

CHAPTER 3

Adjusting the Accounts

ASSIGNMENT CLASSIFICATION TABLE

| <u>Study Objectives</u> | <u>Questions</u> | <u>Brief Exercises</u> | <u>Exercises</u> | <u>A Problems</u> | <u>B Problems</u> |
|---|----------------------------------|------------------------|-----------------------------------|------------------------|--------------------|
| 1. Explain the time period assumption. | 1 | | 1 | | |
| 2. Explain the accrual basis of accounting. | 2, 3, 4, 5 | | 2, 3, 10 | | |
| 3. Explain the reasons for adjusting entries. | 6, 7 | 1 | | | |
| 4. Identify the major types of adjusting entries. | 8, 18 | 2, 8 | 4, 6, 11 | | |
| 5. Prepare adjusting entries for deferrals. | 8, 9, 10, 11, 12, 13, 18, 19, 20 | 3, 4, 5, 6 | 5, 6, 7, 8, 9, 10, 11, 12, 13, 15 | 1A, 2A, 3A, 4A, 5A, 6A | 1B, 2B, 3B, 4B, 5B |
| 6. Prepare adjusting entries for accruals. | 8, 14, 15, 16, 17, 18, 19, 20 | 7 | 5, 6, 7, 8, 9, 10, 11, 12, 13, 15 | 1A, 2A, 3A, 4A, 5A, 6A | 1B, 2B, 3B, 4B, 5B |
| 7. Describe the nature and purpose of an adjusted trial balance. | 21 | 9, 10 | 10, 11, 12, 13, 14 | 1A, 2A, 3A, 5A, 6A | 1B, 2B, 3B, 5B |
| *8. Prepare adjusting entries for the alternative treatment of deferrals. | 22 | 11 | 16, 17 | 6A | |

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

ASSIGNMENT CHARACTERISTICS TABLE

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

BLOOM'S TAXONOMY TABLE

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

| Study Objective | Knowledge | Comprehension | Application | Analysis | Synthesis | Evaluation |
|---|-----------|--|--------------------------|--|---|------------------------------|
| 1. Explain the time period assumption. | | Q3-1 E3-1 | | | | |
| 2. Explain the accrual basis of accounting. | | Q3-2 Q3-3 | Q3-5 E3-3 | E3-10 | | E3-2 |
| 3. Explain the reasons for adjusting entries. | | Q3-6 Q3-7 | | | | |
| 4. Identify the major types of adjusting entries. | | Q3-8 | | Q3-18 BE3-2 E3-4 E3-11 | | |
| 5. Prepare adjusting entries for deferrals. | | Q3-8 Q3-9 Q3-10 Q3-11 Q3-12 Q3-13 Q3-19 Q3-20 | | Q3-18 BE3-3 E3-10 P3-5A BE3-4 E3-11 P3-6A BE3-5 E3-12 P3-1B BE3-6 E3-13 P3-2B E3-5 E3-15 P3-3B E3-6 P3-1A P3-4B E3-7 P3-2A P3-5B E3-8 P3-3A | E3-15 | |
| 6. Prepare adjusting entries for accruals. | | Q3-8 Q3-14 Q3-15 Q3-19 Q3-20 | Q3-17 | Q3-16 E3-10 P3-4A Q3-18 E3-11 P3-5A BE3-7 E3-12 P3-6A E3-5 E3-13 P3-1B E3-6 E3-15 P3-2B E3-7 P3-1A P3-3B E3-8 P3-2A P3-4B E3-9 P3-3A P3-5B | E3-15 | |
| 7. Describe the nature and purpose of an adjusted trial balance. | | Q3-21 | BE3-9 BE3-10 E3-14 | E3-10 P3-2A P3-2B E3-11 P3-3A P3-3B E3-12 P3-5A P3-5B E3-13 P3-6A P3-1A P3-1B | | |
| *8. Prepare adjusting entries for the alternative treatment of deferrals. | | | Q3-22 | BE3-11 E3-16 E3-17 P3-6A | | |
| Broadening Your Perspective | | Communication | | Financial Reporting Comparative Analysis Exploring the Web | Decision Making Across the Organization | All About You Ethics Case |

ANSWERS TO QUESTIONS

1. (a) Under the time period assumption, an accountant is required to determine the relevance of each business transaction to specific accounting periods.
 (b) An accounting time period of one year in length is referred to as a fiscal year. A fiscal year that extends from January 1 to December 31 is referred to as a calendar year. Accounting periods of less than one year are called interim periods.
2. The two 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 it is earned.
 The matching 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 it is earned.
4. Information presented on an accrual basis is more useful than on a cash basis because it reveals relationships that are likely to be important in predicting future results. To illustrate, under accrual accounting, revenues are recognized when earned so they can be related to the economic environment in which they occur. Trends in revenues are thus more meaningful.
5. Expenses of \$4,500 should be deducted from the revenues in April. Under the matching principle efforts (expenses) should be matched with accomplishments (revenues).
6. No, adjusting entries are required by the revenue recognition and matching 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 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 market 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 | <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.
- 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 Payable | 2,000 | |
| | Salaries 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 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 |

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 Revenue—to record revenue earned for services provided.
- (d) Interest Payable—to recognize interest accrued but unpaid on notes payable.

BRIEF EXERCISE 3-2

| <u>Item</u> | <u>(a)</u> <u>Type of Adjustment</u> | <u>(b)</u> <u>Account Balances before Adjustment</u> |
|-------------|---|---|
| 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 | Advertising Supplies Expense..... | 4,000 | |
| | Advertising Supplies (\$6,700 – \$2,700) | | 4,000 |

| | | | | | |
|-----------------------------|-------|-------|-------------------------------------|-------|--|
| Advertising Supplies | | | Advertising Supplies Expense | | |
| | 6,700 | 12/31 | | 4,000 | |
| 12/31 Bal. | 2,700 | | | 4,000 | |

BRIEF EXERCISE 3-4

| | | | |
|---------|---|-------|-------|
| Dec. 31 | Depreciation Expense—Equipment..... | 5,000 | |
| | Accumulated Depreciation— Equipment..... | | 5,000 |

| | | | |
|--------------------------------|-------|--------------------------------------|-------|
| <u>Depr. Expense—Equipment</u> | | <u>Accum. Depreciation—Equipment</u> | |
| 12/31 | 5,000 | 12/31 | 5,000 |

Balance Sheet:

| | | |
|-------------------------------------|--------------|----------|
| Equipment..... | \$30,000 | |
| Less: Accumulated Depreciation..... | <u>5,000</u> | \$25,000 |

BRIEF EXERCISE 3-5

| | | | |
|---------|--|--------|--------|
| July 1 | Prepaid Insurance..... | 18,000 | |
| | Cash..... | | 18,000 |
| Dec. 31 | Insurance Expense [(\$18,000 ÷ 3) X 1/2] | 3,000 | |
| | Prepaid Insurance..... | | 3,000 |

| | | | | | | | |
|--------------------------|-------------|-------|-------|--------------------------|-------|--|--|
| <u>Prepaid Insurance</u> | | | | <u>Insurance Expense</u> | | | |
| 7/1 | 18,000 | 12/31 | 3,000 | 12/31 | 3,000 | | |
| 12/31 | Bal. 15,000 | | | | | | |

BRIEF EXERCISE 3-6

| | | | |
|---------|----------------------------------|--------|--------|
| July 1 | Cash | 18,000 | |
| | Unearned Insurance Revenue | | 18,000 |
| Dec. 31 | Unearned Insurance Revenue | 3,000 | |
| | Insurance Revenue..... | | 3,000 |

| | | | | | | | |
|-----------------------------------|-------|-------|-------------|--------------------------|-------|--|--|
| <u>Unearned Insurance Revenue</u> | | | | <u>Insurance Revenue</u> | | | |
| 12/31 | 3,000 | 7/1 | 18,000 | 12/31 | 3,000 | | |
| | | 12/31 | Bal. 15,000 | | | | |

BRIEF EXERCISE 3-7

| | | | | |
|----|---------|---------------------------|-------|-------|
| 1. | Dec. 31 | Interest Expense | 400 | |
| | | Interest Payable | | 400 |
| 2. | 31 | Accounts Receivable | 1,500 | |
| | | Service Revenue | | 1,500 |
| 3. | 31 | Salaries Expense | 900 | |
| | | Salaries Payable | | 900 |

BRIEF EXERCISE 3-8

| Account | (a) Type of Adjustment | (b) Related Account |
|--------------------------|---------------------------|------------------------|
| 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

HARMONY COMPANY
Income Statement
For the Year Ended December 31, 2008

| | | |
|----------------------------|--------------|-----------------|
| Revenues | | |
| Service revenue | | \$35,400 |
| Expenses | | |
| Salaries expense | \$16,000 | |
| Rent expense | 4,000 | |
| Insurance expense | 2,000 | |
| Supplies expense | 1,500 | |
| Depreciation expense | <u>1,300</u> | |
| Total expenses | | <u>24,800</u> |
| Net income | | <u>\$10,600</u> |

BRIEF EXERCISE 3-10

HARMONY COMPANY
Owner's Equity Statement
For the Year Ended December 31, 2008

| | |
|----------------------------|-----------------|
| Capital, January 1 | \$15,600 |
| Add: Net income | <u>10,600</u> |
| | 26,200 |
| Less: Drawings | <u>6,000</u> |
| Capital, December 31 | <u>\$20,200</u> |

***BRIEF EXERCISE 3-11**

| | | | | |
|-----|---------|-------------------------------|-------|-------|
| (a) | Apr. 30 | Supplies..... | 1,000 | |
| | | Supplies Expense..... | | 1,000 |
| (b) | 30 | Service Revenue..... | 3,000 | |
| | | Unearned Service Revenue..... | | 3,000 |

