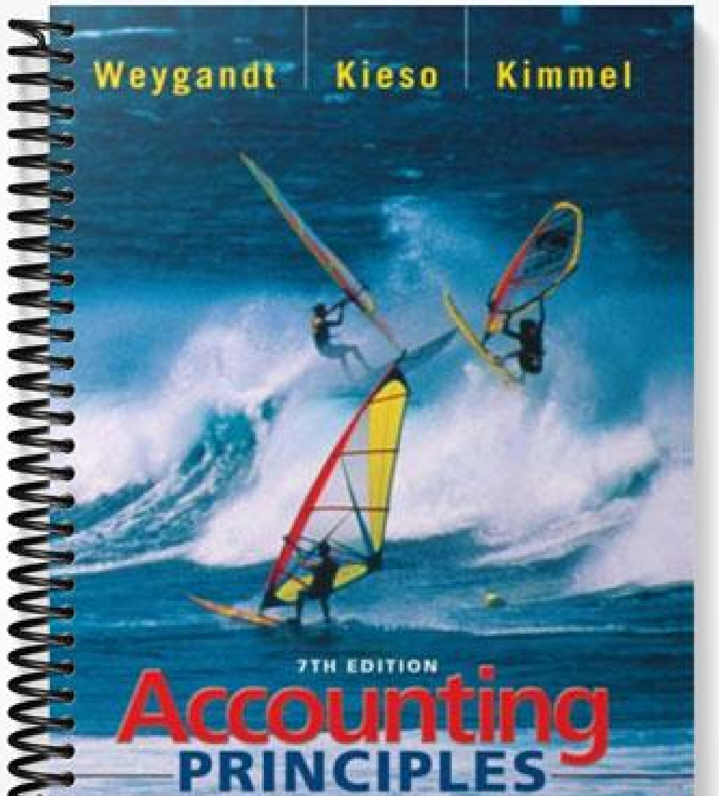
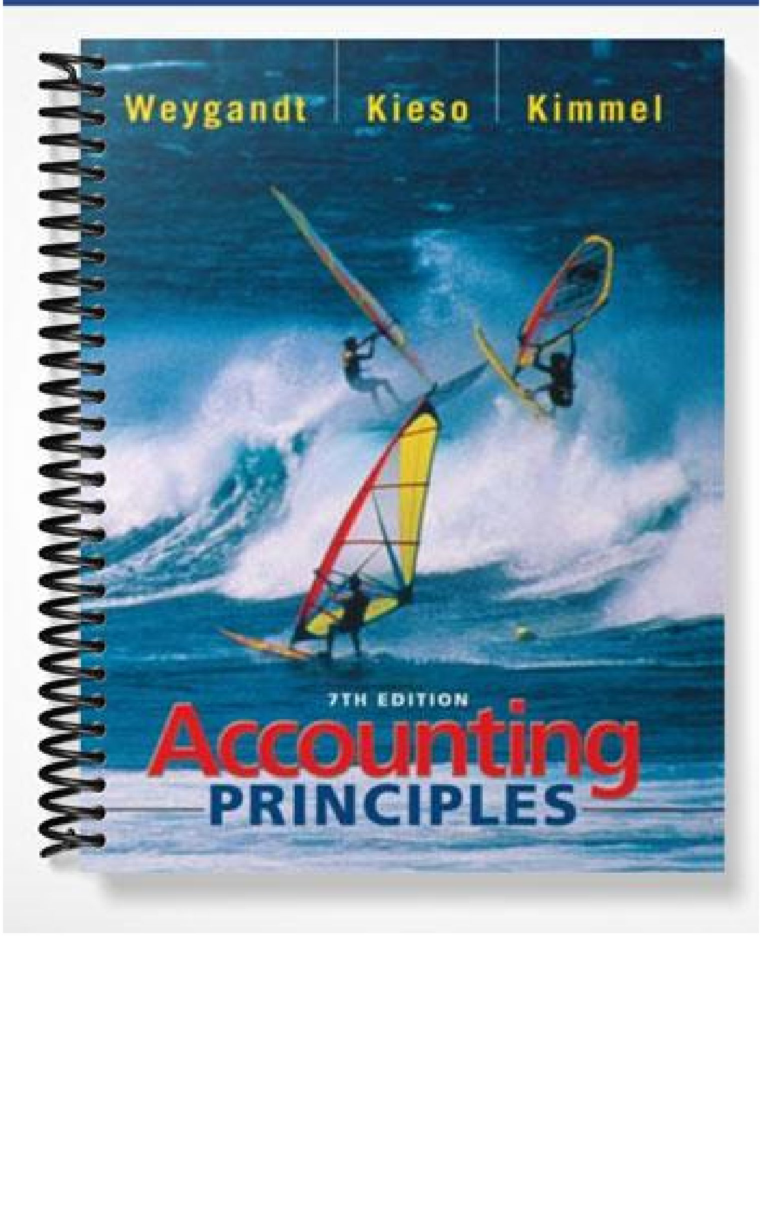
SOLUTIONS MANUAL



