

Chapter 2 – 3 (week 3 lecture)

Tutorial question (P2-7A, E3-7, E3-8)

P2-7A Below are the transactions for Ute Sewing Shop for March, the first month of operations.

March 1	Issue common stock in exchange for cash of \$3,000.
March 3	Purchase sewing equipment by signing a note with the local bank, \$2,700.
March 5	Pay rent of \$600 for March.
March 7	Martha, a customer, places an order for alterations to several dresses. Ute estimates that the alterations will cost Martha \$800. Martha is not required to pay for the alterations until the work is complete.
March 12	Purchase sewing supplies for \$130 on account. This material will be used to provide services to customers.
March 15	Ute delivers altered dresses to Martha and receives \$800.
March 19	Ute agrees to alter 10 business suits for Bob, who has lost a significant amount of weight recently. Ute receives \$700 from Bob and promises the suits to be completed by March 25.
March 25	Ute delivers 10 altered business suits to Bob.
March 30	Pay utilities of \$95 for the current period.
March 31	Pay dividends of \$150 to stockholders.

Required:

1. Record each transaction.
2. Post each transaction to the appropriate T-accounts.
3. Calculate the balance of each account at March 31.
4. Prepare a trial balance as of March 31.

Ute uses the following accounts: Cash, Supplies, Equipment, Accounts Payable, Deferred Revenue, Notes Payable, Common Stock, Dividends, Service Revenue, Rent Expense, and Utilities Expense.

E3–7 Golden Eagle Company has the following balances at the end of November:

	November 30	
	Debit	Credit
Supplies	\$2,000	
Prepaid Insurance	8,000	
Salaries Payable		\$11,000
Deferred Revenue		0

The following information also is known for the month of December:

- Purchases of supplies for cash during December were \$4,500. Supplies on hand at the end of December equal \$3,500.
- No insurance payments are made in December. Insurance expired in December is \$2,000.
- November salaries payable of \$11,000 were paid to employees in December. Additional salaries for December owed at the end of the year are \$16,000.
- On November 1, Golden Eagle received \$4,500 from a customer for rent for the period December through February. By the end of December, one month of rent has been provided.

Required:

For each item, (a) record any transaction during the month of December, and (b) prepare the related December 31 year-end adjusting entry.

E3–8 Consider the following transactions for Huskies Insurance Company:

- Income taxes for the year total \$42,000 but won't be paid until next April 15.
- On June 30, the company lends its chief financial officer \$50,000; principal and interest at 7% are due in one year.
- On October 1, the company receives \$16,000 from a customer for a one-year property insurance policy. Deferred Revenue was credited on October 1.

Required:

For each item, record the necessary adjusting entry for Huskies Insurance at its year-end of December 31. No adjusting entries were made during the year.

Take-home question (P2-4A, P2-8A, E3-12, E3-13)

P2-4A Jake owns a lawn maintenance company, and Luke owns a machine repair shop. For the month of July, the following transactions occurred.

July 3	Jake provides lawn services to Luke's repair shop on account, \$500.
July 6	One of Jake's mowers malfunctions. Luke provides repair services to Jake on account, \$450.
July 9	Luke pays \$500 to Jake for lawn services provided on July 3.
July 14	Luke borrows \$600 from Jake by signing a note.
July 18	Jake purchases advertising in a local newspaper for the remainder of July and pays cash, \$110.
July 20	Jake pays \$450 to Luke for services provided on July 6.
July 27	Luke performs repair services for other customers for cash, \$800.
July 30	Luke pays employee salaries for the month, \$300.
July 31	Luke pays \$600 to Jake for money borrowed on July 14.

Required:

Record the transactions for Jake's Lawn Maintenance Company. Keep in mind that Jake may not need to record all transactions.

P2–8A Pirates Incorporated had the following balances at the beginning of September.

PIRATES INCORPORATED
Trial Balance
September 1

<u>Accounts</u>	<u>Debits</u>	<u>Credits</u>
Cash	\$ 6,500	
Accounts Receivable	2,500	
Supplies	7,600	
Land	11,200	
Accounts Payable		\$7,500
Notes Payable		3,000
Common Stock		9,000
Retained Earnings		8,300
Total	\$27,800	\$27,800

The following transactions occur in September.

September 1	Provide services to customers for cash, \$4,700.
September 2	Purchase land with a long-term note for \$6,400 from Crimson Company.
September 4	Receive an invoice for \$500 from the local newspaper for an advertisement that appeared on September 2.
September 8	Provide services to customers on account for \$6,000.
September 10	Purchase supplies on account for \$1,100.
September 13	Pay \$4,000 to Crimson Company for a long-term note.
September 18	Receive \$5,000 from customers on account.
September 20	Pay \$900 for September's rent.
September 30	Pay September's utility bill of \$2,000.
September 30	Pay employees \$4,000 for salaries for the month of September.
September 30	Pay a cash dividend of \$1,100 to shareholders.

Required:

- Record each transaction.
- Post each transaction to the appropriate T-accounts.
- Calculate the balance of each account at September 30. (*Hint:* Be sure to include the balance at the beginning of September in each T-account.)
- Prepare a trial balance as of September 30.

E3–12 Below are transactions for Wolverine Company during 2024.

1. On December 1, 2024, Wolverine receives \$4,000 cash from a company that rents office space from Wolverine. The payment, representing rent for December and January, was credited to Deferred Revenue on December 1.
2. Wolverine purchases a one-year property insurance policy on July 1, 2024, for \$13,200. The payment was debited to Prepaid Insurance for the entire amount on July 1.
3. Employee salaries of \$3,000 for the month of December will be paid in early January 2025.
4. On November 1, 2024, the company borrows \$15,000 from a bank. The loan requires principal and interest at 10% to be paid on October 30, 2025.
5. Office supplies at the beginning of 2024 totaled \$1,000. On August 15, Wolverine purchases an additional \$3,400 of office supplies, debiting the Supplies account. By the end of the year, \$500 of office supplies remains.

Required:

Record the necessary adjusting entries at December 31, 2024, for Wolverine Company. You do not need to record transactions made during the year. Assume that no financial statements were prepared during the year and no adjusting entries were recorded.

E3–13 Below are transactions for Hurricane Company during 2024.

1. On October 1, 2024, Hurricane lent \$9,000 to another company. The other company signed a note indicating principal and 12% interest will be paid to Hurricane on September 30, 2025.
2. On November 1, 2024, Hurricane paid its landlord \$4,500 representing rent for the months of November through January. The payment was debited to Prepaid Rent for the entire amount on November 1.
3. On August 1, 2024, Hurricane collected \$13,200 in advance from another company that is renting a portion of Hurricane's factory. The \$13,200 represents one year's rent and the entire amount was credited to Deferred Revenue.
4. Utilities owed at the end of the year are \$5,500.
5. Salaries for the year earned by employees but not paid to them or recorded are \$5,000.
6. Hurricane began the year with \$1,500 in supplies. During the year, the company purchases \$5,500 in supplies and debits that amount to Supplies. At year-end, supplies costing \$3,500 remain on hand.

Required:

Record the necessary adjusting entries at December 31, 2024, for Hurricane Company for each of the situations. Assume that no financial statements were prepared during the year and no adjusting entries were recorded.