# CHAPTER 4

## Accrual Accounting Concepts

### Learning Objectives

1. Explain the revenue recognition principle and the expense recognition principle.
2. Differentiate between the cash basis and the accrual basis of accounting.
3. Explain why adjusting entries are needed, and identify the major types of adjusting entries.
4. Prepare adjusting entries for deferrals.
5. Prepare adjusting entries for accruals.
6. Describe the nature and purpose of the adjusted trial balance.
7. Explain the purpose of closing entries.
8. Describe the required steps in the accounting cycle.
9. Understand the causes of differences between net income and cash provided by operating activities.
10. Describe the purpose and the basic form of a worksheet.

### Summary of Questions by Learning Objectives and Bloom's Taxonomy

| Item | LO | BT | Item | LO | BT | Item | LO | BT | Item | LO | BT | Item | LO | BT |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Questions** | | | | | | | | | | | | | | |
| 1. | 1 | C | 9. | 4 | C | 16. | 5 | K | 23. | 6 | C | 30. | 7 | K |
| 2. | 1 | K | 10. | 4 | C | 17. | 5 | AN | 24. | 2 | C | 31. | 8 | K |
| 3. | 1 | C | 11. | 4 | K | 18. | 5 | AP | 25. | 6 | C | 32. | 8 | K |
| 4. | 1 | AP | 12. | 4 | K | 19. | 4, 5 | K | 26. | 7 | K | 33. | 8 | C |
| 5. | 3 | C | 13. | 1 | C | 20. | 4, 5 | K | 27. | 7 | C | 34. | 8 | C |
| 6. | 3 | C | 14. | 1 | AN | 21. | 5 | C | 28. | 7 | C | 35. | 10* | K |
| 7. | 3 | C | 15. | 5 | C | 22. | 5 | C | 29. | 7 | K | 36. | 10* | K |
| 8. | 4 | K | | | | | | | | | | | | |
| **Brief Exercises** | | | | | | | | | | | | | | |
| 1. | 2, 9 | C | 4. | 4 | AP | 7. | 4 | AP | 10. | 6 | AP | 13. | 7 | K |
| 2. | 3 | C | 5. | 4 | AP | 8. | 5 | AP | 11. | 6 | AP | 14. | 7 | AP |
| 3. | 3 | AN | 6. | 4 | AP | 9. | 6 | AN | 12. | 6 | K | 15. | 8 | K |
| **Do It! Review Exercises** | | | | | | | | | | | | | | |
| 1. | 4 | AP | 2. | 5 | AP | 3. | 6 | C | 4. | 7 | AP | | | |
| **Exercises** | | | | | | | | | | | | | | |
| 1. | 1 | C | 5. | 2, 9 | AP | 9. | 4, 5 | AP | 13. | 1, 4, 5, 6 | AN | 17. | 6 | AP |
| 2. | 1 | K | 6. | 2, 4, 5, 9 | AP | 10. | 4, 5 | AP | 14. | 7 | AP | 18. | 7 | AP |
| 3. | 1 | C | 7. | 2, 3, 9 | C | 11. | 4, 5 | AP | 15. | 4, 5, 6 | AN | | | |
| 4. | 2, 4, 5, 9 | AP | 8. | 3, 4, 5 | AN | 12. | 1, 4, 5, 6 | AP | 16. | 4, 5, 6 | AP | | | |

## Summary of Questions by Learning Objectives and Bloom's Taxonomy (Continued)

| Problems: Set A | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. | 2, 4,9 | AP | 3. | 4, 5, 6, 7 | AP | 5. | 4, 5 | AP | 7. | 4, 5, 6 | AP | 8. | 4, 5, 6, 7, 8 | AP |
| 2. | 4, 5,6 | AP | 4. | 4, 5, 6, 7 | AP | 6. | 4, 5 | AN | | | | | | |
| **Problems: Set B** | | | | | | | | | | | | | | |
| 1. | 2, 4,9 | AP | 3. | 4, 5, 6, 7 | AP | 5. | 4, 5 | AP | 7. | 4, 5, 6 | AP | 8. | 4, 5, 6, 7, 8 | AP |
| 2. | 4, 5, 6 | AP | 4. | 4, 5, 6, 7 | AP | 6. | 4, 5 | AN | | | | | | |

  

## ASSIGNMENT CHARACTERISTICS TABLE

| Problem Number | Description | Difficulty Level | Time Allotted (min.) |
|---|---|---|---|
| 1A | Record transactions on accrual basis; convert revenue to cash receipts. | Simple | 20–30 |
| 2A | Prepare adjusting entries, post to ledger accounts, and prepare adjusted trial balance. | Simple | 40–50 |
| 3A | Prepare adjusting entries, adjusted trial balance, and financial statements. | Simple | 50–60 |
| 4A | Prepare adjusting entries and financial statements; identify accounts to be closed. | Moderate | 40–50 |
| 5A | Prepare adjusting entries. | Moderate | 30–40 |
| 6A | Prepare adjusting entries and a corrected income statement. | Moderate | 30–40 |
| 7A | Journalize transactions and follow through accounting cycle to preparation of financial statements. | Moderate | 60–70 |
| 8A | Complete all steps in accounting cycle. | Moderate | 70–80 |
| 1B | Record transactions on accrual basis; convert revenue to cash receipts. | Simple | 20–30 |
| 2B | Prepare adjusting entries, post to ledger accounts, and prepare an adjusted trial balance. | Simple | 40–50 |
| 3B | Prepare adjusting entries, adjusted trial balance, and financial statements. | Simple | 50–60 |
| 4B | Prepare adjusting entries and financial statements; identify accounts to be closed. | Moderate | 40–50 |
| 5B | Prepare adjusting entries. | Moderate | 30–40 |
| 6B | Prepare adjusting entries and a corrected income statement. | Moderate | 30–40 |
| 7B | Journalize transactions and follow through accounting cycle to preparation of financial statements. | Moderate | 60–70 |
| 8B | Complete all steps in accounting cycle. | Moderate | 70–80 |

# ANSWERS TO QUESTIONS

**1.** (a) Under the periodicity assumption, an accountant is required to determine the effect of each accounting transaction on a specific accounting period.

(b) An accounting time period that is one year in length is referred to as a fiscal year.

**2.** The two generally accepted accounting principles that pertain to adjusting the accounts are: The revenue recognition principle, which states that revenue should be recognized in the time period in which the performance obligation is satisfied.
The expense recognition principle, which states that expenses be matched with revenues in the period when the company makes efforts to generate those 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 the performance obligation is satisfied.

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

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

**6.** The financial information in a trial balance may not be up-to-date because:
(1) Some events are not journalized daily because it is not useful or efficient 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.

**7.** The two categories of adjusting entries are deferrals and accruals. Deferrals consist of revenues collected before services are provided and expenses paid before they are incurred. Accruals consist of revenues for services performed prior to collection and expenses incurred prior to payment.

**8.** In a prepaid expense adjusting entry, expenses are debited and assets are credited.

**9.** No. Depreciation is the process of allocating the cost of an asset to expense over its useful life. Depreciation results in the presentation of the book value of the asset, not its fair value.

**10.** 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.

**11.**

| | | |
|---|---|---|
| Equipment ........................................................................... | $15,000 | |
| Less: Accumulated depreciation—equipment .......................... | 7,000 | $8,000 |

**12.** In an unearned revenue adjusting entry, liabilities are debited and revenues are credited.

**13.** The sale of a three-year maintenance contract on December 29, 2013 will have no effect on the 2013 income statement but receipt of $100,000 on December 29, 2013, 2014, and 2015 will increase an asset, Cash, and a liability, Unearned Service Revenue. As Ace Technologies provides service to its customer during 2014, 2015, and 2016, the liability will decrease and revenue will be recognized. Accrual accounting rules require that revenue be recognized as the performance obligation is satisfied rather than when cash is received.

  

**14.** This promotion plan sounds like a bad idea for two reasons:
(1) GAAP requires that the sale of a gift card be recorded as Unearned Sales Revenue (a liability) rather than Sales Revenue. Revenue recognition is delayed until the gift card is used or expires. Steve's plan will not help the company meet its target revenue unless customers use the cards by year-end.
(2) Selling a $50 card for $45 will probably not help the company meet its target net income. Although this promotion may result in additional sales revenue as the cards are used, the income resulting from the cards will be much less than usual since they eliminate $5 of normal gross profit.

**15.** An asset is debited and a revenue is credited.

**16.** An expense is debited and a liability is credited.

**17.** Net income was understated $270 because prior to adjustment revenues are understated by $780 and expenses are understated by $510. The difference in this case is $270 ($780 – $510).

**18.** The entry is:

| | | | |
|---|---|---|---|
| Jan. 9 | Salaries and Wages Expense | 5,100 | |
| | Salaries and Wages Payable | 1,100 | |
| | Cash | | 6,200 |

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

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

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

**22.** Tootsie Roll reports Accounts Receivable. This suggests that it records revenue when it has delivered goods, even though it hasn't received payment. If it used a cash basis it wouldn't record revenue until cash was received, and it would therefore not establish receivables.

**23.** 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.

**24.** (a) Information presented on an accrual basis is useful because it reveals important information about the relationship between efforts and results. This information is useful in predicting future results. Trends in revenues and expenses are thus more meaningful.
(b) Information presented on a cash basis is useful for predicting the future availability of cash. Cash basis financial statements provide useful information about a company's sources and uses of cash.

**25.** The amount shown in the adjusted trial balance column for an account equals the account balance in the ledger after adjusting entries have been journalized and posted.

 

**26.** (1) (Dr) Individual revenue accounts and (Cr) Income Summary.
(2) (Dr) Income Summary and (Cr) Individual expense accounts.
(3) (Dr) Income Summary and (Cr) Retained Earnings (for net income).
(4) (Dr) Retained Earnings and (Cr) Dividends.

**27.** Financial information is used by managers to direct and evaluate a company's performance. The sooner such information is made available; the sooner changes can be made to get a company "back on track". A "virtual close" speeds up the reporting process and allows managers to react much faster to changing economic conditions.

**28.** Income Summary is a temporary account that is used in the closing process. The account is debited for expenses and credited for revenues. The difference, either net income or net loss, is then closed to Retained Earnings.

**29.** The post-closing trial balance contains only balance sheet accounts. Its purpose is to prove the equality of the permanent account balances that the company carries forward into the next accounting period.

**30.** The accounts that will not appear in the post-closing trial balance are: Depreciation Expense; Dividends; and Service Revenue.

**31.** The steps that involve journalizing are (1) journalize the transactions, (2) journalize the adjusting entries, and (3) journalize the closing entries.

**32.** The three trial balances are the (1) trial balance, (2) adjusted trial balance, and (3) post-closing trial balance.

**33.** Earnings management is the planned timing of revenues, expenses, gains, and losses to smooth out bumps in net income. Such action is undertaken to help a company meet target financial numbers.

Quality of earnings indicates the level of full and transparent information that a company provides to users of financial statements.

**34.** Examples of ways a company can manage earnings include the following.

Use of "one-time" items to prop up earnings numbers. A company may decide to sell property that has appreciated in value in order to record a gain on the sale. Such a gain will increase the current year's net income but future income will probably not include a similar increase.

Inflating revenue in the short-run to the detriment of the long-run. A company may implement changes in its promotion activities near the end of an accounting period to boost year-end revenues. Offering a special rebate or a two–for–one package is likely to increase sales for the time the promotion runs but usually results in lower sales in subsequent periods. Savvy customers may even postpone purchases until special deals are available.

Recording improper adjusting entries. Some adjusting entries require estimates and judgment to properly recognize revenue and match expenses. By recognizing revenue "sooner" and delaying the recognition of expenses, earnings can be overstated in early periods and understated in subsequent periods. This type of management is most prevalent with multi-year contracts and prepaid expenses.

***35.** The worksheet is a working paper designed to make it easier to prepare adjusting entries and financial statements.

***36.** The columns of the worksheet from left to right are two columns each for the trial balance, adjustments, adjusted trial balance, income statement, and balance sheet.

 

# SOLUTIONS TO BRIEF EXERCISES

## BRIEF EXERCISE 4-1

| | Cash | Net Income |
|---|---|---|
| (a) | $–100 | $0 |
| (b) | 0 | –20 |
| (c) | 0 | +1,300 |
| (d) | +800 | 0 |
| (e) | –2,500 | 0 |
| (f) | 0 | –600 |

## BRIEF EXERCISE 4-2

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

(b) Depreciation Expense—to allocate the cost of an asset to expense during the current period.

(c) Unearned Service Revenue—to account for unearned revenue for which services were provided during the period.

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

## BRIEF EXERCISE 4-3

| Item | (1) Type of Adjustment | (2) Accounts Before Adjustment |
|---|---|---|
| (a) | Prepaid Expenses | Assets Overstated<br>Expenses Understated |
| (b) | Accrued Revenues | Assets Understated<br>Revenues Understated |
| (c) | Accrued Expenses | Expenses Understated<br>Liabilities Understated |
| (d) | Unearned Revenues | Liabilities Overstated<br>Revenues Understated |

## BRIEF EXERCISE 4-4

| | | | |
|---|---|---|---|
| Dec. 31 | Supplies Expense | 7,700 | |
| | Supplies | | 7,700 |

**Supplies**

| | | | |
|---|---|---|---|
| | 8,800 | 12/31 | 7,700 |
| 12/31 Bal. | 1,100 | | |

**Supplies Expense**

| | | | |
|---|---|---|---|
| 12/31 | 7,700 | | |

## BRIEF EXERCISE 4-5

| | | | |
|---|---|---|---|
| Dec. 31 | Depreciation Expense | 2,750 | |
| | Accumulated Depreciation—Equipment | | 2,750 |

**Depreciation Expense**

| | | | |
|---|---|---|---|
| 12/31 | 2,750 | | |

**Accumulated Depreciation—Equipment**

| | | | |
|---|---|---|---|
| | | 12/31 | 2,750 |

Balance Sheet:

| | | |
|---|---|---|
| Equipment | $22,000 | |
| Less: Accumulated depreciation—equipment | 2,750 | $19,250 |

## BRIEF EXERCISE 4-6

| | | | |
|---|---|---|---|
| July 1 | Prepaid Insurance | 12,400 | |
| | Cash | | 12,400 |
| Dec. 31 | Insurance Expense ($12,400 X 6/24) | 3,100 | |
| | Prepaid Insurance | | 3,100 |

**Prepaid Insurance**

| | | | |
|---|---|---|---|
| 7/1 | 12,400 | 12/31 | 3,100 |
| 12/31 Bal. | 9,300 | | |

**Insurance Expense**

| | | | |
|---|---|---|---|
| 12/31 | 3,100 | | |

 

## BRIEF EXERCISE 4-7

| | | | |
|---|---|---|---|
| July 1 | Cash | 12,400 | |
| | Unearned Service Revenue | | 12,400 |
| Dec. 31 | Unearned Service Revenue | 3,100 | |
| | Service Revenue ($12,400 X 6/24) | | 3,100 |

**Unearned Service Revenue**

| | | | |
|---|---|---|---|
| 12/31 | 3,100 | 7/1 | 12,400 |
| | | 12/31 Bal. | 9,300 |

**Service Revenue**

| | | | |
|---|---|---|---|
| | | 12/31 | 3,100 |

## BRIEF EXERCISE 4-8

| | | | | |
|---|---|---|---|---|
| (a) | Dec. 31 | Interest Expense | 300 | |
| | | Interest Payable | | 300 |
| (b) | 31 | Accounts Receivable | 1,700 | |
| | | Service Revenue | | 1,700 |
| (c) | 31 | Salaries and Wages Expense | 780 | |
| | | Salaries and Wages Payable | | 780 |

## BRIEF EXERCISE 4-9

| | Account | (1) Type of Adjustment | (2) Related Account |
|---|---|---|---|
| (a) | Accounts Receivable | Accrued Revenues | Service Revenue |
| (b) | Prepaid Insurance | Prepaid Expenses | Insurance Expense |
| (c) | Equipment | Not required | |
| (d) | Accum. Depreciation—Equipment | Prepaid Expenses | Depreciation Expense |
| (e) | Notes Payable | Not required | |
| (f) | Interest Payable | Accrued Expenses | Interest Expense |
| (g) | Unearned Service Revenue | Unearned Revenues | Service Revenue |

## BRIEF EXERCISE 4-10

**RAVINE CORPORATION**
**Income Statement**
**For the Year Ended December 31, 2014**

| | | |
|---|---|---|
| **Revenues** | | |
| Service revenue | | $32,000 |
| **Expenses** | | |
| Salaries and wages expense | $14,000 | |
| Rent expense | 3,900 | |
| Insurance expense | 1,800 | |
| Supplies expense | 1,500 | |
| Depreciation expense | 1,000 | |
| Total expenses | | 22,200 |
| **Net income** | | $ 9,800 |

## BRIEF EXERCISE 4-11

**RAVINE CORPORATION**
**Retained Earnings Statement**
**For the Year Ended December 31, 2014**

| | |
|---|---|
| Retained earnings, January 1 | $17,200 |
| Add: Net income | 10,400 |
| | 27,600 |
| Less: Dividends | 6,000 |
| Retained earnings, December 31 | $21,600 |

## BRIEF EXERCISE 4-12

| | Account | |
|---|---|---|
| (a) | Accumulated Depreciation | Balance Sheet |
| (b) | Depreciation Expense | Income Statement |
| (c) | Retained Earnings (beginning) | Retained Earnings Statement |
| (d) | Dividends | Retained Earnings Statement |
| (e) | Service Revenue | Income Statement |
| (f) | Supplies | Balance Sheet |
| (g) | Accounts Payable | Balance Sheet |

