CHAPTER 3

Adjusting the Accounts

ASSIGNMENT CLASSIFICATION TABLE

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

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

ASSIGNMENT CHARACTERISTICS TABLE

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

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CHAPTER 3
ADJUSTING THE ACCOUNTS

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

ADJUSTING THE ACCOUNTS (Continued)

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

BLOOM'S TAXONOMY TABLE

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

Learning Objective	Knowledge	Comprehension		A
1. Explain the time period assumption.	DI3-1	Q3-1	E3-1	
2. Explain the accrual basis of accounting.	DI3-1	Q3-2 Q3-3	Q3-4	Q E
3. Explain the reasons for adjusting entries and identify the major types of adjusting entries.		Q3-6 Q3-7 Q3-8	BE3-1	
4. Prepare adjusting entries for deferrals.		Q3-8 Q3-9 Q3-10 Q3-11 Q3-12 Q3-13 Q3-19 Q3-20		
5. Prepare adjusting entries for accruals.		Q3-8 Q3-14 Q3-15 Q3-19 Q3-20		Q

ANSWERS TO QUESTIONS

1. (a) Under the time period assumption, an accountant is required to determine the relevance of each business transaction to specific accounting periods.
(b) An accounting time period of one year in length is referred to as a fiscal year. A fiscal year that extends from January 1 to December 31 is referred to as a calendar year. Accounting periods of less than one year are called interim periods.

2. The two generally accepted accounting principles that relate to adjusting the accounts are:
The revenue recognition principle, which states that revenue should be recognized in the accounting period in which services are performed.
The expense recognition principle, which states that efforts (expenses) be matched with accomplishments (revenues).

3. The law firm should recognize the revenue in April. The revenue recognition principle states that revenue should be recognized in the accounting period in which services are performed.

4. Information presented on an accrual basis is more useful than on a cash basis because it reveals relationships that are likely to be important in predicting future results. To illustrate, under accrual accounting, revenues are recognized when the performance obligation is satisfied so they can be related to the economic environment in which they occur. Trends in revenues are thus more meaningful.

5. Expenses of $4,500 should be deducted from the revenues in April. Under the expense recognition principle efforts (expenses) should be matched with accomplishments (revenues).

6. No, adjusting entries are required by the revenue recognition and expense recognition principles.

7. A trial balance may not contain up-to-date information for financial statements because:
(1) Some events are not journalized daily because it is not efficient to do so.
(2) The expiration of some costs occurs with the passage of time rather than as a result of daily transactions.
(3) Some items may be unrecorded because the transaction data are not yet known.

8. The two categories of adjusting entries are deferrals and accruals. Deferrals consist of prepaid expenses and unearned revenues. Accruals consist of accrued revenues and accrued expenses.

9. In the adjusting entry for a prepaid expense, an expense is debited and an asset is credited.

10. No. Depreciation is the process of allocating the cost of an asset to expense over its useful life in a rational and systematic manner. Depreciation results in the presentation of the book value of the asset, not its fair value.

11. Depreciation expense is an expense account whose normal balance is a debit. This account shows the cost that has expired during the current accounting period. Accumulated depreciation is a contra asset account whose normal balance is a credit. The balance in this account is the depreciation that has been recognized from the date of acquisition to the balance sheet date.

12.

Equipment	$18,000	
Less: Accumulated Depreciation—Equipment	6,000	$12,000

13. In the adjusting entry for an unearned revenue, a liability is debited and a revenue is credited.

14. Asset and revenue. An asset would be debited and a revenue would be credited.

15. An expense is debited and a liability is credited in the adjusting entry.

16. Net income was understated $200 because prior to adjustment, revenues are understated by $900 and expenses are understated by $700. The difference in this case is $200 ($900 – $700).

17. The entry is:

Jan. 9	Salaries and Wages Payable	2,000	
	Salaries and Wages Expense	3,000	
	Cash..		5,000

18.
- (a) Accrued revenues.
- (b) Unearned revenues.
- (c) Accrued expenses.
- (d) Accrued expenses or prepaid expenses.
- (e) Prepaid expenses.
- (f) Accrued revenues or unearned revenues.

19.
- (a) Salaries and Wages Payable.
- (b) Accumulated Depreciation.
- (c) Interest Expense.
- (d) Supplies Expense.
- (e) Service Revenue.
- (f) Service Revenue.

20. Disagree. An adjusting entry affects only one balance sheet account and one income statement account.

21. Financial statements can be prepared from an adjusted trial balance because the balances of all accounts have been adjusted to show the effects of all financial events that have occurred during the accounting period.

***22.** For Supplies Expense (prepaid expense): expenses are overstated and assets are understated. The adjusting entry is:

Assets (Supplies)	XX	
Expenses (Supplies Expense)...		XX

For Rent Revenue (unearned revenues): revenues are overstated and liabilities are understated. The adjusting entry is:

Revenues (Rent Revenue)	XX	
Liabilities (Unearned Rent Revenue)..		XX

***23.** (a) The primary objective of financial reporting is to provide financial information that is useful to investors and creditors for making decisions about providing capital.

(b) The fundamental qualitative characteristics are relevance and faithful representation. The enhancing qualities are comparability, consistency, verifiability, timeliness, and understandability.

***24.** Gross is correct. Consistency means using the same accounting principles and accounting methods from period to period within a company. Without consistency in the application of accounting principles, it is difficult to determine whether a company is better off, worse off, or the same from period to period.

***25.** Comparability results when different companies use the same accounting principles. Consistency means using the same accounting principles and methods from year to year within the same company.

***26.** The constraint is the cost constraint. The cost constraint allows accounting standard setters to weigh the cost that companies will incur to provide information against the benefit that financial statement users will gain from having the information available.

***27.** Accounting relies primarily on two measurement principles. Fair value is sometimes used when market price information is readily available. However, in many situations reliable market price information is not available. In these instances, accounting relies on cost as its basis.

