

Tutorial questions (P3-4A, P3-8A)

Problem 3-4A (LO 3-3)

<u>(1)</u>	<u>Debit</u>	<u>Credit</u>
Insurance Expense	3,000	
Prepaid Insurance		3,000
<i>(Reduce prepaid insurance for six months used of thirty-six months paid in advance; $\\$18,000 \times 6/36 = \\$3,000$)</i>		
 <u>(2)</u>	 <u>Debit</u>	 <u>Credit</u>
Salaries Expense	25,000	
Salaries Payable		25,000
<i>(Record salaries owed at December 31)</i>		
 <u>(3)</u>	 <u>Debit</u>	 <u>Credit</u>
Deferred Revenue	4,000	
Service Revenue		4,000
<i>(Reduce deferred revenue for completion of four custom bikes of six custom bikes paid for in advance; $\\$6,000 \times 4/6 = \\$4,000$)</i>		
 <u>(4)</u>	 <u>Debit</u>	 <u>Credit</u>
Supplies Expense	16,000	
Supplies		16,000
<i>(Supplies used during year; $\\$2,000 + \\$18,000 - \\$4,000 = \\$16,000$)</i>		
 <u>(5)</u>	 <u>Debit</u>	 <u>Credit</u>
Advertising Expense	3,000	
Prepaid Advertising		3,000
<i>(Reduce prepaid advertising for one month used of four months prepaid; $\\$12,000 \times 1/4 = \\$3,000$)</i>		
 <u>(6)</u>	 <u>Debit</u>	 <u>Credit</u>
Interest Expense	3,000	
Interest Payable		3,000
<i>(Record ten months interest expense not yet paid;</i>		

$$\$36,000 \times 10\% \times 10/12 = \$3,000)$$

Problem 3-8A (LO 3-3, 3-4, 3-5, 3-6, 3-7)**Requirement 1**

Cash	
20,000	
20,000	

Accounts Receivable	
8,000	
8,000	

Supplies	
4,000	
4,000	

Equipment	
15,000	
15,000	

Accumulated Depr.	
	5,000
	5,000

Salaries Payable	
	7,500
	7,500

Common Stock	
	25,000
	25,000

Retained Earnings	
	9,500
	9,500

Service Revenue	
	0
	0

Dividends	
0	
0	

Salaries Expense	
0	
0	

R&M Expense	
0	
0	

Depr. Expense	
0	
0	

Supplies Expense	
0	
0	

Problem 3-8A (continued)

Requirement 2

<u>(1) March 12</u>	<u>Debit</u>	<u>Credit</u>
Accounts Receivable	21,000	
Cash	39,000	
Service Revenue		60,000
<i>(Service revenue on account and for cash)</i>		
<u>(2) May 2</u>	<u>Debit</u>	<u>Credit</u>
Cash	18,000	
Accounts Receivable		18,000
<i>(Collect on account)</i>		
<u>(3) June 30</u>	<u>Debit</u>	<u>Credit</u>
Cash	6,000	
Common Stock		6,000
<i>(Issue common stock)</i>		
<u>(4) August 1</u>	<u>Debit</u>	<u>Credit</u>
Salaries Payable	7,500	
Cash		7,500
<i>(Pay for past salaries)</i>		
<u>(5) September 25</u>	<u>Debit</u>	<u>Credit</u>
Repairs and Maintenance Expense	13,000	
Cash		13,000
<i>(Pay repairs and maintenance expenses)</i>		
<u>(6) October 19</u>	<u>Debit</u>	<u>Credit</u>
Equipment	8,000	
Cash		8,000
<i>(Purchase equipment)</i>		
<u>(7) December 30</u>	<u>Debit</u>	<u>Credit</u>
Dividends	1,100	
Cash		1,100
<i>(Pay dividends)</i>		

Problem 3-8A (continued)

Requirement 3 (entries posted in red)

Cash	
20,000	7,500
39,000	13,000
18,000	8,000
6,000	1,100
53,400	

Accounts Receivable	
8,000	
21,000	18,000
11,000	

Supplies	
4,000	
4,000	

Equipment	
15,000	
8,000	
23,000	

Accumulated Depr.	
	5,000
	5,000

Salaries Payable	
	7,500
7,500	
	0

Common Stock	
	25,000
	6,000
	31,000

Retained Earnings	
	9,500
	9,500

Service Revenue	
	0
	60,000
	60,000

Dividends	
0	
1,100	
1,100	

Salaries Expense	
0	
0	
0	

R&M Expense	
0	
13,000	
13,000	

Depr. Expense	
0	
0	

Supplies Expense	
0	
0	

Problem 3-8A (continued)

