B-03.01

This chapter introduces important concepts in income measurement. Accountants oftentimes discuss these concepts using accounting "jargon" or "terminology. Effective business communication requires that all parties attach the same meaning to the words that are used to express concepts. Match the accounting terms in the list on the left to the accounting concept described in the list on the right.

(1)	Depreciation	(a)	The basic conditions require that an exchange has occurred and the earnings process is complete.
(2)	Calendar Year	(b)	An asset reflecting advance payment for something that will be consumed over the future.
(3)	Revenue Recognition	(c)	An entry usually prepared coincident with the end of accounting period to update the accounting for prepaids, accruals, and other allocations.
(4)	Cash Basis	(d)	An annual reporting period that runs from January 1 through December 31.
(5)	Prepaids	(e)	Monies collected from customers for services that have not yet been provided.
(6)	Unearned Revenue	(f)	An approach that results in the initial recording of prepaids to an asset account and unearned revenues to a liability account.
(7)	Balance Sheet Approach	(g)	The notion that continuous business process can be divided into time intervals such as years, quarters, or months for reporting purposes.
(8)	Adjusting Entry	(h)	A systematic and rational allocation scheme to spread a portion of the total cost of a productive asset to each period of use.
(9)	Accruals	(i)	Expenses and revenues that gradually accumulate with the passage of time.
(10)	Periodicity Assumption	(j)	A simplified non-GAAP based method to record revenues as received and expenses as paid.

B-03.02

Accounting "failures" occur when reported results are not presented in accordance with generally accepted accounting principles. These failures can produce significant financial losses to investors and creditors. Oftentimes, an accounting failure results from an incorrect application of revenue recognition concepts. Revgression Corporation included each of the following described transactions in revenue during 20X5. Three of these transactions were appropriate, and three were not. Determine which are "ok" and which are "not ok."

(1) Goods were sold and shipped in late 20X5, but the product still requires substantial installation and setup services. The price and terms of sale stipulate that seller must satisfactorily complete all installation and setup at the buyer's location.

(2) Goods were produced according to a customer purchase order, but had not yet been shipped by the end of 20X5.

(3) Goods were delivered to customers during early 20X5, but the customers had ordered and paid for the goods during 20X4.

(4) Customers purchased goods and services during late 20X5, but credit terms permitted them to delay payment until early 20X6. Full payment is expected eventually.

(5) Advance payment from a customer in a foreign country was received in 20X5, for services to be provided in 20X6.

(6) Goods were purchased and paid for by customers during 20X5, but customers may return defective goods for warranty work or a refund. The expected warranty/refund claims are subject to reasonable estimation and not anticipated to be significant.

B-03.04

Following are three separate transactions that pertain to prepaid items. Evaluate each item and prepare the journal entries that would be needed for the initial recording and subsequent end-of-20X3 adjusting entry. Assume the company uses the balance sheet approach, and the initial recording is to an asset account. The company has a calendar year-end and does not make any adjusting entries prior to December 31.

(1) The company purchased an 18-month insurance policy for $18,000 on June 1, 20X3.

(2) The company started 20X3 with $20,000 in supplies (this was previously recorded, and you do not need to make an entry for the beginning balance), purchased $30,000 in supplies during the year, and found only $13,000 in supplies on hand at the end of 20X3.

(3) The company paid $2,500 to rent a truck. The rental period began on December 16, 20X3, and ends on February 14, 20X4.

B-03.07

Creative Hearing Technologies of London recently introduced a blue-tooth enabled hearing aid that allows hearing-disabled users to not only hear better, but also interface with their cell phones and digital music players.

The company reports the following four transactions and events related to December of 20X7, and is seeking your help to prepare the end-of-year adjusting entries needed at December 31.

(1) On December 1, the company borrowed £10,000,000 at an 8% per annum interest rate. The loan, and all accrued interest, is due in 3 months.

(2) Early in December, the company licensed their new technology to Apple Bites Computer, Inc., for use in Apple's existing product lines. The agreement provides for a royalty payment from Apple to Creative based on Apple's sales of products using the licensed technology. As of December 31, £45,000 is due under the agreement for actual sales made by Apple to date.

(3) Creative pays many employee's on an hourly basis. As of December 31, there are 5,320 unpaid labor hours already worked, at an average hourly rate of £17.

(4) The company estimates that utilities used during December, for which bills will be received in January, amount to £20,000.

B-03.08

Anthony Asher's administrative assistant maintains a very simple computerized general ledger system. This system includes intuitive routines for recording receipts, payments, and sales on account. However, the system is not sufficiently robust to automate end-of-period adjustments. Below is the trial balance for the month ending January 31, 20X8. This trial balance has not been adjusted for the various items that are described on the following page. Review the trial balance and narratives, and prepare the necessary adjusting entries.

Asher Corporation
Trial Balance
January 31, 20X8

	Debits	Credits
Cash	$ 37,500	$ -
Accounts Receivable	12,410	-
Prepaid Insurance	2,400	-
Supplies	7,113	-
Equipment	35,000	-
Accumulated Depreciation	-	10,000
Accounts Payable	-	7,569
Unearned Revenue	-	8,500
Loan Payable	-	15,000
Capital Stock	-	24,000
Retained Earnings, Jan. 1	-	15,457
Revenues	-	43,995
Salary Expense	12,098	-
Rent Expense	13,000	-
Office Expense	2,500	-
Dividends	2,500	-
	$ 124,521	$ 124,521

B-03.08

Asher Corporation's equipment had an original life of 140 months, and the straight-line depreciation method is used. As of January 1, the equipment was 40 months old. The equipment will be worthless at the end of its useful life.

As of the end of the month, Asher Corporation has provided services to customers for which the earnings process is complete. Formal billings are normally sent out on the first day of each month for the prior month's work. January's unbilled work is $25,000.

Utilities used during January, for which bills will soon be forthcoming from providers, are estimated at $1,500.

A review of supplies on hand at the end of the month revealed items costing $3,500.

The $2,400 balance in prepaid insurance was for a 6-month policy running from January 1 to June 30.

The unearned revenue was collected in December of 20X7. 60% of that amount was actually earned in January, with the remainder to be earned in February.

The loan accrues interest at 1% per month. No interest was paid in January.