***28.** The economic entity assumption states that every economic entity can be separately identified and accounted for. This assumption requires that the activities of the entity be kept separate and distinct from (1) the activities of its owners (the shareholders) and (2) all other economic entities. A shareholder of a company charging personal living costs as expenses of the company is an example of a violation of the economic entity assumption.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 3-1

(a) Prepaid Insurance—to recognize insurance expired during the period.

(b) Depreciation Expense—to account for the depreciation that has occurred on the asset during the period.

(c) Unearned Service Revenue—to record revenue earned for services performed.

(d) Interest Payable—to recognize interest accrued but unpaid on notes payable.

BRIEF EXERCISE 3-2

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

BRIEF EXERCISE 3-3

Dec. 31	Supplies Expense	4,200	
	Supplies ($6,700 – $2,500)		4,200

Supplies

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

Supplies Expense

12/31	4,200		

BRIEF EXERCISE 3-4

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

Depreciation Expense			
12/31	4,000		

Accum. Depreciation—Equipment			
		12/31	4,000

Balance Sheet:

Equipment	$30,000	
Less: Accumulated Depreciation— Equipment	4,000	$26,000

BRIEF EXERCISE 3-5

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

Prepaid Insurance			
7/1	14,400	12/31	2,400
12/31 Bal.	12,000		

Insurance Expense			
12/31	2,400		

BRIEF EXERCISE 3-6

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

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

Service Revenue			
		12/31	2,400

BRIEF EXERCISE 3-7

1.	Dec. 31	Interest Expense	400	
		Interest Payable		400
2.	31	Accounts Receivable	1,900	
		Service Revenue		1,900
3.	31	Salaries and Wages Expense	900	
		Salaries and Wages Payable		900

BRIEF EXERCISE 3-8

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

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

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

BRIEF EXERCISE 3-10

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

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

*BRIEF EXERCISE 3-11

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

BRIEF EXERCISE 3-12

(a) Predictive value.
(b) Confirmatory value.
(c) Materiality.
(d) Complete.
(e) Free from error.
(f) Comparability.
(g) Verifiability.
(h) Timeliness.

BRIEF EXERCISE 3-13

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

BRIEF EXERCISE 3-14

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

BRIEF EXERCISE 3-15

(c)

SOLUTIONS FOR DO IT! REVIEW EXERCISES

DO IT! 3-1

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

DO IT! 3-2

1.	Insurance Expense	300	
	Prepaid Insurance		300
	(To record insurance expired)		
2.	Supplies Expense ($2,500 – $1,100)	1,400	
	Supplies		1,400
	(To record supplies used)		
3.	Depreciation Expense	500	
	Accumulated Depreciation—Equipment		500
	(To record monthly depreciation)		
4.	Unearned Service Revenue ($9,000 x 2/5)	3,600	
	Service Revenue		3,600
	(To record revenue for services provided)		

DO IT! 3-3

1.	Salaries and Wages Expense	1,300	
	Salaries and Wages Payable		1,300
	(To record accrued salaries)		
2.	Interest Expense ($20,000 x .12 x 1/12)	200	
	Interest Payable		200
	(To record accrued interest)		
3.	Accounts Receivable	2,400	
	Service Revenue		2,400
	(To record revenue for service provided)		

DO IT! 3-4

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

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

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

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

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

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

Owner's capital, April 1		**$ –0–**
Add: Investments..	**$11,200**	
Net income	**2,550**	**13,750**
Less: Drawings		**500**
Owner's capital, June 30		**$13,250**

SOLUTIONS TO EXERCISES

EXERCISE 3-1

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

EXERCISE 3-2

(a) Accrual-basis accounting records the transactions that change a company's financial statements in the periods in which the events occur rather than in the periods in which the company receives or pays cash. Information presented on an accrual basis is useful because it reveals relationships that are likely to be important in predicting future results. Conversely, under cash-basis accounting, revenue is recorded only when cash is received, and an expense is recognized only when cash is paid. As a result, the cash basis of accounting often leads to misleading financial statements.

(b) Politicians might desire a cash-basis accounting system over an accrual-basis system because if an accrual-accounting system is used, it could mean that billions in government liabilities presently unrecorded would have to be reported in the federal budget immediately. The recognition of these additional liabilities would make the deficit even worse. This is not what politicians would like to see and be held responsible for.

EXERCISE 3-2 (Continued)

(c) Dear Senator,

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

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

Sincerely,

CONCERNED STUDENT

EXERCISE 3-3

(a)	Cash received from revenue	$105,000
	Cash paid for expenses	(72,000)
	Cash-basis net income	$ 33,000
(b)	Revenues [($105,000 – $25,000) + $40,000]	$120,000
	Expenses [($72,000 – $30,000) + $42,000]	(84,000)
	Accrual-basis net income	$ 36,000

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

		Debit	Credit
1.	Interest Expense	400	
	Interest Payable		
	($10,000 X 12% X 4/12)		400
2.	Supplies Expense	1,550	
	Supplies ($2,450 – $900)		1,550
3.	Depreciation Expense	1,000	
	Accumulated Depreciation—Equipment		1,000
4.	Insurance Expense	1,225	
	Prepaid Insurance		
	($2,100 X 7/12)		1,225
5.	Unearned Service Revenue	7,500	
	Service Revenue		
	($30,000 X 1/4)		7,500
6.	Accounts Receivable	4,200	
	Service Revenue		4,200
7.	Salaries and Wages Expense	5,400	
	Salaries and Wages Payable		
	($9,000 X 3/5)		5,400