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.**

(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 | \$100,000 |
| | Cash paid for expenses | <u>(70,000)</u> |
| | Cash-basis net income..... | <u>\$ 30,000</u> |
| (b) | Revenues [(\$100,000 – \$25,000) + \$40,000]..... | \$115,000 |
| | Expenses [(\$70,000 – \$30,000) + \$42,000] | <u>(82,000)</u> |
| | Accrual-basis net income..... | <u>\$ 33,000</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 | | 400 |
| | (\$10,000 X 12% X 4/12) | | |
| 2. | Supplies Expense | 1,650 | |
| | Supplies | | 1,650 |
| | (\$2,450 – \$800) | | |
| 3. | Depreciation Expense..... | 1,000 | |
| | Accumulated Depreciation—Equipment..... | | 1,000 |
| 4. | Insurance Expense | 1,225 | |
| | Prepaid Insurance..... | | 1,225 |
| | (\$2,100 X 7/12) | | |
| 5. | Unearned Consulting Revenue..... | 10,000 | |
| | Consulting Revenue..... | | 10,000 |
| | (\$40,000 X 1/4) | | |
| 6. | Accounts Receivable | 4,200 | |
| | Consulting Revenue..... | | 4,200 |
| 7. | Salaries Expense..... | 5,400 | |
| | Salaries Payable | | 5,400 |
| | (\$9,000 X 3/5) | | |

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..... | 3,300 | |
| | | Rent Revenue (\$9,900 X 1/3) | | 3,300 |
| 3. | 31 | Interest Expense..... | 500 | |
| | | Interest Payable | | 500 |
| 4. | 31 | Supplies Expense..... | 2,100 | |
| | | Supplies (\$2,800 – \$700) | | 2,100 |
| 5. | 31 | Insurance Expense (\$200 X 3)..... | 600 | |
| | | Prepaid Insurance | | 600 |

EXERCISE 3-8

| | | | | |
|----|---------|--|-------|-------|
| 1. | Jan. 31 | Accounts Receivable..... | 875 | |
| | | Service Revenue | | 875 |
| 2. | 31 | Utilities Expense | 520 | |
| | | Utilities Payable..... | | 520 |
| 3. | 31 | Depreciation Expense | 400 | |
| | | Accumulated Depreciation— Dental Equipment..... | | 400 |
| | 31 | Interest Expense | 500 | |
| | | Interest Payable..... | | 500 |
| 4. | 31 | Insurance Expense (\$12,000 ÷ 12) | 1,000 | |
| | | Prepaid Insurance..... | | 1,000 |
| 5. | 31 | Supplies Expense (\$1,600 – \$400)..... | 1,200 | |
| | | Supplies | | 1,200 |

EXERCISE 3-9

| | | | | |
|----|---------|--|-------|-------|
| 1. | Oct. 31 | Advertising Supplies Expense..... | 2,000 | |
| | | Advertising Supplies | | 2,000 |
| | | (\$2,500 – \$500) | | |
| 2. | 31 | Insurance Expense..... | 100 | |
| | | Prepaid Insurance..... | | 100 |
| 3. | 31 | Depreciation Expense | 50 | |
| | | Accumulated Depreciation— Office Equipment..... | | 50 |
| 4. | 31 | Unearned Revenue | 600 | |
| | | Service Revenue | | 600 |
| 5. | 31 | Accounts Receivable..... | 300 | |
| | | Service Revenue | | 300 |

EXERCISE 3-9 (Continued)

| | | | | |
|----|---------|------------------------|-------|-------|
| 6. | Oct. 31 | Interest Expense..... | 70 | |
| | | Interest Payable | | 70 |
| 7. | 31 | Salaries Expense..... | 1,500 | |
| | | Salaries Payable | | 1,500 |

EXERCISE 3-10

**BENNING CO.
Income Statement
For the Month Ended July 31, 2008**

| | | | |
|-----------------|---|------------|-----------------------|
| Revenues | | | |
| | Service revenue (\$5,500 + \$500)..... | | \$6,000 |
| Expenses | | | |
| | Wages expense (\$2,300 + \$300)..... | \$2,600 | |
| | Supplies expense (\$1,200 – \$200)..... | 1,000 | |
| | Utilities expense..... | 600 | |
| | Insurance expense..... | 400 | |
| | Depreciation expense | <u>150</u> | |
| | Total expenses | | <u>4,750</u> |
| | Net income..... | | <u>\$1,250</u> |

EXERCISE 3-11

| <u>Answer</u> | <u>Computation</u> | | | | | | | | |
|--------------------------------|---|------------------|--------|----------------------|-----|--------------------------|--------------|----------------|----------------|
| (a) Supplies balance = \$1,300 | <table> <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>(500)</u></td> </tr> <tr> <td>Supplies (1/1)</td> <td style="text-align: right;"><u>\$1,300</u></td> </tr> </table> | Supplies expense | \$ 950 | Add: Supplies (1/31) | 850 | Less: Supplies purchased | <u>(500)</u> | Supplies (1/1) | <u>\$1,300</u> |
| Supplies expense | \$ 950 | | | | | | | | |
| Add: Supplies (1/31) | 850 | | | | | | | | |
| Less: Supplies purchased | <u>(500)</u> | | | | | | | | |
| Supplies (1/1) | <u>\$1,300</u> | | | | | | | | |
| (b) Total premium = \$4,800 | Total premium = Monthly premium X 12; \$400 X 12 = \$4,800 | | | | | | | | |
| Purchase date = Aug. 1, 2007 | 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, 2007. | | | | | | | | |

EXERCISE 3-11 (Continued)

| | | |
|--------------------------------|-------------------------------------|----------------|
| (c) Salaries payable = \$2,500 | Cash paid | \$3,500 |
| | Salaries payable (1/31/08) | <u>800</u> |
| | | 4,300 |
| | Less: Salaries expense | <u>1,800</u> |
| | Salaries payable (12/31/07) | <u>\$2,500</u> |
| (d) Unearned revenue = \$1,150 | Service revenue | \$2,000 |
| | Unearned service revenue (1/31/08) | <u>750</u> |
| | | 2,750 |
| | Cash received in January | <u>1,600</u> |
| | Unearned service revenue (12/31/07) | <u>\$1,150</u> |

EXERCISE 3-12

| | | | |
|-------------|---------------------------|-------|-------|
| (a) July 10 | Supplies | 400 | |
| | Cash | | 400 |
| 14 | Cash | 2,000 | |
| | Service Revenue | | 2,000 |
| 15 | Salaries Expense | 1,200 | |
| | Cash | | 1,200 |
| 20 | Cash | 1,000 | |
| | Unearned Revenue | | 1,000 |
| (b) July 31 | Supplies Expense | 800 | |
| | Supplies | | 800 |
| 31 | Accounts Receivable | 500 | |
| | Service Revenue | | 500 |
| 31 | Salaries Expense | 1,200 | |
| | Salaries Payable | | 1,200 |
| 31 | Unearned Revenue | 900 | |
| | Service Revenue | | 900 |

EXERCISE 3-13

| | | | |
|---------|--|-------|-------|
| Aug. 31 | Accounts Receivable..... | 1,000 | |
| | Service Revenue | | 1,000 |
| 31 | Office Supplies Expense..... | 1,600 | |
| | Office Supplies | | 1,600 |
| 31 | Insurance Expense..... | 1,500 | |
| | Prepaid Insurance | | 1,500 |
| 31 | Depreciation Expense | 900 | |
| | Accumulated Depreciation—Office Equipment | | 900 |
| 31 | Salaries Expense | 1,100 | |
| | Salaries Payable..... | | 1,100 |
| 31 | Unearned Rent..... | 900 | |
| | Rent Revenue..... | | 900 |

EXERCISE 3-14

GARCIA COMPANY
Income Statement
For the Year Ended August 31, 2008

| | | |
|------------------------------|------------|-----------------|
| Revenues | | |
| Service revenue | | \$35,000 |
| Rent revenue | | <u>11,900</u> |
| Total revenues | | 46,900 |
| Expenses | | |
| Salaries expense..... | \$18,100 | |
| Rent expense | 15,000 | |
| Office supplies expense..... | 1,600 | |
| Insurance expense | 1,500 | |
| Depreciation expense | <u>900</u> | |
| Total expenses | | <u>37,100</u> |
| Net income | | <u>\$ 9,800</u> |

EXERCISE 3-14 (Continued)

GARCIA COMPANY
Owner's Equity Statement
For the Year Ended August 31, 2008

| | |
|----------------------------------|-----------------|
| Capital, September 1, 2007 | \$15,600 |
| Add: Net income | <u>9,800</u> |
| Capital, August 31, 2008 | <u>\$25,400</u> |

GARCIA COMPANY
Balance Sheet
August 31, 2008

| | |
|--|-----------------|
| Assets | |
| Cash | \$10,400 |
| Accounts receivable | 9,800 |
| Office supplies | 700 |
| Prepaid insurance | 2,500 |
| Office equipment | \$14,000 |
| Less: Accum. depreciation—office equipment | <u>4,500</u> |
| Total assets | <u>\$32,900</u> |

Liabilities and Owner's Equity

| | |
|--|-----------------|
| Liabilities | |
| Accounts payable | \$ 5,800 |
| Salaries payable | 1,100 |
| Unearned rent | <u>600</u> |
| Total liabilities | 7,500 |
| Owner's equity | |
| T. Garcia, Capital | <u>25,400</u> |
| Total liabilities and owner's equity | <u>\$32,900</u> |

