

ACT2111 Tutorial-Ch3&4

ACT2111 Teaching Team

Content

1. Key Points of Chapter 3&4

- Explain the accrual basis of accounting and the reasons for adjusting entries
- Prepare adjusting entries
- Prepare Closing Entries, a Post-Closing Trial Balance and a Classified Statement of Financial Position

2. Difficulties in Tutorial Questions

The need for adjustments

- Analyze each account to determine whether it is complete and up-to-date for financial statement purposes
- Adjusting entries ensure that the revenue recognition and expense recognition principles are followed.

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.

Principles behind the adjustments

❑ Under accrual-basis accounting:

Revenue recognition

(Revenue recognition principle)

Revenues are recorded in the period in which the goods or services are provided to customers

Expense recognition

(Expense recognition principle or matching principle)

Expenses are reported in the same period as the revenues they help to generate

Deferrals:

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

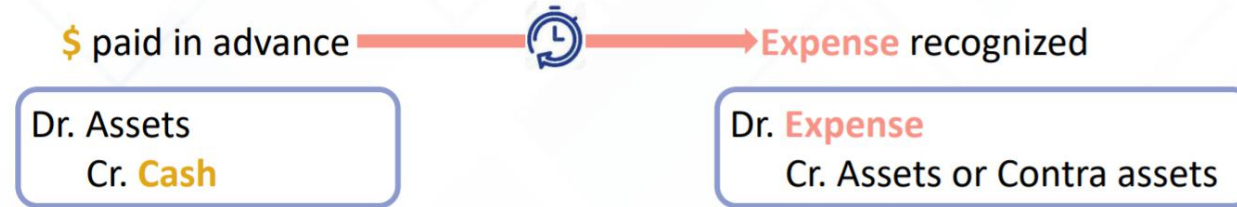
Accruals:

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.

<u>Type of Adjustment</u>	<u>Accounts Before Adjustment</u>	<u>Adjusting Entry</u>
Prepaid expenses	Assets overstated. Expenses understated.	Dr. Expenses Cr. Assets or Contra Assets
Unearned revenues	Liabilities overstated. Revenues understated.	Dr. Liabilities Cr. Revenues
Accrued revenues	Assets understated. Revenues understated.	Dr. Assets Cr. Revenues
Accrued expenses	Expenses understated. Liabilities understated.	Dr. Expenses Cr. Liabilities

Adjusting Entries

1 Prepaid expenses



2 Unearned Revenues



3 Accrued Revenues



4 Accrued Expenses



E3.13 (LO 2, 3) The ledger of Yoon Lumber Supply on July 31, 2020, includes the selected accounts below before adjusting entries have been prepared.

Prepare adjusting entries from selected account data.

	Debit	Credit
Notes Payable		₩ 20,000
Supplies	₩ 24,000	
Prepaid Rent	3,600	
Buildings	250,000	
Accumulated Depreciation—Buildings		140,000
Unearned Service Revenue		11,500

An analysis of the company's accounts shows the following.

- 1. The notes payable pays interest at a rate of 6% per year.
- 2. Supplies on hand at the end of the month totaled ₩18,600.
- 3. The balance in Prepaid Rent represents 4 months of rent costs.
- 4. Employees were owed ₩3,100 related to unpaid salaries and wages.
- 5. Depreciation on buildings is ₩6,000 per year.
- 6. During the month, the company satisfied obligations worth ₩4,700 related to the Unearned Services Revenue.
- 7. Unpaid maintenance and repairs costs were ₩2,300.

Instructions

Prepare the adjusting entries at July 31 assuming that adjusting entries are made monthly. Use additional accounts as needed.

EXERCISE 3.13

Date	Account Titles	Debit	Credit
July 31	Interest Expense (₩20,000 × .06 × 1/12).....	100	
	Interest Payable.....		100
31	Supplies Expense (₩24,000 – ₩18,600).....	5,400	
	Supplies.....		5,400
31	Rent Expense (₩3,600 ÷ 4).....	900	
	Prepaid Rent.....		900
31	Salaries and Wages Expense.....	3,100	
	Salaries and Wages Payable.....		3,100
31	Depreciation Expense (₩6,000 ÷ 12).....	500	
	Accumulated Depreciation—Buildings....		500
31	Unearned Service Revenue.....	4,700	
	Service Revenue.....		4,700
31	Maintenance and Repairs Expense.....	2,300	
	Accounts Payable.....		2,300

