300
Total liabilities and owner's equity .....		<b>\$203,400</b>

<b>PROBLEM 3-3B</b>
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(a)	Dec. 31	<b>Accounts Receivable .....</b> <b>Service Revenue .....</b>	<b>1,500</b>  <b>1,500</b>	 <b>1,500</b>
	31	<b>Unearned Service Revenue .....</b> <b>Service Revenue .....</b>	<b>1,300</b>  <b>1,300</b>	 <b>1,300</b>
	31	<b>Supplies Expense .....</b> <b>Supplies .....</b>	<b>3,800</b>  <b>3,800</b>	 <b>3,800</b>
	31	<b>Depreciation Expense .....</b> <b>Accumulated Depreciation—</b> <b>Equipment .....</b>	<b>6,000</b>   <b>6,000</b>	   <b>6,000</b>
	31	<b>Interest Expense .....</b> <b>Interest Payable .....</b>	<b>150</b>   <b>150</b>	   <b>150</b>
	31	<b>Insurance Expense .....</b> <b>Prepaid Insurance .....</b>	<b>850</b>   <b>850</b>	   <b>850</b>
	31	<b>Salaries and Wages Expense .....</b> <b>Salaries and Wages Payable .....</b>	<b>2,100</b>   <b>2,100</b>	   <b>2,100</b>

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

<hr/>		
<b>Revenues</b>		
<b>Service revenue .....</b>		<b>\$61,400</b>
<b>Expenses</b>		
<b>Salaries and wages expense .....</b>	<b>\$12,100</b>	
<b>Depreciation expense .....</b>	<b>6,000</b>	
<b>Rent expense .....</b>	<b>4,000</b>	
<b>Supplies expense .....</b>	<b>3,800</b>	
<b>Insurance expense .....</b>	<b>850</b>	
<b>Interest expense .....</b>	<b>500</b>	
<b>Total expenses .....</b>	<u><b>27,250</b></u>	
<b>Net income .....</b>		<u><b>\$34,150</b></u>

PROBLEM 3-3B (Continued)

**DELGADO ADVERTISING AGENCY**  
**Owner's Equity Statement**  
**For the Year Ended December 31, 2014**

Owner's capital, January 1 .....	\$25,500
Add: Net income .....	<u>34,150</u>
	59,650
Less: Drawings .....	<u>12,000</u>
Owner's capital, December 31 .....	<u><u>\$47,650</u></u>

**DELGADO ADVERTISING AGENCY**  
**Balance Sheet**  
**December 31, 2014**

Assets		
Cash .....		\$11,000
Accounts receivable .....		21,500
Supplies .....		4,800
Prepaid insurance .....		2,500
Equipment .....	\$60,000	
Less: Accumulated depreciation— equipment .....	<u>34,000</u>	<u>26,000</u>
Total assets .....		<u><u>\$65,800</u></u>
<b>Liabilities and Owner's Equity</b>		
<b>Liabilities</b>		
Notes payable .....		\$ 5,000
Accounts payable .....		5,000
Unearned service revenue .....		5,900
Salaries and wages payable .....		2,100
Interest payable .....		<u>150</u>
Total liabilities .....		18,150
<b>Owner's equity</b>		
Owner's capital .....		<u>47,650</u>
Total liabilities and owner's equity .....		<u><u>\$65,800</u></u>

### PROBLEM 3-3B (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, \$12,100 less Salaries and Wages Payable 12/31/14, \$2,100 = \$10,000. Total payments, \$12,500 – \$10,000 = \$2,500 Salaries and Wages Payable 12/31/13.**