EXERCISE 3-6

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

EXERCISE 3-7

1.	Mar. 31	Depreciation Expense ($400 X 3)	1,200	
		Accumulated Depreciation—Equipment		1,200
2.	31	Unearned Rent Revenue	3,400	
		Rent Revenue ($10,200 X 1/3)		3,400
3.	31	Interest Expense	500	
		Interest Payable		500
4.	31	Supplies Expense	1,900	
		Supplies ($2,800 – $900)		1,900
5.	31	Insurance Expense ($200 X 3)	600	
		Prepaid Insurance		600

EXERCISE 3-8

1.	Jan. 31	Accounts Receivable	875	
		Service Revenue		875
2.	31	Utilities Expense	650	
		Utilities Payable		650
3.	31	Depreciation Expense	400	
		Accumulated Depreciation—Equipment		400
	31	Interest Expense	500	
		Interest Payable		500
4.	31	Insurance Expense ($24,000 ÷ 12)	2,000	
		Prepaid Insurance		2,000
5.	31	Supplies Expense ($1,600 – $400)	1,200	
		Supplies		1,200

EXERCISE 3-9

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

EXERCISE 3-9 (Continued)

6.	Oct. 31	Interest Expense	95	
		Interest Payable..............................		95
7.	31	Salaries and Wages Expense	1,625	
		Salaries and Wages Payable		1,625

EXERCISE 3-10

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

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

EXERCISE 3-11

Answer	Computation	
(a) Supplies balance = $800	Supplies expense	$ 950
	Add: Supplies (1/31)	850
	Less: Supplies purchased	(1,000)
	Supplies (1/1)	$ 800
(b) Total premium = $4,800	Total premium = Monthly premium X 12; $400 X 12 = $4,800	
Purchase date = Aug. 1, 2013	Purchase date: On Jan. 31, there are 6 months' coverage remaining ($400 X 6). Thus, the purchase date was 6 months earlier on Aug. 1, 2013.	

EXERCISE 3-11 (Continued)

(c) Salaries and wages payable = $1,400

Cash paid	$3,500
Salaries and wages payable (1/31/14)	800
	4,300
Less: Salaries and wages expense	2,900
Salaries and wages payable (12/31/13)	$1,400

EXERCISE 3-12

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

EXERCISE 3-13

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

EXERCISE 3-14

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

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

EXERCISE 3-14 (Continued)

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

Owner's capital, September 1, 2013	$15,600
Add: Net income	11,000
Owner's capital, August 31, 2014	$26,600

FRINZI COMPANY
Balance Sheet
August 31, 2014

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

Liabilities and Owner's Equity	
Liabilities	
Accounts payable	$ 5,800
Salaries and wages payable	1,100
Unearned rent revenue	600
Total liabilities	7,500
Owner's equity	
Owner's capital	26,600
Total liabilities and owner's equity	$34,100

EXERCISE 3-15

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

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

*EXERCISE 3-16

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

*EXERCISE 3-17

(a)

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

Cash

1/15	6,100	1/2	1,920
		1/10	1,700

Service Revenue

		1/15	6,100

Insurance Expense

1/2	1,920		

Supplies Expense

1/10	1,700		

(b)

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

Prepaid Insurance

1/31	1,760		

Supplies

1/31	650		

Unearned Service Revenue

		1/31	3,600

Insurance Expense

1/2	1,920	1/31	1,760
Bal.	160		

Supplies Expense

1/10	1,700	1/31	650
Bal.	1,050		

Service Revenue

1/31	3,600	1/15	6,100
		Bal.	2,500

(c)

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

*EXERCISE 3-18

(a) __2__ Going concern assumption
(b) __6__ Economic entity assumption
(c) __3__ Monetary unit assumption
(d) __4__ Time period assumption
(e) __5__ Historical cost principle
(f) __1__ Full disclosure principle

*EXERCISE 3-19

(a) This is a violation of the historical cost principle. The inventory was written up to its fair value when it should have remained at cost.

(b) This is a violation of the economic entity assumption. The treatment of the transaction treats Jay Rosman and Rosman Co. as one entity when they are two separate entities. Salaries and Wages Expense should have been debited for the purchase of the truck.

(c) This is a violation of the time period assumption. This assumption states that the economic life of a business can be divided into artificial time periods (months, quarters, or a year). By adding two more weeks to the year, Rosman Co. would be misleading financial statement readers. In addition, 2014 results would not be comparable to previous years' results. The company should use a 52 week year.

*EXERCISE 3-20

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

***EXERCISE 3-21**

(a) The primary objective of financial reporting is to provide financial information that is useful to investors and creditors for making decisions about providing capital. Since Net Nanny's shares appear to be actively traded, investors must be capable of using the information made available by Net Nanny to make decisions about the company.

(b) The investors must feel as if the company will show earnings in the future. They must recognize that information relevant to their investment choice is indicated by more than Net Nanny's net income.

(c) The change from Canadian dollars to U.S. dollars for reporting purposes should make Net Nanny more comparable with companies traded on U.S. stock exchanges.

***EXERCISE 3-22**

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

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

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

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

SOLUTIONS TO PROBLEMS

PROBLEM 3-1A

(a)

J4

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

(b)

Cash No. 101

Date		Explanation	Ref.	Debit	Credit	Balance
2014						
May	31	Balance	✓			4,500

PROBLEM 3-1A (Continued)

Accounts Receivable **No. 112**

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

Supplies **No. 126**

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

Prepaid Insurance **No. 130**

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

Equipment **No. 149**

Date		Explanation	Ref.	Debit	Credit	Balance
2014						
May	31	Balance	✓			11,400

Accumulated Depreciation—Equipment **No. 150**

Date		Explanation	Ref.	Debit	Credit	Balance
2014						
May	31	Adjusting	J4		190	190

PROBLEM 3-1A (Continued)

Accounts Payable **No. 201**

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

Unearned Service Revenue **No. 209**

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

Salaries and Wages Payable **No. 212**

Date		Explanation	Ref.	Debit	Credit	Balance
2014						
May	31	Adjusting	J4		1,080	1,080

