

## Chapter 3

# The Adjusting Process

### *Review Questions*

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1. Cash basis accounting records revenues only when cash is received and expenses only when cash is paid. Accrual basis accounting records revenues when earned and expenses when incurred.
2. Accrual basis accounting is consistent with generally accepted accounting principles.
3. The time period concept requires companies to divide its activities into small time segments such as months, quarters, or years.
4. A fiscal year is an accounting year of any 12 consecutive months. A company might choose to use a fiscal year that is not a calendar year, if the low point in business activity is other than December 31.
5. Under the revenue recognition principle, revenue is determined using a five step process:
  - Step 1: Identify the contract with the customer.
  - Step 2: Identify the performance obligations in the contract.
  - Step 3: Determine the transaction price.
  - Step 4: Allocate the transaction price to the performance obligations in the contract.
  - Step 5: Recognize revenue when (or as) the entity satisfies each performance obligation.In essence, the company records revenue when the entity satisfies each performance obligation.
6. Under the matching principle, expenses are linked to the revenues they generate. Expenses are recorded in the same period as the revenues generated by the expenses.
7. Adjusting entries are completed at the end of the accounting period to record revenues in the period in which they are earned and expenses in the period in which they are incurred. Adjusting entries also update asset and liability accounts. Adjustments are needed to properly measure net income (loss) on the income statement and assets and liabilities on the balance sheet.
8. The two basic categories of adjusting entries are deferrals and accruals.
  - Two examples of deferrals are prepaid expenses (such as Prepaid Rent and Office Supplies) and unearned revenues (such as Unearned Service Revenue).
  - Two examples of accruals are accrued expenses (such as Accrued Salaries Expense) and accrued revenues (such as Accrued Service Revenue).
9. A deferred expense is an advance payment of a future expense, and is considered an asset rather than an expense. When the prepayment is used up, the used portion of the asset becomes an expense via an adjusting entry. An example of a deferred expense is Prepaid Insurance.

- 10.** The process of allocating the cost of a plant asset over its useful life is called depreciation.
- 11.** A contra account is an account that is paired with and listed immediately after its related account in the chart of accounts and associated financial statement, and whose normal balance is the opposite of the balance of the related account.
- 12.** When recording depreciation expense, the Accumulated Depreciation account is credited.
- 13.** Accumulated depreciation is the sum of all depreciation expense recorded to date for a depreciable asset.
- 14.** Book value is a depreciable asset's cost minus accumulated depreciation. Book value represents the cost invested in the asset that the company has not yet expensed.
- 15.** Deferred revenue is a liability created when a company collects cash from customers in advance of doing work. For example, an example of a deferred revenue is the collection of cash for services to be provided by the company in the future.
- 16.** An accrued expense is an expense that a company has incurred but not yet paid. For example, salaries expense is incurred by a company as employees work, even though the company might not pay the employees until a later period.
- 17.** An accrued revenue is a revenue that a company has earned but not yet collected in cash. For example, service revenue is earned by a company as it provides services to a customer, even though the company might not collect cash from the customer until a later period.
- 18.** The two rules to remember about adjusting entries are:
  1. Adjusting entries never involve the Cash account.
  2. Adjusting entries either
    - a. Increase a revenue account (credit revenue) or
    - b. Increase an expense account (debit expense).
- 19.** An adjusted trial balance is prepared after adjustments have been journalized and posted. An adjusted trial balance is a list of all of the accounts with their adjusted balances, and its purpose is to ensure that total debits equal total credits of all accounts. The adjusted trial balance is used to prepare the final financial statements.
- 20.** If an accrued expense is not recorded at the end of the year, the financial statements will be inaccurate. On the balance sheet, liabilities will be understated and equity will be overstated. On the income statement, expenses will be understated (thus net income will be overstated).

- 21.** A worksheet is an internal document that helps summarize data for the preparation of the financial statements. As a summary device, it helps identify the accounts that need adjustments. On a worksheet, accounts are listed, the unadjusted balances in the accounts are copied directly from the ledger (the unadjusted trial balance), adjustments are entered, and the adjusted trial balance is completed (from which the financial statements can be prepared).
- 22A.** If a payment of a deferred expense was recorded under the alternative treatment, an expense account would be debited at the time of payment.
- 23A.** If a payment of a deferred expense was recorded under the alternative treatment, an asset account would be debited in the adjusting entry.

### *Short Exercises*

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#### **S3-1**

- a. \$3,000 advertising expense using cash basis
- b. \$600 \* advertising expense using accrual basis

\* Calculations:

$$\begin{array}{r}
 \$3,000 \text{ Advertising prepaid on January 1 for 10 months} \\
 \div 10 \text{ Months} \\
 \hline
 \$300 \text{ Advertising expense per month}
 \end{array}$$

*Thus,*

$$\begin{array}{r}
 \$300 \text{ Advertising expense per month} \\
 \times 2 \text{ months} \\
 \hline
 \underline{\underline{\$600}} \text{ Advertising expense for January and February}
 \end{array}$$

**S3-2**

- a. \$ 900 service revenue using cash basis
- b. \$2,200 \* service revenue using accrual basis

\* Calculations:

$$\$900 + \$1,300 = \$2,200 \text{ service revenue}$$

**S3-3**

- a. *Seacoast Magazine* should record revenue when each performance obligation has been satisfied – i.e. when the company mails the magazines to subscribers (not when the cash is collected in advance). The company should record revenue monthly.
- b. *Seacoast Magazine* should record \$16 of revenue for eight issues.

Calculations:

$$\$36 \text{ collected in advance for 18 issues} / 18 \text{ issues} = \$2 \text{ revenue earned per issue}$$

*Thus,*

$$\$2 \text{ revenue per issue} \times 8 \text{ issues} = \$16 \text{ revenue earned for 8 issues}$$

**S3-4**

At November 30, rent expense of \$15,400 should be recorded.

Calculations:

|          |                                      |
|----------|--------------------------------------|
| \$16,800 | Rent prepaid on January 1 for 1 year |
| ÷ 12     | Months                               |
| \$ 1,400 | Rent expense per month               |

*Thus,*

|          |   |
|----------|---|
| \$ 1,400 | Rent expense per month                    |
| × 11     | Months                                    |
| \$15,400 | Rent expense for January through November |

**S3-5**

- April 1: Deferred expense
- 10: Deferred revenue
- 15: Deferred expense
- 18: Deferred expense
- 30: Accrued revenue
- 30: Accrued expense

**S3-6**

**Requirement 1**

| Date   | Accounts and Explanation               | Debit | Credit |
|--------|--|-------|--------|
| Sep. 1 | Prepaid Rent                           | 3,300 |        |
|        | Cash                                   |       | 3,300  |
|        | <i>To record rent paid in advance.</i> |       |        |

**Requirement 2**

| Date    | Accounts and Explanation       | Debit | Credit |
|---------|--------------------------------|-------|--------|
| Sep. 30 | Rent Expense                   | 550 * |        |
|         | Prepaid Rent                   |       | 550 *  |
|         | <i>To record rent expense.</i> |       |        |

\* Calculations:

$$\begin{array}{r}
 \$3,300 \text{ Rent prepaid on September 1 for 6 months} \\
 \div 6 \text{ months} \\
 \hline
 \underline{\$ 550} \text{ Rent expense for September}
 \end{array}$$

**Requirement 3**

| Prepaid Rent |        |       |     | Rent Expense |         |     |  |
|--------------|--------|-------|-----|--------------|---------|-----|--|
|              | Sep. 1 | 3,300 | 550 |              | Sep. 30 | 550 |  |
|              | Bal.   | 2,750 |     |              | Bal.    | 550 |  |

**S3-7**  
**Requirement 1**

| Office Supplies |       |
|-----------------|-------|
| Nov. 1          | 600   |
|                 | 2,300 |

**Requirement 2**

| Date    | Accounts and Explanation  | Debit  | Credit |
|---------|---|--------|--------|
| Nov. 30 | Supplies Expense<br>Office Supplies<br><i>To record office supplies used.</i> | 2,400* | 2,400* |

\* Calculations:

|                |  |
|----------------|--|
| \$ 600         | Office supplies beginning balance          |
| <u>2,300</u>   | Office supplies purchased during the month |
| 2,900          | Office supplies balance before adjustment  |
| <u>(500)</u>   | Office supplies on hand                    |
| <u>\$2,400</u> | Office supplies used                       |

**Requirement 3**

| Office Supplies |       | Supplies Expense |       |
|-----------------|-------|------------------|-------|
| Nov. 1          | 600   | Nov. 30          | 2,400 |
|                 | 2,300 | Bal.             | 2,400 |
| Bal.            | 500   |                  |       |

**S3-8**  
**Requirement 1**

$$\begin{aligned}
 \text{Straight-line depreciation per month} &= (\text{Cost} - \text{Residual Value}) / \text{Useful Life} \\
 &= (\$57,600 - \$0) \div 3 \text{ years} \\
 &= \$19,200 \text{ per year} / 12 \text{ months} \\
 &= \underline{\underline{\$1,600}}
 \end{aligned}$$

**S3-8, cont.**  
**Requirement 2**

| Date    | Accounts and Explanation   | Debit | Credit |
|---------|--|-------|--------|
| Oct. 31 | Depreciation Expense—Computer Equipment<br>Accumulated Depreciation—Computer Equipment<br><i>To record depreciation on computer equipment.</i> | 1,600 | 1,600  |

**Requirement 3**

|                    |        |   |         |
|--------------------|--------|---|---------|
| Computer Equipment |        | Accumulated Depreciation—<br>Computer Equipment |         |
| Oct. 1             | 57,600 | 1,600   | Oct. 31 |
| Bal.               | 57,600 | 1,600   | Bal.    |

|   |       |
|---|-------|
| Depreciation Expense—<br>Computer Equipment |       |
| Oct. 31                                     | 1,600 |
| Bal.  | 1,600 |

**Requirement 4**

|   |                  |
|---|------------------|
| Computer Equipment                                | \$ 57,600        |
| Less: Accumulated Depreciation—Computer Equipment | (1,600)          |
| Book value of computer equipment                  | <u>\$ 56,000</u> |

**S3-9**

**Requirement 1**

| Date | Accounts and Explanation                        | Debit   | Credit  |
|------|---|---------|---------|
|      | Cash  | 180,000 |         |
|      | Unearned Revenue                                |         | 180,000 |
|      | <i>To record unearned subscription revenue.</i> |         |         |

**Requirement 2**

| Date | Accounts and Explanation  | Debit | Credit |
|------|---|-------|--------|
|      | Unearned Revenue  | 8,000 |        |
|      | Subscription Revenue  |       | 8,000  |
|      | <i>To record subscription revenue earned that was collected in advance.</i> |       |        |

**Requirement 3**

|                  |                      |
|------------------|----------------------|
| Unearned Revenue | Subscription Revenue |
| 8,000            | 8,000                |
| 180,000          | 8,000                |
| 172,000          | 8,000                |
| Bal.             | Bal.                 |



**S3-10**  
**Requirement 1**

| Date    | Accounts and Explanation   | Debit  | Credit |
|---------|--|--------|--------|
| Dec. 31 | Salaries Expense<br>Salaries Payable<br><i>To accrue salaries expense.</i> | 7,500* | 7,500* |

\* Calculations:

\$12,500 Payroll for a 5-day work week  
 ÷ 5 work days  
 -----  
 \$2,500 Salaries expense per work day

*Thus,*

\$2,500 Salaries expense per work day  
 ×3 work days  
 -----  
 \$7,500 Salaries expense for Monday through Wednesday

**Requirement 2**

| Salaries Payable | Salaries Expense |
|------------------|------------------|
| 7,500 Dec. 31    | 620,000          |
| 7,500 Bal.       | Dec 31. 7,500    |
|                  | Bal. 627,500     |

**S3-10, cont.**  
**Requirement 3**

| Date   | Accounts and Explanation  | Debit           | Credit |
|--------|---|-----------------|--------|
| Jan. 5 | Salaries Expense<br>Salaries Payable<br>Cash<br><i>To record payment of salaries.</i> | 5,000*<br>7,500 | 12,500 |

\* Calculations:

$$\begin{array}{r}
 \$2,500 \text{ Salaries expense per work day} \\
 \times 2 \text{ work days} \\
 \hline
 \underline{\underline{\$5,000}} \text{ Salaries expense for Thursday through Friday}
 \end{array}$$

**S3-11**  
**Requirement 1**

| Date    | Accounts and Explanation   | Debit | Credit |
|---------|--|-------|--------|
| Nov. 30 | Interest Expense<br>Interest Payable<br><i>To accrue interest expense.</i> | 355   | 355    |

**Requirement 2**

|                  |                  |
|------------------|------------------|
| Interest Payable | Interest Expense |
| 355              | Nov. 30          |
| 355              | Bal.             |

  

|                  |                  |
|------------------|------------------|
| Interest Expense | Interest Payable |
| Nov. 30          | 355              |
| Bal.             | 355              |

**S3-12**

| Date    | Accounts and Explanation  | Debit | Credit |
|---------|---|-------|--------|
| June 30 | Accounts Receivable<br>Service Revenue<br><i>To accrue service revenue.</i> | 9,000 | 9,000  |

S3-13

| <b>SETH'S TAX SERVICES</b>         |                   |                   |
|------------------------------------|-------------------|-------------------|
| <b>Adjusted Trial Balance</b>      |                   |                   |
| <b>December 31, 2018</b>           |                   |                   |
| Account Title                      | Balance           |                   |
|                                    | Debit             | Credit            |
| Cash                               | \$ 37,250         |                   |
| Accounts Receivable                | 4,950             |                   |
| Office Supplies                    | 700               |                   |
| Land                               | 26,000            |                   |
| Equipment                          | 11,000            |                   |
| Accumulated Depreciation—Equipment |                   | \$ 1,800          |
| Accounts Payable                   |                   | 3,700             |
| Utilities Payable                  |                   | 150               |
| Unearned Revenue                   |                   | 900               |
| Common Stock                       |                   | 22,600            |
| Dividends                          | 14,000            |                   |
| Service Revenue                    |                   | 75,000            |
| Salaries Expense                   | 5,600             |                   |
| Depreciation Expense—Equipment     | 1,900             |                   |
| Supplies Expense                   | 1,100             |                   |
| Utilities Expense                  | 1,650             |                   |
| <b>Total</b>                       | <b>\$ 104,150</b> | <b>\$ 104,150</b> |

S3-14

| Adjustment<br>Not Recorded | Balance Sheet |             |             | Income Statement |             |
|----------------------------|---------------|-------------|-------------|------------------|-------------|
|                            | Assets        | Liabilities | Equity      | Revenue          | Expenses    |
| a.                         | Overstated    |             | Overstated  |                  | Understated |
| b.                         | Understated   |             | Understated | Understated      |             |
| c.                         |               | Understated | Overstated  |                  | Understated |
| d.                         | Overstated    |             | Overstated  |                  | Understated |
| e.                         |               | Overstated  | Understated | Understated      |             |

| <b>JUST RIGHT HAIR STYLISTS</b>    |                             |                         |                        |                        |                           |                         |
|------------------------------------|-----------------------------|-------------------------|------------------------|------------------------|---------------------------|-------------------------|
| <b>Worksheet</b>                   |                             |                         |                        |                        |                           |                         |
| <b>December 31, 2018</b>           |                             |                         |                        |                        |                           |                         |
| Account Names                      | Unadjusted<br>Trial Balance |                         | Adjustments            |                        | Adjusted<br>Trial Balance |                         |
|                                    | Debit                       | Credit                  | Debit                  | Credit                 | Debit                     | Credit                  |
| Cash                               | \$ 300                      |                         |                        |                        | \$ 300                    |                         |
| Office Supplies                    | 900                         |                         |                        | \$ 600 a.              | 300                       |                         |
| Equipment                          | 20,600                      |                         |                        |                        | 20,600                    |                         |
| Accumulated Depreciation—Equipment |                             | \$ 700                  |                        | 700 b.                 |                           | \$ 1,400                |
| Accounts Payable                   |                             | 500                     |                        |                        |                           | 500                     |
| Interest Payable                   |                             |                         |                        | 800 c.                 |                           | 800                     |
| Note Payable                       |                             | 2,800                   |                        |                        |                           | 2,800                   |
| Common Stock                       |                             | 4,200                   |                        |                        |                           | 4,200                   |
| Service Revenue                    |                             | 17,500                  |                        |                        |                           | 17,500                  |
| Rent Expense                       | 3,200                       |                         |                        |                        | 3,200                     |                         |
| Supplies Expense                   |                             |                         | a. \$ 600              |                        | 600                       |                         |
| Depreciation Expense—Equipment     |                             |                         | b. 700                 |                        | 700                       |                         |
| Interest Expense                   | 700                         |                         | c. 800                 |                        | 1,500                     |                         |
| <b>Total</b>                       | <b><u>\$ 25,700</u></b>     | <b><u>\$ 25,700</u></b> | <b><u>\$ 2,100</u></b> | <b><u>\$ 2,100</u></b> | <b><u>\$ 27,200</u></b>   | <b><u>\$ 27,200</u></b> |

**S3A-16****Requirement 1**

| Date   | Accounts and Explanation                                       | Debit  | Credit |
|--------|--|--------|--------|
| Oct. 1 | Rent Expense<br>Cash<br><i>To record rent paid in advance.</i> | 15,000 | 15,000 |

**Requirement 2**

| Date    | Accounts and Explanation                                       | Debit   | Credit  |
|---------|--|---------|---------|
| Dec. 31 | Prepaid Rent<br>Rent Expense<br><i>To record prepaid rent.</i> | 7,500 * | 7,500 * |

\* Calculations:

|          |  |
|----------|--|
| \$15,000 | Rent prepaid on October 1 for 6 months |
| ÷ 6      | Months                                 |
| <hr/>    |  |
| \$ 2,500 | Rent expense per month                 |

*Thus,*

|                |                                   |
|----------------|-----------------------------------|
| \$ 2,500       |                                   |
| ×3             | Months                            |
| <hr/>          |                                   |
| <u>\$7,500</u> | Rent still prepaid on December 31 |

**S3A-17**

**Requirement 1**

| Date   | Accounts and Explanation  | Debit  | Credit |
|--------|---|--------|--------|
| Sep. 1 | Cash<br>Service Revenue<br><i>To record cash collected for future services.</i> | 24,000 | 24,000 |

**Requirement 2**

| Date    | Accounts and Explanation  | Debit    | Credit   |
|---------|---|----------|----------|
| Dec. 31 | Service Revenue<br>Unearned Revenue<br><i>To record unearned revenue.</i> | 16,000 * | 16,000 * |

\* Calculations:

$$\begin{array}{r}
 \$24,000 \text{ Collected in advance on September 1 for 12 months} \\
 \div 12 \text{ Months} \\
 \hline
 \$ 2,000 \text{ Revenue earned per month}
 \end{array}$$

*Thus,*

$$\begin{array}{r}
 \$ 2,000 \\
 \times 8 \text{ Months Remaining} \\
 \hline
 \underline{\underline{\$16,000}} \text{ Revenue still unearned on December 31}
 \end{array}$$

## Exercises

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### E3-18

- Considering the \$1,000 paid by the freshman class, the revenue was recognized on April 2. The revenue (April 2) was not recognized on the same date as cash was received (March 3).
- Considering the \$4,100 paid by the sophomore class, the revenue was recognized on February 28. The revenue was recognized on the same date as cash was received.

