E3-3. Identifying Expenses

Revenues are normally recognized when a company transfers promised goods or services to customers in the amount the company expects to be entitled to receive. Expense recognition is guided by an attempt to match the costs associated with the generation of those revenues to the same time period. Assume that the following transactions occurred in January:

a. McGraw-Hill Education uses $3,800 worth of electricity and natural gas in its headquarters building for which it has not yet been billed.
b. At the beginning of January, Turner Construction Company pays $1,350 for magazine advertising to run in monthly publications each of the first three months of the year.
c. Dell pays its computer service technicians $403,000 in salaries for the two weeks ended January 7. Answer from Dell's standpoint.
d. Iowa State University orders 200,000 football tickets from its printer and prepays $8,340 for the custom printing. The first game will be played in September. Answer from the university's standpoint.
e. The campus bookstore receives 500 accounting texts at a cost of $210 each. The terms indicate that payment is due within 30 days of delivery.
f. During the last week of January, the campus bookstore sold 400 accounting texts received in (e) at a sales price of $280 each.
g. Fucillo Automotive Group pays its salespersons $63,800 in commissions related to December automobile sales. Answer from Fucillo's standpoint.
h. On January 31, Fucillo Automotive Group determines that it will pay its salespersons $55,560 in commissions related to January sales. The payment will be made in early February. Answer from Fucillo's standpoint.
i. A new grill is received and installed at a Wendy's restaurant at the end of the day on January 31; a $12,750 cash payment is made on that day to the grill supply company. Answer from Wendy's standpoint.
j. Mall of America (in Bloomington, MN) had janitorial supplies costing $3,500 in storage. An additional $2,600 worth of supplies was purchased during January. At the end of January, $1,400 worth of janitorial supplies remained in storage.
k. An Emory University employee works eight hours, at $23 per hour, on January 31; however, payday is not until February 3. Answer from the university's point of view.
l. Wang Company paid $4,800 for a fire insurance policy on January 1. The policy covers 12 months beginning on January 1. Answer from Wang's point of view.
m. Derek Incorporated has its delivery van repaired in January for $600 and charges the amount on account.
n. Hass Company, a farm equipment company, receives its phone bill at the end of January for $154 for January calls. The bill has not been paid to date.
o. Martin Company receives and pays in January a $2,034 invoice (bill) from a consulting firm for services received in January. Answer from Martin's standpoint.
p. Parillo's Taxi Company pays a $595 invoice from a consulting firm for services received and recorded in December.
q. PVH Corp., manufacturer of IZOD, ARROW, Van Heusen, Calvin Klein, and Tommy Hilfiger

apparel among other brands, completes production of 450 men's shirts ordered by Macy's department stores at a cost of $21 each and delivers the order in January. Answer from PVH Corp.'s standpoint.

Required:
For each of the transactions, if an expense is to be recognized in January, indicate the expense account title and the amount. If an expense is not to be recognized in January, indicate why.

Activity	Expense Account Affected	Amount of Expense Incurred in January
a	Utilities expense	3800
b		
c		
d		
e		
f		
g		
h		
i		
j		
k		
l		
m		
n		

o		
p		
q		

E3-4. Determining Financial Statement Effects of Various Transactions

Amazon.com, Inc., headquartered in Seattle, WA, started its electronic commerce business in 1995 and expanded rapidly. The following transactions occurred during a recent year (dollars in millions):

a. Issued stock for $623 cash (example).
b. Purchased equipment costing $6,320, paying $4,893 in cash and charging the rest on account.
c. Paid $5,000 in principal and $300 in interest expense on long-term debt.
d. Earned $280,522 in sales revenue; collected $223,949 in cash with the customers owing the rest on their Amazon credit card accounts.
e. Incurred $25,249 in shipping expenses, all on credit.
f. Paid $118,241 cash on accounts owed to suppliers.
g. Incurred $18,878 in marketing expenses; paid cash.
h. Collected $38,200 in cash from customers paying on their Amazon credit card accounts.
i. Borrowed $16,231 in cash as long-term debt.
j. Used inventory costing $165,536 when sold to customers. (The expense title for the using up of inventory sold to customers is Cost of Goods Sold.)
k. Paid $830 in income tax recorded as an expense in the prior year.

Required:
For each of the transactions, complete the tabulation, indicating the effect (+ for increase and − for decrease) of each transaction. (Remember that A = L + SE; R − E = NI; and NI affects SE through Retained Earnings.) Write NE if there is no effect. The first transaction is provided as an example.