SOLUTIONS MANUAL



CHAPTER 3

Adjusting the Accounts

ASSIGNMENT CLASSIFICATION TABLE

Study Objectives		Questions	Brief Exercises	Exercises	A Problems	B Problems
1.	Explain the time period assumption.	1, 2				
2.	Explain the accrual basis of accounting.	3, 4, 5		1, 6		
3.	Explain why adjusting entries are needed.	1, 6, 7	1			
4.	Identify the major types of adjusting entries.	8, 9, 10, 18	2, 8	2, 7		
5.	Prepare adjusting entries for prepayments.	8, 9, 10, 11, 12, 13, 18, 19, 20	3, 4, 5, 6	2, 3, 4, 5, 6, 7, 8, 9, 11	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	2, 3, 4, 5, 6, 7, 8, 9, 11	1A, 2A, 3A, 4A, 5A, 64	1B, 2B, 3B, 4B, 5B
7.	Describe the nature and purpose of an adjusted trial balance.	21	9, 10	3, 4, 5, 6, 7, 8, 9, 10	1A, 2A, 3A, 5A, 6A	1B, 2B, 3B, 5B
*8.	Prepare adjusting entries for the alternative treatment of prepayments.	22	11	12	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 an 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, an 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 an 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 Q3-2				
2. Explain the accrual basis of accounting.		Q3-3 Q3-4	Q3-5	E3-6		E3-1
3. Explain why adjusting entries are needed.		Q3-1 Q3-7 Q3-6 BE3-1				
4. Identify the major types of adjusting entries.		Q3-8 Q3-10 Q3-9		Q3-18 BE3-8 E3-7 BE3-2 E3-2		
5. Prepare adjusting entries for prepayments.		Q3-8 Q3-9 Q3-10 Q3-11 Q3-12 Q3-13 Q3-19 Q3-20		Q3-18 E3-6 P3-4A BE3-3 E3-7 P3-5A BE3-4 E3-8 P3-6A BE3-5 E3-9 P3-1B BE3-6 E3-11 P3-2B E3-2 P3-1A P3-3B E3-3 P3-2A P3-4B E3-4 P3-3A P3-5B E3-5	E3-11	
6. Prepare adjusting entries for accruals.		Q3-8 Q3-14 Q3-15 Q3-19 Q3-20	Q3-17	Q3-16 E3-7 P3-5A Q3-18 E3-8 P3-6A BE3-7 E3-9 P3-1B E3-2 E3-11 P3-2B E3-3 P3-1A P3-3B E3-4 P3-2A P3-4B E3-5 P3-3A P3-5B E3-6 P3-4A	E3-11	
7. Describe the nature and purpose of an adjusted trial balance.		Q3-21	BE3-9 BE3-10 E3-10	E3-3 E3-9 P3-6A E3-4 P3-1A P3-1B E3-5 P3-2A P3-2B E3-6 P3-3A P3-3B E3-7 P3-5A P3-5B E3-8		
*8. Prepare adjusting entries for the alternative treatment of prepayments.			Q3-22	BE3-11 P3-6A E3-12		
Broadening Your Perspective		Communication		Financial Reporting Comparative Analysis Exploring the Web	Group Decision Case Interpreting Financial statement	Ethics Case Interpreting Financial statement

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 unnecessary and inexpedient to do so.
   (2) The expiration of some costs occurs with the passage of time rather than as a result of recurring daily transactions.
   (3) Some items may be unrecorded because the transaction data are not known.

8. The two categories of adjusting entries are prepayments and accruals. Prepayments 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..................................	7,000	$11,000

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.

16. Net income was understated $300 because prior to adjustment, revenues are understated by $900 and expenses are understated by $600. The difference in this case is $300 ($900 – $600).

17. The entry is:

Jan. 9	Salaries Payable	2,000	
	Salaries Expense	4,000	
	Cash		6,000

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 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

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

Item	(a) Type of Adjustment	(b) Accounts 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	Advertising Supplies Expense	5,000	
	Advertising Supplies ($6,700 – $1,700)		5,000

Advertising Supplies

	6,700	12/31	5,000
12/31 Bal.	1,700		

Advertising Supplies Expense

12/31	5,000		

BRIEF EXERCISE 3-4

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

Depr. Expense—Equipment

12/31	6,000		

Accum. Depreciation—Equipment

		12/31	6,000

Balance Sheet:

Equipment	$30,000	
Less: Accumulated Depreciation	6,000	$24,000

BRIEF EXERCISE 3-5

July 1	Prepaid Insurance	12,000	
	Cash		12,000
Dec. 31	Insurance Expense ($12,000 ÷ 3) x 1/2	2,000	
	Prepaid Insurance		2,000

Prepaid Insurance

7/1	12,000	12/31	2,000
12/31 Bal.	10,000		

Insurance Expense

12/31	2,000		

BRIEF EXERCISE 3-6

July 1	Cash	12,000	
	Unearned Insurance Revenue		12,000
Dec. 31	Unearned Insurance Revenue	2,000	
	Insurance Revenue		2,000

Unearned Insurance Revenue

12/31	2,000	7/1	12,000
		12/31 Bal.	10,000

Insurance Revenue

		12/31	2,000

BRIEF EXERCISE 3-7

1.	Dec. 31	Interest Expense	400	
		Interest Payable		400
2.	31	Accounts Receivable	1,250	
		Service Revenue		1,250
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

LUCILLE COMPANY
Income Statement
For the Year Ended December 31, 2005

Revenues		
Service revenue		$38,400
Expenses		
Salaries 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		$13,600

BRIEF EXERCISE 3-10

LUCILLE COMPANY
Owner's Equity Statement
For the Year Ended December 31, 2005

Capital, January 1	$15,600
Add: Net income	13,600
	29,200
Less: Drawings	6,000
Capital, December 31	$23,200

*BRIEF EXERCISE 3-11

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

SOLUTIONS TO EXERCISES

EXERCISE 3-1

(a) Accrual-basis accounting records the events 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 3-2

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 3-3

1.	Mar. 31	Depreciation Expense ($300 X 3)	900	
		Accumulated Depreciation—Equipment		900
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	1,900	
		Supplies ($2,800 – $900)		1,900
5.	31	Insurance Expense ($200 X 3)	600	
		Prepaid Insurance		600

EXERCISE 3-4

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 ($18,000 ÷ 12)	1,500	
		Prepaid Insurance		1,500
5.	31	Supplies Expense ($1,600 – $600)	1,000	
		Supplies		1,000

EXERCISE 3-5

1.	Oct. 31	Advertising Supplies Expense	1,500	
		Advertising Supplies ($2,500 – $1,000)		1,500
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 3-5 (Continued)

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

EXERCISE 3-6

OLYMPIC CO.
Income Statement
For the Month Ended July 31, 2005

Revenues		
Service revenue ($5,500 + $1,000)		$6,500
Expenses		
Wages expense ($2,300 + $300)	$2,600	
Supplies expense ($1,200 – $300)	900	
Utilities expense	600	
Insurance expense	400	
Depreciation expense	150	
Total expenses		4,650
Net income		$1,850

EXERCISE 3-7

	Answer	Computation	
(a)	Supplies balance = $1,150	Supplies expense	$950
		Add: Supplies (1/31)	850
		Less: Supplies purchased	(650)
		Supplies (1/1)	$1,150
(b)	Total premium = $4,800	Total premium = Monthly premium X 12; $400 X 12 = $4,800	
	Purchase date = Aug. 1, 2004	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, 2004.	