### E3-19

#### Requirement 1

| Amount of Revenue (Expense) for May |  |   |
|-------------------------------------|--|---|
| Date                                | Cash Basis Amount of Revenue (Expense) | Accrual Basis Amount of Revenue (Expense) |
| May 1                               | \$ (2,400)                             | \$ 0                                      |
| 5                                   | (700)                                  | (700)                                     |
| 9                                   | 2,600                                  | 2,600                                     |
| 14                                  | (3,000)                                | 0   |
| 23                                  | 0                                      | 2,800                                     |
| 31                                  | 0                                      | (800) *                                   |
| 31                                  | 0                                      | (1,600)                                   |
| 31                                  | 0                                      | (50)                                      |

\* Calculations:

$$\begin{array}{r}
 \$2,400 \text{ Rent prepaid on May 1 for 3 months} \\
 \div 3 \text{ Months} \\
 \hline
 \underline{\underline{\$ 800}} \text{ Rent expense for May}
 \end{array}$$

#### Requirement 2

Net income (loss) under cash basis is (\$3,500).

Calculations:

$$\begin{aligned}
 \text{Net Income (Loss)} &= \text{Total Revenues} - \text{Total Expenses} \\
 &= \$2,600 - [\$2,400 + \$700 + \$3,000] \\
 &= \$2,600 - \$6,100 \\
 &= \underline{\underline{(\$3,500)}}
 \end{aligned}$$

**E3-19, cont.**

Net income (loss) under accrual basis is \$2,250.

Calculations:

$$\begin{aligned}
 \text{Net Income (Loss)} &= \text{Total Revenues} - \text{Total Expenses} \\
 &= [\$2,600 + \$2,800] - [\$700 + \$800 + \$1,600 + \$50] \\
 &= \$5,400 - \$3,150 \\
 &= \underline{\underline{\$2,250}}
 \end{aligned}$$

**Requirement 3**

Accrual basis accounting gives the best picture of the true earnings of Chef's Catering, because revenues are recorded when the company satisfies each performance obligation and expenses are recorded when incurred, as dictated by the revenue recognition principle and the matching principle.

**E3-20**

Missing values shown in *italics*.

|   | Situation           |                |                  |                  |
|---|---------------------|----------------|------------------|------------------|
|   | A                   | B              | C                | D                |
| Beginning Prepaid Rent                    | \$ 1,400            | \$ 1,000       | \$ 200           | \$ 700           |
| Payments for Prepaid Rent during the year | 700                 | <i>(b) 600</i> | 1,800            | <i>(f) 900</i>   |
| Total amount to account for               | 2,100               | 1,600          | <i>(c) 2,000</i> | <i>(e) 1,600</i> |
| Subtract: Ending Prepaid Rent             | 800                 | 700            | <i>(d) 100</i>   | 600              |
| Rent Expense                              | <i>(a) \$ 1,300</i> | \$ 900         | \$ 1,900         | \$ 1,000         |



**E3-20, cont.**

\*Calculations:

a: 
$$\$1,300 = \$2,100 - \$800$$

b: 
$$\$600 = \$1,600 - \$1,000$$

c: 
$$\$2,000 = \$200 + \$1,800$$

d: 
$$\$100 = \$2,000 - \$1,900$$

e: 
$$\$1,600 = \$600 + \$1,000$$

f: 
$$\$900 = \$1,600 - \$700$$

**E3-21**

| Date           | Accounts and Explanation   | Debit | Credit |
|----------------|--|-------|--------|
| Jan. 31<br>(a) | Unearned Revenue<br>Service Revenue<br><i>To record service revenue earned that<br/>           was collected in advance.</i> | 320*  | 320*   |

\* Calculations:

$$\begin{array}{r}
 \$3,200 \text{ Collected in advance on January 1 for 10 months} \\
 \div 10 \text{ Months} \\
 \hline
 \underline{\underline{\$ 320}} \text{ Revenue earned during January}
 \end{array}$$

**E3-21, cont.**

| Date           | Accounts and Explanation   | Debit  | Credit |
|----------------|--|--------|--------|
| Jan. 31<br>(b) | Salaries Expense<br>Salaries Payable<br><i>To accrue salaries expense.</i> | 1,800* | 1,800* |

\* Calculations:

$$\begin{array}{r}
 \$3,600 \text{ Salaries expense per month} \\
 \div 2 \\
 \hline
 \underline{\$1,800} \text{ Salaries expense for the second half of January}
 \end{array}$$

| Date           | Accounts and Explanation  | Debit | Credit |
|----------------|---|-------|--------|
| Jan. 31<br>(c) | Accounts Receivable<br>Service Revenue<br><i>To accrue service revenue.</i> | 1,600 | 1,600  |

| Date           | Accounts and Explanation   | Debit | Credit |
|----------------|--|-------|--------|
| Jan. 31<br>(d) | Interest Expense<br>Interest Payable<br><i>To accrue interest expense.</i> | 53    | 53     |

**E3-22**

| Date       | Accounts and Explanation  | Debit  | Credit |
|------------|---|--------|--------|
| a. Dec. 31 | Unearned Revenue<br>Rent Revenue<br><i>To record rent revenue earned that was collected in advance.</i> | 750*   | 750*   |
| b. Dec. 31 | Salaries Expense<br>Salaries Payable<br><i>To accrue salaries expense.</i>                              | 7,200* | 7,200* |
| c. Dec. 31 | Supplies Expense<br>Office Supplies<br><i>To record office supplies used.</i>                           | 1,100* | 1,100* |

**E3-22, cont.**

|            |   |        |        |
|------------|---|--------|--------|
| d. Dec. 31 | Depreciation Expense—Equipment<br>Accumulated Depreciation—Equipment<br><i>To record depreciation on equipment.</i> | 500    | 500    |
| e. Dec. 31 | Insurance Expense<br>Prepaid Insurance<br><i>To record insurance expense.</i>                                       | 1,620* | 1,620* |

\* Calculations:

Situation a:

$$\begin{array}{r}
 \$3,000 \text{ Rent collected in advance on October 1 for 1 year} \\
 \div 12 \text{ Months} \\
 \hline
 \$ 250 \text{ Rent revenue earned per month}
 \end{array}$$

*Thus,*

$$\begin{array}{r}
 \$ 250 \text{ Rent revenue earned per month} \\
 \times 3 \text{ Months} \\
 \hline
 \underline{\underline{\$750}} \text{ Rent revenue earned during October through December}
 \end{array}$$

Situation b:

$$\begin{array}{r}
 \$1,800 \text{ Salaries expense per day} \\
 \times 4 \text{ Days} \\
 \hline
 \underline{\underline{\$7,200}} \text{ Salaries expense for Monday through Thursday}
 \end{array}$$

Situation c:

$$\begin{array}{r}
 \$ 3,000 \text{ Office supplies prior to adjustment} \\
 (1,900) \text{ Office supplies on hand} \\
 \hline
 \underline{\underline{\$ 1,100}} \text{ Supplies expense (cost of office supplies used)}
 \end{array}$$

**E3-22, cont.**

Situation e:

|         |  |
|---------|--|
| \$4,320 | Insurance prepaid on April 1 for 2 years |
| ÷ 24    | Months                                   |
| \$ 180  | Insurance expense per month              |

*Thus,*

|         |  |
|---------|--|
| \$ 180  | Insurance expense per month                  |
| × 9     | Months                                       |
| \$1,620 | Insurance expense for April through December |

**E3-23**

| Date | Accounts and Explanation  | Debit  | Credit |
|------|---|--------|--------|
| a.   | Depreciation Expense—Equipment<br>Accumulated Depreciation—Equipment<br><i>To record depreciation on equipment.</i> | 2,100  | 2,100  |
| b.   | Salaries Expense<br>Salaries Payable<br><i>To accrue salaries expense.</i>  | 800*   | 800*   |
| c.   | Supplies Expense<br>Office Supplies<br><i>To record office supplies used.</i>                                       | 4,300* | 4,300* |
| d.   | Insurance Expense<br>Prepaid Insurance<br><i>To record insurance expense.</i>                                       | 1,500* | 1,500* |
| e.   | Unearned Revenue<br>Service Revenue<br><i>To record service revenue earned that was collected in advance.</i>       | 2,800  | 2,800  |
| f.   | Interest Expense<br>Interest Payable<br><i>To accrue interest expense.</i>  | 200    | 200    |

**E3-23, cont.**

|    |   |       |       |
|----|---|-------|-------|
| g. | Accounts Receivable<br>Service Revenue<br><i>To accrue service revenue.</i> | 3,000 | 3,000 |
|----|---|-------|-------|

\* Calculations:

Situation b:

$$\begin{array}{r}
 \$1,400 \text{ Payroll for a 7-day work week} \\
 \div 7 \text{ work days} \\
 \hline
 \$ 200 \text{ Salaries expense per work day}
 \end{array}$$

*Thus,*

$$\begin{array}{r}
 \$ 200 \text{ Salaries expense per work day} \\
 \times 4 \text{ work days} \\
 \hline
 \underline{\underline{\$800}} \text{ Salaries expense for Monday through Thursday}
 \end{array}$$

Situation c:

$$\begin{array}{r}
 \$ 2,300 \text{ Beginning balance of office supplies} \\
 3,000 \text{ Office supplies purchased} \\
 \hline
 (1,000) \text{ Office supplies on hand} \\
 \hline
 \underline{\underline{\$ 4,300}} \text{ Supplies expense (cost of office supplies used)}
 \end{array}$$

Situation d:

$$\begin{array}{r}
 \$6,000 \text{ Insurance for two years} \\
 \div 24 \text{ Months} \\
 \hline
 \$ 250 \text{ Insurance expense per month}
 \end{array}$$

*Thus,*

$$\begin{array}{r}
 \$ 250 \text{ Insurance expense per month} \\
 \times 6 \text{ Months} \\
 \hline
 \underline{\underline{\$1,500}} \text{ Insurance expense for July through December}
 \end{array}$$

**E3-24**

**Requirement 1**

| Accounts Receivable |       |
|---------------------|-------|
| Bal.                | 1,500 |

| Salaries Payable |        |
|------------------|--------|
|                  | 0 Bal. |

| Service Revenue |            |
|-----------------|------------|
|                 | 4,100 Bal. |

| Office Supplies |     |
|-----------------|-----|
| Bal.            | 700 |

| Unearned Revenue |          |
|------------------|----------|
|                  | 900 Bal. |

| Salaries Expense |     |
|------------------|-----|
| Bal.             | 800 |

| Prepaid Rent |       |
|--------------|-------|
| Bal.         | 2,240 |

| Supplies Expense |   |
|------------------|---|
| Bal.             | 0 |

| Equipment |       |
|-----------|-------|
| Bal.      | 8,000 |

| Rent Expense |   |
|--------------|---|
| Bal.         | 0 |

| Accumulated Depreciation—<br>Equipment |        |
|--|--------|
|  | 0 Bal. |

| Depreciation Expense—<br>Equipment |   |
|------------------------------------|---|
| Bal.                               | 0 |

**E3-24, cont.**  
**Requirement 2**

| Date       | Accounts and Explanation  | Debit | Credit |
|------------|---|-------|--------|
| a. Mar. 31 | Accounts Receivable<br>Service Revenue<br><i>To accrue service revenue.</i>   | 700   | 700    |
| b. Mar. 31 | Unearned Revenue<br>Service Revenue<br><i>To record service revenue earned that was collected in advance.</i>       | 100   | 100    |
| c. Mar. 31 | Supplies Expense<br>Office Supplies<br><i>To record office supplies used.</i>                                       | 400*  | 400*   |
| d. Mar. 31 | Salaries Expense<br>Salaries Payable<br><i>To accrue salaries expense.</i>  | 200   | 200    |
| e. Mar. 31 | Rent Expense<br>Prepaid Rent<br><i>To record rent expense.</i>  | 560   | 560    |
| f. Mar. 31 | Depreciation Expense—Equipment<br>Accumulated Depreciation—Equipment<br><i>To record depreciation on equipment.</i> | 120   | 120    |

\* Calculations:

|               |   |
|---------------|---|
| \$ 700        | Office supplies prior to adjustment             |
| <u>(300)</u>  | Office supplies on hand                         |
| <u>\$ 400</u> | Supplies expense (cost of office supplies used) |

**E3-24, cont.**  
**Requirement 3**

| Accounts Receivable |       |
|---------------------|-------|
| Bal.                | 1,500 |
| a.                  | 700   |
| Bal.                | 2,200 |

| Salaries Payable |          |
|------------------|----------|
|                  | 0 Bal.   |
|                  | 200 d.   |
|                  | 200 Bal. |

| Service Revenue |            |
|-----------------|------------|
|                 | 4,100 Bal. |
|                 | 700 a.     |
|                 | 100 b.     |
|                 | 4,900 Bal. |

| Office Supplies |            |
|-----------------|------------|
| Bal.            | 700 400 c. |
| Bal.            | 300        |

| Unearned Revenue |          |
|------------------|----------|
| b. 100           | 900 Bal. |
|                  | 800 Bal. |

| Salaries Expense |       |
|------------------|-------|
| Bal.             | 800   |
| d.               | 200   |
| Bal.             | 1,000 |

| Prepaid Rent |              |
|--------------|--------------|
| Bal.         | 2,240 560 e. |
| Bal.         | 1,680        |

| Supplies Expense |     |
|------------------|-----|
| Bal.             | 0   |
| c.               | 400 |
| Bal.             | 400 |

| Equipment |       |
|-----------|-------|
| Bal.      | 8,000 |
| Bal.      | 8,000 |

| Rent Expense |     |
|--------------|-----|
| Bal.         | 0   |
| e.           | 560 |
| Bal.         | 560 |

| Accumulated Depreciation—<br>Equipment |          |
|--|----------|
|  | 0 Bal.   |
|  | 120 f.   |
|  | 120 Bal. |

| Depreciation Expense—<br>Equipment |     |
|------------------------------------|-----|
| Bal.                               | 0   |
| f.                                 | 120 |
| Bal.                               | 120 |



**E3-25****Requirement 1**

|                                       |                  |                                    |
|---------------------------------------|------------------|------------------------------------|
| Cash                                  | Accounts Payable | Service Revenue                    |
| Bal. 800                              | 2,400 Bal.       | 25,000 Bal.                        |
| Office Supplies                       | Salaries Payable | Salaries Expense                   |
| Bal. 2,000                            |                  | Bal. 7,000                         |
| Prepaid Insurance                     | Unearned Revenue | Supplies Expense                   |
| Bal. 600                              | 700 Bal.         |                                    |
| Equipment                             | Common Stock     | Depreciation Expense—<br>Equipment |
| Bal. 30,000                           | 15,300 Bal.      |                                    |
| Accumulated<br>Depreciation—Equipment | Dividends        | Insurance Expense                  |
| 2,000 Bal.                            | Bal. 5,000       |                                    |

**E3-25, cont.**  
**Requirement 2**

| Date       | Accounts and Explanation  | Debit | Credit |
|------------|---|-------|--------|
| a. Dec. 31 | Supplies Expense<br>Office Supplies<br><i>To record office supplies used.</i>                                       | 1,700 | 1,700  |
| b. Dec. 31 | Insurance Expense<br>Prepaid Insurance<br><i>To record insurance expense.</i>                                       | 580   | 580    |
| c. Dec. 31 | Depreciation Expense—Equipment<br>Accumulated Depreciation—Equipment<br><i>To record depreciation on equipment.</i> | 500   | 500    |
| d. Dec. 31 | Salaries Expense<br>Salaries Payable<br><i>To accrue salaries expense.</i>  | 310   | 310    |
| e. Dec. 31 | Unearned Revenue<br>Service Revenue<br><i>To record service revenue earned that was collected in advance.</i>       | 400   | 400    |

