



Financial Accounting IFRS 3rd Edition Solutions Manual

Information Techonlogy (The University of the West Indies St. Augustine)

Financial Accounting IFRS 3rd Edition Solutions Manual Weygandt Kimmel Kieso

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CHAPTER 3

Adjusting the Accounts

ASSIGNMENT CLASSIFICATION TABLE

<u>Learning Objectives</u>	<u>Questions</u>	<u>Brief Exercises</u>	<u>Do It!</u>	<u>Exercises</u>	<u>A Problems</u>	<u>B Problems</u>
1. Explain the time period assumption.	1		1	1		
2. Explain the accrual basis of accounting.	2, 3, 4, 5		1	2, 3, 10, 16		
3. Explain the reasons for adjusting entries.	6, 7	1				
4. Identify the major types of adjusting entries.	8, 18	2, 8		4, 6, 11		
5. Prepare adjusting entries for deferrals.	8, 9, 10, 11, 12, 13, 18, 19, 20	2, 3, 4, 5, 6, 8	2	5, 6, 7, 8, 9, 10, 11, 12, 13, 15	1A, 2A, 3A, 4A, 5A, 6A	1B, 2B, 3B, 4B, 5B
6. Prepare adjusting entries for accruals.	8, 14, 15, 16, 17, 18, 19, 20	2, 7, 8	3	5, 6, 7, 8, 9, 10, 11, 12, 13, 15	1A, 2A, 3A, 4A, 5A, 6A	1B, 2B, 3B, 4B, 5B
7. Describe the nature and	21	9, 10	4	10, 11, 12,	1A, 2A, 3A,	1B, 2B, 3B,

	purpose of an adjusted trial balance.			13, 14	5A, 6A	5B
*8.	Prepare adjusting entries for the alternative treatment of deferrals.	22	11	17, 18	6A	
*9.	Discuss financial reporting concepts.	23, 24, 25, 26, 27, 28	12, 13 14, 15	19, 20, 21, 22, 23		

***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	4–6	AN	Moderate	6–8
BE3	5	AN	Simple	3–5
BE4	5	AN	Simple	3–5
BE5	5	AN	Simple	2–4
BE6	5	AN	Simple	2–4
BE7	6	AN	Simple	4–6
BE8	4–6	AN	Simple	5–7
BE9	7	AP	Simple	4–6
BE10	7	AP	Simple	2–4
BE11*	8	AN	Moderate	3–5
BE12*	9	K	Simple	3–5
BE13*	9	K	Simple	2–4
BE14*	9	K	Simple	2–4
BE15*	9	K	Simple	1–2
DI1	1, 2	K	Simple	2–4
DI2	5	AN	Simple	6–8
DI3	6	AN	Simple	4–6
DI4	7	AN	Moderate	20–30
EX1	1	C	Simple	3–5
EX2	2	E	Moderate	10–15
EX3	2	AP	Simple	6–8
EX4	4	AN	Simple	5–6
EX5	5, 6	AN	Moderate	10–15
EX6	4–6	AN	Moderate	10–12
EX7	5, 6	AN	Moderate	8–10
EX8	5, 6	AN	Moderate	8–10
EX9	5, 6	AN	Simple	8–10
EX10	2, 5–7	AN	Moderate	8–10
EX11	4–7	AN	Moderate	12–15
EX12	5–7	AN	Moderate	8–10

ADJUSTING THE ACCOUNTS (Continued)

Number	LO	BT	Difficulty	Time (min.)
EX13	5–7	AN	Simple	8–10
EX14	7	AP	Simple	12–15
EX15	5, 6	AN, S	Moderate	8–10
EX16	2	AN	Moderate	8–10
EX17*	8	AN	Moderate	6–8
EX18*	8	AN	Moderate	10–12
EX19*	9	K	Simple	3–5
EX20*	9	C	Simple	3–5
EX21*	9	K	Simple	6–8
EX22*	9	E	Simple	10–20
EX23*	9	E	Simple	10–20
P1A	5–7	AN	Simple	40–50
P2A	5–7	AN	Simple	50–60
P3A	5–7	AN	Moderate	40–50
P4A	5, 6	AN	Moderate	30–40
P5A	5–7	AN	Moderate	60–70
P6A	5–8	AN	Moderate	40–50
P1B	5–7	AN	Simple	40–50
P2B	5–7	AN	Simple	50–60
P3B	5–7	AN	Moderate	40–50
P4B	5, 6	AN	Moderate	30–40
P5B	5–7	AN	Moderate	60–70
BYP1	5, 6	AN	Simple	10–15
BYP2	—	AN	Simple	10–15
BYP3	2–7	S	Moderate	15–20
BYP4	3–6	C	Simple	10–15
BYP5	3–6	E	Moderate	10–15

