

Exercises: Set A				
E1A. Applications of Accounting Concepts Related to Accrual Accounting				
<i>Note to the Instructor:</i> Because more than one concept may apply to a particular action, which concept is most applicable is a matter of judgment. This exercise is intended to generate discussion.				
1.	a			
2.	c			
3.	b			
4.	e			
5.	d			
6.	f			
E2A. Application of Conditions for Revenue Recognition				
a.	Services have not been rendered.			
b.	Persuasive evidence of an arrangement does not exist.			
c.	Collectibility is not reasonably assured.			
d.	The seller's price to the buyer is not fixed or determinable.			
E3A. Adjusting Entry for Unearned Revenue				
2014				
Dec.	31	Magazine Subscriptions Received in Advance	150,000	
		Magazine Subscriptions Revenue		150,000
		To recognize revenue for subscriptions expired during 2014		
E4A. Adjusting Entries for Prepaid Insurance				
1.	Insurance Expense		5,345	
	Prepaid Insurance			5,345
	To record expired insurance			
		\$10,280 - \$4,935 = \$5,345		
2.	Insurance Expense		1,735	
	Prepaid Insurance			1,735
	To record expired insurance			

E5A. Adjusting Entries for Supplies: Missing Data

1. Amounts indicated by the question marks are in italics								
			a	b	c	d		
			Supplies on hand at June 1	\$264	\$ 217	\$196	\$ 822	
			Supplies purchased during the month	<u>52</u>	<u>1,191</u>	<u>174</u>	<u>1,928</u>	
			Total supplies available	\$316	\$1,408	\$370	\$2,750	
			Supplies consumed during the month	<u>194</u>	<u>972</u>	<u>314</u>	<u>1,632</u>	
			Supplies on hand at June 30	<u>\$122</u>	<u>\$ 436</u>	<u>\$ 56</u>	<u>\$1,118</u>	
2. Adjusting entry for column a								
	June	30	Supplies Expense			194		
			Supplies				194	
			To record adjustment for supplies used					

E6A. Adjusting Entry for Accrued Salaries

1.	May	31	Salaries Expense			28,000		
			Salaries Payable				28,000	
			To accrue salaries owed but not paid at month end					
			\$70,000 / 5 = \$14,000 per day ×					
			2 work days (Monday and Tuesday)					
			incurred = \$28,000					
2.	June	3	Salaries Expense			42,000		
			Salaries Payable			28,000		
			Cash				70,000	
			To pay weekly salaries					

E7A. Revenue and Expense Recognition

1.	January to June 2014 (payment on November 1)					\$20,000
	July to December 2014 (\$300,000 × 15 percent)					<u>45,000</u>
	2014 royalty expense and royalty income					<u>\$65,000</u>

2.	In Kozuch Company's records:							
	2014							
	Dec.	31	Royalty Expense			45,000		
			Royalty Payable				45,000	
			To record royalties owed for the last half of 2014, to be paid on May 1, 2015					
	In Lacoma Company's records:							
	2014							
	Dec.	31	Royalty Receivable			45,000		
			Royalty Income				45,000	
			To record royalties earned for the last half of 2014, to be received on May 1, 2015					

E8A. Accounting for Revenue Received in Advance										
1.	Oct.	1	Cash					72,000		
			Unearned Legal Fees						72,000	
			To record legal fees received in advance							
	Dec.	31	Unearned Legal Fees					18,000		
			Legal Fees Earned						18,000	
			To recognize three months' fees earned							
			(	\$72,000	/	12	months)			
			x	3	months	=	\$18,000			
2.	Revenue on the income statement includes the \$18,000 in legal fees that have been earned. Unearned Legal Fees is a liability of \$54,000 on the balance sheet.									
E9A. Adjusting Entries										
1.	Office Supplies Expense							428		
	Office Supplies									428
	To record office supplies consumed during the year									
	Beginning balance			\$168						
	+ Purchases			<u>830</u>						
	= Total available			\$998						
	- Ending balance			<u>570</u>						
	Supplies consumed			<u>\$428</u>						
2.	Depreciation Expense—Office Equipment							4,260		
	Accumulated Depreciation—Office Equipment									4,260
	To record depreciation on office equipment allocated to the year									
3.	Property Taxes Expense							1,750		
	Property Taxes Payable									1,750
	To record property taxes applicable to the six-month period									
4.	Interest Receivable							1,700		
	Interest Income									1,700
	To record interest accrued during the period									
5.	Unearned Revenue							600		
	Service Revenue									600
	To record revenue earned for services for which payment had been received in advance									
6.	Accounts Receivable							400		
	Service Revenue									400
	To record service revenue earned but not billed									