EXERCISE 3-15

| | | | |
|--------|--|---------|---------|
| (a) 1. | Cash | 9,000 | |
| | Fees Receivable | | 9,000 |
| 2. | Unearned Fees | 25,000 | |
| | Fees Revenue | | 25,000 |
| 3. (a) | Cash | 35,000 | |
| | Unearned Fees..... | | 35,000 |
| | (b) Unearned Fees | 18,000 | |
| | (\$35,000 – \$17,000) | | |
| | Fees Revenue | | 18,000 |
| 4. | Fees Receivable | 110,000 | |
| | Fees Revenue | | 110,000 |
| | (\$153,000 – \$25,000 – \$18,000) | | |
| 5. | Cash | 96,000 | |
| | Fees Receivable | | 96,000 |
| | (\$110,000 – \$14,000) | | |
| (b) | Cash received with respect to fees = \$9,000 + \$96,000 + \$35,000 | | |
| | = \$140,000 | | |

*EXERCISE 3-16

| | | | |
|----|----------------------------------|--------|--------|
| 1. | Prepaid Insurance | 875 | |
| | Insurance Expense | | 875 |
| | (\$2,100 X 5/12) | | |
| 2. | Consulting Revenue | 30,000 | |
| | Unearned Consulting Revenue..... | | 30,000 |
| | (\$40,000 X 3/4) | | |
| 3. | Supplies | 800 | |
| | Supplies Expense..... | | 800 |

***EXERCISE 3-17**

| | | | | |
|-----|--------|------------------------|-------|-------|
| (a) | Jan. 2 | Insurance Expense..... | 1,800 | |
| | | Cash | | 1,800 |
| | 10 | Supplies Expense | 1,700 | |
| | | Cash | | 1,700 |
| | 15 | Cash | 6,100 | |
| | | Service Revenue | | 6,100 |

| | | | | | | | |
|--------------------------|-------|------|-------|----------------------------|-------|------|-------|
| <u>Insurance Expense</u> | | | | <u>Supplies Expense</u> | | | |
| 1/2 | 1,800 | | | 1/10 | 1,700 | | |
| <u> Cash</u> | | | | <u> Service Revenue</u> | | | |
| 1/15 | 6,100 | 1/2 | 1,800 | | | 1/15 | 6,100 |
| | | 1/10 | 1,700 | | | | |

| | | | | |
|-----|---------|--|-------|-------|
| (b) | Jan. 31 | Prepaid Insurance (\$150 X 11 months)..... | 1,650 | |
| | | Insurance Expense..... | | 1,650 |
| | 31 | Supplies | 800 | |
| | | Supplies Expense | | 800 |
| | 31 | Service Revenue | 3,600 | |
| | | Unearned Revenue | | 3,600 |

| | | | | | | | | | | | |
|--------------------------|-------|------|-------|-------------------------|-------|------|-----|-------------------------|-------|------|-------|
| <u>Insurance Expense</u> | | | | <u>Supplies Expense</u> | | | | <u>Service Revenue</u> | | | |
| 1/2 | 1,800 | 1/31 | 1,650 | 1/10 | 1,700 | 1/31 | 800 | 1/31 | 3,600 | 1/15 | 6,100 |
| Bal. | 150 | | | Bal. | 900 | | | | | Bal. | 2,500 |
| <u>Prepaid Insurance</u> | | | | <u>Supplies</u> | | | | <u>Unearned Revenue</u> | | | |
| 1/31 | 1,650 | | | 1/31 | 800 | | | | | 1/31 | 3,600 |

| | | |
|-----|-------------------------|--------|
| (c) | Insurance expense | \$ 150 |
| | Supplies expense..... | 900 |
| | Service revenue..... | 2,500 |
| | Prepaid insurance..... | 1,650 |
| | Supplies | 800 |
| | Unearned revenue | 3,600 |

SOLUTIONS TO PROBLEMS

| |
|---------------------|
| PROBLEM 3-1A |
|---------------------|

(a)

| Date | Account Titles and Explanation | Ref. | Debit | Credit |
|---------|--------------------------------|------|-------|--------|
| 2008 | | | | |
| June 30 | Supplies Expense..... | 631 | 1,400 | |
| | Supplies | 126 | | 1,400 |
| | (\$2,000 – \$600) | | | |
| 30 | Utilities Expense..... | 732 | 150 | |
| | Utilities Payable..... | 244 | | 150 |
| 30 | Insurance Expense | 722 | 250 | |
| | Prepaid Insurance..... | 130 | | 250 |
| | (\$3,000 ÷ 12 months) | | | |
| 30 | Unearned Service Revenue..... | 209 | 2,500 | |
| | Service Revenue..... | 400 | | 2,500 |
| 30 | Salaries Expense | 726 | 2,000 | |
| | Salaries Payable | 212 | | 2,000 |
| 30 | Depreciation Expense..... | 711 | 250 | |
| | Accumulated Depreciation— | | | |
| | Office Equipment..... | 158 | | 250 |
| | (\$15,000 ÷ 60 months) | | | |
| 30 | Accounts Receivable | 112 | 1,000 | |
| | Service Revenue..... | 400 | | 1,000 |

(b)

| Cash | | | | | No. 101 |
|---------|-------------|------|-------|--------|---------|
| Date | Explanation | Ref. | Debit | Credit | Balance |
| 2008 | | | | | |
| June 30 | Balance | ✓ | | | 7,150 |

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

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| June 30 | Balance | ✓ | | | 6,000 |
| 30 | Adjusting | J3 | 1,000 | | 7,000 |

Supplies **No. 126**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| June 30 | Balance | ✓ | | | 2,000 |
| 30 | Adjusting | J3 | | 1,400 | 600 |

Prepaid Insurance **No. 130**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| June 30 | Balance | ✓ | | | 3,000 |
| 30 | Adjusting | J3 | | 250 | 2,750 |

Office Equipment **No. 157**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| June 30 | Balance | ✓ | | | 15,000 |

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

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| June 30 | Adjusting | J3 | | 250 | 250 |

Accounts Payable **No. 201**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| June 30 | Balance | ✓ | | | 4,500 |

PROBLEM 3-1A (Continued)**Unearned Service Revenue** **No. 209**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| June 30 | Balance | ✓ | | | 4,000 |
| 30 | Adjusting | J3 | 2,500 | | 1,500 |

Salaries Payable **No. 212**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| June 30 | Adjusting | J3 | | 2,000 | 2,000 |

Utilities Payable **No. 244**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| June 30 | Adjusting | J3 | | 150 | 150 |

T. Masasi, Capital **No. 301**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| June 30 | Balance | ✓ | | | 21,750 |

Service Revenue **No. 400**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| June 30 | Balance | ✓ | | | 7,900 |
| 30 | Adjusting | J3 | | 2,500 | 10,400 |
| 30 | Adjusting | J3 | | 1,000 | 11,400 |

Supplies Expense **No. 631**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| June 30 | Adjusting | J3 | 1,400 | | 1,400 |

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

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| June 30 | Adjusting | J3 | 250 | | 250 |

Insurance Expense **No. 722**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| June 30 | Adjusting | J3 | 250 | | 250 |

Salaries Expense **No. 726**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| June 30 | Balance | ✓ | | | 4,000 |
| 30 | Adjusting | J3 | 2,000 | | 6,000 |

Rent Expense **No. 729**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| June 30 | Balance | ✓ | | | 1,000 |

Utilities Expense **No. 732**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| June 30 | Adjusting | J3 | 150 | | 150 |

PROBLEM 3-1A (Continued)

(c)

**MASASI COMPANY
Adjusted Trial Balance
June 30, 2008**

| | Debit | Credit |
|---|-----------------|-----------------|
| Cash..... | \$ 7,150 | |
| Accounts Receivable | 7,000 | |
| Supplies..... | 600 | |
| Prepaid Insurance | 2,750 | |
| Office Equipment..... | 15,000 | |
| Accumulated Depreciation—Office Equipment..... | | \$ 250 |
| Accounts Payable | | 4,500 |
| Utilities Payable | | 150 |
| Salaries Payable | | 2,000 |
| Unearned Service Revenue | | 1,500 |
| T. Masasi, Capital | | 21,750 |
| Service Revenue..... | | 11,400 |
| Supplies Expense | 1,400 | |
| Depreciation Expense..... | 250 | |
| Insurance Expense | 250 | |
| Salaries Expense..... | 6,000 | |
| Rent Expense | 1,000 | |
| Utilities Expense..... | 150 | |
| | \$41,550 | \$41,550 |

| |
|---------------------|
| PROBLEM 3-2A |
|---------------------|

(a)

| | | | | | J1 |
|---------|----|--|------|-------|--------|
| Date | | Account Titles and Explanation | Ref. | Debit | Credit |
| Aug. 31 | | Insurance Expense (\$400 X 3) | 722 | 1,200 | |
| | | Prepaid Insurance | 130 | | 1,200 |
| | 31 | Supplies Expense (\$3,300 – \$600) | 631 | 2,700 | |
| | | Supplies | 126 | | 2,700 |
| | 31 | Depreciation Expense—Cottages | 620 | 1,500 | |
| | | (\$6,000 X 1/4) | | | |
| | | Accumulated Depreciation— | | | |
| | | Cottages | 144 | | 1,500 |
| | 31 | Depreciation Expense—Furniture | 621 | 600 | |
| | | (\$2,400 X 1/4) | | | |
| | | Accumulated Depreciation— | | | |
| | | Furniture | 150 | | 600 |
| | 31 | Unearned Rent | 208 | 4,100 | |
| | | Rent Revenue | 429 | | 4,100 |
| | 31 | Salaries Expense | 726 | 400 | |
| | | Salaries Payable | 212 | | 400 |
| | 31 | Accounts Receivable | 112 | 1,000 | |
| | | Rent Revenue | 429 | | 1,000 |
| | 31 | Interest Expense | 718 | 600 | |
| | | Interest Payable | 230 | | 600 |
| | | [((\$80,000 X 9%) X 1/12)] | | | |

(b)

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

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

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Aug. 31 | Adjusting | J1 | 1,000 | | 1,000 |