<b>PROBLEM 3-4B</b>
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1.	Dec. 31	<b>Salaries and Wages Expense</b> .....	2,640	
		<b>Salaries and Wages Payable</b> .....		2,640
		[5 X \$900 X 2/5 = \$1,800 3 X \$700 X 2/5 = <u>840</u> <u>\$2,640]</u>		
2.	31	<b>Unearned Rent Revenue</b> .....	84,000	
		<b>Rent Revenue</b> .....		84,000
		[5 X \$5,000 X 2 = \$50,000 4 X \$8,500 X 1 = <u>34,000</u> <u>\$84,000]</u>		
3.	31	<b>Advertising Expense</b> .....	5,200	
		<b>Prepaid Advertising</b> .....		5,200
		[A650 – \$500 per month for 8 months = \$4,000 B974 – \$400 per month for 3 months = <u>1,200</u> <u>\$5,200]</u>		
4.	31	<b>Interest Expense</b> .....	6,300	
		<b>Interest Payable</b> (\$120,000 X 9% X 7/12) .....		6,300

<b>PROBLEM 3-5B</b>
---------------------

(a), (c) & (e)

<b>Cash</b>						<b>No. 101</b>
Date	Explanation	Ref.	Debit	Credit	Balance	
Sept. 1	Balance	✓			4,880	
8		J1		1,400	3,480	
10		J1	1,200		4,680	
12		J1	3,400		8,080	
20		J1		4,500	3,580	
22		J1		500	3,080	
25		J1		1,250	1,830	
29		J1	650		2,480	

<b>Accounts Receivable</b>						<b>No. 112</b>
Date	Explanation	Ref.	Debit	Credit	Balance	
Sept. 1	Balance	✓			3,520	
10		J1		1,200	2,320	
27		J1	2,100		4,420	

<b>Supplies</b>						<b>No. 126</b>
Date	Explanation	Ref.	Debit	Credit	Balance	
Sept. 1	Balance	✓			2,000	
17		J1	1,200		3,200	
30	Adjusting	J1		1,900	1,300	

<b>Equipment</b>						<b>No. 153</b>
Date	Explanation	Ref.	Debit	Credit	Balance	
Sept. 1	Balance	✓			15,000	
15		J1	3,000		18,000	



**PROBLEM 3-5B (Continued)****Accumulated Depreciation—Equipment** **No. 154**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 1	Balance	✓			1,500
30	Adjusting	J1		100	1,600

**Accounts Payable** **No. 201**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
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**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 1	Balance	✓			1,400
29		J1		650	2,050
30	Adjusting	J1	1,450		600

**Salaries and Wages Payable** **No. 212**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 1	Balance	✓			500
8		J1	500		0
30	Adjusting	J1		300	300

**Owner's Capital** **No. 301**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 1	Balance	✓			18,600

**PROBLEM 3-5B (Continued)****Service Revenue** **No. 407**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 12		J1		3,400	3,400
27		J1		2,100	5,500
30	Adjusting	J1		1,450	6,950

**Depreciation Expense** **No. 615**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 30	Adjusting	J1	100		100

**Supplies Expense** **No. 631**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 30	Adjusting	J1	1,900		1,900

**Salaries and Wages Expense** **No. 726**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 8		J1	900		900
25		J1	1,250		2,150
30	Adjusting	J1	300		2,450

**Rent Expense** **No. 729**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Sept. 22		J1	500		500

**PROBLEM 3-5B (Continued)**

**(b)**

**General Journal**

**J1**

<b>Date</b>	<b>Account Titles</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>
<b>Sept. 8</b>	<b>Salaries and Wages Payable .....</b>	<b>212</b>	<b>500</b>	
	<b>Salaries and Wages Expense .....</b>	<b>726</b>	<b>900</b>	
	<b>Cash .....</b>	<b>101</b>		<b>1,400</b>
<b>10</b>	<b>Cash .....</b>	<b>101</b>	<b>1,200</b>	
	<b>Accounts Receivable.....</b>	<b>112</b>		<b>1,200</b>
<b>12</b>	<b>Cash .....</b>	<b>101</b>	<b>3,400</b>	
	<b>Service Revenue .....</b>	<b>407</b>		<b>3,400</b>
<b>15</b>	<b>Equipment .....</b>	<b>153</b>	<b>3,000</b>	
	<b>Accounts Payable .....</b>	<b>201</b>		<b>3,000</b>
<b>17</b>	<b>Supplies.....</b>	<b>126</b>	<b>1,200</b>	
	<b>Accounts Payable .....</b>	<b>201</b>		<b>1,200</b>
<b>20</b>	<b>Accounts Payable.....</b>	<b>201</b>	<b>4,500</b>	
	<b>Cash .....</b>	<b>101</b>		<b>4,500</b>
<b>22</b>	<b>Rent Expense .....</b>	<b>729</b>	<b>500</b>	
	<b>Cash .....</b>	<b>101</b>		<b>500</b>
<b>25</b>	<b>Salaries and Wages Expense .....</b>	<b>726</b>	<b>1,250</b>	
	<b>Cash .....</b>	<b>101</b>		<b>1,250</b>
<b>27</b>	<b>Accounts Receivable .....</b>	<b>112</b>	<b>2,100</b>	
	<b>Service Revenue .....</b>	<b>407</b>		<b>2,100</b>
<b>29</b>	<b>Cash .....</b>	<b>101</b>	<b>650</b>	
	<b>Unearned Service Revenue .....</b>	<b>209</b>		<b>650</b>