**E3-25, cont.**  
**Requirement 3**

| Cash |     |
|------|-----|
| Bal. | 800 |
| Bal. | 800 |

| Accounts Payable |            |
|------------------|------------|
|                  | 2,400 Bal. |
|                  | 2,400 Bal. |

| Service Revenue |             |
|-----------------|-------------|
|                 | 25,000 Bal. |
|                 | 400 e.      |
|                 | 25,400 Bal. |

| Office Supplies |                |
|-----------------|----------------|
| Bal.            | 2,000 1,700 a. |
| Bal.            | 300            |

| Salaries Payable |          |
|------------------|----------|
|                  | 310 d.   |
|                  | 310 Bal. |

| Salaries Expense |       |
|------------------|-------|
| Bal.             | 7,000 |
| d.               | 310   |
| Bal.             | 7,310 |

| Prepaid Insurance |            |
|-------------------|------------|
| Bal.              | 600 580 b. |
| Bal.              | 20         |

| Unearned Revenue |              |
|------------------|--------------|
| e.               | 400 700 Bal. |
|                  | 300 Bal.     |

| Supplies Expense |       |
|------------------|-------|
| a.               | 1,700 |
| Bal.             | 1,700 |

| Equipment |        |
|-----------|--------|
| Bal.      | 30,000 |
| Bal.      | 30,000 |

| Common Stock |             |
|--------------|-------------|
|              | 15,300 Bal. |
|              | 15,300 Bal. |

| Depreciation Expense—<br>Equipment |     |
|------------------------------------|-----|
| c.                                 | 500 |
| Bal.                               | 500 |

| Accumulated Depreciation—<br>Equipment |            |
|--|------------|
|  | 2,000 Bal. |
|  | 500 c.     |
|  | 2,500 Bal. |

| Dividends |       |
|-----------|-------|
| Bal.      | 5,000 |
| Bal.      | 5,000 |

| Insurance Expense |     |
|-------------------|-----|
| b.                | 580 |
| Bal.              | 580 |

| ALL MOPPED UP COMPANY              |                  |                  |
|------------------------------------|------------------|------------------|
| Adjusted Trial Balance             |                  |                  |
| December 31, 2018                  |                  |                  |
| Account Title                      | Balance          |                  |
|                                    | Debit            | Credit           |
| Cash                               | \$ 800           |                  |
| Office Supplies                    | 300              |                  |
| Prepaid Insurance                  | 20               |                  |
| Equipment                          | 30,000           |                  |
| Accumulated Depreciation—Equipment |                  | \$ 2,500         |
| Accounts Payable                   |                  | 2,400            |
| Salaries Payable                   |                  | 310              |
| Unearned Revenue                   |                  | 300              |
| Common Stock                       |                  | 15,300           |
| Dividends                          | 5,000            |                  |
| Service Revenue                    |                  | 25,400           |
| Salaries Expense                   | 7,310            |                  |
| Supplies Expense                   | 1,700            |                  |
| Depreciation Expense—Equipment     | 500              |                  |
| Insurance Expense                  | 580              |                  |
| Total                              | <u>\$ 46,210</u> | <u>\$ 46,210</u> |

E3-27

| Item | Adjusting Entry Needed? | Specific Category of Accounts on the Balance Sheet | Over / Understated | Specific Category of Accounts on the Income Statement | Over / Understated |
|------|-------------------------|--|--------------------|---|--------------------|
| a.   | Yes                     | Liability<br>Equity                                | Over<br>Under      | Revenue   | Under              |
| b.   | Yes                     | Liability<br>Equity                                | Under<br>Over      | Expense   | Under              |
| c.   | Yes                     | Asset<br>Equity                                    | Over<br>Over       | Expense   | Under              |
| d.   | Yes                     | Asset<br>Equity                                    | Over<br>Over       | Expense   | Under              |
| e.   | Yes                     | Asset<br>Equity                                    | Over<br>Over       | Expense   | Under              |
| f.   | Yes                     | Liability<br>Equity                                | Under<br>Over      | Expense   | Under              |
| g.   | Yes                     | Asset<br>Equity                                    | Under<br>Under     | Expense   | Over               |

**E3-28**  
**Requirement 1**

| Date       | Accounts and Explanation  | Debit  | Credit |
|------------|---|--------|--------|
| a. Jul. 31 | Depreciation Expense<br>Accumulated Depreciation<br><i>To record depreciation.</i>                            | 600    | 600    |
| b. Jul. 31 | Rent Expense<br>Prepaid Rent<br><i>To record rent expense.</i>  | 200    | 200    |
| c. Jul. 31 | Interest Expense<br>Interest Payable<br><i>To accrue interest expense.</i>                                    | 700    | 700    |
| d. Jul. 31 | Salaries Expense<br>Salaries Payable<br><i>To accrue salaries expense.</i>                                    | 6,400* | 6,400* |
| e. Jul. 31 | Unearned Revenue<br>Service Revenue<br><i>To record service revenue earned that was collected in advance.</i> | 1,000  | 1,000  |
| f. Jul. 31 | Supplies Expense<br>Office Supplies<br><i>To record office supplies used.</i>                                 | 150    | 150    |

\* Calculations:

$$\begin{array}{r}
 \$8,000 \text{ Payroll for a 5-day work week} \\
 \div 5 \text{ work days} \\
 \hline
 \$ 1,600 \text{ Salaries expense per work day}
 \end{array}$$

*Thus,*

$$\begin{array}{r}
 \$ 1,600 \text{ Salaries expense per work day} \\
 \times 4 \text{ work days} \\
 \hline
 \underline{\$6,400} \text{ Salaries expense for Monday through Thursday}
 \end{array}$$

**E3-28, cont.**  
**Requirement 2**

If the adjustments in Requirement 1 were not made, net income would be overstated by \$7,050 overall.

Calculations:

| Adjustment     | If Not Made:<br>Net Income<br>Overstated<br>(Understated) |
|----------------|---|
| <i>a.</i>      | \$ 600  |
| <i>b.</i>      | 200   |
| <i>c.</i>      | 700   |
| <i>d.</i>      | 6,400   |
| <i>e.</i>      | (1,000)   |
| <i>f.</i>      | 150   |
| <i>Overall</i> | <u>\$ 7,050</u>   |

**E3-29**  
**Requirements 1 and 2**

| <b>BEST JOBS EMPLOYMENT SERVICES</b> |                          |                         |                        |                        |                         |                         |
|--------------------------------------|--------------------------|-------------------------|------------------------|------------------------|-------------------------|-------------------------|
| <b>Worksheet</b>                     |                          |                         |                        |                        |                         |                         |
| <b>April 30, 2018</b>                |                          |                         |                        |                        |                         |                         |
| Account Names                        | Unadjusted Trial Balance |                         | Adjustments            |                        | Adjusted Trial Balance  |                         |
|                                      | Debit                    | Credit                  | Debit                  | Credit                 | Debit                   | Credit                  |
| Cash                                 | \$ 1,100                 |                         |                        |                        | \$ 1,100                |                         |
| Accounts Receivable                  | 4,100                    |                         | a. \$ 700              |                        | 4,800                   |                         |
| Office Supplies                      | 1,200                    |                         |                        | \$ 300 b.              | 900                     |                         |
| Equipment                            | 32,700                   |                         |                        |                        | 32,700                  |                         |
| Accumulated Depreciation—Equipment   |                          | \$ 13,900               |                        | 1,300 c.               |                         | \$ 15,200               |
| Salaries Payable                     |                          |                         |                        | 1,400 d.               |                         | 1,400                   |
| Common Stock                         |                          | 25,200                  |                        |                        |                         | 25,200                  |
| Dividends                            | 5,300                    |                         |                        |                        | 5,300                   |                         |
| Service Revenue                      |                          | 9,000                   |                        | 700 a.                 |                         | 9,700                   |
| Salaries Expense                     | 2,200                    |                         | d. 1,400               |                        |                         | 3,600                   |
| Rent Expense                         | 1,500                    |                         |                        |                        |                         | 1,500                   |
| Depreciation Expense—Equipment       |                          |                         | c. 1,300               |                        |                         | 1,300                   |
| Supplies Expense                     |                          |                         | b. 300                 |                        |                         | 300                     |
| <b>Total</b>                         | <b><u>\$ 48,100</u></b>  | <b><u>\$ 48,100</u></b> | <b><u>\$ 3,700</u></b> | <b><u>\$ 3,700</u></b> | <b><u>\$ 51,500</u></b> | <b><u>\$ 51,500</u></b> |



**E3-29, cont.**  
**Requirement 3**

| Date       | Accounts and Explanation  | Debit | Credit |
|------------|---|-------|--------|
| a. Apr. 30 | Accounts Receivable<br>Service Revenue<br><i>To accrue service revenue.</i>   | 700   | 700    |
| b. Apr. 30 | Supplies Expense<br>Office Supplies<br><i>To record office supplies used.</i>                                       | 300   | 300    |
| c. Apr. 30 | Depreciation Expense—Equipment<br>Accumulated Depreciation—Equipment<br><i>To record depreciation on equipment.</i> | 1,300 | 1,300  |
| d. Apr. 30 | Salaries Expense<br>Salaries Payable<br><i>To accrue salaries expense.</i>  | 1,400 | 1,400  |

**E3-30**  
**Requirement 1**

| <b>MACEY'S LANDSCAPING SERVICES</b>       |                          |                          |                         |                         |            |                          |  |
|---|--------------------------|--------------------------|-------------------------|-------------------------|------------|--------------------------|--|
| <b>Worksheet</b>                          |                          |                          |                         |                         |            |                          |  |
| <b>December 31, 2018</b>                  |                          |                          |                         |                         |            |                          |  |
| Account Names                             | Unadjusted Trial Balance |                          | Adjustments             |                         |            | Adjusted Trial Balance   |  |
|   | Debit                    | Credit                   | Debit                   | Credit                  | Debit      | Credit                   |  |
| Cash                                      | \$ 27,400                |                          |                         |                         | \$ 27,400  |                          |  |
| Accounts Receivable                       | 6,700                    |                          | h. \$ 3,500             |                         | 10,200     |                          |  |
| Office Supplies                           | 500                      |                          |                         | \$ 350                  | b. 150     |                          |  |
| Prepaid Rent                              | 2,300                    |                          |                         | 1,150                   | a. 1,150   |                          |  |
| Equipment                                 | 50,000                   |                          |                         |                         | 50,000     |                          |  |
| Accumulated Depreciation—Equipment Trucks | 114,000                  |                          |                         | 1,300                   | c. 114,000 | \$ 1,300                 |  |
| Accumulated Depreciation—Trucks           |                          |                          |                         | 1,900                   | d.         | 1,900                    |  |
| Accounts Payable                          |                          | \$ 3,800                 |                         |                         |            | 3,800                    |  |
| Utilities Payable                         |                          | 300                      |                         |                         |            | 300                      |  |
| Salaries Payable                          |                          |                          |                         | 7,200                   | f.         | 7,200                    |  |
| Interest Payable                          |                          |                          |                         | 300                     | g.         | 300                      |  |
| Unearned Revenue                          |                          | 4,500                    | e. 3,200                |                         |            | 1,300                    |  |
| Notes Payable                             |                          | 25,000                   |                         |                         |            | 25,000                   |  |
| Common Stock                              |                          | 141,900                  |                         |                         |            | 141,900                  |  |
| Dividends                                 | 21,000                   |                          |                         |                         | 21,000     |                          |  |
| Service Revenue                           |                          | 84,000                   |                         | 6,700                   | e., h.     | 90,700                   |  |
| Rent Expense                              | 9,200                    |                          | a. 1,150                |                         |            | 10,350                   |  |
| Salaries Expense                          | 23,800                   |                          | f. 7,200                |                         |            | 31,000                   |  |
| Supplies Expense                          |                          |                          | b. 350                  |                         |            | 350                      |  |
| Utilities Expense                         | 4,600                    |                          |                         |                         |            | 4,600                    |  |
| Depreciation Expense – Equipment          |                          |                          | c. 1,300                |                         |            | 1,300                    |  |
| Depreciation Expense – Trucks             |                          |                          | d. 1,900                |                         |            | 1,900                    |  |
| Interest Expense                          |                          |                          | g. 300                  |                         |            | 300                      |  |
| <b>Total</b>                              | <b><u>\$ 259,500</u></b> | <b><u>\$ 259,500</u></b> | <b><u>\$ 18,900</u></b> | <b><u>\$ 18,900</u></b> |            | <b><u>\$ 273,700</u></b> |  |
|   |                          |                          |                         |                         |            | <b><u>\$ 273,700</u></b> |  |

**E3-30, cont.**  
**Requirement 2**

- a. Prepaid rent expired, \$1,150
- b. Office supplies used, \$350
- c. Depreciation on equipment, \$1,300
- d. Depreciation on trucks, \$1,900
- e. Unearned revenue earned, \$3,200
- f. Salaries owed to employees, \$7,200
- g. Interest expense accrued, \$300
- h. Service revenue accrued, \$3,500

**E3A-31**  
**Requirement 1**

| Date | Accounts and Explanation               | Debit  | Credit |
|------|--|--------|--------|
|      | Supplies Expense                       | 4,400* |        |
|      | Office Supplies                        |        | 4,400* |
|      | <i>To record office supplies used.</i> |        |        |

\* Calculations:

|          |   |
|----------|---|
| \$ 1,200 | Beginning balance of office supplies            |
| 4,000    | Office supplies purchased                       |
| (800)    | Office supplies on hand                         |
| \$ 4,400 | Supplies expense (cost of office supplies used) |

| Office Supplies |       |            | Supplies Expense |       |  |
|-----------------|-------|------------|------------------|-------|--|
| Bal.            | 1,200 | 4,400 Adj. | Adj.             | 4,400 |  |
|                 | 4,000 |            | Bal.             | 4,400 |  |
| Bal.            | 800   |            |                  |       |  |

**Requirement 2**

| Date | Accounts and Explanation                      | Debit | Credit |
|------|---|-------|--------|
|      | Supplies Expense                              | 400   |        |
|      | Office Supplies                               |       | 400    |
|      | <i>To record additional supplies expense.</i> |       |        |

| Office Supplies |       |          | Supplies Expense |       |  |
|-----------------|-------|----------|------------------|-------|--|
| Bal.            | 1,200 | 400 Adj. | 4,000            |       |  |
| Bal.            | 800   |          | Adj.             | 400   |  |
|                 |       |          | Bal.             | 4,400 |  |

**E3A-31, cont.**  
**Requirement 3**

The ending balances in the Office Supplies account and the Supplies Expense account are the same, regardless of which of the two approaches is used.

**E3A-32**  
**Requirement 1**

| Date | Accounts and Explanation   | Debit  | Credit |
|------|--|--------|--------|
|      | Unearned Revenue   | 5,100* |        |
|      | Service Revenue  |        | 5,100* |
|      | <i>To record service revenue earned that was collected in advance.</i> |        |        |

\* Calculations:

|                 |   |
|-----------------|---|
| \$ 2,100        | Unearned Revenue at the beginning of the year |
| 6,100           | Cash collected for future services            |
| <u>(3,100)</u>  | Unearned Revenue still unearned               |
| <u>\$ 5,100</u> | Service Revenue earned                        |

| Unearned Revenue |       |                   | Service Revenue |                    |  |
|------------------|-------|-------------------|-----------------|--------------------|--|
| Adj.             | 5,100 | 2,100 Bal.        |                 | 20,000             |  |
|                  |       | 6,100             |                 | 5,100 Adj.         |  |
|                  |       | <u>3,100 Bal.</u> |                 | <u>25,100 Bal.</u> |  |

**Requirement 2**

| Date | Accounts and Explanation                      | Debit  | Credit |
|------|---|--------|--------|
|      | Service Revenue                               | 1,000* |        |
|      | Unearned Revenue                              |        | 1,000* |
|      | <i>To record additional unearned revenue.</i> |        |        |

\* Calculations:

|                 |  |
|-----------------|--|
| \$ 3,100        | Unearned Revenue still unearned            |
| <u>(2,100)</u>  | Unearned Revenue prior to adjustment       |
| <u>\$ 1,000</u> | Additional Unearned Revenue to be recorded |

| Unearned Revenue |  |                   | Service Revenue |                    |       |
|------------------|--|-------------------|-----------------|--------------------|-------|
|                  |  | 2,100 Bal.        |                 | 20,000             |       |
|                  |  | 1,000 Adj.        | Adj.            | 1,000              | 6,100 |
|                  |  | <u>3,100 Bal.</u> |                 | <u>25,100 Bal.</u> |       |

**E3A-32, cont.**  
**Requirement 3**

The ending balances in the Unearned Revenue account and the Service Revenue account are the same, regardless of which of the two approaches is used.