Requirement 4

**Red Storm Cleaners
Unadjusted Trial Balance
December 31, 2024**

Accounts	Debit	Credit
Cash	\$ 53,400	
Accounts Receivable	11,000	
Supplies	4,000	
Equipment	23,000	
Accumulated Depreciation		\$ 5,000
Salaries Payable		0
Common Stock		31,000
Retained Earnings		9,500
Dividends	1,100	
Service Revenue		60,000
Salaries Expense	0	
Repairs and Main. Expense	13,000	
Depreciation Expense	0	
Supplies Expense	0	
Total	<u>\$105,500</u>	<u>\$105,500</u>

Requirement 5

<u>December 31</u>	<u>Debit</u>	<u>Credit</u>
Salaries Expense	19,600	
Salaries Payable		19,600
<i>(Record salaries owed at December 31)</i>		
 Depreciation Expense	 5,000	
Accumulated Depreciation		5,000
<i>(Record depreciation expense for the year)</i>		
 Supplies Expense	 2,800	
Supplies		2,800
<i>(Supplies used during year; \$4,000 – \$1,200 = \$2,800)</i>		

Problem 3-8A (continued)

Requirement 6 (adjusted entries posted in red)

Cash	
20,000	7,500
39,000	13,000
18,000	8,000
6,000	1,100
53,400	

Accounts Receivable	
8,000	
21,000	18,000
11,000	

Supplies	
4,000	2,800
1,200	

Equipment	
15,000	
8,000	
23,000	

Accumulated Depr.	
	5,000
	5,000
	10,000

Salaries Payable	
	7,500
7,500	19,600
	19,600

Common Stock	
	25,000
	6,000
	31,000

Retained Earnings	
	9,500
	9,500

Service Revenue	
	0
	60,000
	60,000

Dividends	
0	
1,100	
1,100	

Salaries Expense	
0	
19,600	
19,600	

R&M Expense	
0	
13,000	
13,000	

Depr. Expense	
0	
5,000	
5,000	

Supplies Expense	
0	
2,800	
2,800	

Problem 3-8A (continued)

Requirement 7

**Red Storm Cleaners
Adjusted Trial Balance
December 31, 2024**

Accounts	Debit	Credit
Cash	\$ 53,400	
Accounts Receivable	11,000	
Supplies	1,200	
Equipment	23,000	
Accumulated Depreciation		\$ 10,000
Salaries Payable		19,600
Common Stock		31,000
Retained Earnings		9,500
Dividends	1,100	
Service Revenue		60,000
Salaries Expense	19,600	
Repairs and Main. Expense	13,000	
Depreciation Expense	5,000	
Supplies expense	2,800	
Total	<u>\$130,100</u>	<u>\$130,100</u>

Problem 3-8A (continued)

Requirement 8

Red Storm Cleaners	
Income Statement	
For the year ended December 31, 2024	
Service revenue	<u>\$60,000</u>
Expenses:	
Salaries	19,600
Repairs and main.	13,000
Depreciation	5,000
Supplies	<u>2,800</u>
Total expenses	<u>40,400</u>
Net income	<u>\$19,600</u>

Red Storm Cleaners			
Balance Sheet			
December 31, 2024			
<u>Assets</u>		<u>Liabilities</u>	
Current assets		Current liabilities.	
Cash	\$53,400	Salaries payable	<u>\$19,600</u>
Accounts receivable	11,000		
Supplies	<u>1,200</u>		
Total current assets	65,600		
Long-term assets:		<u>Stockholders' Equity</u>	
Equipment	23,000	Common stock	31,000
Accumulated depr.	<u>(10,000)</u>	Retained earnings	<u>28,000 *</u>
		Total stockholders' equity	<u>59,000</u>
Total assets	<u>\$78,600</u>	Total liabilities and	
		stockholders' equity	<u>\$78,600</u>

* Retained earnings = Beginning retained earnings + Net income – Dividends
 = \$9,500 + \$19,600 – \$1,100
 = \$28,000

Problem 3-8A (continued)

Requirement 9

<u>December 31</u>	<u>Debit</u>	<u>Credit</u>
Service Revenue	60,000	
Retained Earnings		60,000
<i>(Close revenue accounts)</i>		
Retained Earnings	40,400	
Salaries Expense		19,600
Repairs and Main. Expense		13,000
Depreciation Expense		5,000
Supplies Expense		2,800
<i>(Close expense accounts)</i>		
Retained Earnings	1,100	
Dividends		1,100
<i>(Close dividends account)</i>		

Problem 3-8A (continued)

