CHAPTER 3

Adjusting the Accounts

ASSIGNMENT CLASSIFICATION TABLE

Learning Objectives	Questions	Brief Exercises	Do It!	Exercises	A Problems	B Problems
1. Explain the time period assumption.	1		1	1		
2. Explain the accrual basis of accounting.	2, 3, 4, 5		1	2, 3, 10,16		
3. Explain the reasons for adjusting entries.	6, 7	1				
4. Identify the major types of adjusting entries.	8, 18	2, 8		4, 6, 11		
5. Prepare adjusting entries for deferrals.	8, 9, 10, 11, 12, 13, 18, 19, 20	2, 3, 4, 5, 6, 8	2	5, 6, 7, 8, 9, 10, 11, 12, 13, 15	1A, 2A, 3A, 4A, 5A, 6A	1B, 2B, 3B, 4B, 5B
6. Prepare adjusting entries for accruals.	8, 14, 15, 16, 17, 18, 19, 20	2, 7, 8	3	5, 6, 7, 8, 9, 10, 11, 12, 13, 15	1A, 2A, 3A, 4A, 5A, 6A	1B, 2B, 3B, 4B, 5B
7. Describe the nature and purpose of an adjusted trial balance.	21	9, 10	4	10, 11, 12, 13, 14	1A, 2A, 3A, 5A, 6A	1B, 2B, 3B, 5B
*8. Prepare adjusting entries for the alternative treatment of deferrals.	22	11		17, 18	6A	
*9. Discuss financial reporting concepts.	23, 24, 25, 26, 27, 28	12, 13 14, 15		19, 20, 21, 22, 23		

***Note:** All **asterisked** Questions, Exercises, and Problems relate to material contained in the appendix to the chapter.

ASSIGNMENT CHARACTERISTICS TABLE

Problem Number	Description	Difficulty Level	Time Allotted (min.)
1A	Prepare adjusting entries, post to ledger accounts, and prepare an adjusted trial balance.	Simple	40–50
2A	Prepare adjusting entries, post, and prepare adjusted trial balance and financial statements.	Simple	50–60
3A	Prepare adjusting entries and financial statements.	Moderate	40–50
4A	Prepare adjusting entries.	Moderate	30–40
5A	Journalize transactions and follow through accounting cycle to preparation of financial statements.	Moderate	60–70
*6A	Prepare adjusting entries, adjusted trial balance, and financial statements using appendix.	Moderate	40–50
1B	Prepare adjusting entries, post to ledger accounts, and prepare an adjusted trial balance.	Simple	40–50
2B	Prepare adjusting entries, post, and prepare adjusted trial balance and financial statements.	Simple	50–60
3B	Prepare adjusting entries and financial statements.	Moderate	40–50
4B	Prepare adjusting entries.	Moderate	30–40
5B	Journalize transactions and follow through accounting cycle to preparation of financial statements.	Moderate	60–70

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CHAPTER 3
ADJUSTING THE ACCOUNTS

Number	LO	BT	Difficulty	Time (min.)
BE1	3	C	Simple	4–6
BE2	4–6	AN	Moderate	6–8
BE3	5	AN	Simple	3–5
BE4	5	AN	Simple	3–5
BE5	5	AN	Simple	2–4
BE6	5	AN	Simple	2–4
BE7	6	AN	Simple	4–6
BE8	4–6	AN	Simple	5–7
BE9	7	AP	Simple	4–6
BE10	7	AP	Simple	2–4
BE11*	8	AN	Moderate	3–5
BE12*	9	K	Simple	3–5
BE13*	9	K	Simple	2–4
BE14*	9	K	Simple	2–4
BE15*	9	K	Simple	1–2
DI1	1, 2	K	Simple	2–4
DI2	5	AN	Simple	6–8
DI3	6	AN	Simple	4–6
DI4	7	AN	Moderate	20–30
EX1	1	C	Simple	3–5
EX2	2	E	Moderate	10–15
EX3	2	AP	Simple	6–8
EX4	4	AN	Simple	5–6
EX5	5, 6	AN	Moderate	10–15
EX6	4–6	AN	Moderate	10–12
EX7	5, 6	AN	Moderate	8–10
EX8	5, 6	AN	Moderate	8–10
EX9	5, 6	AN	Simple	8–10
EX10	2, 5–7	AN	Moderate	8–10
EX11	4–7	AN	Moderate	12–15
EX12	5–7	AN	Moderate	8–10

ADJUSTING THE ACCOUNTS (Continued)

Number	LO	BT	Difficulty	Time (min.)
EX13	5–7	AN	Simple	8–10
EX14	7	AP	Simple	12–15
EX15	5, 6	AN, S	Moderate	8–10
EX16	2	AN	Moderate	8–10
EX17*	8	AN	Moderate	6–8
EX18*	8	AN	Moderate	10–12
EX19*	9	K	Simple	3–5
EX20*	9	C	Simple	3–5
EX21*	9	K	Simple	6–8
EX22*	9	E	Simple	10–20
EX23*	9	E	Simple	10–20
P1A	5–7	AN	Simple	40–50
P2A	5–7	AN	Simple	50–60
P3A	5–7	AN	Moderate	40–50
P4A	5, 6	AN	Moderate	30–40
P5A	5–7	AN	Moderate	60–70
P6A	5–8	AN	Moderate	40–50
P1B	5–7	AN	Simple	40–50
P2B	5–7	AN	Simple	50–60
P3B	5–7	AN	Moderate	40–50
P4B	5, 6	AN	Moderate	30–40
P5B	5–7	AN	Moderate	60–70
BYP1	5, 6	AN	Simple	10–15
BYP2	—	AN	Simple	10–15
BYP3	2–7	S	Moderate	15–20
BYP4	3–6	C	Simple	10–15
BYP5	3–6	E	Moderate	10–15

Correlation Chart between Bloom's Taxonomy, Learning Objectives and End-of-Chapter Exercises and Problems

Learning Objective	Knowledge	Comprehension	Application	Analysis	Synthesis	Evaluation
1. Explain the time period assumption.	DI3-1	Q3-1 E3-1				
2. Explain the accrual basis of accounting.	DI3-1	Q3-2 Q3-4 Q3-3	Q3-5 E3-3	E3-10 E3-16		E3-2
3. Explain the reasons for adjusting entries.		Q3-6 BE3-1 Q3-7				
4. Identify the major types of adjusting entries.		Q3-8		Q3-18 E3-4 BE3-2 E3-6 BE3-8 E3-11		
5. Prepare adjusting entries for deferrals.		Q3-8 Q3-9 Q3-10 Q3-11 Q3-12 Q3-13 Q3-19 Q3-20		Q3-18 E3-7 P3-3A BE3-2 E3-8 P3-4A BE3-3 E3-9 P3-5A BE3-4 E3-10 P3-6A BE3-5 E3-11 P3-1B BE3-6 E3-12 P3-2B BE3-8 E3-13 P3-3B DI3-2 E3-15 P3-4B E3-5 P3-1A P3-5B E3-6 P3-2A	E3-15	
6. Prepare adjusting entries for accruals.		Q3-8 Q3-14 Q3-15 Q3-19 Q3-20	Q3-17	Q3-16 E3-9 P3-4A Q3-18 E3-10 P3-5A BE3-2 E3-11 P3-6A BE3-7 E3-12 P3-1B BE3-8 E3-13 P3-2B DI3-3 E3-15 P3-3B E3-5 P3-1A P3-4B E3-6 P3-2A P3-5B E3-7 P3-3A E3-8	E3-15	
7. Describe the nature and purpose of an adjusted trial balance.		Q3-21	BE3-9 BE3-10 E3-14	DI3-4 P3-1A P3-1B E3-10 P3-2A P3-2B E3-11 P3-3A P3-3B E3-12 P3-5A P3-5B E3-13 P3-6A		
*8. Prepare adjusting entries for the alternative treatment of deferrals.			Q3-22	BE3-11 E3-18 E3-17 P3-6A		
*9. Discuss financial reporting concepts	Q3-23 BE3-12 BE3-13 BE3-14 BE3-15 E3-19 E3-21	Q3-24 Q3-25 Q3-26 Q3-27 Q3-28 E3-20				E3-22 E3-23
Broadening Your Perspective		Communication		Financial Reporting Comparative Analysis	Decision-Making Across the Organization	Ethics Case

ANSWERS TO QUESTIONS

1. (a) Under the time period assumption, an accountant is required to determine the relevance of each business transaction to specific accounting periods.
   (b) An accounting time period of one year in length is referred to as a fiscal year. A fiscal year that extends from January 1 to December 31 is referred to as a calendar year. Accounting periods of less than one year are called interim periods.

2. The two principles that relate to adjusting the accounts are:
   The revenue recognition principle, which states that revenue should be recognized in the accounting period in which the performance obligation is satisfied.
   The expense recognition principle, which states that efforts (expenses) should be matched with accomplishments (revenues).

3. The law firm should recognize the revenue in April. When a company agrees to perform a service for a customer it has a performance obligation. The revenue recognition principle states that revenue should be recognized in the accounting period in which the performance obligation is satisfied which is April in this case.

4. Information presented on an accrual basis is more useful than on a cash basis because it reveals relationships that are likely to be important in predicting future results. To illustrate, under accrual accounting, revenues are recognized when earned so they can be related to the economic environment in which they occur. Trends in revenues are thus more meaningful.

5. Expenses of £4,700 should be deducted from the revenues in April. Under the expense recognition principle efforts (expenses) should be matched with accomplishments (revenues).

6. No, adjusting entries are required by the revenue recognition and expense recognition principles.

7. A trial balance may not contain up-to-date information for financial statements because:
   (1) Some events are not journalized daily because it is not efficient to do so.
   (2) The expiration of some costs occurs with the passage of time rather than as a result of daily transactions.
   (3) Some items may be unrecorded because the transaction data are not yet known.

8. The two categories of adjusting entries are deferrals and accruals. Deferrals consist of prepaid expenses and unearned revenues. Accruals consist of accrued revenues and accrued expenses.

9. In the adjusting entry for a prepaid expense, an expense is debited and an asset is credited.

10. No. Depreciation is the process of allocating the cost of an asset to expense over its useful life in a rational and systematic manner. Depreciation results in the presentation of the book value of the asset, not its fair value.

11. Depreciation expense is an expense account whose normal balance is a debit. This account shows the cost that has expired during the current accounting period. Accumulated depreciation is a contra asset account whose normal balance is a credit. The balance in this account is the depreciation that has been recognized from the date of acquisition to the statement of financial position date.

