

Homework 3

Due by 12PM CT (noon) on Tuesday, September 10th

Answers to this homework assignment must be submitted online through eLearning

Section 1: Revenue recognition

1. Moko's Mouthwatering Treats is a company that makes delectable cat treats. Suppose Moko's Mouthwatering Treats has the following activities in the month of March 2024. Write the dollar amount of revenue Moko's Mouthwatering Treats would recognize for each activity in *March* 2024 (if any). (Note: Do not write the journal entries; you are not given enough information to do so.)

(a) On March 2, Moko's Mouthwatering Treats delivers \$2,500 worth of cat treats to a local pet store that makes the purchase on credit.

Dr	AR (+A)	2500
Cr	SR (+I)	2500

(b) On March 5, Moko's Mouthwatering Treats delivers \$500 worth of cat treats to an individual customer with 10 cats. The customer pays for the treats on the same day they're delivered.

Dr	Cash (+A)	500
Cr	SR (+I)	500

(c) On March 10, customers paid \$1,300 to Moko's Mouthwatering Treats for February 2024 order deliveries.

Dr	Cash (+A)	1300
Cr	AR (+L)	1300

(d) On March 15, the local pet store pays \$2,500 to Moko's Mouthwatering Treats for the order in (a).

Dr	Cash (+A)	2500
Cr	AR (+L)	2500

(e) On March 21, Moko's Mouthwatering Treats delivers \$900 worth of cat treats to a local animal shelter. The shelter pays \$400 in cash on the same day and agrees to pay the remainder by May 1st.

Dr	Cash (+A)	400
Dr	AR (+A)	500
Cr	SR (+I)	900

Section 2: Expense recognition

2. Suppose Moko's Mouthwatering Treats has the following activities in the month of April 2024. Write the dollar amount of expense Moko's Mouthwatering Treats would recognize for each activity *in April 2024* (if any). (Note: Do not write the journal entries; you are not given enough information to do so.)

(a) In April, Moko's Mouthwatering Treats paid suppliers \$2,000 for supplies received in January.

Dr	AP(-L)	2000
Cr	Cash(-A)	2000

(b) In April, Moko's Mouthwatering Treats sold \$1,000 worth of cat treats that had taken \$800 worth of supplies to manufacture.

Dr	AR(+A)	1000	COGS	Dr	COGS(E)	800
Cr	SR(R)	1000		Cr	PP&E(-A)	800

(c) At the end of April, Moko's Mouthwatering Treats received a \$450 utility bill for electricity used in the month of April. The bill will be paid in May.

Dr	Utilities(E)	450
Cr	AP(+L)	450

(d) At the end of April, Moko's Mouthwatering Treats paid \$1,500 to employees for work performed in April and paid \$300 to employees for work performed in March.

Dr	Wage(+E)	1500	March	Dr	Wage(+E)	300
Cr	Cash(-A)	1500		Cr	Cash(-A)	300

(e) At the end of April, Moko's Mouthwatering Treats pays \$6,000 in rent for the months of April and May. Rent is \$3000 per month.

Dr	Rent(E)	6000
Dr	Prepaid(A)	3000
Cr	Cash(-A)	6000

(See next page for question 3)

Cr	Cash(-A)	3000
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Section 3: Transaction analysis

3. Swift Tailors, founded by Betty and Marjorie Gomez, is a dry cleaner and clothing alteration company registered as a corporation on August 1, 2021. During the first month as a corporation, the following events took place. If the event results in a transaction, record journal entries (noting whether each account is an Asset, Liability, Shareholders' Equity, Revenue, or Expense), post the transactions to T-accounts, and prepare the balance sheet and income statement for Swift Tailors as of August 31, 2021. Ignore any adjusting or closing entries that would normally be done at the end of the month, except where explicitly stated. Assume zero taxes.

(a) On August 1, Betty contributed \$250,000 in cash in exchange for 50,000 shares of ownership in the company. Each share has a par value of \$1.

Dr	Cash (+A)	250 000
	shares (+SE)	50 000
Cr		
Cr	add. paid (+SE)	200 000

(b) On August 1, Marjorie contributed \$75,000 in cash and \$175,000 worth of dry cleaning equipment in exchange for 50,000 shares. The equipment has a remaining useful life of 6 years.

Dr	Cash (+A)	75 000
Dr	Equip (+A)	175 000
	share (+SE)	50 000
Cr		
Cr	add. paid (+SE)	200 000

(c) On August 1, the company hired two part-time employees. Each employee has a monthly salary of \$1,200. The monthly salary is paid on the last day of each month.

Has not been paid yet

(d) On August 1, the company received a 3-year loan from a bank for \$300,000. The interest rate is 11% annually, with interest payable at the end of each year of the loan term (e.g., the first interest payment would be by August 1, 2022).

Dr	Cash (+A)	300 000
	loan Payable (L)	300 000
Cr		

(e) On August 1, the company signed an annual lease agreement for store space. The rent is \$3,600 per month and the company paid 4 months in advance in cash.