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

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Explain the time period assumption.	DI3-1	Q3-1 E3-1				
2. Explain the accrual basis of accounting.	DI3-1	Q3-2 Q3-3 Q3-4	Q3-5 E3-3	E3-10 E3-16		E3-2
3. Explain the reasons for adjusting entries.		Q3-6 Q3-7 BE3-1				
4. Identify the major types of adjusting entries.		Q3-8		Q3-18 BE3-2 BE3-8 E3-4 E3-6 E3-11		
5. Prepare adjusting entries for deferrals.		Q3-8 Q3-9 Q3-10 Q3-11 Q3-12 Q3-13 Q3-19 Q3-20		Q3-18 BE3-2 BE3-3 BE3-4 BE3-5 BE3-6 BE3-8 DI3-2 E3-5 E3-6 E3-7 E3-8 P3-3A P3-4A P3-5A P3-6A P3-1B P3-2B P3-3B P3-4B P3-5B P3-2A	E3-15	
6. Prepare adjusting entries for accruals.		Q3-8 Q3-14 Q3-15 Q3-19 Q3-20	Q3-17	Q3-16 Q3-18 BE3-2 BE3-7 BE3-8 DI3-3 E3-5 E3-6 E3-7 E3-8 E3-9 E3-10 E3-11 E3-12 E3-13 E3-15 P3-1A P3-2A P3-3A P3-4A P3-5A P3-6A P3-1B P3-2B P3-3B P3-4B P3-5B	E3-15	
7. Describe the nature and purpose of an adjusted trial balance.		Q3-21	BE3-9 BE3-10 E3-14	DI3-4 E3-10 E3-11 E3-12 E3-13 P3-1A P3-2A P3-3A P3-5A P3-6A P3-1B P3-2B P3-3B P3-5B		
*8. Prepare adjusting entries for the alternative treatment of deferrals.			Q3-22	BE3-11 E3-17 E3-18 P3-6A		
*9. Discuss financial reporting concepts	Q3-23 BE3-12 BE3-13 BE3-14 BE3-15 E3-19 E3-21	Q3-24 Q3-25 Q3-26 Q3-27 Q3-28 E3-20				E3-22 E3-23
Broadening Your Perspective		Communication		Financial Reporting Comparative Analysis	Decision-Making Across the Organization	Ethics Case

ANSWERS TO QUESTIONS

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

LO: 3.1

Difficulty: Easy

BLOOMCODE: Comprehension

AACSB: Reflective thinking

2. The two 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 the performance obligation is satisfied.
The expense recognition principle, which states that efforts (expenses) should be matched with accomplishments (revenues).

LO: 3.2

Difficulty: Easy

BLOOMCODE: Comprehension

AACSB: Reflective thinking

3. The law firm should recognize the revenue in April. When a company agrees to perform a service for a customer it has a performance obligation. The revenue recognition principle states that revenue should be recognized in the accounting period in which the performance obligation is satisfied which is April in this case.

LO: 3.2

Difficulty: Easy

BLOOMCODE: Comprehension

AACSB: Reflective thinking

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.

LO: 3.2

Difficulty: Easy

BLOOMCODE: Comprehension

AACSB: Reflective thinking

5. Expenses of £4,700 should be deducted from the revenues in April. Under the expense recognition principle efforts (expenses) should be matched with accomplishments (revenues).

LO: 3.1

Difficulty: Easy

BLOOMCODE: Application

AACSB: Reflective thinking

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

LO: 3.3

Difficulty: Easy

BLOOMCODE: Comprehension

AACSB: Reflective thinking

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.

LO: 3.3

Difficulty: Easy

BLOOMCODE: Comprehension

AACSB: Reflective thinking

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.

LO: 3.5, 3.6

Difficulty: Easy

BLOOMCODE: Comprehension

AACSB: Reflective thinking

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

LO: 3.5

Difficulty: Easy

BLOOMCODE: Comprehension

AACSB: Reflective thinking

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.

LO: 3.5

Difficulty: Easy

BLOOMCODE: Comprehension

AACSB: Reflective thinking

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 statement of financial position date.

LO: 3.5

Difficulty: Easy

BLOOMCODE: Comprehension

AACSB: Reflective thinking

Questions Chapter 3 (Continued)

12. Equipment Rs 18,000,000
 Less: Accumulated Depreciation—Equipment 7,000,000 Rs 11,000,000

LO: 3.5

Difficulty: Easy

BLOOMCODE: Comprehension

AACSB: Reflective thinking

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

LO: 3.5

Difficulty: Easy

BLOOMCODE: Comprehension

AACSB: Reflective thinking

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

LO: 3.6

Difficulty: Easy

BLOOMCODE: Comprehension

AACSB: Reflective thinking

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

LO: 3.1

Difficulty: Easy

BLOOMCODE: Comprehension

AACSB: Reflective thinking

16. Net income was understated NT\$6,000 because prior to adjustment, revenues are understated by NT\$27,000 and expenses are understated by NT\$21,000. The difference in this case is NT\$6,000 (NT\$27,000 – NT\$21,000).