12. Equipment .... Rs 18,000,000
Less: Accumulated Depreciation—Equipment .... 7,000,000 Rs 11,000,000

13. In the adjusting entry for an unearned revenue, a liability is debited and a revenue is credited.

14. Asset and revenue. An asset would be debited and a revenue would be credited.

15. An expense is debited and a liability is credited in the adjusting entry.

16. Net income was understated NT$6,000 because prior to adjustment, revenues are understated by NT$27,000 and expenses are understated by NT$21,000. The difference in this case is NT$6,000 (NT$27,000 – NT$21,000).

17. The entry is:

Jan. 9	Salaries and Wages Payable	2,000	
	Salaries and Wages Expense	4,000	
	Cash...		6,000

18. (a) Accrued revenues.
(b) Unearned revenues.
(c) Accrued expenses.
(d) Accrued expenses or prepaid expenses.
(e) Prepaid expenses.
(f) Accrued revenues or unearned revenues.

19. (a) Salaries and Wages Payable.
(b) Accumulated Depreciation.
(c) Interest Expense.
(d) Supplies Expense.
(e) Service Revenue.
(f) Service Revenue.

20. Disagree. An adjusting entry affects only one statement of financial position account and one income statement account.

21. Financial statements can be prepared from an adjusted trial balance because the balances of all accounts have been adjusted to show the effects of all financial events that have occurred during the accounting period.

***22.** For Supplies Expense (prepaid expense): expenses are overstated and assets are understated. The adjusting entry is:

Assets (Supplies)	XX	
Expenses (Supplies Expense)..		XX

For Rent Revenue (unearned revenues): revenues are overstated and liabilities are understated. The adjusting entry is:

Revenues (Rent Revenue)	XX	
Liabilities (Unearned Rent Revenue)...		XX

***23.** (a) The primary objective of financial reporting is to provide financial information that is useful to investors and creditors for making decisions about providing capital.
(b) The fundamental qualitative characteristics are relevance and faithful representation. The enhancing qualities are comparability, verifiability, timeliness, and understandability.

Questions Chapter 3 (Continued)

***24.** Gross is correct. Consistency means using the same accounting principles and accounting methods from period to period within a company. Without consistency in the application of accounting principles, it is difficult to determine whether a company is better off, worse off, or the same from period to period.

***25.** Comparability results when different companies use the same accounting principles. Consistency means using the same accounting principles and methods from year to year within the same company.

***26.** The constraint is the cost constraint. The cost constraint allows accounting standard setters to weigh the cost that companies will incur to provide information against the benefit that financial statement users will gain from having the information available.

***27.** Accounting relies primarily on two measurement principles. Fair value is sometimes used when market price information is readily available. However, in many situations reliable market price information is not available. In these instances, accounting relies on cost as its basis.

***28.** The economic entity assumption states that every economic entity can be separately identified and accounted for. This assumption requires that the activities of the entity be kept separate and distinct from (1) the activities of its owners (the shareholders) and (2) all other economic entities. A shareholder of a company charging personal living costs as expenses of the company is an example of a violation of the economic entity assumption.

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 3-1

(a) Prepaid Insurance—to recognize insurance expired during the period.

(b) Depreciation Expense—to account for the depreciation that has occurred on the asset during the period.

(c) Unearned Service Revenue—to record revenue earned for services provided.

(d) Interest Payable—to recognize interest accrued but unpaid on notes payable.

BRIEF EXERCISE 3-2

Item	(a) Type of Adjustment	(b) Account Balances before Adjustment
1.	Prepaid Expenses	Assets Overstated Expenses Understated
2.	Accrued Revenues	Assets Understated Revenues Understated
3.	Accrued Expenses	Expenses Understated Liabilities Understated
4.	Unearned Revenues	Liabilities Overstated Revenues Understated

BRIEF EXERCISE 3-3

Dec. 31	Supplies Expense	5,400	
	Supplies (£6,700 – £1,300)		5,400

Supplies

	6,700	12/31	5,400
12/31 Bal.	1,300		

Supplies Expense

12/31	5,400		

BRIEF EXERCISE 3-4

Dec. 31	Depreciation Expense..	6,000	
	Accumulated Depreciation— Equipment...		6,000

Depreciation Expense			
12/31	6,000		

Accum. Depreciation—Equipment			
		12/31	6,000

Statement of Financial Position:

Equipment	€32,000	
Less: Accumulated Depreciation— Equipment...	6,000	€26,000

BRIEF EXERCISE 3-5

July 1	Prepaid Insurance..	13,200	
	Cash		13,200
Dec. 31	Insurance Expense [(£13,200 ÷ 3) X 1/2]........	2,200	
	Prepaid Insurance		2,200

Prepaid Insurance			
7/1	13,200	12/31	2,200
12/31 Bal.	11,000		

Insurance Expense			
12/31	2,200		

BRIEF EXERCISE 3-6

July 1	Cash...	13,200	
	Unearned Service Revenue		13,200
Dec. 31	Unearned Service Revenue............................	2,200	
	Service Revenue.....................................		2,200

Unearned Service Revenue			
12/31	2,200	7/1	13,200
		12/31 Bal.	11,000

Service Revenue			
		12/31	2,200

BRIEF EXERCISE 3-7

1.	Dec. 31	Interest Expense	320	
		Interest Payable		320
2.	31	Accounts Receivable	1,750	
		Service Revenue		1,750
3.	31	Salaries and Wages Expense	900	
		Salaries and Wages Payable................		900

BRIEF EXERCISE 3-8

Account	(a) Type of Adjustment	(b) Related Account
Accounts Receivable	Accrued Revenues	Service Revenue
Prepaid Insurance	Prepaid Expenses	Insurance Expense
Accum. Depr.—Equipment	Prepaid Expenses	Depreciation Expense
Interest Payable	Accrued Expenses	Interest Expense
Unearned Service Revenue	Unearned Revenues	Service Revenue

BRIEF EXERCISE 3-9

KWUN COMPANY
Income Statement
For the Year Ended December 31, 2017
(in thousands)

Revenues		
Service revenue		₩38,400
Expenses		
Salaries and wages expense	₩16,000	
Rent expense	4,400	
Insurance expense	2,000	
Supplies expense	1,500	
Depreciation expense...	1,300	
Total expenses		25,200
Net income..		₩13,200

BRIEF EXERCISE 3-10

KWUN COMPANY
Retained Earnings Statement
For the Year Ended December 31, 2017
(in thousands)

Retained earnings, January 1	₩ 7,240
Add: Net income	13,200
	20,440
Less: Dividends	6,000
Retained earnings, December 31	₩14,440

*BRIEF EXERCISE 3-11

(a)	Apr. 30	Supplies	11,000	
		Supplies Expense		11,000
(b)	30	Service Revenue	20,000	
		Unearned Service Revenue		20,000

*BRIEF EXERCISE 3-12

(a) Predictive value.
(b) Confirmatory value.
(c) Materiality.
(d) Complete.
(e) Free from error.
(f) Comparability.
(g) Verifiability.
(h) Timeliness.

*BRIEF EXERCISE 3-13

(a) Relevant.
(b) Faithful representation.
(c) Consistency.

***BRIEF EXERCISE 3-14**

(a) 3. Verifiable.
(b) 4. Timely.
(c) 1. Predictive value.
(d) 2. Neutral.

***BRIEF EXERCISE 3-15**

(c)

SOLUTIONS FOR DO IT! REVIEW EXERCISES

DO IT! 3-1

1. (d) 2. (e) 3. (h) 4. (c)

DO IT! 3-2

1.	Insurance Expense	300	
	Prepaid Insurance		300
	(To record insurance expired)		
2.	Supplies Expense (CHF2,500 – CHF1,400)	1,100	
	Supplies		1,100
	(To record supplies used)		
3.	Depreciation Expense	200	
	Accumulated Depreciation—Equipment		200
	(To record monthly depreciation)		
4.	Unearned Service Revenue (CHF9,000 x 2/5)	3,600	
	Service Revenue		3,600
	(To record revenue for services performed)		

DO IT! 3-3

1.	Salaries and Wages Expense	1,300	
	Salaries and Wages Payable		1,300
	(To record accrued salaries)		
2.	Interest Expense (€18,000 x .07 x 1/12)	105	
	Interest Payable		105
	(To record accrued interest)		
3.	Accounts Receivable	2,400	
	Service Revenue		2,400
	(To record revenue for service performed)		

DO IT! 3-4

(a) The net income is determined by adding revenues and subtracting expenses. The net income is computed as follows:

Revenues		
Service revenue		R$11,360
Rent revenue		900
Total revenues		12,260
Expenses		
Salaries and wages expense	R$7,400	
Rent expense	1,200	
Depreciation expense	700	
Utilities expense	380	
Supplies expense	160	
Interest expense	40	
Total expenses		9,880
Net income		R$ 2,380

DO IT! 3-4 (Continued)

(b) Total assets and liabilities are computed as follows:

Assets		
Cash		R$ 5,190
Accounts receivable		480
Prepaid rent		720
Supplies		920
Equipment	R$12,000	
Less: Accumulated depreciation—equipment	700	11,300
Total assets		R$18,610
Liabilities		
Notes payable		R$ 4,000
Accounts payable		790
Unearned rent revenue		400
Salaries and wages payable		300
Interest payable		40
Total liabilities		R$ 5,530

(c)

Retained Earnings, April 1	R$ –0–
Add: Net income	2,380
	2,380
Less: Dividends	500
Retained Earnings, June 30	R$1,880

SOLUTIONS TO EXERCISES

EXERCISE 3-1

1. **True.**
2. **True.**
3. **False. Many business transactions affect more than one of these artificial time periods. For example, the purchase of a building affects expenses for many years.**
4. **True.**
5. **False. A time period that lasts *less than one year*, such as monthly or quarterly periods, is called an interim period.**
6. **False. All *calendar* years are *fiscal* years, but not all *fiscal* years are *calendar* years. An accounting time period that is one year in length is referred to as a fiscal year. A fiscal year that starts on January 1 and ends on December 31 is a calendar year.**

EXERCISE 3-2

(a) Accrual-basis accounting records the transactions that change a company's financial statements in the periods in which the events occur rather than in the periods in which the company receives or pays cash. Information presented on an accrual basis is useful because it reveals relationships that are likely to be important in predicting future results. Conversely, under cash-basis accounting, revenue is recorded only when cash is received, and an expense is recognized only when cash is paid. As a result, the cash basis of accounting often leads to misleading financial statements.

