

Chapter 8 (Week 10 lecture)

Tutorial question (P8-2A, P8-6A)

P8–2A Precision Castparts, a manufacturer of processed engine parts in the automotive and airline industries, borrows \$41 million cash on October 1, 2024, to provide working capital for anticipated expansion. Precision signs a one-year, 9% promissory note to Midwest Bank under a prearranged short-term line of credit. Interest on the note is payable at maturity. Each firm has a December 31 year-end.

Required:

1. Prepare the journal entries on October 1, 2024, to record (a) the notes payable for Precision Castparts and (b) the notes receivable for Midwest Bank.
2. Record the adjustments on December 31, 2024, for (a) Precision Castparts and (b) Midwest Bank.
3. Prepare the journal entries on September 30, 2025, to record payment of (a) the notes payable for Precision Castparts and (b) the notes receivable for Midwest Bank.

P8–6A Texas Roadhouse opened a new restaurant in October. During its first three months of operation, the restaurant sold gift cards in various amounts totaling \$3,500. The cards are redeemable for meals within one year of the purchase date. Gift cards totaling \$728 were presented for redemption during the first three months of operation prior to year-end on December 31. The sales tax rate on restaurant sales is 4%, assessed at the time meals (not gift cards) are purchased. Texas Roadhouse will remit sales taxes in January.

Required:

1. Record (in summary form) the \$3,500 in gift cards sold (keeping in mind that, in actuality, the firm would record each sale of a gift card individually).
2. Record the \$728 in gift cards redeemed. (*Hint:* The \$728 includes a 4% sales tax of \$28.)
3. Determine the balance in the Deferred Revenue account (remaining liability for gift cards) Texas Roadhouse will report on the December 31 balance sheet.

Take-home question (E8-2, E8-3, E8-10)

E8-2 On November 1, 2024, Aviation Training Corp. borrows \$60,000 cash from Community Savings and Loan. Aviation Training signs a three-month, 7% note payable. Interest is payable at maturity. Aviation's year-end is December 31.

Required:

1. Record the note payable by Aviation Training.
2. Record the appropriate adjustment for the note by Aviation Training on December 31, 2024.
3. Record the payment of the note at maturity.

E8-3 On August 1, 2024, Trico Technologies, an aeronautic electronics company, borrows \$21 million cash to expand operations. The loan is made by FirstBanc Corp. under a short-term line of credit arrangement. Trico signs a six-month, 9% promissory note. Interest is payable at maturity. Trico's year-end is December 31.

Required:

1. Record the issuance of the note by Trico Technologies.
2. Record the appropriate adjustment for the note by Trico on December 31, 2024.
3. Record the payment of the note by Trico at maturity.

E8-10 Apple Inc. is the number one online music retailer through its iTunes music store. Apple sells iTunes gift cards in \$15, \$25, and \$50 increments. Assume Apple sells \$21 million in iTunes gift cards in November, and customers redeem \$14 million of the gift cards in December.

Required:

1. Record the advance collection of \$21 million for iTunes gift cards in November.
2. Record the revenue recognized when \$14 million in gift cards is redeemed in December.
3. What is the ending balance in the Deferred Revenue account?