

## 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:

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

*Thus,*

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

**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
<u>÷ 12</u>	Months
\$ 1,400	Rent expense per month

*Thus,*

\$ 1,400	Rent expense per month
<u>× 11</u>	Months
<u>\$15,400</u>	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 Cash <i>To record rent paid in advance.</i>	3,300	3,300

**Requirement 2**

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

\* Calculations:

\$3,300	Rent prepaid on September 1 for 6 months
÷ 6	months
<u>\$ 550</u>	Rent expense for September

**Requirement 3**

Prepaid Rent				Rent Expense			
Sep. 1	3,300	550	Sep. 30	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 Office Supplies <i>To record office supplies used.</i>	2,400*	2,400*

\* Calculations:

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

**Requirement 3**

Office Supplies			Supplies Expense		
Nov. 1	600	2,400	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 Accumulated Depreciation—Computer Equipment <i>To record depreciation on computer equipment.</i>	1,600	1,600

Requirement 3

Computer Equipment		Accumulated Depreciation— Computer Equipment	
Oct. 1	57,600		
Bal.	57,600		

		1,600	Oct. 31
		1,600	Bal.

Depreciation Expense— 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	180,000		8,000
	172,000 Bal.		8,000 Bal.



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

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

\* Calculations:

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

Thus,

\$2,500	Salaries expense per work day
<u>× 3</u>	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	5,000*	
	Salaries Payable	7,500	
	Cash		12,500
	<i>To record payment of salaries.</i>		

\* Calculations:

\$2,500	Salaries expense per work day
×2	work days
<u>\$5,000</u>	Salaries expense for Thursday through Friday

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

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

**Requirement 2**

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

**S3-12**

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

**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	
Total	<u>\$ 104,150</u>	<u>\$ 104,150</u>

**S3-14**

Adjustment 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 Trial Balance		Adjustments		Adjusted 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	
Total	<u>\$ 25,700</u>	<u>\$ 25,700</u>	<u>\$ 2,100</u>	<u>\$ 2,100</u>	<u>\$ 27,200</u>	<u>\$ 27,200</u>

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

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

**Requirement 2**

Date	Accounts and Explanation	Debit	Credit
Dec. 31	Prepaid Rent Rent Expense <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/> \$7,500	Rent still prepaid on December 31

**S3A-17**
**Requirement 1**

Date	Accounts and Explanation	Debit	Credit
Sep. 1	Cash Service Revenue <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 Unearned Revenue <i>To record unearned revenue.</i>	16,000 *	16,000 *

\* Calculations:

\$24,000	Collected in advance on September 1 for 12 months
÷ 12	Months
<hr/>	
\$ 2,000	Revenue earned per month

*Thus,*

\$ 2,000	
× 8	Months Remaining
<hr/>	
\$16,000	Revenue still unearned on December 31

## 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:

\$2,400	Rent prepaid on May 1 for 3 months
÷ 3	Months
<u>\$ 800</u>	Rent expense for May

#### 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 (a)	Unearned Revenue Service Revenue <i>To record service revenue earned that                was collected in advance.</i>	320*	320*

\* Calculations:

\$3,200	Collected in advance on January 1 for 10 months
÷ 10	Months
<u>\$ 320</u>	Revenue earned during January

**E3-21, cont.**

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

\* Calculations:

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

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

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

**E3-22**

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

**E3-22, cont.**

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

\* Calculations:

Situation a:

\$3,000	Rent collected in advance on October 1 for 1 year
÷ 12	Months
<u>\$ 250</u>	Rent revenue earned per month

Thus,

\$ 250	Rent revenue earned per month
× 3	Months
<u>\$750</u>	Rent revenue earned during October through December

Situation b:

\$1,800	Salaries expense per day
× 4	Days
<u>\$7,200</u>	Salaries expense for Monday through Thursday

Situation c:

\$ 3,000	Office supplies prior to adjustment
(1,900)	Office supplies on hand
<u>\$ 1,100</u>	Supplies expense (cost of office supplies used)

**E3-22, cont.**

Situation e:

\$4,320	Insurance prepaid on April 1 for 2 years
<u>÷ 24</u>	Months
\$ 180	Insurance expense per month

