CHAPTER 3
ADJUSTING THE ACCOUNTS

Objectives: After studying this chapter, you should be able to:
. Explain the time period assumption.
. Explain the accrual basis of accounting.
. Explain the reasons for adjusting entries.
. Identify the major types of adjusting entries.
. Prepare adjusting entries for deferrals and accruals.
. Describe the nature and purpose of an adjusted trial balance.

Timing Issues

The economic life of a business is divided into artificial time periods which is referred to as the time period assumption.
The **time period assumption** states that the life of a business can be divided into equal time periods. These time periods are known as accounting periods for which companies prepare their financial statements to be used by various internal and external parties.

The length of accounting period to be used for the preparation of financial statements depends on the nature and requirement of each business as well as the need of the users of financial statements.

Fiscal and Calendar Years

Accounting time periods are generally a month, a quarter, or a year. Monthly and quarterly time periods are called **interim periods**. Most large companies must prepare both quarterly and annual financial statements.
An accounting time period that is **one year in length is a fiscal year**. A fiscal year usually begins with the first day of a month and ends 12 months later on the last day of a month. Most businesses use the calendar year January1 to December31 as their accounting period.

Accrual-Basis Accounting

- Transactions are recorded in the **periods in which the events occur**.
- **Revenues** are recognized when the **services are performed**, rather than when cash is received.
- **Expenses** are recognized when **incurred**, rather than when paid.

Recognizing Revenues and Expenses

It can be difficult to determine when to report revenues and expenses. The revenue recognition principle and the expense recognition principle help in this task.

Revenue Recognition Principle

The accounting guideline requiring that revenues be shown on the income statement in the period in which they are earned, not in the period when the cash is collected. This is part of the accrual basis of accounting. In a **service enterprise**, revenue is considered to be earned at the time the **service is performed**.

Expense Recognition Principle

The expense recognition principle states that expenses should be recognized in the same period as the revenues to which they relate.
It dictates that expenses be matched with revenues in the period when the company makes efforts to generate those revenues. **"Let the expenses follow the revenues."**

Adjusting Entries

Adjusting entries ensure that the revenue recognition and expense recognition principles are followed. **Adjusting entries are necessary because the trial balance may not contain up-to-date and complete data.** This is true for several reasons.

1. Some events are not recorded daily because it is not efficient to do so.
2. Some costs are not recorded during the accounting period because these costs expire with the passage of time rather than as a result of recurring daily transactions.
3. Some items may be unrecorded.

Adjusting entries are required every time a company prepares financial statements.
Every adjusting entry will include one income statement account and one statement of financial position account.

TYPES OF ADJUSTING ENTRIES
Adjusting entries are classified as either deferrals or accruals.

Deferrals:
1. Prepaid expenses: Expenses paid in cash before they are used or consumed.
2. Unearned Revenues: Cash received before services are performed.

Accruals:
1. Accrued Revenues: Revenues for services performed but not yet received in cash or recorded.
2. Accrued expenses: Expenses incurred but not yet paid in cash or recorded.

Adjusting Entries for Deferrals

PREPAID EXPENSES
- When companies record payments of expenses that will benefit more than one accounting period, they record an asset called prepaid expenses or prepayments.
- When expenses are prepaid, an asset account is increased to show the service or benefit that the company will receive in the future.
- Prepaid expenses are costs that expire either with the passage of time or through use.
- Adjusting entries are required to record the expenses applicable to the current accounting period and to show the remaining amounts in the asset accounts.

Prepayments occur in regard to; insurance, supplies, rent, advertising, building, equipment

<u>Adjusting entry:</u>

	Expense (Find the answer for debit account)	xxx	
	Prepaid Expense		xxx

Illustration: On Oct 1, 2019, paid $12,000 for one-year rent. Accounting period is one year, 20xx.
<u>Journal Entry</u>:

Oct 1	Prepaid Rent	12,000	
	Cash		12,000

On Dec31, 3 months expenses have been incurred. Therefore,
<u>Adjusting Entry</u>:

Dec31	Rent Expense	3,000	
	Prepaid Rent		3,000

SUPPLIES
- The purchase of supplies results in an increase to an asset account.
- During the accounting period, the company uses supplies. Rather than record supplies expense as the supplies are used, companies recognize supplies expense at the end of the accounting period.
- At the end of the accounting period, the company counts the remaining supplies.
- The difference between the unadjusted balance in the Supplies account and the actual cost of supplies on hand represents the supplies used for the period.