E10A. Preparation of Financial Statements

**Krishna Cleaning Company
Income Statement
For the Month Ended August 31, 2014**

Revenues:		
Janitorial revenue		\$14,620
Expenses:		
Wages expense	\$5,680	
Rent expense	1,200	
Gas, oil, and other truck expenses	580	
Insurance expense	380	
Supplies expense	2,920	
Depreciation expense—cleaning equipment	320	
Depreciation expense—truck	<u>720</u>	
Total expenses		<u>11,800</u>
Net income		<u>\$ 2,820</u>

**Krishna Cleaning Company
Statement of Owner's Equity
For the Month Ended August 31, 2014**

A. Ambrose, capital, July 31, 2014		\$15,034
Net income		<u>2,820</u>
Subtotal		<u>\$17,854</u>
Less withdrawals		<u>2,000</u>
A. Ambrose, capital, August 31, 2014		<u>\$15,854</u>

**Krishna Cleaning Company
Balance Sheet
August 31, 2014**

Assets		
Cash		\$ 4,590
Accounts receivable		2,592
Prepaid insurance		380
Prepaid rent		200
Cleaning supplies		152
Cleaning equipment	\$ 3,200	
Less accumulated depreciation	<u>320</u>	2,880
Truck	\$ 7,200	
Less accumulated depreciation	<u>720</u>	<u>6,480</u>
Total assets		<u>\$17,274</u>
Liabilities		
Accounts payable	\$ 420	
Wages payable	80	
Unearned janitorial revenue	<u>920</u>	
Total liabilities		<u>\$ 1,420</u>
Owner's Equity		
A. Ambrose, capital		<u>15,854</u>
Total liabilities and owner's equity		<u>\$17,274</u>

E11A. Determination of Cash Flows			
Prepaid insurance at end of 2014			\$ 1,200
Insurance expense during 2014			<u>1,900</u>
Potential payments for insurance during 2014			\$ 3,100
Less prepaid insurance at end of 2013			<u>1,450</u>
Cash payments for insurance during 2014			<u>\$ 1,650</u>
Wages payable at end of 2013			\$ 1,100
Wages expense during 2014			<u>9,750</u>
Potential payments for wages during 2014			\$10,850
Less wages payable at end of 2014			<u>600</u>
Cash payments for wages during 2014			<u>\$10,250</u>
Unearned fees at end of 2014			\$ 2,100
Fees earned during 2014			<u>4,450</u>
Potential receipts from fees during 2014			\$ 6,550
Less unearned fees at end of 2013			<u>950</u>
Cash receipts from fees during 2014			<u>\$ 5,600</u>
E12A. Relationship of Expenses to Cash Paid			
1.	Cash paid for rent during the year:	\$ 79,350	
	Ending balance		\$ 1,350
	Rent expense		<u>78,000</u>
	Potential cash paid for rent		\$ 79,350
	Less beginning balance		<u>—</u>
	Cash paid during the year		<u>\$ 79,350</u>
2.	Cash paid for interest during the year:	\$ 13,500	
	Beginning balance		\$ 1,800
	Interest expense		<u>11,700</u>
	Potential cash paid for interest		\$ 13,500
	Less ending balance		<u>—</u>
	Cash paid during the year		<u>\$ 13,500</u>
3.	Cash paid for salaries during the year:	\$114,000	
	Beginning balance		\$ 7,500
	Salaries expense		<u>124,500</u>
	Potential cash paid for salaries		\$132,000
	Less ending balance		<u>18,000</u>
	Cash paid during the year		<u>\$114,000</u>
Note to Instructor: Solutions for Exercises: Set B are provided separately on the Instructor's Resource CD and website.			