*Thus,*

\$ 180	Insurance expense per month
<u>× 9</u>	Months
<u>\$1,620</u>	Insurance expense for April through December

**E3-23**

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

**E3-23, cont.**

g.	Accounts Receivable Service Revenue <i>To accrue service revenue.</i>	3,000	3,000
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\* Calculations:

Situation b:

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

*Thus,*

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

Situation c:

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

Situation d:

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

*Thus,*

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

**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— Equipment	
	0 Bal.

Depreciation Expense— Equipment	
Bal.	0

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

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

Depreciation Expense— Equipment		
Bal.	0	
f.	120	
Bal.	120	



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

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

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

Date	Accounts and Explanation	Debit	Credit
a. Dec. 31	Supplies Expense Office Supplies <i>To record office supplies used.</i>	1,700	1,700
b. Dec. 31	Insurance Expense Prepaid Insurance <i>To record insurance expense.</i>	580	580
c. Dec. 31	Depreciation Expense—Equipment Accumulated Depreciation—Equipment <i>To record depreciation on equipment.</i>	500	500
d. Dec. 31	Salaries Expense Salaries Payable <i>To accrue salaries expense.</i>	310	310
e. Dec. 31	Unearned Revenue Service Revenue <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— Equipment		
c.	500	
Bal.	500	

Accumulated Depreciation— 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>

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	<i>Liability</i> <i>Equity</i>	<i>Over</i> <i>Under</i>	<i>Revenue</i>	<i>Under</i>
b.	Yes	Liability Equity	Under Over	Expense	Under
c.	Yes	Asset Equity	Over Over	Expense	Under
d.	Yes	Asset Equity	Over Over	Expense	Under
e.	Yes	Asset Equity	Over Over	Expense	Under
f.	Yes	Liability Equity	Under Over	Expense	Under
g.	Yes	Asset Equity	Under Under	Expense	Over

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

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

\* Calculations:

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

*Thus,*

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

**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: Net Income Overstated (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	
Total	<u>\$ 48,100</u>	<u>\$ 48,100</u>	<u>\$ 3,700</u>	<u>\$ 3,700</u>	<u>\$ 51,500</u>	<u>\$ 51,500</u>



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

Date	Accounts and Explanation	Debit	Credit
a. Apr. 30	Accounts Receivable Service Revenue <i>To accrue service revenue.</i>	700	700
b. Apr. 30	Supplies Expense Office Supplies <i>To record office supplies used.</i>	300	300
c. Apr. 30	Depreciation Expense—Equipment Accumulated Depreciation—Equipment <i>To record depreciation on equipment.</i>	1,300	1,300
d. Apr. 30	Salaries Expense Salaries Payable <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				1,300 c.		\$ 1,300
Trucks	114,000				114,000	
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	
Total	<u>\$ 259,500</u>	<u>\$ 259,500</u>	<u>\$ 18,900</u>	<u>\$ 18,900</u>	<u>\$ 273,700</u>	<u>\$ 273,700</u>

**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
<u>\$ 4,400</u>	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
(3,100)	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.	
		3,100 Bal.		25,100 Bal.	

**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
(2,100)	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	
	3,100 Bal.			25,100 Bal.	

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

**P3-33A, cont.**

\* Calculations:

a:

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

*Thus,*

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

b:

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

c:

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

d:

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

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

Date	Accounts and Explanation	Debit	Credit
a. Jan. 3	Salaries Expense Salaries Payable Cash <i>To record payment of salaries.</i>	4,800* 3,200	8,000
d.	Unearned Revenue Service Revenue <i>To record service revenue earned that was collected in advance.</i>	3,900*	3,900*
g. Jan. 15	Interest Expense Interest Payable Cash <i>To record payment of interest.</i>	300 250	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 Utilities Payable <i>To accrue utilities expense.</i>	375	375
b. Dec. 31	Insurance Expense Prepaid Insurance <i>To record insurance expense.</i>	800*	800*
c. Dec. 31	Accounts Receivable Service Revenue <i>To accrue service revenue.</i>	3,000	3,000
d. Dec. 31	Depreciation Expense—Boat Accumulated Depreciation—Boat <i>To record depreciation on boat.</i>	3,000*	3,000*
e. Dec. 31	Unearned Revenue Service Revenue <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
÷ 3	months
<hr/>	
\$ 400	Insurance expense per month