  

**BRIEF EXERCISE 4-13**

**The accounts that will appear in the post-closing trial balance are:**

**Accumulated Depreciation**
**Retained Earnings (ending)**
**Supplies**
**Accounts Payable**

**BRIEF EXERCISE 4-14**

**(a)**

| | | Closing Entries | | |
|---|---|---|---|---|
| | July 31 | Service Revenue | 16,000 | |
| | | Income Summary | | 16,000 |
| | | (To close revenue account) | | |
| | | Income Summary | 11,900 | |
| | | Salaries and Wages Expense | | 8,400 |
| | | Maintenance and Repairs Expense | | 2,500 |
| | | Income Tax Expense | | 1,000 |
| | | (To close expense accounts) | | |
| | | Income Summary | 4,100 | |
| | | Retained Earnings | | 4,100 |
| | | (To close net income to retained earnings) | | |
| | | Retained Earnings | 1,300 | |
| | | Dividends | | 1,300 |
| | | (To close dividends to retained earnings) | | |

**(b)**

**Retained Earnings**

| | | |
|---|---|---|
| 1,300 | 7/1 Bal. | 20,000 |
| | | 4,100 |
| | 7/31 Bal. | 22,800 |

## BRIEF EXERCISE 4-15

**The proper sequencing of the required steps in the accounting cycle is as follows:**

**1. (c) Analyze business transactions.**
**2. (e) Journalize the transactions.**
**3. (i) Post to ledger accounts.**
**4. (d) Prepare a trial balance.**
**5. (h) Journalize and post adjusting entries.**
**6. (b) Prepare an adjusted trial balance.**
**7. (g) Prepare financial statements.**
**8. (f) Journalize and post closing entries.**
**9. (a) Prepare a post-closing trial balance.**

  

## SOLUTIONS TO DO IT! REVIEW EXERCISES

### DO IT! 4-1

| | | | |
|---|---|---|---|
| 1. | Insurance Expense | 300 | |
| | Prepaid Insurance | | 300 |
| | (To record insurance expired) | | |
| 2. | Supplies Expense | 1,600 | |
| | Supplies | | 1,600 |
| | (To record supplies used) | | |
| 3. | Depreciation Expense | 200 | |
| | Accumulated Depreciation—Equipment | | 200 |
| | (To record monthly depreciation) | | |
| 4. | Unearned Service Revenue | 4,000 | |
| | Service Revenue | | 4,000 |
| | (To record revenue for services provided) | | |

### DO IT! 4-2

| | | | |
|---|---|---|---|
| 1. | Salaries and Wages Expense | 1,100 | |
| | Salaries and Wages Payable | | 1,100 |
| | (To record accrued salaries) | | |
| 2. | Interest Expense ($20,000 X .09 X 1/12) | 150 | |
| | Interest Payable | | 150 |
| | (To record accrued interest) | | |
| 3. | Accounts Receivable | 1,600 | |
| | Service Revenue | | 1,600 |
| | (To record revenue for service provided) | | |

### DO IT! 4-3

**Income statement: Service Revenue, Utilities Expense**

**Balance sheet: Accounts Receivable, Accumulated Depreciation, Notes Payable, Common Stock.**

## DO IT! 4-4

| | | | |
|---|---|---|---|
| Dec. 31 | Income Summary .................................................. | 36,000 | |
| | Retained Earnings ............................................ | | 36,000 |
| | (To close net income to retained earnings) | | |
| Dec. 31 | Retained Earnings ................................................. | 22,000 | |
| | Dividends........................................................... | | 22,000 |
| | (To close dividends to retained earnings) | | |

  

# SOLUTIONS TO EXERCISES

## EXERCISE 4-1

**The revenue recognition principle requires that companies recognize revenue in the accounting period in which the performance obligation is satisfied.**

**(a) Since the sales effort is not complete until the flight actually occurs, revenue should not be recognized until December. Southwest Airlines should recognize the revenue in December when the customer has been provided with the flight.**

**(b) Sales revenue should be recognized at the time of delivery.**

**(c) Revenue should be recognized on a per game basis over the season from April through October.**

**(d) Interest revenue should be accrued and recognized by RBC evenly over the term of the loan.**

**(e) Revenue should be recognized when the sweater is shipped to the customer in September.**

## EXERCISE 4-2

**(a) 8. Going concern assumption.**
**(b) 1. Economic entity assumption.**
**(c) 7. Full disclosure principle.**
**(d) 3. Monetary unit assumption.**
**(e) 6. Materiality.**
**(f) 4. Periodicity assumption.**
**(g) 2. Expense recognition principle.**
**(h) 5. Historical cost principle.**

## EXERCISE 4-3

**(a) Revenue recognition principle.**
**(b) Periodicity assumption.**
**(c) No violation.**
**(d) Going concern assumption.**
**(e) Historical cost principle.**
**(f) Economic entity assumption.**

## EXERCISE 4-4

| | |
|---|---|
| $ 33,640 | Cash basis earnings. |
| + 3,400 | Accounts receivable arise from sales that have been made, thus revenue must be recognized for balance outstanding at the end of the current year. |
| – 2,800 | Accounts receivable collected in current year, for sales made in previous year must be deducted from earnings. |
| + 1,300 | Supplies on hand at year end should be set up as an asset rather than expensed, this increases earnings. |
| – 1,460 | Supplies on hand at the end of the previous year should be expensed this year, this decreases earnings. |
| – 2,000 | Wages owing at the end of the current year should be accrued, thus reducing earnings. |
| + 2,400 | Wages owed at the end of the previous year should not be deducted from the current year's earnings, thus increasing earnings. |
| – 1,400 | Other unpaid amounts owed at the end of the current year should be accrued, thus reducing earnings. |
| + 1,100 | Other unpaid amounts owed at the end of the previous year should not be deducted from the current year's earnings, thus increasing earnings. |
| $ 34,180 | Accrual basis earnings. |

## EXERCISE 4-5

(a)

| | Cash Basis | Accrual Basis |
|---|---|---|
| Service Revenue | $22,000 | $28,000 |
| – Operating Expenses | 12,000 | 15,800 |
| – Insurance Expense | 2,400 | — |
| Net Income | $ 7,600 | $12,200 |

(b) The accrual basis of accounting provides more useful information for decision makers because it recognizes revenues when the performance obligation is satisfied and expenses when incurred.

  

## EXERCISE 4-6

(a)

**KAFFEN COMPANY**
**Income Statement**
**For the Six Months Ended April 30, 2014**

| | | |
|---|---|---|
| **Revenues** | | |
| Service revenue ($32,150 + $540) | | $32,690 |
| **Expenses** | | |
| Income tax expense | $10,000 | |
| Salaries and wages expense ($2,600 + $420) | 3,020 | |
| Depreciation expense [($9,200 ÷ 4) X 6/12] | 1,150 | |
| Rent expense ($1,225 – $175) | 1,050 | |
| Utilities expense | 970 | |
| Advertising expense | 375 | |
| Total expenses | | 16,565 |
| Net income | | $16,125 |

(b)

**KAFFEN COMPANY**
**Balance Sheet**
**April 30, 2014**

| | | |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash | $27,780 | |
| Accounts receivable | 540 | |
| Prepaid rent | 175 | |
| Total current assets | | $28,495 |
| **Property, plant, and equipment** | | |
| Equipment | 9,200 | |
| Less: Accumulated depreciation—equipment | 1,150 | 8,050 |
| Total assets | | $36,545 |
| **Liabilities and Stockholders' Equity** | | |
| **Current Liabilities** | | |
| Salaries and wages payable | | $ 420 |
| **Stockholders' equity** | | |
| Common stock | $20,000 | |
| Retained earnings | 16,125 | |
| Total stockholders' equity | | 36,125 |
| Total liabilities and stockholders' equity | | $36,545 |

## EXERCISE 4-7

(a)

| Event | Cash Accounting | Accrual Accounting |
|---|---|---|
| 180-day financing for customers | Revenue is recorded as cash is received. | Revenue is recorded as it is earned. VidGam records revenue (and a receivable) as soon as services are provided but may wait up to 180 days to receive cash. |
| Payment to equipment suppliers upon delivery of goods | Equipment expense is recorded as an expense as soon as equipment is received and paid for. | Equipment is recorded as an asset and depreciated. |
| Prepayment for 2 years of insurance coverage | Insurance expense is recorded as soon as payment is made. | Prepayment is recorded as an asset and recognized as an expense as time passes. |
| One month's salaries owed at year-end | No salary expense is recorded until salaries are paid. | Salary expense is recorded as employees perform work. Amounts owed at year-end would be recorded as a liability. |

**Proper accrual accounting would require adjusting entries for depreciation, prepaid insurance and accrued salaries.**

  

## EXERCISE 4-7 (Continued)

**(b)** **Accrual accounting rules require that revenue be recognized as a company performs services and expenses be matched with the revenue they help produce. Receipt or payment of cash does not influence the calculation of net income.**

**VidGam has provided many services during the year and thus has positive net income. Since VidGam allowed its largest customers to take up to 180 days to pay, but was forced to pay cash for all purchases, it is likely that the company has very little cash at year-end. New companies frequently experience cash shortages because they extend credit to attract customers but are unable to receive credit from their suppliers. As time passes, the cash supply should increase as payments on accounts receivable come in and offset current purchases.**

## EXERCISE 4-8

| Item | (1) Type of Adjustment | (2) Accounts Before Adjustment |
|---|---|---|
| (a) | Accrued Revenues | Assets Understated<br>Revenues Understated |
| (b) | Prepaid Expenses | Assets Overstated<br>Expenses Understated |
| (c) | Accrued Expenses | Expenses Understated<br>Liabilities Understated |
| (d) | Unearned Revenues | Liabilities Overstated<br>Revenues Understated |
| (e) | Accrued Expenses | Expenses Understated<br>Liabilities Understated |
| (f) | Prepaid Expenses | Assets Overstated<br>Expenses Understated |

## EXERCISE 4-9

| | | | | |
|---|---|---|---|---|
| 1. | Mar. 31 | Depreciation Expense ($280 X 3) ................ | 840 | |
| | | Accumulated Depreciation— Equipment ........................................ | | 840 |
| 2. | 31 | Unearned Rent Revenue ............................... | 6,200 | |
| | | Rent Revenue ($12,400 X 1/2) .............. | | 6,200 |
| 3. | 31 | Interest Expense.......................................... | 400 | |
| | | Interest Payable ................................... | | 400 |
| 4. | 31 | Supplies Expense......................................... | 2,150 | |
| | | Supplies ($3,000 – $850)....................... | | 2,150 |
| 5. | 31 | Insurance Expense ($400 X 3) ...................... | 1,200 | |
| | | Prepaid Insurance................................. | | 1,200 |

## EXERCISE 4-10

| | | | | |
|---|---|---|---|---|
| 1. | Jan. 31 | Accounts Receivable.................................... | 760 | |
| | | Service Revenue .................................. | | 760 |
| 2. | 31 | Utilities Expense.......................................... | 450 | |
| | | Accounts Payable................................. | | 450 |
| 3. | 31 | Depreciation Expense .................................. | 400 | |
| | | Accumulated Depreciation— Equipment ........................................ | | 400 |
| | 31 | Interest Expense.......................................... | 500 | |
| | | Interest Payable ................................... | | 500 |
| 4. | 31 | Insurance Expense ($24,000 ÷ 12)............... | 2,000 | |
| | | Prepaid Insurance................................. | | 2,000 |
| 5. | 31 | Supplies Expense ($1,750 – $550)................ | 1,200 | |
| | | Supplies .................................................. | | 1,200 |

  

## EXERCISE 4-11

| | | | | |
|---|---|---|---|---|
| 1. | Oct. 31 | Supplies Expense | 2,000 | |
| | | Supplies ($2,500 – $500) | | 2,000 |
| 2. | 31 | Insurance Expense | 100 | |
| | | Prepaid Insurance | | 100 |
| 3. | 31 | Depreciation Expense | 75 | |
| | | Accumulated Depreciation—Equipment | | 75 |
| 4. | 31 | Unearned Service Revenue | 800 | |
| | | Service Revenue | | 800 |
| 5. | 31 | Accounts Receivable | 280 | |
| | | Service Revenue | | 280 |
| 6. | 31 | Interest Expense | 70 | |
| | | Interest Payable | | 70 |
| 7. | 31 | Salaries and Wages Expense | 1,400 | |
| | | Salaries and Wages Payable | | 1,400 |

## EXERCISE 4-12

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

| | | |
|---|---|---|
| Revenues | | |
| Service revenue ($5,500 + $700) | | $6,200 |
| Expenses | | |
| Salaries and wages expense ($2,100 + $360) | $2,460 | |
| Supplies expense ($900 – $200) | 700 | |
| Utilities expense | 500 | |
| Insurance expense | 350 | |
| Depreciation expense | 150 | |
| Total expenses | | 4,160 |
| Net income | | $2,040 |

## EXERCISE 4-13

| | Answer | Computation | |
|---|---|---|---|
| (a) | Supplies balance = $1,350 | Supplies expense | $ 950 |
| | | Add: Supplies (1/31) | 700 |
| | | Less: Supplies purchased | (300) |
| | | Supplies (1/1) | $1,350 |
| (b) | Total premium = $6,240 | Total premium = Monthly premium X 12; $520 X 12 = $6,240 | |
| | Purchase date = May 1, 2013 | Purchase date: On Jan. 31, there are 3 months coverage remaining ($520 X 3). Thus, the purchase date was 9 months earlier on May 1, 2013. | |
| (c) | Salaries and wages payable = $1,760 | Cash paid | $2,500 |
| | | Salaries and wages payable (1/31/14) | 1,060 |
| | | | 3,560 |
| | | Less: Salaries and wages expense | 1,800 |
| | | Salaries and wages payable (12/31/13) | $1,760 |
| (d) | Unearned service revenue = $2,950 | Service revenue | $4,000 |
| | | Unearned revenue (1/31/14) | 750 |
| | | | 4,750 |
| | | Cash received in Jan. | 1,800 |
| | | Unearned revenue (12/31/13) | $2,950 |

  

## EXERCISE 4-14

| | | | |
|---|---|---|---|
| Jan. 31 | Service Revenue | 4,000 | |
| | Income Summary | | 4,000 |
| 31 | Income Summary | 3,270 | |
| | Salaries and Wages Expense | | 1,800 |
| | Supplies Expense | | 950 |
| | Insurance Expense | | 520 |
| 31 | Income Summary | 730 | |
| | Retained Earnings | | 730 |

## EXERCISE 4-15

| | | | | |
|---|---|---|---|---|
| (a) | July 10 | Supplies | 200 | |
| | | Cash | | 200 |
| | 14 | Cash | 3,800 | |
| | | Service Revenue | | 3,800 |
| | 15 | Salaries and Wages Expense | 1,000 | |
| | | Cash | | 1,000 |
| | 20 | Cash | 600 | |
| | | Unearned Service Revenue | | 600 |
| (b) | July 31 | Supplies Expense | 750 | |
| | | Supplies | | 750 |
| | 31 | Accounts Receivable | 500 | |
| | | Service Revenue | | 500 |
| | 31 | Salaries and Wages Expense | 1,000 | |
| | | Salaries and Wages Payable | | 1,000 |
| | 31 | Unearned Service Revenue | 900 | |
| | | Service Revenue | | 900 |

## EXERCISE 4-16

| | | | | |
|---|---|---|---|---|
| Aug. 31 | Accounts Receivable | | 600 | |
| | | Service Revenue | | 600 |
| 31 | Supplies Expense | | 2,000 | |
| | | Supplies | | 2,000 |
| 31 | Insurance Expense | | 1,500 | |
| | | Prepaid Insurance | | 1,500 |
| 31 | Depreciation Expense | | 1,200 | |
| | | Accumulated Depreciation—Equipment | | 1,200 |
| 31 | Salaries and Wages Expense | | 1,100 | |
| | | Salaries and Wages Payable | | 1,100 |
| 31 | Unearned Rent Revenue | | 1,000 | |
| | | Rent Revenue | | 1,000 |

## EXERCISE 4-17

**BERE COMPANY**
**Income Statement**
**For the Year Ended August 31, 2014**

| | | |
|---|---|---|
| Revenues | | |
| Service revenue | $34,600 | |
| Rent revenue | 13,100 | |
| Total revenues | | $47,700 |
| Expenses | | |
| Salaries and wages expense | 18,100 | |
| Rent expense | 10,800 | |
| Supplies expense | 2,000 | |
| Insurance expense | 1,500 | |
| Depreciation expense | 1,200 | |
| Total expenses | | 33,600 |
| Net income | | $14,100 |

  

## EXERCISE 4-17 (Continued)

**BERE COMPANY**
**Retained Earnings Statement**
**For the Year Ended August 31, 2014**

| | |
|---|---|
| Retained earnings, September 1, 2013 | $ 5,500 |
| Add: Net income | 14,100 |
| | 19,600 |
| Less: Dividends | 2,800 |
| Retained earnings, August 31, 2014 | $16,800 |