Supplies **No. 126**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Aug. 31 | Balance | ✓ | | | 3,300 |
| 31 | Adjusting | J1 | | 2,700 | 600 |

Prepaid Insurance **No. 130**

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

Land **No. 140**

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

Cottages **No. 143**

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

Accumulated Depreciation—Cottages **No. 144**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Aug. 31 | Adjusting | J1 | | 1,500 | 1,500 |

Furniture **No. 149**

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

PROBLEM 3-2A (Continued)**Accumulated Depreciation—Furniture** **No. 150**

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

Accounts Payable **No. 201**

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

Unearned Rent **No. 208**

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

Salaries Payable **No. 212**

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

Interest Payable **No. 230**

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

Mortgage Payable **No. 275**

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

P. Harder, Capital **No. 301**

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

PROBLEM 3-2A (Continued)**P. Harder, Drawing** **No. 306**

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

Rent Revenue **No. 429**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Aug. 31 | Balance | ✓ | | | 80,000 |
| 31 | Adjusting | J1 | | 4,100 | 84,100 |
| 31 | Adjusting | J1 | | 1,000 | 85,100 |

Depreciation Expense—Cottages **No. 620**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Aug. 31 | Adjusting | J1 | 1,500 | | 1,500 |

Depreciation Expense—Furniture **No. 621**

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

Repair Expense **No. 622**

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

Supplies Expense **No. 631**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Aug. 31 | Adjusting | J1 | 2,700 | | 2,700 |

Interest Expense **No. 718**

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

PROBLEM 3-2A (Continued)**Insurance Expense** **No. 722**

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

Salaries 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 |

PROBLEM 3-2A (Continued)

(c)

NEOSHO RIVER RESORT
Adjusted Trial Balance
August 31, 2008

| | Debit | Credit |
|--|-----------|-----------|
| Cash..... | \$ 19,600 | |
| Accounts Receivable | 1,000 | |
| Supplies..... | 600 | |
| Prepaid Insurance | 4,800 | |
| Land..... | 25,000 | |
| Cottages | 125,000 | |
| Accumulated Depreciation—Cottages..... | | \$ 1,500 |
| Furniture..... | 26,000 | |
| Accumulated Depreciation—Furniture | | 600 |
| Accounts Payable | | 6,500 |
| Unearned Rent | | 3,300 |
| Salaries Payable | | 400 |
| Interest Payable | | 600 |
| Mortgage Payable | | 80,000 |
| P. Harder, Capital | | 100,000 |
| P. Harder, Drawing..... | 5,000 | |
| Rent Revenue | | 85,100 |
| Depreciation Expense—Cottages..... | 1,500 | |
| Depreciation Expense—Furniture | 600 | |
| Repair Expense..... | 3,600 | |
| Supplies Expense | 2,700 | |
| Interest Expense..... | 600 | |
| Insurance Expense | 1,200 | |
| Salaries Expense..... | 51,400 | |
| Utilities Expense..... | 9,400 | |
| | \$278,000 | \$278,000 |

PROBLEM 3-2A (Continued)

(d)

**NEOSHO RIVER RESORT
Income Statement
For the Three Months Ended August 31, 2008**

| | | |
|-------------------------------------|-----------------|-------------------------|
| Revenues | | |
| Rent revenue | | \$ 85,100 |
| Expenses | | |
| Salaries expense | \$51,400 | |
| Utilities expense | 9,400 | |
| Repair expense | 3,600 | |
| Supplies expense..... | 2,700 | |
| Depreciation expense—cottages..... | 1,500 | |
| Insurance expense | 1,200 | |
| Interest expense | 600 | |
| Depreciation expense—furniture..... | 600 | |
| Total expenses..... | | <u>71,000</u> |
| Net income | | <u>\$ 14,100</u> |

**NEOSHO RIVER RESORT
Owner's Equity Statement
For the Three Months Ended August 31, 2008**

| | |
|--|-------------------------|
| P. Harder, Capital, June 1..... | \$ 0 |
| Investment by owner | 100,000 |
| Add: Net income..... | <u>14,100</u> |
| | 114,100 |
| Less: Drawings..... | <u>5,000</u> |
| P. Harder, Capital, August 31 | <u>\$109,100</u> |

PROBLEM 3-2A (Continued)

**NEOSHO RIVER RESORT
Balance Sheet
August 31, 2008**

| Assets | | |
|---|-----------|-------------------------|
| Cash | | \$ 19,600 |
| Accounts receivable | | 1,000 |
| Supplies | | 600 |
| Prepaid insurance | | 4,800 |
| Land | | 25,000 |
| Cottages | \$125,000 | |
| Less: Accum. depreciation—cottages | 1,500 | 123,500 |
| Furniture | 26,000 | |
| Less: Accum. depreciation—furniture | 600 | 25,400 |
| Total assets | | <u>\$199,900</u> |
| Liabilities and Owner's Equity | | |
| Liabilities | | |
| Accounts payable | | \$ 6,500 |
| Mortgage payable | | 80,000 |
| Unearned rent | | 3,300 |
| Interest payable | | 600 |
| Salaries payable | | 400 |
| Total liabilities | | <u>90,800</u> |
| Owner's equity | | |
| P. Harder, Capital | | <u>109,100</u> |
| Total liabilities and owner's equity | | <u>\$199,900</u> |

| |
|---------------------|
| PROBLEM 3-3A |
|---------------------|

| | | | | |
|-----|---------|---------------------------------|-------|-------|
| (a) | Dec. 31 | Accounts Receivable | 2,500 | |
| | | Advertising Revenue | | 2,500 |
| | 31 | Unearned Advertising Fees | 1,600 | |
| | | Advertising Revenue | | 1,600 |
| | 31 | Art Supplies Expense | 3,600 | |
| | | Art Supplies | | 3,600 |
| | 31 | Depreciation Expense | 6,000 | |
| | | Accumulated Depreciation | | 6,000 |
| | 31 | Interest Expense | 150 | |
| | | Interest Payable | | 150 |
| | 31 | Insurance Expense | 850 | |
| | | Prepaid Insurance | | 850 |
| | 31 | Salaries Expense | 1,300 | |
| | | Salaries Payable | | 1,300 |

(b) **FERNETTI ADVERTISING AGENCY**
Income Statement
For the Year Ended December 31, 2008

| | | |
|----------------------------|---------------|-----------------|
| <hr/> | | |
| Revenues | | |
| Advertising revenue | | \$62,700 |
| Expenses | | |
| Salaries expense | \$11,300 | |
| Depreciation expense | 6,000 | |
| Rent expense | 4,000 | |
| Art supplies expense | 3,600 | |
| Insurance expense | 850 | |
| Interest expense | 500 | |
| Total expenses | <u>26,250</u> | |
| Net income | | <u>\$36,450</u> |

PROBLEM 3-3A (Continued)

**FERNETTI ADVERTISING AGENCY
Owner's Equity Statement
For the Year Ended December 31, 2008**

| | |
|--|-----------------|
| J. Ferneti, Capital, January 1 | \$25,500 |
| Add: Net income | <u>36,450</u> |
| | 61,950 |
| Less: Drawing | <u>12,000</u> |
| J. Ferneti, Capital, December 31 | <u>\$49,950</u> |

**FERNETTI ADVERTISING AGENCY
Balance Sheet
December 31, 2008**

| Assets | |
|--|-----------------|
| Cash | \$11,000 |
| Accounts receivable | 22,500 |
| Art supplies | 5,000 |
| Prepaid insurance | 2,500 |
| Printing equipment | \$60,000 |
| Less: Accumulated depreciation | <u>34,000</u> |
| Total assets | <u>\$67,000</u> |
| Liabilities and Owner's Equity | |
| Liabilities | |
| Notes payable | \$ 5,000 |
| Accounts payable | 5,000 |
| Unearned advertising fees | 5,600 |
| Salaries payable | 1,300 |
| Interest payable | <u>150</u> |
| Total liabilities | 17,050 |
| Owner's equity | |
| J. Ferneti, Capital | <u>49,950</u> |
| Total liabilities and owner's equity | <u>\$67,000</u> |

PROBLEM 3-3A (Continued)

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

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

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

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

$$R = 6\%$$

(2) **Salaries Expense, \$11,300 less Salaries Payable 12/31/08, \$1,300 = \$10,000. Total payments, \$12,500 – \$10,000 = \$2,500 Salaries Payable 12/31/07.**

| |
|---------------------|
| PROBLEM 3-4A |
|---------------------|

| | | | | |
|----|---------|--|--------|--------|
| 1. | Dec. 31 | Salaries Expense | 2,320 | |
| | | Salaries Payable | | 2,320 |
| | | [5 X \$800 X 2/5 = \$1,600 3 X \$600 X 2/5 = 720 <u>\$2,320]</u> | | |
| 2. | 31 | Unearned Rent | 74,000 | |
| | | Rent Revenue | | 74,000 |
| | | [5 X \$4,000 X 2 = \$40,000 4 X \$8,500 X 1 = 34,000 <u>\$74,000]</u> | | |
| 3. | 31 | Advertising Expense | 4,800 | |
| | | Prepaid Advertising | | 4,800 |
| | | [A650 – \$450 per month for 8 months = \$3,600 B974 – \$400 per month for 3 months = 1,200 <u>\$4,800]</u> | | |
| 4. | 31 | Interest Expense | 6,300 | |
| | | Interest Payable | | 6,300 |
| | | (\$120,000 X 9% X 7/12) | | |

| |
|---------------------|
| PROBLEM 3-5A |
|---------------------|

(a), (c) & (e)

| Cash | | | | | | No. 101 |
|-------------|-------------|------|-------|--------|---------|----------------|
| 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 | |

| Accounts Receivable | | | | | | No. 112 |
|----------------------------|-------------|------|-------|--------|---------|----------------|
| Date | Explanation | Ref. | Debit | Credit | Balance | |
| Sept. 1 | Balance | ✓ | | | 3,520 | |
| 10 | | J1 | | 1,200 | 2,320 | |
| 27 | | J1 | 1,500 | | 3,820 | |

| Supplies | | | | | | No. 126 |
|-----------------|-------------|------|-------|--------|---------|----------------|
| Date | Explanation | Ref. | Debit | Credit | Balance | |
| Sept. 1 | Balance | ✓ | | | 2,000 | |
| 17 | | J1 | 1,200 | | 3,200 | |
| 30 | Adjusting | J1 | | 2,000 | 1,200 | |

| Store Equipment | | | | | | No. 153 |
|------------------------|-------------|------|-------|--------|---------|----------------|
| Date | Explanation | Ref. | Debit | Credit | Balance | |
| Sept. 1 | Balance | ✓ | | | 15,000 | |
| 15 | | J1 | 3,000 | | 18,000 | |