***Problems (Group A)***

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**P3-33A**  
**Requirement 1**

| Date       | Accounts and Explanation   | Debit          | Credit         |
|------------|--|----------------|----------------|
| a. Dec. 31 | Salaries Expense<br>Salaries Payable<br><i>To accrue salaries expense.</i>   | 3,200*         | 3,200*         |
| b. Dec. 31 | Insurance Expense<br>Prepaid Insurance<br><i>To record insurance expense.</i>  | 4,000*         | 4,000*         |
| c. Dec. 31 | Supplies Expense<br>Office Supplies<br><i>To record office supplies used.</i>  | 8,400*         | 8,400*         |
| d. Dec. 31 | Unearned Revenue<br>Service Revenue<br><i>To record service revenue earned that was collected in advance.</i>  | 2,600*         | 2,600*         |
| e. Dec. 31 | Accounts Receivable<br>Service Revenue<br><i>To accrue service revenue.</i>  | 3,000          | 3,000          |
| f. Dec. 31 | Depreciation Expense—Equipment<br>Depreciation Expense—Trucks<br>Accumulated Depreciation—Equipment<br>Accumulated Depreciation—Trucks<br><i>To record depreciation on equipment and trucks.</i> | 3,000<br>2,200 | 3,000<br>2,200 |
| g. Dec. 31 | Interest Expense<br>Interest Payable<br><i>To accrue interest expense.</i>   | 250            | 250            |

**P3-33A, cont.**

\* Calculations:

a:

|            |                               |
|------------|-------------------------------|
| \$8,000    | Payroll for a 5-day work week |
| <u>÷ 5</u> | work days                     |
| \$1,600    | Salaries expense per work day |

*Thus,*

|                |   |
|----------------|---|
| \$1,600        | Salaries expense per work day               |
| <u>× 2</u>     | work days                                   |
| <u>\$3,200</u> | Salaries expense for Monday through Tuesday |

b:

|                |  |
|----------------|--|
| \$8,000        | Insurance prepaid on January 1 for two years |
| <u>÷ 2</u>     | Years  |
| <u>\$4,000</u> | Insurance expense for one year               |

c:

|                |   |
|----------------|---|
| \$4,300        | Beginning balance of office supplies            |
| 5,600          | Office supplies purchased                       |
| <u>(1,500)</u> | Office supplies on hand                         |
| <u>\$8,400</u> | Supplies expense (cost of office supplies used) |

d:

|                |                                      |
|----------------|--------------------------------------|
| \$6,500        | Collected in advance during December |
| <u>× 40%</u>   | Percentage earned during December    |
| <u>\$2,600</u> | Revenue earned during December       |

**P3-33A, cont.**  
**Requirement 2**

| Date       | Accounts and Explanation  | Debit           | Credit |
|------------|---|-----------------|--------|
| a. Jan. 3  | Salaries Expense<br>Salaries Payable<br>Cash<br><i>To record payment of salaries.</i>                         | 4,800*<br>3,200 | 8,000  |
| d.         | Unearned Revenue<br>Service Revenue<br><i>To record service revenue earned that was collected in advance.</i> | 3,900*          | 3,900* |
| g. Jan. 15 | Interest Expense<br>Interest Payable<br>Cash<br><i>To record payment of interest.</i>                         | 300<br>250      | 550    |

\* Calculations:

a:

|            |                               |
|------------|-------------------------------|
| \$8,000    | Payroll for a 5-day work week |
| <u>÷ 5</u> | work days                     |
| \$1,600    | Salaries expense per work day |

*Thus,*

|                |   |
|----------------|---|
| \$1,600        | Salaries expense per work day                                     |
| <u>× 3</u>     | work days   |
| <u>\$4,800</u> | Salaries expense for Wednesday through Friday of the current week |

d:

|                |  |
|----------------|--|
| \$6,500        | Collected in advance during December               |
| <u>(2,600)</u> | Revenue earned during December (see requirement 1) |
| <u>\$3,900</u> | Revenue earned after December                      |

g:

|              |  |
|--------------|--|
| \$550        | Total interest paid on January 15                  |
| <u>(250)</u> | Interest expense previously accrued on December 31 |
| <u>\$300</u> | Interest expense for January 1 through January 15  |

**P3-34A**  
**Requirement 1**

| Date       | Accounts and Explanation  | Debit  | Credit |
|------------|---|--------|--------|
| a. Dec. 31 | Utilities Expense<br>Utilities Payable<br><i>To accrue utilities expense.</i>                                 | 375    | 375    |
| b. Dec. 31 | Insurance Expense<br>Prepaid Insurance<br><i>To record insurance expense.</i>                                 | 800*   | 800*   |
| c. Dec. 31 | Accounts Receivable<br>Service Revenue<br><i>To accrue service revenue.</i>                                   | 3,000  | 3,000  |
| d. Dec. 31 | Depreciation Expense—Boat<br>Accumulated Depreciation—Boat<br><i>To record depreciation on boat.</i>          | 3,000* | 3,000* |
| e. Dec. 31 | Unearned Revenue<br>Service Revenue<br><i>To record service revenue earned that was collected in advance.</i> | 9,000  | 9,000  |

\* Calculations:

b:

|                |  |
|----------------|--|
| \$1,200        | Insurance prepaid on November 1 for 3 months |
| <u>    ÷ 3</u> | months                                       |
| \$ 400         | Insurance expense per month                  |

*Thus,*

|                     |   |
|---------------------|---|
| \$400               | Insurance expense per month                 |
| <u>    × 2</u>      | months                                      |
| <u><u>\$800</u></u> | Insurance expense for November and December |



**P3-34A, cont.**

d:

$$\begin{aligned}\text{Straight-line depreciation per year} &= (\text{Cost} - \text{Residual Value}) / \text{Useful Life in Years} \\ &= (\$33,500 - \$3,500) / 10 \text{ years} \\ &= \$30,000 / 10 \text{ years} \\ &= \underline{\$3,000}\end{aligned}$$

**Requirement 2**

| Adjusting Entry | Specific Category of Accounts on the Balance Sheet | Over / Understated         | Specific Category of Accounts on the Income Statement | Over / Understated |
|-----------------|--|----------------------------|---|--------------------|
| a.              | Liability<br>Equity                                | Understated<br>Overstated  | Expense   | Understated        |
| b.              | Asset<br>Equity                                    | Overstated<br>Overstated   | Expense   | Understated        |
| c.              | Asset<br>Equity                                    | Understated<br>Understated | Revenue   | Understated        |
| d.              | Asset<br>Equity                                    | Overstated<br>Overstated   | Expense   | Understated        |
| e.              | Liability<br>Equity                                | Overstated<br>Understated  | Revenue   | Understated        |

**P3-35A**  
**Requirement 1**

| Date       | Accounts and Explanation  | Debit  | Credit |
|------------|---|--------|--------|
| a. Dec. 31 | Unearned Revenue<br>Service Revenue<br><i>To record service revenue earned that was collected in advance.</i>       | 2,100  | 2,100  |
| b. Dec. 31 | Rent Expense<br>Prepaid Rent<br><i>To record rent expense.</i>  | 1,450* | 1,450* |
| c. Dec. 31 | Supplies Expense<br>Office Supplies<br><i>To record office supplies used.</i>                                       | 750    | 750    |
| d. Dec. 31 | Depreciation Expense—Equipment<br>Accumulated Depreciation—Equipment<br><i>To record depreciation on equipment.</i> | 850    | 850    |
| e. Dec. 31 | Advertising Expense<br>Accounts Payable<br><i>To accrue advertising expense.</i>                                    | 1,100  | 1,100  |
| f. Dec. 31 | Salaries Expense<br>Salaries Payable<br><i>To accrue salaries expense.</i>  | 2,100* | 2,100* |
| g. Dec. 31 | Accounts Receivable<br>Service Revenue<br><i>To accrue service revenue.</i>   | 2,550* | 2,550* |

**P3-35A, cont.**

\* Calculations:

b:

$$\begin{array}{r} \$2,900 \text{ Rent prepaid on December 1 for two months} \\ \div 2 \text{ months} \\ \hline \$1,450 \text{ Rent Expense for December} \end{array}$$

f:

$$\begin{array}{r} \$3,500 \text{ Payroll for a 5-day work week} \\ \div 5 \text{ work days} \\ \hline \$ 700 \text{ Salaries Expense per work day} \end{array}$$

*Thus,*

$$\begin{array}{r} \$ 700 \text{ Salaries Expense per work day} \\ \times 3 \text{ work days} \\ \hline \$2,100 \text{ Salaries Expense for Monday through Wednesday} \end{array}$$

g:

$$\begin{array}{r} \$3,400 \text{ Service Revenue to be earned October through January} \\ \div 4 \text{ months} \\ \hline \$ 850 \text{ Service Revenue earned per month} \end{array}$$

*Thus,*

$$\begin{array}{r} \$ 850 \text{ Service Revenue earned per month} \\ \times 3 \text{ months} \\ \hline \$2,550 \text{ Service Revenue earned October through December} \end{array}$$

**P3-35A, cont.**  
**Requirement 2**

| Cash |       |
|------|-------|
| Bal. | 7,600 |
| Bal. | 7,600 |

| Accounts Payable |            |
|------------------|------------|
|                  | 2,900 Bal. |
|                  | 1,100 e.   |
|                  | 4,000 Bal. |

| Service Revenue |             |
|-----------------|-------------|
|                 | 15,300 Bal. |
|                 | 2,100 a.    |
|                 | 2,550 g.    |
|                 | 19,950 Bal. |

| Accounts Receivable |        |
|---------------------|--------|
| Bal.                | 19,700 |
| g.                  | 2,550  |
| Bal.                | 22,250 |

| Salaries Payable |            |
|------------------|------------|
|                  | 2,100 f.   |
|                  | 2,100 Bal. |

| Salaries Expense |       |
|------------------|-------|
| Bal.             | 3,300 |
| f.               | 2,100 |
| Bal.             | 5,400 |

| Prepaid Rent |                |
|--------------|----------------|
| Bal.         | 2,900 1,450 b. |
| Bal.         | 1,450          |

| Unearned Revenue |                  |
|------------------|------------------|
| a.               | 2,100 3,100 Bal. |
|                  | 1,000 Bal.       |

| Rent Expense |       |
|--------------|-------|
| b.           | 1,450 |
| Bal.         | 1,450 |

| Office Supplies |              |
|-----------------|--------------|
| Bal.            | 1,800 750 c. |
| Bal.            | 1,050        |

| Common Stock |             |
|--------------|-------------|
|              | 43,800 Bal. |
|              | 43,800 Bal. |

| Depreciation Expense—Equipment |     |
|--------------------------------|-----|
| d.                             | 850 |
| Bal.                           | 850 |

| Equipment |        |
|-----------|--------|
| Bal.      | 22,000 |
| Bal.      | 22,000 |

| Dividends |       |
|-----------|-------|
| Bal.      | 9,900 |
| Bal.      | 9,900 |

| Advertising Expense |       |
|---------------------|-------|
| Bal.                | 1,800 |
| e.                  | 1,100 |
| Bal.                | 2,900 |

| Accumulated Depreciation—<br>Equipment |            |
|--|------------|
|  | 3,900 Bal. |
|  | 850 d.     |
|  | 4,750 Bal. |

| Supplies Expense |     |
|------------------|-----|
| c.               | 750 |
| Bal.             | 750 |

**P3-35A, cont.**  
**Requirement 3**

| ANNISTON AIR PURIFICATION SYSTEM   |                         |                         |
|------------------------------------|-------------------------|-------------------------|
| Adjusted Trial Balance             |                         |                         |
| December 31, 2018                  |                         |                         |
| Account Title                      | Balance                 |                         |
|                                    | Debit                   | Credit                  |
| Cash                               | \$ 7,600                |                         |
| Accounts Receivable                | 22,250                  |                         |
| Prepaid Rent                       | 1,450                   |                         |
| Office Supplies                    | 1,050                   |                         |
| Equipment                          | 22,000                  |                         |
| Accumulated Depreciation—Equipment |                         | \$ 4,750                |
| Accounts Payable                   |                         | 4,000                   |
| Salaries Payable                   |                         | 2,100                   |
| Unearned Revenue                   |                         | 1,000                   |
| Common Stock                       |                         | 43,800                  |
| Dividends                          | 9,900                   |                         |
| Service Revenue                    |                         | 19,950                  |
| Salaries Expense                   | 5,400                   |                         |
| Rent Expense                       | 1,450                   |                         |
| Depreciation Expense—Equipment     | 850                     |                         |
| Advertising Expense                | 2,900                   |                         |
| Supplies Expense                   | 750                     |                         |
| <b>Total</b>                       | <b><u>\$ 75,600</u></b> | <b><u>\$ 75,600</u></b> |

**Requirement 4**

Anniston will use the adjusted trial balance to prepare its financial statements. (Additionally, the purpose of any trial balance is to ensure that total debits equal total credits.)

**P3-36A**  
**Requirement 1**

| Date       | Accounts and Explanation   | Debit  | Credit |
|------------|--|--------|--------|
| a. Dec. 31 | Insurance Expense<br>Prepaid Insurance<br><i>To record insurance expense.</i>                                    | 3,900* | 3,900* |
| b. Dec. 31 | Supplies Expense<br>Office Supplies<br><i>To record office supplies used.</i>                                    | 300*   | 300*   |
| c. Dec. 31 | Depreciation Expense—Building<br>Accumulated Depreciation—Building<br><i>To record depreciation on building.</i> | 1,200  | 1,200  |
| d. Dec. 31 | Salaries Expense<br>Salaries Payable<br><i>To accrue salaries expense.</i>                                       | 1,080* | 1,080* |
| e. Dec. 31 | Unearned Revenue<br>Service Revenue<br><i>To record service revenue earned that was collected in advance.</i>    | 2,000* | 2,000* |

\* Calculations:

a:

|                |                                       |
|----------------|---------------------------------------|
| \$4,600        | Prepaid Insurance prior to adjustment |
| <u>(700)</u>   | Prepaid Insurance remaining           |
| <u>\$3,900</u> | Insurance Expense                     |

b:

|              |   |
|--------------|---|
| \$800        | Office Supplies prior to adjustment             |
| <u>(500)</u> | Office Supplies remaining                       |
| <u>\$300</u> | Supplies Expense (cost of office supplies used) |

**P3-36A, cont.**

d:

|         |     |  |
|---------|-----|--|
| \$1,800 | ÷ 5 | Salaries for a five-day work week<br>work days |
| \$ 360  |     | Salaries Expense per work day                  |

*Thus,*

|         |     |   |
|---------|-----|---|
| \$ 360  | × 3 | Salaries Expense per work day<br>work days    |
| \$1,080 |     | Salaries Expense for Monday through Wednesday |

e:

|         |  |                                      |
|---------|--|--------------------------------------|
| \$3,600 |  | Unearned Revenue prior to adjustment |
| (1,600) |  | Unearned Revenue still unearned      |
| \$2,000 |  | Service Revenue earned               |

**Requirement 2**

| CASH            |         |           |       |        | Account No. |        |
|-----------------|---------|-----------|-------|--------|-------------|--------|
| Date            | Item    | Post Ref. | Debit | Credit | Balance     |        |
|                 |         |           |       |        | Debit       | Credit |
| 2018<br>Dec. 31 | Balance |           |       |        | 13,500      |        |

| ACCOUNTS RECEIVABLE |         |           |       |        | Account No. |        |
|---------------------|---------|-----------|-------|--------|-------------|--------|
| Date                | Item    | Post Ref. | Debit | Credit | Balance     |        |
|                     |         |           |       |        | Debit       | Credit |
| 2018<br>Dec. 31     | Balance |           |       |        | 15,100      |        |

| PREPAID INSURANCE |         |           |       |        | Account No. |        |
|-------------------|---------|-----------|-------|--------|-------------|--------|
| Date              | Item    | Post Ref. | Debit | Credit | Balance     |        |
|                   |         |           |       |        | Debit       | Credit |
| 2018<br>Dec. 31   | Balance |           |       |        | 4,600       |        |
| Dec. 31           | a.      |           |       | 3,900  | 700         |        |

**P3-36A, cont.**

**OFFICE SUPPLIES**

Account No.

| Date    | Item    | Post Ref. | Debit | Credit | Balance |        |
|---------|---------|-----------|-------|--------|---------|--------|
|         |         |           |       |        | Debit   | Credit |
| 2018    |         |           |       |        |         |        |
| Dec. 31 | Balance |           |       |        | 800     |        |
| Dec. 31 | b.      |           |       | 300    | 500     |        |

**BUILDING**

Account No.

| Date    | Item    | Post Ref. | Debit | Credit | Balance |        |
|---------|---------|-----------|-------|--------|---------|--------|
|         |         |           |       |        | Debit   | Credit |
| 2018    |         |           |       |        |         |        |
| Dec. 31 | Balance |           |       |        | 530,000 |        |

**ACCUMULATED DEPRECIATION—BUILDING**

Account No.

| Date    | Item    | Post Ref. | Debit | Credit | Balance |         |
|---------|---------|-----------|-------|--------|---------|---------|
|         |         |           |       |        | Debit   | Credit  |
| 2018    |         |           |       |        |         |         |
| Dec. 31 | Balance |           |       |        |         | 260,000 |
| Dec. 31 | c.      |           |       | 1,200  |         | 261,200 |

**ACCOUNTS PAYABLE**

Account No.

| Date    | Item    | Post Ref. | Debit | Credit | Balance |        |
|---------|---------|-----------|-------|--------|---------|--------|
|         |         |           |       |        | Debit   | Credit |
| 2018    |         |           |       |        |         |        |
| Dec. 31 | Balance |           |       |        |         | 1,710  |

**SALARIES PAYABLE**

Account No.

| Date    | Item | Post Ref. | Debit | Credit | Balance |        |
|---------|------|-----------|-------|--------|---------|--------|
|         |      |           |       |        | Debit   | Credit |
| 2018    |      |           |       |        |         |        |
| Dec. 31 | d.   |           |       | 1,080  |         | 1,080  |

**UNEARNED REVENUE**

Account No.

| Date    | Item    | Post Ref. | Debit | Credit | Balance |        |
|---------|---------|-----------|-------|--------|---------|--------|
|         |         |           |       |        | Debit   | Credit |
| 2018    |         |           |       |        |         |        |
| Dec. 31 | Balance |           |       |        |         | 3,600  |
| Dec. 31 | e.      |           | 2,000 |        |         | 1,600  |



**P3-36A, cont.**

**COMMON STOCK**

Account No.

| Date            | Item    | Post Ref. | Debit | Credit | Balance |         |
|-----------------|---------|-----------|-------|--------|---------|---------|
|                 |         |           |       |        | Debit   | Credit  |
| 2018<br>Dec. 31 | Balance |           |       |        |         | 288,950 |

**DIVIDENDS**

Account No.

| Date            | Item    | Post Ref. | Debit | Credit | Balance |        |
|-----------------|---------|-----------|-------|--------|---------|--------|
|                 |         |           |       |        | Debit   | Credit |
| 2018<br>Dec. 31 | Balance |           |       |        | 2,340   |        |