Adjusting entry:

	Supplies Expense (Find the answer for debit account)	xxx	
	Supplies		xxx

Illustration: Pollamer Agency purchased supplies costing $2,500 on October 1.

Journal Entry:

Oct 1	Supplies	2,500	
	Cash		2,500

An inventory count at the close of business on October 31 reveals that **$ 1,000** of supplies is still on hand.

Adjusting Entry:

Oct 31	Supplies Expense	1,500	
	Supplies		1,500

Depreciation

- Buildings, equipment, and vehicles (assets with long lives) are recorded as assets, rather than an expense, in the year acquired.
- The loss in the value of a non-current asset (fixed asset) due to its continuous use and old age is termed as depreciation.
- In accounting principles, depreciation allocates a portion of the asset's cost as an expense during each period of the asset's useful life.

Book value= Original cost- Accumulated. Depreciation
(The value at which an asset is carried on the statement of financial position)

Adjusting entry:

	Depreciation Expense	xxx	
	Accumulated Depreciation		xxx

Illustration: For Pollamar Agency, assume that depreciation on the equipment is $480 a year, or $40 per month.

Adjusting entry:

Oct 31	Depreciation Expense	40	
	Accumulated Depreciation-Equipment		40

{Note: Accumulated Depreciation is called a contra asset account}

DEPRECIATION METHODS:

Depreciation is computed using one of the following methods:

1. Straight Line Method
2. Units- of- Activity Method
3. Declining Balance Method

Important Note: ***If an asset is used for few months in the year of purchase*****, compute depreciation only for those months (no. of months used/ 12).**

{If an asset is used for less than 15 days in the month of purchase, do not count that month for calculating depreciation.}

Straight-Line Method

- To compute depreciation, companies need to determine depreciable cost. Depreciable cost is the cost of the asset less its residual value.

Formula:

(Cost – Residual Value) ÷ Estimated useful life (in years)

Illustration: A truck was purchased by Minbin Co on January1, 20xx.

Cost	$13,000
Expected Residual Value	$1,000
Estimated useful life in years	5
Estimated useful life in miles	100,000

Depreciable cost is 13,000 – 1,000 = $12,000
Annual depreciation expense is 12,000÷5 = $2,400

Units-of-Activity Method

- ❖ Under this method, useful life is expressed in terms of the total units of production or use expected from the asset. It is used for those assets with production capacity. Example, Factory Machinery

Formula:
{(Cost- Residual Value) ÷ Estimated Useful Life (in miles)} × Units of Activity during the year

Assume actual miles the truck was driven in the first year was 15,000 miles.

Depreciable cost per unit is (13,000-1,000) ÷100,000 = $0.12,
Annual depreciation expense is $0.12 ×15,000 miles = $1,800

Declining-Balance Method

- ❖ This method produces a decreasing annual depreciation expense over the asset's useful life.
- ❖ Unlike other depreciation methods, the declining balance method does not use depreciable cost in computing annual depreciation expense. That is, it ignores residual value.
- ❖ Depreciation expense is computed on the book value of the asset.
- ❖ A common declining-balance rate is double the straight-line rate. The method is often called the double-declining-balance method.

Formula:
Book Value at beginning of year × Declining-balance rate = Annual depreciation expense

OR

(Cost – Accumulated depreciation) × $\frac{2}{\text{Useful Life}}$

Year 1 = (13,000 – 0) × $\frac{2}{5}$ = $5,200

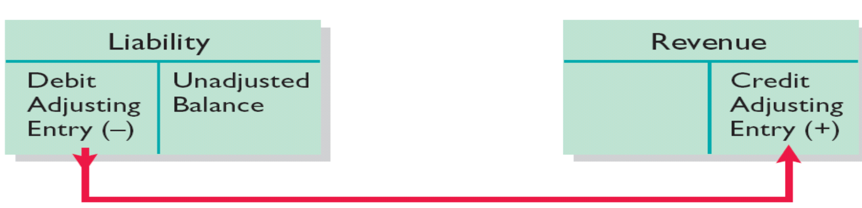
Year 2= (13,000-5,200) × $\frac{2}{5}$ = $3,120

Year 3= (13,000-8,320) × $\frac{2}{5}$ = $1,872

UNEARNED REVENUE

- o When companies receive cash before services are performed, they record a liability called unearned revenue.
- o The company subsequently recognizes revenues when it performs the service. During the accounting period, it is not practical to make daily entries as the company provides services. Instead, the company delays recognition of revenue until the adjustment process.
- o Then, the company makes an adjusting entry to record the revenue for services performed during the period and to show the liability that remains at the end of the accounting period. The adjusting entry for unearned revenues results in a decrease to a liability account and an increase to a revenue account.