P2. Preparing Adjusting Entries

1.

a.	Nov.	30	Supplies Expense						5,171	
			Supplies							5,171
			To record supplies used							
			\$2,350	+	\$4,218	-	\$1,397			
			=	\$5,171						
b.		30	Insurance Expense						6,874	
			Prepaid Insurance							6,874
			To record expired insurance							
			\$4,720							
			1,750	[ (	\$4,200	/	12 months)			
				x	5 months]					
			<u>404</u>	[ (	\$7,272	/	36 months)			
				x	2 months]					
			<u>\$6,874</u>							
c.		30	Depreciation Expense—Buildings						16,000	
			Depreciation Expense—Equipment						40,000	
			Accumulated Depreciation—Buildings							16,000
			Accumulated Depreciation—Equipment							40,000
			To record annual depreciation							
d.		30	Unearned Services Revenue						3,100	
			Service Revenue							3,100
			To record service revenue earned on services collected in advance							
			(	\$18,600	/	12 months)				
				x	2 months	=	\$3,100			
e.		30	Accounts Receivable						7,000	
			Service Revenue							7,000
			To record service revenue earned on a contract to be billed in January							
f.		30	Interest Expense						18,000	
			Interest Payable							18,000
			To record accrued interest on note payable							
g.		30	Wages Expense						10,000	
			Wages Payable							10,000
			To record accrued wages							
			(	\$15,000	/	6 days)				
				x	4 days	=	\$10,000			
h.			No entry							

2. In transaction "e," \$7,000 has to be recognized as revenue because services have already been provided and there is an obligation to pay for them. In transaction "h," November 29 is not a recognition point because no services have been provided and there is no obligation for the client to pay for them.

P16. Determining Adjusting Entries and Tracing Their Effects to Financial Statements

1. and 2.

Cash				Accounts Receivable				Prepaid Insurance			
Bal.	11,265			Bal.	2,191			Bal.	520	(b)	340
								Bal.	180		
Office Supplies				Office Equipment				Accumulated Depreciation— Office Equipment			
Bal.	682	(a)	363	Bal.	7,980					Bal.	790
Bal.	319									(c)	870
										Bal.	1,660
Accounts Payable				Unearned Tax Fees				S. Jacobs, Capital			
		Bal.	437	(e)	519	Bal.	519			Bal.	5,474
		(d)	182			Bal.	—				
		Bal.	619								
S. Jacobs, Withdrawals				Tax Fees Revenue				Office Salaries Expense			
Bal.	7,500					Bal.	36,926	Bal.	9,700		
						(e)	519				
						Bal.	37,445				
Advertising Expense				Rent Expense				Telephone Expense			
Bal.	650			Bal.	3,200			Bal.	458		
								(d)	182		
								Bal.	640		
Office Supplies Expense				Insurance Expense				Depreciation Expense— Office Equipment			
(a)	363			(b)	340			(c)	870		

P16. Determining Adjusting Entries and Tracing Their Effects to Financial Statements

(Continued)

Jacobs Financial Advisors Service		
Adjusted Trial Balance		
December 31, 2014		
Cash	11,265	
Accounts Receivable	2,191	
Prepaid Insurance	180	
Office Supplies	319	
Office Equipment	7,980	
Accumulated Depreciation—Office Equipment		1,660
Accounts Payable		619
S. Jacobs, Capital		5,474
S. Jacobs, Withdrawals	7,500	
Tax Fees Revenue		37,445
Office Salaries Expense	9,700	
Advertising Expense	650	
Rent Expense	3,200	
Telephone Expense	640	
Office Supplies Expense	363	
Insurance Expense	340	
Depreciation Expense—Office Equipment	870	
	<u>45,198</u>	<u>45,198</u>

Note: Unearned Tax Fees does not appear on the adjusted trial balance because it now has a zero balance.

Jacobs Financial Advisors Service		
Income Statement		
For the Year Ended December 31, 2014		
Revenues:		
Tax fees revenue		\$37,445
Expenses:		
Office salaries expense	\$9,700	
Advertising expense	650	
Rent expense	3,200	
Telephone expense	640	
Office supplies expense	363	
Insurance expense	340	
Depreciation expense—office equipment	870	
Total expenses		<u>15,763</u>
Net income		<u>\$21,682</u>