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

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Sept. 1 | Balance | ✓ | | | 1,500 |
| 30 | Adjusting | J1 | | 100 | 1,600 |

Accounts Payable **No. 201**

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

Unearned Service Revenue **No. 209**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Sept. 1 | Balance | ✓ | | | 1,400 |
| 29 | | J1 | | 650 | 2,050 |
| 30 | Adjusting | J1 | 1,450 | | 600 |

Salaries Payable **No. 212**

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

J. Rand, Capital **No. 301**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Sept. 1 | Balance | ✓ | | | 18,600 |

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

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Sept. 12 | | J1 | | 3,400 | 3,400 |
| 27 | | J1 | | 1,500 | 4,900 |
| 30 | Adjusting | J1 | | 1,450 | 6,350 |

Depreciation Expense **No. 615**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Sept. 30 | Adjusting | J1 | 100 | | 100 |

Supplies Expense **No. 631**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Sept. 30 | Adjusting | J1 | 2,000 | | 2,000 |

Salaries Expense **No. 726**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Sept. 8 | | J1 | 900 | | 900 |
| 25 | | J1 | 1,250 | | 2,150 |
| 30 | Adjusting | J1 | 400 | | 2,550 |

Rent Expense **No. 729**

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

PROBLEM 3-5A (Continued)

(b)

General Journal

| | | | | J1 | |
|-------------|--------------------------------|-------------|--------------|---------------|--|
| Date | Account Titles | Ref. | Debit | Credit | |
| Sept. 8 | Salaries Payable..... | 212 | 500 | | |
| | Salaries Expense | 726 | 900 | | |
| | Cash | 101 | | 1,400 | |
| 10 | Cash | 101 | 1,200 | | |
| | Accounts Receivable..... | 112 | | 1,200 | |
| 12 | Cash | 101 | 3,400 | | |
| | Service Revenue | 407 | | 3,400 | |
| 15 | Store Equipment | 153 | 3,000 | | |
| | Accounts Payable..... | 201 | | 3,000 | |
| 17 | Supplies | 126 | 1,200 | | |
| | Accounts Payable..... | 201 | | 1,200 | |
| 20 | Accounts Payable..... | 201 | 4,500 | | |
| | Cash | 101 | | 4,500 | |
| 22 | Rent Expense | 729 | 500 | | |
| | Cash | 101 | | 500 | |
| 25 | Salaries Expense | 726 | 1,250 | | |
| | Cash | 101 | | 1,250 | |
| 27 | Accounts Receivable..... | 112 | 1,500 | | |
| | Service Revenue | 407 | | 1,500 | |
| 29 | Cash | 101 | 650 | | |
| | Unearned Service Revenue | 209 | | 650 | |

PROBLEM 3-5A (Continued)

(d) & (f)

**RAND EQUIPMENT REPAIR
Trial Balances
September 30, 2008**

| | Before Adjustment | | After Adjustment | |
|--------------------------------|----------------------|-----------------|---------------------|-----------------|
| | Dr. | Cr. | Dr. | Cr. |
| Cash | \$ 2,480 | | \$ 2,480 | |
| Accounts Receivable..... | 3,820 | | 3,820 | |
| Supplies | 3,200 | | 1,200 | |
| Store Equipment | 18,000 | | 18,000 | |
| Accumulated Depreciation | | \$ 1,500 | | \$ 1,600 |
| Accounts Payable..... | | 3,100 | | 3,100 |
| Unearned Service Revenue | | 2,050 | | 600 |
| Salaries Payable..... | | -0- | | 400 |
| J. Rand, Capital | | 18,600 | | 18,600 |
| Service Revenue | | 4,900 | | 6,350 |
| Depreciation Expense | | | 100 | |
| Supplies Expense..... | | | 2,000 | |
| Salaries Expense | 2,150 | | 2,550 | |
| Rent Expense | 500 | | 500 | |
| | <u>\$30,150</u> | <u>\$30,150</u> | <u>\$30,650</u> | <u>\$30,650</u> |

| | | | | | | |
|-----|----|----------|--|-----|-------|-------|
| (e) | 1. | Sept. 30 | Supplies Expense..... | 631 | 2,000 | |
| | | | Supplies (\$3,200 – \$1,200)..... | 126 | | 2,000 |
| | 2. | 30 | Salaries Expense | 726 | 400 | |
| | | | Salaries Payable | 212 | | 400 |
| | 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 3-5A (Continued)

(g)

**RAND EQUIPMENT REPAIR
Income Statement
For the Month Ended September 30, 2008**

| | | |
|-----------------------------|------------|-----------------------|
| Revenues | | |
| Service revenue | | \$6,350 |
| Expenses | | |
| Salaries expense..... | \$2,550 | |
| Supplies expense | 2,000 | |
| Rent expense | 500 | |
| Depreciation expense | <u>100</u> | |
| Total expenses | | <u>5,150</u> |
| Net income..... | | <u>\$1,200</u> |

**RAND EQUIPMENT REPAIR
Owner's Equity Statement
For the Month Ended September 30, 2008**

| | |
|--|------------------------|
| J. Rand, Capital, September 1 | \$18,600 |
| Add: Net income..... | <u>1,200</u> |
| J. Rand, Capital, September 30..... | <u>\$19,800</u> |

PROBLEM 3-5A (Continued)

**RAND EQUIPMENT REPAIR
Balance Sheet
September 30, 2008**

| Assets | | |
|--|--------------|------------------------|
| Cash | | \$ 2,480 |
| Accounts receivable | | 3,820 |
| Supplies | | 1,200 |
| Equipment | \$18,000 | |
| Less: Accumulated depreciation— equipment | <u>1,600</u> | <u>16,400</u> |
| Total assets | | <u>\$23,900</u> |
| Liabilities and Owner's Equity | | |
| Liabilities | | |
| Accounts payable | | \$ 3,100 |
| Unearned service revenue | | 600 |
| Salaries payable | | <u>400</u> |
| Total liabilities | | 4,100 |
| Owner's equity | | |
| J. Rand, Capital | | <u>19,800</u> |
| Total liabilities and owner's equity | | <u>\$23,900</u> |

| |
|----------------------|
| *PROBLEM 3-6A |
|----------------------|

| | | | | | |
|-----|----|---------|-----------------------------------|-------|-------|
| (a) | 1. | June 30 | Supplies | 1,300 | |
| | | | Supplies Expense | | 1,300 |
| | 2. | 30 | Interest Expense | 750 | |
| | | | (\$20,000 X 9% X 5/12) | | |
| | | | Interest Payable..... | | 750 |
| | 3. | 30 | Prepaid Insurance | 1,200 | |
| | | | [((\$1,800 ÷ 12) X 8] | | |
| | | | Insurance Expense..... | | 1,200 |
| | 4. | 30 | Consulting Revenue | 1,500 | |
| | | | Unearned Consulting Revenue | | 1,500 |
| | 5. | 30 | Accounts Receivable..... | 2,000 | |
| | | | Graphic Revenue | | 2,000 |
| | 6. | 30 | Depreciation Expense | 1,000 | |
| | | | (\$2,000 ÷ 2) | | |
| | | | Accumulated Depreciation— | | |
| | | | Equipment | | 1,000 |

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

**(b) GIVENS GRAPHICS COMPANY
Adjusted Trial Balance
June 30, 2008**

| | <u>Debit</u> | <u>Credit</u> |
|--|------------------|------------------|
| Cash | \$ 9,500 | |
| Accounts Receivable (\$14,000 + \$2,000) | 16,000 | |
| Supplies | 1,300 | |
| Prepaid Insurance | 1,200 | |
| Equipment..... | 45,000 | |
| Accumulated Depreciation | | \$ 1,000 |
| Notes Payable | | 20,000 |
| Accounts Payable..... | | 9,000 |
| Interest Payable | | 750 |
| Unearned Consulting Revenue | | 1,500 |
| Sue Givens, Capital..... | | 22,000 |
| Graphic Revenue (\$52,100 + \$2,000) | | 54,100 |
| Consulting Revenue (\$6,000 – \$1,500) | | 4,500 |
| Salaries Expense | 30,000 | |
| Supplies Expense (\$3,700 – \$1,300) | 2,400 | |
| Advertising Expense | 1,900 | |
| Rent Expense | 1,500 | |
| Utilities Expense | 1,700 | |
| Depreciation Expense | 1,000 | |
| Insurance Expense (\$1,800 – \$1,200)..... | 600 | |
| Interest Expense | 750 | |
| | <u>\$112,850</u> | <u>\$112,850</u> |

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

(c)

**GIVENS GRAPHICS COMPANY
Income Statement
For the Six Months Ended June 30, 2008**

| | | |
|-----------------------------|-----------------|------------------------|
| Revenues | | |
| Graphic revenue..... | | \$54,100 |
| Consulting revenue..... | | <u>4,500</u> |
| Total revenues | | 58,600 |
| Expenses | | |
| Salaries expense..... | \$30,000 | |
| Supplies expense | 2,400 | |
| Advertising expense..... | 1,900 | |
| Utilities expense..... | 1,700 | |
| Rent expense | 1,500 | |
| Depreciation expense | 1,000 | |
| Interest expense..... | 750 | |
| Insurance expense | <u>600</u> | |
| Total expenses | | <u>39,850</u> |
| Net income..... | | <u>\$18,750</u> |