Unearned Revenues



Adjusting entry:

	Unearned Revenue	xxx	
	Revenue (Find the answer for the credit account)		xxx

Illustration: Pollamar Agency received $1,200 on October 1 from Nano for advertising services expected to be completed by December 31. Unearned Service Revenue shows a balance of $1,200 in the October 31, trial balance. Analysis reveals that the company earned $ 400 of those fees in October. Accounting period is one month that is October.

Adjusting entry:

Oct 31	Unearned Service Revenue	400	
	Service Revenue		400

Illustration: On Nov. 1, 20xx, received $3,000 in advance for one year from a customer for services to be rendered in the future. Accounting period is one year, 20xx.

Journal Entry:

Nov 1	Cash	3,000	
	Unearned Revenue		3,000

On Dec. 31, 2 months revenue has been earned. Therefore,

Adjusting Entry:

Dec 31	Unearned Revenue	500	
	Service Revenue		500

Adjusting Entries for Accruals

Accruals are made to record

- Revenues for services performed
  OR
- Expenses incurred

in the current accounting period that have not been recognized through daily entries.

ACCRUED REVENUE

- Revenues for services performed but not yet recorded at the statement date are accrued revenues.
- Accrued revenues may accumulate with the passing of time, as in the case of interest revenue. These are unrecorded because the earning of interest does not involve daily transactions.
- Companies do not record interest revenues on a daily basis because it is often impractical to do so.
- Accrued revenues also may result from services that have been performed but not yet billed or collected, as in the case of commissions and fees.

An adjusting entry for accrued revenues results in an increase to an asset account and an increase to a revenue account.

Adjusting entry:

Dec 31	Receivable	xxx	
	Revenue		xxx

Illustration: On October 31, Pollamar Agency recognized $200 for advertising services performed but not recorded (received cash). (Accounting period is one month, October)

Adjusting entry

Oct 31	Accounts Receivable	200	
	Service Revenue		200

ACCRUED EXPENSES

- Expenses incurred but not yet paid or recorded at the statement date are called accrued expenses. Interest, taxes and salaries are common examples of accrued expenses.
- Companies make adjustments for accrued expenses to record the obligations that exist at the statement of financial position date and to recognize the expenses that apply to the current accounting period.

An adjusting entry for accrued expenses results in an increase to an expense account and an increase to a liability account.

<u>Adjusting entry</u>

Dec 31	Expense	xxx	
	Payable		xxx

Illustration: October 31, accrued salaries are calculated to be $1,200.
Accounting period is month of October.

<u>Adjusting entry</u>

Oct 31	Salaries Expense	1,200	
	Salaries Payable		1,200

Illustration: Pollamar Advertising signed a three-month note payable in the amount of $5,000 on October 1. Accounting period is the month of October. The note requires Pollamar to pay interest at an annual rate of 12%.

Face Value of Note	×	Annual Interest Rate	×	Time in Terms of one year	=	Interest
$ 5,000	×	12%	×	1/12	=	$ 50

<u>Adjusting entry</u>

Oct 31	Interest Expense	50	
	Interest Payable		50

<u>ACCRUED INTEREST</u>

Accrued Interest on a Notes Receivable is recorded as:

<u>Adjusting entry</u>

Dec31:	Interest Receivable	xxx	
	Interest Revenue		xxx

Accrued Interest on a Notes Payable is recorded as:

<u>Adjusting entry</u>

Dec 31:	Interest Expense	xxx	
	Interest Payable		xxx

Type of adjustment	**Accounts before adjustment**	**Adjusting entry**
Prepaid expense	**Assets overstated** **Expense understated**	**Dr. Expenses** **Cr. Assets** **Or Contra asset**
Unearned revenue	**Liabilities overstated** **Revenue understated**	**Dr. Liabilities** **Cr. Revenues**