EXERCISE 3-7 (Continued)

(c) Salaries payable = $2,000

Cash paid	$3,000
Salaries payable (1/31/05)	800
	3,800
Less: Salaries expense	1,800
Salaries payable (12/31/04)	$2,000

(d) Unearned revenue = $1,150

Service revenue	$2,000
Unearned service revenue (1/31/05)	750
	2,750
Cash received in January	1,600
Unearned service revenue (12/31/04)	$1,150

EXERCISE 3-8

(a)	July 10	Supplies	200	
		Cash		200
	14	Cash	2,000	
		Service Revenue		2,000
	15	Salaries Expense	1,200	
		Cash		1,200
	20	Cash	750	
		Unearned Revenue		750
(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 3-9

Aug. 31	Accounts Receivable	600	
	Service Revenue		600
31	Office Supplies Expense	1,600	
	Office Supplies		1,600
31	Insurance Expense	1,500	
	Prepaid Insurance		1,500
31	Depreciation Expense	1,300	
	Accumulated Depreciation—Office Equipment		1,300
31	Salaries Expense	1,100	
	Salaries Payable		1,100
31	Unearned Rent	900	
	Rent Revenue		900

EXERCISE 3-10

VILLA COMPANY
Income Statement
For the Year Ended August 31, 2004

Revenues		
Service revenue		$34,600
Rent revenue		11,900
Total revenues		46,500
Expenses		
Salaries expense	$18,100	
Rent expense	15,000	
Office supplies expense	1,600	
Insurance expense	1,500	
Depreciation expense	1,300	
Total expenses		37,500
Net income		$ 9,000

EXERCISE 3-10 (Continued)

VILLA COMPANY
Owner's Equity Statement
For the Year Ended August 31, 2004

Capital, September 1, 2003	$15,600
Add: Net income	9,000
Capital, August 31, 2004	$24,600

VILLA COMPANY
Balance Sheet
August 31, 2004

Assets		
Cash		$10,400
Accounts receivable		9,400
Office supplies		700
Prepaid insurance		2,500
Office equipment	$14,000	
Less: Accum. depreciation—office equipment	4,900	9,100
Total assets		$32,100
Liabilities and Owner's Equity		
Liabilities		
Accounts payable		$ 5,800
Salaries payable		1,100
Unearned rent		600
Total liabilities		7,500
Owner's equity		
T. Villa, Capital		24,600
Total liabilities and owner's equity		$32,100

EXERCISE 3-11

(a) 1. Cash	9,000	
Fees Receivable		9,000
2. Unearned Fees	20,000	
Fees Revenues		20,000

EXERCISE 3-11 (Continued)

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	115,000	
		Fees Revenue		115,000
		($153,000 – $20,000 – $18,000)		
5.		Cash	103,000	
		Fees Receivable		103,000
		($115,000 – $12,000)		

(b) Cash received with respect to fees = $9,000 + $103,000 + $35,000
= $147,000

*EXERCISE 3-12

(a)	Jan.	2	Insurance Expense	2,400	
			Cash		2,400
		10	Supplies Expense	1,700	
			Cash		1,700
		15	Cash	6,100	
			Service Revenue		6,100

Insurance Expense

1/2	2,400		

Supplies Expense

1/10	1,700		

Cash

1/15	6,100	1/2	2,400
		1/10	1,700

Service Revenue

		1/15	6,100

***EXERCISE 3-12 (Continued)**

(b)	Jan. 31	Prepaid Insurance ($200 X 11 months)	2,200	
		Insurance Expense		2,200
	31	Supplies	800	
		Supplies Expense		800
	31	Service Revenue	4,600	
		Unearned Revenue		4,600

Insurance Expense

1/2	2,400	1/31	2,200
Bal.	200		

Supplies Expense

1/10	1,700	1/31	800
Bal.	900		

Service Revenue

1/31	4,600	1/15	6,100
		Bal.	1,500

Prepaid Insurance

1/31	2,200		

Supplies

1/31	800		

Unearned Revenue

		1/31	4,600

(c)	Insurance expense	$ 200
	Supplies expense	900
	Service revenue	1,500
	Prepaid insurance	2,200
	Supplies	800
	Unearned revenue	4,600

SOLUTIONS TO PROBLEMS

PROBLEM 3-1A

(a)

J4

Date		Account Titles and Explanation	Ref.	Debit	Credit
2005					
May	31	Supplies Expense	560	500	
		Supplies	130		500
	31	Travel Expense	550	200	
		Travel Payable	210		200
	31	Insurance Expense	540	100	
		Prepaid Insurance	120		100
		($2,400 ÷ 24 months)			
	31	Unearned Service Revenue	230	2,000	
		Service Revenue	400		2,000
		($3,000 – $1,000)			
	31	Salaries Expense	510	600	
		Salaries Payable	220		600
		[(3/5 X $500) X 2 employees]			
	31	Depreciation Expense	530	200	
		Accumulated Depreciation—			
		Office Furniture	136		200
		($12,000 ÷ 60 months)			
	31	Accounts Receivable	110	1,000	
		Service Revenue	400		1,000

(b)

Cash — No. 101

Date		Explanation	Ref.	Debit	Credit	Balance
2005						
May	31	Balance	✓			7,700

PROBLEM 3-1A (Continued)

Accounts Receivable **No. 110**

Date		Explanation	Ref.	Debit	Credit	Balance
2005						
May	31	Balance	✓			4,000
	31	Adjusting	J4	1,000		5,000

Prepaid Insurance **No. 120**

Date		Explanation	Ref.	Debit	Credit	Balance
2005						
May	31	Balance	✓			2,400
	31	Adjusting	J4		100	2,300

Supplies **No. 130**

Date		Explanation	Ref.	Debit	Credit	Balance
2005						
May	31	Balance	✓			1,500
	31	Adjusting	J4		500	1,000

Office Furniture **No. 135**

Date		Explanation	Ref.	Debit	Credit	Balance
2005						
May	31	Balance	✓			12,000

Accumulated Depreciation—Office Furniture **No. 136**

Date		Explanation	Ref.	Debit	Credit	Balance
2005						
May	31	Adjusting	J4		200	200

Accounts Payable **No. 200**

Date		Explanation	Ref.	Debit	Credit	Balance
2005						
May	31	Balance	✓			3,500

PROBLEM 3-1A (Continued)

Travel Payable **No. 210**

Date	Explanation	Ref.	Debit	Credit	Balance
2005					
May 31	Adjusting	J4		200	200

Salaries Payable **No. 220**

Date	Explanation	Ref.	Debit	Credit	Balance
2005					
May 31	Adjusting	J4		600	600

Unearned Service Revenue **No. 230**

Date	Explanation	Ref.	Debit	Credit	Balance
2005					
May 31	Balance	✓			3,000
31	Adjusting	J4	2,000		1,000

L. Rig, Capital **No. 300**

Date	Explanation	Ref.	Debit	Credit	Balance
2005					
May 31	Balance	✓			19,100

Service Revenue **No. 400**

Date	Explanation	Ref.	Debit	Credit	Balance
2005					
May 31	Balance	✓			6,000
31	Adjusting	J4		2,000	8,000
31	Adjusting	J4		1,000	9,000