**BERE COMPANY**
**Balance Sheet**
**August 31, 2014**

| | | |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash | $10,900 | |
| Accounts receivable | 9,400 | |
| Supplies | 500 | |
| Prepaid insurance | 2,500 | |
| Total current assets | | $23,300 |
| Equipment | 16,000 | |
| Less: Accum. depreciation—equipment | 4,800 | 11,200 |
| Total assets | | $34,500 |
| **Liabilities and Stockholders' Equity** | | |
| **Current Liabilities** | | |
| Accounts payable | $ 5,800 | |
| Salaries and wages payable | 1,100 | |
| Unearned rent revenue | 800 | |
| Total current liabilities | | $ 7,700 |
| **Stockholders' equity** | | |
| Common stock | 10,000 | |
| Retained earnings | 16,800 | |
| Total stockholders' equity | | 26,800 |
| Total liabilities and stockholders' equity | | $34,500 |

## EXERCISE 4-18

| | | | |
|---|---|---|---|
| Aug. 31 | Service Revenue | 34,600 | |
| | Rent Revenue | 13,100 | |
| | Income Summary | | 47,700 |
| | | | |
| 31 | Income Summary | 33,600 | |
| | Salaries and Wages Expense | | 18,100 |
| | Rent Expense | | 10,800 |
| | Supplies Expense | | 2,000 |
| | Insurance Expense | | 1,500 |
| | Depreciation Expense | | 1,200 |
| | | | |
| 31 | Income Summary | 14,100 | |
| | Retained Earnings | | 14,100 |
| | | | |
| 31 | Retained Earnings | 2,800 | |
| | Dividends | | 2,800 |

  

# SOLUTIONS TO PROBLEMS

## PROBLEM 4-1A

(a)

| | | | |
|---|---|---|---|
| 1. | Cash | 19,000 | |
| | Accounts Receivable | | 19,000 |
| 2. | Unearned Sales Revenue | 23,000 | |
| | Sales Revenue | | 23,000 |
| 3. | Cash | 44,000 | |
| | Unearned Sales Revenue | | 44,000 |
| | Unearned Sales Revenue ($44,000 – $20,000) | 24,000 | |
| | Sales Revenue | | 24,000 |
| 4. | Accounts Receivable | 151,000 | |
| | Service Revenue | | 151,000 |
| 5. | Cash | 136,000 | |
| | Accounts Receivable ($151,000 – $15,000) | | 136,000 |

(b) Cash received with respect to fees and dues

| | | |
|---|---|---|
| 1. | Collection of 2013 dues | $ 19,000 |
| 3. | Sale of tickets | 44,000 |
| 5. | Collection of 2014 dues | 136,000 |
| | | $199,000 |

**Cash**

| | | | |
|---|---|---|---|
| 1. | 19,000 | | |
| 3. | 44,000 | | |
| 5. | 136,000 | | |
| 2014 Bal. | 199,000 | | |

**Accounts Receivable**

| | | | |
|---|---|---|---|
| 2013 Bal. | 19,000 | | |
| 4. | 151,000 | 1. | 19,000 |
| | | 5. | 136,000 |
| 2014 Bal. | 15,000 | | |

**Unearned Sales Revenue**

| | | | |
|---|---|---|---|
| | | 2013 Bal. | 23,000 |
| 2. | 23,000 | 3. | 44,000 |
| 3. | 24,000 | | |
| | | 2014 Bal. | 20,000 |

**Service Revenue**

| | | | |
|---|---|---|---|
| | | 4. | 151,000 |
| | | 2014 Bal. | 151,000 |

**Sales Revenue**

| | | | |
|---|---|---|---|
| | | 2. | 23,000 |
| | | 3. | 24,000 |
| | | 2014 Bal. | 47,000 |

# PROBLEM 4-2A

(a)

| | Date | Account Titles | Debit | Credit |
|---|---|---|---|---|
| | 2014 | | | |
| 1. | June 30 | Supplies Expense | 1,280 | |
| | | Supplies ($2,000 – $720) | | 1,280 |
| 2. | 30 | Utilities Expense | 180 | |
| | | Accounts Payable | | 180 |
| 3. | 30 | Insurance Expense | 240 | |
| | | Prepaid Insurance ($2,880 ÷ 12 months) | | 240 |
| 4. | 30 | Unearned Service Revenue | 4,100 | |
| | | Service Revenue | | 4,100 |
| 5. | 30 | Salaries and Wages Expense | 1,250 | |
| | | Salaries and Wages Payable | | 1,250 |
| 6. | 30 | Depreciation Expense | 250 | |
| | | Accumulated Depreciation—Equipment | | 250 |
| 7. | 30 | Accounts Receivable | 3,900 | |
| | | Service Revenue | | 3,900 |

(b)

**Cash**

| | | | |
|---|---|---|---|
| 6/30 Bal. | 6,850 | | |

**Supplies**

| | | | |
|---|---|---|---|
| 6/30 Bal. | 2,000 | 6/30 | 1,280 |
| 6/30 Bal. | 720 | | |

**Accounts Receivable**

| | | | |
|---|---|---|---|
| 6/30 Bal. | 7,000 | | |
| 6/30 | 3,900 | | |
| 6/30 Bal. | 10,900 | | |

**Prepaid Insurance**

| | | | |
|---|---|---|---|
| 6/30 Bal. | 2,880 | 6/30 | 240 |
| 6/30 Bal. | 2,640 | | |

**PROBLEM 4-2A (Continued)**

**Equipment**

| | | | |
|---|---|---|---|
| 6/30 Bal. | 15,000 | | |

**Accumulated Depreciation—Equipment**

| | | | |
|---|---|---|---|
| | | 6/30 | 250 |
| | | 6/30 Bal. | 250 |

**Accounts Payable**

| | | | |
|---|---|---|---|
| | | 6/30 Bal. | 4,230 |
| | | 6/30 | 180 |
| | | 6/30 | 4,410 |

**Salaries and Wages Payable**

| | | | |
|---|---|---|---|
| | | 6/30 | 1,250 |
| | | 6/30 Bal. | 1,250 |

**Unearned Service Revenue**

| | | | |
|---|---|---|---|
| 6/30 | 4,100 | 6/30 Bal. | 5,200 |
| | | 6/30 Bal. | 1,100 |

**Common Stock**

| | | | |
|---|---|---|---|
| | | 6/30 Bal. | 22,000 |

**Service Revenue**

| | | | |
|---|---|---|---|
| | | 6/30 Bal. | 8,300 |
| | | 6/30 | 4,100 |
| | | 6/30 | 3,900 |
| | | 6/30 Bal. | 16,300 |

**Salaries and Wages Expense**

| | | | |
|---|---|---|---|
| 6/30 Bal. | 4,000 | | |
| 6/30 | 1,250 | | |
| 6/30 Bal. | 5,250 | | |

**Rent Expense**

| | | | |
|---|---|---|---|
| 6/30 Bal. | 2,000 | | |

**Depreciation Expense**

| | | | |
|---|---|---|---|
| 6/30 | 250 | | |
| 6/30 Bal. | 250 | | |

**Insurance Expense**

| | | | |
|---|---|---|---|
| 6/30 | 240 | | |
| 6/30 Bal. | 240 | | |

**Utilities Expense**

| | | | |
|---|---|---|---|
| 6/30 | 180 | | |
| 6/30 Bal. | 180 | | |

**Supplies Expense**

| | | | |
|---|---|---|---|
| 6/30 | 1,280 | | |
| 6/30 Bal. | 1,280 | | |

## PROBLEM 4-2A (Continued)

(c)

**LUMAS CONSULTING**
**Adjusted Trial Balance**
**June 30, 2014**

| | Debit | Credit |
|---|---|---|
| Cash | $ 6,850 | |
| Accounts Receivable | 10,900 | |
| Supplies | 720 | |
| Prepaid Insurance | 2,640 | |
| Equipment | 15,000 | |
| Accumulated Depreciation—Equipment | | $ 250 |
| Accounts Payable | | 4,410 |
| Salaries and Wages Payable | | 1,250 |
| Unearned Service Revenue | | 1,100 |
| Common Stock | | 22,000 |
| Service Revenue | | 16,300 |
| Salaries and Wages Expense | 5,250 | |
| Rent Expense | 2,000 | |
| Depreciation Expense | 250 | |
| Insurance Expense | 240 | |
| Utilities Expense | 180 | |
| Supplies Expense | 1,280 | |
| | $45,310 | $45,310 |

  

## PROBLEM 4-3A

| | | | | | |
|---|---|---|---|---|---|
| (a) | 1. | May 31 | Insurance Expense................................ | 450 | |
| | | | Prepaid Insurance.......................... | | 450 |
| | 2. | 31 | Supplies Expense.................................. | 1,550 | |
| | | | Supplies ($2,600 – $1,050) ............. | | 1,550 |
| | 3. | 31 | Depreciation Expense | | |
| | | | ($3,600 X 1/12).................................... | 300 | |
| | | | Accumulated Depreciation— | | |
| | | | Building ..................................... | | 300 |
| | | 31 | Depreciation Expense | | |
| | | | ($3,000 X 1/12).................................... | 250 | |
| | | | Accumulated Depreciation— | | |
| | | | Equipment ................................... | | 250 |
| | 4. | 31 | Interest Expense.................................... | 180 | |
| | | | Interest Payable | | |
| | | | [($36,000 X 6%) X 1/12]............... | | 180 |
| | 5. | 31 | Unearned Rent Revenue........................ | 2,500 | |
| | | | Rent Revenue.................................. | | 2,500 |
| | 6. | 31 | Salaries and Wages Expense................ | 900 | |
| | | | Salaries and Wages Payable .......... | | 900 |

(b)

**Cash**

| | | | |
|---|---|---|---|
| 5/31 Bal. | 2,500 | | |

**Prepaid Insurance**

| | | | |
|---|---|---|---|
| 5/31 Bal. | 1,800 | 5/31 | 450 |
| 5/31 Bal. | 1,350 | | |

**Supplies**

| | | | |
|---|---|---|---|
| 5/31 Bal. | 2,600 | 5/31 | 1,550 |
| 5/31 Bal. | 1,050 | | |

**Land**

| | | | |
|---|---|---|---|
| 5/31 Bal. | 15,000 | | |

 

## PROBLEM 4-3A (Continued)

**Building**

| | | | |
|---|---|---|---|
| 5/31 Bal. | 70,000 | | |

**Accumulated Depreciation—Building**

| | | | |
|---|---|---|---|
| | | 5/31 | 300 |
| | | 5/31 Bal. | 300 |

**Equipment**

| | | | |
|---|---|---|---|
| 5/31 Bal. | 16,800 | | |

**Accumulated Depreciation—Equipment**

| | | | |
|---|---|---|---|
| | | 5/31 | 250 |
| | | 5/31 Bal. | 250 |

**Accounts Payable**

| | | | |
|---|---|---|---|
| | | 5/31 Bal. | 4,700 |

**Unearned Rent Revenue**

| | | | |
|---|---|---|---|
| 5/31 | 2,500 | 5/31 Bal. | 3,300 |
| | | 5/31 Bal. | 800 |

**Salaries and Wages Payable**

| | | | |
|---|---|---|---|
| | | 5/31 | 900 |
| | | 5/31 Bal. | 900 |

**Interest Payable**

| | | | |
|---|---|---|---|
| | | 5/31 | 180 |
| | | 5/31 Bal. | 180 |

**Mortgage Payable**

| | | | |
|---|---|---|---|
| | | 5/31 Bal. | 36,000 |

**Common Stock**

| | | | |
|---|---|---|---|
| | | 5/31 Bal. | 60,000 |

**Rent Revenue**

| | | | |
|---|---|---|---|
| | | 5/31 Bal. | 9,000 |
| | | 5/31 | 2,500 |
| | | 5/31 Bal. | 11,500 |

**Salaries and Wages Expense**

| | | | |
|---|---|---|---|
| 5/31 Bal. | 3,000 | | |
| 5/31 | 900 | | |
| 5/31 Bal. | 3,900 | | |

**Utilities Expense**

| | | | |
|---|---|---|---|
| 5/31 Bal. | 800 | | |

**Advertising Expense**

| | | | |
|---|---|---|---|
| 5/31 Bal. | 500 | | |

**Interest Expense**

| | | | |
|---|---|---|---|
| 5/31 | 180 | | |
| 5/31 Bal. | 180 | | |

**Insurance Expense**

| | | | |
|---|---|---|---|
| 5/31 | 450 | | |
| 5/31 Bal. | 450 | | |

  

## PROBLEM 4-3A (Continued)

| Supplies Expense | | |
|---|---|---|
| 5/31 | 1,550 | |
| 5/31 Bal. | 1,550 | |

| Depreciation Expense | | |
|---|---|---|
| 5/31 | 300 | |
| 5/31 | 250 | |
| 5/31 Bal. | 550 | |

(c)

**SOLO HOTEL**
**Adjusted Trial Balance**
**May 31, 2014**

| | Debit | Credit |
|---|---|---|
| Cash | $ 2,500 | |
| Supplies | 1,050 | |
| Prepaid Insurance | 1,350 | |
| Land | 15,000 | |
| Building | 70,000 | |
| Accumulated Depreciation—Building | | $ 300 |
| Equipment | 16,800 | |
| Accumulated Depreciation—Equipment | | 250 |
| Accounts Payable | | 4,700 |
| Unearned Rent Revenue | | 800 |
| Salaries and Wages Payable | | 900 |
| Interest Payable | | 180 |
| Mortgage Payable | | 36,000 |
| Common Stock | | 60,000 |
| Rent Revenue | | 11,500 |
| Salaries and Wages Expense | 3,900 | |
| Utilities Expense | 800 | |
| Advertising Expense | 500 | |
| Interest Expense | 180 | |
| Insurance Expense | 450 | |
| Supplies Expense | 1,550 | |
| Depreciation Expense | 550 | |
| | $114,630 | $114,630 |

## PROBLEM 4-3A (Continued)

(d)

**SOLO HOTEL**
**Income Statement**
**For the Month Ended May 31, 2014**

| | | |
|---|---|---|
| Revenues | | |
| Rent revenue | | $11,500 |
| Expenses | | |
| Salaries and wages expense | $3,900 | |
| Supplies expense | 1,550 | |
| Utilities expense | 800 | |
| Depreciation expense | 550 | |
| Advertising expense | 500 | |
| Insurance expense | 450 | |
| Interest expense | 180 | |
| Total expenses | | 7,930 |
| Net income | | $ 3,570 |

**SOLO HOTEL**
**Retained Earnings Statement**
**For the Month Ended May 31, 2014**

| | |
|---|---|
| Retained earnings, May 1 | $ 0 |
| Add: Net income | 3,570 |
| Retained earnings, May 31 | $3,570 |

  

**PROBLEM 4-3A (Continued)**

**SOLO HOTEL**
**Balance Sheet**
**May 31, 2014**

| | | | |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Cash | | $ 2,500 | |
| Supplies | | 1,050 | |
| Prepaid insurance | | 1,350 | |
| Total current assets | | | $ 4,900 |
| **Property, plant, and equipment** | | | |
| Land | | 15,000 | |
| Building | $70,000 | | |
| Less: Accumulated deprec.—Building | 300 | 69,700 | |
| Equipment | 16,800 | | |
| Less: Accumulated deprec.—equipment | 250 | 16,550 | 101,250 |
| Total assets | | | $106,150 |
| **Liabilities and Stockholders' Equity** | | | |
| **Current Liabilities** | | | |
| Accounts payable | | $ 4,700 | |
| Salaries and wages payable | | 900 | |
| Unearned rent revenue | | 800 | |
| Interest payable | | 180 | |
| Total current liabilities | | | $ 6,580 |
| **Long-term Liabilities** | | | |
| Mortgage payable | | | 36,000 |
| Total liabilities | | | 42,580 |
| **Stockholders' equity** | | | |
| Common stock | | 60,000 | |
| Retained earnings | | 3,570 | |
| Total stockholders' equity | | | 63,570 |
| Total liabilities and stockholders' equity | | | $106,150 |

(e) The following accounts would be closed:
Rent Revenue, Salaries and Wages Expense, Utilities Expense, Advertising Expense, Interest Expense, Insurance Expense, Supplies Expense, Depreciation Expense.

