

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.

- (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.

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

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

- (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.

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

(See next page for question 3)

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.

(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.

(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.

(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).

(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.

(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.

(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.

(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*)

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

(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*)

(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).

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

(Blank page for Income Statement answer)

(Blank page for Balance Sheet answer)