Accrued revenue	**Assets understated** **Revenues understated**	**Dr. Assets** **Cr. Revenues**
Accrued expenses	**Expenses understated** **Liabilities understated**	**Dr. Expenses** **Cr. Liabilities**

The Adjusted Trial Balance

- Prepared **after all adjusting entries** are journalized and posted.
- Purpose is to **prove the equality** of debit balances and credit balances in the ledger.
- It is the **primary basis** for the preparation of financial statements

Financial Statements are prepared directly from the **Adjusted Trial Balance**

Pollamer Agency Inc.
Adjusted Trial Balance
October 31, 20xx

Account	Debit	Credit
Cash	$ 15,200	
Accounts receivable	200	
Supplies	1,000	
Prepaid insurance	550	
Equipment	5,000	
Accum depre – Equipment		40
Notes payable		5,000
Accounts payable		2,500
Interest payable		50
Unearned service revenue		800
Salaries Payable		1,200
Share Capital- Ordinary		10,000
Retained earnings		0
Dividends	500	
Service revenue	10,600	
Salaries expense	5,200	
Supplies expense	1,500	
Rent expense	900	
Insurance expense	50	
Interest expense	50	
Depreciation expense	40	
	$30,190	$30,190

Pollamer Agency Inc
Income statement
For the month ended October 31, 20xx

Revenue		
Service revenue		$ 10,600
Expenses		
Salaries expense	5,200	
Supplies expense	1,500	
Rent expense	900	
Insurance expense	50	
Interest expense	50	
Depreciation expense	40	
Total expenses		7,740
Net Income		$ 2,860

Pollamer Agency Inc.
Retained Earnings Statement
For the month ended October 31, 20xx

Retained Earnings, October 1	0
Add: Net Income	2,860
	2,860
Less: Dividends	500
Retained Earnings , October 31	$ 2,360

{Note: $ 2,360 will go to Statement of Financial Position}

SUMMARY OF THE ADJUSTING ENTRIES:

Date	Account Name	Debit	Credit
1.	Prepaid Expense		
	(…………….) Expense	XX	
	Prepaid (…………)		XX
2.	Supplies		
	Supplies expense	XX	
	Supplies		XX
3.	Unearned Revenue		
	Unearned Service Revenue	XX	
	Service Revenue		XX
4.	Accrued Revenue		
	(………..) Receivable	XX	
	(……….) Revenue		XX
5.	Accrued Expense		
	(…………) Expense	XX	
	(……..…) Payable		XX
6.	Depreciation Expense	XX	
	Accumulated Depreciation		XX

EXERCISES

Exercise.1

On October 1, 2018, Goody Company collected $3,000 for 3 months for services they will have to complete by December 31, 2018. Compute the amount they have earned at the end of November, 2018, end of one-month accounting period and record the adjusting entry on that date.

Date	Account Title	Debit	Credit

Exercise.2

Rachel Company bought a machine for $100,000. Salvage value is $4,000. Rachel estimates that the useful life of the machine is 150,000 units. The actual usage for the first year is 20,000 units. Rachel uses the units-of-activity method. Record the adjusting to record the depreciation expense for the first year.

Date	Account Title	Debit	Credit

Exercise.3

Freddy Advertising signed a 3- month note payable in the amount of $7,000 on October 1. The note requires Freddy to pay interest at an annual rate of 15%. Record the adjusting entry for the accrued amount on October 31.

Date	Account Title	Debit	Credit

Exercise.4

Kruger Co uses the straight-line method to record deprecation for their machine which costs $15,000, which has a useful life of 5 years and an expected salvage value of $2,000. The machine is expected to be used for 10,000 working hours during its 5- year life. Record the adjusting entry for depreciation expense for the first year.

Date	Account Title	Debit	Credit

Exercise.5

Dooty Company bought a delivery truck for $80,000. Dooty estimates that the useful life of the truck is 4 years with a $5,000 salvage value remaining at the end of that time period. Dooty uses the double-declining balance method. Record the adjusting entry for depreciation expense at the end of the third year.

Date	Account Title	Debit	Credit

Exercise.6

PSC Company purchased a car on **July 1, 2018** at a cost of $ 20,000 with an estimated residual value of $1,500 and useful life of 5 years. Prepare the adjusting entry for Depreciation Expense at the end of December **31, 2019** using Double-Declining Balance method.