PROBLEM 3-5B (Continued)

(d) & (f)

**PERCY EQUIPMENT REPAIR**  
**Trial Balances**  
**September 30, 2014**

	Before Adjustment		After Adjustment	
	Dr.	Cr.	Dr.	Cr.
Cash .....	\$ 2,480		\$ 2,480	
Accounts Receivable .....	4,420		4,420	
Supplies .....	3,200		1,300	
Equipment .....	18,000		18,000	
Accumulated Depreciation— Equipment .....		\$ 1,500		\$ 1,600
Accounts Payable .....		3,100		3,100
Unearned Service Revenue.....		2,050		600
Salaries and Wages Payable....		-0-		300
Owner's Capital.....		18,600		18,600
Service Revenue .....		5,500		6,950
Depreciation Expense .....			100	
Supplies Expense .....			1,900	
Salaries and Wages Expense ...	2,150		2,450	
Rent Expense .....	500		500	
	<u>\$30,750</u>	<u>\$30,750</u>	<u>\$31,150</u>	<u>\$31,150</u>

(e)	1. Sept. 30	Supplies Expense .....	631	1,900	
		Supplies (\$3,200 – \$1,300).....	126		1,900
	2. 30	Salaries and Wages Expense .....	726	300	
		Salaries and Wages Payable .....	212		300
	3. 30	Depreciation Expense .....	615	100	
		Accumulated Depreciation— Equipment .....	154		100
	4. 30	Unearned Service Revenue.....	209	1,450	
		Service Revenue .....	407		1,450

**PROBLEM 3-5B (Continued)**

**(g)**

**PERCY EQUIPMENT REPAIR  
Income Statement  
For the Month Ended September 30, 2014**

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<b>Revenues</b>		
Service revenue.....		<b>\$6,950</b>
<b>Expenses</b>		
Salaries and wages expense.....	<b>\$2,450</b>	
Supplies expense.....	<b>1,900</b>	
Rent expense.....	<b>500</b>	
Depreciation expense .....	<b>100</b>	
Total expenses .....		<b><u>4,950</u></b>
Net income .....		<b><u>\$2,000</u></b>

**PERCY EQUIPMENT REPAIR  
Owner's Equity Statement  
For the Month Ended September 30, 2014**

---

Owner's capital, September 1.....	<b>\$18,600</b>
Add: Net income .....	<b><u>2,000</u></b>
Owner's capital, September 30.....	<b><u>\$20,600</u></b>

**PROBLEM 3-5B (Continued)**

**PERCY EQUIPMENT REPAIR  
Balance Sheet  
September 30, 2014**

<b>Assets</b>		
Cash .....		\$ 2,480
Accounts receivable .....		4,420
Supplies .....		1,300
Equipment.....	\$18,000	
Less: Accumulated depreciation— equipment.....	<u>1,600</u>	<u>16,400</u>
<b>Total assets.....</b>		<b><u>\$24,600</u></b>
<b>Liabilities and Owner's Equity</b>		
<b>Liabilities</b>		
Accounts payable.....		\$ 3,100
Unearned service revenue.....		600
Salaries and wages payable .....		<u>300</u>
<b>Total liabilities.....</b>		<b>4,000</b>
<b>Owner's equity</b>		
Owner's capital .....		<u>20,600</u>
<b>Total liabilities and owner's equity .....</b>		<b><u>\$24,600</u></b>