LO: 3.6

Difficulty: Medium

BLOOMCODE: Analysis

AACSB: Analytic

17. The entry is:

Jan. Error! Reference source not found. 9 ... Salaries and Wages Payable	2,000
Salaries and Wages Expense	4,000
Cash.....	6,000

LO: 3.6

Difficulty: Easy

BLOOMCODE: Application

AACSB: Reflective thinking

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

LO: 3.6
 Difficulty: Medium
 BLOOMCODE: Analysis
 AACSB: Analytic

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

LO: 3.5, 3.6
 Difficulty: Easy
 BLOOMCODE: Comprehension
 AACSB: Reflective thinking

20. Disagree. An adjusting entry affects only one statement of financial position account and one income statement account.

LO: 3.5, 3.6
 Difficulty: Easy
 BLOOMCODE: Comprehension
 AACSB: Reflective thinking

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.

LO: 3.7
 Difficulty: Easy
 BLOOMCODE: Comprehension
 AACSB: Reflective thinking

- *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

LO: 3.8
 Difficulty: Medium
 BLOOMCODE: Application
 AACSB: Reflective thinking

- *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, verifiability, timeliness, and understandability.

LO: 3.9
 Difficulty: Easy
 BLOOMCODE: Knowledge

Questions Chapter 3 (Continued)

- *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.

LO: 3.9

Difficulty: Easy

BLOOMCODE: Comprehension

AACSB: Reflective thinking

- *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.

LO: 3.9

Difficulty: Easy

BLOOMCODE: Comprehension

AACSB: Reflective thinking

- *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.

LO: 3.9

Difficulty: Easy

BLOOMCODE: Comprehension

AACSB: Reflective thinking

- *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.

LO: 3.9

Difficulty: Easy

BLOOMCODE: Comprehension

AACSB: Reflective thinking

- *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.

LO: 3.9

Difficulty: Easy

BLOOMCODE: Comprehension

AACSB: Reflective thinking

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

LO: 3.3

Difficulty: Easy

BLOOMCODE: Comprehension

AACSB: Reflective thinking

BRIEF EXERCISE 3-2

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

LO: 3.5, 3.6

Difficulty: Medium

BLOOMCODE: Analysis

AACSB: Analytic

BRIEF EXERCISE 3-3

Dec. 31	Supplies Expense	5,400	
	Supplies (£6,700 – £1,300)		5,400

Supplies			Supplies Expense		
6,700	12/31	5,400	12/31	5,400	
12/31 Bal. 1,300					

LO: 3.5

Difficulty: Medium

BLOOMCODE: Analysis

AACSB: Analytic

BRIEF EXERCISE 3-4

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

Depreciation Expense		Accum. Depreciation—Equipment	
12/31	6,000	12/31	6,000

Statement of Financial Position:

Equipment	€32,000	
Less: Accumulated Depreciation— Equipment.....	<u>6,000</u>	€26,000

LO: 3.5
 Difficulty: Medium
 BLOOMCODE: Analysis
 AACSB: Analytic

BRIEF EXERCISE 3-5

July 1	Prepaid Insurance.....	13,200	
	Cash		13,200
Dec. 31	Insurance Expense $[(€13,200 \div 3) \times 1/2]$	2,200	
	Prepaid Insurance		2,200

Prepaid Insurance		Insurance Expense	
7/1	13,200	12/31	2,200
12/31 Bal.	11,000		

LO: 3.5
 Difficulty: Medium
 BLOOMCODE: Analysis
 AACSB: Analytic

BRIEF EXERCISE 3-6

July 1	Cash.....	13,200	
	Unearned Service Revenue		13,200
Dec. 31	Unearned Service Revenue	2,200	
	Service Revenue		2,200

Unearned Service Revenue			
12/31	2,200	7/1	13,200
		12/31	Bal. 11,000

Service Revenue		
	12/31	2,200

LO: 3.5

Difficulty: Medium

BLOOMCODE: Analysis

AACSB: Analytic

BRIEF EXERCISE 3-7

1.	Dec. 31	Interest Expense	320	
		Interest Payable		320
2.	31	Accounts Receivable	1,750	
		Service Revenue		1,750
3.	31	Salaries and Wages Expense	900	
		Salaries and Wages Payable.....		900

LO: 3.6
Difficulty: Medium
BLOOMCODE: Analysis
AACSB: Analytic

BRIEF EXERCISE 3-8

<u>Account</u>	<u>(a) Type of Adjustment</u>	<u>(b) Related Account</u>
Accounts Receivable	Accrued Revenues	Service Revenue
Prepaid Insurance	Prepaid Expenses	Insurance Expense
Accum. Depr.—Equipment	Prepaid Expenses	Depreciation Expense
Interest Payable	Accrued Expenses	Interest Expense
Unearned Service Revenue	Unearned Revenues	Service Revenue

LO: 3.4, 3.5, 3.6
Difficulty: Medium
BLOOMCODE: Analysis
AACSB: Analytic

BRIEF EXERCISE 3-9

KWUN COMPANY
Income Statement
For the Year Ended December 31, 2017
(in thousands)

Revenues	
Service revenue	₩38,400
Expenses	
Salaries and wages expense	₩16,000
Rent expense	4,400
Insurance expense	2,000
Supplies expense	1,500

Depreciation expense	<u>1,300</u>	
Total expenses		<u>25,200</u>
Net income		<u>W13,200</u>