## PROBLEM 4-4A

(a)

| | | | Debit | Credit |
|---|---|---|---|---|
| Sept. 30 | Accounts Receivable | | 600 | |
| | | Service Revenue | | 600 |
| 30 | Rent Expense | | 900 | |
| | | Prepaid Rent | | 900 |
| 30 | Supplies Expense | | 1,020 | |
| | | Supplies | | 1,020 |
| 30 | Depreciation Expense | | 350 | |
| | | Accum. Depreciation—Equipment | | 350 |
| 30 | Interest Expense | | 50 | |
| | | Interest Payable | | 50 |
| 30 | Unearned Rent Revenue | | 200 | |
| | | Rent Revenue | | 200 |
| 30 | Salaries and Wages Expense | | 600 | |
| | | Salaries and Wages Payable | | 600 |

(b)

**WOLF CREEK GOLF INC.**
**Income Statement**
**For the Quarter Ended September 30, 2014**

| | | |
|---|---|---|
| **Revenues** | | |
| Service revenue | $14,700 | |
| Rent revenue | 900 | |
| Total revenues | | $15,600 |
| **Expenses** | | |
| Salaries and wages expense | 9,400 | |
| Rent expense | 1,800 | |
| Supplies expense | 1,020 | |
| Utilities expense | 470 | |
| Depreciation expense | 350 | |
| Interest expense | 50 | |
| Total expenses | | 13,090 |
| **Net income** | | $ 2,510 |

  

## PROBLEM 4-4A (Continued)

### WOLF CREEK GOLF INC.
### Retained Earnings Statement
### For the Quarter Ended September 30, 2014

| | |
|---|---|
| Retained earnings, July 1, 2014 | $ 0 |
| Add: Net income | 2,510 |
| | 2,510 |
| Less: Dividends | 600 |
| Retained earnings, September 30, 2014 | $1,910 |

### WOLF CREEK GOLF INC.
### Balance Sheet
### September 30, 2014

| | | |
|---|---|---|
| **Assets** | | |
| Current Assets | | |
| Cash | $ 6,700 | |
| Accounts receivable | 1,000 | |
| Supplies | 180 | |
| Prepaid rent | 900 | |
| Total current assets | | $ 8,780 |
| Property, Plant and Equipment | | |
| Equipment | 15,000 | |
| Less: Accumulated depreciation—equipment | 350 | 14,650 |
| Total assets | | $23,430 |
| **Liabilities and Stockholders' Equity** | | |
| Current Liabilities | | |
| Notes payable | $ 5,000 | |
| Accounts payable | 1,070 | |
| Unearned rent revenue | 800 | |
| Salaries and wages payable | 600 | |
| Interest payable | 50 | |
| Total current liabilities | | $ 7,520 |
| Stockholders' equity | | |
| Common stock | 14,000 | |
| Retained earnings | 1,910 | |
| Total stockholders' equity | | 15,910 |
| Total liabilities and stockholders' equity | | $23,430 |

 

**PROBLEM 4-4A (Continued)**

**(c) The following accounts would be closed: Service Revenue, Rent Revenue, Salaries and Wages Expense, Rent Expense, Utilities Expense, Depreciation Expense, Supplies Expense, Interest Expense, Dividends.**

**(d) 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 4-5A

| | | | | |
|---|---|---|---|---|
| 1. | Dec. 31 | Insurance Expense...................................... | 8,000 | |
| | | Prepaid Insurance ................................ | | 8,000 |
| | | [($9,600 ÷ 3) = $3,200 | | |
| | | ($7,200 ÷ 12/18) = 4,800 | | |
| | | $8,000] | | |
| 2. | Dec. 31 | Unearned Rent Revenue.............................. | 84,000 | |
| | | Rent Revenue........................................ | | 84,000 |
| | | [ Nov. 5 X $5,000 X 2 = 50,000 | | |
| | | Dec. 4 X $8,500 X 1 = 34,000 | | |
| | | $84,000] | | |
| 3. | Dec. 31 | Interest Expense.......................................... | 700 | |
| | | Interest Payable | | |
| | | ($40,000 X 7% X 3/12) ......................... | | 700 |
| 4. | Dec. 31 | Salaries and Wages Expense...................... | 3,060 | |
| | | Salaries and Wages Payable ................ | | 3,060 |
| | | [5 X $600 X 3/5 = $1,800 | | |
| | | 3 X $700 X 3/5 = 1,260 | | |
| | | $3,060] | | |

## PROBLEM 4-6A

| | | | | | |
|---|---|---|---|---|---|
| (a) 1. | June | 30 | Rent Revenue .................................. | 57,000 | |
| | | | Unearned Rent Revenue ........ | | 57,000 |
| 2. | | 30 | Supplies Expense............................ | 6,400 | |
| | | | Supplies ($8,200 – $1,800) ..... | | 6,400 |
| 3. | | 30 | Insurance Expense | | |
| | | | ($14,400 X 3/12).............................. | 3,600 | |
| | | | Prepaid Insurance .................. | | 3,600 |
| 4. | | 30 | Maintenance and | | |
| | | | Repairs Expense .......................... | 4,450 | |
| | | | Utilities Expense.............................. | 215 | |
| | | | Advertising Expense........................ | 110 | |
| | | | Accounts Payable................... | | 4,775 |
| 5. | | 30 | Salaries and Wages Expense | | |
| | | | ($300 X 4)....................................... | 1,200 | |
| | | | Salaries and Wages | | |
| | | | Payable ................................ | | 1,200 |
| 6. | | 30 | Interest Expense | | |
| | | | ($14,000 X 6% X 2/12) .................... | 140 | |
| | | | Interest Payable ..................... | | 140 |
| 7. | | 30 | Income Tax Expense........................ | 13,400 | |
| | | | Income Taxes Payable ........... | | 13,400 |

  

**PROBLEM 4-6A (Continued)**

**(b)**

**ASTROMECH TRAVEL COURT**
**Income Statement**
**For the Quarter Ended June 30, 2014**

| | | |
|---|---|---|
| **Revenues** | | |
| Rent revenue ($212,000 – $57,000)...................... | | $155,000 |
| **Expenses** | | |
| Salaries and wages expense ($80,500 + $1,200) ............................................ | $ 81,700 | |
| Income tax expense............................................ | 13,400 | |
| Maintenance and repairs expense ($4,300 + $4,450) ............................................ | 8,750 | |
| Supplies expense................................................ | 6,400 | |
| Advertising expense ($3,800 + $110) .................. | 3,910 | |
| Insurance expense............................................... | 3,600 | |
| Depreciation expense.......................................... | 2,700 | |
| Utilities expense ($900 + $215) ............................ | 1,115 | |
| Interest expense.................................................. | 140 | |
| Total expenses .................................................... | | 121,715 |
| Net income.......................................................... | | $ 33,285 |

**(c)** The generally accepted accounting principles pertaining to the income statement not recognized by Jessica were the revenue recognition principle and the expense recognition principle.

The revenue recognition principle states that revenue is recognized when the performance obligation is satisfied. The cash payments of $57,000 for summer rentals have not been earned and, therefore, should not be reported as income for the quarter ended June 30.

The expense recognition principle dictates that efforts (expenses) be matched with accomplishments (revenue) whenever it is reasonable and practicable to do so. This means that the expenses should include amounts incurred in June but not paid until July, and any other costs related to the operations of the business during the period April–June.

The difference in reported expenses was $29,515 ($121,715 – $92,200). The overstatement of revenues ($57,000) plus the understatement of expenses ($29,515) equals the difference in reported income of $86,515 ($119,800 – $33,285).

## PROBLEM 4-7A

**(a), (c) & (e)**

**Cash**

| | | | |
|---|---|---|---|
| 11/1 Bal. | 2,790 | 11/8 | 1,220 |
| 11/10 | 1,800 | 11/20 | 2,500 |
| 11/12 | 3,700 | 11/22 | 480 |
| 11/29 | 750 | 11/25 | 1,000 |
| 11/30 Bal. | 3,840 | | |

**Accounts Payable**

| | | | |
|---|---|---|---|
| 11/20 | 2,500 | 11/1 Bal. | 2,300 |
| | | 11/15 | 3,600 |
| | | 11/17 | 1,300 |
| | | 11/30 Bal. | 4,700 |

**Accounts Receivable**

| | | | |
|---|---|---|---|
| 11/1 Bal. | 2,910 | 11/10 | 1,800 |
| 11/27 | 900 | | |
| 11/30 Bal. | 2,010 | | |

**Unearned Service Revenue**

| | | | |
|---|---|---|---|
| 11/30 | 500 | 11/1 Bal. | 400 |
| | | 11/29 | 750 |
| | | 11/30 Bal. | 650 |

**Supplies**

| | | | |
|---|---|---|---|
| 11/1 Bal. | 1,120 | 11/30 | 1,320 |
| 11/17 | 1,300 | | |
| 11/30 Bal. | 1,100 | | |

**Salaries and Wages Payable**

| | | | |
|---|---|---|---|
| 11/8 | 620 | 11/1 Bal. | 620 |
| | | 11/30 | 480 |
| | | 11/30 Bal. | 480 |

**Equipment**

| | | | |
|---|---|---|---|
| 11/1 Bal. | 10,000 | | |
| 11/15 | 3,600 | | |
| 11/30 Bal. | 13,600 | | |

**Common Stock**

| | | | |
|---|---|---|---|
| | | 11/1 Bal. | 10,000 |
| | | 11/30 Bal. | 10,000 |

**Accumulated Depreciation—Equipment**

| | | | |
|---|---|---|---|
| | | 11/1 Bal. | 500 |
| | | 11/30 | 250 |
| | | 11/30 Bal. | 750 |

**Retained Earnings**

| | | | |
|---|---|---|---|
| | | 11/1 Bal. | 3,000 |
| | | 11/30 Bal. | 3,000 |

  

**PROBLEM 4-7A (Continued)**

**Service Revenue**

| | | | |
|---|---|---|---|
| | | 11/12 | 3,700 |
| | | 11/27 | 900 |
| | | 11/30 | 500 |
| | | 11/30 Bal. | 5,100 |

**Salaries and Wages Expense**

| | | | |
|---|---|---|---|
| 11/8 | 600 | | |
| 11/25 | 1,000 | | |
| 11/30 | 480 | | |
| 11/30 Bal. | 2,080 | | |

**Depreciation Expense**

| | | | |
|---|---|---|---|
| 11/30 | 250 | | |
| 11/30 Bal. | 250 | | |

**Rent Expense**

| | | | |
|---|---|---|---|
| 11/22 | 480 | | |
| 11/30 Bal. | 480 | | |

**Supplies Expense**

| | | | |
|---|---|---|---|
| 11/30 | 1,320 | | |
| 11/30 Bal. | 1,320 | | |

## PROBLEM 4-7A (Continued)

**(b)**

### General Journal

| Date | | Account Titles | Debit | Credit |
|---|---|---|---|---|
| Nov. | 8 | Salaries and Wages Payable | 620 | |
| | | Salaries and Wages Expense | 600 | |
| | | Cash | | 1,220 |
| | 10 | Cash | 1,800 | |
| | | Accounts Receivable | | 1,800 |
| | 12 | Cash | 3,700 | |
| | | Service Revenue | | 3,700 |
| | 15 | Equipment | 3,600 | |
| | | Accounts Payable | | 3,600 |
| | 17 | Supplies | 1,300 | |
| | | Accounts Payable | | 1,300 |
| | 20 | Accounts Payable | 2,500 | |
| | | Cash | | 2,500 |
| | 22 | Rent Expense | 480 | |
| | | Cash | | 480 |
| | 25 | Salaries and Wages Expense | 1,000 | |
| | | Cash | | 1,000 |
| | 27 | Accounts Receivable | 900 | |
| | | Service Revenue | | 900 |
| | 29 | Cash | 750 | |
| | | Unearned Service Revenue | | 750 |

(d) & (f)

**RIJO EQUIPMENT REPAIR**
**Trial Balances**
**November 30, 2014**

| | Before Adjustment | | After Adjustment | |
|---|---|---|---|---|
| | Dr. | Cr. | Dr. | Cr. |
| Cash | $ 3,840 | | $ 3,840 | |
| Accounts Receivable | 2,010 | | 2,010 | |
| Supplies | 2,420 | | 1,100 | |
| Equipment | 13,600 | | 13,600 | |
| Accumulated Depreciation—Equipment | | $ 500 | | $ 750 |
| Accounts Payable | | 4,700 | | 4,700 |
| Unearned Service Revenue | | 1,150 | | 650 |
| Salaries and Wages Payable | | | | 480 |
| Common Stock | | 10,000 | | 10,000 |
| Retained Earnings | | 3,000 | | 3,000 |
| Service Revenue | | 4,600 | | 5,100 |
| Depreciation Expense | | | 250 | |
| Supplies Expense | | | 1,320 | |
| Salaries and Wages Expense | 1,600 | | 2,080 | |
| Rent Expense | 480 | | 480 | |
| | $23,950 | $23,950 | $24,680 | $24,680 |

(e)

| | 1. | | |
|---|---|---|---|
| Nov. 30 | Supplies Expense | 1,320 | |
| | Supplies ($2,420 – $1,100) | | 1,320 |
| | 2. | | |
| 30 | Salaries and Wages Expense | 480 | |
| | Salaries and Wages Payable | | 480 |
| | 3. | | |
| 30 | Depreciation Expense | 250 | |
| | Accum. Depr.—Equipment | | 250 |
| | 4. | | |
| 30 | Unearned Service Revenue | 500 | |
| | Service Revenue | | 500 |

## PROBLEM 4-7A (Continued)

(g)

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

| | | |
|---|---|---|
| Revenues | | |
| Service revenue | | $5,100 |
| Expenses | | |
| Salaries and wages expense | $2,080 | |
| Supplies expense | 1,320 | |
| Rent expense | 480 | |
| Depreciation expense | 250 | |
| Total expenses | | 4,130 |
| Net income | | $ 970 |

**RIJO EQUIPMENT REPAIR**
**Retained Earnings Statement**
**For the Month Ended November 30, 2014**

| | |
|---|---|
| Retained earnings, November 1 | $3,000 |
| Add: Net income | 970 |
| Retained earnings, November 30 | $3,970 |

 

**PROBLEM 4-7A (Continued)**

**RIJO EQUIPMENT REPAIR**
**Balance Sheet**
**November 30, 2014**

| | | |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | $ 3,840 | |
| Accounts receivable | 2,010 | |
| Supplies | 1,100 | |
| Total current assets | | $ 6,950 |
| **Property, plant and equipment** | | |
| Equipment | 13,600 | |
| Less: Accumulated depreciation—equipment | 750 | 12,850 |
| Total assets | | $19,800 |
| **Liabilities and Stockholders' Equity** | | |
| **Current liabilities** | | |
| Accounts payable | $ 4,700 | |
| Unearned service revenue | 650 | |
| Salaries and wages payable | 480 | |
| Total current liabilities | | $ 5,830 |
| **Stockholders' equity** | | |
| Common stock | 10,000 | |
| Retained earnings | 3,970 | |
| Total stockholders' equity | | 13,970 |
| Total liabilities and stockholders' equity | | $19,800 |

**PROBLEM 4-8A**

(a)

General Journal

| Date | | Account Titles | Debit | Credit |
|---|---|---|---|---|
| July | 1 | Cash | 12,000 | |
| | | Common Stock | | 12,000 |
| | | | | |
| | 1 | Equipment | 8,000 | |
| | | Accounts Payable | | 6,000 |
| | | Cash | | 2,000 |
| | | | | |
| | 3 | Supplies | 900 | |
| | | Accounts Payable | | 900 |
| | | | | |
| | 5 | Prepaid Insurance | 1,800 | |
| | | Cash | | 1,800 |
| | | | | |
| | 12 | Accounts Receivable | 3,700 | |
| | | Service Revenue | | 3,700 |
| | | | | |
| | 18 | Accounts Payable | 1,500 | |
| | | Cash | | 1,500 |
| | | | | |
| | 20 | Salaries and Wages Expense | 2,000 | |
| | | Cash | | 2,000 |
| | | | | |
| | 21 | Cash | 1,600 | |
| | | Accounts Receivable | | 1,600 |
| | | | | |
| | 25 | Accounts Receivable | 2,500 | |
| | | Service Revenue | | 2,500 |
| | | | | |
| | 31 | Maintenance and Repairs Expense | 290 | |
| | | Cash | | 290 |
| | | | | |
| | 31 | Dividends | 600 | |
| | | Cash | | 600 |

  

## PROBLEM 4-8A (Continued)

### (b), (e) & (h)

**Cash**

| | | | |
|---|---|---|---|
| 7/1 | 12,000 | 7/1 | 2,000 |
| 7/21 | 1,600 | 7/5 | 1,800 |
| | | 7/18 | 1,500 |
| | | 7/20 | 2,000 |
| | | 7/31 | 290 |
| | | 7/31 | 600 |
| 7/31 Bal. | 5,410 | | |

**Accounts Receivable**

| | | | |
|---|---|---|---|
| 7/12 | 3,700 | 7/21 | 1,600 |
| 7/25 | 2,500 | | |
| 7/31 | 1,700 | | |
| 7/31 Bal. | 6,300 | | |

**Supplies**

| | | | |
|---|---|---|---|
| 7/3 | 900 | 7/31 | 580 |
| 7/31 Bal. | 320 | | |

**Prepaid Insurance**

| | | | |
|---|---|---|---|
| 7/5 | 1,800 | 7/31 | 150 |
| 7/31 Bal. | 1,650 | | |

**Equipment**

| | | | |
|---|---|---|---|
| 7/1 | 8,000 | | |
| 7/31 Bal. | 8,000 | | |

**Accumulated Depreciation—Equipment**

| | | | |
|---|---|---|---|
| | | 7/31 | 180 |
| | | 7/31 Bal. | 180 |

**Accounts Payable**

| | | | |
|---|---|---|---|
| 7/18 | 1,500 | 7/1 | 6,000 |
| | | 7/3 | 900 |
| | | 7/31 Bal. | 5,400 |

**Salaries and Wages Payable**

| | | | |
|---|---|---|---|
| | | 7/31 | 400 |
| | | 7/31 Bal. | 400 |

**Common Stock**

| | | | |
|---|---|---|---|
| | | 7/1 | 12,000 |
| | | 7/31 Bal. | 12,000 |

**Retained Earnings**

| | | | |
|---|---|---|---|
| 7/31 | 600 | 7/31 | 4,300 |
| | | 7/31 Bal. | 3,700 |

**Dividends**

| | | | |
|---|---|---|---|
| 7/31 | 600 | 7/31 | 600 |
| 7/31 Bal. | 0 | | |

**Income Summary**

| | | | |
|---|---|---|---|
| 7/31 | 3,600 | 7/31 | 7,900 |
| 7/31 | 4,300 | | |
| | | 7/31 Bal. | 0 |

**Service Revenue**

| | | | |
|---|---|---|---|
| 7/31 | 7,900 | 7/12 | 3,700 |
| | | 7/25 | 2,500 |
| | | 7/31 | 1,700 |
| | | 7/31 Bal. | 0 |