**SERVICE REVENUE**

Account No.

| Date            | Item    | Post Ref. | Debit | Credit | Balance |        |
|-----------------|---------|-----------|-------|--------|---------|--------|
|                 |         |           |       |        | Debit   | Credit |
| 2018<br>Dec. 31 | Balance |           |       |        |         | 15,500 |
| Dec. 31         | e.      |           |       | 2,000  |         | 17,500 |

**SALARIES EXPENSE**

Account No.

| Date            | Item    | Post Ref. | Debit | Credit | Balance |        |
|-----------------|---------|-----------|-------|--------|---------|--------|
|                 |         |           |       |        | Debit   | Credit |
| 2018<br>Dec. 31 | Balance |           |       |        | 2,800   |        |
| Dec. 31         | d.      |           | 1,080 |        | 3,880   |        |

**INSURANCE EXPENSE**

Account No.

| Date            | Item | Post Ref. | Debit | Credit | Balance |        |
|-----------------|------|-----------|-------|--------|---------|--------|
|                 |      |           |       |        | Debit   | Credit |
| 2018<br>Dec. 31 | a.   |           | 3,900 |        | 3,900   |        |

**DEPRECIATION EXPENSE—BUILDING**

Account No.

| Date            | Item | Post Ref. | Debit | Credit | Balance |        |
|-----------------|------|-----------|-------|--------|---------|--------|
|                 |      |           |       |        | Debit   | Credit |
| 2018<br>Dec. 31 | c.   |           | 1,200 |        | 1,200   |        |

**P3-36A, cont.**

**ADVERTISING EXPENSE**

Account No.

| Date            | Item    | Post Ref. | Debit | Credit | Balance |        |
|-----------------|---------|-----------|-------|--------|---------|--------|
|                 |         |           |       |        | Debit   | Credit |
| 2018<br>Dec. 31 | Balance |           |       |        | 620     |        |

**SUPPLIES EXPENSE**

Account No.

| Date            | Item | Post Ref. | Debit | Credit | Balance |        |
|-----------------|------|-----------|-------|--------|---------|--------|
|                 |      |           |       |        | Debit   | Credit |
| 2018<br>Dec. 31 | b.   |           | 300   |        | 300     |        |

**Requirement 3**

| <b>GUTHRIE INN COMPANY</b>        |                   |                   |
|-----------------------------------|-------------------|-------------------|
| <b>Adjusted Trial Balance</b>     |                   |                   |
| <b>December 31, 2018</b>          |                   |                   |
| Account Title                     | Balance           |                   |
|                                   | Debit             | Credit            |
| Cash                              | \$ 13,500         |                   |
| Accounts Receivable               | 15,100            |                   |
| Prepaid Insurance                 | 700               |                   |
| Office Supplies                   | 500               |                   |
| Building                          | 530,000           |                   |
| Accumulated Depreciation—Building |                   | \$ 261,200        |
| Accounts Payable                  |                   | 1,710             |
| Salaries Payable                  |                   | 1,080             |
| Unearned Revenue                  |                   | 1,600             |
| Common Stock                      |                   | 288,950           |
| Dividends                         | 2,340             |                   |
| Service Revenue                   |                   | 17,500            |
| Salaries Expense                  | 3,880             |                   |
| Insurance Expense                 | 3,900             |                   |
| Depreciation Expense—Building     | 1,200             |                   |
| Advertising Expense               | 620               |                   |
| Supplies Expense                  | 300               |                   |
| <b>Total</b>                      | <b>\$ 572,040</b> | <b>\$ 572,040</b> |

**P3-36A, cont.**  
**Requirement 4**

No. Even if total debits equals total credits on the adjusted trial balance, this does not mean that the adjusting entries have been recorded correctly. For example, an adjusting entry could have been recorded for the incorrect amount (even though the debit and the credit amount is the same, the amount is incorrect). Or an adjusting entry could have been omitted entirely.

**P3-37A**  
**Requirement 1**

| <b>GREAVY THEATER PRODUCTION COMPANY</b> |                             |                          |                        |                        |                           |                          |
|--|-----------------------------|--------------------------|------------------------|------------------------|---------------------------|--------------------------|
| <b>Worksheet</b>                         |                             |                          |                        |                        |                           |                          |
| <b>December 31, 2018</b>                 |                             |                          |                        |                        |                           |                          |
| Account                                  | Unadjusted<br>Trial Balance |                          | Adjustments            |                        | Adjusted<br>Trial Balance |                          |
|  | Debit                       | Credit                   | Debit                  | Credit                 | Debit                     | Credit                   |
| Cash                                     | \$ 4,300                    |                          |                        |                        | \$ 4,300                  |                          |
| Accounts Receivable                      | 5,900                       |                          | a. \$ 500              |                        | 6,400                     |                          |
| Office Supplies                          | 1,900                       |                          |                        | \$ 1,200 b.            | 700                       |                          |
| Prepaid Insurance                        | 4,550                       |                          |                        | 650 c.                 | 3,900                     |                          |
| Equipment                                | 30,000                      |                          |                        |                        | 30,000                    |                          |
| Accumulated Depreciation—Equipment       |                             | \$ 7,600                 |                        | 4,000 d.               |                           | \$ 11,600                |
| Accounts Payable                         |                             | 3,600                    |                        |                        |                           | 3,600                    |
| Salaries Payable                         |                             |                          |                        | 200 e.                 |                           | 200                      |
| Common Stock                             |                             | 21,950                   |                        |                        |                           | 21,950                   |
| Dividends                                | 30,500                      |                          |                        |                        | 30,500                    |                          |
| Service Revenue                          |                             | 77,000                   |                        | 500 a.                 |                           | 77,500                   |
| Depreciation Expense—Equipment           |                             |                          | d. 4,000               |                        | 4,000                     |                          |
| Supplies Expense                         |                             |                          | b. 1,200               |                        | 1,200                     |                          |
| Utilities Expense                        | 5,500                       |                          |                        |                        | 5,500                     |                          |
| Salaries Expense                         | 27,500                      |                          | e. 200                 |                        | 27,700                    |                          |
| Insurance Expense                        |                             |                          | c. 650                 |                        | 650                       |                          |
| <b>Total</b>                             | <b><u>\$ 110,150</u></b>    | <b><u>\$ 110,150</u></b> | <b><u>\$ 6,550</u></b> | <b><u>\$ 6,550</u></b> | <b><u>\$ 114,850</u></b>  | <b><u>\$ 114,850</u></b> |

**P3-37A, cont.**  
**Requirement 2**

| Date       | Accounts and Explanation  | Debit | Credit |
|------------|---|-------|--------|
| a. Dec. 31 | Accounts Receivable<br>Service Revenue<br><i>To accrue service revenue.</i>   | 500   | 500    |
| b. Dec. 31 | Supplies Expense<br>Office Supplies<br><i>To record office supplies used.</i>                                       | 1,200 | 1,200  |
| c. Dec. 31 | Insurance Expense<br>Prepaid Insurance<br><i>To record insurance expense.</i>                                       | 650   | 650    |
| d. Dec. 31 | Depreciation Expense—Equipment<br>Accumulated Depreciation—Equipment<br><i>To record depreciation on equipment.</i> | 4,000 | 4,000  |
| e. Dec. 31 | Salaries Expense<br>Salaries Payable<br><i>To accrue salaries expense.</i>  | 200   | 200    |

**P3A-38A**  
**Requirement 1**

| Date   | Accounts and Explanation   | Debit | Credit |
|--------|--|-------|--------|
| Nov. 1 | Prepaid Rent<br>Cash<br><i>To record rent paid in advance.</i>                   | 9,600 | 9,600  |
| Nov. 1 | Prepaid Insurance<br>Cash<br><i>To record insurance paid in advance.</i>         | 6,000 | 6,000  |
| Dec. 1 | Cash<br>Unearned Revenue<br><i>To record cash collected for future services.</i> | 9,000 | 9,000  |
| Dec. 1 | Cash<br>Unearned Revenue<br><i>To record cash collected for future services.</i> | 7,200 | 7,200  |

**P3A–38A, cont.**  
**Requirement 2**

| Date    | Accounts and Explanation  | Debit  | Credit |
|---------|---|--------|--------|
| Dec. 31 | Rent Expense<br>Prepaid Rent<br><i>To record rent expense.</i>  | 3,200* | 3,200* |
| Dec. 31 | Insurance Expense<br>Prepaid Insurance<br><i>To record insurance expense.</i>                                 | 2,400* | 2,400* |
| Dec. 31 | Unearned Revenue<br>Service Revenue<br><i>To record service revenue earned that was collected in advance.</i> | 1,800  | 1,800  |
| Dec. 31 | Unearned Revenue<br>Service Revenue<br><i>To record service revenue earned that was collected in advance.</i> | 2,400  | 2,400  |

\* Calculations:

Adjusting Journal Entry One:

$$\begin{array}{r}
 \$9,600 \text{ Rent prepaid on November 1 for 6 months} \\
 \div 6 \text{ months} \\
 \hline
 \$1,600 \text{ Rent expense per month}
 \end{array}$$

*Thus,*

$$\begin{array}{r}
 \$1,600 \text{ Rent expense per month} \\
 \times 2 \text{ months} \\
 \hline
 \underline{\underline{\$3,200}} \text{ Rent expense for November and December}
 \end{array}$$

**P3A-38A, cont.**

Adjusting Journal Entry Two:

|            |  |
|------------|--|
| \$6,000    | Insurance prepaid on November 1 for 5 months |
| <u>÷ 5</u> | Months                                       |
| \$1,200    | Insurance expense per month                  |

*Thus,*

|                |   |
|----------------|---|
| \$1,200        | Insurance expense per month                 |
| <u>× 2</u>     | Months                                      |
| <u>\$2,400</u> | Insurance expense for November and December |

**Requirement 3**

| Prepaid Rent |       |       |         |
|--------------|-------|-------|---------|
| Nov. 1       | 9,600 | 3,200 | Dec. 31 |
| Bal.         | 6,400 |       |         |

| Rent Expense |       |  |
|--------------|-------|--|
| Dec. 31      | 3,200 |  |
| Bal.         | 3,200 |  |

| Prepaid Insurance |       |       |         |
|-------------------|-------|-------|---------|
| Nov. 1            | 6,000 | 2,400 | Dec. 31 |
| Bal.              | 3,600 |       |         |

| Insurance Expense |       |  |
|-------------------|-------|--|
| Dec. 31           | 2,400 |  |
| Bal.              | 2,400 |  |

| Unearned Revenue |       |        |        |
|------------------|-------|--------|--------|
| Dec. 31          | 1,800 | 9,000  | Dec. 1 |
| Dec. 31          | 2,400 | 7,200  | Dec. 1 |
|                  |       | 12,000 | Bal.   |

| Service Revenue |       |         |
|-----------------|-------|---------|
|                 | 1,800 | Dec. 31 |
|                 | 2,400 | Dec. 31 |
|                 | 4,200 | Bal.    |



**P3A-38A, cont.**  
**Requirement 4**

| Date    | Accounts and Explanation  | Debit  | Credit |
|---------|---|--------|--------|
| Nov. 1  | Rent Expense<br>Cash<br><i>To record rent paid in advance.</i>                  | 9,600  | 9,600  |
| Nov. 1  | Insurance Expense<br>Cash<br><i>To record insurance paid in advance.</i>        | 6,000  | 6,000  |
| Dec. 1  | Cash<br>Service Revenue<br><i>To record cash collected for future services.</i> | 9,000  | 9,000  |
| Dec. 1  | Cash<br>Service Revenue<br><i>To record cash collected for future services.</i> | 7,200  | 7,200  |
| Dec. 31 | Prepaid Rent<br>Rent Expense<br><i>To record prepaid rent.</i>                  | 6,400* | 6,400* |
| Dec. 31 | Prepaid Insurance<br>Insurance Expense<br><i>To record prepaid insurance.</i>   | 3,600* | 3,600* |
| Dec. 31 | Service Revenue<br>Unearned Revenue<br><i>To record unearned revenue.</i>       | 7,200* | 7,200* |
| Dec. 31 | Service Revenue<br>Unearned Revenue<br><i>To record unearned revenue.</i>       | 4,800* | 4,800* |

**P3A-38A, cont.**

\* Calculations:

Adjusting Journal Entry One:

$$\begin{array}{r} \$9,600 \text{ Rent prepaid on November 1 for 6 months} \\ \div 6 \text{ Months} \\ \hline \underline{\underline{\$1,600}} \text{ Rent expense per month} \end{array}$$

*Thus,*

$$\begin{array}{r} \$1,600 \text{ Rent expense per month} \\ \times 4 \text{ Months} \\ \hline \underline{\underline{\$6,400}} \text{ Rent still prepaid on December 31} \end{array}$$

Adjusting Journal Entry Two:

$$\begin{array}{r} \$6,000 \text{ Insurance prepaid on November 1 for 5 months} \\ \div 5 \text{ Months} \\ \hline \underline{\underline{\$1,200}} \text{ Insurance expense per month} \end{array}$$

*Thus,*

$$\begin{array}{r} \$1,200 \text{ Insurance expense per month} \\ \times 3 \text{ Months} \\ \hline \underline{\underline{\$3,600}} \text{ Insurance still prepaid on December 31} \end{array}$$

Adjusting Journal Entry Three:

$$\begin{array}{r} \$ 9,000 \text{ Collected in advance on December 1 for 5 months} \\ \underline{(1,800) \text{ Revenue earned during December}} \\ \underline{\underline{\$ 7,200}} \text{ Revenue still unearned on December 31} \end{array}$$

Adjusting Journal Entry Four:

$$\begin{array}{r} \$ 7,200 \text{ Collected in advance on December 1 for 3 months} \\ \underline{(2,400) \text{ Revenue earned during December}} \\ \underline{\underline{\$ 4,800}} \text{ Revenue still unearned on December 31} \end{array}$$

**P3A-38A, cont.**

| Prepaid Rent |       |
|--------------|-------|
| Dec. 31      | 6,400 |
| Bal.         | 6,400 |

| Rent Expense |       |       |         |
|--------------|-------|-------|---------|
| Nov. 1       | 9,600 | 6,400 | Dec. 31 |
| Bal.         | 3,200 |       |         |

| Prepaid Insurance |       |
|-------------------|-------|
| Dec. 31           | 3,600 |
| Bal.              | 3,600 |

| Insurance Expense |       |       |         |
|-------------------|-------|-------|---------|
| Nov. 1            | 6,000 | 3,600 | Dec. 31 |
| Bal.              | 2,400 |       |         |

| Unearned Revenue |               |
|------------------|---------------|
|                  | 7,200 Dec. 31 |
|                  | 4,800 Dec. 31 |
|                  | 12,000 Bal.   |

| Service Revenue |       |       |        |
|-----------------|-------|-------|--------|
| Dec. 31         | 7,200 | 9,000 | Dec. 1 |
| Dec. 31         | 4,800 | 7,200 | Dec. 1 |
|                 |       | 4,200 | Bal.   |

**Requirement 5**

The ending balances in the accounts are the same, regardless of which of the two approaches is used.