*Thus,*

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



**P3-34A, cont.**

d:

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

**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 Equity	Understated Overstated	Expense	Understated
b.	Asset Equity	Overstated Overstated	Expense	Understated
c.	Asset Equity	Understated Understated	Revenue	Understated
d.	Asset Equity	Overstated Overstated	Expense	Understated
e.	Liability Equity	Overstated Understated	Revenue	Understated

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

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

**P3-35A, cont.**

\* Calculations:

b:

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

f:

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

*Thus,*

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

g:

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

*Thus,*

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

**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—Equipment		
	3,900	Bal.
	850	d.
	4,750	Bal.

Supplies Expense		
c.	750	
Bal.	750	

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

<b>ANNISTON AIR PURIFICATION SYSTEM</b> <b>Adjusted Trial Balance</b> <b>December 31, 2018</b>		
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	
Total	<u>\$ 75,600</u>	<u>\$ 75,600</u>

**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 Prepaid Insurance <i>To record insurance expense.</i>	3,900*	3,900*
b. Dec. 31	Supplies Expense Office Supplies <i>To record office supplies used.</i>	300*	300*
c. Dec. 31	Depreciation Expense—Building Accumulated Depreciation—Building <i>To record depreciation on building.</i>	1,200	1,200
d. Dec. 31	Salaries Expense Salaries Payable <i>To accrue salaries expense.</i>	1,080*	1,080*
e. Dec. 31	Unearned Revenue Service Revenue <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	Salaries for a five-day work week
÷ 5	work days
<u>\$ 360</u>	Salaries Expense per work day

*Thus,*

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

e:

\$3,600	Unearned Revenue prior to adjustment
<u>(1,600)</u>	Unearned Revenue still unearned
<u><u>\$2,000</u></u>	Service Revenue earned

**Requirement 2****CASH**

Account No.

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
2018 Dec. 31	Balance				13,500	

**ACCOUNTS RECEIVABLE**

Account No.

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
2018 Dec. 31	Balance				15,100	

**PREPAID INSURANCE**

Account No.

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
2018 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 Dec. 31	Balance					288,950

**DIVIDENDS**

Account No.

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
2018 Dec. 31	Balance				2,340	

**SERVICE REVENUE**

Account No.

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
2018 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 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 Dec. 31	a.		3,900		3,900	

**DEPRECIATION EXPENSE—BUILDING**

Account No.

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
2018 Dec. 31	c.		1,200		1,200	

**P3-36A, cont.****ADVERTISING EXPENSE**

Account No.

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
2018 Dec. 31	Balance				620	

**SUPPLIES EXPENSE**

Account No.

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
2018 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	
Total	<u>\$ 572,040</u>	<u>\$ 572,040</u>

**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 Trial Balance		Adjustments		Adjusted 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	
Total	<u>\$ 110,150</u>	<u>\$ 110,150</u>	<u>\$ 6,550</u>	<u>\$ 6,550</u>	<u>\$ 114,850</u>	<u>\$ 114,850</u>

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

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

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

Date	Accounts and Explanation	Debit	Credit
Nov. 1	Prepaid Rent Cash <i>To record rent paid in advance.</i>	9,600	9,600
Nov. 1	Prepaid Insurance Cash <i>To record insurance paid in advance.</i>	6,000	6,000
Dec. 1	Cash Unearned Revenue <i>To record cash collected for future services.</i>	9,000	9,000
Dec. 1	Cash Unearned Revenue <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 Prepaid Rent <i>To record rent expense.</i>	3,200*	3,200*
Dec. 31	Insurance Expense Prepaid Insurance <i>To record insurance expense.</i>	2,400*	2,400*
Dec. 31	Unearned Revenue Service Revenue <i>To record service revenue earned that was collected in advance.</i>	1,800	1,800
Dec. 31	Unearned Revenue Service Revenue <i>To record service revenue earned that was collected in advance.</i>	2,400	2,400