(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		✓		20	20



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

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Nov. 30		J2		45	45

**Interest Payable**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Nov. 30		J2		5	5

**Unearned Service Revenue**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Nov. 30	Balance	✓			30

**Notes Payable**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Nov. 30	Balance	✓			2,000

**Owner's Capital**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Nov. 30	Balance	✓			800

**Service Revenue**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Nov. 30	Balance	✓			125
30		J2		300	425

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

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Nov. 30		J2	45		45

**Advertising Expense**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Nov. 30		J2	65		65

**Supplies Expense**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Nov. 30		J2	35		35

**Depreciation Expense**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Nov. 30		J2	20		20

**Interest Expense**

<b>Date</b>	<b>Explanation</b>	<b>Ref.</b>	<b>Debit</b>	<b>Credit</b>	<b>Balance</b>
Nov. 30		J2	5		5

CCC3 (Continued)

(b)

**COOKIE CREATIONS**  
**Adjusted Trial Balance**  
**November 30, 2013**

<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
Owner's Capital .....		800
Service Revenue.....		425
Utilities Expense.....	45	
Advertising Expense.....	65	
Supplies Expense.....	35	
Depreciation Expense.....	20	
Interest Expense.....	5	
<b>Totals .....</b>	<b><u>\$3,325</u></b>	<b><u>\$3,325</u></b>

**CCC3 (Continued)**

**(c)**

**Revenues**

Service revenue..... **\$425**

**Expenses**

Advertising expense ..... **\$65**

Utilities expense..... **45**

Supplies expense..... **35**

Depreciation expense ..... **20**

Interest expense..... **5** **170**

Net income..... **\$255**

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

[Note: Owner's Equity Statement is not required—shown for information purposes only.]

**COOKIE CREATIONS**  
**Owner's Equity Statement**  
**For the Month Ended November 30, 2013**

---

Owner's Capital, November 1, 2013 .....	<b>\$ 0</b>
Add: Investment.....	<b>800</b>
Net income.....	<b><u>255</u></b>
Owner's Capital, November 30, 2013 .....	<b><u>\$1,055</u></b>

CCC3 (Continued)

(c) (Continued)

[Note: Balance Sheet is not required—shown for information purposes only.]

**COOKIE CREATIONS**  
**Balance Sheet**  
**November 30, 2013**

---

Assets	
Cash.....	\$ 245
Accounts receivable.....	300
Supplies .....	90
Prepaid insurance .....	1,320
Equipment.....	\$1,200
Less: Accumulated depreciation—equipment .....	<u>20</u>
Total assets .....	<u>1,180</u> <u>\$3,135</u>
<b>Liabilities and Owner's Equity</b>	
<b>Liabilities</b>	
Notes payable .....	\$2,000
Accounts payable .....	45
Unearned service revenue .....	30
Interest payable .....	<u>5</u>
Total liabilities .....	2,080
<b>Owner's equity</b>	
Owner's capital .....	<u>1,055</u>
Total liabilities and owner's equity.....	<u>\$3,135</u>

- (a) Items that may result in adjusting entries for prepayments are:
1. Other current assets (per balance sheet).
  2. Property, plant and equipment, net (per balance sheet).
  3. Acquired intangible assets, net (per balance sheet)—amortization is similar to depreciation (explained later in Chapter 10).
- (b) Accrual adjusting entries were probably made for accounts payable accrued expenses, and income taxes payable.
- (c) Apple's net income increased substantially since 2009. Its net income increased by \$5,778 million from 2009 to 2010, and by \$11,909 million from 2010 to 2011. Apple's net income more than tripled from 2009 to 2011.