**PROBLEM 4-8A (Continued)**

**Maintenance and Repairs Expense**

| | | | |
|---|---|---|---|
| 7/31 | 290 | 7/31 | 290 |
| 7/31 Bal. | 0 | | |

**Insurance Expense**

| | | | |
|---|---|---|---|
| 7/31 | 150 | 7/31 | 150 |
| 7/31 Bal. | 0 | | |

**Supplies Expense**

| | | | |
|---|---|---|---|
| 7/31 | 580 | 7/31 | 580 |
| 7/31 Bal. | 0 | | |

**Salaries and Wages Expense**

| | | | |
|---|---|---|---|
| 7/20 | 2,000 | 7/31 | 2,400 |
| 7/31 | 400 | | |
| 7/31 Bal. | 0 | | |

**Depreciation Expense**

| | | | |
|---|---|---|---|
| 7/31 | 180 | 7/31 | 180 |
| 7/31 Bal. | 0 | | |

  

PROBLEM 4-8A (Continued)

(c) & (f)

**CLEAN WINDOW WASHING INC.**
**Trial Balance**
**July 31, 2014**

| | Before Adjustment | | After Adjustment | |
|---|---|---|---|---|
| | Debit | Credit | Debit | Credit |
| Cash | $ 5,410 | | $ 5,410 | |
| Accounts Receivable | 4,600 | | 6,300 | |
| Supplies | 900 | | 320 | |
| Prepaid Insurance | 1,800 | | 1,650 | |
| Equipment | 8,000 | | 8,000 | |
| Accumulated Depreciation—Equipment | | | | $ 180 |
| Accounts Payable | | $ 5,400 | | 5,400 |
| Salaries and Wages Payable | | | | 400 |
| Common Stock | | 12,000 | | 12,000 |
| Dividends | 600 | | 600 | |
| Service Revenue | | 6,200 | | 7,900 |
| Maintenance and Repairs Expense | 290 | | 290 | |
| Supplies Expense | | | 580 | |
| Depreciation Expense | | | 180 | |
| Insurance Expense | | | 150 | |
| Salaries and Wages Expense | 2,000 | | 2,400 | |
| | $23,600 | $23,600 | $25,880 | $25,880 |

## PROBLEM 4-8A (Continued)

**(d)**

### General Journal

| | Date | Account Titles | Debit | Credit |
|---|---|---|---|---|
| 1. | July 31 | Accounts Receivable | 1,700 | |
| | | Service Revenue | | 1,700 |
| 2. | 31 | Depreciation Expense | 180 | |
| | | Accumulated Depreciation—Equipment | | 180 |
| 3. | 31 | Insurance Expense ($1,800 X 1/12) | 150 | |
| | | Prepaid Insurance | | 150 |
| 4. | 31 | Supplies Expense ($900 – $320) | 580 | |
| | | Supplies | | 580 |
| 5. | 31 | Salaries and Wages Expense | 400 | |
| | | Salaries and Wages Payable | | 400 |

**(g)**

**CLEAN WINDOW WASHING INC.**
**Income Statement**
**For the Month Ended July 31, 2014**

| | | |
|---|---|---|
| **Revenues** | | |
| Service revenue | | $7,900 |
| **Expenses** | | |
| Salaries and wages expense | $2,400 | |
| Supplies expense | 580 | |
| Maintenance and repairs expense | 290 | |
| Depreciation expense | 180 | |
| Insurance expense | 150 | |
| Total expenses | | 3,600 |
| **Net income** | | $4,300 |

  

**PROBLEM 4-8A (Continued)**

**(g)**

**CLEAN WINDOW WASHING INC.**
**Retained Earnings Statement**
**For the Month Ended July 31, 2014**

| | |
|---|---|
| Retained earnings, July 1 .................................... | $ 0 |
| Add: Net income ................................................ | 4,300 |
| | 4,300 |
| Less: Dividends .................................................. | 600 |
| Retained earnings, July 31 .................................. | $3,700 |

**CLEAN WINDOW WASHING INC.**
**Balance Sheet**
**July 31, 2014**

**Assets**

| | | |
|---|---|---|
| Current assets | | |
| Cash ............................................................. | $ 5,410 | |
| Accounts receivable ...................................... | 6,300 | |
| Supplies ......................................................... | 320 | |
| Prepaid insurance ......................................... | 1,650 | |
| Total current assets ............................... | | $13,680 |
| Property, plant, and equipment | | |
| Equipment....................................................... | 8,000 | |
| Less: Accumulated depreciation.................. | 180 | 7,820 |
| Total assets............................................ | | $21,500 |

**Liabilities and Stockholders' Equity**

| | | |
|---|---|---|
| Current liabilities | | |
| Accounts payable .......................................... | $ 5,400 | |
| Salaries and wages payable.......................... | 400 | |
| Total current liabilities ........................... | | $ 5,800 |
| Stockholders' equity | | |
| Common stock ............................................... | 12,000 | |
| Retained earnings.......................................... | 3,700 | |
| Total stockholders' equity ................. | | 15,700 |
| Total liabilities and stockholders' equity.................................................... | | $21,500 |

## PROBLEM 4-8A (Continued)

**(h)**

**General Journal**

| Date | Account Titles and Explanation | Debit | Credit |
|---|---|---|---|
| July 31 | Service Revenue | 7,900 | |
| | Income Summary | | 7,900 |
| | | | |
| 31 | Income Summary | 3,600 | |
| | Salaries and Wages Expense | | 2,400 |
| | Supplies Expense | | 580 |
| | Maintenance and Repairs Expense | | 290 |
| | Depreciation Expense | | 180 |
| | Insurance Expense | | 150 |
| | | | |
| 31 | Income Summary | 4,300 | |
| | Retained Earnings | | 4,300 |
| | | | |
| 31 | Retained Earnings | 600 | |
| | Dividends | | 600 |

**(i)**

**CLEAN WINDOW WASHING INC.**
**Post-Closing Trial Balance**
**July 31, 2014**

| | Debit | Credit |
|---|---|---|
| Cash | $ 5,410 | |
| Accounts Receivable | 6,300 | |
| Supplies | 320 | |
| Prepaid Insurance | 1,650 | |
| Equipment | 8,000 | |
| Accumulated Depreciation—Equipment | | $ 180 |
| Accounts Payable | | 5,400 |
| Salaries and Wages Payable | | 400 |
| Common Stock | | 12,000 |
| Retained Earnings | | 3,700 |
| | $21,680 | $21,680 |

  

## PROBLEM 4-1B

(a)

| | | | |
|---|---|---|---|
| 1. | Cash | 20,000 | |
| | Accounts Receivable | | 20,000 |
| 2. | Unearned Service Revenue | 10,000 | |
| | Service Revenue | | 10,000 |
| 3. | Cash | 40,000 | |
| | Unearned Service Revenue | | 40,000 |
| | Unearned Service Revenue ($40,000 – $17,000) | 23,000 | |
| | Service Revenue | | 23,000 |
| 4. | Accounts Receivable | 157,000 | |
| | Service Revenue ($190,000 – $10,000 – $23,000) | | 157,000 |
| 5. | Cash | 139,000 | |
| | Accounts Receivable ($157,000 – $18,000) | | 139,000 |

(b) Cash received with respect to fees:

| | | |
|---|---|---|
| 1. | Collection of accounts receivable | $ 20,000 |
| 3. | Gift certificates | 40,000 |
| 5. | Partial collection of fees receivable | 139,000 |
| | | $199,000 |

T-account (not required)

**Accounts Receivable**

| | | | |
|---|---|---|---|
| Bal. | 20,000 | | |
| 4. | 157,000 | 1. | 20,000 |
| | | 5. | 139,000 |
| Bal. | 18,000 | | |

**Unearned Service Revenue**

| | | | |
|---|---|---|---|
| | | Bal. | 10,000 |
| 2. | 10,000 | 3. | 40,000 |
| 3. | 23,000 | | |
| | | Bal. | 17,000 |

**Service Revenue**

| | | | |
|---|---|---|---|
| | | 2. | 10,000 |
| | | 3. | 23,000 |
| | | 4. | 157,000 |
| | | Bal. | 190,000 |

**Cash**

| | | | |
|---|---|---|---|
| 1. | 20,000 | | |
| 3. | 40,000 | | |
| 5. | 139,000 | | |
| Bal. | 199,000 | | |

## PROBLEM 4-2B

(a)

| | Date | Account Titles | Debit | Credit |
|---|---|---|---|---|
| | 2014 | | | |
| 1. | May 31 | Supplies Expense | 1,000 | |
| | | Supplies | | 1,000 |
| 2. | 31 | Utilities Expense | 300 | |
| | | Accounts Payable | | 300 |
| 3. | 31 | Insurance Expense | 100 | |
| | | Prepaid Insurance ($3,600 ÷ 36 months) | | 100 |
| 4. | 31 | Unearned Service Revenue | 2,500 | |
| | | Service Revenue ($4,000 – $1,500) | | 2,500 |
| 5. | 31 | Salaries and Wages Expense | 480 | |
| | | Salaries and Wages Payable [(2/5 X $600) X 2 employees] | | 480 |
| 6. | 31 | Depreciation Expense | 200 | |
| | | Accumulated Depreciation—Equipment | | 200 |
| 7. | 31 | Accounts Receivable | 1,500 | |
| | | Service Revenue | | 1,500 |

(b)

**Cash**

| | | | |
|---|---|---|---|
| 5/31 Bal. | 7,500 | | |

**Supplies**

| | | | |
|---|---|---|---|
| 5/31 Bal. | 2,500 | 5/31 | 1,000 |
| 5/31 Bal. | 1,500 | | |

**Accounts Receivable**

| | | | |
|---|---|---|---|
| 5/31 Bal. | 3,000 | | |
| 5/31 | 1,500 | | |
| 5/31 Bal. | 4,500 | | |

**Prepaid Insurance**

| | | | |
|---|---|---|---|
| 5/31 Bal. | 3,600 | 5/31 | 100 |
| 5/31 Bal. | 3,500 | | |

  

## PROBLEM 4-2B (Continued)

**Equipment**

| | | | |
|---|---|---|---|
| 5/31 Bal. | 12,000 | | |

**Accumulated Depreciation—Equipment**

| | | | |
|---|---|---|---|
| | | 5/31 | 200 |
| | | 5/31 Bal. | 200 |

**Accounts Payable**

| | | | |
|---|---|---|---|
| | | 5/31 Bal. | 3,500 |
| | | 5/31 | 300 |
| | | 5/31 Bal. | 3,800 |

**Salaries and Wages Payable**

| | | | |
|---|---|---|---|
| | | 5/31 | 480 |
| | | 5/31 Bal. | 480 |

**Unearned Service Revenue**

| | | | |
|---|---|---|---|
| 5/31 | 2,500 | 5/31 Bal. | 4,000 |
| | | 5/31 Bal. | 1,500 |

**Common Stock**

| | | | |
|---|---|---|---|
| | | 5/31 Bal. | 19,100 |

**Service Revenue**

| | | | |
|---|---|---|---|
| | | 5/31 Bal. | 7,500 |
| | | 5/31 | 2,500 |
| | | 5/31 | 1,500 |
| | | 5/31 Bal. | 11,500 |

**Salaries and Wages Expense**

| | | | |
|---|---|---|---|
| 5/31 Bal. | 4,000 | | |
| 5/31 | 480 | | |
| 5/31 Bal. | 4,480 | | |

**Rent Expense**

| | | | |
|---|---|---|---|
| 5/31 Bal. | 1,500 | | |

**Depreciation Expense**

| | | | |
|---|---|---|---|
| 5/31 | 200 | | |
| 5/31 Bal. | 200 | | |

**Insurance Expense**

| | | | |
|---|---|---|---|
| 5/31 | 100 | | |
| 5/31 Bal. | 100 | | |

**Utilities Expense**

| | | | |
|---|---|---|---|
| 5/31 | 300 | | |
| 5/31 Bal. | 300 | | |

**Supplies Expense**

| | | | |
|---|---|---|---|
| 5/31 | 1,000 | | |
| 5/31 Bal. | 1,000 | | |

## PROBLEM 4-2B (Continued)

(c)

**OKENDO CONSULTING**
**Adjusted Trial Balance**
**May 31, 2014**

| | Debit | Credit |
|---|---|---|
| Cash | $ 7,500 | |
| Accounts Receivable | 4,500 | |
| Supplies | 1,500 | |
| Prepaid Insurance | 3,500 | |
| Equipment | 12,000 | |
| Accumulated Depreciation—Equipment | | $ 200 |
| Accounts Payable | | 3,800 |
| Salaries and Wages Payable | | 480 |
| Unearned Service Revenue | | 1,500 |
| Common Stock | | 19,100 |
| Service Revenue | | 11,500 |
| Salaries and Wages Expense | 4,480 | |
| Rent Expense | 1,500 | |
| Depreciation Expense | 200 | |
| Insurance Expense | 100 | |
| Utilities Expense | 300 | |
| Supplies Expense | 1,000 | |
| | $36,580 | $36,580 |

 

## PROBLEM 4-3B

(a)

| | | | | | |
|---|---|---|---|---|---|
| 1. | Aug. 31 | Insurance Expense ($500 X 3) | 1,500 | |
| | | Prepaid Insurance | | 1,500 |
| 2. | 31 | Supplies Expense ($4,300 – $900) | 3,400 | |
| | | Supplies | | 3,400 |
| 3. | 31 | Depreciation Expense | 2,650 | |
| | | Accum. Depr.—Buildings ($6,600 X 1/4) | | 1,650 |
| | | Accum. Depr.—Equipment ($4,000 X 1/4) | | 1,000 |
| 4. | 31 | Unearned Rent Revenue | 4,000 | |
| | | Rent Revenue | | 4,000 |
| 5. | 31 | Salaries and Wages Expense | 600 | |
| | | Salaries and Wages Payable | | 600 |
| 6. | 31 | Accounts Receivable | 1,600 | |
| | | Rent Revenue | | 1,600 |
| 7. | 31 | Interest Expense | 600 | |
| | | Interest Payable [($120,000 X 6%) X 1/12] | | 600 |

(b)

**Cash**

| | | | |
|---|---|---|---|
| 8/31 Bal. | 24,600 | | |

**Supplies**

| | | | |
|---|---|---|---|
| 8/31 Bal. | 4,300 | 8/31 | 3,400 |
| 8/31 Bal. | 900 | | |

**Accounts Receivable**

| | | | |
|---|---|---|---|
| 8/31 | 1,600 | | |
| 8/31 Bal. | 1,600 | | |

**Prepaid Insurance**

| | | | |
|---|---|---|---|
| 8/31 Bal. | 5,400 | 8/31 | 1,500 |
| 8/31 Bal. | 3,900 | | |

**PROBLEM 4-3B (Continued)**

**Land**

| | | | |
|---|---|---|---|
| 8/31 Bal. | 40,000 | | |

**Buildings**

| | | | |
|---|---|---|---|
| 8/31 Bal. | 132,000 | | |

**Accumulated Depreciation—Buildings**

| | | | |
|---|---|---|---|
| | | 8/31 | 1,650 |
| | | 8/31 Bal. | 1,650 |

**Equipment**

| | | | |
|---|---|---|---|
| 8/31 Bal. | 36,000 | | |

**Accumulated Depreciation—Equipment**

| | | | |
|---|---|---|---|
| | | 8/31 | 1,000 |
| | | 8/31 Bal. | 1,000 |

**Accounts Payable**

| | | | |
|---|---|---|---|
| | | 8/31 Bal. | 6,500 |

**Unearned Rent Revenue**

| | | | |
|---|---|---|---|
| 8/31 | 4,000 | 8/31 Bal. | 6,800 |
| | | 8/31 Bal. | 2,800 |

**Salaries and Wages Payable**

| | | | |
|---|---|---|---|
| | | 8/31 | 600 |
| | | 8/31 Bal. | 600 |

**Interest Payable**

| | | | |
|---|---|---|---|
| | | 8/31 | 600 |
| | | 8/31 Bal. | 600 |

**Mortgage Payable**

| | | | |
|---|---|---|---|
| | | 8/31 Bal. | 120,000 |

**Common Stock**

| | | | |
|---|---|---|---|
| | | 8/31 Bal. | 100,000 |

**Dividends**

| | | | |
|---|---|---|---|
| 8/31 Bal. | 5,000 | | |

**Rent Revenue**

| | | | |
|---|---|---|---|
| | | 8/31 Bal. | 80,000 |
| | | 8/31 | 4,000 |
| | | 8/31 | 1,600 |
| | | 8/31 Bal. | 85,600 |

**Salaries and Wages Expense**

| | | | |
|---|---|---|---|
| 8/31 Bal. | 53,000 | | |
| 8/31 | 600 | | |
| 8/31 Bal. | 53,600 | | |

**Utilities Expense**

| | | | |
|---|---|---|---|
| 8/31 Bal. | 9,400 | | |

**Maintenance and Repairs Expense**

| | | | |
|---|---|---|---|
| 8/31 Bal. | 3,600 | | |

## PROBLEM 4-3B (Continued)

**Insurance Expense**

| | | |
|---|---|---|
| 8/31 | 1,500 | |
| 8/31 Bal. | 1,500 | |

**Depreciation Expense**

| | | |
|---|---|---|
| 8/31 | 2,650 | |
| 8/31 Bal. | 2,650 | |

**Supplies Expense**

| | | |
|---|---|---|
| 8/31 | 3,400 | |
| 8/31 Bal. | 3,400 | |

**Interest Expense**

| | | |
|---|---|---|
| 8/31 | 600 | |
| 8/31 Bal. | 600 | |

## PROBLEM 4-3B (Continued)

(c)