LO: 3.7

Difficulty: Medium

BLOOMCODE: Application

AACSB: Analytic

BRIEF EXERCISE 3-10

KWUN COMPANY
Retained Earnings Statement
For the Year Ended December 31, 2017
(in thousands)

Retained earnings, January 1	₩ 7,240
Add: Error! Reference source not found. Net income	<u>13,200</u>
	20,440
Less: Dividends	<u>6,000</u>
Retained earnings, December 31	<u><u>₩14,440</u></u>

LO: 3.7

Difficulty: Medium

BLOOMCODE: Application

AACSB: Analytic

*BRIEF EXERCISE 3-11

(a) Apr. 30	Supplies	11,000	
	Supplies Expense		11,000
(b) 30	Service Revenue	20,000	
	Unearned Service Revenue		20,000

LO: 3.8

Difficulty: Medium

BLOOMCODE: Analysis

AACSB: Analytic

*BRIEF EXERCISE 3-12

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

LO: 3.9

Difficulty: Easy

BLOOMCODE: Knowledge

AACSB: Reflective thinking

***BRIEF EXERCISE 3-13**

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

LO: 3.9

Difficulty: Easy

BLOOMCODE: Knowledge

AACSB: Reflective thinking

***BRIEF EXERCISE 3-14**

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

LO: 3.9

Difficulty: Easy

BLOOMCODE: Knowledge

AACSB: Reflective thinking

***BRIEF EXERCISE 3-15**

- (c)**

LO: 3.9

Difficulty: Easy

BLOOMCODE: Knowledge

AACSB: Reflective thinking

SOLUTIONS FOR DO IT! REVIEW EXERCISES

DO IT! 3-1

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

LO: 3.1, 3.2

Difficulty: Easy

BLOOMCODE: Knowledge

AACSB: Reflective thinking

DO IT! 3-2

1.	Insurance Expense	300	
	Prepaid Insurance		300
	(To record insurance expired)		
2.	Supplies Expense (CHF2,500 – CHF1,400)	1,100	
	Supplies		1,100
	(To record supplies used)		
3.	Depreciation Expense	200	
	Accumulated Depreciation—Equipment		200
	(To record monthly depreciation)		
4.	Unearned Service Revenue (CHF9,000 x 2/5)	3,600	
	Service Revenue		3,600
	(To record revenue for services performed)		

LO: 3.5

Difficulty: Medium

BLOOMCODE: Analysis

AACSB: Analytic

DO IT! 3-3

1.	Salaries and Wages Expense	1,300	
	Salaries and Wages Payable		1,300
	(To record accrued salaries)		
2.	Interest Expense (€18,000 x .07 x 1/12)	105	
	Interest Payable		105
	(To record accrued interest)		
3.	Accounts Receivable	2,400	
	Service Revenue		2,400
	(To record revenue for service performed)		

LO: 3.6

Difficulty: Medium

BLOOMCODE: Analysis

AACSB: Analytic

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	R\$11,360
Rent revenue	<u>900</u>
Total revenues	12,260

Expenses

Salaries and wages expense	R\$7,400
Rent expense	1,200
Depreciation expense	700
Utilities expense	380
Supplies expense	160
Interest expense	<u>40</u>
Total expenses	<u>9,880</u>

Net income	<u><u>R\$ 2,380</u></u>
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DO IT! 3-4 (Continued)

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

Assets

Cash	R\$ 5,190
Accounts receivable	480
Prepaid rent	720
Supplies	920
Equipment	R\$12,000
Less: Accumulated depreciation— equipment	<u>700</u> <u>11,300</u>
Total assets	<u><u>R\$18,610</u></u>

Liabilities

Notes payable	R\$ 4,000
Accounts payable	790
Unearned rent revenue	400
Salaries and wages payable	300
Interest payable	<u>40</u>
Total liabilities	<u><u>R\$ 5,530</u></u>

(c) Retained Earnings, April 1	R\$ -0-
Add: Net income	<u>2,380</u>
	2,380
Less: Dividends	<u>500</u>

Retained Earnings, June 30

R\$1,880

LO: 3.7

Difficulty: Medium

BLOOMCODE: Analysis

AACSB: Analytic

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.

LO: 3.1

Difficulty: Easy

BLOOMCODE: Comprehension

AACSB: Reflective thinking

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 national 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 Official,

It is my understanding, after having taken a beginning course in accounting principles, that the 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

LO: 3.2

Difficulty: Medium

BLOOMCODE: Evaluation

AACSB: Reflective thinking/Communication

EXERCISE 3-3

(a)	Cash received from revenue	£112,000
	Cash paid for expenses	<u>(72,000)</u>
	Cash-basis net income	<u>£ 40,000</u>
(b)	Revenues $[(£112,000 - £30,000) + £44,000]$	£126,000
	Expenses $[(£72,000 - £27,000) + £37,000]$	<u>(82,000)</u>
	Accrual-basis net income	<u>£ 44,000</u>