Salaries Expense **No. 510**

Date	Explanation	Ref.	Debit	Credit	Balance
2005					
May 31	Balance	✓			3,000
31	Adjusting	J4	600		3,600

PROBLEM 3-1A (Continued)

Rent Expense **No. 520**

Date	Explanation	Ref.	Debit	Credit	Balance
2005					
May 31	Balance	✓			1,000

Depreciation Expense **No. 530**

Date	Explanation	Ref.	Debit	Credit	Balance
2005					
May 31	Adjusting	J4	200		200

Insurance Expense **No. 540**

Date	Explanation	Ref.	Debit	Credit	Balance
2005					
May 31	Adjusting	J4	100		100

Travel Expense **No. 550**

Date	Explanation	Ref.	Debit	Credit	Balance
2005					
May 31	Adjusting	J4	200		200

Supplies Expense **No. 560**

Date	Explanation	Ref.	Debit	Credit	Balance
2005					
May 31	Adjusting	J4	500		500

PROBLEM 3-1A (Continued)

(c)

VEKTEK CONSULTING
Adjusted Trial Balance
May 31, 2005

	Debit	Credit
Cash	$ 7,700	
Accounts Receivable	5,000	
Prepaid Insurance	2,300	
Supplies	1,000	
Office Furniture	12,000	
Accumulated Depreciation—Office Furniture		$ 200
Accounts Payable		3,500
Travel Payable		200
Salaries Payable		600
Unearned Service Revenue		1,000
L. Rig, Capital		19,100
Service Revenue		9,000
Salaries Expense	3,600	
Rent Expense	1,000	
Depreciation Expense	200	
Insurance Expense	100	
Travel Expense	200	
Supplies Expense	500	
	$33,600	$33,600

PROBLEM 3-2A

(a)

J1

Date		Account Titles and Explanation	Ref.	Debit	Credit
May	31	Insurance Expense	722	200	
		Prepaid Insurance	130		200
	31	Supplies Expense	631	1,000	
		Supplies ($1,900 – $900)	126		1,000
	31	Depreciation Expense—Lodge ($2,400 X 1/12)	619	200	
		Accumulated Depreciation—Lodge	142		200
	31	Depreciation Expense—Furniture ($3,000 X 1/12)	621	250	
		Accumulated Depreciation—Furniture	150		250
	31	Interest Expense	718	350	
		Interest Payable [($35,000 X 12%) X 1/12]	230		350
	31	Unearned Rent	208	2,500	
		Rent Revenue	429		2,500
	31	Salaries Expense	726	800	
		Salaries Payable	212		800

(b)

Cash No. 101

Date		Explanation	Ref.	Debit	Credit	Balance
May	31	Balance	✓			2,500

PROBLEM 3-2A (Continued)

Supplies **No. 126**

Date		Explanation	Ref.	Debit	Credit	Balance
May	31	Balance	✓			1,900
	31	Adjusting	J1		1,000	900

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		200	200

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 3-2A (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		350	350

Mortgage Payable — **No. 275**

Date		Explanation	Ref.	Debit	Credit	Balance
May	31	Balance	✓			35,000

Sue Phillips, Capital — **No. 301**

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

Rent Revenue — **No. 429**

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

PROBLEM 3-2A (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	200		200

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	1,000		1,000

Interest Expense **No. 718**

Date		Explanation	Ref.	Debit	Credit	Balance
May	31	Adjusting	J1	350		350

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

Utilities Expense **No. 732**

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

(c)

THAYER MOTEL
Adjusted Trial Balance
May 31, 2005

	Debit	Credit
Cash	$ 2,500	
Supplies	900	
Prepaid Insurance	2,200	
Land	15,000	
Lodge	70,000	
Accumulated Depreciation—Lodge		$ 200
Furniture	16,800	
Accumulated Depreciation—Furniture		250
Accounts Payable		5,300
Unearned Rent		1,100
Salaries Payable		800
Interest Payable		350
Mortgage Payable		35,000
Sue Phillips, Capital		60,000
Rent Revenue		11,700
Advertising Expense	500	
Depreciation Expense—Lodge	200	
Depreciation Expense—Furniture	250	
Supplies Expense	1,000	
Interest Expense	350	
Insurance Expense	200	
Salaries Expense	3,800	
Utilities Expense	1,000	
	$114,700	$114,700

PROBLEM 3-2A (Continued)

(d)

THAYER MOTEL
Income Statement
For the Month Ended May 31, 2005

Revenues		
Rent revenue		$11,700
Expenses		
Salaries expense	$3,800	
Utilities expense	1,000	
Supplies expense	1,000	
Advertising expense	500	
Interest expense	350	
Depreciation expense—furniture	250	
Depreciation expense—lodge	200	
Insurance expense	200	
Total expenses		7,300
Net income		$ 4,400

THAYER MOTEL
Owner's Equity Statement
For the Month Ended May 31, 2005

Sue Phillips, Capital, May 1	$ 0
Investment by owner	60,000
Add: Net income	4,400
Sue Phillips, Capital, May 31	$64,400

PROBLEM 3-2A (Continued)

THAYER MOTEL
Balance Sheet
May 31, 2005

Assets

Cash		$ 2,500
Supplies		900
Prepaid insurance		2,200
Land		15,000
Lodge	$70,000	
Less: Accumulated depreciation—lodge	200	69,800
Furniture	16,800	
Less: Accumulated depreciation—furniture	250	16,550
Total assets		$106,950

Liabilities and Owner's Equity

Liabilities	
Accounts payable	$ 5,300
Unearned rent	1,100
Salaries payable	800
Interest payable	350
Mortgage payable	35,000
Total liabilities	42,550
Owner's equity	
Sue Phillips, Capital	64,400
Total liabilities and owner's equity	$106,950

PROBLEM 3-3A

(a)

Sept. 30	Accounts Receivable		200	
		Commission Revenue		200
30	Rent Expense		600	
		Prepaid Rent		600
30	Supplies Expense		200	
		Supplies		200
30	Depreciation Expense		850	
		Accum. Depreciation—Equipment		850
30	Interest Expense		50	
		Interest Payable		50
30	Unearned Rent		400	
		Rent Revenue		400
30	Salaries Expense		400	
		Salaries Payable		400

(b)

MENDOZA CO.
Income Statement
For the Quarter Ended September 30, 2005

Revenues		
Commission revenue		$14,200
Rent revenue		800
Total revenues		15,000
Expenses		
Salaries expense	$9,400	
Rent expense	1,500	
Depreciation expense	850	
Utilities expense	510	
Supplies expense	200	
Interest expense	50	
Total expenses		12,510
Net income		$ 2,490