Prepare Income Statement, Retained Earnings Statement and Statement of Financial Position

<u>Adjusting Entries</u>	
Supplies Expense	
Supplies	
(To record supplies used)	
Insurance Expense	
Prepaid Insurance	
(To record insurance expired)	
Depreciation Expense	
Accumulated Depreciation—Equipment	
(To record monthly depreciation)	
Unearned Service Revenue	
Service Revenue	
(To record revenue for services performed)	
Accounts Receivable	
Service Revenue	
(To record revenue for services performed)	
Interest Expense	
Interest Payable	
(To record interest on notes payable)	
Salaries and Wages Expense	
Salaries and Wages Payable	
(To record accrued salaries and wages)	

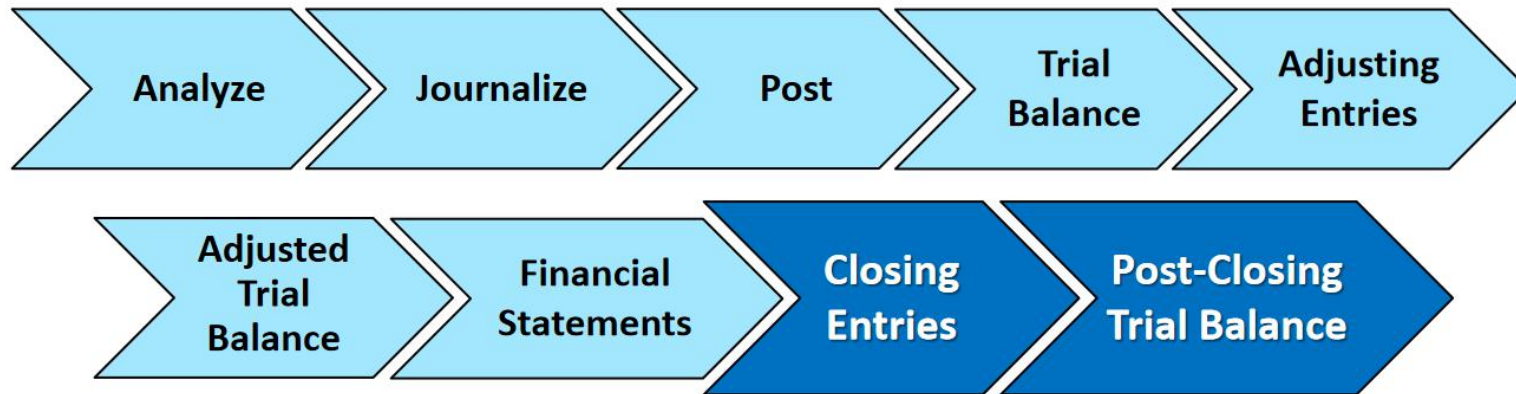
Income Statement		
For the Month Ended October 31, 2020		
Revenues		
Service revenue		₺10,600
Expenses		
Salaries and wages expense	₺5,200	
Supplies expense	1,500	
Rent expense	900	
Insurance expense	50	
Interest expense	50	
Depreciation expense	40	
		<u>7,740</u>
Total expenses		
		<u>₺ 2,860</u>
Net income		<u><u>₺ 2,860</u></u>

Retained Earnings Statement		
For the Month Ended October 31, 2020		
Retained earnings, October 1	₺ -0-	
Add: Net income	2,860	
	<u>2,860</u>	
Less: Dividends	500	
Retained earnings, October 31	<u><u>₺2,360</u></u>	

Statement of Financial Position			
October 31, 2020			
<u>Assets</u>			
Equipment	₺5,000		
Less: Accumulated depreciation—equip.	<u>40</u>	₺ 4,960	
Prepaid insurance			550
Supplies			1,000
Accounts receivable			200
Cash			<u>15,200</u>
Total assets			<u><u>₺21,910</u></u>
<u>Equity and Liabilities</u>			
Equity			
Share capital—ordinary	₺10,000		
Retained earnings	<u>2,360</u>	₺12,360	
Liabilities			
Notes payable	5,000		
Accounts payable	2,500		
Unearned service revenue	800		
Salaries and wages payable	1,200		
Interest payable	<u>50</u>	<u>9,550</u>	
Total equity and liabilities			<u><u>₺21,910</u></u>

Closing the Books

At the end of the accounting period, the company makes the accounts ready for the next period.