\* Calculations:

Adjusting Journal Entry One:

\$9,600	Rent prepaid on November 1 for 6 months
÷ 6	months
<u>\$1,600</u>	Rent expense per month

*Thus,*

\$1,600	Rent expense per month
× 2	months
<u>\$3,200</u>	Rent expense for November and December

**P3A-38A, cont.**

Adjusting Journal Entry Two:

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

*Thus,*

\$1,200	Insurance expense per month
× 2	Months
<hr/>	
\$2,400	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 Cash <i>To record rent paid in advance.</i>	9,600	9,600
Nov. 1	Insurance Expense Cash <i>To record insurance paid in advance.</i>	6,000	6,000
Dec. 1	Cash Service Revenue <i>To record cash collected for future services.</i>	9,000	9,000
Dec. 1	Cash Service Revenue <i>To record cash collected for future services.</i>	7,200	7,200
Dec. 31	Prepaid Rent Rent Expense <i>To record prepaid rent.</i>	6,400*	6,400*
Dec. 31	Prepaid Insurance Insurance Expense <i>To record prepaid insurance.</i>	3,600*	3,600*
Dec. 31	Service Revenue Unearned Revenue <i>To record unearned revenue.</i>	7,200*	7,200*
Dec. 31	Service Revenue Unearned Revenue <i>To record unearned revenue.</i>	4,800*	4,800*

**P3A-38A, cont.**

\* Calculations:

Adjusting Journal Entry One:

\$9,600	Rent prepaid on November 1 for 6 months
÷ 6	Months
<u>\$1,600</u>	Rent expense per month

*Thus,*

\$1,600	Rent expense per month
× 4	Months
<u>\$6,400</u>	Rent still prepaid on December 31

Adjusting Journal Entry Two:

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

*Thus,*

\$1,200	Insurance expense per month
× 3	Months
<u>\$3,600</u>	Insurance still prepaid on December 31

Adjusting Journal Entry Three:

\$ 9,000	Collected in advance on December 1 for 5 months
<u>(1,800)</u>	Revenue earned during December
<u>\$ 7,200</u>	Revenue still unearned on December 31

Adjusting Journal Entry Four:

\$ 7,200	Collected in advance on December 1 for 3 months
<u>(2,400)</u>	Revenue earned during December
<u>\$ 4,800</u>	Revenue still unearned on December 31

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

**P3-39B, cont.**

\* Calculations:

a:

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

*Thus,*

\$1,300	Salaries expense per work day
× 3	work days
<hr/>	
\$3,900	Salaries expense for Monday through Wednesday

b:

\$7,500	Insurance prepaid on January 1 for two years
÷ 2	years
<hr/>	
\$3,750	Insurance expense for one year

c:

\$3,700	Beginning balance of office supplies
5,800	Office supplies purchased
<hr/>	
(3,000)	Office supplies on hand
<hr/>	
\$6,500	Supplies expense (cost of office supplies used)

d:

\$6,000	Collected in advance during December
× 70%	Percentage earned during December
<hr/>	
\$4,200	Revenue earned during December

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

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

\* Calculations:

a:

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

*Thus,*

\$1,300	Salaries expense per work day
× 2	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 Utilities Payable <i>To accrue utilities expense.</i>	375	375
b. Dec. 31	Insurance Expense Prepaid Insurance <i>To record insurance expense.</i>	2,400*	2,400*
c. Dec. 31	Accounts Receivable Service Revenue <i>To accrue service revenue.</i>	1,000	1,000
d. Dec. 31	Depreciation Expense—Boat Accumulated Depreciation—Boat <i>To record depreciation on boat.</i>	10,000*	10,000*
e. Dec. 31	Unearned Revenue Service Revenue <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
÷ 3	months
<hr/>	
\$1,200	Insurance expense per month

*Thus,*

\$1,200	Insurance expense per month
× 2	months
<hr/>	
<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 Equity	Understated Overstated	Expense	Understated
b.	Asset Equity	Overstated Overstated	Expense	Understated
c.	Asset Equity	Understated Understated	Revenue	Understated
d.	Asset Equity	Overstated Overstated	Expense	Understated
e.	Liability Equity	Overstated Understated	Revenue	Understated