Requirement 10 (closing entries posted in red)

Cash	
20,000	7,500
39,000	13,000
18,000	8,000
6,000	1,100
<u>53,400</u>	

Accounts Receivable	
8,000	
21,000	18,000
<u>11,000</u>	

Supplies	
4,000	2,800
<u>1,200</u>	

Equipment	
15,000	
8,000	
<u>23,000</u>	

Accumulated Depr.	
	5,000
	5,000
	<u>10,000</u>

Salaries Payable	
	7,500
7,500	19,600
	19,900 19,600

Common Stock	
	25,000
	6,000
	<u>31,000</u>

Retained Earnings	
	9,500
40,400	60,000
1,100	
	<u>28,000</u>

Service Revenue	
	0
60,000	60,000
	<u>0</u>

Dividends	
0	
1,100	1,100
<u>0</u>	

Salaries Expense	
0	
19,600	19,600
<u>0</u>	

R&M Expense	
0	
13,000	13,000
<u>0</u>	

Depr. Expense	
0	
5,000	5,000
<u>0</u>	

Supplies Expense	
0	
2,800	2,800
<u>0</u>	

Problem 3-8A (concluded)

Requirement 11

**Red Storm Cleaners
Post-Closing Trial Balance
December 31, 2024**

Accounts	Debit	Credit
Cash	\$53,400	
Accounts Receivable	11,000	
Supplies	1,200	
Equipment	23,000	
Accumulated Depreciation		\$10,000
Salaries Payable		19,600
Common Stock		31,000
Retained Earnings		28,000
Total	<u>\$88,600</u>	<u>\$88,600</u>

Take-home questions (P3-3A, P3-7A, AP 3-5)

Problem 3-3A (LO 3-3)

<u>(1)</u>	<u>Debit</u>	<u>Credit</u>
Deferred Revenue	3,600	
Service Revenue		3,600
<i>(Reduce deferred revenue for six months provided of ten months revenue received in advance; $\\$60,000 \times 6/10 = \\$3,600$)</i>		
 <u>(2)</u>	 <u>Debit</u>	 <u>Credit</u>
Income Tax Expense	7,000	
Income Tax Payable		7,000
<i>(Income taxes owed at the end of the year)</i>		
 <u>(3)</u>	 <u>Debit</u>	 <u>Credit</u>
Insurance Expense	1,600	
Prepaid Insurance		1,600
<i>(Reduce prepaid insurance for eight months used of twenty-four months prepaid; $\\$4,800 \times 8/24 = \\$1,600$)</i>		
 <u>(4)</u>	 <u>Debit</u>	 <u>Credit</u>
Interest Expense	800	
Interest Payable		800
<i>(Record interest expense for four months not yet paid; $\\$20,000 \times 0.12 \times 4/12 = \\800)</i>		
 <u>(5)</u>	 <u>Debit</u>	 <u>Credit</u>
Supplies Expense	1,700	
Supplies		1,700
<i>(Supplies used during year; $\\$2,700 - \\$1,000 = \\$1,700$)</i>		

Problem 3-7A (LO 3-4, 3-5, 3-6, 3-7)**Requirements 1 and 2 (adjusting entries posted in red)**

Cash		Accounts Receivable		Supplies	
10,300		9,500		2,000	
				(c) 1,300	
10,300		9,500		700	
Interest Receivable		Prepaid Rent		Land	
0		7,200		78,000	
(b) 800			(e) 5,400		
800		1,800		78,000	
Notes Receivable		Accounts Payable		Salaries Payable	
20,000			7,700		0
				(a) 2,100	
20,000			7,700		2,100
Utilities Payable		Deferred Revenue		Common Stock	
	0		5,300		79,000
	(f) 200	(d) 3,300			
	200		2,000		79,000
Retained Earnings		Service Revenue		Interest Revenue	
			0		0
			42,200		(b) 800
	19,700		(d) 3,300		
	19,700		45,500		800
Salaries Expense		Utilities Expense		Rent Expense	
24,500		2,400		0	
(a) 2,100		(f) 200		(e) 5,400	
26,600		2,600		5,400	
Supplies Expense					
	0				
	(c) 1,300				
	1,300				

Problem 3-7A (continued)

