**ACC1701X**
**ACCOUNTING FOR DECISION MAKERS**
**SEMESTER 1   2022 / 2023**

# TUTORIAL 3 ANSWER SOLUTION
## Financial Statements Overview

### Analytical Cumulative Case – HaloCrypto Inc.

*(Refer also to the excel solution file on Canvas)*

|     |                          | Debit  | Credit |
|-----|--------------------------|-------:|-------:|
| (a) | Interest Expense         | 3,000  |        |
|     | Interest Payable         |        | 3,000  |
|     |                          |        |        |
| (b) | Salaries Expense         | 650    |        |
|     | Salaries Payable         |        | 650    |
|     |                          |        |        |
| (c) | Prepaid Rent             | 4,500  |        |
|     | Cash                     |        | 4,500  |
|     |                          |        |        |
| (d) | Unearned Revenue         | 5,000  |        |
|     | Sales Revenue            |        | 5,000  |
|     |                          |        |        |
| (e) | Depreciation Expense     | 13,000 |        |
|     | Accumulated Depreciation |        | 13,000 |
|     |                          |        |        |
| (f) | Income Tax Expense       | 1,500  |        |
|     | Cost of Goods Sold       |        | 1,500  |
|     |                          |        |        |
| (g) | Dividends                | 2,500  |        |
|     | Cash                     |        | 2,500  |
|     |                          | 30,150 | 30,150 |

**SSA Textbook Tutorial Assignment:**

**E 4-2 (LO1)      Reporting Income: Cash versus Accrual Accounting**

1.   a.  **Cash-basis:**

| | | |
|---|---:|---:|
| **Cash receipts:** | | |
| From customers ................................................ | **$185,000** | |
| From interest......................................................... | **1,100** | **$186,100** |
| **Cash disbursements:** | | |
| For rent................................................................ | **$ 18,000** | |
| For wages............................................................. | **71,000** | **89,000** |
| Net income for the year .............................. | | **$ 97,100** |

    b.  **Accrual-basis:**

| | | |
|---|---:|---:|
| **Revenues:** | | |
| Services............................................................... | **$265,000** | |
| Interest................................................................. | **1,100** | **$266,100** |
| **Expenses:** | | |
| Rent...................................................................... | **12,000** | |
| Utilities................................................................. | **1,350** | |
| Wages ($71,000 + $3,500)................................... | **74,500** | |
| Interest................................................................. | **950** | **88,800** |
| Net income for the year | | **$177,300** |

2.   **Accrual-basis accounting provides a better measure of operating results. It reflects the sales that have been earned, not just the cash collected, and it reports the expenses incurred, not just the cash paid. Note that cash flows are important for assessing liquidity. Daniel would have to be careful not to spend more money than he is bringing in, especially as a new business. However, as a measure of ongoing profitability, the accrual-basis net income amount ($177,300 in this case) is the better measure of operating results.**

**E 4-11 (LO2)          Adjusting Entries**

1.  Accounts Receivable ................................................................          2,250
        Consulting Revenue .........................................................                    2,250
        *To record three months of consulting revenue earned,*
        *but not yet received. ($750 per month × 3 months = $2,250)*

2.  Interest Expense...................................................................          3,200
        Interest Payable ...............................................................                    3,200
        *To record eight months interest expense to be paid*
        *next year. ($40,000 × 0.12 × 8/12 = $3,200)*

3.  Rent Expense.........................................................................          30,000
        Prepaid Rent Expense .......................................................                    30,000
    *To record 10 months of rent expense.*
        *($36,000 × 10/12 = $30,000)*

4.  Supplies Expense....................................................................          7,080
        Supplies...........................................................................                    7,080
        *Beginning supplies ($825) + Supplies purchased*
        *($7,290) – Ending supplies ($1,035) = Supplies*
        *used during the year ($7,080).*