MENDOZA CO.
Owner's Equity Statement
For the Quarter Ended September 30, 2005

Jose Mendoza, Capital, July 1, 2005	$ 0
Investment by owner	14,000
Add: Net income	2,490
	16,490
Less: Drawings	600
Jose Mendoza, Capital, September 30, 2005	$15,890

MENDOZA CO.
Balance Sheet
September 30, 2005

Assets

Cash		$ 6,700
Accounts receivable		600
Prepaid rent		900
Supplies		1,000
Equipment	$15,000	
Less: Accum. depreciation—equipment	850	14,150
Total assets		$23,350

Liabilities and Owner's Equity

Liabilities	
Notes payable	$ 5,000
Accounts payable	1,510
Salaries payable	400
Interest payable	50
Unearned rent	500
Total liabilities	$ 7,460
Owner's equity	
Jose Mendoza, Capital	15,890
Total liabilities and owner's equity	$23,350

(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 3-4A

1.	Dec. 31	Insurance Expense	4,400	
		Prepaid Insurance		4,400
		[($6,000 ÷ 3) = $2,000		
		($4,800 ÷ 2) = 2,400		
		$4,400]		
2.	Dec. 31	Unearned Subscriptions	7,000	
		Subscription Revenue		7,000
		[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 = 2,000		
		$7,000]		
3.	Dec. 31	Interest Expense	1,200	
		Interest Payable		1,200
		($40,000 X 9% X 4/12)		
4.	Dec. 31	Salaries Expense	2,940	
		Salaries Payable		2,940
		[5 X $500 X 3/5 = $1,500		
		3 X $800 X 3/5 = 1,440		
		$2,940]		

PROBLEM 3-5A

(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		1,000	490
	29		J1	550		1,040

Accounts Receivable **No. 112**

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	1	Balance	✓			2,510
	10		J1		1,200	1,310
	27		J1	700		2,010

Supplies **No. 126**

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	1	Balance	✓			2,000
	17		J1	500		2,500
	30	Adjusting	J1		1,500	1,000

Store Equipment **No. 153**

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	1	Balance	✓			10,000
	15		J1	3,000		13,000

PROBLEM 3-5A (Continued)

Accumulated Depreciation—Store Equipment — No. 154

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	1	Balance	✓			500
	30	Adjusting	J1		120	620

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. Samone, Capital — No. 301

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

PROBLEM 3-5A (Continued)

Service Revenue **No. 407**

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	12		J1		1,400	1,400
	27		J1		700	2,100
	30	Adjusting	J1		1,150	3,250

Depreciation Expense **No. 615**

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	30	Adjusting	J1	120		120

Supplies Expense **No. 631**

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

Salaries Expense **No. 726**

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	8		J1	600		600
	25		J1	1,000		1,600
	30	Adjusting	J1	500		2,100

Rent Expense **No. 729**

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

(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	1,000	
		Cash	101		1,000
	27	Accounts Receivable	112	700	
		Service Revenue	407		700
	29	Cash	101	550	
		Unearned Service Revenue	209		550

PROBLEM 3-5A (Continued)

(d) & (f)

SAMONE EQUIPMENT REPAIR
Trial Balances
November 30, 2005

	Before Adjustment		After Adjustment	
	Dr.	Cr.	Dr.	Cr.
Cash	$ 1,040		$ 1,040	
Accounts Receivable	2,010		2,010	
Supplies	2,500		1,000	
Equipment	13,000		13,000	
Accumulated Depreciation		$ 500		$ 620
Accounts Payable		3,100		3,100
Unearned Service Revenue		1,950		800
Salaries Payable				500
P. Samone, Capital		12,800		12,800
Service Revenue		2,100		3,250
Depreciation Expense			120	
Supplies Expense			1,500	
Salaries Expense	1,600		2,100	
Rent Expense	300		300	
	$20,450	$20,450	$21,070	$21,070

(e)

1.	Nov. 30	Supplies Expense	631	1,500	
		Supplies ($2,500 – $1,000)	126		1,500
2.	30	Salaries Expense	726	500	
		Salaries Payable	212		500
3.	30	Depreciation Expense	615	120	
		Accumulated Depreciation— Store Equipment	154		120
4.	30	Unearned Service Revenue	209	1,150	
		Service Revenue	407		1,150

PROBLEM 3-5A (Continued)

(g)

SAMONE EQUIPMENT REPAIR
Income Statement
For the Month Ended November 30, 2005

Revenues		
Service revenue		$3,250
Expenses		
Salaries expense	$2,100	
Supplies expense	1,500	
Rent expense	300	
Depreciation expense	120	
Total expenses		4,020
Net loss		$ (770)

SAMONE EQUIPMENT REPAIR
Owner's Equity Statement
For the Month Ended November 30, 2005

P. Samone, Capital, November 1	$12,800
Less: Net loss	770
P. Samone, Capital, November 30	$12,030

SAMONE EQUIPMENT REPAIR
Balance Sheet
November 30, 2005

Assets

Cash		$ 1,040
Accounts receivable		2,010
Supplies		1,000
Equipment	$13,000	
Less: Accumulated depreciation—equipment	620	12,380
Total assets		$16,430

Liabilities and Owner's Equity

Liabilities	
Accounts payable	$ 3,100
Unearned service revenue	800
Salaries payable	500
Total liabilities	4,400
Owner's equity	
P. Samone, Capital	12,030
Total liabilities and owner's equity	$16,430

*PROBLEM 3-6A

(a)	1.	June 30	Supplies	1,300	
			Supplies Expense		1,300
	2.	30	Interest Expense	1,000	
			($20,000 X 12% X 5/12)		
			Interest Payable		1,000
	3.	30	Prepaid Insurance	1,200	
			[($1,800 ÷ 12) X 8]		
			Insurance Expense		1,200
	4.	30	Consulting Revenue	1,100	
			Unearned Consulting Revenue		1,100
	5.	30	Accounts Receivable	2,000	
			Graphic Revenue		2,000
	6.	30	Depreciation Expense	1,500	
			($3,000 ÷ 2)		
			Accumulated Depreciation—Equipment		1,500

*PROBLEM 3-6A (Continued)

(b)