**GIVENS GRAPHICS COMPANY
Owner's Equity Statement
For the Six Months Ended June 30, 2008**

| | |
|--------------------------------------|------------------------|
| Sue Givens, Capital, January 1 | \$ 0 |
| Investment by owner | 22,000 |
| Add: Net income..... | <u>18,750</u> |
| Sue Givens, Capital, June 30..... | <u>\$40,750</u> |

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

GIVENS GRAPHICS COMPANY
Balance Sheet
June 30, 2008

| Assets | | |
|---|--------------|------------------------|
| Cash | | \$ 9,500 |
| Accounts receivable | | 16,000 |
| Supplies | | 1,300 |
| Prepaid insurance..... | | 1,200 |
| Equipment | \$45,000 | |
| Less: Accumulated depreciation..... | <u>1,000</u> | <u>44,000</u> |
| Total assets..... | | <u>\$72,000</u> |
| Liabilities and Owner's Equity | | |
| Liabilities | | |
| Notes payable..... | | \$20,000 |
| Accounts payable | | 9,000 |
| Unearned consulting revenue | | 1,500 |
| Interest payable | | <u>750</u> |
| Total liabilities | | 31,250 |
| Owner's equity | | |
| Sue Givens, Capital | | <u>40,750</u> |
| Total liabilities and owner's equity | | <u>\$72,000</u> |

| |
|---------------------|
| PROBLEM 3-1B |
|---------------------|

(a)

| | | | | | J4 |
|-------------|-------------------------------|------|-------|--------|----|
| Date | Account Titles | Ref. | Debit | Credit | |
| 2008 | | | | | |
| May 31 | Supplies Expense..... | 631 | 500 | | |
| | Supplies | 126 | | 500 | |
| 31 | Travel Expense..... | 736 | 200 | | |
| | Travel Payable | 229 | | 200 | |
| 31 | Insurance Expense | 722 | 200 | | |
| | Prepaid Insurance..... | 130 | | 200 | |
| | (\$4,800 ÷ 24 months) | | | | |
| 31 | Unearned Service Revenue..... | 209 | 2,000 | | |
| | Service Revenue | 400 | | 2,000 | |
| | (\$3,000 – \$1,000) | | | | |
| 31 | Salaries Expense | 726 | 840 | | |
| | Salaries Payable..... | 212 | | 840 | |
| | [(3/5 X \$700) X 2 employees] | | | | |
| 31 | Depreciation Expense..... | 717 | 160 | | |
| | Accumulated Depreciation— | | | | |
| | Office Furniture..... | 150 | | 160 | |
| | (\$9,600 ÷ 60 months) | | | | |
| 31 | Accounts Receivable..... | 112 | 1,000 | | |
| | Service Revenue | 400 | | 1,000 | |

(b)

| | | | | | No. 101 |
|-------------|-------------|------|-------|--------|---------|
| Date | Explanation | Ref. | Debit | Credit | Balance |
| 2008 | | | | | |
| May 31 | Balance | ✓ | | | 7,700 |

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

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| May 31 | Balance | ✓ | | | 4,000 |
| 31 | Adjusting | J4 | 1,000 | | 5,000 |

Supplies **No. 126**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| May 31 | Balance | ✓ | | | 1,500 |
| 31 | Adjusting | J4 | | 500 | 1,000 |

Prepaid Insurance **No. 130**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| May 31 | Balance | ✓ | | | 4,800 |
| 31 | Adjusting | J4 | | 200 | 4,600 |

Office Furniture **No. 149**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| May 31 | Balance | ✓ | | | 9,600 |

Accumulated Depreciation—Office Furniture **No. 150**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| May 31 | Adjusting | J4 | | 160 | 160 |

Accounts Payable **No. 201**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| May 31 | Balance | ✓ | | | 3,500 |

PROBLEM 3-1B (Continued)**Unearned Service Revenue** **No. 209**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| May 31 | Balance | ✓ | | | 3,000 |
| 31 | Adjusting | J4 | 2,000 | | 1,000 |

Salaries Payable **No. 212**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| May 31 | Adjusting | J4 | | 840 | 840 |

Travel Payable **No. 229**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| May 31 | Adjusting | J4 | | 200 | 200 |

L. Ace, Capital **No. 301**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| May 31 | Balance | ✓ | | | 19,100 |

Service Revenue **No. 400**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| May 31 | Balance | ✓ | | | 6,000 |
| 31 | Adjusting | J4 | | 2,000 | 8,000 |
| 31 | Adjusting | J4 | | 1,000 | 9,000 |

Supplies Expense **No. 631**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| May 31 | Adjusting | J4 | 500 | | 500 |

PROBLEM 3-1B (Continued)**Depreciation Expense** **No. 717**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| May 31 | Adjusting | J4 | 160 | | 160 |

Insurance Expense **No. 722**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| May 31 | Adjusting | J4 | 200 | | 200 |

Salaries Expense **No. 726**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| May 31 | Balance | ✓ | | | 3,000 |
| 31 | Adjusting | J4 | 840 | | 3,840 |

Rent Expense **No. 729**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| May 31 | Balance | ✓ | | | 1,000 |

Travel Expense **No. 736**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| 2008 | | | | | |
| May 31 | Adjusting | J4 | 200 | | 200 |

PROBLEM 3-1B (Continued)

(c)

**MODINE CONSULTING
Adjusted Trial Balance
May 31, 2008**

| | <u>Debit</u> | <u>Credit</u> |
|--|-----------------|-----------------|
| Cash..... | \$ 7,700 | |
| Accounts Receivable | 5,000 | |
| Supplies..... | 1,000 | |
| Prepaid Insurance | 4,600 | |
| Office Furniture..... | 9,600 | |
| Accumulated Depreciation—Office Furniture | | \$ 160 |
| Accounts Payable | | 3,500 |
| Travel Payable..... | | 200 |
| Salaries Payable | | 840 |
| Unearned Service Revenue | | 1,000 |
| L. Ace, Capital | | 19,100 |
| Service Revenue..... | | 9,000 |
| Supplies Expense | 500 | |
| Depreciation Expense..... | 160 | |
| Insurance Expense | 200 | |
| Salaries Expense..... | 3,840 | |
| Rent Expense | 1,000 | |
| Travel Expense | 200 | |
| | <u>\$33,800</u> | <u>\$33,800</u> |

| |
|---------------------|
| PROBLEM 3-2B |
|---------------------|

(a)

| | | | | J1 |
|--------|--------------------------------------|------|-------|--------|
| Date | Account Titles | Ref. | Debit | Credit |
| May 31 | Insurance Expense..... | 722 | 200 | |
| | Prepaid Insurance | 130 | | 200 |
| 31 | Supplies Expense | 631 | 1,400 | |
| | Supplies (\$1,900 – \$500) | 126 | | 1,400 |
| 31 | Depreciation Expense—Lodge..... | 619 | 300 | |
| | (\$3,600 X 1/12) | | | |
| | Accumulated Depreciation— | | | |
| | Lodge | 142 | | 300 |
| 31 | Depreciation Expense—Furniture | 621 | 250 | |
| | (\$3,000 X 1/12) | | | |
| | Accumulated Depreciation— | | | |
| | Furniture | 150 | | 250 |
| 31 | Interest Expense | 718 | 400 | |
| | Interest Payable | 230 | | 400 |
| | [(\$40,000 X 12%) X 1/12] | | | |
| 31 | Unearned Rent..... | 208 | 2,500 | |
| | Rent Revenue | 429 | | 2,500 |
| 31 | Salaries Expense | 726 | 800 | |
| | Salaries Payable | 212 | | 800 |

(b)

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

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

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| May 31 | Balance | ✓ | | | 1,900 |
| 31 | Adjusting | J1 | | 1,400 | 500 |

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 | ✓ | | | 15,000 |

Lodge **No. 141**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| May 31 | Balance | ✓ | | | 70,000 |

Accumulated Depreciation—Lodge **No. 142**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| May 31 | Adjusting | J1 | | 300 | 300 |

Furniture **No. 149**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| May 31 | Balance | ✓ | | | 16,800 |

Accumulated Depreciation—Furniture **No. 150**

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

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

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| May 31 | Balance | ✓ | | | 5,300 |

Unearned Rent **No. 208**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| May 31 | Balance | ✓ | | | 3,600 |
| 31 | Adjusting | J1 | 2,500 | | 1,100 |

Salaries Payable **No. 212**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| May 31 | Adjusting | J1 | | 800 | 800 |

Interest Payable **No. 230**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| May 31 | Adjusting | J1 | | 400 | 400 |

Mortgage Payable **No. 275**

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

Mary Lerner, Capital **No. 301**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| May 31 | Balance | ✓ | | | 55,000 |

Rent Revenue **No. 429**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| May 31 | Balance | ✓ | | | 9,200 |
| 31 | Adjusting | J1 | | 2,500 | 11,700 |

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

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| May 31 | Balance | ✓ | | | 500 |

Depreciation Expense—Lodge **No. 619**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| May 31 | Adjusting | J1 | 300 | | 300 |

Depreciation Expense—Furniture **No. 621**

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

Supplies Expense **No. 631**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| May 31 | Adjusting | J1 | 1,400 | | 1,400 |

Interest Expense **No. 718**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| May 31 | Adjusting | J1 | 400 | | 400 |

Insurance Expense **No. 722**

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

Salaries Expense **No. 726**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| May 31 | Balance | ✓ | | | 3,000 |
| 31 | Adjusting | J1 | 800 | | 3,800 |