Owner's Capital **No. 301**

Date		Explanation	Ref.	Debit	Credit	Balance
2014						
May	31	Balance	✓			17,700

Service Revenue **No. 400**

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

Supplies Expense **No. 631**

Date		Explanation	Ref.	Debit	Credit	Balance
2014						
May	31	Adjusting	J4	900		900

PROBLEM 3-1A (Continued)

Depreciation Expense **No. 717**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
May 31	Adjusting	J4	190		190

Insurance Expense **No. 722**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
May 31	Adjusting	J4	150		150

Salaries and Wages Expense **726**

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

Rent Expense **No. 729**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
May 31	Balance	✓			900

Utilities Expense **No. 736**

Date	Explanation	Ref.	Debit	Credit	Balance
2014					
May 31	Adjusting	J4	250		250

(c)

NARDELLI CONSULTING
Adjusted Trial Balance
May 31, 2014

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

PROBLEM 3-2A

(a)

J1

Date	Account Titles	Ref.	Debit	Credit
May 31	Insurance Expense	722	200	
	Prepaid Insurance ($2,400 X 1/12)	130		200
31	Supplies Expense	631	1,330	
	Supplies ($2,080 – $750)	126		1,330
31	Depreciation Expense ($3,000 X 1/12) + ($1,500 X 1/12)	619	375	
	Accumulated Depreciation—Buildings	142		250
	Accumulated Depreciation—Equipment	150		125
31	Interest Expense	718	400	
	Interest Payable [($40,000 X 12%) X 1/12]	230		400
31	Unearned Rent Revenue	208	2,200	
	Rent Revenue (2/3 X $3,300)	429		2,200
31	Salaries and Wages Expense	726	750	
	Salaries and Wages Payable	212		750

(b)

Cash No. 101

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

PROBLEM 3-2A (Continued)

Supplies **No. 126**

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

Prepaid Insurance **No. 130**

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

Land **No. 140**

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

Buildings **No. 141**

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

Accumulated Depreciation—Buildings **No. 142**

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

Equipment **No. 149**

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

Accumulated Depreciation—Equipment **No. 150**

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

PROBLEM 3-2A (Continued)

Accounts Payable **No. 201**

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

Unearned Rent Revenue **No. 208**

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

Salaries and Wages Payable **No. 212**

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

Interest Payable **No. 230**

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

Mortgage Payable **No. 275**

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

Owner's Capital **No. 301**

Date		Explanation	Ref.	Debit	Credit	Balance
May	31	Balance	✓			41,380

Rent Revenue **No. 429**

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

PROBLEM 3-2A (Continued)

Advertising Expense **No. 610**

Date		Explanation	Ref.	Debit	Credit	Balance
May	31	Balance	✓			600

Depreciation Expense **No. 619**

Date		Explanation	Ref.	Debit	Credit	Balance
May	31	Adjusting	J1	375		375

Supplies Expense **No. 631**

Date		Explanation	Ref.	Debit	Credit	Balance
May	31	Adjusting	J1	1,330		1,330

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 and Wages Expense **No. 726**

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

Utilities Expense **No. 732**

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

(c)

SKYLINE MOTEL
Adjusted Trial Balance
May 31, 2014

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

(d)

SKYLINE MOTEL
Income Statement
For the Month Ended May 31, 2014

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

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

Owner's capital, May 1	$ 0
Investment by owner	41,380
	41,380
Add: Net income	4,645
Owner's capital, May 31	$46,025

PROBLEM 3-2A (Continued)

SKYLINE MOTEL
Balance Sheet
May 31, 2014

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

PROBLEM 3-3A

(a)

Sept. 30	Accounts Receivable		1,100	
	Service Revenue			1,100
30	Rent Expense		1,000	
	Prepaid Rent			1,000
30	Supplies Expense		850	
	Supplies			850
30	Depreciation Expense		700	
	Accum. Depreciation—Equipment			700
30	Interest Expense		100	
	Interest Payable			100
30	Unearned Rent Revenue		850	
	Rent Revenue			850
30	Salaries and Wages Expense		725	
	Salaries and Wages Payable			725

(b)

EVERETT CO.
Income Statement
For the Quarter Ended September 30, 2014

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

PROBLEM 3-3A (Continued)

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

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

EVERETT CO.
Balance Sheet
September 30, 2014

Assets		
Cash		$ 8,700
Accounts receivable		11,500
Supplies		650
Prepaid rent		1,200
Equipment	$18,000	
Less: Accum. depreciation—equipment	700	17,300
Total assets		$39,350
Liabilities and Owner's Equity		
Liabilities		
Notes payable		$10,000
Accounts payable		2,500
Salaries and wages payable		725
Unearned rent revenue		1,050
Interest payable		100
Total liabilities		14,375
Owner's equity		
Owner's capital		24,975
Total liabilities and owner's equity		$39,350

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

PROBLEM 3-4A

			Debit	Credit
1.	Dec. 31	Insurance Expense	4,890	
		Prepaid Insurance		4,890
		[($7,920 ÷ 3) = $2,640		
		($4,500 ÷ 2) = 2,250		
		$4,890]		
2.	Dec. 31	Unearned Rent Revenue	84,000	
		Rent Revenue		84,000
		Nov. 5 X $5,000 X 2 = $50,000		
		Dec. 4 X $8,500 X 1 = 34,000		
		$84,000		
3.	Dec. 31	Interest Expense	1,800	
		Interest Payable		
		($120,000 X 9% X 2/12)		1,800
4.	Dec. 31	Salaries and Wages Expense	2,000	
		Salaries and Wages Payable		2,000
		[5 X $700 X 2/5 = $1,400		
		3 X $500 X 2/5 = 600		
		$2,000]		

PROBLEM 3-5A

(a), (c) & (e)