SALZER GRAPHICS COMPANY
Adjusted Trial Balance
June 30, 2005

	Debit	Credit
Cash	$ 9,500	
Accounts Receivable ($14,000 + $2,000)	16,000	
Supplies	1,300	
Prepaid Insurance	1,200	
Equipment	45,000	
Accumulated Depreciation		$ 1,500
Notes Payable		20,000
Accounts Payable		9,000
Interest Payable		1,000
Unearned Consulting Revenue		1,100
Jill Salzer, Capital		22,000
Graphic Revenue ($52,100 + $2,000)		54,100
Consulting Revenue ($6,000 – $1,100)		4,900
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	1,500	
Insurance Expense ($1,800 – $1,200)	600	
Interest Expense	1,000	
	$113,600	$113,600

*PROBLEM 3-6A (Continued)

(c)

SALZER GRAPHICS COMPANY
Income Statement
For the Six Months Ended June 30, 2005

Revenues		
Graphic revenue		$54,100
Consulting revenue		4,900
Total revenues		59,000
Expenses		
Salaries expense	$30,000	
Supplies expense	2,400	
Advertising expense	1,900	
Utilities expense	1,700	
Rent expense	1,500	
Depreciation expense	1,500	
Interest expense	1,000	
Insurance expense	600	
Total expenses		40,600
Net income		$18,400

SALZER GRAPHICS COMPANY
Owner's Equity Statement
For the Six Months Ended June 30, 2005

Jill Salzer Capital, January 1	$ 0
Investment by owner	22,000
Add: Net income	18,400
Jill Salzer, Capital, June 30	$40,400

*PROBLEM 3-6A (Continued)

SALZER GRAPHICS COMPANY
Balance Sheet
June 30, 2005

Assets		
Cash		$ 9,500
Accounts receivable		16,000
Supplies		1,300
Prepaid insurance		1,200
Equipment	$45,000	
Less: Accumulated depreciation	1,500	43,500
Total assets		$71,500
Liabilities and Owner's Equity		
Liabilities		
Notes payable		$20,000
Accounts payable		9,000
Interest payable		1,000
Unearned consulting fees		1,100
Total liabilities		31,100
Owner's equity		
Jill Salzer, Capital		40,400
Total liabilities and owner's equity		$71,500

PROBLEM 3-1B

(a)

J3

Date		Account Titles and Explanation	Ref.	Debit	Credit
2005					
June	30	Supplies Expense	560	900	
		Supplies	130		900
		($2,000 – $1,100)			
	30	Utilities Expense	550	150	
		Utilities Payable	210		150
	30	Insurance Expense	540	250	
		Prepaid Insurance	120		250
		($3,000 ÷ 12 months)			
	30	Unearned Service Revenue	230	2,500	
		Service Revenue	400		2,500
	30	Salaries Expense	510	1,500	
		Salaries Payable	220		1,500
	30	Depreciation Expense	530	250	
		Accumulated Depreciation—			
		Office Equipment	136		250
		($15,000 ÷ 60 months)			
	30	Accounts Receivable	110	2,000	
		Service Revenue	400		2,000

(b)

Cash — No. 100

Date		Explanation	Ref.	Debit	Credit	Balance
2005						
June	30	Balance	✓			7,150

PROBLEM 3-1B (Continued)

Accounts Receivable — **No. 110**

Date		Explanation	Ref.	Debit	Credit	Balance
2005						
June	30	Balance	✓			6,000
	30	Adjusting	J3	2,000		8,000

Prepaid Insurance — **No. 120**

Date		Explanation	Ref.	Debit	Credit	Balance
2005						
June	30	Balance	✓			3,000
	30	Adjusting	J3		250	2,750

Supplies — **No. 130**

Date		Explanation	Ref.	Debit	Credit	Balance
2005						
June	30	Balance	✓			2,000
	30	Adjusting	J3		900	1,100

Office Equipment — **No. 135**

Date		Explanation	Ref.	Debit	Credit	Balance
2005						
June	30	Balance	✓			15,000

Accumulated Depreciation—Office Equipment — **No. 136**

Date		Explanation	Ref.	Debit	Credit	Balance
2005						
June	30	Adjusting	J3		250	250

Accounts Payable — **No. 200**

Date		Explanation	Ref.	Debit	Credit	Balance
2005						
June	30	Balance	✓			4,500

PROBLEM 3-1B (Continued)

Utilities Payable — **No. 210**

Date		Explanation	Ref.	Debit	Credit	Balance
2005						
June	30	Adjusting	J3		150	150

Salaries Payable — **No. 220**

Date		Explanation	Ref.	Debit	Credit	Balance
2005						
June	30	Adjusting	J3		1,500	1,500

Unearned Service Revenue — **No. 230**

Date		Explanation	Ref.	Debit	Credit	Balance
2005						
June	30	Balance	✓			4,000
	30	Adjusting	J3	2,500		1,500

J. Cuono, Capital — **No. 300**

Date		Explanation	Ref.	Debit	Credit	Balance
2005						
June	30	Balance	✓			21,750

Service Revenue — **No. 400**

Date		Explanation	Ref.	Debit	Credit	Balance
2005						
June	30	Balance	✓			7,900
	30	Adjusting	J3		2,500	10,400
	30	Adjusting	J3		2,000	12,400

Salaries Expense — **No. 510**

Date		Explanation	Ref.	Debit	Credit	Balance
2005						
June	30	Balance	✓			4,000
	30	Adjusting	J3	1,500		5,500

PROBLEM 3-1B (Continued)

Rent Expense **No. 520**

Date	Explanation	Ref.	Debit	Credit	Balance
2005					
June 30	Balance	✓			1,000

Depreciation Expense **No. 530**

Date	Explanation	Ref.	Debit	Credit	Balance
2005					
June 30	Adjusting	J3	250		250

Insurance Expense **No. 540**

Date	Explanation	Ref.	Debit	Credit	Balance
2005					
June 30	Adjusting	J3	250		250

Utilities Expense **No. 550**

Date	Explanation	Ref.	Debit	Credit	Balance
2005					
June 30	Adjusting	J3	150		150

Supplies Expense **No. 560**

Date	Explanation	Ref.	Debit	Credit	Balance
2005					
June 30	Adjusting	J3	900		900

PROBLEM 3-1B (Continued)

(c)

CUONO COMPANY
Adjusted Trial Balance
June 30, 2005

	Debit	Credit
Cash	$ 7,150	
Accounts Receivable	8,000	
Prepaid Insurance	2,750	
Supplies	1,100	
Office Equipment	15,000	
Accumulated Depreciation—Office Equipment		$ 250
Accounts Payable		4,500
Utilities Payable		150
Salaries Payable		1,500
Unearned Service Revenue		1,500
J. Cuono, Capital		21,750
Service Revenue		12,400
Salaries Expense	5,500	
Rent Expense	1,000	
Depreciation Expense	250	
Insurance Expense	250	
Utilities Expense	150	
Supplies Expense	900	
	$42,050	$42,050