LO: 3.2

Difficulty: Medium

BLOOMCODE: Application

AACSB: Analytic

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.**

LO: 3.4

Difficulty: Medium

BLOOMCODE: Analysis

AACSB: Analytic

EXERCISE 3-5

1.	Interest Expense	3,600	
	Interest Payable		
	(NT\$240,000 X 6% X 3/12)		3,600
2.	Supplies Expense	50,100	
	Supplies (NT\$73,500 – NT\$23,400)		50,100
3.	Depreciation Expense	30,000	
	Accumulated Depreciation—Equipment		30,000
4.	Insurance Expense	36,750	
	Prepaid Insurance		
	(NT\$63,000 X 7/12)		36,750
5.	Unearned Service Revenue	225,000	
	Service Revenue		
	(NT\$900,000 X 1/4)		225,000
6.	Accounts Receivable	117,000	
	Service Revenue		117,000
7.	Salaries and Wages Expense	162,000	
	Salaries and Wages Payable		
	(NT\$270,000 X 3/5)		162,000

LO: 3.5, 3.6

Difficulty: Medium

BLOOMCODE: Analysis

AACSB: Analytic

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

LO: 3.5, 3.6

Difficulty: Medium

BLOOMCODE: Analysis

AACSB: Analytic

EXERCISE 3-7

1.	Mar. 31	Depreciation Expense (€320 X 3).....	960	
		Accumulated Depreciation— Equipment		960
2.	31	Unearned Rent Revenue	3,300	
		Rent Revenue (€9,900 X 1/3).....		3,300
3.	31	Interest Expense	500	
		Interest Payable.....		500
4.	31	Supplies Expense	1,960	
		Supplies (€2,800 – €840)		1,960
5.	31	Insurance Expense (€200 X 3)	600	
		Prepaid Insurance		600

LO: 3.5, 3.6
 Difficulty: Medium
 BLOOMCODE: Analysis
 AACSB: Analytic

EXERCISE 3-8

1.	Jan. 31	Accounts Receivable	875	
		Service Revenue		875
2.	31	Utilities Expense.....	520	
		Utilities Payable		520
3.	31	Depreciation Expense	400	
		Accumulated Depreciation— Equipment		400
	31	Interest Expense.....	500	
		Interest Payable		500
4.	31	Insurance Expense (¢18,000 ÷ 6).....	3,000	
		Prepaid Insurance		3,000
5.	31	Supplies Expense (¢1,600 – ¢700)	900	
		Supplies.....		900

LO: 3.5, 3.6
 Difficulty: Medium
 BLOOMCODE: Analysis
 AACSB: Analytic

EXERCISE 3-9

1.	Oct. 31	Supplies Expense.....	1,700	
		Supplies (¢2,500 – ¢800)		1,700
2.	31	Insurance Expense.....	100	
		Prepaid Insurance		100
3.	31	Depreciation Expense	50	
		Accumulated Depreciation— Equipment		50
4.	31	Unearned Service Revenue	650	
		Service Revenue		650

5.	31	Accounts Receivable.....	320	
		Service Revenue		320

EXERCISE 3-9 (Continued)

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

LO: 3.5, 3.6
 Difficulty: Medium
 BLOOMCODE: Analysis
 AACSB: Analytic

EXERCISE 3-10

BJORN ASA
Income Statement
For the Month Ended July 31, 2017

Revenues			
	Service revenue (€5,500 + €920)		€6,420
Expenses			
	Salaries and wages expense (€2,300 + €280).....	€2,580	
	Supplies expense (€1,200 – €300).....	900	
	Utilities expense	500	
	Insurance expense.....	400	
	Depreciation expense	<u>150</u>	
	Total expenses		<u>4,530</u>
	Net income		<u>€1,890</u>

LO: 3.2, 3.5, 3.6, 3.7
 Difficulty: Hard
 BLOOMCODE: Analysis
 AACSB: Analytic

EXERCISE 3-11

<u>Answer</u>	<u>Computation</u>	
(a) Supplies balance = £1,090	Supplies expense	£ 950

found. **Supplies (1/31)**

Add: Error! Reference source not
850

Less: Supplies purchased 710
Supplies (1/1) £ 1,090

(b) Total premium = £4,800

Total premium = Monthly premium X 12;
£400 X 12 = £4,800

Purchase date = Aug. 1, 2016

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, 2016.

EXERCISE 3-11 (Continued)

**(c) Salaries and wages
payable = £1,400**

Cash paid £3,100
**Salaries and wages
payable (1/31/17)** 800
3,900

**Less: Salaries and wages
expense** 2,500
**Salaries and wages
payable (12/31/16)** £1,400

LO: 3.4, 3.5, 3.6, 3.7
Difficulty: Hard
BLOOMCODE: Analysis
AACSB: Analytic

EXERCISE 3-12

(a) July 10	Supplies	200	
	Cash		200
14	Cash	2,000	
	Service Revenue		2,000
15	Salaries and Wages Expense	1,200	
	Cash		1,200
20	Cash	750	
	Unearned Service Revenue		750
(b) July 31	Supplies Expense	800	

	Supplies		800
31	Accounts Receivable.....	620	
	Service Revenue		620
31	Salaries and Wages Expense	1,200	
	Salaries and Wages Payable		1,200
31	Unearned Service Revenue.....	900	
	Service Revenue		900

