**Accounting and Finance (AF2031) Fall 2022**

**Assignment # 2**

**Due Date: 21-10-2022**

**Standards and Academic Conduct**

• Assignments must be submitted by the allocated due dates. Late assignments that have not been granted an extension will, at the instructor’s discretion, be penalized by **fifty percent (50%)** of total marks from the mark that would otherwise be awarded, for each full day overdue. Assignments more than **5 days** late will not be accepted (this includes weekends and holidays).

• **Only handwritten assignment would be acceptable**.

• **Use a title page for assignment.**

• Plagiarism refers to the practice of presenting the words of another author (it may be a text writer or another student) as your own. This is not permitted.

**Individual Assignment**

**Question # 1 (9+2+8+4+2)**

Marvelous Music provides music lessons to student musicians. Some students pay in advance for lessons; others are billed after lessons have been provided. Advance payments are credited to an account entitled Unearned Lesson Revenue. Adjusting entries are performed on a monthly basis. An unadjusted trial balance dated December 31, 2011, follows. (Bear in mind that adjusting entries have already been made for the first 11 months of 2011, but not for December).

**MARVELOUS MUSIC**

**UNADJUSTED TRIAL BALANCE**

**DECEMBER 31, 2011**

Cash . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .15,800

Accounts receivable. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 2,100

Unexpired insurance. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 3,200

Prepaid rent . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 6,000

Sheet music supplies . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .450

Music equipment. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 180,000

Accumulated depreciation: music equipment . . . . . . . . . . . . . . . . . . 72,000

Accounts payable . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .. . . . . . . . . 3,500

Notes payable. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 5,000

Dividends payable . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 1,000

Interest payable . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .    25

Income taxes payable. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 3,400

Unearned lesson revenue. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 1,100

Capital stock . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 20,000

Retained earnings. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 56,600

Dividends . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .1,000

Lesson revenue earned . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 154,375

Advertising expense . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .7,400

Insurance expense . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .4,400

Rent expense . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .16,500

Sheet music supplies expense . . . . . . . . . . . . . . . . . . . . . . .780

Utilities expense. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 5,000

Depreciation expense: music equipment . . . . . . . . . . . . . 33,000

Salaries expense . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 27,500

Interest expense . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .. 25

Income taxes expense . . . . . . . . . . . . . . . . . . . . . . . . . …13,845

**317,000     317,000**

**Other information:**

1. Accrued but unrecorded lesson revenue earned as of December 31, 2011, amounts to $3,200.
2. Records show that $800 of cash receipts originally recorded as unearned lesson revenue had been earned as of December 31.
3. The company purchased a 12-month insurance policy on August 1, 2011, for $4,800.
4. On October 1, 2011, the company paid $9,000 for rent through March 31, 2012.
5. Sheet music supplies on hand at December 31 amount to $200.
6. All music equipment was purchased when the business was first formed. Its estimated life at that time was five years (or 60 months).
7. On November 1, 2011, the company borrowed $5,000 by signing a three-month, 6 percent note payable. The entire note, plus three months’ accrued interest, is due on February 1, 2012.
8. Accrued but unrecorded salaries on December 31 amount to $3,500.
9. Estimated income taxes expense for the entire year totals $22,000. Taxes are due in the first quarter of 2012.

**Instruction:**

1. Prepare the adjusting entries and ledgers with explanation on the date 31, December 2011.
2. Prepare the adjusted trial balance on the date 31, December 2011.
3. Prepare income statement and statement of financial position on the date 31, December 2011.
4. Make a report in which elaborate the four types of adjusting entries and company’s financial position.

**Question # 2 (8+4+3)**

Florida Palms Country Club adjusts its accounts monthly. Club members pay their annual dues in advance by January 4. The entire amount is initially credited to Unearned Membership Dues. At the end of each month, an appropriate portion of this amount is credited to Membership Dues Earned. Guests of the club normally pay green fees before being allowed on the course. The amounts collected are credited to Green Fee Revenue at the time of receipt. Certain guests, however, are billed for green fees at the end of the month. The following information is available as a source for preparing adjusting entries at December 31:

1. Salaries earned by golf course employees that have not yet been recorded or paid amount to $9,600.
2. The Tampa University golf team used Florida Palms for a tournament played on December 30 of the current year. At December 31, the $1,800 owed by the team for green fees had not yet been recorded or billed.
3. Membership dues earned in December, for collections received in January, amount to $106,000.
4. Depreciation of the country club’s golf carts is based on an estimated life of 15 years. The carts had originally been purchased for $180,000. The straight-line method is used. (Note: The clubhouse building was constructed in 1925 and is fully depreciated.)
5. A 12-month bank loan in the amount of $45,000 had been obtained by the country club on November 1. Interest is computed at an annual rate of 8 percent. The entire $45,000, plus all of the interest accrued over the 12-month life of the loan, is due in full on October 31 of the upcoming year. The necessary adjusting entry was made on November 30 to record the first month of accrued interest expense. However, no adjustment has been made to record interest expense accrued in December.
6. A one-year property insurance policy had been purchased on March 1. The entire premium of $7,800 was initially recorded as Unexpired Insurance.
7. In December, Florida Palms Country Club entered into an agreement to host the annual tournament of the Florida Seniors Golf Association. The country club expects to generate green fees of $4,500 from this event.
8. Unrecorded Income Taxes Expense accrued in December amounts to $19,000. This amount will not be paid until January 15.

**Instructions**

1. For each of the above numbered paragraphs, prepare the necessary adjusting entry (including an explanation). If no adjusting entry is required, explain why.
2. Four types of adjusting entries are described at the beginning of the chapter. Using these descriptions, identify the type of each adjusting entry prepared in part a above.
3. Although Florida Palms’s clubhouse building is fully depreciated, it is in excellent physical condition. Explain how this can be.