## Problems (Group B)

### P3-39B

#### Requirement 1

| Date       | Accounts and Explanation   | Debit          | Credit         |
|------------|--|----------------|----------------|
| a. Dec. 31 | Salaries Expense<br>Salaries Payable<br><i>To accrue salaries expense.</i>   | 3,900*         | 3,900*         |
| b. Dec. 31 | Insurance Expense<br>Prepaid Insurance<br><i>To record insurance expense.</i>  | 3,750*         | 3,750*         |
| c. Dec. 31 | Supplies Expense<br>Office Supplies<br><i>To record office supplies used.</i>  | 6,500*         | 6,500*         |
| d. Dec. 31 | Unearned Revenue<br>Service Revenue<br><i>To record service revenue earned that was collected in advance.</i>  | 4,200*         | 4,200*         |
| e. Dec. 31 | Accounts Receivable<br>Service Revenue<br><i>To accrue service revenue.</i>  | 7,500          | 7,500          |
| f. Dec. 31 | Depreciation Expense—Equipment<br>Depreciation Expense—Trucks<br>Accumulated Depreciation—Equipment<br>Accumulated Depreciation—Trucks<br><i>To record depreciation on equipment and trucks.</i> | 3,800<br>1,400 | 3,800<br>1,400 |
| g. Dec. 31 | Interest Expense<br>Interest Payable<br><i>To accrue interest expense.</i>   | 250            | 250            |

**P3-39B, cont.**

\* Calculations:

a:

$$\begin{array}{r} \$6,500 \text{ Payroll for a 5-day work week} \\ \div 5 \text{ work days} \\ \hline \$1,300 \text{ Salaries expense per work day} \end{array}$$

*Thus,*

$$\begin{array}{r} \$1,300 \text{ Salaries expense per work day} \\ \times 3 \text{ work days} \\ \hline \underline{\underline{\$3,900}} \text{ Salaries expense for Monday through Wednesday} \end{array}$$

b:

$$\begin{array}{r} \$7,500 \text{ Insurance prepaid on January 1 for two years} \\ \div 2 \text{ years} \\ \hline \underline{\underline{\$3,750}} \text{ Insurance expense for one year} \end{array}$$

c:

$$\begin{array}{r} \$3,700 \text{ Beginning balance of office supplies} \\ 5,800 \text{ Office supplies purchased} \\ \hline (3,000) \text{ Office supplies on hand} \\ \hline \underline{\underline{\$6,500}} \text{ Supplies expense (cost of office supplies used)} \end{array}$$

d:

$$\begin{array}{r} \$6,000 \text{ Collected in advance during December} \\ \times 70\% \text{ Percentage earned during December} \\ \hline \underline{\underline{\$4,200}} \text{ Revenue earned during December} \end{array}$$

**P3-39B, cont.**  
**Requirement 2**

| Date       | Accounts and Explanation  | Debit           | Credit |
|------------|---|-----------------|--------|
| a. Jan. 2  | Salaries Expense<br>Salaries Payable<br>Cash<br><i>To record payment of salaries.</i>                         | 2,600*<br>3,900 | 6,500  |
| d.         | Unearned Revenue<br>Service Revenue<br><i>To record service revenue earned that was collected in advance.</i> | 1,800*          | 1,800* |
| g. Jan. 15 | Interest Expense<br>Interest Payable<br>Cash<br><i>To record payment of interest.</i>                         | 100*<br>250     | 350    |

\* Calculations:

a:

|            |                               |
|------------|-------------------------------|
| \$6,500    | Payroll for a 5-day work week |
| <u>÷ 5</u> | work days                     |
| \$1,300    | Salaries expense per work day |

*Thus,*

|                |  |
|----------------|--|
| \$1,300        | Salaries expense per work day                                |
| <u>× 2</u>     | work days  |
| <u>\$2,600</u> | Salaries expense for Thursday and Friday of the current week |

d:

|                |  |
|----------------|--|
| \$6,000        | Collected in advance during December               |
| <u>(4,200)</u> | Revenue earned during December (see requirement 1) |
| <u>\$1,800</u> | Revenue earned after December                      |

g:

|              |  |
|--------------|--|
| \$350        | Total interest paid on January 15                  |
| <u>(250)</u> | Interest expense previously accrued on December 31 |
| <u>\$100</u> | Interest expense for January 1 through January 15  |

**P3-40B**  
**Requirement 1**

| Date       | Accounts and Explanation  | Debit   | Credit  |
|------------|---|---------|---------|
| a. Dec. 31 | Utilities Expense<br>Utilities Payable<br><i>To accrue utilities expense.</i>                                 | 375     | 375     |
| b. Dec. 31 | Insurance Expense<br>Prepaid Insurance<br><i>To record insurance expense.</i>                                 | 2,400*  | 2,400*  |
| c. Dec. 31 | Accounts Receivable<br>Service Revenue<br><i>To accrue service revenue.</i>                                   | 1,000   | 1,000   |
| d. Dec. 31 | Depreciation Expense—Boat<br>Accumulated Depreciation—Boat<br><i>To record depreciation on boat.</i>          | 10,000* | 10,000* |
| e. Dec. 31 | Unearned Revenue<br>Service Revenue<br><i>To record service revenue earned that was collected in advance.</i> | 5,000   | 5,000   |

\* Calculations:

b:

|                |  |
|----------------|--|
| \$3,600        | Insurance prepaid on November 1 for 3 months |
| <u>    ÷ 3</u> | months                                       |
| \$1,200        | Insurance expense per month                  |

*Thus,*

|                |   |
|----------------|---|
| \$1,200        | Insurance expense per month                 |
| <u>    × 2</u> | months                                      |
| <u>\$2,400</u> | Insurance expense for November and December |

**P3-40B, cont.**

d:

$$\begin{aligned}\text{Straight-line depreciation per year} &= (\text{Cost} - \text{Residual Value}) / \text{Useful Life in Years} \\ &= (\$56,500 - \$6,500) / 5 \text{ years} \\ &= \$50,000 / 5 \text{ years} \\ &= \underline{\$10,000}\end{aligned}$$

**Requirement 2**

| Adjusting Entry | Specific Category of Accounts on the Balance Sheet | Over / Understated         | Specific Category of Accounts on the Income Statement | Over / Understated |
|-----------------|--|----------------------------|---|--------------------|
| a.              | Liability<br>Equity                                | Understated<br>Overstated  | Expense   | Understated        |
| b.              | Asset<br>Equity                                    | Overstated<br>Overstated   | Expense   | Understated        |
| c.              | Asset<br>Equity                                    | Understated<br>Understated | Revenue   | Understated        |
| d.              | Asset<br>Equity                                    | Overstated<br>Overstated   | Expense   | Understated        |
| e.              | Liability<br>Equity                                | Overstated<br>Understated  | Revenue   | Understated        |



**P3-41B**  
**Requirement 1**

| Date       | Accounts and Explanation  | Debit  | Credit |
|------------|---|--------|--------|
| a. Dec. 31 | Unearned Revenue<br>Service Revenue<br><i>To record service revenue earned that was collected in advance.</i>       | 2,100  | 2,100  |
| b. Dec. 31 | Rent Expense<br>Prepaid Rent<br><i>To record rent expense.</i>  | 1,200* | 1,200* |
| c. Dec. 31 | Supplies Expense<br>Office Supplies<br><i>To record office supplies used.</i>                                       | 750    | 750    |
| d. Dec. 31 | Depreciation Expense—Equipment<br>Accumulated Depreciation—Equipment<br><i>To record depreciation on equipment.</i> | 800    | 800    |
| e. Dec. 31 | Advertising Expense<br>Accounts Payable<br><i>To accrue advertising expense.</i>                                    | 500    | 500    |
| f. Dec. 31 | Salaries Expense<br>Salaries Payable<br><i>To accrue salaries expense.</i>  | 1,200* | 1,200* |
| g. Dec. 31 | Accounts Receivable<br>Service Revenue<br><i>To accrue service revenue.</i>   | 2,100* | 2,100* |

\* Calculations:

b:

$$\begin{array}{r}
 \$2,400 \text{ Rent prepaid on December 1 for two months} \\
 \div 2 \text{ months} \\
 \hline
 \underline{\underline{\$1,200}} \text{ Rent expense for December}
 \end{array}$$

**P3-41B, cont.**

f:

$$\begin{array}{r} \$2,000 \text{ Payroll for a 5-day work week} \\ \div 5 \text{ work days} \\ \hline \$ 400 \text{ Salaries expense per work day} \end{array}$$

*Thus,*

$$\begin{array}{r} \$ 400 \text{ Salaries expense per work day} \\ \times 3 \text{ work days} \\ \hline \underline{\$1,200} \text{ Salaries expense for Monday through Wednesday} \end{array}$$

g:

$$\begin{array}{r} \$2,800 \text{ Service revenue to be earned October through January} \\ \div 4 \text{ months} \\ \hline \$ 700 \text{ Service revenue earned per month} \end{array}$$

*Thus,*

$$\begin{array}{r} \$ 700 \text{ Service revenue earned per month} \\ \times 3 \text{ months} \\ \hline \underline{\$2,100} \text{ Service revenue earned October through December} \end{array}$$

**P3-41B, cont.**  
**Requirement 2**

| Cash |       |
|------|-------|
| Bal. | 7,100 |
| Bal. | 7,100 |

| Accounts Payable |            |
|------------------|------------|
|                  | 3,500 Bal. |
|                  | 500 e.     |
|                  | 4,000 Bal. |

| Service Revenue |             |
|-----------------|-------------|
|                 | 15,900 Bal. |
|                 | 2,100 a.    |
|                 | 2,100 g.    |
|                 | 20,100 Bal. |

| Accounts Receivable |        |
|---------------------|--------|
| Bal.                | 19,100 |
| g.                  | 2,100  |
| Bal.                | 21,200 |

| Salaries Payable |            |
|------------------|------------|
|                  | 1,200 f.   |
|                  | 1,200 Bal. |

| Salaries Expense |       |
|------------------|-------|
| Bal.             | 3,900 |
| f.               | 1,200 |
| Bal.             | 5,100 |

| Prepaid Rent |          |
|--------------|----------|
| Bal.         | 2,400    |
|              | 1,200 b. |
| Bal.         | 1,200    |

| Unearned Revenue |            |
|------------------|------------|
| a.               | 2,100      |
|                  | 2,700 Bal. |
|                  | 600 Bal.   |

| Rent Expense |       |
|--------------|-------|
| b.           | 1,200 |
| Bal.         | 1,200 |

| Office Supplies |        |
|-----------------|--------|
| Bal.            | 1,400  |
|                 | 750 c. |
| Bal.            | 650    |

| Common Stock |             |
|--------------|-------------|
|              | 39,300 Bal. |
|              | 39,300 Bal. |

| Depreciation Expense—<br>Equipment |     |
|------------------------------------|-----|
| d.                                 | 800 |
| Bal.                               | 800 |

| Equipment |        |
|-----------|--------|
| Bal.      | 20,000 |
| Bal.      | 20,000 |

| Dividends |       |
|-----------|-------|
| Bal.      | 9,400 |
| Bal.      | 9,400 |

| Advertising Expense |       |
|---------------------|-------|
| Bal.                | 1,900 |
| e.                  | 500   |
| Bal.                | 2,400 |

| Accumulated Depreciation—<br>Equipment |            |
|--|------------|
|  | 3,800 Bal. |
|  | 800 d.     |
|  | 4,600 Bal. |

| Supplies Expense |     |
|------------------|-----|
| c.               | 750 |
| Bal.             | 750 |

**P3-41B, cont.**  
**Requirement 3**

| <b>AVERY AIR PURIFICATION SYSTEM</b> |                  |                  |
|--------------------------------------|------------------|------------------|
| <b>Adjusted Trial Balance</b>        |                  |                  |
| <b>December 31, 2018</b>             |                  |                  |
| Account Title                        | Balance          |                  |
|                                      | Debit            | Credit           |
| Cash                                 | \$ 7,100         |                  |
| Accounts Receivable                  | 21,200           |                  |
| Prepaid Rent                         | 1,200            |                  |
| Office Supplies                      | 650              |                  |
| Equipment                            | 20,000           |                  |
| Accumulated Depreciation—Equipment   |                  | \$ 4,600         |
| Accounts Payable                     |                  | 4,000            |
| Salaries Payable                     |                  | 1,200            |
| Unearned Revenue                     |                  | 600              |
| Common Stock                         |                  | 39,300           |
| Dividends                            | 9,400            |                  |
| Service Revenue                      |                  | 20,100           |
| Salaries Expense                     | 5,100            |                  |
| Rent Expense                         | 1,200            |                  |
| Depreciation Expense—Equipment       | 800              |                  |
| Advertising Expense                  | 2,400            |                  |
| Supplies Expense                     | 750              |                  |
| <b>Total</b>                         | <b>\$ 69,800</b> | <b>\$ 69,800</b> |

**Requirement 4**

Avery will use the adjusted trial balance to prepare its financial statements. (Additionally, the purpose of any trial balance is to ensure that total debits equal total credits.)

**P3-42B**  
**Requirement 1**

| Date       | Accounts and Explanation   | Debit | Credit |
|------------|--|-------|--------|
| a. Dec. 31 | Insurance Expense<br>Prepaid Insurance<br><i>To record insurance expense.</i>                                    | 600*  | 600*   |
| b. Dec. 31 | Supplies Expense<br>Office Supplies<br><i>To record office supplies used.</i>                                    | 200*  | 200*   |
| c. Dec. 31 | Depreciation Expense—Building<br>Accumulated Depreciation—Building<br><i>To record depreciation on building.</i> | 2,100 | 2,100  |
| d. Dec. 31 | Salaries Expense<br>Salaries Payable<br><i>To accrue salaries expense.</i>                                       | 780*  | 780*   |
| e. Dec. 31 | Unearned Revenue<br>Service Revenue<br><i>To record service revenue earned that was collected in advance.</i>    | 200*  | 200*   |

\* Calculations:

a:

|               |                                       |
|---------------|---------------------------------------|
| \$1,400       | Prepaid Insurance prior to adjustment |
| <u>(800)</u>  | Prepaid Insurance remaining           |
| <u>\$ 600</u> | Insurance Expense                     |

b:

|              |   |
|--------------|---|
| \$700        | Office supplies prior to adjustment             |
| <u>(500)</u> | Office supplies remaining                       |
| <u>\$200</u> | Supplies Expense (cost of office supplies used) |

**P3-42B, cont.**

d:

|         |                                   |
|---------|-----------------------------------|
| \$1,300 | Salaries for a five-day work week |
| ÷ 5     | Work days                         |
| \$ 260  | Salaries Expense per work day     |

*Thus,*

|       |   |
|-------|---|
| \$260 | Salaries Expense per work day                 |
| × 3   | work days                                     |
| \$780 | Salaries Expense for Monday through Wednesday |

e:

|         |                                      |
|---------|--------------------------------------|
| \$1,600 | Unearned Revenue prior to adjustment |
| (1,400) | Unearned Revenue still unearned      |
| \$ 200  | Service Revenue earned               |

**Requirement 2**

| CASH            |         |           |       |        | Account No. |        |
|-----------------|---------|-----------|-------|--------|-------------|--------|
| Date            | Item    | Post Ref. | Debit | Credit | Balance     |        |
|                 |         |           |       |        | Debit       | Credit |
| 2018<br>Dec. 31 | Balance |           |       |        | 14,500      |        |

| ACCOUNTS RECEIVABLE |         |           |       |        | Account No. |        |
|---------------------|---------|-----------|-------|--------|-------------|--------|
| Date                | Item    | Post Ref. | Debit | Credit | Balance     |        |
|                     |         |           |       |        | Debit       | Credit |
| 2018<br>Dec. 31     | Balance |           |       |        | 15,100      |        |

| PREPAID INSURANCE |         |           |       |        | Account No. |        |
|-------------------|---------|-----------|-------|--------|-------------|--------|
| Date              | Item    | Post Ref. | Debit | Credit | Balance     |        |
|                   |         |           |       |        | Debit       | Credit |
| 2018<br>Dec. 31   | Balance |           |       |        | 1,400       |        |
| Dec. 31           | a.      |           |       | 600    | 800         |        |

**P3-42B, cont.**

**OFFICE SUPPLIES**

Account No.

| Date    | Item    | Post Ref. | Debit | Credit | Balance |        |
|---------|---------|-----------|-------|--------|---------|--------|
|         |         |           |       |        | Debit   | Credit |
| 2018    |         |           |       |        |         |        |
| Dec. 31 | Balance |           |       |        | 700     |        |
| Dec. 31 | b.      |           |       | 200    | 500     |        |

**BUILDING**

Account No.

| Date    | Item    | Post Ref. | Debit | Credit | Balance |        |
|---------|---------|-----------|-------|--------|---------|--------|
|         |         |           |       |        | Debit   | Credit |
| 2018    |         |           |       |        |         |        |
| Dec. 31 | Balance |           |       |        | 518,000 |        |

**ACCUMULATED DEPRECIATION—BUILDING**

Account No.

| Date    | Item    | Post Ref. | Debit | Credit | Balance |         |
|---------|---------|-----------|-------|--------|---------|---------|
|         |         |           |       |        | Debit   | Credit  |
| 2018    |         |           |       |        |         |         |
| Dec. 31 | Balance |           |       |        |         | 310,000 |
| Dec. 31 | c.      |           |       | 2,100  |         | 312,100 |

**ACCOUNTS PAYABLE**

Account No.

| Date    | Item    | Post Ref. | Debit | Credit | Balance |        |
|---------|---------|-----------|-------|--------|---------|--------|
|         |         |           |       |        | Debit   | Credit |
| 2018    |         |           |       |        |         |        |
| Dec. 31 | Balance |           |       |        |         | 4,210  |

**SALARIES PAYABLE**

Account No.

| Date    | Item | Post Ref. | Debit | Credit | Balance |        |
|---------|------|-----------|-------|--------|---------|--------|
|         |      |           |       |        | Debit   | Credit |
| 2018    |      |           |       |        |         |        |
| Dec. 31 | d.   |           |       | 780    |         | 780    |

**UNEARNED REVENUE**

Account No.

| Date    | Item    | Post Ref. | Debit | Credit | Balance |        |
|---------|---------|-----------|-------|--------|---------|--------|
|         |         |           |       |        | Debit   | Credit |
| 2018    |         |           |       |        |         |        |
| Dec. 31 | Balance |           |       |        |         | 1,600  |
| Dec. 31 | e.      |           | 200   |        |         | 1,400  |

**P3-42B, cont.**

**COMMON STOCK**

Account No.

| Date            | Item    | Post Ref. | Debit | Credit | Balance |         |
|-----------------|---------|-----------|-------|--------|---------|---------|
|                 |         |           |       |        | Debit   | Credit  |
| 2018<br>Dec. 31 | Balance |           |       |        |         | 222,160 |

**DIVIDENDS**

Account No.

| Date            | Item    | Post Ref. | Debit | Credit | Balance |        |
|-----------------|---------|-----------|-------|--------|---------|--------|
|                 |         |           |       |        | Debit   | Credit |
| 2018<br>Dec. 31 | Balance |           |       |        | 1,890   |        |

**SERVICE REVENUE**

Account No.

| Date            | Item    | Post Ref. | Debit | Credit | Balance |        |
|-----------------|---------|-----------|-------|--------|---------|--------|
|                 |         |           |       |        | Debit   | Credit |
| 2018<br>Dec. 31 | Balance |           |       |        |         | 16,900 |
| Dec. 31         | e.      |           |       | 200    |         | 17,100 |

**SALARIES EXPENSE**

Account No.

| Date            | Item    | Post Ref. | Debit | Credit | Balance |        |
|-----------------|---------|-----------|-------|--------|---------|--------|
|                 |         |           |       |        | Debit   | Credit |
| 2018<br>Dec. 31 | Balance |           |       |        | 2,600   |        |
| Dec. 31         | d.      |           | 780   |        | 3,380   |        |

**INSURANCE EXPENSE**

Account No.

| Date            | Item | Post Ref. | Debit | Credit | Balance |        |
|-----------------|------|-----------|-------|--------|---------|--------|
|                 |      |           |       |        | Debit   | Credit |
| 2018<br>Dec. 31 | a.   |           | 600   |        | 600     |        |

**DEPRECIATION EXPENSE—BUILDING**

Account No.

| Date            | Item | Post Ref. | Debit | Credit | Balance |        |
|-----------------|------|-----------|-------|--------|---------|--------|
|                 |      |           |       |        | Debit   | Credit |
| 2018<br>Dec. 31 | c.   |           | 2,100 |        | 2,100   |        |



**P3-42B, cont.**

**ADVERTISING EXPENSE**

Account No.

| Date            | Item    | Post Ref. | Debit | Credit | Balance |        |
|-----------------|---------|-----------|-------|--------|---------|--------|
|                 |         |           |       |        | Debit   | Credit |
| 2018<br>Dec. 31 | Balance |           |       |        | 680     |        |

**SUPPLIES EXPENSE**

Account No.

| Date            | Item | Post Ref. | Debit | Credit | Balance |        |
|-----------------|------|-----------|-------|--------|---------|--------|
|                 |      |           |       |        | Debit   | Credit |
| 2018<br>Dec. 31 | b.   |           | 200   |        | 200     |        |

**Requirement 3**

| MIDWAY INN COMPANY<br>Adjusted Trial Balance<br>December 31, 2018 |                          |                          |
|---|--------------------------|--------------------------|
| Account Title   | Balance                  |                          |
|   | Debit                    | Credit                   |
| Cash  | \$ 14,500                |                          |
| Accounts Receivable   | 15,100                   |                          |
| Prepaid Insurance   | 800                      |                          |
| Office Supplies   | 500                      |                          |
| Building  | 518,000                  |                          |
| Accumulated Depreciation—Building                                 |                          | \$ 312,100               |
| Accounts Payable  |                          | 4,210                    |
| Salaries Payable  |                          | 780                      |
| Unearned Revenue  |                          | 1,400                    |
| Common Stock  |                          | 222,160                  |
| Dividends   | 1,890                    |                          |
| Service Revenue   |                          | 17,100                   |
| Salaries Expense  | 3,380                    |                          |
| Insurance Expense   | 600                      |                          |
| Depreciation Expense—Building                                     | 2,100                    |                          |
| Advertising Expense   | 680                      |                          |
| Supplies Expense  | 200                      |                          |
| <b>Total</b>  | <b><u>\$ 557,750</u></b> | <b><u>\$ 557,750</u></b> |

**P3-42B, cont.**  
**Requirement 4**

No. Even if total debits equals total credits on the adjusted trial balance, this does not mean that the adjusting entries have been recorded correctly. For example, an adjusting entry could have been recorded for the incorrect amount (even though the debit and the credit amount is the same, the amount is incorrect). Or an adjusting entry could have been omitted entirely.