TEMPORARY Accounts are closed	PERMANENT Accounts are not closed
All revenue accounts All expense accounts Dividends	All assets accounts All liability accounts Equity

Closing entries

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Date	Account Titles and Explanations	Ref.	Debit	Credit
2020				
Oct. 31	Service Revenue	400	10,600	
	Income Summary	350		10,600
	(To close revenue account)			
31	Income Summary	350	7,740	
	Supplies Expense	631		1,500
	Depreciation Expense	711		40
	Insurance Expense	722		50
	Salaries and Wages Expense	726		5,200
	Rent Expense	729		900
	Interest Expense	729		50
	(To close expense accounts)			
2020				
Oct. 31	Income Summary	350	2,860	
	Retained Earnings	301		2,860
	(To close net income)			
31	Retained Earnings	301	500	
	Dividends	306		500
	(To close Dividends)			

Closing entries produce a zero balance in each temporary account.

Transfer Revenue and Expense to Income Summary

Transfer Net Income (or net Loss) and Dividends to Retained Earnings [**a permanent account**]

Key:

1. Close Revenues to Income Summary.
2. Close Expenses to Income Summary.
3. Close Income Summary to Retained Earnings.
4. Close Dividends to Retained Earnings.

Prepare Income Statement and Retained Earnings Statement

Income Statement For the Month Ended October 31, 2020			
Revenues			
Service revenue			₺10,600
Expenses			
Salaries and wages 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	

Revenue - Expense = Net Income
(or Net Loss)

Retained Earnings Statement For the Month Ended October 31, 2020		
Retained earnings, October 1	₺	—0—
Add: Net income		2,860
		<u>2,860</u>
Less: Dividends		500
Retained earnings, October 31	₺	<u><u>2,360</u></u>

Retained Earnings ending balance
= Retained Earnings beginning
balance + Net Income (loss) -
Dividends

Prepare Classified Statement of Financial Position

<u>Assets</u>				<u>Equity and Liabilities</u>			
Intangible assets				Equity			
Patents			NT\$ 3,100	Share capital—ordinary	NT\$20,000		
Property, plant, and equipment				Retained earnings	<u>14,050</u>	NT\$34,050	
Land		NT\$10,000		Non-current liabilities			
Equipment	NT\$24,000			Mortgage payable	10,000		
Less: Accumulated depreciation— equipment	<u>5,000</u>	<u>19,000</u>	29,000	Notes payable	<u>1,300</u>	11,300	
Long-term investments				Current liabilities			
Investment in shares of Walters Corp.		5,200		Notes payable	11,000		
Investment in real estate		<u>2,000</u>	7,200	Accounts payable	2,100		
Current assets				Salaries and wages payable	1,600		
Prepaid insurance		400		Unearned service revenue	900		
Supplies		2,100		Interest payable	<u>450</u>	16,050	
Inventory		3,000		Total equity and liabilities		<u>NT\$61,400</u>	
Notes receivable		1,000					
Accounts receivable		7,000					
Short-term investments		2,000					
Cash		<u>6,600</u>	22,100				
Total assets			<u>NT\$61,400</u>				

E4.8 (LO 2) Huang Automotive ended its fiscal year on July 31, 2020. The company's adjusted trial balance as of the end of its fiscal year is as follows.

Journalize and post closing entries, and prepare a post - closing trial balance.

Huang Automotive Adjusted Trial Balance July 31, 2020			
No.	Account Titles	Debit	Credit
101	Cash	NT\$ 9,840	
112	Accounts Receivable	8,780	
157	Equipment	15,900	
158	Accumulated Depreciation—Equip.		NT\$ 7,400
201	Accounts Payable		4,220
208	Unearned Rent Revenue		1,800
311	Share Capital—Ordinary		20,000
320	Retained Earnings		25,200
332	Dividends	16,000	
400	Service Revenue		64,000
429	Rent Revenue		6,500
711	Depreciation Expense	8,000	
726	Salaries and Wages Expense	55,700	
732	Utilities Expense	<u>14,900</u>	<u>0</u>
		NT\$129,120	NT\$129,120

Instructions

- Prepare the closing entries.
- Post to Retained Earnings and Income Summary accounts. (Use the three - column form.)
- Prepare a post - closing trial balance at July 31.

E4.9 (LO 4) The adjusted trial balance for Huang Automotive is presented in [E4.8](#). *Prepare financial statements.*

Instructions

- Prepare an income statement and a retained earnings statement for the year.
- Prepare a classified statement of financial position at July 31.

Thanks for listening!