LO: 3.5, 3.6, 3.7

Difficulty: Hard

BLOOMCODE: Analysis

AACSB: Analytic

EXERCISE 3-13

Aug. 31	Accounts Receivable.....	1,200	
	Service Revenue		1,200
31	Supplies Expense	1,600	
	Supplies		1,600
31	Insurance Expense	1,500	
	Prepaid Insurance		1,500
31	Depreciation Expense	1,300	
	Accumulated Depreciation— Equipment		1,300
31	Salaries and Wages Expense	1,100	
	Salaries and Wages Payable		1,100
31	Unearned Rent Revenue	700	
	Rent Revenue		700

LO: 3.5, 3.6, 3.7

Difficulty: Hard

BLOOMCODE: Analysis

AACSB: Analytic

EXERCISE 3-14

MATUSIAK COMPANY OAO
Income Statement
For the Year Ended August 31, 2017

Revenues		
Service revenue		€35,200
Rent revenue		<u>11,700</u>
Total revenues.....		46,900
Expenses		
Salaries and wages expense	€18,100	
Rent expense	15,000	
Supplies expense	1,600	
Insurance expense	1,500	
Depreciation expense.....	<u>1,300</u>	
Total expenses		<u>37,500</u>
Net income.....		<u>€ 9,400</u>

EXERCISE 3-14 (Continued)

MATUSIAK COMPANY OAO
Retained Earnings Statement
For the Year Ended August 31, 2017

Retained earnings, September 1, 2016	€ 3,600
Add: Net income	<u>9,400</u>
Retained earnings, August 31, 2017	<u><u>€13,000</u></u>

MATUSIAK COMPANY OAO
Statement of Financial Position
August 31, 2017

Assets		
Equipment.....	€14,000	
Less: Accum. depreciation—equipment.....	<u>4,900</u>	€ 9,100
Prepaid insurance		2,500
Supplies		700
Accounts receivable.....		10,000
Cash		<u>10,400</u>
Total assets		<u><u>€32,700</u></u>

Equity and Liabilities		
Equity		
Share capital—ordinary.....	€12,000	
Retained earnings.....	<u>13,000</u>	€25,000
Liabilities		
Accounts payable	5,800	
Salaries and wages payable.....	1,100	
Unearned rent revenues.....	<u>800</u>	<u>7,700</u>
Total equity and liabilities.....		<u><u>€32,700</u></u>

LO: 3.7

Difficulty: Hard

BLOOMCODE: Applications

AACSB: Analytic

EXERCISE 3-15

(a) (1) Cash	10,000
--------------------	--------

Accounts Receivable		10,000
(2) Unearned Service Revenue	20,000	
Service Revenue.....		20,000
(3) (a) Cash	35,000	
Unearned Service Revenue.....		35,000
(b) Unearned Service Revenue		
(£35,000 – £14,000)	21,000	
Service Revenue		21,000
(4) Accounts Receivable	112,000	
Service Revenue		
(£153,000 – £20,000 – £21,000)		112,000
(5) Cash.....	100,000	
Accounts Receivable		
(£112,000 – £12,000)		100,000
(b) Cash received by the club = £10,000 + £103,000 + £35,000		
= £145,000		

LO: 3.5, 3.6
Difficulty: Hard
BLOOMCODE: Analysis
AACSB: Analytic

EXERCISE 3-16

(a) Cash received from services provided	Rs25,200
Cash paid for expenses	(12,000)
Cash paid for prepaid insurance	<u>(2,600)</u>
Cash flow from operations.....	<u>Rs10,600</u>
(b) Service revenue	Rs30,000
Operating expenses	<u>17,000</u>
Net income	<u>Rs13,000</u>
(c) Under the accrual basis, companies record transactions that change a company and financial statements in the period in which the events occur. Cash basis accounting fails to record revenue that a company	

has earned but has not collected the cash. Also it does not match expenses with earned revenue.

LO: 3.2
Difficulty: Hard
BLOOMCODE: Analysis
AACSB: Analytic

***EXERCISE 3-17**

1.	Prepaid Insurance.....	720	
	Insurance Expense		
	(€2,880 X 3/12).....		720
2.	Service Revenue	30,525	
	Unearned Service Revenue		
	(€40,700 X 3/4).....		30,525
3.	Supplies.....	420	
	Supplies Expense		420

LO: 3.8
Difficulty: Medium
BLOOMCODE: Analysis
AACSB: Analytic

***EXERCISE 3-18**

(a)	Jan.	2	Insurance Expense	2,640	
			Cash		2,640
		10	Supplies Expense	1,700	
			Cash		1,700
		15	Cash.....	6,400	
			Service Revenue		6,400

Cash				Service Revenue			
1/15	6,400	1/2	2,640		1/15	6,400	
		1/10	1,700				
Insurance Expense				Supplies Expense			
1/2	2,640			1/10	1,700		