Cash No. 101

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	1	Balance	✓			2,400
	8		J1		1,700	700
	10		J1	3,420		4,120
	12		J1	3,100		7,220
	20		J1		2,700	4,520
	22		J1		400	4,120
	25		J1		1,700	2,420
	29		J1	600		3,020

Accounts Receivable No. 112

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	1	Balance	✓			4,250
	10		J1		3,420	830
	27		J1	1,900		2,730

Supplies No. 126

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	1	Balance	✓			1,800
	17		J1	700		2,500
	30	Adjusting	J1		1,100	1,400

Equipment No. 153

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	1	Balance	✓			12,000
	15		J1	2,000		14,000

Accumulated Depreciation—Equipment **No. 154**

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

Accounts Payable **No. 201**

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

Unearned Service Revenue **No. 209**

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	1	Balance	✓			1,200
	29		J1		600	1,800
	30	Adjusting	J1	1,250		550

Salaries and Wages Payable **No. 212**

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

Owner's Capital **No. 301**

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

PROBLEM 3-5A (Continued)

Service Revenue **No. 407**

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	12		J1		3,100	3,100
	27		J1		1,900	5,000
	30	Adjusting	J1		1,250	6,250

Depreciation Expense **No. 615**

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

Supplies Expense **No. 631**

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

Salaries and Wages Expense **No. 726**

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	8		J1	1,000		1,000
	25		J1	1,700		2,700
	30	Adjusting	J1	350		3,050

Rent Expense **No. 729**

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	22		J1	400		400

PROBLEM 3-5A (Continued)

(b) General Journal

J1

Date		Account Titles and Explanation	Ref.	Debit	Credit
Nov.	8	Salaries and Wages Payable	212	700	
		Salaries and Wages Expense	726	1,000	
		Cash	101		1,700
	10	Cash	101	3,420	
		Accounts Receivable	112		3,420
	12	Cash	101	3,100	
		Service Revenue	407		3,100
	15	Equipment	153	2,000	
		Accounts Payable	201		2,000
	17	Supplies	126	700	
		Accounts Payable	201		700
	20	Accounts Payable	201	2,700	
		Cash	101		2,700
	22	Rent Expense	729	400	
		Cash	101		400
	25	Salaries and Wages Expense	726	1,700	
		Cash	101		1,700
	27	Accounts Receivable	112	1,900	
		Service Revenue	407		1,900
	29	Cash	101	600	
		Unearned Service Revenue	209		600

(d) & (f)

SCHILLING EQUIPMENT REPAIR
Trial Balances
November 30, 2014

	Before Adjustment		After Adjustment	
	Dr.	Cr.	Dr.	Cr.
Cash	$ 3,020		$ 3,020	
Accounts Receivable	2,730		2,730	
Supplies	2,500		1,400	
Equipment	14,000		14,000	
Accumulated Depreciation—Equipment		$ 2,000		$ 2,200
Accounts Payable		2,600		2,600
Unearned Service Revenue		1,800		550
Salaries and Wages Payable		–0–		350
Owner's Capital		13,950		13,950
Service Revenue		5,000		6,250
Depreciation Expense			200	
Supplies Expense			1,100	
Salaries and Wages Expense	2,700		3,050	
Rent Expense	400		400	
	$25,350	$25,350	$25,900	$25,900

(e)

1.	Nov.	30	Supplies Expense	631	1,100	
			Supplies ($2,500 – $1,400)	126		1,100
2.		30	Salaries and Wages Expense	726	350	
			Salaries and Wages Payable	212		350
3.		30	Depreciation Expense	615	200	
			Accumulated Depreciation—Equipment	154		200
4.		30	Unearned Service Revenue	209	1,250	
			Service Revenue	407		1,250

(g)

SCHILLING EQUIPMENT REPAIR
Income Statement
For the Month Ended November 30, 2014

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

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

Owner's capital, November 1	$13,950
Plus: Net income	1,500
Owner's capital, November 30	$15,450

PROBLEM 3-5A (Continued)

SCHILLING EQUIPMENT REPAIR
Balance Sheet
November 30, 2014

Assets

Cash		$ 3,020
Accounts receivable		2,730
Supplies		1,400
Equipment	$14,000	
Less: Accumulated depreciation—equipment	2,200	11,800
Total assets		$18,950

Liabilities and Owner's Equity

Liabilities	
Accounts payable	$ 2,600
Unearned service revenue	550
Salaries and wages payable	350
Total liabilities	3,500
Owner's equity	
Owner's capital	15,450
Total liabilities and owner's equity	$18,950

*PROBLEM 3-6A

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

*PROBLEM 3-6A (Continued)

(b)

SOMMER GRAPHICS COMPANY
Adjusted Trial Balance
June 30, 2014

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

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

(c)

SOMMER GRAPHICS COMPANY
Income Statement
For the Six Months Ended June 30, 2014

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

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

Owner's capital, January 1	$ 0
Investment by owner	22,000
	22,000
Add: Net income	18,725
Owner's capital, June 30	$40,725

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

SOMMER GRAPHICS COMPANY
Balance Sheet
June 30, 2014

Assets		
Cash		$ 8,600
Accounts receivable		16,000
Supplies		1,500
Prepaid insurance		1,800
Equipment	$45,000	
Less: Accumulated depreciation—equipment	1,125	43,875
Total assets		$71,775
Liabilities and Owner's Equity		
Liabilities		
Notes payable		$20,000
Accounts payable		9,000
Unearned service revenue		1,300
Interest payable		750
Total liabilities		31,050
Owner's equity		
Owner's capital		40,725
Total liabilities and owner's equity		$71,775

PROBLEM 3-1B

(a)