**DEATH VALLEY RESORT**
**Adjusted Trial Balance**
**August 31, 2014**

| | Debit | Credit |
|---|---|---|
| Cash | $ 24,600 | |
| Accounts Receivable | 1,600 | |
| Supplies | 900 | |
| Prepaid Insurance | 3,900 | |
| Land | 40,000 | |
| Buildings | 132,000 | |
| Accumulated Depreciation—Buildings | | $ 1,650 |
| Equipment | 36,000 | |
| Accumulated Depreciation—Equipment | | 1,000 |
| Accounts Payable | | 6,500 |
| Unearned Rent Revenue | | 2,800 |
| Salaries and Wages Payable | | 600 |
| Interest Payable | | 600 |
| Mortgage Payable | | 120,000 |
| Common Stock | | 100,000 |
| Dividends | 5,000 | |
| Rent Revenue | | 85,600 |
| Salaries and Wages Expense | 53,600 | |
| Utilities Expense | 9,400 | |
| Maintenance and Repairs Expense | 3,600 | |
| Insurance Expense | 1,500 | |
| Supplies Expense | 3,400 | |
| Depreciation Expense | 2,650 | |
| Interest Expense | 600 | |
| | $318,750 | $318,750 |

  

**PROBLEM 4-3B (Continued)**

**(d)**

**DEATH VALLEY RESORT**
**Income Statement**
**For the Three Months Ended August 31, 2014**

| | | |
|---|---|---|
| Revenues | | |
| Rent revenue | | $85,600 |
| Expenses | | |
| Salaries and wages expense | $53,600 | |
| Utilities expense | 9,400 | |
| Maintenance and repairs expense | 3,600 | |
| Supplies expense | 3,400 | |
| Depreciation expense | 2,650 | |
| Insurance expense | 1,500 | |
| Interest expense | 600 | |
| Total expenses | | 74,750 |
| Net income | | $10,850 |

**DEATH VALLEY RESORT**
**Retained Earnings Statement**
**For the Three Months Ended August 31, 2014**

| | |
|---|---|
| Retained earnings, June 1 | $ 0 |
| Add: Net income | 10,850 |
| | 10,850 |
| Less: Dividends | 5,000 |
| Retained earnings, August 31 | $ 5,850 |

## PROBLEM 4-3B (Continued)

**DEATH VALLEY RESORT**
**Balance Sheet**
**August 31, 2014**

| | | | |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash | | $ 24,600 | |
| Accounts receivable | | 1,600 | |
| Supplies | | 900 | |
| Prepaid insurance | | 3,900 | |
| Total current assets | | | $ 31,000 |
| **Property, plant, and equipment** | | | |
| Land | | 40,000 | |
| Buildings | $132,000 | | |
| Less: Accum. depr.—bldgs. | 1,650 | 130,350 | |
| Equipment | 36,000 | | |
| Less: Accum. depr.—equip. | 1,000 | 35,000 | 205,350 |
| Total assets | | | $236,350 |

| | | |
|---|---|---|
| **Liabilities and Stockholders' Equity** | | |
| **Current liabilities** | | |
| Accounts payable | $ 6,500 | |
| Unearned rent revenue | 2,800 | |
| Interest payable | 600 | |
| Salaries and wages payable | 600 | |
| Total current liabilities | | $ 10,500 |
| **Long-term liabilities** | | |
| Mortgage payable | | 120,000 |
| Total liabilities | | 130,500 |
| **Stockholders' equity** | | |
| Common stock | 100,000 | |
| Retained earnings | 5,850 | |
| Total stockholders' equity | | 105,850 |
| Total liabilities and stockholders' equity | | $236,350 |

**(e)** The following accounts would be closed:
Rent Revenue, Salaries and Wages Expense, Utilities Expense, Maintenance and Repairs Expense, Supplies Expense, Depreciation Expense, Insurance Expense, Interest Expense, Dividends.

 

## PROBLEM 4-4B

(a)

| | | | | |
|---|---|---|---|---|
| Dec. 31 | Accounts Receivable | | 3,000 | |
| | Service Revenue | | | 3,000 |
| 31 | Supplies Expense | | 2,400 | |
| | Supplies | | | 2,400 |
| 31 | Insurance Expense | | 1,560 | |
| | Prepaid Insurance | | | 1,560 |
| 31 | Depreciation Expense | | 5,000 | |
| | Accumulated Depreciation—Equipment | | | 5,000 |
| 31 | Interest Expense | | 560 | |
| | Interest Payable | | | 560 |
| 31 | Unearned Service Revenue | | 1,900 | |
| | Service Revenue | | | 1,900 |
| 31 | Salaries and Wages Expense | | 820 | |
| | Salaries and Wages Payable | | | 820 |

(b)

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

| | | |
|---|---|---|
| Revenues | | |
| Service revenue | | $62,500 |
| Expenses | | |
| Salaries and wages expense | $9,820 | |
| Depreciation expense | 5,000 | |
| Rent expense | 4,350 | |
| Supplies expense | 2,400 | |
| Insurance expense | 1,560 | |
| Interest expense | 560 | |
| Total expenses | | 23,690 |
| Net income | | $38,810 |

**PROBLEM 4-4B (Continued)**

**ABDULLA ADVERTISING AGENCY**
**Retained Earnings Statement**
**For the Year Ended December 31, 2014**

| | |
|---|---|
| Retained earnings, January 1 | $ 5,500 |
| Add: Net income | 38,810 |
| | 44,310 |
| Less: Dividends | 10,000 |
| Retained earnings, December 31 | $34,310 |

**ABDULLA ADVERTISING AGENCY**
**Balance Sheet**
**December 31, 2014**

| | | |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash | $11,000 | |
| Accounts receivable | 19,000 | |
| Supplies | 7,000 | |
| Prepaid insurance | 1,790 | |
| Total current assets | | $38,790 |
| Property, plant, and equipment | | |
| Equipment | $60,000 | |
| Less: Accumulated depreciation—equipment | 30,000 | 30,000 |
| Total assets | | $68,790 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities | | |
| Notes payable | $ 8,000 | |
| Accounts payable | 2,000 | |
| Unearned service revenue | 3,100 | |
| Salaries and wages payable | 820 | |
| Interest payable | 560 | |
| Total current liabilities | | $14,480 |
| Stockholders' equity | | |
| Common stock | 20,000 | |
| Retained earnings | 34,310 | |
| Total stockholders' equity | | 54,310 |
| Total liabilities and stockholders' equity | | $68,790 |

 

**PROBLEM 4-4B (Continued)**

**(c) Service Revenue, Salaries and Wages Expense, Depreciation Expense, Rent Expense, Supplies Expense, Insurance Expense, Interest Expense, Dividends.**

**(d) Interest is \$56 per month or .7% of the note payable (\$56 ÷ \$8,000). .7% X 12 = 8.4% interest per year.**

**(e) Salaries and Wages Expense, \$9,820, less Salaries and Wages Payable 12/31/14, \$820 = \$9,000. Total payments, \$10,000 – \$9,000 = \$1,000 Salaries Payable 12/31/13.**

## PROBLEM 4-5B

| | | | | |
|---|---|---|---|---|
| 1. | Dec. 31 | Insurance Expense ........................................ | 6,000 | |
| | | Prepaid Insurance .................................. | | 6,000 |
| | | [($11,400 ÷ 3) = $3,800 | | |
| | | ($8,800 ÷ 2 X 6/12) = 2,200 | | |
| | | $6,000] | | |
| 2. | Dec. 31 | Unearned Rent Revenue ............................... | 90,000 | |
| | | Rent Revenue ........................................ | | 90,000 |
| | | [Nov. 5 X $6,000 X 2 = 60,000 | | |
| | | Dec. 4 X $7,500 X 1 = 30,000 | | |
| | | $90,000] | | |
| 3. | Dec. 31 | Interest Expense ........................................... | 750 | |
| | | Interest Payable..................................... | | 750 |
| | | ($20,000 X 9% X 5/12) | | |
| 4. | Dec. 31 | Salaries and Wages Expense ....................... | 2,496 | |
| | | Salaries and Wages Payable................. | | 2,496 |
| | | [4 X $480 X 4/5 = $1,536 | | |
| | | 2 X $600 X 4/5 = 960 | | |
| | | $2,496] | | |

 

## PROBLEM 4-6B

| | | | | |
|---|---|---|---|---|
| (a) 1. | April 30 | Service Revenue | 75,000 | |
| | | Unearned Service Revenue | | 75,000 |
| 2. | 30 | Supplies Expense | 7,200 | |
| | | Supplies ($9,800 – $2,600) | | 7,200 |
| 3. | 30 | Insurance Expense ($12,000 ÷ 12 X 3) | 3,000 | |
| | | Prepaid Insurance | | 3,000 |
| 4. | 30 | Advertising Expense | 80 | |
| | | Maintenance and Repairs Expense | 2,560 | |
| | | Utilities Expense | 530 | |
| | | Accounts Payable | | 3,170 |
| 5. | 30 | Salaries and Wages Expense ($1,380 X 3) | 4,140 | |
| | | Salaries and Wages Payable | | 4,140 |
| 6. | 30 | Interest Expense ($15,000 X 8% X 3/12) | 300 | |
| | | Interest Payable | | 300 |
| 7. | 30 | Income Tax Expense | 15,200 | |
| | | Income Taxes Payable | | 15,200 |

**PROBLEM 4-6B (Continued)**

**(b)**

**TUTORS-PLUS TEST PREP**
**Income Statement**
**For the Quarter Ended April 30, 2014**

| | | |
|---|---|---|
| **Revenues** | | |
| Service revenue ($240,000 – $75,000) .................. | | $165,000 |
| **Expenses** | | |
| Salaries and wages expense ($92,000 + $4,140) .......... | $96,140 | |
| Income tax expense .......... | 15,200 | |
| Supplies expense .......... | 7,200 | |
| Advertising expense ($6,400 + $80) .......... | 6,480 | |
| Maintenance and repairs expense ($1,700 + $2,560) .......... | 4,260 | |
| Insurance expense .......... | 3,000 | |
| Depreciation expense .......... | 2,400 | |
| Utilities expense ($1,300 + $530) .......... | 1,830 | |
| Interest expense .......... | 300 | |
| Total expenses .......... | | 136,810 |
| Net income .......... | | $ 28,190 |

**(c)** The generally accepted accounting principles pertaining to the income statement not recognized by Jan were the revenue recognition principle and the expense recognition principle.

The revenue recognition principle states that revenue is recognized when the performance obligation is satisfied. The cash payments of $75,000 for summer classes have not been earned and, therefore, should not be reported as income for the quarter ended April 30.

The expense recognition principle dictates that efforts (expenses) be matched with accomplishments (revenue) whenever it is reasonable and practicable to do so. This means that the expenses should include amounts incurred in April but not paid until May, and any other costs related to the operations of the business during the period February–April.

The difference in reported expenses was $33,010 ($136,810 – $103,800). The overstatement of revenues ($75,000) plus the understatement of expenses ($33,010) equals the difference in reported income of $108,010 ($136,200 – $28,190).

  

# PROBLEM 4-7B

**(a), (c) & (e)**

**Cash**

| | | | |
|---|---|---|---|
| 8/1 Bal. | 6,040 | 8/10 | 3,120 |
| 8/5 | 1,200 | 8/20 | 2,000 |
| 8/12 | 2,800 | 8/22 | 380 |
| 8/29 | 780 | 8/25 | 2,900 |
| 8/31 Bal. | 2,420 | | |

**Accounts Payable**

| | | | |
|---|---|---|---|
| 8/20 | 2,000 | 8/1 Bal. | 2,300 |
| | | 8/15 | 2,000 |
| | | 8/17 | 860 |
| | | 8/31 Bal. | 3,160 |

**Accounts Receivable**

| | | | |
|---|---|---|---|
| 8/1 Bal. | 2,910 | 8/5 | 1,200 |
| 8/27 | 3,130 | | |
| 8/31 Bal. | 4,840 | | |

**Unearned Service Revenue**

| | | | |
|---|---|---|---|
| 8/31 | 800 | 8/1 Bal. | 1,260 |
| | | 8/29 | 780 |
| | | 8/31 Bal. | 1,240 |

**Supplies**

| | | | |
|---|---|---|---|
| 8/1 Bal. | 1,030 | 8/31 | 930 |
| 8/17 | 860 | | |
| 8/31 Bal. | 960 | | |

**Salaries and Wages Payable**

| | | | |
|---|---|---|---|
| 8/10 | 1,420 | 8/1 Bal. | 1,420 |
| | | 8/31 | 1,540 |
| | | 8/31 Bal. | 1,540 |

**Equipment**

| | | | |
|---|---|---|---|
| 8/1 Bal. | 10,000 | | |
| 8/15 | 2,000 | | |
| 8/31 Bal. | 12,000 | | |

**Common Stock**

| | | | |
|---|---|---|---|
| | | 8/1 Bal. | 10,000 |
| | | 8/31 Bal. | 10,000 |

**Accumulated Depreciation—Equipment**

| | | | |
|---|---|---|---|
| | | 8/1 Bal. | 600 |
| | | 8/31 | 320 |
| | | 8/31 Bal. | 920 |

**Retained Earnings**

| | | | |
|---|---|---|---|
| | | 8/1 Bal. | 4,400 |
| | | 8/31 Bal. | 4,400 |

**PROBLEM 4-7B (Continued)**

**Service Revenue**

| | | | |
|---|---|---|---|
| | | 8/12 | 2,800 |
| | | 8/27 | 3,130 |
| | | 8/31 | 800 |
| | | 8/31 Bal. | 6,730 |

**Salaries and Wages Expense**

| | | | |
|---|---|---|---|
| 8/10 | 1,700 | | |
| 8/25 | 2,900 | | |
| 8/31 | 1,540 | | |
| 8/31 Bal. | 6,140 | | |

**Depreciation Expense**

| | | | |
|---|---|---|---|
| 8/31 | 320 | | |
| 8/31 Bal. | 320 | | |

**Rent Expense**

| | | | |
|---|---|---|---|
| 8/22 | 380 | | |
| 8/31 Bal. | 380 | | |

**Supplies Expense**

| | | | |
|---|---|---|---|
| 8/31 | 930 | | |
| 8/31 Bal. | 930 | | |

  

## PROBLEM 4-7B (Continued)

(b) **General Journal**

| Date | Account Titles | Debit | Credit |
|---|---|---|---|
| Aug. 5 | Cash | 1,200 | |
| | Accounts Receivable | | 1,200 |
| 10 | Salaries and Wages Payable | 1,420 | |
| | Salaries and Wages Expense | 1,700 | |
| | Cash | | 3,120 |
| 12 | Cash | 2,800 | |
| | Service Revenue | | 2,800 |
| 15 | Equipment | 2,000 | |
| | Accounts Payable | | 2,000 |
| 17 | Supplies | 860 | |
| | Accounts Payable | | 860 |
| 20 | Accounts Payable | 2,000 | |
| | Cash | | 2,000 |
| 22 | Rent Expense | 380 | |
| | Cash | | 380 |
| 25 | Salaries and Wages Expense | 2,900 | |
| | Cash | | 2,900 |
| 27 | Accounts Receivable | 3,130 | |
| | Service Revenue | | 3,130 |
| 29 | Cash | 780 | |
| | Unearned Service Revenue | | 780 |

## PROBLEM 4-7B (Continued)

(d) & (f)

**D & D REPAIR SERVICES**
**Trial Balances**
**August 31, 2014**

| | Before Adjustment | | After Adjustment | |
|---|---|---|---|---|
| | Dr. | Cr. | Dr. | Cr. |
| Cash | $ 2,420 | | $ 2,420 | |
| Accounts Receivable | 4,840 | | 4,840 | |
| Supplies | 1,890 | | 960 | |
| Equipment | 12,000 | | 12,000 | |
| Accumulated Depr.—Equipment | | $ 600 | | $ 920 |
| Accounts Payable | | 3,160 | | 3,160 |
| Unearned Service Revenue | | 2,040 | | 1,240 |
| Salaries and Wages Payable | | | | 1,540 |
| Common Stock | | 10,000 | | 10,000 |
| Retained Earnings | | 4,400 | | 4,400 |
| Service Revenue | | 5,930 | | 6,730 |
| Salaries and Wages Expense | 4,600 | | 6,140 | |
| Rent Expense | 380 | | 380 | |
| Supplies Expense | | | 930 | |
| Depreciation Expense | | | 320 | |
| | $26,130 | $26,130 | $27,990 | $27,990 |

(e)

| | | 1. | |
|---|---|---|---|
| Aug. 31 | Supplies Expense | 930 | |
| | Supplies ($1,890 – $960) | | 930 |
| | | 2. | |
| 31 | Salaries and Wages Expense | 1,540 | |
| | Salaries and Wages Payable | | 1,540 |
| | | 3. | |
| 31 | Depreciation Expense | 320 | |
| | Accum. Depr.—Equipment | | 320 |
| | | 4. | |
| 31 | Unearned Service Revenue | 800 | |
| | Service Revenue | | 800 |

  

**PROBLEM 4-7B (Continued)**

**(g)**

**D & D REPAIR SERVICES**
**Income Statement**
**For the Month Ended August 31, 2014**

| | | |
|---|---|---|
| **Revenues** | | |
| Service revenue | | $6,730 |
| **Expenses** | | |
| Salaries and wages expense | $6,140 | |
| Supplies expense | 930 | |
| Rent expense | 380 | |
| Depreciation expense | 320 | |
| Total expenses | | 7,770 |
| **Net loss** | | ($1,040) |