(b)	Jan. 31	Prepaid Insurance (€220 X 11 months)	2,420	
		Insurance Expense		2,420
	31	Supplies	650	
		Supplies Expense		650
	31	Service Revenue	3,900	
		Unearned Service Revenue		3,900

***EXERCISE 3-18 (Continued)**

Prepaid Insurance		Supplies		Unearned Service Revenue	
1/31	2,420	1/31	650	1/31	3,900
Insurance Expense		Supplies Expense		Service Revenue	
1/2	2,640	1/31	2,420	1/31	3,900
Bal.	220	1/10	1,700	1/15	6,400
		Bal.	1,050	Bal.	2,500

(c)	Prepaid insurance.....	€2,420
	Supplies	650
	Unearned service revenue	3,900
	Service revenue	2,500
	Insurance expense	220
	Supplies expense	1,050

LO: 3.8

Difficulty: Hard

BLOOMCODE: Analysis

AACSB: Analytic

***EXERCISE 3-19**

- (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

LO: 3.9

Difficulty: Easy

BLOOMCODE: Knowledge

AACSB: Reflective thinking

***EXERCISE 3-20**

- (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 not have been debited for the purchase of the truck. The dividends account should have debited instead.**

***EXERCISE 3-20 (Continued)**

- (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, 2017 results would not be comparable to previous years' results. The company should use a 52 week year.

LO: 3.9

Difficulty: Easy

BLOOMCODE: Comprehension

AACSB: Reflective thinking

***EXERCISE 3-21**

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**

LO: 3.9

Difficulty: Easy

BLOOMCODE: Knowledge

AACSB: Reflective thinking

***EXERCISE 3-22**

- (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.**

LO: 3.9

Difficulty: Medium

BLOOMCODE: Evaluation

AACSB: Reflective thinking

***EXERCISE 3-23**

- (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.

LO: 3.9

Difficulty: Medium

BLOOMCODE: Evaluation

AACSB: Reflective thinking

SOLUTIONS TO PROBLEMS

PROBLEM 3-1A

(a)

				J3
Date	Account Titles and Explanation	Ref.	Debit	Credit
2017				
June 30	Supplies Expense.....	631	1,260	
	Supplies			
	(€1,600 – €340)	126		1,260
30	Utilities Expense.....	732	185	
	Accounts Payable.....	201		185
30	Insurance Expense.....	722	250	
	Prepaid Insurance			
	(€3,000 ÷ 12 months).....	130		250
30	Unearned Service Revenue.....	209	2,500	
	Service Revenue.....	400		2,500
30	Salaries and Wages Expense	726	1,600	
	Salaries and Wages			
	Payable	212		1,600
30	Depreciation Expense	711	300	
	Accumulated Depreciation—			
	Equipment	158		300
30	Accounts Receivable.....	112	2,400	
	Service Revenue	400		2,400

PROBLEM 3-1A (Continued)**(b)****Cash** **No. 101**

Date	Explanation	Ref.	Debit	Credit	Balance
2017					
June 30	Balance	✓			6,200

Accounts Receivable **No. 112**

Date	Explanation	Ref.	Debit	Credit	Balance
2017					
June 30	Balance	✓			6,000
30	Adjusting	J3	2,400		8,400

Supplies **No. 126**

Date	Explanation	Ref.	Debit	Credit	Balance
2017					
June 30	Balance	✓			1,600
30	Adjusting	J3		1,260	340

Prepaid Insurance **No. 130**

Date	Explanation	Ref.	Debit	Credit	Balance
2017					
June 30	Balance	✓			3,000
30	Adjusting	J3		250	2,750

Equipment **No. 157**

Date	Explanation	Ref.	Debit	Credit	Balance
2017					
June 30	Balance	✓			14,400

Accumulated Depreciation—Equipment **No. 158**

Date	Explanation	Ref.	Debit	Credit	Balance
2017					
June 30	Adjusting	J3		300	300

PROBLEM 3-1A (Continued)

Accounts Payable					No. 201	
Date	Explanation		Ref.	Debit	Credit	Balance
2017						
June 30	Balance		✓			4,700
30	Adjusting		J3		185	4,885

Unearned Service Revenue					No. 209	
Date		Explanation	Ref.	Debit	Credit	Balance
2017						
June	30	Balance	✓			4,000
	30	Adjusting	J3	2,500		1,500

Salaries and Wages Payable					No. 212
Date	Explanation	Ref.	Debit	Credit	Balance
2017					
June 30	Adjusting	J3		1,600	1,600

Share Capital—Ordinary						No. 311
Date		Explanation	Ref.	Debit	Credit	Balance
2017						
June	30	Balance	✓			20,000

Service Revenue					No. 400	
Date		Explanation	Ref.	Debit	Credit	Balance
2017						
June	30	Balance	✓			7,900
	30	Adjusting	J3		2,500	10,400
	30	Adjusting	J3		2,400	12,800

PROBLEM 3-1A (Continued)**Supplies Expense** **No. 631**

Date	Explanation	Ref.	Debit	Credit	Balance
2017					
June 30	Adjusting	J3	1,260		1,260

Depreciation Expense **No. 711**

Date	Explanation	Ref.	Debit	Credit	Balance
2017					
June 30	Adjusting	J3	300		300