PROBLEM 3-2B

(a)

Date		Account Titles and Explanation	Ref.	Debit	Credit
Aug.	31	Insurance Expense ($400 X 3)	722	1,200	
		Prepaid Insurance	130		1,200
	31	Supplies Expense ($3,300 – $900)	631	2,400	
		Supplies	126		2,400
	31	Depreciation Expense—Cottages	620	900	
		($3,600 X 1/4)			
		Accumulated Depreciation—			
		Cottages	144		900
	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	800	
		Rent Revenue	429		800
	31	Interest Expense	718	600	
		Interest Payable	230		600
		[($80,000 X 9%) X 1/12]			

(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	800		800

Supplies — No. 126

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

Prepaid Insurance — No. 130

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

Land — No. 140

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

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		900	900

Furniture — No. 149

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

PROBLEM 3-2B (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. Orbis, Capital **No. 301**

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

PROBLEM 3-2B (Continued)

P. Orbis, 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		800	84,900

Depreciation Expense—Cottages **No. 620**

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

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	2,400		2,400

Interest Expense **No. 718**

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

PROBLEM 3-2B (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

(c)

SPRING RIVER RESORT
Adjusted Trial Balance
August 31, 2005

	Debit	Credit
Cash	$ 19,600	
Accounts Receivable	800	
Supplies	900	
Prepaid Insurance	4,800	
Land	25,000	
Cottages	125,000	
Accumulated Depreciation—Cottages		$ 900
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. Orbis, Capital		100,000
P. Orbis, Drawing	5,000	
Rent Revenue		84,900
Depreciation Expense—Cottages	900	
Depreciation Expense—Furniture	600	
Repair Expense	3,600	
Supplies Expense	2,400	
Interest Expense	600	
Insurance Expense	1,200	
Salaries Expense	51,400	
Utilities Expense	9,400	
	$277,200	$277,200

(d)

SPRING RIVER RESORT
Income Statement
For the Three Months Ended August 31, 2005

Revenues		
Rent revenue		$84,900
Expenses		
Salaries expense	$51,400	
Utilities expense	9,400	
Repair expense	3,600	
Supplies expense	2,400	
Insurance expense	1,200	
Depreciation expense—cottages	900	
Interest expense	600	
Depreciation expense—furniture	600	
Total expenses		70,100
Net income		$14,800

SPRING RIVER RESORT
Owner's Equity Statement
For the Three Months Ended August 31, 2005

P. Orbis, Capital, June 1	$ 0
Investment by owner	100,000
Add: Net income	14,800
	114,800
Less: Drawings	5,000
P. Orbis, Capital, August 31	$109,800

SPRING RIVER RESORT
Balance Sheet
August 31, 2005

Assets

Cash		$ 19,600
Accounts receivable		800
Supplies		900
Prepaid insurance		4,800
Land		25,000
Cottages	$125,000	
Less: Accum. depreciation—cottages	900	124,100
Furniture	26,000	
Less: Accum. depreciation—furniture	600	25,400
Total assets		$200,600

Liabilities and Owner's Equity

Liabilities	
Accounts payable	$ 6,500
Salaries payable	400
Interest payable	600
Unearned rent	3,300
Mortgage payable	80,000
Total liabilities	90,800
Owner's equity	
P. Orbis, Capital	109,800
Total liabilities and owner's equity	$200,600

PROBLEM 3-3B

(a)

Dec. 31	Accounts Receivable		3,500	
		Advertising Revenue		3,500
31	Unearned Advertising Fees		1,600	
		Advertising Revenue		1,600
31	Art Supplies Expense		3,600	
		Art Supplies		3,600
31	Depreciation Expense		5,000	
		Accumulated Depreciation		5,000
31	Interest Expense		150	
		Interest Payable		150
31	Insurance Expense		850	
		Prepaid Insurance		850
31	Salaries Expense		1,300	
		Salaries Payable		1,300

(b)

COSTELLO ADVERTISING AGENCY
Income Statement
For the Year Ended December 31, 2005

Revenues		
Advertising revenue		$63,700
Expenses		
Salaries expense	$11,300	
Depreciation expense	5,000	
Rent expense	4,000	
Art supplies expense	3,600	
Insurance expense	850	
Interest expense	500	
Total expenses		25,250
Net income		$38,450

COSTELLO ADVERTISING AGENCY
Owner's Equity Statement
For the Year Ended December 31, 2005

J. Costello, Capital, January 1	$25,500
Add: Net income	38,450
	63,950
Less: Drawing	12,000
J. Costello, Capital, December 31	$51,950

COSTELLO ADVERTISING AGENCY
Balance Sheet
December 31, 2005

Assets		
Cash		$11,000
Accounts receivable		23,500
Art supplies		5,000
Prepaid insurance		2,500
Printing equipment	$60,000	
Less: Accumulated depreciation—printing equipment	33,000	27,000
Total assets		$69,000
Liabilities and Owner's Equity		
Liabilities		
Notes payable		$ 5,000
Accounts payable		5,000
Interest payable		150
Unearned advertising fees		5,600
Salaries payable		1,300
Total liabilities		17,050
Owner's equity		
J. Costello, Capital		51,950
Total liabilities and owner's equity		$69,000

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 Expense, $11,300 less Salaries Payable 12/31/05, $1,300 = $10,000. Total payments, $14,500 – $10,000 = $4,500 Salaries Payable 12/31/04.**

PROBLEM 3-4B

1.	Dec. 31	Salaries Expense	2,200	
		Salaries Payable		2,200
		[5 X $800 X 2/5 = $1,600 3 X $500 X 2/5 = 600 $2,200]		
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 $74,000]		
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	5,250	
		Interest Payable		5,250
		($100,000 X 9% X 7/12)		

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		1,050	2,030
	29		J1	650		2,680

Accounts Receivable — No. 112

Date		Explanation	Ref.	Debit	Credit	Balance
Sept.	1	Balance	✓			3,520
	10		J1		1,200	2,320
	27		J1	1,200		3,520

Supplies — No. 126

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

Store Equipment — No. 153

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

PROBLEM 3-5B (Continued)

Accumulated Depreciation—Equipment **No. 154**

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

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. Beck, 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		1,200	4,600
	30	Adjusting	J1		1,450	6,050

Depreciation Expense **No. 615**

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

Supplies Expense **No. 631**

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

Salaries Expense **No. 726**

Date		Explanation	Ref.	Debit	Credit	Balance
Sept.	8		J1	900		900
	25		J1	1,050		1,950
	30	Adjusting	J1	400		2,350