Date	Account Title	Debit	Credit

Exercise.7

Prepare adjusting entries for the following independent situations. Assume one-year accounting period.

1) The balance in the supplies account before adjustment shows a balance of $800. An inventory count indicates that supplies costing $100 are on hand at the end of the one- year accounting period. Prepare the necessary adjusting entry at year end.
2) Northern Airlines Company has a balance of $300,000 in the unearned revenue account at the end of the one- year accounting period. Cancelled ticket information indicates that $200,000 of this $300,000 has been earned. Prepare the necessary adjusting entry.
3) The company received a 10%, 9 months note of $12,000 from a customer on May 1, 2018. Adjust the accrued interest on this note on December 31, 2018.
4) On January 1, 2018, Kamamura Corporation paid $12,000 for a 3-year insurance contract. Prepare the adjusting entry at December 31, 2018, if Kamamura Corporation uses one-year accounting period.
5) Rendered services to customers for $750 but was unbilled at December 31, 2018. Prepare the necessary adjusting entry on this date.
6) Accrued salaries incurred but not yet paid at the end of the current accounting year is $400.

Date	Account Title	Debit	Credit

PROBLEMS

Problem 3-1:

Yilmaz Corporation encounters the following situations.

1. Yilmaz collects $1,750 from a customer in 2017 for services to be performed in 2018.
2. Yilmaz incurs utility expense $100 which is not yet paid in cash or recorded.
3. Yilmaz employees worked 3 days in 2017 but will not be paid until 2018.
4. Yilmaz provides services for a customer but has not yet received cash or recorded the transaction.
5. Yilamaz paid $2,400 rent on December 1 for the 4 months starting December 1.
6. Yilmaz received cash $1,000 for future services and recorded a liability until the service was performed.
7. Yilmaz performed consulting services for a client in December 2017. On December 31, it had not billed the client for services provided of $1,200.
8. Yilmaz paid cash $200 for an expense and recorded as an asset until the item was used up.
9. Yilmaz purchased $750 of supplies in 2017; at year end, $400 of supplies remain unused.
10. Yilmaz purchased equipment on January 1, 2017; the equipment will be used for 5 years.
11. Yilmaz borrowed $10,000 on October1, 2017; signing an 8% one-year note payable.

Instructions:
Identify what type of adjusting entry is needed in each situation at December31, 2017.

1	
2	
3	
4	
5	
6	
7	
8	
9	
10	
11	

Problem 3-2:

The ledger of Venessa Rental Agencies on March 31 of the current year includes the selected accounts, shown below, before adjusting entries have been prepared.

	Debit	Credit
Prepaid Insurance	$3,600	
Supplies	2,800	
Equipment	25,000	
Accumulated depreciation-equipment		$8,400
Notes Payable		20,000
Unearned Rent Revenue		9,900
Rent Revenue		60,000
Interest Expense	..0..	
Salaries & Wages Expense	14,000	

An analysis of the accounts shows the following.

1. The equipment depreciates $300 per month.
2. One-third of the unearned rent revenue was recognized during the quarter.
3. Interest of $500 is accrued on the notes payable.
4. Supplies on hand total $650.
5. Insurance expires at the rate of $200 per month.

Instructions:
Prepare the adjusting entries at March 31, assuming that adjusting entries are made quarterly. Additional accounts are Depreciation expense, Insurance expense, Interest Payable and Supplies Expense.

Date	Account title	Debit	Credit

Problem 3-3:
Samanta Company purchased a new machine on October 1, 2019, at a cost of $96,000. The company estimated that the machine will have a residual value of $12,000. The machine is expected to be used for 10,000 working hours during its 5-year life.

Instructions:
Compute the depreciation expense under the following methods for the year indicated.
(a) Straight-line for 2019.
(b) Units-of-activity for 2019, assuming machine usage was 1,700 hours.
(c) Declining-balance using double the straight-line rate for 2019 and 2020.

a)
b)
c)

Problem 3-4:
Tigger Company purchased a delivery truck for $36,000 on January 1, 2019. The truck has an expected residual value of $6,000, and is expected to be driven 100,000 miles over its estimated useful life of 8 years. Actual miles driven were 15,000 in 2019 and 12,000 in 2020.

Instructions
(a) Compute depreciation expense for 2019 and 2020 using (1) the straight-line method, (2) the units-of-activity method, and (3) the double-declining balance method.