PROBLEM 3-2B (Continued)

| Utilities Expense | | | | | No. 732 |
|-------------------|-------------|------|-------|--------|---------|
| Date | Explanation | Ref. | Debit | Credit | Balance |
| May 31 | Balance | ✓ | | | 1,000 |

**(c) ELSTON MOTEL
Adjusted Trial Balance
May 31, 2008**

| | Debit | Credit |
|--|------------------|------------------|
| Cash | \$ 2,500 | |
| Supplies | 500 | |
| Prepaid Insurance | 2,200 | |
| Land | 15,000 | |
| Lodge | 70,000 | |
| Accumulated Depreciation—Lodge | | \$ 300 |
| Furniture | 16,800 | |
| Accumulated Depreciation—Furniture | | 250 |
| Accounts Payable | | 5,300 |
| Unearned Rent | | 1,100 |
| Salaries Payable | | 800 |
| Interest Payable | | 400 |
| Mortgage Payable | | 40,000 |
| Mary Lerner, Capital | | 55,000 |
| Rent Revenue | | 11,700 |
| Advertising Expense | 500 | |
| Depreciation Expense—Lodge | 300 | |
| Depreciation Expense—Furniture | 250 | |
| Supplies Expense | 1,400 | |
| Interest Expense | 400 | |
| Insurance Expense | 200 | |
| Salaries Expense | 3,800 | |
| Utilities Expense | 1,000 | |
| | <u>\$114,850</u> | <u>\$114,850</u> |

PROBLEM 3-2B (Continued)

(d)

ELSTON MOTEL
Income Statement
For the Month Ended May 31, 2008

| | | |
|--------------------------------------|----------------|------------------------|
| Revenues | | |
| Rent revenue | | \$11,700 |
| Expenses | | |
| Salaries expense | \$3,800 | |
| Supplies expense | 1,400 | |
| Utilities expense | 1,000 | |
| Advertising expense | 500 | |
| Interest expense | 400 | |
| Depreciation expense—lodge | 300 | |
| Depreciation expense—furniture | 250 | |
| Insurance expense | 200 | |
| Total expenses | | <u>7,850</u> |
| Net income | | <u>\$ 3,850</u> |

ELSTON MOTEL
Owner's Equity Statement
For the Month Ended May 31, 2008

| | |
|------------------------------------|------------------------|
| Mary Lerner, Capital, May 1 | \$ 0 |
| Investment by owner | 55,000 |
| Add: Net income | <u>3,850</u> |
| Mary Lerner, Capital, May 31 | <u>\$58,850</u> |

PROBLEM 3-2B (Continued)

**ELSTON MOTEL
Balance Sheet
May 31, 2008**

| Assets | | |
|---|------------|-------------------------|
| Cash | | \$ 2,500 |
| Supplies | | 500 |
| Prepaid insurance..... | | 2,200 |
| Land..... | | 15,000 |
| Lodge | \$70,000 | |
| Less: Accumulated depreciation—lodge..... | <u>300</u> | 69,700 |
| Furniture | 16,800 | |
| Less: Accumulated depreciation—furniture..... | <u>250</u> | <u>16,550</u> |
| Total assets..... | | <u>\$106,450</u> |

Liabilities and Owner's Equity

| | | |
|---|--|-------------------------|
| Liabilities | | |
| Accounts payable | | \$ 5,300 |
| Mortgage payable | | 40,000 |
| Unearned rent..... | | 1,100 |
| Salaries payable | | 800 |
| Interest payable | | <u>400</u> |
| Total liabilities | | 47,600 |
| Owner's equity | | |
| Mary Lerner, Capital | | <u>58,850</u> |
| Total liabilities and owner's equity | | <u>\$106,450</u> |

| |
|---------------------|
| PROBLEM 3-3B |
|---------------------|

| | | | | |
|-----|----------|------------------------------------|-----|-----|
| (a) | Sept. 30 | Accounts Receivable..... | 500 | |
| | | Commission Revenue | | 500 |
| | 30 | Rent Expense..... | 600 | |
| | | Prepaid Rent | | 600 |
| | 30 | Supplies Expense..... | 200 | |
| | | Supplies | | 200 |
| | 30 | Depreciation Expense..... | 350 | |
| | | Accum. Depreciation—Equipment..... | | 350 |
| | 30 | Interest Expense | 50 | |
| | | Interest Payable..... | | 50 |
| | 30 | Unearned Rent..... | 400 | |
| | | Rent Revenue | | 400 |
| | 30 | Salaries Expense | 600 | |
| | | Salaries Payable..... | | 600 |

(b) **ORTEGA CO.**
Income Statement
For the Quarter Ended September 30, 2008

| | | |
|----------------------------|---------|----------|
| Revenues | | |
| Commission revenue | | \$14,500 |
| Rent revenue | | 800 |
| Total revenues | | 15,300 |
| Expenses | | |
| Salaries expense..... | \$9,600 | |
| Rent expense | 1,500 | |
| Utilities expense..... | 510 | |
| Depreciation expense | 350 | |
| Supplies expense | 200 | |
| Interest expense..... | 50 | |
| Total expenses | | 12,210 |
| Net income..... | | \$ 3,090 |

PROBLEM 3-3B (Continued)

**ORTEGA CO.
Owner's Equity Statement
For the Quarter Ended September 30, 2008**

| | |
|---|-----------------|
| Jose Ortega, Capital, July 1, 2008 | \$ 0 |
| Investment by owner | 14,000 |
| Add: Net income | <u>3,090</u> |
| | 17,090 |
| Less: Drawings | <u>600</u> |
| Jose Ortega, Capital, September 30, 2008..... | <u>\$16,490</u> |

**ORTEGA CO.
Balance Sheet
September 30, 2008**

| | | |
|--|------------|-----------------|
| Assets | | |
| Cash | | \$ 6,700 |
| Accounts receivable | | 900 |
| Supplies | | 1,000 |
| Prepaid rent | | 900 |
| Equipment | \$15,000 | |
| Less: Accum. depreciation—equipment..... | <u>350</u> | <u>14,650</u> |
| Total assets..... | | <u>\$24,150</u> |

Liabilities and Owner's Equity

| | | |
|--|--|-----------------|
| Liabilities | | |
| Notes payable..... | | \$ 5,000 |
| Accounts payable | | 1,510 |
| Salaries payable | | 600 |
| Unearned rent..... | | 500 |
| Interest payable | | <u>50</u> |
| Total liabilities | | \$ 7,660 |
| Owner's equity | | |
| Jose Ortega, Capital..... | | <u>16,490</u> |
| Total liabilities and owner's equity | | <u>\$24,150</u> |

- (c) Interest of 12% per year equals a monthly rate of 1%; monthly interest is \$50 (\$5,000 X 1%). Since total interest expense is \$50, the note has been outstanding one month.

| |
|---------------------|
| PROBLEM 3-4B |
|---------------------|

| | | | | |
|----|---------|---|-------|-------|
| 1. | Dec. 31 | Insurance Expense Prepaid Insurance [(\$6,000 ÷ 3) = \$2,000 (\$3,600 ÷ 2) = <u>1,800</u> <u>\$3,800]</u> | 3,800 | 3,800 |
| 2. | Dec. 31 | Unearned Subscriptions Subscription Revenue [Oct. 200 X \$50 X 3/12 = \$2,500 Nov. 300 X \$50 X 2/12 = 2,500 Dec. 480 X \$50 X 1/12 = <u>2,000</u> <u>\$7,000]</u> | 7,000 | 7,000 |
| 3. | Dec. 31 | Interest Expense..... Interest Payable (\$60,000 X 9% X 4/12) | 1,800 | 1,800 |
| 4. | Dec. 31 | Salaries Expense..... Salaries Payable [5 X \$500 X 3/5 = \$1,500 3 X \$750 X 3/5 = <u>1,350</u> <u>\$2,850]</u> | 2,850 | 2,850 |

| |
|---------------------|
| PROBLEM 3-5B |
|---------------------|

(a), (c) & (e)

| Cash | | | | | | No. 101 |
|-------------|-------------|------|-------|--------|---------|----------------|
| Date | Explanation | Ref. | Debit | Credit | Balance | |
| Nov. 1 | Balance | ✓ | | | 2,790 | |
| 8 | | J1 | | 1,100 | 1,690 | |
| 10 | | J1 | 1,200 | | 2,890 | |
| 12 | | J1 | 1,400 | | 4,290 | |
| 20 | | J1 | | 2,500 | 1,790 | |
| 22 | | J1 | | 300 | 1,490 | |
| 25 | | J1 | | 1,300 | 190 | |
| 29 | | J1 | 550 | | 740 | |

| Accounts Receivable | | | | | | No. 112 |
|----------------------------|-------------|------|-------|--------|---------|----------------|
| Date | Explanation | Ref. | Debit | Credit | Balance | |
| Nov. 1 | Balance | ✓ | | | 2,510 | |
| 10 | | J1 | | 1,200 | 1,310 | |
| 27 | | J1 | 400 | | 1,710 | |

| Supplies | | | | | | No. 126 |
|-----------------|-------------|------|-------|--------|---------|----------------|
| Date | Explanation | Ref. | Debit | Credit | Balance | |
| Nov. 1 | Balance | ✓ | | | 2,000 | |
| 17 | | J1 | 500 | | 2,500 | |
| 30 | Adjusting | J1 | | 2,000 | 500 | |

| Store Equipment | | | | | | No. 153 |
|------------------------|-------------|------|-------|--------|---------|----------------|
| Date | Explanation | Ref. | Debit | Credit | Balance | |
| Nov. 1 | Balance | ✓ | | | 10,000 | |
| 15 | | J1 | 3,000 | | 13,000 | |