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 and Explanation	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	1,050	
		Cash	101		1,050
	27	Accounts Receivable	112	1,200	
		Service Revenue	407		1,200
	29	Cash	101	650	
		Unearned Service Revenue	209		650

PROBLEM 3-5B (Continued)

(d) & (f)

BECK EQUIPMENT REPAIR
Trial Balances
September 30, 2005

	Before Adjustment		After Adjustment	
	Dr.	Cr.	Dr.	Cr.
Cash	$ 2,680		$ 2,680	
Accounts Receivable	3,520		3,520	
Supplies	3,200		1,700	
Store Equipment	18,000		18,000	
Accumulated Depreciation		$ 1,500		$ 1,700
Accounts Payable		3,100		3,100
Unearned Service Revenue		2,050		600
Salaries Payable		-0-		400
J. Beck, Capital		18,600		18,600
Service Revenue		4,600		6,050
Depreciation Expense			200	
Supplies Expense			1,500	
Salaries Expense	1,950		2,350	
Rent Expense	500		500	
	$29,850	$29,850	$30,450	$30,450

(e)

1.	Sept. 30	Supplies Expense	631	1,500	
		Supplies ($3,200 – $1,700)	126		1,500
2.	30	Salaries Expense	726	400	
		Salaries Payable	212		400
3.	30	Depreciation Expense	615	200	
		Accumulated Depreciation—Equipment	154		200
4.	30	Unearned Service Revenue	209	1,450	
		Service Revenue	407		1,450

(g)

BECK EQUIPMENT REPAIR
Income Statement
For the Month Ended September 30, 2005

Revenues		
Service revenue		$6,050
Expenses		
Salaries expense	$2,350	
Supplies expense	1,500	
Rent expense	500	
Depreciation expense	200	
Total expenses		4,550
Net income		$1,500

BECK EQUIPMENT REPAIR
Owner's Equity Statement
For the Month Ended September 30, 2005

J. Beck, Capital, September 1	$18,600
Add: Net income	1,500
J. Beck, Capital, September 30	$20,100

BECK EQUIPMENT REPAIR
Balance Sheet
September 30, 2005

Assets

Cash		$ 2,680
Accounts receivable		3,520
Supplies		1,700
Equipment	$18,000	
Less: Accumulated depreciation—equipment	1,700	16,300
Total assets		$24,200

Liabilities and Owner's Equity

Liabilities	
Accounts payable	$ 3,100
Salaries payable	400
Unearned service revenue	600
Total liabilities	4,100
Owner's equity	
J. Beck, Capital	20,100
Total liabilities and owner's equity	$24,200

BYP 3-1 FINANCIAL REPORTING PROBLEM

(a) Items that may have resulted 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 1998, net income has increased. In 1998 net income was $2,278 million and in 2002 it was $3,313 million.

BYP 3-2 COMPARATIVE ANALYSIS PROBLEM

		PepsiCo	Coca-Cola
(a)	Net increase (decrease) in property, plant, and equipment from 2001 to 2002.	$ 514,000,000	$1,458,000,000
(b)	Increase (decrease) in selling, general, and administrative expenses from 2001 to 2002.	$334,000,000	$852,000,000
(c)	Increase (decrease) in long-term debt (obligations) from 2001 to 2002.	($464,000,000)	$1,482,000,000
(d)	Increase (decrease) in net income from 2001 to 2002.	$651,000,000	($919,000,000)
(e)	Increase (decrease) in cash and cash equivalents from 2001 to 2002.	$955,000,000	$260,000,000

BYP 3-3	INTERPRETING FINANCIAL STATEMENTS A Global Focus

(a) The most likely explanation for the difference between the amount of interest expensed during 1998 and the amount paid during 1998 is that some interest was accrued for in one year and paid in the next. For example, at the end of 1998 the company may have accrued for interest payable, thus expensing the amount in 1998, but paying for it in 1999. The journal entry would be:

Interest Expense	XXXXX	
Interest Payable		XXXXX

(b) A pharmaceutical company could face many potential costs related to litigation and environmental protection. For example, it might be sued for the side-effects of its drugs, for patent infringement, or violation of antitrust laws. It might also have costs related to the proper disposal of the waste products produced during production, or costs to correct water or soil pollution from improper treatment of its waste products. The possible points in time when litigation costs might be expensed would be: (1) when a suit is first filed, (2) when the outcome of the suit could be reasonably predicted, (3) when the suit is resolved, (4) when final payment is made. Students might provide a variety of answers as to when they believe litigation costs should be expensed. The purpose of this question is to get them to consider the issues involved. Proper matching requires that expenses be matched with the revenue that they relate to. This usually would suggest that the item would be expensed at some time prior to its final payment. However, the complexities involved in trying to estimate what the final resolution will be make accrual of a litigation expense more difficult than many other types of accruals.

(c) This is consistent with the general approach discussed in the text, which is the approach employed by most U.S. companies. Some issues that one might want to consider in deciding whether this is the appropriate time for a pharmaceutical company to recognize revenue are: (1) Does the company face significant returns of its goods? (2) Does the company face significant collection problems from its customers? (3) Is the

BYP 3-3 (Continued)

primary revenue-producing activity the invention of the product, the production of the product, the sale of the product, the delivery of the product, or the collection of the final payment?

BYP 3-4 EXPLORING THE WEB

(a) The categories are:

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

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

BYP 3-5 GROUP DECISION CASE

(a)

HAPPY TRAVEL COURT
Income Statement
For the Quarter Ended March 31, 2005

Revenues		
Rental revenue ($90,000 – $20,000)...............		$70,000
Expenses		
Wages expense [$29,800 + ($350 X 2)]	$30,500	
Advertising expense ($5,200 + $110)............	5,310	
Supplies expense ($6,200 – $1,300)..............	4,900	
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		48,950
Net income		$21,050

(b) The generally accepted accounting principles pertaining to the income statement that were not recognized by Alice 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 $20,000 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 $8,250 ($48,950 – $40,700). The overstatement of revenues ($20,000) plus the understatement of expenses ($8,250) equals the difference in reported income of $28,250 ($49,300 – $21,050).

BYP 3-6 COMMUNICATION ACTIVITY

Dear President Renfro:

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 inexpedient 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 3-6 (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 3-7 ETHICS CASE

(a) The stakeholders in this situation are:

- Diane Leno, controller.
- The president of Santa Fe Company.
- Santa Fe Company stockholders.

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

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

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