(b) Assuming that Tigger uses the straight-line method. (1) Prepare the journal entry to record 2019 depreciation. (2) Show how the truck would be reported in the December 31, 2019, statement of financial position.

a)

1)
2)
3)

b)

1)			
2)			

Problem 3-5:
Prepare the adjusting entries for the following independent cases.
Every case uses **one month accounting period (January)**. Explanations are not required.

1.	On **January 1**, **2019,** Ronald Company borrowed $40,000 and issued a 12%, long-term note payable, which requires interest to be paid on the first of every month. Prepare the adjusting entry on **January 31, 2019**.
2.	**On January 1**, **2019,** Mary Company received rental fee of $8,400 from Sper for 12 months and credited to Unearned Rent Revenue. Prepare the adjusting on **January 31, 2019** to record the revenue earned.
3.	On **January 1, 2019**, supplies on hand amounted to $200. During January, supplies that cost $4,000 were purchased and debited to supplies account. At the end of January, a physical inventory count revealed that supplies on hand amounted to $200. Prepare the adjusting entry on **January 31, 2019**.
4.	On **January 1, 2019**, Marble Company paid $4,800 for 15 months of insurance coverage. Marble Company adjusts the accounts monthly. Prepare the necessary adjusting entry for Marble Company on **January 31, 2019**.
5.	On **January 1, 2019**, Nok Company gave a loan to the company president and received a 6%, $30,000, 1 year, note receivable. Prepare the adjusting entry on **January 31, 2019**, to record the accrued interest on the note.
6.	Gimji Company purchased a delivery truck at a cost of $90,000 on **January 1, 2019**. The

	truck is expected to have no salvage value at the end of its 6-year useful life. Prepare the adjusting entry for depreciation of the delivery truck on **January 31**, **2019**, by using the double-declining balance method.
7.	Goldy Company uses units-of-activity method in computing depreciation on its truck. The truck is expected to be driven 100,000 miles. The truck was purchased on **January 1, 2019,** at a cost $101,000 and is expected to have a salvage value of $10,000. The truck was driven 4,500 miles in January, 2019. Prepare the adjusting entry for depreciation on **January 31, 2019**.
8.	Hongkok Company purchased delivery equipment at a cost of $60,000 on **December 1, 2019**. The equipment is expected to have no salvage value at the end of its 8-year useful life. Prepare the adjusting entry for depreciation of the delivery equipment on **January 31, 2020,** by using the straight line method.

Date	**Account title**	**Debit**	**Credit**

Problem 3-6:

Part A:

Rao Company purchased a new truck for $ 72,000 on October 1, 2019. The truck has an expected salvage value of $ 12,000 and it is expected to be driven 200,000 miles over its estimated useful life of 20 years. Actual miles driven were 10,000 miles in 2019 and 24,000 miles in 2020.

Instructions:

1. Compute depreciation expense on the truck under the following 3 independent methods.
   a. Straight line method for 2019.
   b. Units of activity method for 2020.
   c. Double declining balance method for 2020.
2. Record the journal entry for depreciation of the truck, for 2019 under straight line method.

1.

a)
b)
c)

2.

Part B:

The following selected account balances were taken from the books of Peleso Company on December 31, 2019, (end of one-year accounting period).

	Dr	**Cr**
Cash	$12,000	
Supplies	5,000	
Prepaid insurance	6,000	
Notes receivable	9,000	
Unearned consulting revenue		9,000
Notes payable		3,000

The following information has been gathered at December 31, 2019, before preparing the financial statements of the company:

1. Notes payable was issued on November 1, 2019 for 3 months at 12% interest per year.
2. Supplies used during the year were $ 3000.
3. Insurance premium was paid on September 1, 2019 for 6 months.
4. Interest of $ 100 is accrued on the notes receivable.
5. Unearned revenue was collected in advance on December 1, 2019 from a customer to perform consulting services for 3 months.

Instructions: Record adjusting entries.

Date	Account title	Debit	Credit

Problem 3-7:

Part A

Annama Company purchased a high-tech printer on January 1, 2019. The recorded cost of the printer was $150,000. Annama Company estimates that the useful life of the printer is 7 years with a $10,000 residual value remaining at the end of that time period.

