Relic Spotter Inc. Case

- In the prior videos, we did all 20 transactions that occurred during its first six-months of operations
- Now, it is 5:00 pm on the last day of the fiscal year, December 31. We will not record any more transactions with outsiders
- But, we have to record the internal transactions—adjusting entries—before we can prepare financial statements
- As in prior videos, we will record journal entries and post to t-accounts for each adjusting entry
  - After each transaction is read, you should pause the video and try to do the journal entry. Think about (1) what accounts are involved? (2) did they increase or decrease? (3) do we debit or credit?
  - Then, resume the video to see the answer and the explanation

Relic Spotter Inc. Case: Transaction 21

- (21) When Park called her accountant on December 31, 2012, she was pleased to tell him that the company had $78,800 in cash. She wanted to go out to celebrate, but the accountant reminded her that she needed to stay in to do adjusting entries. For example, even though it wasn't paid in cash, accrued interest on the mortgage was $4,900

- Journal Entry

(21)	12/31/12	Dr. Interest Expense (+E, -SE)	4,900	
		Cr. Interest Payable (+L)		4,900

Relic Spotter Inc. Case: Transaction 21

- **Journal Entry**

(21) 12/31/12 Dr. Interest Expense (+E, -SE) 4,900

Cr. Interest Payable (+L) 4,900

Interest Payable (L)

	4,900 (21)

Interest Expense (E, SE)

(21) 4,900	

Relic Spotter Inc. Case: Transaction 22

- (22) The accountant said that depreciation needed to be recorded on the building (Park was confused by this because she received an unsolicited letter from a mortgage broker informing her that the building had increased in value to $120,000)
- Recall that, in transaction (5), Park renovated the building, bringing its original cost to $85,000. She also determined that the useful life of the building was 25 years, with an expected salvage value of $10,000

- Journal Entry

(22) 12/31/12	Dr. Bldg. Depreciation Expense (+E, -SE)	1500	
	Cr. Accumulated Depreciation (+XA, -A)		1500

(85,000-10,000) / 25 = 3,000/year

3000 *1/2 year = 1500

Relic Spotter Inc. Case: Transaction 22

- **Journal Entry**

(22) 12/31/12 Dr. Bldg. Depreciation Expense (+E, -SE) 1500

Cr. Accumulated Depreciation (+XA, -A) 1500

Accumulated Depreciation (XA)

	1,500 (22)

Bldg. Depreciation Expense (E, SE)

(22) 1,500	

Relic Spotter Inc. Case: Transaction 23

- (23) The accountant also noted that Park needed to record depreciation on the metal detectors
- Recall that, in transaction (6), Park purchased $120,000 of metal detectors. She determined that the units would only last for two years, at which time they would have no remaining value

- Journal Entry

(23) 12/31/12 Dr. Met. Det. Depreciation Expense (+E, -SE) 30,000
Cr. Accumulated Depreciation (+XA, -A) 30,000

(120,000-0) / 2 = 60,000/year

60,000* 1/2 year = 30,000

Relic Spotter Inc. Case: Transaction 23

- **Journal Entry**

(23) 12/31/12 Dr. Met. Det. Depreciation Expense (+E, -SE) 30,000

Cr. Accumulated Depreciation (+XA, -A) 30,000

Accumulated Depreciation (XA)

Debit	Credit	
	1,500	(22)
	30,000	**(23)**

Met. Det. Depreciation Expense (E, SE)

	Debit	Credit
(23)	**30,000**	

Relic Spotter Inc. Case: Transaction 24

- (24) The accountant continued…What about adjusting the software amortization account?
- Recall that, in transaction (8), Park paid the $2,100 three-year software license fee on June 30

- Journal Entry

(24)	12/31/12	Dr. Software Amortization (+E, -SE)	350	
		Cr. Software (-A)		350

2,100 / 3 = 700/year

700 * 1/2 year = 350

Relic Spotter Inc. Case: Transaction 24

- **Journal Entry**

(24) 12/31/12 Dr. Software Amortization (+E, -SE) 350

Cr. Software (-A) 350

Software (A)

(8)	2,100	**350**	**(24)**

Software Amortization Exp. (E, SE)

(24)	**350**	