J3

Date		Account Titles and Explanation	Ref.	Debit	Credit
2014					
June	30	Supplies Expense	631	1,250	
		Supplies ($2,000 – $750)	126		1,250
	30	Utilities Expense	732	150	
		Accounts Payable	201		150
	30	Insurance Expense	722	250	
		Prepaid Insurance ($3,000 ÷ 12 months)	130		250
	30	Unearned Service Revenue	209	2,800	
		Service Revenue	400		2,800
	30	Salaries and Wages Expense	726	1,900	
		Salaries and Wages Payable	212		1,900
	30	Depreciation Expense	711	250	
		Accumulated Depreciation—Equipment	158		250
	30	Accounts Receivable	112	1,200	
		Service Revenue	400		1,200

PROBLEM 3-1B (Continued)

(b)

Cash					**No. 101**
Date	**Explanation**	**Ref.**	**Debit**	**Credit**	**Balance**
2014					
June 30	**Balance**	✓			**7,150**

Accounts Receivable					**No. 112**
Date	**Explanation**	**Ref.**	**Debit**	**Credit**	**Balance**
2014					
June 30	**Balance**	✓			**6,000**
30	**Adjusting**	**J3**	**1,200**		**7,200**

Supplies					**No. 126**
Date	**Explanation**	**Ref.**	**Debit**	**Credit**	**Balance**
2014					
June 30	**Balance**	✓			**2,000**
30	**Adjusting**	**J3**		**1,250**	**750**

Prepaid Insurance					**No. 130**
Date	**Explanation**	**Ref.**	**Debit**	**Credit**	**Balance**
2014					
June 30	**Balance**	✓			**3,000**
30	**Adjusting**	**J3**		**250**	**2,750**

Equipment					**No. 157**
Date	**Explanation**	**Ref.**	**Debit**	**Credit**	**Balance**
2014					
June 30	**Balance**	✓			**15,000**

Accumulated Depreciation—Equipment					**No. 158**
Date	**Explanation**	**Ref.**	**Debit**	**Credit**	**Balance**
2014					
June 30	**Adjusting**	**J3**		**250**	**250**

PROBLEM 3-1B (Continued)

Accounts Payable **No. 201**

Date		Explanation	Ref.	Debit	Credit	Balance
2014						
June	30	Balance	✓			4,500
	30	Adjusting	J3		150	4,650

Unearned Service Revenue **No. 209**

Date		Explanation	Ref.	Debit	Credit	Balance
2014						
June	30	Balance	✓			4,000
	30	Adjusting	J3	2,800		1,200

Salaries and Wages Payable **No. 212**

Date		Explanation	Ref.	Debit	Credit	Balance
2014						
June	30	Adjusting	J3		1,900	1,900

Owner's Capital **No. 301**

Date		Explanation	Ref.	Debit	Credit	Balance
2014						
June	30	Balance	✓			21,750

Service Revenue **No. 400**

Date		Explanation	Ref.	Debit	Credit	Balance
2014						
June	30	Balance	✓			7,900
	30	Adjusting	J3		2,800	10,700
	30	Adjusting	J3		1,200	11,900

PROBLEM 3-1B (Continued)

Supplies Expense **No. 631**

Date		Explanation	Ref.	Debit	Credit	Balance
2014						
June	30	Adjusting	J3	1,250		1,250

Depreciation Expense **No. 711**

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

Insurance Expense **No. 722**

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

Salaries and Wages Expense **No. 726**

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

Rent Expense **No. 729**

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

Utilities Expense **No. 732**

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

(c)

ELSNER COMPANY
Adjusted Trial Balance
June 30, 2014

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

PROBLEM 3-2B

(a)

J1

Date		Account Titles and Explanation	Ref.	Debit	Credit
Aug.	31	Insurance Expense ($300 X 3)	722	900	
		Prepaid Insurance	130		900
	31	Supplies Expense ($3,300 – $800).......	631	2,500	
		Supplies	126		2,500
	31	Depreciation Expense			
		($6,000 X 1/4) + ($2,400 X 1/4)	620	2,100	
		Accumulated Depreciation—			
		Buildings	144		1,500
		Accumulated Depreciation—			
		Equipment	150		600
	31	Unearned Rent Revenue	208	4,800	
		Rent Revenue	429		4,800
	31	Salaries and Wages Expense	726	400	
		Salaries and Wages Payable ...	212		400
	31	Accounts Receivable	112	4,000	
		Rent Revenue	429		4,000
	31	Interest Expense................................	718	600	
		Interest Payable			
		[($80,000 X 9%) X 1/12]	230		600

(b)

Cash — No. 101

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Balance	✓			19,600

PROBLEM 3-2B (Continued)

Accounts Receivable **No. 112**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Adjusting	J1	4,000		4,000

Supplies **No. 126**

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

Prepaid Insurance **No. 130**

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

Land **No. 140**

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

Buildings **No. 143**

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

Accumulated Depreciation—Buildings **No. 144**

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

Equipment **No. 149**

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

PROBLEM 3-2B (Continued)

Accumulated Depreciation—Equipment 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 Revenue No. 208

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

Salaries and Wages Payable No. 212

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

Interest Payable No. 230

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

Mortgage Payable No. 275

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

Owner's Capital No. 301

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

PROBLEM 3-2B (Continued)

Owner's Drawings **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		4,800	84,800
	31	Adjusting	J1		4,000	88,800

Depreciation Expense **No. 620**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Adjusting	J1	2,100		2,100

Maintenance and Repairs Expense **No. 622**

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

Supplies Expense **No. 631**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Adjusting	J1	2,500		2,500

Interest Expense **No. 718**

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

Insurance Expense **No. 722**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Adjusting	J1	900		900

PROBLEM 3-2B (Continued)

Salaries and Wages Expense — No. 726

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

Utilities Expense — No. 732

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

(c)

MAQUOKETA RIVER RESORT
Adjusted Trial Balance
August 31, 2014

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

(d)

MAQUOKETA RIVER RESORT
Income Statement
For the Three Months Ended August 31, 2014