(b) Politicians might desire a cash-basis accounting system over an accrual-basis system because if an accrual-accounting system is used, it could mean that billions in government liabilities presently unrecorded would have to be reported in the national budget immediately. The recognition of these additional liabilities would make the deficit even worse. This is not what politicians would like to see and be held responsible for.

EXERCISE 3-2 (Continued)

(c) Dear Official,

It is my understanding, after having taken a beginning course in accounting principles, that the government uses a cash-basis system rather than an accrual-basis accounting system.

I am shocked at such a practice! There must be billions of dollars of liabilities hidden in many contracts that have not been recorded yet for the mere reason that they haven't been paid yet. I realize that the deficit would dramatically increase if we were to implement an accrual system, but in all fairness, we citizens should be given a more accurate picture of what our government is up to.

Sincerely,

CONCERNED STUDENT

EXERCISE 3-3

(a)	Cash received from revenue	£112,000
	Cash paid for expenses	(72,000)
	Cash-basis net income	£ 40,000
(b)	Revenues [(£112,000 – £30,000) + £44,000]	£126,000
	Expenses [(£72,000 – £27,000) + £37,000]	(82,000)
	Accrual-basis net income	£ 44,000

EXERCISE 3-4

1. Unearned revenue.
2. Accrued expense.
3. Accrued expense.
4. Accrued revenue.
5. Prepaid expense.
6. Unearned revenue.
7. Accrued revenue.
8. Prepaid expense.
9. Prepaid expense.
10. Prepaid expense.
11. Accrued expense.

EXERCISE 3-5

1.	Interest Expense	3,600	
	Interest Payable (NT$240,000 X 6% X 3/12)		3,600
2.	Supplies Expense	50,100	
	Supplies (NT$73,500 – NT$23,400)		50,100
3.	Depreciation Expense	30,000	
	Accumulated Depreciation—Equipment		30,000
4.	Insurance Expense	36,750	
	Prepaid Insurance (NT$63,000 X 7/12)		36,750
5.	Unearned Service Revenue	225,000	
	Service Revenue (NT$900,000 X 1/4)		225,000
6.	Accounts Receivable	117,000	
	Service Revenue		117,000
7.	Salaries and Wages Expense	162,000	
	Salaries and Wages Payable (NT$270,000 X 3/5)		162,000

EXERCISE 3-6

Item	(a) Type of Adjustment	(b) Accounts before Adjustment
1.	Accrued Revenues	Assets Understated Revenues Understated
2.	Prepaid Expenses	Assets Overstated Expenses Understated
3.	Accrued Expenses	Expenses Understated Liabilities Understated
4.	Unearned Revenues	Liabilities Overstated Revenues Understated
5.	Accrued Expenses	Expenses Understated Liabilities Understated
6.	Prepaid Expenses	Assets Overstated Expenses Understated

EXERCISE 3-7

1.	Mar. 31	Depreciation Expense (€320 X 3)................	960	
		Accumulated Depreciation— Equipment		960
2.	31	Unearned Rent Revenue	3,300	
		Rent Revenue (€9,900 X 1/3)		3,300
3.	31	Interest Expense...	500	
		Interest Payable		500
4.	31	Supplies Expense..	1,960	
		Supplies (€2,800 – €840).......................		1,960
5.	31	Insurance Expense (€200 X 3)	600	
		Prepaid Insurance................................		600

EXERCISE 3-8

1.	Jan. 31	Accounts Receivable..................................	875	
		Service Revenue		875
2.	31	Utilities Expense..	520	
		Utilities Payable...................................		520
3.	31	Depreciation Expense	400	
		Accumulated Depreciation— Equipment		400
	31	Interest Expense...	500	
		Interest Payable...................................		500
4.	31	Insurance Expense (₺18,000 ÷ 6)................	3,000	
		Prepaid Insurance................................		3,000
5.	31	Supplies Expense (₺1,600 – ₺700)..............	900	
		Supplies...		900

EXERCISE 3-9

1.	Oct. 31	Supplies Expense.......................................	1,700	
		Supplies (₺2,500 – ₺800).......................		1,700
2.	31	Insurance Expense.....................................	100	
		Prepaid Insurance................................		100
3.	31	Depreciation Expense	50	
		Accumulated Depreciation— Equipment		50
4.	31	Unearned Service Revenue.........................	650	
		Service Revenue		650
5.	31	Accounts Receivable..................................	320	
		Service Revenue		320

EXERCISE 3-9 (Continued)

6.	Oct. 31	Interest Expense	70	
		Interest Payable		70
7.	31	Salaries and Wages Expense	1,200	
		Salaries and Wages Payable..........		1,200

EXERCISE 3-10

BJORN ASA
Income Statement
For the Month Ended July 31, 2017

Revenues		
Service revenue (€5,500 + €920)		€6,420
Expenses		
Salaries and wages expense (€2,300 + €280)	€2,580	
Supplies expense (€1,200 – €300)	900	
Utilities expense	500	
Insurance expense	400	
Depreciation expense..	150	
Total expenses		4,530
Net income...		€1,890

EXERCISE 3-11

	Answer	Computation	
(a)	Supplies balance = £1,090	Supplies expense	£ 950
		Add: Supplies (1/31)	850
		Less: Supplies purchased	710
		Supplies (1/1)	£ 1,090
(b)	Total premium = £4,800	Total premium = Monthly premium X 12; £400 X 12 = £4,800	
	Purchase date = Aug. 1, 2016	Purchase date: On Jan. 31, there are 6 months' coverage remaining (£400 X 6). Thus, the purchase date was 6 months earlier on Aug. 1, 2016.	

EXERCISE 3-11 (Continued)

(c) Salaries and wages payable = £1,400

Cash paid	£3,100
Salaries and wages payable (1/31/17)	800
	3,900
Less: Salaries and wages expense	2,500
Salaries and wages payable (12/31/16)	£1,400

EXERCISE 3-12

(a)	July 10	Supplies	200	
		Cash		200
	14	Cash	2,000	
		Service Revenue		2,000
	15	Salaries and Wages Expense	1,200	
		Cash		1,200
	20	Cash	750	
		Unearned Service Revenue		750
(b)	July 31	Supplies Expense	800	
		Supplies		800
	31	Accounts Receivable	620	
		Service Revenue		620
	31	Salaries and Wages Expense	1,200	
		Salaries and Wages Payable		1,200
	31	Unearned Service Revenue	900	
		Service Revenue		900

EXERCISE 3-13

Aug. 31	Accounts Receivable	1,200	
	Service Revenue		1,200
31	Supplies Expense	1,600	
	Supplies		1,600
31	Insurance Expense	1,500	
	Prepaid Insurance		1,500
31	Depreciation Expense	1,300	
	Accumulated Depreciation—Equipment		1,300
31	Salaries and Wages Expense	1,100	
	Salaries and Wages Payable		1,100
31	Unearned Rent Revenue	700	
	Rent Revenue		700

EXERCISE 3-14

MATUSIAK COMPANY OAO
Income Statement
For the Year Ended August 31, 2017

Revenues		
Service revenue		€35,200
Rent revenue		11,700
Total revenues		46,900
Expenses		
Salaries and wages expense	€18,100	
Rent expense	15,000	
Supplies expense	1,600	
Insurance expense	1,500	
Depreciation expense	1,300	
Total expenses		37,500
Net income		€ 9,400

EXERCISE 3-14 (Continued)

MATUSIAK COMPANY OAO
Retained Earnings Statement
For the Year Ended August 31, 2017

Retained earnings, September 1, 2016	€ 3,600
Add: Net income	9,400
Retained earnings, August 31, 2017	€13,000

MATUSIAK COMPANY OAO
Statement of Financial Position
August 31, 2017

Assets

Equipment	€14,000	
Less: Accum. depreciation—equipment	4,900	€ 9,100
Prepaid insurance		2,500
Supplies		700
Accounts receivable		10,000
Cash		10,400
Total assets		€32,700

Equity and Liabilities

Equity		
Share capital—ordinary	€12,000	
Retained earnings	13,000	€25,000
Liabilities		
Accounts payable	5,800	
Salaries and wages payable	1,100	
Unearned rent revenues	800	7,700
Total equity and liabilities		€32,700

EXERCISE 3-15

(a)	(1) Cash	10,000	
	Accounts Receivable		10,000
	(2) Unearned Service Revenue	20,000	
	Service Revenue		20,000
	(3) (a) Cash	35,000	
	Unearned Service Revenue		35,000
	(b) Unearned Service Revenue (£35,000 – £14,000)	21,000	
	Service Revenue		21,000
	(4) Accounts Receivable	112,000	
	Service Revenue (£153,000 – £20,000 – £21,000)		112,000
	(5) Cash	100,000	
	Accounts Receivable (£112,000 – £12,000)		100,000

(b) Cash received by the club = £10,000 + £103,000 + £35,000
= £145,000

EXERCISE 3-16

(a)	Cash received from services provided	Rs25,200
	Cash paid for expenses	(12,000)
	Cash paid for prepaid insurance	(2,600)
	Cash flow from operations	Rs10,600
(b)	Service revenue	Rs30,000
	Operating expenses	17,000
	Net income	Rs13,000

(c) Under the accrual basis, companies record transactions that change a company and financial statements in the period in which the events occur. Cash basis accounting fails to record revenue that a company has earned but has not collected the cash. Also it does not match expenses with earned revenue.

*EXERCISE 3-17

1.	Prepaid Insurance	720	
	Insurance Expense (€2,880 X 3/12)		720
2.	Service Revenue	30,525	
	Unearned Service Revenue (€40,700 X 3/4)		30,525
3.	Supplies	420	
	Supplies Expense		420

*EXERCISE 3-18

(a)	Jan. 2	Insurance Expense	2,640	
		Cash		2,640
	10	Supplies Expense	1,700	
		Cash		1,700
	15	Cash	6,400	
		Service Revenue		6,400

Cash

1/15	6,400	1/2	2,640
		1/10	1,700

Service Revenue

		1/15	6,400

Insurance Expense

1/2	2,640		

Supplies Expense

1/10	1,700		

(b)	Jan. 31	Prepaid Insurance (€220 X 11 months)	2,420	
		Insurance Expense		2,420
	31	Supplies	650	
		Supplies Expense		650
	31	Service Revenue	3,900	
		Unearned Service Revenue		3,900

***EXERCISE 3-18 (Continued)**

Prepaid Insurance

1/31	2,420		

Supplies

1/31	650		

Unearned Service Revenue

		1/31	3,900

Insurance Expense

1/2	2,640	1/31	2,420
Bal.	220		

Supplies Expense

1/10	1,700	1/31	650
Bal.	1,050		

Service Revenue

1/31	3,900	1/15	6,400
		Bal.	2,500

(c)	Prepaid insurance	€2,420
	Supplies	650
	Unearned service revenue	3,900
	Service revenue	2,500
	Insurance expense	220
	Supplies expense	1,050

***EXERCISE 3-19**

(a) __2__ Going concern assumption
(b) __6__ Economic entity assumption
(c) __3__ Monetary unit assumption
(d) __4__ Time period assumption
(e) __5__ Historical cost principle
(f) __1__ Full disclosure principle

***EXERCISE 3-20**

(a) This is a violation of the historical cost principle. The inventory was written up to its fair value when it should have remained at cost.