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

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Nov. 1 | Balance | ✓ | | | 500 |
| 30 | Adjusting | J1 | | 100 | 600 |

Accounts Payable **No. 201**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Nov. 1 | Balance | ✓ | | | 2,100 |
| 15 | | J1 | | 3,000 | 5,100 |
| 17 | | J1 | | 500 | 5,600 |
| 20 | | J1 | 2,500 | | 3,100 |

Unearned Service Revenue **No. 209**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Nov. 1 | Balance | ✓ | | | 1,400 |
| 29 | | J1 | | 550 | 1,950 |
| 30 | Adjusting | J1 | 1,150 | | 800 |

Salaries Payable **No. 212**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Nov. 1 | Balance | ✓ | | | 500 |
| 8 | | J1 | 500 | | 0 |
| 30 | Adjusting | J1 | | 500 | 500 |

P. Rondeli, Capital **No. 301**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Nov. 1 | Balance | ✓ | | | 12,800 |

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

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Nov. 12 | | J1 | | 1,400 | 1,400 |
| 27 | | J1 | | 400 | 1,800 |
| 30 | Adjusting | J1 | | 1,150 | 2,950 |

Depreciation Expense **No. 615**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Nov. 30 | Adjusting | J1 | 100 | | 100 |

Supplies Expense **No. 631**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Nov. 30 | Adjusting | J1 | 2,000 | | 2,000 |

Salaries Expense **No. 726**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Nov. 8 | | J1 | 600 | | 600 |
| 25 | | J1 | 1,300 | | 1,900 |
| 30 | Adjusting | J1 | 500 | | 2,400 |

Rent Expense **No. 729**

| Date | Explanation | Ref. | Debit | Credit | Balance |
|-------------|--------------------|-------------|--------------|---------------|----------------|
| Nov. 22 | | J1 | 300 | | 300 |

PROBLEM 3-5B (Continued)

(b)

General Journal

| | | | | J1 |
|-------------|---------------------------------------|-------------|--------------|---------------|
| Date | Account Titles and Explanation | Ref. | Debit | Credit |
| Nov. 8 | Salaries Payable..... | 212 | 500 | |
| | Salaries Expense | 726 | 600 | |
| | Cash..... | 101 | | 1,100 |
| 10 | Cash | 101 | 1,200 | |
| | Accounts Receivable | 112 | | 1,200 |
| 12 | Cash | 101 | 1,400 | |
| | Service Revenue | 407 | | 1,400 |
| 15 | Store Equipment | 153 | 3,000 | |
| | Accounts Payable | 201 | | 3,000 |
| 17 | Supplies | 126 | 500 | |
| | Accounts Payable | 201 | | 500 |
| 20 | Accounts Payable..... | 201 | 2,500 | |
| | Cash | 101 | | 2,500 |
| 22 | Rent Expense | 729 | 300 | |
| | Cash | 101 | | 300 |
| 25 | Salaries Expense | 726 | 1,300 | |
| | Cash | 101 | | 1,300 |
| 27 | Accounts Receivable..... | 112 | 400 | |
| | Service Revenue | 407 | | 400 |
| 29 | Cash | 101 | 550 | |
| | Unearned Service Revenue | 209 | | 550 |

PROBLEM 3-5B (Continued)

(d) & (f)

**RONDELI EQUIPMENT REPAIR
Trial Balances
November 30, 2008**

| | Before Adjustment | | After Adjustment | |
|--------------------------------|----------------------|-----------------|---------------------|-----------------|
| | Dr. | Cr. | Dr. | Cr. |
| Cash | \$ 740 | | \$ 740 | |
| Accounts Receivable..... | 1,710 | | 1,710 | |
| Supplies | 2,500 | | 500 | |
| Store Equipment | 13,000 | | 13,000 | |
| Accumulated Depreciation | | \$ 500 | | \$ 600 |
| Accounts Payable..... | | 3,100 | | 3,100 |
| Unearned Service Revenue | | 1,950 | | 800 |
| Salaries Payable..... | | | | 500 |
| P. Rondeli, Capital..... | | 12,800 | | 12,800 |
| Service Revenue | | 1,800 | | 2,950 |
| Depreciation Expense | | | 100 | |
| Supplies Expense..... | | | 2,000 | |
| Salaries Expense | 1,900 | | 2,400 | |
| Rent Expense | 300 | | 300 | |
| | <u>\$20,150</u> | <u>\$20,150</u> | <u>\$20,750</u> | <u>\$20,750</u> |

| | | | | | | |
|-----|----|---------|--|-----|-------|-------|
| (e) | 1. | Nov. 30 | Supplies Expense | 631 | 2,000 | |
| | | | Supplies (\$2,500 – \$500) | 126 | | 2,000 |
| | 2. | 30 | Salaries Expense..... | 726 | 500 | |
| | | | Salaries Payable | 212 | | 500 |
| | 3. | 30 | Depreciation Expense..... | 615 | 100 | |
| | | | Accumulated Depreciation— Store Equipment | 154 | | 100 |
| | 4. | 30 | Unearned Service Revenue..... | 209 | 1,150 | |
| | | | Service Revenue..... | 407 | | 1,150 |

PROBLEM 3-5B (Continued)

(g)

**RONDELI EQUIPMENT REPAIR
Income Statement
For the Month Ended November 30, 2008**

| | | |
|-----------------------------|----------------|-------------------------|
| Revenues | | |
| Service revenue | | \$ 2,950 |
| Expenses | | |
| Salaries expense..... | \$2,400 | |
| Supplies expense | 2,000 | |
| Rent expense | 300 | |
| Depreciation expense | 100 | |
| Total expenses | | <u>4,800</u> |
| Net loss | | <u>\$(1,850)</u> |

**RONDELI EQUIPMENT REPAIR
Owner's Equity Statement
For the Month Ended November 30, 2008**

| | |
|---|------------------------|
| P. Rondeli, Capital, November 1 | \$12,800 |
| Less: Net loss | <u>1,850</u> |
| P. Rondeli, Capital, November 30 | <u>\$10,950</u> |

PROBLEM 3-5B (Continued)

**RONDELI EQUIPMENT REPAIR
Balance Sheet
November 30, 2008**

| Assets | | |
|--|------------|------------------------|
| Cash | | \$ 740 |
| Accounts receivable | | 1,710 |
| Supplies | | 500 |
| Equipment | \$13,000 | |
| Less: Accumulated depreciation— equipment | <u>600</u> | <u>12,400</u> |
| Total assets | | <u>\$15,350</u> |
| Liabilities and Owner's Equity | | |
| Liabilities | | |
| Accounts payable | | \$ 3,100 |
| Unearned service revenue | | 800 |
| Salaries payable | | <u>500</u> |
| Total liabilities | | 4,400 |
| Owner's equity | | |
| P. Rondeli, Capital | | <u>10,950</u> |
| Total liabilities and owner's equity | | <u>\$15,350</u> |

- (a) Items that may result in adjusting entries for prepayments are:
1. Prepaid expenses and other current assets (per balance sheet).
 2. Property, plant, and equipment, net of depreciation (per balance sheet).
 3. Amortizable intangibles 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 and other current liabilities, interest expense, and income taxes payable.
- (c) As indicated in the 5-Year Summary, the trend in net income has been positive. In every year since 2001 (except 2005), net income has increased. In 2001 net income was \$2,400 million and in 2005 it was \$4,078 million.

| | <u>PepsiCo</u> | <u>Coca-Cola</u> |
|---|------------------|-------------------|
| (a) Net increase (decrease) in property, plant, and equipment from 2004 to 2005. | \$ 532,000,000 | (\$ 305,000,000) |
| (b) Increase (decrease) in selling, general, and administrative expenses from 2004 to 2005. | \$1,283,000,000 | \$ 849,000,000 |
| (c) Increase (decrease) in long-term debt (obligations) from 2004 to 2005. | (\$ 84,000,000) | (\$ 3,000,000) |
| (d) Increase (decrease) in net income from 2004 to 2005. | (\$ 134,000,000) | \$ 25,000,000 |
| (e) Increase (decrease) in cash and cash equivalents from 2004 to 2005. | \$ 436,000,000 | (\$2,006,000,000) |

(a) The categories are:

- | | |
|-------------------------|--------------------------------------|
| 1. The Big 4 | 10. Edgar |
| 2. Professional | 11. FASB |
| 3. Associations | 12. International |
| 4. Education | 13. Publishers |
| 5. Finance | 14. Journals and Publications |
| 6. Professors | 15. Softwares |
| 7. Taxation | 16. Other sites |
| 8. Audit and Law | 17. Entertainment |
| 9. Government | 18. Interest books |

(b) Student answers will vary depending on the category selected.

(a) **HAPPY CAMPER PARK**
Income Statement
For the Quarter Ended March 31, 2008

| | | |
|---|------------|-----------------|
| Revenues | | |
| Rental revenue (\$90,000 – \$15,000)..... | | \$75,000 |
| Expenses | | |
| Wages expense [\$29,800 + (\$300 X 2)]..... | \$30,400 | |
| Advertising expense (\$5,200 + \$110)..... | 5,310 | |
| Supplies expense (\$6,200 – \$1,700)..... | 4,500 | |
| 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)..... | <u>300</u> | |
| 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 matching principle. The revenue recognition principle states that revenue is recognized when it is earned. The fees of \$15,000 for summer rentals have not been earned and, therefore, should not be reported in income for the quarter ended March 31. The matching 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 President Nickels:

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 matching 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 3-5 (Continued)

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

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

Signature

- (a) The stakeholders in this situation are:
- ▶ Cathi Bell, controller.
 - ▶ The president of Bluestem Company.
 - ▶ Bluestem Company stockholders.
- (b) 1. It is unethical for the president to place pressure on Cathi 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. Cathi did nothing unethical by dating the adjusting entries December 31.
- (c) Cathi 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 with greater precision 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.