**D & D REPAIR SERVICES**
**Retained Earnings Statement**
**For the Month Ended August 31, 2014**

| | |
|---|---|
| Retained earnings, August 1 | $4,400 |
| Less: Net loss | 1,040 |
| Retained earnings, August 31 | $3,360 |

**D & D REPAIR SERVICES**
**Balance Sheet**
**August 31, 2014**

| | | |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash | $ 2,420 | |
| Accounts receivable | 4,840 | |
| Supplies | 960 | |
| Total current assets | | $ 8,220 |
| Property, plant and equipment | | |
| Equipment | 12,000 | |
| Less: Accumulated depreciation—equipment | 920 | 11,080 |
| Total assets | | $19,300 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities | | |
| Accounts payable | $ 3,160 | |
| Unearned service revenue | 1,240 | |
| Salaries and wages payable | 1,540 | |
| Total current liabilities | | $ 5,940 |
| Stockholders' equity | | |
| Common stock | 10,000 | |
| Retained earnings | 3,360 | |
| Total stockholders' equity | | 13,360 |
| Total liabilities and stockholders' equity | | $19,300 |

 

## PROBLEM 4-8B

**(a)**

**General Journal**

| Date | Account Titles | Debit | Credit |
|---|---|---|---|
| Mar. 1 | Cash | 15,000 | |
| | Common Stock | | 15,000 |
| 1 | Equipment | 8,000 | |
| | Accounts Payable | | 5,000 |
| | Cash | | 3,000 |
| 3 | Supplies | 2,000 | |
| | Accounts Payable | | 2,000 |
| 5 | Prepaid Insurance | 2,400 | |
| | Cash | | 2,400 |
| 14 | Accounts Receivable | 3,700 | |
| | Service Revenue | | 3,700 |
| 18 | Accounts Payable | 2,000 | |
| | Cash | | 2,000 |
| 20 | Salaries and Wages Expense | 1,750 | |
| | Cash | | 1,750 |
| 21 | Cash | 1,600 | |
| | Accounts Receivable | | 1,600 |
| 28 | Accounts Receivable | 4,200 | |
| | Service Revenue | | 4,200 |
| 31 | Maintenance and Repairs Expense | 350 | |
| | Cash | | 350 |
| 31 | Dividends | | |
| | Cash | 900 | |
| | | | 900 |

## PROBLEM 4-8B (Continued)

**(b), (e) & (h)**

**Cash**

| | | | |
|---|---|---|---|
| 3/1 | 15,000 | 3/1 | 3,000 |
| 3/21 | 1,600 | 3/5 | 2,400 |
| | | 3/18 | 2,000 |
| | | 3/20 | 1,750 |
| | | 3/31 | 350 |
| | | 3/31 | 900 |
| 3/31 Bal. | 6,200 | | |

**Accounts Payable**

| | | | |
|---|---|---|---|
| 3/18 | 2,000 | 3/1 | 5,000 |
| | | 3/3 | 2,000 |
| | | 3/31 Bal. | 5,000 |

**Salaries and Wages Payable**

| | | | |
|---|---|---|---|
| | | 3/31 | 1,080 |
| | | 3/31 Bal. | 1,080 |

**Accounts Receivable**

| | | | |
|---|---|---|---|
| 3/14 | 3,700 | 3/21 | 1,600 |
| 3/28 | 4,200 | | |
| 3/31 | 200 | | |
| 3/31 Bal. | 6,500 | | |

**Common Stock**

| | | | |
|---|---|---|---|
| | | 3/1 | 15,000 |
| | | 3/31 Bal. | 15,000 |

**Retained Earnings**

| | | | |
|---|---|---|---|
| 3/31 | 900 | 3/31 | 2,550 |
| | | 3/31 Bal. | 1,650 |

**Supplies**

| | | | |
|---|---|---|---|
| 3/3 | 2,000 | 3/31 | 1,720 |
| 3/31 Bal. | 280 | | |

**Dividends**

| | | | |
|---|---|---|---|
| 3/31 | 900 | 3/31 | 900 |
| 3/31 Bal. | 0 | | |

**Prepaid Insurance**

| | | | |
|---|---|---|---|
| 3/5 | 2,400 | 3/31 | 400 |
| 3/31 Bal. | 2,000 | | |

**Income Summary**

| | | | |
|---|---|---|---|
| 3/31 | 5,550 | 3/31 | 8,100 |
| 3/31 | 2,550 | | |
| | | 3/31 Bal. | 0 |

**Equipment**

| | | | |
|---|---|---|---|
| 3/1 | 8,000 | | |
| 3/31 Bal. | 8,000 | | |

**Service Revenue**

| | | | |
|---|---|---|---|
| 3/31 | 8,100 | 3/14 | 3,700 |
| | | 3/28 | 4,200 |
| | | 3/31 | 200 |
| | | 3/31 Bal. | 0 |

**Accumulated Depreciation—Equipment**

| | | | |
|---|---|---|---|
| | | 3/31 | 250 |
| | | 3/31 Bal. | 250 |

  

**PROBLEM 4-8B (Continued)**

**Maintenance and Repairs Expense**

| | | | |
|---|---|---|---|
| 3/31 | 350 | 3/31 | 350 |
| | | 3/31 Bal. | 0 |

**Supplies Expense**

| | | | |
|---|---|---|---|
| 3/31 | 1,720 | 3/31 | 1,720 |
| 3/31 Bal. | 0 | | |

**Depreciation Expense**

| | | | |
|---|---|---|---|
| 3/31 | 250 | 3/31 | 250 |
| 3/31 Bal. | 0 | | |

**Insurance Expense**

| | | | |
|---|---|---|---|
| 3/31 | 400 | 3/31 | 400 |
| 3/31 Bal. | 0 | | |

**Salaries and Wages Expense**

| | | | |
|---|---|---|---|
| 3/20 | 1,750 | 3/31 | 2,830 |
| 3/31 | 1,080 | | |
| 3/31 Bal. | 0 | | |

**(c) & (f)**

**GEOG CLEANERS**
**Trial Balance**
**March 31, 2014**

| | Before Adjustment | | After Adjustment | |
|---|---|---|---|---|
| | Debit | Credit | Debit | Credit |
| Cash | $ 6,200 | | $ 6,200 | |
| Accounts Receivable | 6,300 | | 6,500 | |
| Supplies | 2,000 | | 280 | |
| Prepaid Insurance | 2,400 | | 2,000 | |
| Equipment | 8,000 | | 8,000 | |
| Accumulated Depreciation—Equipment | | | | $ 250 |
| Accounts Payable | | $ 5,000 | | 5,000 |
| Salaries and Wages Payable | | | | 1,080 |
| Common Stock | | 15,000 | | 15,000 |
| Dividends | 900 | | 900 | |
| Service Revenue | | 7,900 | | 8,100 |
| Maintenance and Repairs Expense | 350 | | 350 | |
| Salaries and Wages Expense | 1,750 | | 2,830 | |
| Depreciation Expense | | | 250 | |
| Insurance Expense | | | 400 | |
| Supplies Expense | | | 1,720 | |
| | $27,900 | $27,900 | $29,430 | $29,430 |

## PROBLEM 4-8B (Continued)

**(d)**

**General Journal**

| | Date | Account Titles | Debit | Credit |
|---|---|---|---|---|
| 1. | March 31 | Accounts Receivable | 200 | |
| | | Service Revenue | | 200 |
| 2. | 31 | Depreciation Expense | 250 | |
| | | Accumulated Depreciation—Equipment | | 250 |
| 3. | 31 | Insurance Expense | 400 | |
| | | Prepaid Insurance ($2,400 ÷ 6) | | 400 |
| 4. | 31 | Supplies Expense | 1,720 | |
| | | Supplies ($2,000 – $280) | | 1,720 |
| 5. | 31 | Salaries and Wages Expense | 1,080 | |
| | | Salaries and Wages Payable | | 1,080 |

**(g)**

**GEOG CLEANERS**
**Income Statement**
**For the Month Ended March 31, 2014**

| | | |
|---|---|---|
| **Revenues** | | |
| Service revenue | | $8,100 |
| **Expenses** | | |
| Salaries and wages expense | $2,830 | |
| Supplies expense | 1,720 | |
| Insurance expense | 400 | |
| Maintenance and repairs expense | 350 | |
| Depreciation expense | 250 | |
| Total expenses | | 5,550 |
| **Net income** | | $2,550 |

  

## PROBLEM 4-8B (Continued)

**GEOG CLEANERS**
**Retained Earnings Statement**
**For the Month Ended March 31, 2014**

| | |
|---|---|
| Retained earnings, March 1 | $ 0 |
| Add: Net income | 2,550 |
| | 2,550 |
| Less: Dividends | 900 |
| Retained earnings, March 31 | $1,650 |

**GEOG CLEANERS**
**Balance Sheet**
**March 31, 2014**

| | | |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash | $6,200 | |
| Accounts receivable | 6,500 | |
| Supplies | 280 | |
| Prepaid insurance | 2,000 | |
| Total current assets | | $14,980 |
| Property, plant, and equipment | | |
| Equipment | 8,000 | |
| Less: Accumulated depreciation—equipment | 250 | 7,750 |
| Total assets | | $22,730 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities | | |
| Accounts payable | $ 5,000 | |
| Salaries and wages payable | 1,080 | |
| Total current liabilities | | $ 6,080 |
| Stockholders' equity | | |
| Common stock | 15,000 | |
| Retained earnings | 1,650 | |
| Total stockholders' equity | | 16,650 |
| Total liabilities and stockholders' equity | | $22,730 |

 

**PROBLEM 4-8B (Continued)**

**(h)**

**General Journal**

| Date | Account Titles and Explanation | Debit | Credit |
| --- | --- | --- | --- |
| Mar. 31 | Service Revenue | 8,100 | |
| | Income Summary | | 8,100 |
| | | | |
| 31 | Income Summary | 5,550 | |
| | Salaries and Wages Expense | | 2,830 |
| | Supplies Expense | | 1,720 |
| | Insurance Expense | | 400 |
| | Maintenance and Repairs Expense | | 350 |
| | Depreciation Expense | | 250 |
| | | | |
| 31 | Income Summary | 2,550 | |
| | Retained Earnings | | 2,550 |
| | | | |
| 31 | Retained Earnings | 900 | |
| | Dividends | | 900 |

**(i)**

**GEOG CLEANERS**
**Post-Closing Trial Balance**
**March 31, 2014**

| | Debit | Credit |
| --- | --- | --- |
| Cash | $ 6,200 | |
| Accounts Receivable | 6,500 | |
| Supplies | 280 | |
| Prepaid Insurance | 2,000 | |
| Equipment | 8,000 | |
| Accumulated Depreciation—Equipment | | $ 250 |
| Accounts Payable | | 5,000 |
| Salaries and Wages Payable | | 1,080 |
| Common Stock | | 15,000 |
| Retained Earnings | | 1,650 |
| | $22,980 | $22,980 |

  

| CCC4 | CONTINUING COOKIE CHRONICLE |
|---|---|

(a)

**General Journal**

| Date | | Account Titles | Debit | Credit |
|---|---|---|---|---|
| Dec. | 1 | No journal entry required. | | |
| | 5 | Cash | 90 | |
| | | Unearned Service Revenue | 60 | |
| | | Service Revenue | | 150 |
| | 8 | Cash | 300 | |
| | | Accounts Receivable | | 300 |
| | 9 | Cash | 750 | |
| | | Unearned Service Revenue | | 750 |
| | 15 | Accounts Payable | 50 | |
| | | Cash | | 50 |
| | 16 | Accounts Payable | 600 | |
| | | Cash | | 600 |
| | 19 | Cash | 60 | |
| | | Unearned Service Revenue | | 60 |
| | 23 | Cash | 3,000 | |
| | | Accounts Receivable | 1,000 | |
| | | Service Revenue | | 4,000 |
| | 23 | Supplies | 1,250 | |
| | | Cash | | 1,250 |
| | 23 | Salaries and Wages Expense | 800 | |
| | | Cash | | 800 |
| | 28 | Dividends | 500 | |
| | | Cash | | 500 |

## CONTINUING COOKIE CHRONICLE (Continued)

(d)

| Date | | Account Titles | Debit | Credit |
|---|---|---|---|---|
| | (1) | | | |
| Dec. | 31 | Supplies Expense | 45 | |
| | | Supplies | | 45 |
| | (2) | | | |
| | 31 | Depreciation Expense ($1,200 ÷ 5 X 2/12) | 40 | |
| | | Accumulated Depreciation— Equipment | | 40 |
| | (3) | | | |
| | 31 | Amortization Expense ($600 ÷ 24) | 25 | |
| | | Website | | 25 |
| | (4) | | | |
| | 31 | Interest Expense ($2,000 X .09 X 1.5/12) | 23 | |
| | | Interest Payable | | 23 |
| | (5) | | | |
| | 31 | Insurance Expense ($1,200 ÷ 12) | 100 | |
| | | Prepaid Insurance | | 100 |
| | (6) | | | |
| | 31 | Accounts Receivable | 450 | |
| | | Service Revenue | | 450 |
| | (7) | | | |
| | 31 | Supplies Expense | 1,025 | |
| | | Supplies | | 1,025 |
| | (8) | | | |
| | 31 | Utilities Expense | 75 | |
| | | Accounts Payable | | 75 |
| | (9) | | | |
| | 31 | Salaries and Wages Expense ($8 X 7) | 56 | |
| | | Salaries and Wages Payable | | 56 |
| | (10) | | | |
| | 31 | Unearned Service Revenue ($750 X 3/5) | 450 | |
| | | Service Revenue | | 450 |

 

## CONTINUING COOKIE CHRONICLE (Continued)

### (b), (d), and (g)

**Cash**

| | | | |
|---|---|---|---|
| 11/30 Bal. | 340 | 12/15 | 50 |
| 12/5 | 90 | 12/16 | 600 |
| 12/8 | 300 | 12/23 | 1,250 |
| 12/9 | 750 | 12/23 | 800 |
| 12/19 | 60 | 12/28 | 500 |
| 12/23 | 3,000 | | |
| 12/31 Bal. | 1,340 | | |

**Accumulated Depreciation—Equipment**

| | | | |
|---|---|---|---|
| | | 12/31 | 40 |
| | | 12/31 Bal. | 40 |

**Website**

| | | | |
|---|---|---|---|
| 11/30 Bal. | 600 | 12/31 | 25 |
| 12/31 Bal. | 575 | | |

**Accounts Receivable**

| | | | |
|---|---|---|---|
| 11/30 Bal. | 300 | 12/8 | 300 |
| 12/23 | 1,000 | | |
| 12/31 | 450 | | |
| 12/31 Bal. | 1,450 | | |

**Accounts Payable**

| | | | |
|---|---|---|---|
| 12/15 | 50 | 11/30 Bal. | 650 |
| 12/16 | 600 | 12/31 | 75 |
| | | 12/31 Bal. | 75 |

**Interest Payable**

| | | | |
|---|---|---|---|
| | | 12/31 | 23 |
| | | 12/31 Bal. | 23 |

**Supplies**

| | | | |
|---|---|---|---|
| 11/30 Bal. | 220 | 12/31 | 45 |
| 12/23 | 1,250 | 12/31 | 1,025 |
| 12/31 Bal. | 400 | | |

**Salaries and Wages Payable**

| | | | |
|---|---|---|---|
| | | 12/31 | 56 |
| | | 12/31 Bal. | 56 |

**Prepaid Insurance**

| | | | |
|---|---|---|---|
| 11/30 Bal. | 1,200 | 12/31 | 100 |
| 12/31 Bal. | 1,100 | | |

**Unearned Service Revenue**

| | | | |
|---|---|---|---|
| 12/5 | 60 | 11/30 Bal. | 60 |
| 12/31 | 450 | 12/9 | 750 |
| | | 12/19 | 60 |
| | | 12/31 Bal. | 360 |

**Equipment**

| | | | |
|---|---|---|---|
| 11/30 Bal. | 1,200 | | |
| 12/31 Bal. | 1,200 | | |

**Notes Payable**

| | | | |
|---|---|---|---|
| | | 11/30 Bal. | 2,000 |
| | | 12/31 Bal. | 2,000 |

 

## CONTINUING COOKIE CHRONICLE (Continued)

**Common Stock**

| | | | |
|---|---|---|---|
| | | 11/30 Bal. | 800 |
| | | 12/31 Bal. | 800 |

**Salaries and Wages Expense**

| | | | |
|---|---|---|---|
| 12/23 | 800 | | |
| 12/31 | 56 | 12/31 | 856 |
| 12/31 Bal. | 0 | | |

**Retained Earnings**

| | | | |
|---|---|---|---|
| 12/31 | 500 | 12/31 | 3,211 |
| | | 12/31 Bal. | 2,711 |

**Supplies Expense**

| | | | |
|---|---|---|---|
| 12/31 | 45 | 12/31 | 1,070 |
| 12/31 | 1,025 | | |
| 12/31 Bal. | 0 | | |

**Dividends**

| | | | |
|---|---|---|---|
| 12/28 | 500 | 12/31 | 500 |
| 12/31 Bal. | 0 | | |

**Depreciation Expense**

| | | | |
|---|---|---|---|
| 12/31 | 40 | 12/31 | 40 |
| 12/31 Bal. | 0 | | |

**Income Summary**

| | | | |
|---|---|---|---|
| 12/31 | 2,239 | 12/31 | 5,450 |
| 12/31 | 3,211 | | |
| | | 12/31 Bal. | 0 |