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

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

\* Calculations:

b:

\$2,400	Rent prepaid on December 1 for two months
÷ 2	months
<u>\$1,200</u>	Rent expense for December

**P3-41B, cont.**

f:

\$2,000	Payroll for a 5-day work week
÷ 5	work days
<hr/>	
\$ 400	Salaries expense per work day

*Thus,*

\$ 400	Salaries expense per work day
× 3	work days
<hr/>	
\$1,200	Salaries expense for Monday through Wednesday

g:

\$2,800	Service revenue to be earned October through January
÷ 4	months
<hr/>	
\$ 700	Service revenue earned per month

*Thus,*

\$ 700	Service revenue earned per month
× 3	months
<hr/>	
\$2,100	Service revenue earned October through December

**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— 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— 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	
Total	<u>\$ 69,800</u>	<u>\$ 69,800</u>

**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 Prepaid Insurance <i>To record insurance expense.</i>	600*	600*
b. Dec. 31	Supplies Expense Office Supplies <i>To record office supplies used.</i>	200*	200*
c. Dec. 31	Depreciation Expense—Building Accumulated Depreciation—Building <i>To record depreciation on building.</i>	2,100	2,100
d. Dec. 31	Salaries Expense Salaries Payable <i>To accrue salaries expense.</i>	780*	780*
e. Dec. 31	Unearned Revenue Service Revenue <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
<u>\$ 260</u>	Salaries Expense per work day

*Thus,*

\$260	Salaries Expense per work day
× 3	work days
<u><u>\$780</u></u>	Salaries Expense for Monday through Wednesday

e:

\$1,600	Unearned Revenue prior to adjustment
<u>(1,400)</u>	Unearned Revenue still unearned
<u><u>\$ 200</u></u>	Service Revenue earned

**Requirement 2**

**CASH**

Account No.

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
2018 Dec. 31	Balance				14,500	

**ACCOUNTS RECEIVABLE**

Account No.

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
2018 Dec. 31	Balance				15,100	

**PREPAID INSURANCE**

Account No.

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
2018 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 Dec. 31	Balance					222,160

**DIVIDENDS**

Account No.

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
2018 Dec. 31	Balance				1,890	

**SERVICE REVENUE**

Account No.

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
2018 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 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 Dec. 31	a.		600		600	

**DEPRECIATION EXPENSE—BUILDING**

Account No.

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
2018 Dec. 31	c.		2,100		2,100	



**P3-42B, cont.****ADVERTISING EXPENSE**

Account No.

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
2018 Dec. 31	Balance				680	

**SUPPLIES EXPENSE**

Account No.

Date	Item	Post Ref.	Debit	Credit	Balance	
					Debit	Credit
2018 Dec. 31	b.		200		200	

**Requirement 3**

MIDWAY INN COMPANY Adjusted Trial Balance 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	
Total	<u>\$ 557,750</u>	<u>\$ 557,750</u>

**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	
Total	<u>\$95,000</u>	<u>\$95,000</u>	<u>\$ 6,550</u>	<u>\$ 6,550</u>	<u>\$100,250</u>	<u>\$100,250</u>

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

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

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

Date	Accounts and Explanation	Debit	Credit
Nov. 1	Prepaid Rent Cash <i>To record rent paid in advance.</i>	6,000	6,000
Nov. 1	Prepaid Insurance Cash <i>To record insurance paid in advance.</i>	7,800	7,800
Dec. 1	Cash Unearned Revenue <i>To record cash collected for future services.</i>	12,000	12,000
Dec. 1	Cash Unearned Revenue <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 Prepaid Rent <i>To record rent expense.</i>	3,000*	3,000*
Dec. 31	Insurance Expense Prepaid Insurance <i>To record insurance expense.</i>	2,600*	2,600*
Dec. 31	Unearned Revenue Service Revenue <i>To record service revenue earned that was collected in advance.</i>	2,400	2,400
Dec. 31	Unearned Revenue Service Revenue <i>To record service revenue earned that was collected in advance.</i>	1,500	1,500