(b) This is a violation of the economic entity assumption. The treatment of the transaction treats Jay Rosman and Rosman Co. as one entity when they are two separate entities. Salaries and Wages Expense should not have been debited for the purchase of the truck. The dividends account should have debited instead.

***EXERCISE 3-20 (Continued)**

(c) This is a violation of the time period assumption. This assumption states that the economic life of a business can be divided into artificial time periods (months, quarters, or a year). By adding two more weeks to the year, Rosman Co. would be misleading financial statement readers. In addition, 2017 results would not be comparable to previous years' results. The company should use a 52 week year.

***EXERCISE 3-21**

1. **Comparability**
2. **Going concern assumption**
3. **Materiality**
4. **Full disclosure principle**
5. **Time period assumption**
6. **Relevance**
7. **Historical cost principle**
8. **Consistency**
9. **Economic entity assumption**
10. **Faithful representation**
11. **Monetary unit assumption**
12. **Expense recognition principle**

***EXERCISE 3-22**

(a) The primary objective of financial reporting is to provide financial information that is useful to investors and creditors for making decisions about providing capital. Since Net Nanny's shares appear to be actively traded, investors must be capable of using the information made available by Net Nanny to make decisions about the company.

(b) The investors must feel as if the company will show earnings in the future. They must recognize that information relevant to their investment choice is indicated by more than Net Nanny's net income.

(c) The change from Canadian dollars to U.S. dollars for reporting purposes should make Net Nanny more comparable with companies traded on U.S. stock exchanges.

*EXERCISE 3-23

(a) Accounting information is the compilation and presentation of financial information for a company. It provides information in the form of financial statements and additional disclosures that is useful for decision making.

The accounting rules and practices that have substantial authoritative support and are recognized as a general guide for financial reporting purposes are referred to as international financial reporting standards (IFRS). The biotechnology company that employs Ana will follow IFRS to report its assets, liabilities, equity, revenues, and expenses as it prepares financial statements.

(b) Ana is correct in her understanding that the low success rate for new biotech products will be a cause of concern for investors. Her suggestion that detailed scientific findings be reported to prospective investors might offset some of their concerns but it probably won't conform to the qualitative characteristics of accounting information.

These characteristics consist of relevance, faithful representation, comparability, and consistency, verifiability, timeliness, and understandability. They apply to accounting information rather than the scientific findings that Ana wants to include.

SOLUTIONS TO PROBLEMS

PROBLEM 3-1A

(a)

J3

Date		Account Titles and Explanation	Ref.	Debit	Credit
2017					
June	30	Supplies Expense	631	1,260	
		Supplies			
		(€1,600 – €340)	126		1,260
	30	Utilities Expense	732	185	
		Accounts Payable	201		185
	30	Insurance Expense	722	250	
		Prepaid Insurance			
		(€3,000 ÷ 12 months)	130		250
	30	Unearned Service Revenue	209	2,500	
		Service Revenue	400		2,500
	30	Salaries and Wages Expense	726	1,600	
		Salaries and Wages			
		Payable	212		1,600
	30	Depreciation Expense	711	300	
		Accumulated Depreciation—			
		Equipment	158		300
	30	Accounts Receivable	112	2,400	
		Service Revenue	400		2,400

(b)

Cash — No. 101

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
June	30	Balance	✓			6,200

Accounts Receivable — No. 112

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
June	30	Balance	✓			6,000
	30	Adjusting	J3	2,400		8,400

Supplies — No. 126

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
June	30	Balance	✓			1,600
	30	Adjusting	J3		1,260	340

Prepaid Insurance — No. 130

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
June	30	Balance	✓			3,000
	30	Adjusting	J3		250	2,750

Equipment — No. 157

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
June	30	Balance	✓			14,400

Accumulated Depreciation—Equipment — No. 158

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
June	30	Adjusting	J3		300	300

PROBLEM 3-1A (Continued)

Accounts Payable | **No. 201**

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
June	30	Balance	✓			4,700
	30	Adjusting	J3		185	4,885

Unearned Service Revenue | **No. 209**

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
June	30	Balance	✓			4,000
	30	Adjusting	J3	2,500		1,500

Salaries and Wages Payable | **No. 212**

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
June	30	Adjusting	J3		1,600	1,600

Share Capital—Ordinary | **No. 311**

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
June	30	Balance	✓			20,000

Service Revenue | **No. 400**

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
June	30	Balance	✓			7,900
	30	Adjusting	J3		2,500	10,400
	30	Adjusting	J3		2,400	12,800

PROBLEM 3-1A (Continued)

Supplies Expense — No. 631

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
June	30	Adjusting	J3	1,260		1,260

Depreciation Expense — No. 711

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
June	30	Adjusting	J3	300		300

Insurance Expense — No. 722

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
June	30	Adjusting	J3	250		250

Salaries and Wages Expense — No. 726

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
June	30	Balance	✓			4,400
	30	Adjusting	J3	1,600		6,000

Rent Expense — No. 729

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
June	30	Balance	✓			1,000

Utilities Expense — No. 732

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
June	30	Adjusting	J3	185		185

PROBLEM 3-1A (Continued)

(c)

CUONO COMPANY SpA
Adjusted Trial Balance
June 30, 2017

	Debit	Credit
Cash	€ 6,200	
Accounts Receivable	8,400	
Supplies	340	
Prepaid Insurance	2,750	
Equipment	14,400	
Accumulated Depreciation—Equipment		€ 300
Accounts Payable		4,885
Unearned Service Revenue		1,500
Salaries and Wages Payable		1,600
Share Capital—Ordinary		20,000
Service Revenue		12,800
Supplies Expense	1,260	
Depreciation Expense	300	
Insurance Expense	250	
Salaries and Wages Expense	6,000	
Rent Expense	1,000	
Utilities Expense	185	
	€41,085	€41,085

PROBLEM 3-2A

(a)

J1

Date		Account Titles and Explanation	Ref.	Debit	Credit
Aug.	31	Insurance Expense (€400 X 3)..........	722	1,200	
		Prepaid Insurance	130		1,200
	31	Supplies Expense (€3,300 – €900)	631	2,400	
		Supplies	126		2,400
	31	Depreciation Expense			
		(€4,500 X 1/4) + (€2,400 X 1/4).......	711	1,725	
		Accumulated Depreciation—			
		Buildings..............................	144		1,125
		Accumulated Depreciation—			
		Equipment............................	158		600
	31	Unearned Rent Revenue...................	208	4,100	
		Rent Revenue	429		4,100
	31	Salaries and Wages Expense...........	726	400	
		Salaries and Wages Payable ...	212		400
	31	Accounts Receivable	112	3,700	
		Rent Revenue	429		3,700
	31	Interest Expense................................	718	600	
		Interest Payable			
		[(€80,000 X 9%) X 1/12].........	230		600

(b)

Cash No. 101

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Balance	✓			19,600

PROBLEM 3-2A (Continued)

Accounts Receivable **No. 112**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Adjusting	J1	3,700		3,700

Supplies **No. 126**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Balance	✓			3,300
	31	Adjusting	J1		2,400	900

Prepaid Insurance **No. 130**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Balance	✓			6,000
	31	Adjusting	J1		1,200	4,800

Land **No. 140**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Balance	✓			25,000

Buildings **No. 143**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Balance	✓			125,000

Accumulated Depreciation—Buildings **No. 144**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Adjusting	J1		1,125	1,125

Equipment **No. 157**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Balance	✓			26,000

PROBLEM 3-2A (Continued)

Accumulated Depreciation—Equipment **No. 158**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Adjusting	J1		600	600

Accounts Payable **No. 201**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Balance	✓			6,500

Unearned Rent Revenue **No. 208**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Balance	✓			7,400
	31	Adjusting	J1	4,100		3,300

Salaries and Wages Payable **No. 212**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Adjusting	J1		400	400

Interest Payable **No. 230**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Adjusting	J1		600	600

Mortgage Payable **No. 275**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Balance	✓			80,000

Share Capital—Ordinary **No. 311**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Balance	✓			100,000

PROBLEM 3-2A (Continued)

Dividends **No. 332**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Balance	✓			5,000

Rent Revenue **No. 429**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Balance	✓			80,000
	31	Adjusting	J1		4,100	84,100
	31	Adjusting	J1		3,700	87,800

Maintenance and Repairs Expense **No. 622**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Balance	✓			3,600

Supplies Expense **No. 631**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Adjusting	J1	2,400		2,400

Depreciation Expense **No. 711**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Adjusting	J1	1,725		1,725

Interest Expense **No. 718**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Adjusting	J1	600		600

Insurance Expense **No. 722**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Adjusting	J1	1,200		1,200

PROBLEM 3-2A (Continued)

Salaries and Wages Expense **No. 726**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Balance	✓			51,000
	31	Adjusting	J1	400		51,400

Utilities Expense **No. 732**

Date		Explanation	Ref.	Debit	Credit	Balance
Aug.	31	Balance	✓			9,400

(c)

LAZY RIVER RESORT, LTD.
Adjusted Trial Balance
August 31, 2017

	Debit	Credit
Cash	€ 19,600	
Accounts Receivable	3,700	
Supplies	900	
Prepaid Insurance	4,800	
Land	25,000	
Buildings	125,000	
Accumulated Depreciation—Buildings		€ 1,125
Equipment	26,000	
Accumulated Depreciation—Equipment		600
Accounts Payable		6,500
Unearned Rent Revenue		3,300
Salaries and Wages Payable		400
Interest Payable		600
Mortgage Payable		80,000
Share Capital—Ordinary		100,000
Dividends	5,000	
Rent Revenue		87,800
Maintenance and Repairs Expense	3,600	
Supplies Expense	2,400	
Depreciation Expense	1,725	
Interest Expense	600	
Insurance Expense	1,200	
Salaries and Wages Expense	51,400	
Utilities Expense	9,400	
	€280,325	€280,325

