Adjusting Entries for Deferrals

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The ledger of Hammond Company, on March 31, 2017, includes these selected accounts before adjusting entries are prepared.

Debit Credit

Prepaid Insurance $ 3,600

Supplies 2,800

Equipment 25,000

Accumulated Depreciation—Equipment $5,000

Unearned Service Revenue 9,200

An analysis of the accounts shows the following.

1. Insurance expires at the rate of $100 per month.
2. Supplies on hand total $800.
3. The equipment depreciates $200 a month.
4. During March, services were performed for one-half of the unearned service revenue.

Instruction: Prepare the adjusting entries for the month of March.

Solution: Hammond Company

Adjusting Entries

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Account Titles & Explanation | Ref. | Debit | Credit |
| March 31 | Insurance Expense  Prepaid Insurance  (To record insurance expired) |  | 100 | 100 |
| ,, 31 | Supplies Expense  Supplies  (To record supplies used) |  | 2,000 | 2,000 |
| ,, 31 | Depreciation Expense  Accumulated Depreciation—Equipment (To record monthly depreciation) |  | 200 | 200 |
| ,, 31 | Unearned Service Revenue  Service Revenue  (To record revenue for services performed) |  | 4,600 | 4,600 |

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**Practice Problem:** The Green Thumb Lawn Care Company began operations on April 1. At April 30, the trial balance shows the following balances for selected accounts.

Prepaid Insurance $ 3,600

Equipment 28,000

Notes Payable 20,000

Unearned Service Revenue 4,200

Service Revenue 1,800

Analysis reveals the following additional data.

1. Prepaid insurance is the cost of a 2-year insurance policy, effective April 1.
2. Depreciation on the equipment is $500 per month.
3. The note payable is dated April 1. It is a 6-month, 12% note.
4. Seven customers paid for the company’s 6-month lawn service package of $600 beginning in April. The company performed services for these customers in April.
5. Lawn services performed for other customers but not recorded at April 30 totaled $1,500.

Instructions: Prepare the adjusting entries for the month of April. Show computations.

Solution: Green Thumb Lawn Care Company

Adjusting Entries

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Account Titles and Explanation | Ref. | Debit | Credit |
| April 30 | Insurance Expense  Prepaid Insurance  (To record insurance expired: 3600÷24= $150 per month) |  | 150 | 150 |
| ,, 30 | Depreciation Expense  Accumulated Depreciation—Equipment  (To record monthly depreciation) |  | 500 | 500 |
| ,, 30 | Interest Expense  Interest Payable  (To record interest on notes payable:  $20,000 × 12% × 1/12 = $200) |  | 200 | 200 |
| ,, 30 | Unearned Service Revenue  Service Revenue  (To record revenue for services performed: $600 ÷ 6 = $100; $100 per month × 7 =$700) |  | 700 | 700 |
| ,, 30 | Accounts Receivable  Service Revenue  (To record revenue for services performed) |  | 1,500 | 1,500 |