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

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

Owner's Capital, June 1		$ 0
Investment by owner	$100,000	
Add: Net income	18,300	118,300
		118,300
Less: Drawings		5,000
Owner's Capital, August 31		$113,300

PROBLEM 3-2B (Continued)

MAQUOKETA RIVER RESORT
Balance Sheet
August 31, 2014

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

PROBLEM 3-3B

(a)

Date	Account	Debit	Credit
Dec. 31	Accounts Receivable	1,500	
	Service Revenue		1,500
31	Unearned Service Revenue	1,300	
	Service Revenue		1,300
31	Supplies Expense	3,800	
	Supplies		3,800
31	Depreciation Expense	6,000	
	Accumulated Depreciation— Equipment		6,000
31	Interest Expense	150	
	Interest Payable		150
31	Insurance Expense	850	
	Prepaid Insurance		850
31	Salaries and Wages Expense	2,100	
	Salaries and Wages Payable		2,100

(b)

DELGADO ADVERTISING AGENCY
Income Statement
For the Year Ended December 31, 2014

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

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

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

DELGADO ADVERTISING AGENCY
Balance Sheet
December 31, 2014

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

PROBLEM 3-3B (Continued)

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

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

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

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

$R = 6\%$

(2) **Salaries and Wages Expense, $12,100 less Salaries and Wages Payable 12/31/14, $2,100 = $10,000. Total payments, $12,500 – $10,000 = $2,500 Salaries and Wages Payable 12/31/13.**

PROBLEM 3-4B

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

PROBLEM 3-5B

(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	2,100		4,420

Supplies **No. 126**

Date		Explanation	Ref.	Debit	Credit	Balance
Sept.	1	Balance	✓			2,000
	17		J1	1,200		3,200
	30	Adjusting	J1		1,900	1,300

Equipment **No. 153**

Date		Explanation	Ref.	Debit	Credit	Balance
Sept.	1	Balance	✓			15,000
	15		J1	3,000		18,000

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 and Wages Payable **No. 212**

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

Owner's Capital **No. 301**

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

PROBLEM 3-5B (Continued)

Service Revenue **No. 407**

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

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	1,900		1,900

Salaries and Wages Expense **No. 726**

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

Rent Expense **No. 729**

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

PROBLEM 3-5B (Continued)

(b) **General Journal**

J1

Date	Account Titles	Ref.	Debit	Credit
Sept. 8	Salaries and Wages Payable	212	500	
	Salaries and Wages 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	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 and Wages Expense	726	1,250	
	Cash	101		1,250
27	Accounts Receivable	112	2,100	
	Service Revenue	407		2,100
29	Cash	101	650	
	Unearned Service Revenue	209		650

(d) & (f)

PERCY EQUIPMENT REPAIR
Trial Balances
September 30, 2014

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

(e)

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

(g)

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

Revenues		
Service revenue		$6,950
Expenses		
Salaries and wages expense	$2,450	
Supplies expense	1,900	
Rent expense	500	
Depreciation expense	100	
Total expenses		4,950
Net income		$2,000

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

Owner's capital, September 1	$18,600
Add: Net income	2,000
Owner's capital, September 30	$20,600

PERCY EQUIPMENT REPAIR
Balance Sheet
September 30, 2014

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

CCC3 CONTINUING COOKIE CHRONICLE

(a)

GENERAL JOURNAL J2

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

CCC3 (Continued)

(a) (Continued)

Cash

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

Accounts Receivable

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

Supplies

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

Prepaid Insurance

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

Equipment

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

Accumulated Depreciation—Equipment

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

CCC3 (Continued)

(a) (Continued)

Accounts Payable

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

Interest Payable

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

Unearned Service Revenue

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

Notes Payable

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

Owner's Capital

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

Service Revenue

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

CCC3 (Continued)

(a) (Continued)

Utilities Expense

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

Advertising Expense

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30		J2	65		65

Supplies Expense

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

Depreciation Expense

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

Interest Expense

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

CCC3 (Continued)

(b)

COOKIE CREATIONS
Adjusted Trial Balance
November 30, 2013

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

CCC3 (Continued)

(c)

Revenues		
Service revenue		$425
Expenses		
Advertising expense	$65	
Utilities expense	45	
Supplies expense	35	
Depreciation expense	20	
Interest expense	5	170
Net income		$255

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

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

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

Owner's Capital, November 1, 2013	$ 0
Add: Investment	800
Net income	255
Owner's Capital, November 30, 2013	$1,055

(c) (Continued)

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

COOKIE CREATIONS
Balance Sheet
November 30, 2013

Assets

Cash		$ 245
Accounts receivable		300
Supplies		90
Prepaid insurance		1,320
Equipment	$1,200	
Less: Accumulated depreciation—equipment	20	1,180
Total assets		$3,135

Liabilities and Owner's Equity

Liabilities	
Notes payable	$2,000
Accounts payable	45
Unearned service revenue	30
Interest payable	5
Total liabilities	2,080
Owner's equity	
Owner's capital	1,055
Total liabilities and owner's equity	$3,135

BYP 3-1 FINANCIAL REPORTING PROBLEM

(a) Items that may result in adjusting entries for prepayments are:

1. Other current assets (per balance sheet).
2. Property, plant and equipment, net (per balance sheet).
3. Acquired intangible assets, net (per balance sheet)—amortization is similar to depreciation (explained later in Chapter 10).

(b) Accrual adjusting entries were probably made for accounts payable accrued expenses, and income taxes payable.

(c) Apple's net income increased substantially since 2009. Its net income increased by $5,778 million from 2009 to 2010, and by $11,909 million from 2010 to 2011. Apple's net income more than tripled from 2009 to 2011.

BYP 3-2 COMPARATIVE ANALYSIS PROBLEM

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

BYP 3-3 COMPARATIVE ANALYSIS PROBLEM

1.