	<u>PepsiCo</u>	<u>Coca-Cola</u>
(a) Net increase (decrease) in property, plant, and equipment (net) from 2010 to 2011.	\$ 640,000,000	\$ 212,000,000
(b) Increase (decrease) in selling, general, and administrative expenses from 2010 to 2011.	\$ 2,331,000,000	\$ 4,282,000,000
(c) Increase (decrease) in long-term debt (obligations) from 2010 to 2011.	\$ 569,000,000	\$ (385,000,000)
(d) Increase (decrease) in net income from 2010 to 2011.	\$ 124,000,000	\$(3,225,000,000)
(e) Increase (decrease) in cash and cash equivalents from 2010 to 2011.	\$(1,876,000,000)	\$4,286,000,000

1.

	<u>Amazon</u>	<u>Wal-mart</u>
(a) Increase (decrease) in interest expense, from 2009 to 2011.	\$31,000,000	\$(19,000,000)
(b) Increase (decrease) in net income from 2009 to 2011.	\$ (271,000,000)	\$ 1,504,000,000
(c) Increase (decrease) in cash from operations from 2010 to 2011.	\$408,000,000	\$ 612,000,000

2. Cash flow from operations is the difference between cash receipts from revenues and cash payments for expenses (see chapter 1). Depreciation expense is a major reason why cash flow from operations and net income are different for these two companies. Depreciation expense reduces a company's net income, but does not affect cash flow from operations since it's a noncash expense. Other reasons would include changes in accounts receivable, inventory, and accounts payable.



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

- (a) Many large companies, big accounting firms, and accounting standard setters tend to favor a switch to IFRS because they believe that global accounting standards would save companies money by consolidating their bookkeeping. They also believe it would make it easier to raise capital around the world. In addition, investors would have less trouble comparing companies from different countries. They also feel that having international accounting standards would lead to an improvement in the enforcement of securities laws.**
- (b) Many small companies are opposed to switching to IFRS because (1) they say that the switch would be very costly, and (2) because they don't have operations outside of the U.S., so they see any benefit to their company of using international standards.**
- (c) It has been suggested that IFRS lacks standards that are specific to utility companies that U.S. GAAP contains.**
- (d) Condorsement (a word invented by the SEC) represents a combination of convergence and endorsement. Under condorsement, U.S. standard setters would continue to work with international standard setters to try to reduce differences in standards. In addition, as new international standards are issued, U.S. standard setters would review those standards and consider whether to endorse them by absorbing them into U.S. GAAP.**

(a)

**HAPPY CAMPER PARK**  
**Income Statement**  
**For the Quarter Ended March 31, 2014**

<b>Revenues</b>		
Rent revenue (\$90,000 – \$15,000) .....		\$75,000
<b>Expenses</b>		
Salaries and wages expense		
[\$29,800 + (\$300 X 2)] .....	\$30,400	
Advertising expense (\$5,200 + \$110) .....	5,310	
Supplies expense (\$6,200 – \$1,700) .....	4,500	
Maintenance and repairs expense		
(\$4,000 + \$260).....	4,260	
Insurance expense (\$7,200 X 3/12).....	1,800	
Utilities expense (\$900 + \$180) .....	1,080	
Depreciation expense .....	800	
Interest expense (\$12,000 X 10% X 3/12) .....	300	
Total expenses .....		<u>48,450</u>
Net income .....		<u>\$26,550</u>

- (b) The generally accepted accounting principles pertaining to the income statement that were not recognized by Amaya were the revenue recognition principle and the expense recognition principle. The revenue recognition principle states that revenue is recognized when the performance obligation is satisfied. The \$15,000 for summer rentals has not been performed 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 \$7,750 (\$48,450 – \$40,700). The overstatement of revenues (\$15,000) plus the understatement of expenses (\$7,750) equals the difference in reported income of \$22,750 (\$49,300 – \$26,550).