Insurance Expense **No. 722**

Date	Explanation	Ref.	Debit	Credit	Balance
2017					
June 30	Adjusting	J3	250		250

Salaries and Wages Expense **No. 726**

Date	Explanation	Ref.	Debit	Credit	Balance
2017					
June 30	Balance	✓			4,400
30	Adjusting	J3	1,600		6,000

Rent Expense **No. 729**

Date	Explanation	Ref.	Debit	Credit	Balance
2017					
June 30	Balance	✓			1,000

Utilities Expense **No. 732**

Date	Explanation	Ref.	Debit	Credit	Balance
2017					
June 30	Adjusting	J3	185		185

PROBLEM 3-1A (Continued)**(c)****CUONO COMPANY SpA
Adjusted Trial Balance
June 30, 2017**

	Debit	Credit
Cash	€ 6,200	
Accounts Receivable	8,400	
Supplies	340	
Prepaid Insurance	2,750	
Equipment.....	14,400	
Accumulated Depreciation— Equipment.....		€ 300
Accounts Payable		4,885
Unearned Service Revenue		1,500
Salaries and Wages Payable		1,600
Share Capital—Ordinary		20,000
Service Revenue.....		12,800
Supplies Expense.....	1,260	
Depreciation Expense	300	
Insurance Expense.....	250	
Salaries and Wages Expense	6,000	
Rent Expense	1,000	
Utilities Expense.....	185	
	<u>€41,085</u>	<u>€41,085</u>

LO: 3.5, 3.6, 3.7

Difficulty: Hard

BLOOMCODE: Analysis

AACSB: Analytic

PROBLEM 3-2A

(a)

				J1
Date	Account Titles and Explanation	Ref.	Debit	Credit
Aug. 31	Insurance Expense (€400 X 3)	722	1,200	
	Prepaid Insurance.....	130		1,200
31	Supplies Expense (€3,300 – €900)	631	2,400	
	Supplies	126		2,400
31	Depreciation Expense			
	(€4,500 X 1/4) + (€2,400 X 1/4)	711	1,725	
	Accumulated Depreciation—			
	Buildings	144		1,125
	Accumulated Depreciation—			
	Equipment	158		600
31	Unearned Rent Revenue	208	4,100	
	Rent Revenue.....	429		4,100
31	Salaries and Wages Expense	726	400	
	Salaries and Wages Payable....	212		400
31	Accounts Receivable	112	3,700	
	Rent Revenue.....	429		3,700
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 3-2A (Continued)**Accounts Receivable** **No. 112**

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Adjusting	J1	3,700		3,700

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

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		1,125	1,125

Equipment **No. 157**

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

PROBLEM 3-2A (Continued)**Accumulated Depreciation—Equipment** **No. 158**

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	4,100		3,300

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

Share Capital—Ordinary **No. 311**

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

PROBLEM 3-2A (Continued)

Dividends No. 332

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		3,700	87,800

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	2,400		2,400

Depreciation Expense No. 711

Date	Explanation	Ref.	Debit	Credit	Balance
Aug. 31	Adjusting	J1	1,725		1,725

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	1,200		1,200

PROBLEM 3-2A (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) LAZY RIVER RESORT, LTD.
Adjusted Trial Balance
August 31, 2017

	Debit	Credit
Cash	€ 19,600	
Accounts Receivable	3,700	
Supplies	900	
Prepaid Insurance	4,800	
Land.....	25,000	
Buildings.....	125,000	
Accumulated Depreciation—Buildings.....		€ 1,125
Equipment.....	26,000	
Accumulated Depreciation—Equipment.....		600
Accounts Payable.....		6,500
Unearned Rent Revenue		3,300
Salaries and Wages Payable.....		400
Interest Payable		600
Mortgage Payable.....		80,000
Share Capital—Ordinary		100,000
Dividends	5,000	
Rent Revenue		87,800
Maintenance and Repairs Expense	3,600	
Supplies Expense.....	2,400	
Depreciation Expense	1,725	
Interest Expense.....	600	
Insurance Expense.....	1,200	
Salaries and Wages Expense	51,400	
Utilities Expense.....	9,400	
	<u>€280,325</u>	<u>€280,325</u>

PROBLEM 3-2A (Continued)

(d)

LAZY RIVER RESORT, LTD.
Income Statement
For the Three Months Ended August 31, 2017

Revenues		
Rent revenue		€87,800
Expenses		
Salaries and wages expense	€51,400	
Utilities expense	9,400	
Maintenance and repairs expense	3,600	
Supplies expense	2,400	
Depreciation expense	1,725	
Insurance expense	1,200	
Interest expense	600	
Total expenses		<u>70,325</u>
Net income		<u>€17,475</u>

LAZY RIVER RESORT, LTD.
Retained Earnings Statement
For the Three Months Ended August 31, 2017

Retained Earnings, June 1	€ 0
Add: Net income	<u>17,475</u>
	17,475
Less: Dividends	<u>5,000</u>
Retained Earnings, August 31	<u>€12,475</u>

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