\* Calculations:

Adjusting Journal Entry One:

\$6,000	Rent prepaid on November 1 for 4 months
<u>÷ 4</u>	Months
\$1,500	Rent expense per month

Thus,

\$1,500	Rent expense per month
<u>× 2</u>	Months
<u>\$3,000</u>	Rent expense for November and December

Adjusting Journal Entry Two:

\$7,800	Insurance prepaid on November 1 for 6 months
<u>÷ 6</u>	Months
\$1,300	Insurance expense per month

Thus,

\$1,300	Insurance expense per month
<u>× 2</u>	Months
<u>\$2,600</u>	Insurance expense for November and December

**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 Cash <i>To record rent paid in advance.</i>	6,000	6,000
Nov. 1	Insurance Expense Cash <i>To record insurance paid in advance.</i>	7,800	7,800
Dec. 1	Cash Service Revenue <i>To record cash collected for future services.</i>	12,000	12,000
Dec. 1	Cash Service Revenue <i>To record cash collected for future services.</i>	7,500	7,500

**P3A-44B, cont.**

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

\* Calculations:

Adjusting Journal Entry One:

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

*Thus,*

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

Adjusting Journal Entry Two:

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

*Thus,*

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

**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
	<u>15,600 Bal.</u>

Service Revenue			
Dec. 31	9,600	12,000	Dec. 1
Dec. 31	6,000	7,500	Dec. 1
		<u>3,900 Bal.</u>	

**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 Office Supplies <i>To record supplies used.</i>	1,085*	1,085*
Dec. 31	Rent Expense Prepaid Rent <i>To record rent expense.</i>	1,000*	1,000*
Dec. 31	Depreciation Expense—Building Accumulated Depreciation—Building <i>To record depreciation on building.</i>	500*	500*
Dec. 31	Unearned Revenue Canoe Rental Revenue <i>To record canoe rental revenue earned.</i>	400	400
Dec. 31	Wages Expense Wages Payable <i>To accrue salaries expense.</i>	1,250	1,250
Dec. 31	Accounts Receivable Canoe Rental Revenue <i>To accrue canoe rental revenue.</i>	1,850	1,850
Dec. 31	Depreciation Expense—Canoes Accumulated Depreciation—Canoes <i>To record depreciation on canoes.</i>	200*	200*
Dec. 31	Depreciation Expense—Canoes Accumulated Depreciation—Canoes <i>To record depreciation on canoes.</i>	150*	150*
Dec. 31	Interest Expense Interest Payable <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 Receivable			
Nov. 22	3,000	750	Nov. 28
Dec. 15	3,500		
Adj.	1,850		
Balance	7,600		

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

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

Land			
Dec. 1	85,000		
Balance	85,000		

Building			
Dec. 1	35,000		
Balance	35,000		

Accumulated Depreciation—Building			
	500		Adj.
	500		Balance

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

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

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

Unearned Revenue			
Adj.	400	750	Dec. 16
		350	Balance

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

Common Stock			
		16,000	Nov. 1
		120,000	Dec. 1
		136,000	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	

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

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

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	
Total	<b>\$ 164,020</b>	<b>\$ 164,020</b>

## Practice Set

P3-47

### Requirement 1

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

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

Adjusting Journal Entry Four:

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

Adjusting Journal Entry Five:

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

*Thus,*

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

Adjusting Journal Entry Six:

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

*Thus,*

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

**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	
Total	<u>\$ 75,554</u>	<u>\$ 75,554</u>



## Critical Thinking

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

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

Straight-line  
depreciation per year = (Cost – Residual Value) / Useful Life in Years

= (\$100,000 – \$4,000) / 10 years

= \$96,000 / 10 years

= \$9,600 / 12 months

Year 1 = \$800 per month × 5 months

= \$4,000 Depreciation expense for August through  
December

Year 2 = \$800 per month × 12 months

= \$9,600 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><u>\$86,400</u></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 Income Statement 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		<u>28,100</u>
Net Income		<u><u>\$ 33,900</u></u>

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:

<u>Items</u>	
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.