PROBLEM 3-2A (Continued)

(d)

LAZY RIVER RESORT, LTD.
Income Statement
For the Three Months Ended August 31, 2017

Revenues		
Rent revenue		€87,800
Expenses		
Salaries and wages expense	€51,400	
Utilities expense	9,400	
Maintenance and repairs expense	3,600	
Supplies expense	2,400	
Depreciation expense	1,725	
Insurance expense	1,200	
Interest expense	600	
Total expenses		70,325
Net income		€17,475

LAZY RIVER RESORT, LTD.
Retained Earnings Statement
For the Three Months Ended August 31, 2017

Retained Earnings, June 1	€ 0
Add: Net income	17,475
	17,475
Less: Dividends	5,000
Retained Earnings, August 31	€12,475

LAZY RIVER RESORT, LTD.
Statement of Financial Position
August 31, 2017

Assets		
Land		€ 25,000
Buildings	€125,000	
Less: Accum. depreciation—buildings	1,125	123,875
Equipment	26,000	
Less: Accum. depreciation—equipment	600	25,400
Prepaid insurance		4,800
Supplies		900
Accounts receivable		3,700
Cash		19,600
Total assets		€203,275
Equity and Liabilities		
Equity		
Share capital—ordinary	€100,000	
Retained earnings	12,475	€112,475
Liabilities		
Mortgage payable	80,000	
Accounts payable	6,500	
Unearned rent revenue	3,300	
Interest payable	600	
Salaries and wages payable	400	90,800
Total equity and liabilities		€203,275

PROBLEM 3-3A

(a)

			Debit	Credit
Dec. 31	Accounts Receivable		5,500	
		Service Revenue		5,500
31	Unearned Service Revenue		1,600	
		Service Revenue		1,600
31	Supplies Expense		3,600	
		Supplies		3,600
31	Depreciation Expense		7,000	
		Accumulated Depreciation—Equipment		7,000
31	Interest Expense		150	
		Interest Payable		150
31	Insurance Expense		850	
		Prepaid Insurance		850
31	Salaries and Wages Expense		1,300	
		Salaries and Wages Payable		1,300

(b)

COSTELLO ADVERTISING AGENCY, SpA
Income Statement
For the Year Ended December 31, 2017

Revenues		
Service revenue		€65,700
Expenses		
Salaries and wages expense	€11,300	
Depreciation expense	7,000	
Rent expense	4,000	
Supplies expense	3,600	
Insurance expense	850	
Interest expense	500	
Total expenses		27,250

Net income	**€38,450**

PROBLEM 3-3A (Continued)

COSTELLO ADVERTISING AGENCY, SpA
Retained Earnings Statement
For the Year Ended December 31, 2017

Retained Earnings, January 1	€ 5,500
Add: Net income	38,450
	43,950
Less: Dividends	12,000
Retained Earnings, December 31	€31,950

COSTELLO ADVERTISING AGENCY, SpA
Statement of Financial Position
December 31, 2017

Assets		
Equipment	€60,000	
Less: Accumulated depreciation—equipment	33,000	€27,000
Prepaid insurance		2,500
Supplies		5,000
Accounts receivable		23,500
Cash		11,000
Total assets		€69,000
Equity and Liabilities		
Equity		
Share capital—ordinary	€20,000	
Retained earnings	31,950	€51,950
Liabilities		
Notes payable	5,000	
Accounts payable	5,000	
Unearned service revenue	5,600	
Salaries and wages payable	1,300	
Interest payable	150	17,050
Total equity and liabilities		€69,000

PROBLEM 3-3A (Continued)

(c) (1) $I = P \times R \times T$

$€150 = €5,000 \times R \times 1/2$

$€150 = €2,500R$

$$R = \frac{€150}{€2,500}$$

$R = 6\%$

(2) **Salaries and Wages Expense, €11,300 less Salaries and Wages Payable 12/31/17, €1,300 = €10,000. Total payments, €14,500 – €10,000 = €4,500 Salaries and Wages Payable 12/31/16.**

PROBLEM 3-4A

1.	Dec. 31	Salaries and Wages Expense	2,200	
		Salaries and Wages Payable		2,200
		[5 X £800 X 2/5 = £1,600		
		3 X £500 X 2/5 = 600		
		£2,200]		
2.	31	Unearned Rent Revenue	74,000	
		Rent Revenue		74,000
		[5 X £4,000 X 2 = £40,000		
		4 X £8,500 X 1 = 34,000		
		£74,000]		
3.	31	Advertising Expense	5,200	
		Prepaid Advertising		5,200
		[A650 – £500 per month for 8 months = £4,000		
		B974 – £400 per month for 3 months = 1,200		
		£5,200]		
4.	31	Interest Expense.....................................	5,250	
		Interest Payable (£100,000 X 9% X 7/12).................		5,250

PROBLEM 3-5A

(a), (c) & (e)

Cash — **No. 101**

Date		Explanation	Ref.	Debit	Credit	Balance
Sept.	1	Balance	✓			5,020
	8		J1		1,700	3,320
	10		J1	1,200		4,520
	12		J1	3,400		7,920
	20		J1		4,500	3,420
	22		J1		500	2,920
	25		J1		1,360	1,560
	29		J1	750		2,310

Accounts Receivable — **No. 112**

Date		Explanation	Ref.	Debit	Credit	Balance
Sept.	1	Balance	✓			3,520
	10		J1		1,200	2,320
	27		J1	1,600		3,920

Supplies — **No. 126**

Date		Explanation	Ref.	Debit	Credit	Balance
Sept.	1	Balance	✓			2,000
	17		J1	1,900		3,900
	30	Adjusting	J1		2,200	1,700

Equipment — **No. 157**

Date		Explanation	Ref.	Debit	Credit	Balance
Sept.	1	Balance	✓			18,000
	15		J1	3,000		21,000

PROBLEM 3-5A (Continued)

Accumulated Depreciation—Equipment **No. 158**

Date		Explanation	Ref.	Debit	Credit	Balance
Sept.	1	Balance	✓			2,240
	30	Adjusting	J1		140	2,380

Accounts Payable **No. 201**

Date		Explanation	Ref.	Debit	Credit	Balance
Sept.	1	Balance	✓			3,400
	15		J1		3,000	6,400
	17		J1		1,900	8,300
	20		J1	4,500		3,800

Unearned Service Revenue **No. 209**

Date		Explanation	Ref.	Debit	Credit	Balance
Sept.	1	Balance	✓			1,400
	29		J1		750	2,150
	30	Adjusting	J1	1,450		700

Salaries and Wages Payable **No. 212**

Date		Explanation	Ref.	Debit	Credit	Balance
Sept.	1	Balance	✓			500
	8		J1	500		0
	30	Adjusting	J1		400	400

Share Capital—Ordinary **No. 311**

Date		Explanation	Ref.	Debit	Credit	Balance
Sept.	1	Balance	✓			10,000

Retained Earnings **No. 320**

Date		Explanation	Ref.	Debit	Credit	Balance
Sept.	1	Balance	✓			11,000

PROBLEM 3-5A (Continued)

Service Revenue **No. 400**

Date		Explanation	Ref.	Debit	Credit	Balance
Sept.	12		J1		3,400	3,400
	27		J1		1,600	5,000
	30	Adjusting	J1		1,450	6,450

Supplies Expense **No. 631**

Date		Explanation	Ref.	Debit	Credit	Balance
Sept.	30	Adjusting	J1	2,200		2,200

Depreciation Expense **No. 711**

Date		Explanation	Ref.	Debit	Credit	Balance
Sept.	30	Adjusting	J1	140		140

Salaries and Wages Expense **No. 726**

Date		Explanation	Ref.	Debit	Credit	Balance
Sept.	8		J1	1,200		1,200
	25		J1	1,360		2,560
	30	Adjusting	J1	400		2,960

Rent Expense **No. 729**

Date		Explanation	Ref.	Debit	Credit	Balance
Sept.	22		J1	500		500

(b) General Journal

J1

Date		Account Titles	Ref.	Debit	Credit
Sept.	8	Salaries and Wages Payable.............	212	500	
		Salaries and Wages Expense............	726	1,200	
		Cash	101		1,700
	10	Cash..	101	1,200	
		Accounts Receivable	112		1,200
	12	Cash..	101	3,400	
		Service Revenue	400		3,400
	15	Equipment	157	3,000	
		Accounts Payable	201		3,000
	17	Supplies...	126	1,900	
		Accounts Payable	201		1,900
	20	Accounts Payable	201	4,500	
		Cash	101		4,500
	22	Rent Expense	729	500	
		Cash	101		500
	25	Salaries and Wages Expense............	726	1,360	
		Cash	101		1,360
	27	Accounts Receivable.........................	112	1,600	
		Service Revenue	400		1,600
	29	Cash..	101	750	
		Unearned Service Revenue...........	209		750

PROBLEM 3-5A (Continued)

(d) & (f)

BECK EQUIPMENT REPAIR, LTD.
Trial Balances
September 30, 2017

	Before Adjustment		After Adjustment	
	Dr.	Cr.	Dr.	Cr.
Cash	£ 2,310		£ 2,310	
Accounts Receivable	3,920		3,920	
Supplies	3,900		1,700	
Equipment	21,000		21,000	
Accumulated Depreciation—Equipment		£ 2,240		£ 2,380
Accounts Payable		3,800		3,800
Unearned Service Revenue		2,150		700
Salaries and Wages Payable		-0-		400
Share Capital—Ordinary		10,000		10,000
Retained Earnings		11,000		11,000
Service Revenue		5,000		6,450
Supplies Expense			2,200	
Depreciation Expense			140	
Salaries and Wages Expense	2,560		2,960	
Rent Expense	500		500	
	£34,190	£34,190	£34,730	£34,730

(e)

1.	Sept. 30	Supplies Expense	631	2,200	
		Supplies (£3,900 – £1,700)	126		2,200
2.	30	Salaries and Wages Expense	726	400	
		Salaries and Wages Payable	212		400
3.	30	Depreciation Expense	711	140	
		Accumulated Depreciation—Equipment	158		140
4.	30	Unearned Service Revenue	209	1,450	
		Service Revenue	400		1,450

PROBLEM 3-5A (Continued)

(g)

BECK EQUIPMENT REPAIR, LTD.
Income Statement
For the Month Ended September 30, 2017

Revenues		
Service revenue		£6,450
Expenses		
Salaries and wages expense	£2,960	
Supplies expense	2,200	
Rent expense	500	
Depreciation expense	140	
Total expenses		5,800
Net income		£ 650

