E4-2. Identifying Adjusting Entries from Unadjusted Trial Balance

Facebook, Inc., which also owns Instagram, Messenger, WhatsApp, and Oculus (virtual reality products), generates substantially all of its revenue from selling advertising placements to marketers. Following is a trial balance listing accounts that Facebook uses. Assume that the balances are unadjusted at the end of a recent fiscal year ended December 31.

FACEBOOK, INC. Unadjusted Trial Balance (in millions of dollars) At December 31		
	Debit	Credit
Cash	17,576	
Marketable securities *(short-term investments)*	44,378	
Accounts receivable	11,335	
Prepaid expenses and other current assets	2,381	
Land	1,326	
Buildings	35,264	
Network, computer, and office equipment	24,461	
Accumulated depreciation		15,418
Operating lease right-of-use assets	9,348	
Intangible assets	19,673	
Other assets	2,758	
Accounts payable		1,331
Operating lease liabilities, current		1,023
Accrued expenses and other current liabilities		11,152
Deferred revenue and deposits		382
Other current liabilities		1,093
Operating lease liabilities, noncurrent		9,631
Other liabilities		6,414
Common stock		1
Additional paid-in capital		50,017
Retained earnings		42,892
Revenue		85,965
Interest and other income		509
Cost of revenue	16,692	
Research and development expense	18,447	
Marketing and sales	11,591	
General and administrative	6,564	
Provision for income taxes *(income tax expense)*	4,034	
Totals	225,828	225,828

Required:

1. Based on the information in the unadjusted trial balance, list types of adjustments on the balance sheet that may need to be adjusted at December 31 and the related income statement account for each (no computations are necessary). You may need to make assumptions.

Types	Accounts
Deferred Revenues:	

Accrued Revenues:	
Deferred Expenses:	
Accrued Expenses:	

2. Which accounts should be closed at the end of the year? Why?

E4-4. Recording Adjusting Entries

Elana's Traveling Veterinary Services, Inc., completed its first year of operations on December 31. All of the year's entries have been recorded except for the following:

a. On March 1 of the current year, the company borrowed $60,000 at a 10 percent interest rate to be repaid in five years.

b. On the last day of the current year, the company received a $360 utility bill for utilities used in December. The bill will be paid in January of next year.

Required:

1. What is the annual reporting period for this company?

2. Identify whether each transaction results in adjusting a deferred or an accrued account. Using the process illustrated in the chapter, prepare the required adjusting entry for transactions (a) and (b). Include appropriate dates and write a brief explanation of each entry.

(Date) __________

(Date) __________

3. Why are these adjustments made?

E4-8. Recording Seven Typical Adjusting Entries

Trotman's Variety Store is completing the accounting process for the current year just ended, December 31. The transactions during the year have been journalized and posted. The following data with respect to adjusting entries are available:

a. Wages earned by employees during December, unpaid and unrecorded at December 31, amounted to $2,700. The last payroll was December 28; the next payroll will be January 6.
b. Office supplies on hand at January 1 of the current year totaled $450. Office supplies purchased and debited to Office Supplies during the year amounted to $500. The year-end count showed $275 of supplies on hand.
c. One-fourth of the basement space is rented to Kathy's Specialty Shop for $560 per month, payable monthly. At the end of the current year, the rent for November and December had not been collected or recorded. Collection is expected in January of the next year.
d. The store used delivery equipment all year that cost $60,500; $12,100 was the estimated annual depreciation.
e. On July 1 of the current year, a two-year insurance premium amounting to $2,400 was paid in cash and debited in full to Prepaid Insurance. Coverage began on July 1 of the current year.
f. The remaining basement of the store is rented for $1,600 per month to another merchant, M. Carlos, Inc. Carlos sells compatible, but not competitive, merchandise. On November 1 of the current year, the store collected six months' rent in the amount of $9,600 in advance from Carlos; it was credited in full to Unearned Rent Revenue when collected.
g. Trotman's Variety Store operates a repair shop to meet its own needs. The shop also does repairs for M. Carlos. At the end of the current year, Carlos had not paid $800 for completed repairs. This amount has not yet been recorded as Repair Shop Revenue. Collection is expected during January of next year.

Required:

Prepare the adjusting entries that should be recorded for Trotman's Variety Store at December 31 of the current year.

a. ____________________

b. ____________________

c. ____________________

d. ____________________

e.

f.

g.

E4-10. Determining Financial Statement Effects of Seven Typical Adjusting Entries

(Refer to E4-8.)

Required:

For each of the transactions in E4-8, indicate the amount and the direction of effects of the adjusting entry on the elements of the balance sheet and income statement. Using the following format, indicate + for increase, − for decrease, and NE for no effect.

	Balance Sheet			Income Statement		
Transaction	Assets	Liabilities	Stockholders' Equity	Revenues	Expenses	Net Income
a						
b						
c						
d						
e						
f						
g						