**P3-43B**  
**Requirement 1**

| <b>GALAXY THEATER PRODUCTION COMPANY</b> |                          |                        |                        |                        |                         |                         |
|--|--------------------------|------------------------|------------------------|------------------------|-------------------------|-------------------------|
| <b>Worksheet</b>                         |                          |                        |                        |                        |                         |                         |
| <b>December 31, 2018</b>                 |                          |                        |                        |                        |                         |                         |
| Account                                  | Unadjusted Trial Balance |                        | Adjustments            |                        | Adjusted Trial Balance  |                         |
|  | Debit                    | Credit                 | Debit                  | Credit                 | Debit                   | Credit                  |
| Cash                                     | \$ 3,600                 |                        |                        |                        | \$ 3,600                |                         |
| Accounts Receivable                      | 5,700                    |                        | a. \$ 900              |                        | 6,600                   |                         |
| Office Supplies                          | 1,500                    |                        |                        | \$ 1,000 b.            | 500                     |                         |
| Prepaid Insurance                        | 900                      |                        |                        | 300 c.                 | 600                     |                         |
| Equipment                                | 23,000                   |                        |                        |                        | 23,000                  |                         |
| Accumulated Depreciation—Equipment       |                          | \$ 8,500               |                        | 4,200 d.               |                         | \$ 12,700               |
| Accounts Payable                         |                          | 4,600                  |                        |                        |                         | 4,600                   |
| Salaries Payable                         |                          |                        |                        | 150 e.                 |                         | 150                     |
| Common Stock                             |                          | 9,900                  |                        |                        |                         | 9,900                   |
| Dividends                                | 26,000                   |                        |                        |                        | 26,000                  |                         |
| Service Revenue                          |                          | 72,000                 |                        | 900 a.                 |                         | 72,900                  |
| Depreciation Expense—Equipment           |                          |                        | d. 4,200               |                        | 4,200                   |                         |
| Supplies Expense                         |                          |                        | b. 1,000               |                        | 1,000                   |                         |
| Utilities Expense                        | 4,300                    |                        |                        |                        | 4,300                   |                         |
| Salaries Expense                         | 30,000                   |                        | e. 150                 |                        | 30,150                  |                         |
| Insurance Expense                        |                          |                        | c. 300                 |                        | 300                     |                         |
| <b>Total</b>                             | <b><u>\$95,000</u></b>   | <b><u>\$95,000</u></b> | <b><u>\$ 6,550</u></b> | <b><u>\$ 6,550</u></b> | <b><u>\$100,250</u></b> | <b><u>\$100,250</u></b> |

**P3-43B, cont.**  
**Requirement 2**

| Date       | Accounts and Explanation  | Debit | Credit |
|------------|---|-------|--------|
| a. Dec. 31 | Accounts Receivable<br>Service Revenue<br><i>To accrue service revenue.</i>   | 900   | 900    |
| b. Dec. 31 | Supplies Expense<br>Office Supplies<br><i>To record office supplies used.</i>                                       | 1,000 | 1,000  |
| c. Dec. 31 | Insurance Expense<br>Prepaid Insurance<br><i>To record insurance expense.</i>                                       | 300   | 300    |
| d. Dec. 31 | Depreciation Expense—Equipment<br>Accumulated Depreciation—Equipment<br><i>To record depreciation on equipment.</i> | 4,200 | 4,200  |
| e. Dec. 31 | Salaries Expense<br>Salaries Payable<br><i>To accrue salaries expense.</i>  | 150   | 150    |

**P3A-44B**  
**Requirement 1**

| Date   | Accounts and Explanation   | Debit  | Credit |
|--------|--|--------|--------|
| Nov. 1 | Prepaid Rent<br>Cash<br><i>To record rent paid in advance.</i>                   | 6,000  | 6,000  |
| Nov. 1 | Prepaid Insurance<br>Cash<br><i>To record insurance paid in advance.</i>         | 7,800  | 7,800  |
| Dec. 1 | Cash<br>Unearned Revenue<br><i>To record cash collected for future services.</i> | 12,000 | 12,000 |
| Dec. 1 | Cash<br>Unearned Revenue<br><i>To record cash collected for future services.</i> | 7,500  | 7,500  |

**P3A-44B, cont.**  
**Requirement 2**

| Date    | Accounts and Explanation  | Debit  | Credit |
|---------|---|--------|--------|
| Dec. 31 | Rent Expense<br>Prepaid Rent<br><i>To record rent expense.</i>  | 3,000* | 3,000* |
| Dec. 31 | Insurance Expense<br>Prepaid Insurance<br><i>To record insurance expense.</i>                                 | 2,600* | 2,600* |
| Dec. 31 | Unearned Revenue<br>Service Revenue<br><i>To record service revenue earned that was collected in advance.</i> | 2,400  | 2,400  |
| Dec. 31 | Unearned Revenue<br>Service Revenue<br><i>To record service revenue earned that was collected in advance.</i> | 1,500  | 1,500  |

\* Calculations:

Adjusting Journal Entry One:

$$\begin{array}{r}
 \$6,000 \text{ Rent prepaid on November 1 for 4 months} \\
 \div 4 \text{ Months} \\
 \hline
 \$1,500 \text{ Rent expense per month}
 \end{array}$$

*Thus,*

$$\begin{array}{r}
 \$1,500 \text{ Rent expense per month} \\
 \times 2 \text{ Months} \\
 \hline
 \underline{\underline{\$3,000}} \text{ Rent expense for November and December}
 \end{array}$$

Adjusting Journal Entry Two:

$$\begin{array}{r}
 \$7,800 \text{ Insurance prepaid on November 1 for 6 months} \\
 \div 6 \text{ Months} \\
 \hline
 \$1,300 \text{ Insurance expense per month}
 \end{array}$$

*Thus,*

$$\begin{array}{r}
 \$1,300 \text{ Insurance expense per month} \\
 \times 2 \text{ Months} \\
 \hline
 \underline{\underline{\$2,600}} \text{ Insurance expense for November and December}
 \end{array}$$

**P3A-44B, cont.**  
**Requirement 3**

| Prepaid Rent |       |       |         |
|--------------|-------|-------|---------|
| Nov. 1       | 6,000 | 3,000 | Dec. 31 |
| Bal.         | 3,000 |       |         |

| Rent Expense |       |  |
|--------------|-------|--|
| Dec. 31      | 3,000 |  |
| Bal.         | 3,000 |  |

| Prepaid Insurance |       |       |         |
|-------------------|-------|-------|---------|
| Nov. 1            | 7,800 | 2,600 | Dec. 31 |
| Bal.              | 5,200 |       |         |

| Insurance Expense |       |  |
|-------------------|-------|--|
| Dec. 31           | 2,600 |  |
| Bal.              | 2,600 |  |

| Unearned Revenue |       |        |        |
|------------------|-------|--------|--------|
| Dec. 31          | 2,400 | 12,000 | Dec. 1 |
| Dec. 31          | 1,500 | 7,500  | Dec. 1 |
|                  |       | 15,600 | Bal.   |

| Service Revenue |       |         |
|-----------------|-------|---------|
|                 | 2,400 | Dec. 31 |
|                 | 1,500 | Dec. 31 |
|                 | 3,900 | Bal.    |

**Requirement 4**

| Date   | Accounts and Explanation                             | Debit  | Credit |
|--------|--|--------|--------|
| Nov. 1 | Rent Expense   | 6,000  |        |
|        | Cash   |        | 6,000  |
|        | <i>To record rent paid in advance.</i>               |        |        |
| Nov. 1 | Insurance Expense                                    | 7,800  |        |
|        | Cash   |        | 7,800  |
|        | <i>To record insurance paid in advance.</i>          |        |        |
| Dec. 1 | Cash   | 12,000 |        |
|        | Service Revenue                                      |        | 12,000 |
|        | <i>To record cash collected for future services.</i> |        |        |
| Dec. 1 | Cash   | 7,500  |        |
|        | Service Revenue                                      |        | 7,500  |
|        | <i>To record cash collected for future services.</i> |        |        |

**P3A-44B, cont.**

| Date    | Accounts and Explanation  | Debit  | Credit |
|---------|---|--------|--------|
| Dec. 31 | Prepaid Rent<br>Rent Expense<br><i>To record prepaid rent.</i>                | 3,000* | 3,000* |
| Dec. 31 | Prepaid Insurance<br>Insurance Expense<br><i>To record prepaid insurance.</i> | 5,200* | 5,200* |
| Dec. 31 | Service Revenue<br>Unearned Revenue<br><i>To record unearned revenue.</i>     | 9,600* | 9,600* |
| Dec. 31 | Service Revenue<br>Unearned Revenue<br><i>To record unearned revenue.</i>     | 6,000* | 6,000* |

\* Calculations:

Adjusting Journal Entry One:

$$\begin{array}{r}
 \$6,000 \text{ Rent prepaid on November 1 for 4 months} \\
 \div 4 \text{ Months} \\
 \hline
 \$1,500 \text{ Rent expense per month}
 \end{array}$$

*Thus,*

$$\begin{array}{r}
 \$1,500 \text{ Rent expense per month} \\
 \times 2 \text{ months} \\
 \hline
 \underline{\underline{\$3,000}} \text{ Rent still prepaid on December 31}
 \end{array}$$

Adjusting Journal Entry Two:

$$\begin{array}{r}
 \$7,800 \text{ Insurance prepaid on November 1 for 6 months} \\
 \div 6 \text{ Months} \\
 \hline
 \$1,300 \text{ Insurance expense per month}
 \end{array}$$

*Thus,*

$$\begin{array}{r}
 \$1,300 \text{ Insurance expense per month} \\
 \times 4 \text{ months} \\
 \hline
 \underline{\underline{\$5,200}} \text{ Insurance still prepaid on December 31}
 \end{array}$$

**P3-44B, cont.**

Adjusting Journal Entry Three:

|                |   |
|----------------|---|
| \$12,000       | Collected in advance on December 1 for 5 months |
| <u>(2,400)</u> | Revenue earned during December                  |
| <u>\$9,600</u> | Revenue still unearned on December 31           |

Adjusting Journal Entry Four:

|                |   |
|----------------|---|
| \$7,500        | Collected in advance on December 1 for 5 months |
| <u>(1,500)</u> | Revenue earned during December                  |
| <u>\$6,000</u> | Revenue still unearned on December 31           |

| Prepaid Rent |       |
|--------------|-------|
| Dec. 31      | 3,000 |
| Bal.         | 3,000 |

| Rent Expense |       |       |         |
|--------------|-------|-------|---------|
| Nov. 1       | 6,000 | 3,000 | Dec. 31 |
| Bal.         | 3,000 |       |         |

| Prepaid Insurance |       |
|-------------------|-------|
| Dec. 31           | 5,200 |
| Bal.              | 5,200 |

| Insurance Expense |       |       |         |
|-------------------|-------|-------|---------|
| Nov. 1            | 7,800 | 5,200 | Dec. 31 |
| Bal.              | 2,600 |       |         |

| Unearned Revenue |               |
|------------------|---------------|
|                  | 9,600 Dec. 31 |
|                  | 6,000 Dec. 31 |
|                  | 15,600 Bal.   |

| Service Revenue |       |        |        |
|-----------------|-------|--------|--------|
| Dec. 31         | 9,600 | 12,000 | Dec. 1 |
| Dec. 31         | 6,000 | 7,500  | Dec. 1 |
|                 |       | 3,900  | Bal.   |

**Requirement 5**

The ending balances in the accounts are the same, regardless of which of the two approaches is used.



## Using Excel

### P3-45

The student templates for *Using Excel* are available online in MyAccountingLab in the Multimedia Library or at <http://www.pearsonhighered.com/Horngren>. The solution to *Using Excel* is located in MyAccountingLab in the Instructor Resource Center or at <http://www.pearsonhighered.com/Horngren>.

## Continuing Problem

### P3-46

#### Requirement 1

| Date    | Accounts and Explanation   | Debit  | Credit |
|---------|--|--------|--------|
| Dec. 31 | Supplies Expense<br>Office Supplies<br><i>To record supplies used.</i>   | 1,085* | 1,085* |
| Dec. 31 | Rent Expense<br>Prepaid Rent<br><i>To record rent expense.</i>   | 1,000* | 1,000* |
| Dec. 31 | Depreciation Expense—Building<br>Accumulated Depreciation—Building<br><i>To record depreciation on building.</i> | 500*   | 500*   |
| Dec. 31 | Unearned Revenue<br>Canoe Rental Revenue<br><i>To record canoe rental revenue earned.</i>                        | 400    | 400    |
| Dec. 31 | Wages Expense<br>Wages Payable<br><i>To accrue salaries expense.</i>   | 1,250  | 1,250  |
| Dec. 31 | Accounts Receivable<br>Canoe Rental Revenue<br><i>To accrue canoe rental revenue.</i>                            | 1,850  | 1,850  |
| Dec. 31 | Depreciation Expense—Canoes<br>Accumulated Depreciation—Canoes<br><i>To record depreciation on canoes.</i>       | 200*   | 200*   |
| Dec. 31 | Depreciation Expense—Canoes<br>Accumulated Depreciation—Canoes<br><i>To record depreciation on canoes.</i>       | 150*   | 150*   |
| Dec. 31 | Interest Expense<br>Interest Payable<br><i>To accrue interest expense.</i>                                       | 50     | 50     |

**P3-46, cont.**  
**Requirement 1, cont.**

\* Calculations:

|                |  |
|----------------|--|
| \$1,250        | Office Supplies prior to adjustment      |
| <u>(165)</u>   | Office Supplies remaining                |
| <u>\$1,085</u> | Supplies Expense (cost of supplies used) |

|                |   |
|----------------|---|
| \$3,000        | Rent prepaid on December 1 for 3 months |
| <u>÷ 3</u>     | Months                                  |
| <u>\$1,000</u> | Rent expense per month                  |

$$\begin{aligned}
 \text{Straight-line depreciation per year} &= (\text{Cost} - \text{Residual Value}) / \text{Useful Life in Years} \\
 &= (\$35,000 - \$5,000) / 5 \text{ years} \\
 &= \$30,000 / 5 \text{ years} \\
 &= \$6,000 \text{ per year} / 12 \text{ months} \\
 &= \underline{\$500} \text{ per month}
 \end{aligned}$$

$$\begin{aligned}
 \text{Straight-line depreciation per year} &= (\text{Cost} - \text{Residual Value}) / \text{Useful Life in Years} \\
 &= (\$4,800 - \$0) / 4 \text{ years} \\
 &= \$4,800 / 4 \text{ years} \\
 &= \$1,200 / 12 \text{ months} \\
 &= \$100 \text{ per month} \times 2 \text{ months} \\
 &= \underline{\$200} \text{ Depreciation expense for November and December}
 \end{aligned}$$

$$\begin{aligned}
 \text{Straight-line depreciation per year} &= (\text{Cost} - \text{Residual Value}) / \text{Useful Life in Years} \\
 &= (\$7,200 - \$0) / 4 \text{ years} \\
 &= \$7,200 / 4 \text{ years} \\
 &= \$1,800 \text{ per year} / 12 \text{ months} \\
 &= \underline{\$150} \text{ per month}
 \end{aligned}$$