Dr	Prepaid (+A)	14 400
	Cash (-A)	14 400
Cr		

(f) On August 11, the company purchased dry cleaning chemicals from Willow Essentials. The supplies cost \$22,000. Swift Tailors paid half in cash and purchased the other half on account.

Dr	Inventory (+A)	22 000
	Cash (-A)	11 000
	AP (-A)	11 000
Cr		

(g) On August 13, the company received a \$12,000 bulk dry cleaning order from Enchanted Vestments, which pays \$4,000 in advance and will pay the remainder when the dry cleaning order is complete.

Dr	Cash (+A)	4000
Cr	Deferred Revenue (L)	4000

(h) On August 16, Swift Tailors completed the dry cleaning order from Enchanted Vestments. The order used dry cleaning chemical supplies costing \$3,500. Enchanted Vestments paid the remaining balance of the \$12,000 order. (Hint: Requires more than one journal entry)

Dr	DR (L)	4000	Dr	COGS (E)	3500
Dr	AR (A)	8000	Cr	Supplies (A)	3500
Cr	SR (R)	4000	<hr/>		
Cr	SR (R)	8000	After Paid		
<hr/>			Dr	Cash (A)	8000
			Cr	AP (-A)	8000

(i) On August 21, the company paid for \$2,100 in advertising.

Dr	Ad (E)	2100
Cr	Cash (-A)	2100

(j) On August 24, Swift Tailors received and completed a \$3,000 dry cleaning order that used dry cleaning supplies costing \$875. The customer will pay in September. (Hint: Requires more than one journal entry)

Dr	AR (+A)	3000
Cr	SR (R)	3000
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Dr	COGS (E)	875
Cr	Inventory (+A)	875

(k) On August 31, the company paid its two employees their salaries for the month of August (recall each employee's salary was \$1,200 per month).

Dr	Wage (E)	2400
Cr	Cash (-A)	2400

(See following 4 pages for blank T-accounts and blank pages for income statement and balance sheet answers)

S1

A

I

A

Account Receivable		Sales Revenue		Cash	
a. 2500	c. 1300	a. 2500	b. 500	b. 500	
e. 500	d. 2300	b. 500	c. 1300	c. 1300	
		e. 900	d. 2500	d. 2500	
			e. 400	e. 400	
EB: 800		3900		4200	

S2

A

L

SE

Cash		Account Payable		Sales Revenue	
a. 2000	a. 2000	c. 450		b. 1000	
d. 1500					
e. 3000					
e. 2000					
EB: 9500		1550		1000	
Account Receivable		COGS		PP&E	
b. 1000		b. 800		b. 800	
EB: 1000		800		800	
Utilities		Wage		Rent	
c. 450		d. 1500		e. 3000	
				e. 3000	
EB: 450		1500		6000	

cash ^A		Share ^{SE}		Additional Paid-in Cap ^{SE}	
a. 250 000	e. 14 400	a. 50 000		a. 200 000	
b. 75 000	f. 11 000	b. 50 000		b. 260 000	
c. 300 000	i. 2 100				
g. 4 000	k. 2400				
h. 8000					
EB 667 000		100 000		400 000	

Equipment ^A		Loan Payable ^L		Prepaid Rent ^A	
b. 175 000		d. 300 000		e. 14 400	
EB 175 000		300 000		14 400	

Accounts Payable ^L		Inventory ^A		Deferred Revenue ^L	
f. 11 000		f. 22 000	h. 3500	h. 4000	g. 4000
h. 8000		j. 875			
EB: 19 000		19 375		0	

Account Receivable ^A		Service Revenue ^R		COGS ^E	
h. 8000	h. 8000	h. 4000		h. 3500	
j. 3000		h. 8000		j. 875	
		j. 3000			
EB: 3000		13 000		4375	
Advertisement ^E		Wage Expenses ^E			
i. 2100		k. 2400			
2100		2400			

(Blank page for Income Statement answer)

Swift Tailors
Income Statement
Month Ended at Aug 31, 2021
(\$)

Revenue

Service revenue

15,000

Expenses

cost of goods

4375

wage expense

2400

advertising expenses

2100

Total Expenses

8875

Net Income

\$6125

(Blank page for Balance Sheet answer)

Shift Tailors
Balance Sheet
(Dollars)
As of Aug. 31, 2021

Current Assets

Cash	607,100
Equipment	175,000
Inventory	17,625
Prepaid Rent	14,400
Accounts Receivable	8,000
Total Assets	\$ 817,125

Liabilities

Loan payable	300,000
Accounts payable	19,000
Deferred Revenue	0
Total Liabilities	\$ 319,000

Shareholder's Equity

Shares	100,000
PP&E	400,000
Retained Earnings	6,125
Total Equity	\$ 506,125
Total Shareholder's & Equity	\$ 825,125