Requirement 3

**Crimson Tide Music Academy
Adjusted Trial Balance
December 31, 2024**

Accounts	Debit	Credit
Cash	\$ 10,300	
Accounts Receivable	9,500	
Interest Receivable	800	
Supplies	700	
Prepaid Rent	1,800	
Land	78,000	
Notes Receivable	20,000	
Accounts Payable		\$ 7,700
Salaries Payable		2,100
Deferred Revenue		2,000
Utilities Payable		200
Common Stock		79,000
Retained Earnings		19,700
Service Revenue		45,500
Interest Revenue		800
Salaries Expense	26,600	
Rent Expense	5,400	
Supplies Expense	1,300	
Utilities Expense	2,600	
Total	<u>\$157,000</u>	<u>\$157,000</u>

Problem 3-7A (continued)

Requirement 4

**Crimson Tide Music Academy
Income Statement**

For the year ended December 31, 2024

Revenues:	
Service	\$45,500
Interest	800
Total revenues	<u>46,300</u>
Expenses:	
Salaries	26,600
Rent	5,400
Supplies	1,300
Utilities	2,600
Total expenses	<u>35,900</u>
Net income (Loss)	<u>\$10,400</u>

**Crimson Tide Music Academy
Statement of Stockholders' Equity
For the year ended December 31, 2024**

	Common Stock	Retained Earnings	Total Stockholders' Equity
Balance at January 1	\$79,000	\$19,700	<u>\$98,700</u>
Issuance of common stock	0		0
Add: Net income for 2014		10,400	10,400
Balance at December 31	<u>\$79,000</u>	<u>\$30,100</u>	<u>\$109,100</u>

Problem 3-7A (continued)

**Crimson Tide Music Academy
Balance Sheet
December 31, 2024**

<u>Assets</u>		<u>Liabilities</u>	
Current assets:		Current liabilities:	
Cash	\$ 10,300	Accounts payable	\$ 7,700
Accounts receivable	9,500	Salaries payable	2,100
Interest receivable	800	Deferred revenue	2,000
Supplies	700	Utilities payable	200
Prepaid rent	1,800	Total current liabilities	<u>12,000</u>
Total current assets	<u>23,100</u>		
Long-term assets:		<u>Stockholders' Equity</u>	
Land	78,000	Common stock	79,000
Notes receivable	20,000	Retained earnings	30,100
	<u>98,000</u>	Total stockholders' equity	<u>109,100</u>
Total assets	<u>\$121,100</u>	Total liabilities and stockholders' equity	<u>\$121,100</u>

Problem 3-7A (continued)

Requirement 5

December 31, 2024	Debit	Credit
Service Revenue	45,500	
Interest Revenue	800	
Retained Earnings <i>(Close revenue accounts)</i>		46,300
Retained Earnings	35,900	
Salaries Expense		26,600
Rent Expense		5,400
Supplies Expense		1,300
Utilities Expense <i>(Close expense accounts)</i>		2,600

Problem 3-7A (concluded)

Requirement 6 (closing entries posted in red)

Retained Earnings		Service Revenue		Interest Revenue	
	19,700		42,200		
35,900	46,300	45,500	3,300	800	800
	30,100		0		0

Salaries Expense				Rent Expense	
24,500				0	
2,100	26,600			5,400	5,400
0				0	

Supplies Expense		Utilities Expense			
0		2,400			
1,300	1,300	200	2,600		
0		0			

Requirement 7

**Crimson Tide Music Academy
Post-Closing Trial Balance
December 31, 2024**

Accounts	Debit	Credit
Cash	\$ 10,300	
Accounts Receivable	9,500	
Interest Receivable	800	
Supplies	700	
Prepaid Rent	1,800	
Land	78,000	
Notes Receivable	20,000	
Accounts Payable		\$ 7,700
Salaries Payable		2,100
Deferred Revenue		2,000
Utilities Payable		200
Common Stock		79,000
Retained Earnings		30,100
Total	\$121,100	\$121,100

Real-World Perspective 3-6

1. Profits are overstated.

By reporting the \$80,000 as Service Revenue instead of Deferred Revenue, pretax profit will increase from \$280,000 to \$360,000, giving a false appearance that this year's profit is higher than last year's.

2. Liability.

Cash received from customers in advance of performing services is a liability, representing an obligation to customers.

3. Yes.

Next year the \$80,000 cannot be counted again in pretax profits, likely causing a big decline in reported performance. When this occurs, investors and other employees, who bought the company's stock when the price was high and who thought that profitability was increasing, may sustain large losses as the stock price falls.

4. No.

As the assistant controller (accountant), you should understand that your responsibilities include accurately recording and reporting the company's activities. By falsely reporting activities this year, you mislead people (investors and other employees) who are relying on your financial reports.

Because you are new to the position, you might not be sure that it's right for you to question any decision of the company's president. You have just been hired and don't want to lose your job. If you do make the adjustment, then the company's president will know he can count on you, and this could be your fast track to the top.