BECK EQUIPMENT REPAIR, LTD.
Retained Earnings Statement
For the Month Ended September 30, 2017

Retained Earnings, September 1	£11,000
Add: Net income	650
Retained Earnings, September 30	£11,650

PROBLEM 3-5A (Continued)

BECK EQUIPMENT REPAIR, LTD.
Statement of Financial Position
September 30, 2017

Assets		
Equipment	£21,000	
Less: Accumulated depreciation—equipment	2,380	£18,620
Supplies		1,700
Accounts receivable		3,920
Cash		2,310
Total assets		£26,550
Equity and Liabilities		
Equity		
Share capital—ordinary	£10,000	
Retained earnings	11,650	£ 21,650
Liabilities		
Accounts payable	3,800	
Unearned service revenue	700	
Salaries and wages payable	400	4,900
Total equity and liabilities		£26,550

*PROBLEM 3-6A

(a)	1.	June 30	**Supplies**	680	
			Supplies Expense		680
	2.	30	Interest Expense		
			(€20,000 X 9% X 5/12)	750	
			Interest Payable		750
	3.	30	Prepaid Insurance		
			[(€2,880 ÷ 12) X 8]..............................	1,920	
			Insurance Expense		1,920
	4.	30	Service Revenue..................................	1,100	
			Unearned Service Revenue............		1,100
	5.	30	Depreciation Expense		
			(€2,250 ÷ 2)	1,125	
			Accumulated Depreciation—		
			Equipment		1,125

*PROBLEM 3-6A (Continued)

(b)

ALPHA GRAPHICS COMPANY, SA
Adjusted Trial Balance
June 30, 2017

	Debit	Credit
Cash	€ 8,400	
Accounts Receivable	14,000	
Supplies	680	
Prepaid Insurance	1,920	
Equipment	45,000	
Accumulated Depreciation—Equipment		€ 1,125
Notes Payable		20,000
Accounts Payable		9,000
Interest Payable		750
Unearned Service Revenue		1,100
Share Capital—Ordinary		22,000
Service Revenue (€58,280 – €1,100)		57,180
Salaries and Wages Expense	30,000	
Supplies Expense (€3,900 – €680)	3,220	
Advertising Expense	1,900	
Rent Expense	1,500	
Utilities Expense	1,700	
Depreciation Expense	1,125	
Insurance Expense (€2,880 – €1,920)	960	
Interest Expense	750	
	€111,155	€111,155

*PROBLEM 3-6A (Continued)

(c)

ALPHA GRAPHICS COMPANY, SA
Income Statement
For the Six Months Ended June 30, 2017

Revenues		
Service revenue		€57,180
Expenses		
Salaries and wages expense	€30,000	
Supplies expense	3,220	
Advertising expense	1,900	
Utilities expense	1,700	
Rent expense	1,500	
Depreciation expense	1,125	
Insurance expense	960	
Interest expense	750	
Total expenses		41,155
Net income		€16,025

ALPHA GRAPHICS COMPANY, SA
Retained Earnings Statement
For the Six Months Ended June 30, 2017

Retained Earnings, January 1	€ 0
Add: Net income	16,025
Retained Earnings, June 30	€16,025

*PROBLEM 3-6A (Continued)

ALPHA GRAPHICS COMPANY, SA
Statement of Financial Position
June 30, 2017

Assets		
Equipment	€45,000	
Less: Accumulated depreciation—equipment	1,125	€43,875
Prepaid insurance		1,920
Supplies		680
Accounts receivable		14,000
Cash		8,400
Total assets		€68,875
Equity and Liabilities		
Equity		
Share capital—ordinary	€22,000	
Retained earnings	16,025	€38,025
Liabilities		
Notes payable	20,000	
Accounts payable	9,000	
Unearned service revenue	1,100	
Interest payable	750	30,850
Total equity and liabilities		€68,875

PROBLEM 3-1B

(a)

J4

Date		Account Titles	Ref.	Debit	Credit
2017					
May	31	Supplies Expense	631	500	
		Supplies	126		500
	31	Utilities Expense	736	200	
		Accounts Payable	201		200
	31	Insurance Expense	722	120	
		Prepaid Insurance (R$2,880 ÷ 24 months)	130		120
	31	Unearned Service Revenue	209	1,600	
		Service Revenue (R$2,600 – R$1,000)	400		1,600
	31	Salaries and Wages Expense	726	400	
		Salaries and Wages Payable [(2/5 X R$500) X 2 employees]	212		400
	31	Depreciation Expense	711	200	
		Accumulated Depreciation—Equipment	158		200
	31	Accounts Receivable	112	1,100	
		Service Revenue	400		1,100

(b)

Cash No. 101

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
May	31	Balance	✓			7,700

PROBLEM 3-1B (Continued)

Accounts Receivable **No. 112**

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
May	31	Balance	✓			4,000
	31	Adjusting	J4	1,100		5,100

Supplies **No. 126**

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
May	31	Balance	✓			1,500
	31	Adjusting	J4		500	1,000

Prepaid Insurance **No. 130**

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
May	31	Balance	✓			2,880
	31	Adjusting	J4		120	2,760

Equipment **No. 157**

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
May	31	Balance	✓			12,000

Accumulated Depreciation—Equipment **No. 158**

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
May	31	Adjusting	J4		200	200

PROBLEM 3-1B (Continued)

Accounts Payable **No. 201**

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
May	31	Balance	✓			4,700
	31	Adjusting	J4		200	4,900

Unearned Service Revenue **No. 209**

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
May	31	Balance	✓			2,600
	31	Adjusting	J4	1,600		1,000

Salaries and Wages Payable **No. 212**

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
May	31	Adjusting	J4		400	400

Share Capital—Ordinary **No. 311**

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
May	31	Balance	✓			16,000

Service Revenue **No. 400**

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
May	31	Balance	✓			8,780
	31	Adjusting	J4		1,600	10,380
	31	Adjusting	J4		1,100	11,480

Supplies Expense **No. 631**

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
May	31	Adjusting	J4	500		500

PROBLEM 3-1B (Continued)

Depreciation Expense **No. 711**

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
May	31	Adjusting	J4	200		200

Insurance Expense **No. 722**

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
May	31	Adjusting	J4	120		120

Salaries and Wages Expense **726**

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
May	31	Balance	✓			3,000
	31	Adjusting	J4	400		3,400

Rent Expense **No. 729**

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
May	31	Balance	✓			1,000

Utilities Expense **No. 732**

Date		Explanation	Ref.	Debit	Credit	Balance
2017						
May	31	Adjusting	J4	200		200

PROBLEM 3-1B (Continued)

(c)

LIRA CONSULTING, SA
Adjusted Trial Balance
May 31, 2017

	Debit	Credit
Cash	R$ 7,700	
Accounts Receivable	5,100	
Supplies	1,000	
Prepaid Insurance	2,760	
Equipment	12,000	
Accumulated Depreciation—Equipment		R$ 200
Accounts Payable		4,900
Unearned Service Revenue		1,000
Salaries and Wages Payable		400
Share Capital—Ordinary		16,000
Service Revenue		11,480
Supplies Expense	500	
Depreciation Expense	200	
Insurance Expense	120	
Salaries and Wages Expense	3,400	
Rent Expense	1,000	
Utilities Expense	200	
	R$33,980	R$33,980

PROBLEM 3-2B

(a)

J1

Date		Account Titles	Ref.	Debit	Credit
May	31	Insurance Expense	722	200	
		Prepaid Insurance			
		(£2,400 X 1/12)	130		200
	31	Supplies Expense	631	1,170	
		Supplies (£1,520 – £350)	126		1,170
	31	Depreciation Expense			
		(£2,640 X 1/12) + (£1,500 X 1/12)	711	345	
		Accumulated Depreciation—			
		Buildings	142		220
		Accumulated Depreciation—			
		Equipment	158		125
	31	Interest Expense	718	380	
		Interest Payable			
		[(£38,000 X 12%) X 1/12]	230		380
	31	Unearned Rent Revenue	208	2,200	
		Rent Revenue			
		(2/3 X £3,300)	429		2,200
	31	Salaries and Wages Expense	726	750	
		Salaries and Wages Payable	212		750

(b)

Cash **No. 101**

Date	Explanation	Ref.	Debit	Credit	Balance
May 31	Balance	✓			2,500

PROBLEM 3-2B (Continued)

Supplies **No. 126**

Date		Explanation	Ref.	Debit	Credit	Balance
May	31	Balance	✓			1,520
	31	Adjusting	J1		1,170	350

Prepaid Insurance **No. 130**

Date		Explanation	Ref.	Debit	Credit	Balance
May	31	Balance	✓			2,400
	31	Adjusting	J1		200	2,200

Land **No. 140**

Date		Explanation	Ref.	Debit	Credit	Balance
May	31	Balance	✓			14,000

Buildings **No. 141**

Date		Explanation	Ref.	Debit	Credit	Balance
May	31	Balance	✓			58,000

Accumulated Depreciation—Buildings **No. 142**

Date		Explanation	Ref.	Debit	Credit	Balance
May	31	Adjusting	J1		220	220

Equipment **No. 157**

Date		Explanation	Ref.	Debit	Credit	Balance
May	31	Balance	✓			15,000

Accumulated Depreciation—Equipment **No. 158**

Date		Explanation	Ref.	Debit	Credit	Balance
May	31	Adjusting	J1		125	125

PROBLEM 3-2B (Continued)

Accounts Payable **No. 201**

Date		Explanation	Ref.	Debit	Credit	Balance
May	31	Balance	✓			4,800

Unearned Rent Revenue **No. 208**

Date		Explanation	Ref.	Debit	Credit	Balance
May	31	Balance	✓			3,300
	31	Adjusting	J1	2,200		1,100

Salaries and Wages Payable **No. 212**

Date		Explanation	Ref.	Debit	Credit	Balance
May	31	Adjusting	J1		750	750

Interest Payable **No. 230**

Date		Explanation	Ref.	Debit	Credit	Balance
May	31	Adjusting	J1		380	380

Mortgage Payable **No. 275**

Date		Explanation	Ref.	Debit	Credit	Balance
May	31	Balance	✓			38,000

Share Capital—Ordinary **No. 311**

Date		Explanation	Ref.	Debit	Credit	Balance
May	31	Balance	✓			40,000

Rent Revenue **No. 429**

Date		Explanation	Ref.	Debit	Credit	Balance
May	31	Balance	✓			12,300
	31	Adjusting	J1		2,200	14,500