**P3-46, cont.**  
**Requirement 1**

| Cash    |        |       |         |
|---------|--------|-------|---------|
| Nov. 1  | 16,000 | 1,200 | Nov. 2  |
| Nov. 7  | 1,400  | 1,500 | Nov. 13 |
| Nov. 28 | 750    | 50    | Nov. 15 |
| Dec. 9  | 4,500  | 1,000 | Nov. 26 |
| Dec. 16 | 750    | 100   | Nov. 30 |
|         |        | 3,000 | Dec. 1  |
|         |        | 325   | Dec. 18 |
|         |        | 2,000 | Dec. 19 |
|         |        | 1,800 | Dec. 31 |
|         |        | 300   | Dec. 31 |
| Balance | 12,125 |       |         |

| Accounts Payable |       |       |         |
|------------------|-------|-------|---------|
| Nov. 26          | 1,000 | 4,800 | Nov. 3  |
| Dec. 19          | 2,000 | 750   | Nov. 4  |
|                  |       | 500   | Dec. 4  |
|                  |       | 3,050 | Balance |

| Wages Payable |       |         |
|---------------|-------|---------|
|               | 1,250 | Adj.    |
|               | 1,250 | Balance |

| Interest Payable |    |         |
|------------------|----|---------|
|                  | 50 | Adj.    |
|                  | 50 | Balance |

| Accounts Receivable |       |     |         |
|---------------------|-------|-----|---------|
| Nov. 22             | 3,000 | 750 | Nov. 28 |
| Dec. 15             | 3,500 |     |         |
| Adj.                | 1,850 |     |         |
| Balance             | 7,600 |     |         |

| Utilities Payable |     |     |         |
|-------------------|-----|-----|---------|
| Dec. 18           | 150 | 150 | Nov. 16 |
|                   |     | 295 | Dec. 20 |
|                   |     | 295 | Balance |

| Office Supplies |     |       |      |
|-----------------|-----|-------|------|
| Nov. 4          | 750 |       |      |
| Dec. 4          | 500 | 1,085 | Adj. |
| Balance         | 165 |       |      |

| Telephone Payable |     |     |         |
|-------------------|-----|-----|---------|
| Dec. 18           | 175 | 175 | Nov. 20 |
|                   |     | 325 | Dec. 20 |
|                   |     | 325 | Balance |

| Prepaid Rent |       |       |      |
|--------------|-------|-------|------|
| Dec. 1       | 3,000 | 1,000 | Adj. |
| Balance      | 2,000 |       |      |

| Unearned Revenue |     |     |         |
|------------------|-----|-----|---------|
| Adj.             | 400 | 750 | Dec. 16 |
|                  |     | 350 | Balance |

| Land    |        |  |
|---------|--------|--|
| Dec. 1  | 85,000 |  |
| Balance | 85,000 |  |

| Notes Payable |       |         |
|---------------|-------|---------|
|               | 7,200 | Dec. 2  |
|               | 7,200 | Balance |

| Building |        |  |
|----------|--------|--|
| Dec. 1   | 35,000 |  |
| Balance  | 35,000 |  |

| Common Stock |         |         |
|--------------|---------|---------|
|              | 16,000  | Nov. 1  |
|              | 120,000 | Dec. 1  |
|              | 136,000 | Balance |

| Accumulated Depreciation—Building |     |         |
|-----------------------------------|-----|---------|
|                                   | 500 | Adj.    |
|                                   | 500 | Balance |

| Dividends |     |  |
|-----------|-----|--|
| Nov. 15   | 50  |  |
| Nov. 30   | 100 |  |
| Dec. 31   | 300 |  |
| Balance   | 450 |  |

**P3-46, cont., Requirement 1, cont.**

| Canoes  |        |
|---------|--------|
| Nov. 3  | 4,800  |
| Dec. 2  | 7,200  |
| Balance | 12,000 |

| Canoe Rental Revenue |        |         |
|----------------------|--------|---------|
|                      | 1,400  | Nov. 7  |
|                      | 3,000  | Nov. 22 |
|                      | 4,500  | Dec. 9  |
|                      | 3,500  | Dec. 15 |
|                      | 400    | Adj.    |
|                      | 1,850  | Adj.    |
|                      | 14,650 | Balance |

| Accumulated Depreciation—Canoes |     |         |
|---------------------------------|-----|---------|
|                                 | 200 | Adj.    |
|                                 | 150 | Adj.    |
|                                 | 350 | Balance |

| Rent Expense |       |  |
|--------------|-------|--|
| Nov. 2       | 1,200 |  |
| Adj.         | 1,000 |  |
| Balance      | 2,200 |  |

| Wages Expense |       |  |
|---------------|-------|--|
| Nov. 13       | 1,500 |  |
| Dec. 31       | 1,800 |  |
| Adj.          | 1,250 |  |
| Balance       | 4,550 |  |

| Utilities Expense |     |  |
|-------------------|-----|--|
| Nov. 16           | 150 |  |
| Dec. 20           | 295 |  |
| Balance           | 445 |  |

| Telephone Expense |     |  |
|-------------------|-----|--|
| Nov. 20           | 175 |  |
| Dec. 20           | 325 |  |
| Balance           | 500 |  |

| Supplies Expense |       |  |
|------------------|-------|--|
| Adj.             | 1,085 |  |
| Balance          | 1,085 |  |

| Depreciation Expense—Building |     |  |
|-------------------------------|-----|--|
| Adj.                          | 500 |  |
| Balance                       | 500 |  |

| Depreciation Expense—Canoes |     |  |
|-----------------------------|-----|--|
| Adj.                        | 200 |  |
| Adj.                        | 150 |  |
| Balance                     | 350 |  |

| Interest Expense |    |  |
|------------------|----|--|
| Adj.             | 50 |  |
| Balance          | 50 |  |

**P3-46, cont.**  
**Requirement 2**

| CANYON CANOE COMPANY              |                   |                   |
|-----------------------------------|-------------------|-------------------|
| Adjusted Trial Balance            |                   |                   |
| December 31, 2018                 |                   |                   |
| Account Title                     | Balance           |                   |
|                                   | Debit             | Credit            |
| Cash                              | \$ 12,125         |                   |
| Accounts Receivable               | 7,600             |                   |
| Office Supplies                   | 165               |                   |
| Prepaid Rent                      | 2,000             |                   |
| Land                              | 85,000            |                   |
| Building                          | 35,000            |                   |
| Accumulated Depreciation—Building |                   | \$ 500            |
| Canoes                            | 12,000            |                   |
| Accumulated Depreciation—Canoes   |                   | 350               |
| Accounts Payable                  |                   | 3,050             |
| Utilities Payable                 |                   | 295               |
| Telephone Payable                 |                   | 325               |
| Unearned Revenue                  |                   | 350               |
| Wages Payable                     |                   | 1,250             |
| Interest Payable                  |                   | 50                |
| Notes Payable                     |                   | 7,200             |
| Common Stock                      |                   | 136,000           |
| Dividends                         | 450               |                   |
| Canoe Rental Revenue              |                   | 14,650            |
| Rent Expense                      | 2,200             |                   |
| Wages Expense                     | 4,550             |                   |
| Utilities Expense                 | 445               |                   |
| Telephone Expense                 | 500               |                   |
| Supplies Expense                  | 1,085             |                   |
| Depreciation Expense—Building     | 500               |                   |
| Depreciation Expense—Canoes       | 350               |                   |
| Interest Expense                  | 50                |                   |
| <b>Total</b>                      | <b>\$ 164,020</b> | <b>\$ 164,020</b> |
|                                   |                   |                   |

## Practice Set

P3-47

### Requirement 1

| Date    | Accounts and Explanation  | Debit  | Credit |
|---------|---|--------|--------|
| Nov. 30 | Supplies Expense<br>Cleaning Supplies<br><i>To record supplies used.</i>                                      | 270*   | 270*   |
| Nov. 30 | Depreciation Expense<br>Accumulated Depreciation<br><i>To record depreciation on depreciable assets.</i>      | 150    | 150    |
| Nov. 30 | Rent Expense<br>Prepaid Rent<br><i>To record rent expense.</i>  | 1,000* | 1,000* |
| Nov. 30 | Insurance Expense<br>Prepaid Insurance<br><i>To record insurance expense.</i>                                 | 400*   | 400*   |
| Nov. 30 | Unearned Revenue<br>Service Revenue<br><i>To record service revenue earned that was collected in advance.</i> | 625*   | 625*   |
| Nov. 30 | Interest Expense<br>Interest Payable<br><i>To accrue interest expense.</i>                                    | 59*    | 59*    |

\* Calculations:

Adjusting Journal Entry One:

|              |  |
|--------------|--|
| \$320        | Cleaning Supplies prior to adjustment    |
| <u>(50)</u>  | Cleaning Supplies remaining              |
| <u>\$270</u> | Supplies Expense (cost of supplies used) |

**P3-47, cont.**

Adjusting Journal Entry Three:

$$\begin{array}{r} \$4,000 \text{ Rent prepaid on November 2 for 4 months} \\ \div 4 \text{ Months} \\ \hline \underline{\underline{\$1,000}} \text{ Rent expense for November} \end{array}$$

Adjusting Journal Entry Four:

$$\begin{array}{r} \$4,800 \text{ Insurance prepaid on November 3 for 12 months} \\ \div 12 \text{ Months} \\ \hline \underline{\underline{\$ 400}} \text{ Insurance expense for November} \end{array}$$

Adjusting Journal Entry Five:

$$\begin{array}{r} \$15,000 \text{ Collected in advance on November 16 for one year} \\ \div 12 \text{ Months} \\ \hline \underline{\underline{\$ 1,250}} \text{ Service revenue earned per month} \end{array}$$

*Thus,*

$$\begin{array}{r} \$1,250 \text{ Service revenue earned per month} \\ \div 2 \\ \hline \underline{\underline{\$ 625}} \text{ Service revenue earned November 16 through November 30} \end{array}$$

Adjusting Journal Entry Six:

\$36,000 borrowed on Nov. 20, 6% interest rate per year

*Thus,*

$$\begin{array}{l} \$36,000 \times 0.06 \times (10 \text{ days} / 365 \text{ days}) \\ = \$59^* \text{ interest expense for Nov. 20 through Nov. 30} \\ \text{*rounded} \end{array}$$

**P3-47, cont.**  
**Requirement 2**

| CRYSTAL CLEAR CLEANING   |                         |                         |
|--------------------------|-------------------------|-------------------------|
| Adjusted Trial Balance   |                         |                         |
| November 30, 2018        |                         |                         |
| Account Title            | Balance                 |                         |
|                          | Debit                   | Credit                  |
| Cash                     | \$ 51,650               |                         |
| Accounts Receivable      | 4,000                   |                         |
| Cleaning Supplies        | 50                      |                         |
| Prepaid Rent             | 3,000                   |                         |
| Prepaid Insurance        | 4,400                   |                         |
| Equipment                | 5,400                   |                         |
| Truck                    | 3,000                   |                         |
| Accumulated Depreciation |                         | \$ 150                  |
| Accounts Payable         |                         | 1,245                   |
| Unearned Revenue         |                         | 14,375                  |
| Interest Payable         |                         | 59                      |
| Notes Payable            |                         | 36,000                  |
| Common Stock             |                         | 18,000                  |
| Dividends                | 1,400                   |                         |
| Service Revenue          |                         | 5,725                   |
| Salaries Expense         | 400                     |                         |
| Advertising Expense      | 200                     |                         |
| Utilities Expense        | 175                     |                         |
| Supplies Expense         | 270                     |                         |
| Depreciation Expense     | 150                     |                         |
| Rent Expense             | 1,000                   |                         |
| Insurance Expense        | 400                     |                         |
| Interest Expense         | 59                      |                         |
| <b>Total</b>             | <b><u>\$ 75,554</u></b> | <b><u>\$ 75,554</u></b> |



## Critical Thinking

### Tying It All Together Case 3-1 Requirement 1

| Date    | Accounts and Explanation  | Debit  | Credit |
|---------|---|--------|--------|
| Year 1  |   |        |        |
| Dec. 31 | Depreciation Expense—Structure<br>Accumulated Depreciation—Structure<br><i>To record depreciation on structure.</i> | 4,000* | 4,000* |
| Year 2  |   |        |        |
| Dec. 31 | Depreciation Expense—Structure<br>Accumulated Depreciation—Structure<br><i>To record depreciation on structure.</i> | 9,600* | 9,600* |

$$\text{Straight-line depreciation per year} = (\text{Cost} - \text{Residual Value}) / \text{Useful Life in Years}$$

$$= (\$100,000 - \$4,000) / 10 \text{ years}$$

$$= \$96,000 / 10 \text{ years}$$

$$= \$9,600 / 12 \text{ months}$$

$$\text{Year 1} = \$800 \text{ per month} \times 5 \text{ months}$$

$$= \underline{\$4,000} \text{ Depreciation expense for August through December}$$

$$\text{Year 2} = \$800 \text{ per month} \times 12 \text{ months}$$

$$= \underline{\$9,600} \text{ Depreciation expense for January through December}$$

### Requirement 2

|  |                 |
|--|-----------------|
| Year 1:                                  |                 |
| Structure                                | \$100,000       |
| Less: Accumulated Depreciation—Structure | <u>(4,000)</u>  |
| Book value of structure                  | <u>\$96,000</u> |

|  |                 |
|--|-----------------|
| Year 2:  |                 |
| Structure  | \$100,000       |
| Less: Accumulated Depreciation—Structure (\$4,000 + \$9,600) | <u>(13,600)</u> |
| Book value of structure                                      | <u>\$86,400</u> |

**Tying It All Together Case 3-1, cont.**  
**Requirement 3**

If iHeartCommunications, Inc. failed to record the adjusting entry related to the structure, depreciation expense would be understated and accumulated depreciation—structure would also be understated. This would cause net income on the income statement to be overstated and equity on the balance sheet overstated. In addition, the plant assets section of the balance sheet would also be overstated.

**Decision Case 3-1**

| <b>Swift Classified Ads</b><br><b>Income Statement</b><br><b>Year Ended December 31</b> |           |           |
|---|-----------|-----------|
| Revenues:   |           |           |
| Service Revenue [\$59,500 + \$1,600 adj + \$900 adj]                                    | \$ 62,000 |           |
| Expenses:   |           |           |
| Salaries Expense [\$17,000 + \$1,200 adj]   | \$ 18,200 |           |
| Depreciation Expense [adj]  | 5,000     |           |
| Rent Expense [adj]  | 2,400     |           |
| Utilities Expense   | 800       |           |
| Supplies Expense [adj]  | 1,700     |           |
| Total Expenses  | 28,100    |           |
| Net Income  |           | \$ 33,900 |

Advise Stasney to continue operating Swift Classified Ads. The company earned a profit during its first year, while many companies lose money early on.

**Ethical Issue 3-1**  
**Requirement 1**

Net income is overstated by \$3,300.

Calculations:

| Items                              |                       |
|------------------------------------|-----------------------|
| Improperly recorded a sale         | \$2,000               |
| Failed to accrue salaries expense  | 900                   |
| Failed to record insurance expense | <u>400</u>            |
| Total overstatement of net income  | <u><u>\$3,300</u></u> |

**Requirement 2**

Students' responses will vary. Illustrative answers follow.

Steinbach is taking this action to improve the company's income in order to borrow on favorable terms and increase the likelihood of loan approval. His action is unethical because he is deliberately overstating reported income.

Steinbach would be helped by his unethical actions.

The bank would be harmed by Steinbach's unethical actions. Lending money under false pretenses may lead the bank to charge a lower interest rate (generating less interest revenue) than otherwise, and may increase the bank's exposure to risk of default.

**Requirement 3**

Students' responses will vary. Illustrative answers follow.

The accountant should refuse to follow Steinbach's instructions. Accountants are bound by standards of ethical conduct; following Steinbach's instructions would result in an overstatement of reported income (a misrepresentation of the facts), and would violate the standards of ethics.

**Fraud Case 3-1**  
**Requirement 1**

Revenue could be accrued based on the percentage of completion. For a high-tech product, an engineer should be qualified to estimate the percentage of completion. The estimate might be based on the percentage of total costs incurred, the percentage of engineering steps completed, or some other reasonable criteria. The amount of revenue to accrue is equal to the percentage complete times the total estimated revenue.

**Requirement 2**

In 2019, XM would make an entry to debit a Loss and credit the Accounts Receivable account that had been recorded in 2018. Additionally, any costs that had been capitalized in an asset account would be written off (removed from the asset account).

**Financial Statement Case 3-1**  
**Requirement 1**

Target Corporation might record adjusting entries for the following assets: Short-term investments, Inventory, Other current assets, and Property and equipment. In addition, although not discussed in this chapter, the instructor might wish to discuss that Intangible assets might also involve adjusting entries.

**Requirement 2**

Target Corporation might record adjusting entries for the following liabilities: Accounts payable, Accrued and other current liabilities, Deferred income taxes, Long-term debt and other borrowings, and other noncurrent liabilities.

**Requirement 3**

Target carries property and equipment at cost less accumulated depreciation. Depreciation is provided on the straight-line method over estimated useful lives or lease terms if shorter. The range of estimated useful lives is from 8 to 39 years for buildings and improvements, 2 to 15 years for fixtures and equipment, and 2 to 7 years for computer hardware and software.

**Communication Activity 3-1**

Under accrual basis accounting, adjusting entries are completed at the end of the accounting period to record revenues in the period in which they are earned (revenue recognition principle) and expenses in the same period as the revenues generated by the expenses (matching principle). Adjusting entries also update asset and liability accounts. Adjustments are needed to properly measure net income (loss) on the income statement and assets and liabilities on the balance sheet.