**E4–3.**

Req. 1

The annual reporting period for this company is January 1 through December 31.

Req. 2 (Adjusting entries)

Both transactions are accruals because revenue has been earned and expenses incurred but no cash has yet been received or paid.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| *(a)* | 1. Wages expense is incurred. | | | |
|  | 2. Cash will be paid in the next period to employees who worked in the current period – an accrued expense needs to be recorded. | | | |
|  | 3. Amount: $4,000 given    **Adjusting entry – December 31** | | | |
|  | Wages expense (+E, −SE) | 4,000 |  |
|  | Wages payable (+L) |  | 4,000 |
|  | To record wages accrued at year-end. |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *(b)* | | 1. Interest revenue is now earned. | | | | | | |
|  | | 2. Cash will be received in the future – an accrued revenue needs to be recorded. | | | | | | |
|  | | 3. Amount: $1,500 given    **Adjusting entry – December 31** | | | | | | |
|  | | Interest receivable (+A | 1,500 | |  | |
|  | | Interest revenue (+R, +SE) |  | | 1,500 | |
|  | | To record interest earned at year-end. | |  |  | |

Req. 3

Adjusting entries are necessary at the end of the accounting period to ensure that all revenues earned and expenses incurred and the related assets and liabilities are measured properly. The entries above are accruals; entry (*a*) is an accrued expense (incurred but not yet recorded) and entry (*b*) is an accrued revenue (earned but not yet recorded). In applying the accrual basis of accounting, revenues should be recognized when earned and measurable and expenses should be recognized when incurred in generating revenues.

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