Instruction: Record the depreciation expense for the printer at the end of the first year of its use under the following assumptions**:**

a) Annama uses the straight-line method of depreciation.
b) Annama uses the double-declining balance method.
c) Annama uses the units-of-activity method and estimates that the total useful life of printer is 21,000 units. Actual usage in the first year is 3,500 units.

a)
b)
c)

Part B

Hudson Taylor opened a mini golf course on January 1, 2019. During the first month of its operations, the following transactions occurred.

a. On January 1st admission tickets worth $6,500 were sold. These tickets are valid for 3 months. At January 31, $2,000 remains unearned.
b. On January 1st Hudson purchased anti-riot insurance for 6 months for $3,600.
c. Utility expenses incurred but not paid prior to January 31 totaled $ 350.
d. Purchased $4,600 of administration supplies. On January 31, it was determined that $2,300 of supplies were on hand.

Instruction:
Prepare the adjusting entries for the above transactions on January 31, 2019.

Date	Account title	Debit	Credit

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Problem 3-8:
Firestone Corporation follows a one-year accounting period. Adjusting entries are performed on an annual basis. The information below has been gathered at December 31, 2019.

1.	On October 1, 2019, the company renewed its rental agreement paying $1,800 cash for six months’ rent in advance. Record the adjusting entry on December 31, 2019.
2.	Firestone purchased $1,500 of office supplies in 2019. At year-end $400 of supplies remain on hand. Record the adjusting entry on December 31, 2019.
3.	Records show that Unearned Service Revenue has a credit balance of $9,000. The company received this cash on September 1, 2019 for 12 months for future services. Record the adjusting entry on December 31, 2019.
4.	Accrued but unrecorded service fees earned at December 31, 2019 amounts to $2,200. Record the adjusting entry on December 31, 2019.
5.	On July 1, 2019, the company purchased a delivery truck at a cost of $70,000 with an expected residual value of $10,000. The estimated useful life of the truck was 5 years and expected to be driven 100,000 miles over its useful life. The actual miles driven in 2019 were 20,000 miles. Record depreciation expense for 2019, using the units of activity method.
6.	Equipment was purchased on July 1, 2019, at a cost of $300,000. The equipment has an expected residual value of $8,000 and an estimated useful life of 5 years. Record the depreciation expense for 2019, using the double-declining- balance method.
7.	Using the same information as in (6) above, record the depreciation expense for 2019, if the company was using the straight-line method.
8.	Compute the book value of the above equipment at December 31, 2020, under straight-line method.

Date	Account Title	Debit	Credit

5)

6)

7)

8)

Problem 3-9:
Alleppy Backwaters opened for business on June 1, 2019. Its trial balance before adjustment on August 31 is as follows:

Alleppy Backwaters Inc.
Trial Balance
August 31, 2019

Account Number	Account Name	Debit	Credit
101	Cash	$19,600	
126	Supplies	3,300	
130	Prepaid Insurance	6,000	
140	Land	25,000	
143	Buildings	125,000	
157	Equipment	26,000	
201	Accounts Payable		6,500
208	Unearned Rent Revenue		7,400
275	Mortgage Payable		80,000
311	Share Capital-Ordinary		100,000
332	Dividends	5,000	
429	Rent Revenue		80,000
622	Maintenance and Repairs Expense	3,600	
726	Salaries and Wages Expense	51,000	
732	Utilities Expense	9,400	
		$273,900	$273,900

The additional account names and numbers are given below:
No.112 Accounts Receivable, No. 144 Accumulated Depreciation-Buildings, No.158 Accumulated Depreciation- Equipment, No.212 Salaries and Wages payable, No. 230 Interest Payable, No.631 Supplies Expense, No.711 Depreciation Expense, No.718 Interest Expense, and No. 722 Insurance Expense.
Other data:

1. Insurance expires at the rate of $400 per month.
2. A count on August 31 shows $900 of supplies on hand.
3. Annual depreciation is $4,500 on buildings and $2,400 on equipment.
4. Unearned Rent Revenue of $4,100 was recognized for services performed prior to August31.
5. Salaries of $400 were unpaid at August 31.
6. Rentals of $3,700 were due from tenants at August31. (Use Accounts Receivable)
7. The mortgage interest rate is 9% per year. The mortgage was taken on August1.

Instructions:
Journalize the adjusting entries on August 31, 2019, for the **3- month period June1 – August31**.

Date	Account Titles	Debit	Credit

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