	BALANCE SHEET			**INCOME STATEMENT**		
Transaction	**Assets**	**Liabilities**	**Stockholders' Equity**	**Revenues**	**Expenses**	**Net Income**
a	+623	NE	+623	NE	NE	NE
b						
c						
d						
e						
f						
g						
h						
i						

j						
k						

E3-8. Recording Journal Entries

Griffin Air Transport Service, Inc., providing air delivery service for businesses, has been in operation for three years. The following transactions occurred in February:

a. February 1: Paid $275 for rent of hangar space in February.
b. February 2: Purchased fuel costing $490 on account for the next flight to Dallas.
c. February 4: Received customer payment of $820 to ship several items to Philadelphia next month.
d. February 7: Flew cargo from Denver to Dallas; the customer paid $910 for the air transport.
e. February 10: Paid $175 for an advertisement in the local paper to run on February 19.
f. February 14: Paid pilot $2,300 in wages for flying in January (recorded as expense in January).
g. February 18: Flew cargo for two customers from Dallas to Albuquerque for $3,800; one customer paid $1,600 cash and the other asked to be billed.
h. February 25: Purchased on account $2,550 a supply of spare parts for the planes.
i. February 27: Declared a $200 cash dividend to be paid in March.

Required:
Prepare journal entries for each transaction. Be sure to categorize each account as an asset (A), liability (L), stockholders' equity (SE), revenue (R), or expense (E).

a. ______________________ ______ ______
______________________ ______ ______
______________________ ______ ______

b. ______________________ ______ ______
______________________ ______ ______
______________________ ______ ______

c. ______________________ ______ ______
______________________ ______ ______
______________________ ______ ______

d. ______________________ ______ ______
______________________ ______ ______
______________________ ______ ______

e. ______________________ ______ ______
______________________ ______ ______
______________________ ______ ______

f. ______________________ ______ ______
______________________ ______ ______
______________________ ______ ______

g. ______________________ ______ ______
______________________ ______ ______
______________________ ______ ______

h.

i.

E3-17. Analyzing the Effects of Transactions Using T-Accounts and Interpreting the Net Profit Margin Ratio as a Financial Analyst

Massa Company, which has been operating for three years, provides marketing consulting services worldwide for dot-com companies. You are a financial analyst assigned to report on the Massa management team's effectiveness at managing its assets efficiently. At the start of 2024 (its fourth year), Massa's account balances were as follows. Dollars are in thousands.

L	Accounts payable	$2,400	A	Long-term investments	$6,400
A	Accounts receivable	8,000	L	Long-term notes payable	1,600
SE	Additional paid-in capital	4,000	E	Rent expense	0
A	Cash	3,200	SE	Retained earnings	3,200
SE	Common stock ($0.10 par value)	800	E	Travel expense	0
R	Consulting fee revenue	0	E	Wages expense	0
R	Interest revenue	0	L, R	Unearned revenue	5,600
			E	Utilities expense	0

Required:

1. Using the data from this list, amounts for the following on January 1, 2024, were

   Assets $ _____ = Liabilities $ _____ + Stockholders' Equity $ _____

2. Create T-accounts and start with the list above as beginning balances. Then, enter in the T-accounts the following transactions for 2024:
   a. Provided $58,000 in services to clients who paid $48,000 in cash and owed the rest on account.
   b. Received $5,600 cash from clients on account.
   c. Received $400 in cash as interest revenue on investments.
   d. Paid $36,000 in wages, $12,000 in travel, $7,600 in rent, and $1,600 on accounts payable.
   e. Received $1,600 in cash from clients in advance of services Massa will provide next year.
   f. Received a utility bill for $800 for 2024 services.
   g. Declared and immediately paid $480 in dividends to stockholders.

(Please attempt to create T-accounts on your own.)

3. Compute ending balances in the T-accounts to determine amounts for the following on December 31, 2024:

   Revenues $ _____ − Expenses $ _____ = Net Income $ _____

   Assets $ _____ = Liabilities $ _____ + Stockholders' Equity $ _____

4. Calculate the net profit margin ratio for 2024. If the company had a net profit margin ratio of 2.9 percent in 2023 and 2.5 percent in 2022, what does your computation suggest to you about Massa Company? What would you say in your report?