Dear Ms. Hall:

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 generally accepted accounting principles are followed. The use of adjusting entries makes it possible to report on the balance sheet the appropriate assets, liabilities, and owner's 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 3-7 (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 stakeholders in this situation are:
- ▶ Melissa Ray, controller.
  - ▶ The president of Kellner Company.
  - ▶ Kellner Company stockholders.
- (b) 1. It is unethical for the president to place pressure on Melissa 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 balance sheet date although the entries are prepared at a later date. Melissa did nothing unethical by dating the adjusting entries December 31.
- (c) Melissa 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).

We address the issue of contingent liabilities in greater detail in Chapter 11. Our primary interest in this exercise is to engage students in a discussion regarding the general nature of the financial statement elements (assets, liabilities, equity, revenues and expenses).

- (a) By taking out the bank loan your friend has incurred a liability. You do not have a liability unless your friend defaults, or unless it becomes clear that he will default. The loan application may, however, require you to disclose any guarantees that you have signed, since they represent potential liabilities.
- (b) Accounting standards have specific requirements regarding accounting for situations where there is uncertainty regarding whether a liability has been incurred. Those standards require an evaluation of the probability of an amount being owed. Without going into detail regarding those standards, the basic idea is that if it is probable that you will owe money, then you should accrue a liability. If it is not probable, but it is possible that you will owe money, then you should disclose facts regarding the situation. The most important point is that this event has the potential to materially impact your finances, and therefore you have a responsibility to disclose it to the bank in some form.
- (c) Losing your job would not create a financial liability, although it would most certainly reduce your revenues. You are obviously concerned that you might lose your job, but you don't have specific information that would suggest that it will happen. Therefore, you probably don't have an obligation to disclose this information to the bank. However, unless you are relatively certain that you would be able to find suitable employment relatively quickly, you might want to wait until your job situation has stabilized before pursuing a loan of this size.

The balance sheet should provide a fair representation of what a company owns and what it owes. If significant obligations of the company are not reported on the balance sheet, the company's net worth (its equity) will be overstated. While it is true that it is not possible to estimate the exact amount of future environmental cleanup costs, it is becoming clear that companies will be held accountable.

Therefore, it doesn't seem reasonable to not accrue for environmental costs. Recognition of these liabilities provides a more accurate picture of the company's financial position. It also has the potential to improve the environment. As companies are forced to report these amounts on their financial statements they will start to look for more effective and efficient means to reduce toxic waste, and therefore reduce their costs.



- (a) Revenue earned by an entity from its direct distribution, exploitation, or licensing of a film, before deduction for any of the entity's direct costs of distribution. For markets and territories in which an entity's fully or jointly-owned films are distributed by third parties, revenue is the net amounts payable to the entity by third party distributors. Revenue is reduced by appropriate allowances, estimated returns, price concessions, or similar adjustments, as applicable.**
- (b) Compensation is reciprocal transfers of cash or other assets in exchange for services performed.**

### IFRS3-1

**GAAP and IFRS both require companies to record transactions (and revenues) in the period in which events occur. Both prohibit cash-basis accounting and both apply the time period assumption.**

**GAAP has more than 100 rules dealing with revenue recognition while IFRS uses a single standard. Under IFRS, revenue recognition is based on the probability that the economic benefits associated with the transaction will flow to the company and the revenues and costs must be capable of being measured reliably. GAAP states that revenue is recognized in the accounting period in which the performance obligation is satisfied.**

### IFRS3-2

**IFRS uses the term income to encompass both revenues and gains. GAAP defines income as the net difference between revenues and expenses. In addition, 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.**

**Under IFRS, expenses include both those costs incurred in the normal course of operations and losses that are not part of normal operations. In contrast, GAAP classifies costs associated with activities outside the normal sales of goods and services as losses.**

- (a) Note 3.7 indicates that revenue is measured as the fair value of consideration received or receivable by the Group for goods supplied net of sales rebates and excluding VAT and trade discounts.**
- (b) Note 3.7 states that revenue from the sale of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods.**
- (c) Zetar Plc could have adjustments for prepayments such as:  
Depreciation expense, Amortisation of intangible assets, and Deferred tax assets.**
- (d) Zetar Plc could have adjustments for accruals such as:  
Finance costs (interest expense), Tax liabilities, and Trade and other payables.**