PROBLEM 3-2B (Continued)

Advertising Expense					No. 610
Date	**Explanation**	**Ref.**	**Debit**	**Credit**	**Balance**
May 31	Balance	✓			780

Supplies Expense					No. 631
Date	**Explanation**	**Ref.**	**Debit**	**Credit**	**Balance**
May 31	Adjusting	J1	1,170		1,170

Depreciation Expense					No. 711
Date	**Explanation**	**Ref.**	**Debit**	**Credit**	**Balance**
May 31	Adjusting	J1	345		345

Interest Expense					No. 718
Date	**Explanation**	**Ref.**	**Debit**	**Credit**	**Balance**
May 31	Adjusting	J1	380		380

Insurance Expense					No. 722
Date	**Explanation**	**Ref.**	**Debit**	**Credit**	**Balance**
May 31	Adjusting	J1	200		200

Salaries and Wages Expense					No. 726
Date	**Explanation**	**Ref.**	**Debit**	**Credit**	**Balance**
May 31	Balance	✓			3,300
31	Adjusting	J1	750		4,050

Utilities Expense					No. 732
Date	**Explanation**	**Ref.**	**Debit**	**Credit**	**Balance**
May 31	Balance	✓			900

PROBLEM 3-2B (Continued)

(c)

BADGER MOTEL, LTD.
Adjusted Trial Balance
May 31, 2017

	Debit	Credit
Cash	£ 2,500	
Supplies	350	
Prepaid Insurance	2,200	
Land	14,000	
Buildings	58,000	
Accumulated Depreciation—Buildings		£ 220
Equipment	15,000	
Accumulated Depreciation—Equipment		125
Accounts Payable		4,800
Unearned Rent Revenue		1,100
Salaries and Wages Payable		750
Interest Payable		380
Mortgage Payable		38,000
Share Capital—Ordinary		40,000
Rent Revenue		14,500
Advertising Expense	780	
Supplies Expense	1,170	
Depreciation Expense	345	
Interest Expense	380	
Insurance Expense	200	
Salaries and Wages Expense	4,050	
Utilities Expense	900	
	£99,875	£99,875

PROBLEM 3-2B (Continued)

(d)

BADGER MOTEL, LTD.
Income Statement
For the Month Ended May 31, 2017

Revenues		
Rent revenue		£14,500
Expenses		
Salaries and wages expense	£4,050	
Supplies expense	1,170	
Utilities expense	900	
Advertising expense	780	
Interest expense	380	
Depreciation expense	345	
Insurance expense	200	
Total expenses		7,825
Net income		£ 6,675

BADGER MOTEL, LTD.
Retained Earnings Statement
For the Month Ended May 31, 2017

Retained Earnings, May 1	£ 0
Add: Net income	6,675
Retained Earnings, May 31	£6,675

BADGER MOTEL, LTD.
Statement of Financial Position
May 31, 2017

Assets		
Land		£14,000
Buildings	£58,000	
Less: Accumulated depreciation— buildings	220	57,780
Equipment	15,000	
Less: Accumulated depreciation— equipment	125	14,875
Prepaid insurance		2,200
Supplies		350
Cash		2,500
Total assets		£91,705
Equity and Liabilities		
Equity		
Share capital—ordinary	£40,000	
Retained earnings	6,675	£46,675
Liabilities		
Mortgage payable	38,000	
Accounts payable	4,800	
Unearned rent revenue	1,100	
Salaries and wages payable	750	
Interest payable	380	45,030
Total equity and liabilities		£91,705

PROBLEM 3-3B

(a)

			Debit	Credit
Sept. 30	Accounts Receivable		1,100	
		Service Revenue		1,100
30	Rent Expense		1,000	
		Prepaid Rent		1,000
30	Supplies Expense		1,250	
		Supplies		1,250
30	Depreciation Expense		1,200	
		Accum. Depreciation—Equipment		1,200
30	Interest Expense		100	
		Interest Payable		100
30	Unearned Rent Revenue		1,050	
		Rent Revenue		1,050
30	Salaries and Wages Expense		725	
		Salaries and Wages Payable		725

(b)

LAUSANNE CO., AG
Income Statement
For the Quarter Ended September 30, 2017

Revenues		
Service revenue		CHF17,900
Rent revenue		2,760
Total revenues		20,660
Expenses		
Salaries and wages expense	CHF8,725	
Rent expense	2,900	
Utilities expense	1,510	
Supplies expense	1,250	
Depreciation expense	1,200	
Interest expense	100	
Total expenses		15,685
Net income		CHF 4,975

PROBLEM 3-3B (Continued)

LAUSANNE CO., AG
Retained Earnings Statement
For the Quarter Ended September 30, 2017

Retained Earnings, July 1, 2017	CHF 0
Add: Net income	4,975
	4,975
Less: Dividends	1,000
Retained Earnings, September 30, 2017	CHF 3,975

LAUSANNE CO., AG
Statement of Financial Position
September 30, 2017

Assets		
Equipment	CHF20,000	
Less: Accum. depreciation—equipment	1,200	CHF18,800
Prepaid rent		1,200
Supplies		650
Accounts receivable		11,500
Cash		8,700
Total assets		CHF40,850
Equity and Liabilities		
Equity		
Share capital—ordinary	CHF22,000	
Retained earnings	3,975	
Total equity		CHF25,975
Liabilities		
Notes payable	10,000	
Accounts payable	3,200	
Salaries and wages payable	725	
Unearned rent revenue	850	
Interest payable	100	
Total liabilities		14,875
Total equity and liabilities		CHF40,850

(c) Interest of 12% per year equals a monthly rate of 1%; monthly interest is CHF100 (CHF10,000 X 1%). Since total interest expense is CHF100, the note has been outstanding one month.

PROBLEM 3-4B

			Debit	Credit
1.	Dec. 31	Insurance Expense	4,400	
		Prepaid Insurance		4,400
		[(€6,000 ÷ 3) = €2,000		
		(€4,800 ÷ 2) = 2,400		
		€4,400]		
2.	Dec. 31	Unearned Rent Revenue	84,000	
		Rent Revenue		84,000
		Nov. 5 X €5,000 X 2 = €50,000		
		Dec. 4 X €8,500 X 1 = 34,000		
		€84,000		
3.	Dec. 31	Interest Expense	1,800	
		Interest Payable		
		(€120,000 X 9% X 2/12)		1,800
4.	Dec. 31	Salaries and Wages Expense	2,820	
		Salaries and Wages Payable		2,820
		[5 X €640 X 3/5 = €1,920		
		3 X €500 X 3/5 = 900		
		€2,820]		

PROBLEM 3-5B

(a), (c) & (e)

Cash **No. 101**

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	1	Balance	✓			24,000
	8		J1		15,000	9,000
	10		J1	34,200		43,200
	12		J1	31,000		74,200
	20		J1		27,000	47,200
	22		J1		6,200	41,000
	25		J1		15,000	26,000
	29		J1	3,600		29,600

Accounts Receivable **No. 112**

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	1	Balance	✓			44,500
	10		J1		34,200	10,300
	27		J1	19,000		29,300

Supplies **No. 126**

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	1	Balance	✓			18,000
	17		J1	7,000		25,000
	30	Adjusting	J1		11,000	14,000

Equipment **No. 157**

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	1	Balance	✓			160,000
	15		J1	20,000		180,000

PROBLEM 3-5B (Continued)

Accumulated Depreciation—Equipment **No. 158**

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	1	Balance	✓			20,000
	30	Adjusting	J1		2,000	22,000

Accounts Payable **No. 201**

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	1	Balance	✓			26,000
	15		J1		20,000	46,000
	17		J1		7,000	53,000
	20		J1	27,000		26,000

Unearned Service Revenue **No. 209**

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	1	Balance	✓			13,600
	29		J1		3,600	17,200
	30	Adjusting	J1	13,800		3,400

Salaries and Wages Payable **No. 212**

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	1	Balance	✓			7,000
	8		J1	7,000		0
	30	Adjusting	J1		3,700	3,700

Share Capital—Ordinary **No. 311**

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	1	Balance	✓			100,000

Retained Earnings **No. 320**

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	1	Balance	✓			79,900

PROBLEM 3-5B (Continued)

Service Revenue — No. 400

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	12		J1		31,000	31,000
	27		J1		19,000	50,000
	30	Adjusting	J1		13,800	63,800

Supplies Expense — No. 631

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	30	Adjusting	J1	11,000		11,000

Depreciation Expense — No. 711

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	30	Adjusting	J1	2,000		2,000

Salaries and Wages Expense — No. 726

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	8		J1	8,000		8,000
	25		J1	15,000		23,000
	30	Adjusting	J1	3,700		26,700

Rent Expense — No. 729

Date		Explanation	Ref.	Debit	Credit	Balance
Nov.	22		J1	6,200		6,200

(b) General Journal

J1

Date		Account Titles and Explanation	Ref.	Debit	Credit
Nov.	8	Salaries and Wages Payable	212	7,000	
		Salaries and Wages Expense	726	8,000	
		Cash	101		15,000
	10	Cash	101	34,200	
		Accounts Receivable	112		34,200
	12	Cash	101	31,000	
		Service Revenue	400		31,000
	15	Equipment	157	20,000	
		Accounts Payable	201		20,000
	17	Supplies	126	7,000	
		Accounts Payable	201		7,000
	20	Accounts Payable	201	27,000	
		Cash	101		27,000
	22	Rent Expense	729	6,200	
		Cash	101		6,200
	25	Salaries and Wages Expense	726	15,000	
		Cash	101		15,000
	27	Accounts Receivable	112	19,000	
		Service Revenue	400		19,000
	29	Cash	101	3,600	
		Unearned Service Revenue	209		3,600

PROBLEM 3-5B (Continued)

(d) & (f)

SAMONE EQUIPMENT REPAIR, LTD.
Trial Balances
November 30, 2017

	Before Adjustment		After Adjustment	
	Dr.	Cr.	Dr.	Cr.
Cash	HK$29,600		HK$29,600	
Accounts Receivable	29,300		29,300	
Supplies	25,000		14,000	
Equipment	180,000		180,000	
Accumulated Depreciation— Equipment		HK$20,000		HK$22,000
Accounts Payable		26,000		26,000
Unearned Service Revenue		17,200		3,400
Salaries and Wages Payable		–0–		3,700
Share Capital—Ordinary		100,000		100,000
Retained Earnings		79,900		79,900
Service Revenue		50,000		63,800
Depreciation Expense			2,000	
Supplies Expense			11,000	
Salaries and Wages Expense	23,000		26,700	
Rent Expense	6,200		6,200	
	HK$293,100	HK$293,100	HK$298,800	HK$298,800