**Interest Expense**

| | | | |
|---|---|---|---|
| 12/31 | 23 | 12/31 | 23 |
| 12/31 Bal. | 0 | | |

**Service Revenue**

| | | | |
|---|---|---|---|
| | | 11/30 Bal. | 400 |
| | | 12/5 | 150 |
| | | 12/23 | 4,000 |
| | | 12/31 | 450 |
| 12/31 | 5,450 | 12/31 | 450 |
| | | 12/31 Bal. | 0 |

**Insurance Expense**

| | | | |
|---|---|---|---|
| 12/31 | 100 | 12/31 | 100 |
| 12/31 Bal. | 0 | | |

**Amortization Expense**

| | | | |
|---|---|---|---|
| 12/31 | 25 | 12/31 | 25 |
| 12/31 Bal. | 0 | | |

**Utilities Expense**

| | | | |
|---|---|---|---|
| 11/30 Bal. | 50 | | |
| 12/31 | 75 | 12/31 | 125 |
| 12/31 Bal. | 0 | | |

**(c)**

**COOKIE CREATIONS INC.**
**Trial Balance**
**December 31, 2014**

| | Debit | Credit |
|---|---|---|
| Cash | $1,340 | |
| Accounts Receivable | 1,000 | |
| Supplies | 1,470 | |
| Prepaid Insurance | 1,200 | |
| Equipment | 1,200 | |
| Website | 600 | |
| Unearned Service Revenue | | 810 |
| Notes Payable | | 2,000 |
| Common Stock | | 800 |
| Dividends | 500 | |
| Service Revenue | | 4,550 |
| Utilities Expense | 50 | |
| Salaries and Wages Expense | 800 | |
| | $8,160 | $8,160 |

(e)

**COOKIE CREATIONS INC.**
**Adjusted Trial Balance**
**December 31, 2014**

| | Debit | Credit |
|---|---|---|
| Cash | $1,340 | |
| Accounts Receivable | 1,450 | |
| Supplies | 400 | |
| Prepaid Insurance | 1,100 | |
| Equipment | 1,200 | |
| Accumulated Depreciation—Equipment | | $ 40 |
| Website | 575 | |
| Accounts Payable | | 75 |
| Salaries and Wages Payable | | 56 |
| Unearned Service Revenue | | 360 |
| Notes Payable | | 2,000 |
| Interest Payable | | 23 |
| Common Stock | | 800 |
| Dividends | 500 | |
| Service Revenue | | 5,450 |
| Utilities Expense | 125 | |
| Salaries and Wages Expense | 856 | |
| Supplies Expense | 1,070 | |
| Depreciation Expense | 40 | |
| Amortization Expense | 25 | |
| Interest Expense | 23 | |
| Insurance Expense | 100 | |
| | $8,804 | $8,804 |

  

## CONTINUING COOKIE CHRONICLE (Continued)

(f)

**COOKIE CREATIONS INC.**
**Income Statement**
**For the Two Months Ended December 31, 2014**

| | | |
|---|---|---|
| **Revenue** | | |
| Service revenue | | $5,450 |
| **Operating expenses** | | |
| Supplies expense | $1,070 | |
| Salaries and wages expense | 856 | |
| Utilities expense | 125 | |
| Insurance expense | 100 | |
| Depreciation expense | 40 | |
| Amortization expense | 25 | |
| Interest expense | 23 | |
| Total operating expenses | | 2,239 |
| **Net income** | | $3,211 |

**COOKIE CREATIONS INC.**
**Retained Earnings Statement**
**For the Two Months Ended December 31, 2014**

| | |
|---|---|
| Retained earnings, November 1 | $ 0 |
| Add: Net income | 3,211 |
| | 3,211 |
| Less: Dividends | 500 |
| Retained earnings, December 31 | $2,711 |

**COOKIE CREATIONS INC.**
**Balance Sheet**
**December 31, 2014**

| | | |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash | $1,340 | |
| Accounts receivable | 1,450 | |
| Supplies | 400 | |
| Prepaid insurance | 1,100 | |
| Total current assets | | $4,290 |
| **Property, plant and equipment** | | |
| Equipment | 1,200 | |
| Less: Accumulated depr.—equip | 40 | 1,160 |
| **Intangible assets** | | |
| Website | | 575 |
| **Total assets** | | $6,025 |
| **Liabilities and Stockholders' Equity** | | |
| **Current liabilities** | | |
| Accounts payable | $ 75 | |
| Unearned service revenue | 360 | |
| Salaries and wages payable | 56 | |
| Total current liabilities | | $ 491 |
| **Long-term liabilities** | | |
| Notes payable | 2,000 | |
| Interest payable | 23 | 2,023 |
| Total liabilities | | 2,514 |
| **Stockholders' equity** | | |
| Common stock | 800 | |
| Retained earnings | 2,711 | |
| Total stockholders' equity | | 3,511 |
| Total liabilities and stockholders' equity | | $6,025 |

 

| | | | | |
|---|---|---|---|---|
| (g) | 31 | Service Revenue | 5,450 | |
| | | Income Summary | | 5,450 |
| | | | | |
| | 31 | Income Summary | 2,239 | |
| | | Supplies Expense | | 1,070 |
| | | Salaries and Wages Expense | | 856 |
| | | Utilities Expense | | 125 |
| | | Insurance Expense | | 100 |
| | | Depreciation Expense | | 40 |
| | | Amortization Expense | | 25 |
| | | Interest Expense | | 23 |
| | | | | |
| | 31 | Income Summary | 3,211 | |
| | | Retained Earnings | | 3,211 |
| | | | | |
| | 31 | Retained Earnings | 500 | |
| | | Dividends | | 500 |

(h)

**COOKIE CREATIONS INC.**
**Post-Closing Trial Balance**
**December 31, 2014**

| | Debit | Credit |
|---|---|---|
| Cash | $1,340 | |
| Accounts Receivable | 1,450 | |
| Supplies | 400 | |
| Prepaid Insurance | 1,100 | |
| Equipment | 1,200 | |
| Accumulated Depr.—Equip. | | $ 40 |
| Website | 575 | |
| Accounts Payable | | 75 |
| Salaries and Wages Payable | | 56 |
| Unearned Service Revenue | | 360 |
| Notes Payable | | 2,000 |
| Interest Payable | | 23 |
| Common Stock | | 800 |
| Retained Earnings | | 2,711 |
| | $6,065 | $6,065 |

## BYP 4-1 FINANCIAL REPORTING PROBLEM

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

**a. Prepaid expenses.**
**b. Accumulated depreciation.**

**(b) Accrual adjusting entries are often made for other income (i.e., interest) and provision for income taxes (income tax expense), as well as interest expense on bank loans and bonds.**

**(c) Depreciation expense was $19,229,000 in 2011 and $18,279,000 in 2010. Accumulated depreciation was reported in the balance sheet as a deduction from total Property, Plant, and Equipment, at cost.**

**(d) The statement of cash flows (at the bottom) reports income taxes paid in 2011 of $16,906,000. The income statement reports income tax expense of $16,974,000.**

  

## BYP 4-2 COMPARATIVE ANALYSIS PROBLEM

**Accounts that provide evidence of the use of accrual accounting are:**

| Balance Sheet | Income Statement |
|---|---|
| **(a) Hershey Company** | |
| 1. Accounts receivable—trade | 1. Sales |
| 2. Prepaid expenses | 2. Insurance (or supplies) expense |
| 3. Accrued income taxes | 3. Income tax expense |
| 4. Accrued liabilities | 4. Miscellaneous expense |
| **(b) Tootsie Roll** | |
| 1. Prepaid expenses | 1. Insurance (or supplies) expense |
| 2. Accumulated depreciation | 2. Depreciation expense |
| 3. Accounts receivable—trade | 3. Sales |
| 4. Accrued liabilities | 4. Miscellaneous expense |
| 5. Deferred income taxes and Liability for uncertain tax positions | 5. Income tax expense |

## BYP 4-3 RESEARCH CASE

**(a) They recalculated earnings per share to the 1/10 cent, rather than to the penny, for nearly 500,000 earnings reports. In doing this, they determined that the number of times that the digits 2, 3 or 4 appeared in the 1/10th place was significantly lower than what should occur. (Each of these digits should appear 10 percent of the time.)**

**(b) The average company in the study would boost its earnings per share by 1/10 of a cent if it increased net income by $31,000.**

**(c) The authors cite adjustments to inventory valuation, or adjustments made to the company's estimate of how many of its accounts receivable will go bad as examples of items that could be easily adjusted to achieve higher earnings. Adjustments such as these involve considerable judgment. That is, reasonable people could easily disagree about the value of inventory, or the likelihood that customers won't pay amounts that are owed. As a consequence, as long as the adjustments can be defended as being reasonable, they aren't considered to be illegal.**

**(d) An earnings restatement occurs when a company is required to issue new financial statements because those that were originally issued were considered to be in error. The authors found that companies that were required to restate earnings or were charged with accounting violations were also less likely to have a 4 in the 1/10th place. This would suggest that they were more likely to engage in earnings management in order to be able to round up to the next highest cent.**

**(e) It is suggested in the article that in the stock market, if a company misses its estimated earnings per share number, even by a penny, its stock price can decline significantly. Similarly, if it exceeds the estimated earnings per share number, even it is only a penny, its stock price can increase significantly.**

## BYP 4-4 INTERPRETING FINANCIAL STATEMENTS

**LASER RECORDING SYSTEMS**

**(a)** **Laser Recording is handling legal expense via an accrued expense adjustment. This is explained by the fact that accrued professional services increased during the year.**

**(b)** **Each of the three adjustments is an accrued expense adjustment. Since this type of adjustment increases expenses, net income is decreased by each adjustment.**

**(c)** **In recording accrued interest, Laser Recording debited Interest Expense and credited Interest Payable.**

 

## BYP 4-5 REAL-WORLD FOCUS

(a) The SEC was created by Congress after the stock market crash of 1929. The SEC was created to restore investor confidence in our capital markets by providing more structure and government oversight.

(b) Division of Corporation Finance. The Division of Corporation Finance oversees corporate disclosure of important information to the investing public. Corporations are required to comply with regulations pertaining to disclosure that must be made when stock is initially sold and then on a continuing and periodic basis. The Division's staff routinely reviews the disclosure documents filed by companies. The staff also provides companies with assistance interpreting the Commission's rules and recommends to the Commission new rules for adoption.

Division of Trading and Markets. The Division of Trading and Markets establishes and maintains standards for fair, orderly, and efficient markets. It does this primarily by regulating the major securities market participants: broker-dealer firms; self-regulatory organizations (SROs), which include the stock exchanges and the National Association of Securities Dealers (NASD), Municipal Securities Rulemaking Board (MSRB), and clearing agencies (SROs that help facilitate trade settlement); transfer agents (parties that maintain records of stock and bond owners); and securities information processors. (A self-regulatory organization is a member organization that creates and enforces rules for its members based on the federal securities laws. SROs, which are overseen by the SEC, are the front line in regulating broker-dealers.)

Division of Investment Management. The Division of Investment Management oversees and regulates the $15 trillion investment management industry and administers the securities laws affecting investment companies (including mutual funds) and investment advisers. In applying the federal securities laws to this industry, the Division works to improve disclosure and minimize risk for investors without imposing undue costs on regulated entities.

Division of Enforcement. The Division of Enforcement investigates possible violations of securities laws, recommends Commission action when appropriate, either in a federal court or before an administrative law judge, and negotiates settlements on behalf of the Commission. While the SEC has civil enforcement authority only, it works closely with various criminal law enforcement agencies throughout the country to develop and bring criminal cases when the misconduct warrants more severe action.

Division of Risk, Strategy, and Financial Innovation Overview. The Division of Risk, Strategy, and Financial Innovation (RSFI) was created in September 2009 to intergrate financial economics and rigorous data analytics into the core mission of the SEC. The Division is involved across the entire range of SEC activities, including policy-making, rule-making, enforcement, and examination. As the agency's "think tank," RSFI relies on a variety of academic disciplines, quantitative and non-quantitative approaches, and knowledge of market institutions and practices to help the Commission approach complex matters in a fresh light. RSFI also assists in the Commission's efforts to identify, analyze, and respond to risks and trends, including those associated with new financial products and strategies. Through the range and nature of its activities, RSFI serves the critical function of promoting collaborative efforts throughout the agency and breaking through silos that might otherwise limit the impact of the agency's institutional expertise.

(c) The Chief Accountant is the principal adviser to the Commission on accounting and auditing matters. The Office of the Chief Accountant also works closely with domestic and international private-sector accounting and auditing standards-setting bodies (e.g., the Financial Accounting Standards Board, the International Accounting Standards Board, the American Institute of Certified Public Accountants, and the Public Company Accounting Oversight Board), consults with registrants, auditors, and other Commission staff regarding the application of accounting standards and financial disclosure requirements, and assists in addressing problems that may warrant enforcement actions.

## BYP 4-6 GROUP DECISION CASE

(a)

**LINCOLN PARK**
**Income Statement**
**For the Quarter Ended March 31, 2014**

| | | |
|---|---|---|
| **Revenues** | | |
| Rent revenue ($83,000 – $21,000) ................ | | $62,000 |
| **Expenses** | | |
| Salaries and wages expense | | |
| [$27,600 + ($290 X 3)]............................ | $28,470 | |
| Advertising expense ($4,200 + $110).......... | 4,310 | |
| Supplies expense ($4,500 – $600)................ | 3,900 | |
| Maintenance and repairs expense | | |
| ($2,800 + $1,040) .................................... | 3,840 | |
| Insurance expense ($7,200 X 3/12) ............. | 1,800 | |
| Utilities expense ($1,500 + $240)................. | 1,740 | |
| Depreciation expense .................................. | 800 | |
| Interest expense ($20,000 X 7% X 3/12)....... | 350 | |
| Total expenses....................................... | | 45,210 |
| Net income.............................................................. | | $16,790 |

(b) The generally accepted accounting principles pertaining to the income statement that were not recognized by Judy were the revenue recognition principle and the expense recognition principle. The revenue recognition principle states that revenue is recognized when the performance obligation is satisfied. The revenue of $21,000 for summer rentals has not been recognized and, therefore, should not be reported in income for the quarter ended March 31. The expense recognition principle dictates that efforts (expenses) be matched with results (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 $8,310 ($45,210 – $36,900). The overstatement of revenues ($21,000) plus the understatement of expenses ($8,310) equals the difference in reported income of $29,310 ($46,100 – $16,790).

  

## BYP 4-7 COMMUNICATION ACTIVITY

**(a)** **Accrual-basis accounting records the events that change an entity's financial statements in the periods in which the events occur, rather than in the periods in which the entity 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 results in 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. Currently, the federal government is facing a huge budget deficit. 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 accounting 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 because 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**

 

## BYP 4-8 ETHICS CASE

(a) The stakeholders in this situation are:

- Mark Trane, controller.
- The president of Eaton Company.
- Company stockholders and potential stockholders.

(b) 1. It is unethical for the president to place pressure on Mark to misstate net income by requesting him 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. Mark did nothing unethical by dating the adjusting entries December 31.

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

  

## BYP 4-9 ALL ABOUT YOU ACTIVITY

**The following is a personal balance sheet using the classified presentation. Note that the earnings from the part-time job as well as the tuition costs are not listed since neither of those items is an asset, liability, or equity item.**

**Assets**

| | | |
|---|---|---|
| **Current assets** | | |
| Cash | $1,200 | |
| Money market account | 1,800 | |
| Certificate of deposit | 3,000 | |
| Accounts receivable from brother | 300 | |
| Total current assets | | $ 6,300 |
| **Property, plant, and equipment** | | |
| Automobile | 7,000 | |
| Video and stereo equipment | 1,250 | |
| Home computer | 800 | 9,050 |
| Total assets | | $15,350 |

**Liabilities and Owner's Equity**

| | | |
|---|---|---|
| **Current liabilities** | | |
| Current portion of automobile loan | $1,500 | |
| Current portion of credit card payable | 150 | |
| Total current liabilities | | $ 1,650 |
| **Long-term liabilities** | | |
| Student loan | 5,000 | |
| Automobile loan | 4,000 | |
| Credit card payable | 1,650 | |
| Total long-term liabilities | | 10,650 |
| Total liabilities | | 12,300 |
| **Equity** | | |
| M. Y. Own, Capital ($15,350 – $12,300) | | 3,050 |
| Total liabilities and equity | | $15,350 |

## BYP 4-10 FASB CODIFICATION ACTIVITY

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

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

  

## IFRS CONCEPTS AND APPLICATION

### IFRS4-1

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

**GAAP has more than 100 rules dealing with revenue recognition while IFRS uses a single standard. Under IFRS, revenue recognition is based on the probability that the economic benefits associated with the transaction will flow to the company and the revenues and costs must be capable of being measured reliably. GAAP states that revenue is recognized when it is realized or realizable and earned.**

### IFRS4-2

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

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

## IFRS 4-3 INTERNATIONAL FINANCIAL REPORTING PROBLEM

**(a) Note 3.7 indicates that revenue is measured as the fair value of consideration received or receivable for the goods sold less any discounts or rebates.**

**(b) Note 3.7 states that a sale occurs when the goods sold are delivered to a customer and title to the goods passes to the buyer.**

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

**(d) Zetar Plc could have adjustments for accruals such as:**
**Finance costs (interest expense) and Finance income (interest revenue).**