Scenario 1

Journal Entry 1 - July 1st

On July 1st, Wellness Gym received inventory from Equip Store Ltd with a total value of $20,000. This transaction involved a credit arrangement with Equip Store Ltd. The journal entry from Wellness Gym's perspective is as follows:

Inventory- Debit: $20,000

To Accounts Payable (Equip Store Ltd)- Credit: $20,000

This entry reflects the increase in Wellness Gym's inventory and the corresponding liability to Equip Store Ltd for the amount owed.

Journal Entry 2 - July 3rd

On July 3rd, Wellness Gym identified that some of the received inventory was damaged and valued at $5,000. As a result, Wellness Gym decided to return the damaged inventory to Equip Store Ltd. The journal entry for this return is as follows:

Accounts Payable (Equip Store Ltd)- Debit: $5,000

To Inventory- Credit: $5,000

This entry records the reduction in the amount owed to Equip Store Ltd due to the returned goods and the corresponding decrease in Wellness Gym's inventory.

Journal Entry 3 - July 9th

On July 9th, Wellness Gym made the full payment to Equip Store Ltd, taking advantage of the 4% credit allowance provided by Equip Store Ltd for prompt payment within 10 days. The journal entry for this payment is as follows:

Accounts Payable (Equip Store Ltd)- Debit: $14,200

To Cash- Credit: $14,200

This entry represents the reduction in the accounts payable, indicating the payment made by Wellness Gym. The credit allowance of 4% (equivalent to $800) has been deducted from the total payable, resulting in a final payment of $14,200 [20,000(1-.04) = 19,200-5000 = 14,200] in cash from Wellness Gym's perspective.

Scenario 2

Journal Entry 1 - August 1st

On August 1st, Wellness Gym received an advance payment of $3,000 for a three-month gym subscription from a client. This amount is initially recorded as unearned revenue since the services have not yet been provided.

Cash- Debit: $3,000

To Unearned Revenue- Credit: $3,000

This entry represents the increase in cash due to the advance payment and the corresponding liability (unearned revenue) created in Wellness Gym's books.

Journal Entry 2 - August 30th

On August 30th, Wellness Gym recognizes $1,000 of the advance payment as revenue for the services that have been completed during the month. As a result, the unearned revenue is reduced, and revenue is recognized:

Unearned Revenue- Debit: $1,000

To Service Revenue- Credit: $1,000

This entry reflects the revenue earned for the services provided in the first month of the three-month subscription.

Journal Entry 3 - September 30th

On September 30th, Wellness Gym recognizes an additional $1,000 of the advance payment as revenue for the services completed in the second month. The updated journal entry is as follows:

Unearned Revenue- Debit: $1,000

To Service Revenue- Credit: $1,000

This entry represents the revenue earned for the services provided in the second month of the subscription.

By the end of the three-month period, all $3,000 of the advance payment has been recognized as revenue:

Unearned Revenue- Debit: $1,000

To Service Revenue- Credit: $1,000

This entry reflects the final $1,000 of unearned revenue being recognized as revenue for the services provided in the third month, completing the revenue recognition process.

Scenario 3

Journal Entry 1 - October 5

On October 5, Wellness Gym, and Mindset. Co entered a contract for a wellness program with a total value of $4,000. The contract was established on credit terms.

Accounts Receivable (Mindset. Co)- Debit: $4,000

To Service Revenue- Credit: $4,000

This entry records the increase in accounts receivable, reflecting the amount owed by Mindset. Co, and the corresponding increase in service revenue for the contract.

Journal Entry 2 - October 28

Cash- Debit: $4,000

To Accounts Receivable (Mindset. Co)- Credit: $4,000

On October 28, Wellness Gym received the full payment of $4,000 from Mindset. Co for the wellness program services, as per the agreed contract terms. The payment was not received within the discount period, and therefore no discount is applied in this entry.

Scenario 4

Journal Entry 1 - November 1

On November 1, Wellness Gym secured a one-year loan of $100,000 from a bank at an annual interest rate of 14% for the purpose of expanding the gym. This entry records the initial loan received:

Cash- Debit: $100,000

To Loan Payable- Credit: $100,000

This entry reflects the increase in cash due to the loan received and the corresponding liability (Loan Payable) created on Wellness Gym's books.

Journal Entry 2 - January 1, (Two months after receiving the loan)

At the end of January, two months after securing the loan, Wellness Gym records the interest accumulation for the first two months. The interest for this period is calculated on the outstanding loan balance.

Interest Expense- Debit: $2,333.33 (Approximately 14% annual interest on $100,000 for two months)

To Interest Payable- Credit: $2,333.33

This entry represents the interest expense accrued for the first two months of the loan. The interest payable account reflects the amount to be paid in the future.

Journal Entry 3 - March 1 (Two months after the previous entry)

At the end of March, two months after the last entry, Wellness Gym records the interest accumulation for the next two months. The interest for this period is calculated on the outstanding loan balance, which has decreased due to the prior payment.

Interest Expense- Debit: $2,333.33 (Approximately 14% annual interest on the remaining loan balance for two months)

To Interest Payable- Credit: $2,333.33

This entry represents the interest expense accrued for the following two months of the loan, considering the reduced loan balance. The interest payable account reflects the amount to be paid in the future.

Wellness Gym would continue to make similar entries every two months to account for the interest accumulation until the loan is paid off at the end of the term.

Reference:

Franklin, M. Graybeal, P. & Cooper, D. (2020). Principles of accounting, volume 1: Financial accounting. Open Stax Rice University.

https://openstax.org/details/books/principles-financial-accounting.