(e)

1.	Nov.	30	Supplies Expense	631	11,000	
			Supplies (HK$25,000 – HK$14,000)	126		11,000
2.		30	Salaries and Wages Expense	726	3,700	
			Salaries and Wages Payable	212		3,700
3.		30	Depreciation Expense	711	2,000	
			Accumulated Depreciation— Equipment	158		2,000
4.		30	Unearned Service Revenue	209	13,800	
			Service Revenue	400		13,800

PROBLEM 3-5B (Continued)

(g)

SAMONE EQUIPMENT REPAIR, LTD.
Statement of Comprehensive Income
For the Month Ended November 30, 2017

Revenues		
Service revenue		HK$63,800
Expenses		
Salaries and wages expense	HK$26,700	
Supplies expense	11,000	
Rent expense	6,200	
Depreciation expense	2,000	
Total expenses		45,900
Net Income		HK$17,900

SAMONE EQUIPMENT REPAIR, LTD.
Retained Earnings Statement
For the Month Ended November 30, 2017

Retained Earnings, November 1	HK$79,900
Plus: Net income	17,900
Retained Earnings, November 30	HK$97,800

PROBLEM 3-5B (Continued)

SAMONE EQUIPMENT REPAIR, LTD.
Statement of Financial Position
November 30, 2017

Assets		
Equipment	HK$180,000	
Less: Accumulated depreciation—equipment	22,000	HK$158,000
Supplies		14,000
Accounts receivable		29,300
Cash		29,600
Total assets		HK$230,900
Equity and Liabilities		
Equity		
Share capital—ordinary	HK$100,000	
Retained earnings	97,800	HK$197,800
Liabilities		
Accounts payable	26,000	
Unearned service revenue	3,400	
Salaries and wages payable	3,700	33,100
Total equity and liabilities		HK$230,900

MC3 MATCHA CREATIONS

(a)

GENERAL JOURNAL **J2**

Date		Account Titles and Explanation	Debit	Credit
Nov.	30	Supplies Expense	35	
		Supplies		35
	30	Depreciation Expense	20	
		Accumulated Depreciation—Equipment [(NT$300 + NT$900) ÷ 60 months]		20
	30	Interest Expense	5	
		Interest Payable (NT$2,000 X .06 X 1/12 X .5)		5
	30	Accounts Receivable	300	
		Service Revenue		300
	30	Utilities Expense	45	
		Accounts Payable		45

MC3 (Continued)

(a) (Continued)

Cash

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30	Balance	✓			245

Accounts Receivable

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30		J2	300		300

Supplies

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30	Balance	✓			125
30		J2		35	90

Prepaid Insurance

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30	Balance	✓			1,320

Equipment

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30	Balance	✓			1,200

Accumulated Depreciation—Equipment

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30		J2		20	20

MC3 (Continued)

(a) (Continued)

Accounts Payable

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30		J2		45	45

Interest Payable

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30		J2		5	5

Unearned Service Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30	Balance	✓			30

Notes Payable

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30	Balance	✓			2,000

Share Capital—Ordinary

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30	Balance	✓			800

Service Revenue

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30	Balance	✓			125
30		J2		300	425

MC3 (Continued)

(a) (Continued)

Utilities Expense

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30		J2	45		45

Advertising Expense

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30	Balance	✓			65

Supplies Expense

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30		J2	35		35

Depreciation Expense

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30		J2	20		20

Interest Expense

Date	Explanation	Ref.	Debit	Credit	Balance
Nov. 30		J2	5		5

MC3 (Continued)

(b)

MATCHA CREATIONS
Adjusted Trial Balance
November 30, 2017

Account	Debit	Credit
Cash	NT$ 245	
Accounts Receivable	300	
Supplies	90	
Prepaid Insurance	1,320	
Equipment	1,200	
Accumulated Depreciation—Equipment		NT$ 20
Accounts Payable		45
Interest Payable		5
Unearned Service Revenue		30
Notes Payable		2,000
Share Capital—Ordinary		800
Service Revenue		425
Utilities Expense	45	
Advertising Expense	65	
Supplies Expense	35	
Depreciation Expense	20	
Interest Expense	5	
Totals	NT$3,325	NT$3,325

MC3 (Continued)

(c)

Service revenue		NT$425
Advertising expense	NT$65	
Utilities expense	45	
Supplies expense	35	
Depreciation expense	20	
Interest expense	5	170
Net income		NT$255

Yes, Matcha Creations has been profitable in November. It has a profit of NT$255 which is more than one half of the revenue recognized in November.

BYP 3-1 FINANCIAL REPORTING PROBLEM

(a) Items that may result in adjusting entries for prepayments are:

1. **Other current assets (per statement of financial position).**
2. **Property, plant and equipment (per statement of financial position).**
3. **Intangible assets (per statement of financial position)—amortization is similar to depreciation (explained later in Chapter 9).**

(b) Accrual adjusting entries were probably made for accounts payable, salary and bonus payable, accrued profit sharing, finance (interest) expense, and income tax payable.

BYP 3-2 COMPARATIVE ANALYSIS PROBLEM

		Nestlé	Petra Foods
(a)	Net increase (decrease) in property, plant, and equipment (net) for current fiscal year.	CHF319,000,000	US$3,436,000
(b)	Increase in marketing (selling, distribution) and administrative expenses, for current fiscal year.	CHF670,000,000	US$15,910,000
(c)	Increase (decrease) in non-current liabilities for current fiscal year.	(CHF1,230,000,000)	(US$2,633,000)
(d)	Increase (decrease) in net income for current fiscal year.	(CHF213,000,000)	(US$5,271,000)
(e)	Increase in cash and cash equivalents for current fiscal year.	CHF702,000,000	US$163,667,000

BYP 3-3 DECISION-MAKING ACROSS THE ORGANIZATION

(a)

HAPPY TRAILS PARK, LTD.
Income Statement
For the Quarter Ended March 31, 2017

Revenues		
Rent revenue (£88,000 – £14,000).................		£74,000
Expenses		
Salaries and wages expense [£28,800 + (£300 X 2)]	£29,400	
Advertising expense (£5,200 + £130)	5,330	
Supplies expense (£6,200 – £1,450)	4,750	
Maintenance and repairs expense (£4,000 + £260)..	4,260	
Insurance expense (£7,500 X 3/12)...............	1,875	
Utilities expense (£750 + £120)......................	870	
Depreciation expense	800	
Interest expense (£12,000 X 10% X 3/12)	300	
Total expenses......................................		47,585
Net income		£26,415

(b) The international financial reporting standards pertaining to the income statement that were not recognized by Alicia were the revenue recognition principle and the expense recognition principle. The revenue recognition principle states that revenue is recognized in the accounting period in which the performance obligation is satisfied. The £14,000 for summer rentals is a prepayment for services to be performed in a later period. As a result, the performance obligation is not satisfied and, therefore, should not be reported in income for the quarter ended March 31. The expense recognition principle dictates that efforts (expenses) be matched with accomplishments (revenues) whenever it is reasonable and practicable to do so. This means that the expenses should include amounts incurred in March but not paid until April. The difference in expenses was £8,035 (£47,585 – £39,550). The overstatement of revenues (£14,000) plus the understatement of expenses (£8,035) equals the difference in reported income of £22,035 (£48,450 – £26,415).

BYP 3-4 COMMUNICATION ACTIVITY

Dear Ms. Danon:

Upon reviewing the accounts of your company at the end of the year, I discovered that adjusting entries were not made.

Adjusting entries are made at the end of the accounting period to ensure that the revenue recognition and expense recognition principles required under international financial reporting standards are followed. The use of adjusting entries makes it possible to report on the statement of financial position the appropriate assets, liabilities, and equity at the statement date and to report on the income statement the proper net income (or loss) for the year.

Adjusting entries are needed because the trial balance may not contain an up-to-date and complete record of transactions and events for the following reasons:

1. Some events are not journalized daily because it is not efficient to do so. Examples are the use of supplies and the earning of wages by employees.

2. The expiration of some costs is not journalized during the accounting period because these costs expire with the passage of time rather than as a result of recurring daily transactions. Examples of such costs are building and equipment depreciation, rent, and insurance.

3. Some expenses, such as the cost of utility service and property taxes, may be unrecorded because the bills for the costs have not been received.

There are four types of adjusting entries:

1. Prepaid expenses—expenses paid in cash and recorded as assets before they are used or consumed.

2. Unearned revenues—revenues received in cash and recorded as liabilities before they are earned.

BYP 3-4 (Continued)

3. **Accrued revenues—revenues earned but not yet received in cash or recorded.**

4. **Accrued expenses—expenses incurred but not yet paid in cash or recorded.**

I will be happy to answer any questions you may have on adjusting entries.

Signature

BYP 3-5 ETHICS CASE

(a) The stakeholders in this situation are:

- Diane Leno, controller.
- The president of Watkin Company Ltd.
- Watkin Company Ltd. shareholders.

(b) 1. It is unethical for the president to place pressure on Diane to misstate net income by requesting her to prepare incorrect adjusting entries.

2. It is customary for adjusting entries to be dated as of the statement of financial position date although the entries are prepared at a later date. Diane did nothing unethical by dating the adjusting entries December 31.

(c) Diane can accrue revenues and defer expenses through the preparation of adjusting entries and be ethical so long as the entries reflect economic reality. Intentionally misrepresenting the company's financial condition and its results of operations is unethical (it is also illegal).

GAAP EXERCISES

GAAP 3-1

IFRS might choose to revalue land and buildings at fair value because it provides more relevant information. GAAP, on the other hand, requires land and buildings be valued at cost because it is more verifiable and therefore provides information that is representationally faithful.

GAAP 3-2

No. GAAP classifies revenues as the economic benefit that arises from an entity's normal operating activities and gains as the benefits associated with activities outside the normal sales of goods and services.

GAAP also classifies expenses as those costs associated with an entity's normal operations and losses as those costs associated with activities outside the normal sales of goods and services.

GAAP FINANCIAL REPORTING PROBLEM

GAAP 3-3

(a) Items that may result in adjusting entries for prepayments are:

1. **Other current assets (per balance sheet).**
2. **Property, plant and equipment, net (per balance sheet).**
3. **Acquired intangible assets, net (per balance sheet)—amortization is similar to depreciation (explained later in Chapter 9).**

(b) Accrual adjusting entries were probably made for accounts payable accrued expenses, and income taxes payable.