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

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

BYP 3-4 REAL–WORLD FOCUS

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

BYP 3-5 REAL-WORLD FOCUS

(a) **Many large companies, big accounting firms, and accounting standard setters tend to favor a switch to IFRS because they believe that global accounting standards would save companies money by consolidating their bookkeeping. They also believe it would make it easier to raise capital around the world. In addition, investors would have less trouble comparing companies from different countries. They also feel that having international accounting standards would lead to an improvement in the enforcement of securities laws.**

(b) **Many small companies are opposed to switching to IFRS because (1) they say that the switch would be very costly, and (2) because they don't have operations outside of the U.S., so they see any benefit to their company of using international standards.**

(c) **It has been suggested that IFRS lacks standards that are specific to utility companies that U.S. GAAP contains.**

(d) **Condorsement (a word invented by the SEC) represents a combination of convergence and endorsement. Under condorsement, U.S. standard setters would continue to work with international standard setters to try to reduce differences in standards. In addition, as new international standards are issued, U.S. standard setters would review those standards and consider whether to endorse them by absorbing them into U.S. GAAP.**

BYP 3-6 DECISION MAKING ACROSS THE ORGANIZATION

(a)

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

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

(b) The generally accepted accounting principles pertaining to the income statement that were not recognized by Amaya were the revenue recognition principle and the expense recognition principle. The revenue recognition principle states that revenue is recognized when the performance obligation is satisfied. The $15,000 for summer rentals has not been performed and, therefore, should not be reported in income for the quarter ended March 31. The expense recognition principle dictates that efforts (expenses) be matched with accomplishments (revenues) whenever it is reasonable and practicable to do so. This means that the expenses should include amounts incurred in March but not paid until April. The difference in expenses was $7,750 ($48,450 – $40,700). The overstatement of revenues ($15,000) plus the understatement of expenses ($7,750) equals the difference in reported income of $22,750 ($49,300 – $26,550).

BYP 3-7 COMMUNICATION ACTIVITY

Dear Ms. Hall:

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

Adjusting entries are made at the end of the accounting period to ensure that the revenue recognition and expense recognition principles required under generally accepted accounting principles are followed. The use of adjusting entries makes it possible to report on the balance sheet the appropriate assets, liabilities, and owner's equity at the statement date and to report on the income statement the proper net income (or loss) for the year.

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

1. Some events are not journalized daily because it is not efficient to do so. Examples are the use of supplies and the earning of wages by employees.

2. The expiration of some costs is not journalized during the accounting period because these costs expire with the passage of time rather than as a result of recurring daily transactions. Examples of such costs are building and equipment depreciation, rent, and insurance.

3. Some expenses, such as the cost of utility service and property taxes, may be unrecorded because the bills for the costs have not been received.

There are four types of adjusting entries:

1. Prepaid expenses—expenses paid in cash and recorded as assets before they are used or consumed.

2. Unearned revenues—revenues received in cash and recorded as liabilities before they are earned.

BYP 3-7 (Continued)

3. **Accrued revenues—revenues earned but not yet received in cash or recorded.**

4. **Accrued expenses—expenses incurred but not yet paid in cash or recorded.**

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

Signature

BYP 3-8 ETHICS CASE

(a) The stakeholders in this situation are:

- **Melissa Ray, controller.**
- **The president of Kellner Company.**
- **Kellner Company stockholders.**

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

2. It is customary for adjusting entries to be dated as of the balance sheet date although the entries are prepared at a later date. Melissa did nothing unethical by dating the adjusting entries December 31.

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

BYP 3-9	ALL ABOUT YOU

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

(a) By taking out the bank loan your friend has incurred a liability. You do not have a liability unless your friend defaults, or unless it becomes clear that he will default. The loan application may, however, require you to disclose any guarantees that you have signed, since they represent potential liabilities.

(b) Accounting standards have specific requirements regarding accounting for situations where there is uncertainty regarding whether a liability has been incurred. Those standards require an evaluation of the probability of an amount being owed. Without going into detail regarding those standards, the basic idea is that if it is probable that you will owe money, then you should accrue a liability. If it is not probable, but it is possible that you will owe money, then you should disclose facts regarding the situation. The most important point is that this event has the potential to materially impact your finances, and therefore you have a responsibility to disclose it to the bank in some form.

(c) Losing your job would not create a financial liability, although it would most certainly reduce your revenues. You are obviously concerned that you might lose your job, but you don't have specific information that would suggest that it will happen. Therefore, you probably don't have an obligation to disclose this information to the bank. However, unless you are relatively certain that you would be able to find suitable employment relatively quickly, you might want to wait until your job situation has stabilized before pursuing a loan of this size.

BYP 3-10 CONSIDERING PEOPLE, PLANET, AND PROFIT

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

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

BYP 3-11 FASB CODIFICATION ACTIVITY

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

(b) Compensation is recripocal transfers of cash or other assets in exchange for services performed.

IFRS CONCEPTS AND APPLICATION

IFRS3-1

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

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

IFRS3-2

IFRS uses the term income to encompass both revenues and gains. GAAP defines income as the net difference between revenues and expenses. In addition, GAAP classifies revenues as the economic benefit that arises from an entity's normal operating activities and gains as the benefits associated with activities outside the normal sales of goods and services.

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

IFRS 3-3 INTERNATIONAL FINANCIAL REPORTING PROBLEM

(a) **Note 3.7 indicates that revenue is measured as the fair value of consideration received or receivable by the Group for goods supplied net of sales rebates and excluding VAT and trade discounts.**

(b) **Note 3.7 states that revenue from the sale of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods.**

(c) **Zetar Plc could have adjustments for prepayments such as:**
Depreciation expense, Amortisation of intangible assets, and Deferred tax assets.

(d) **Zetar Plc could have adjustments for accruals such as:**
Finance costs (interest expense), Tax liabilities, and Trade and other payables.