## Chapter 3

**Adjusting Accounts for**

**Financial Statements**

**Exercises**

**Exercise 3-1 (15 minutes)**

**a. Adjusting entry:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dec. 31** | **Wages Expense** | **1,250** |  |
|  | **Wages Payable** |  | **1,250** |
|  | ***Record accrued wages for one day.***  ***(5 workers x $250)*** |  |  |

**b. Payday entry:**

|  |  |  |  |
| --- | --- | --- | --- |
| **Jan. 4** | **Wages Expense** | **3,750** |  |
|  | **Wages Payable** | **1,250** |  |
|  | **Cash** |  | **5,000** |
|  | ***Record accrued and current wages.***  ***Wages expense = 5 workers x 3 days x $250***  ***Cash = 5 workers x 4 days x $250*** |  |  |

**Exercise 3-2 (25 minutes)**

**a.**

**Apr. 30 Legal Services Expense 3,500**

**Legal Services Payable 3,500**

**Record accrued legal fees.**

**May 12 Legal Services Payable 3,500**

**Cash 3,500**

**Pay accrued legal fees.**

**b.**

**Apr. 30 Interest Expense 3,000**

**Interest Payable 3,000**

**Record accrued interest expense**

**($9,000 interest x 10/30).**

**May 20 Interest Payable 3,000**

**Interest Expense\* 6,000**

**Cash 9,000**

**Record payment of accrued and current interest. \*($9,000 interest x 20/30)**

**Exercise 3-2 (concluded)**

**c.**

**Apr. 30 Salaries Expense 4,000**

**Salaries Payable 4,000**

**Record accrued salaries ($10,000 x 2/5 week).**

**May 3 Salaries Payable 4,000**

**Salaries Expense\* 6,000**

**Cash 10,000**

**Record payment of accrued and current salaries. \*($10,000 weekly salaries x 3/5 week)**

**Exercise 3-3 (25 minutes)**

|  |  |  |  |
| --- | --- | --- | --- |
| **a.** | **Depreciation Expense—Equipment** | **18,000** |  |
|  | **Accumulated Depreciation—Equipment** |  | **18,000** |
|  | ***Record depreciation expense for the year.*** |  |  |
|  |  |  |  |
| **b.** | **Insurance Expense** | **4,900** |  |
|  | **Prepaid Insurance\*** |  | **4,900** |
|  | ***Record insurance coverage that expired***  ***($6,000 - $1,100).*** |  |  |
|  |  |  |  |
| **c.** | **Supplies Expense** | **3,880** |  |
|  | **Supplies\*\*** |  | **3,880** |
|  | ***Record office supplies used* ($700 + $3,480 - $300)*.*** |  |  |
|  |  |  |  |
| **d.** | **Unearned Revenue** | **10,000** |  |
|  | **Revenue** |  | **10,000** |
|  | ***Record earned portion of fee received in advance***  ***($15,000 x 2/3).*** |  |  |
|  |  |  |  |
| **e.** | **Rent Expense** | **5,800** |  |
|  | **Prepaid Rent** |  | **5,800** |
|  | ***Record rental coverage that expired.*** |  |  |
| **f.** | **Wages Expense** | **3,200** |  |
|  | **Wages Payable** |  | **3,200** |
|  | ***Record wages accrued but not yet paid.*** |  |  |
|  |  |  |  |

**Notes:**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Prepaid Insurance\*** | | | | |  | **Supplies\*\*** | | | | | |
| **Bal. Bal.** | **6,000** |  |  |  | | | **Beg. Bal.** | **700** |  |  |
|  |  |  |  |  | | | **Purch.** | **3,480** |  |  |
|  |  | **?** | **Used** |  | | |  |  | **?** | **Used** |
| **End. Bal.** | **1,100** |  |  |  | | | **End. Bal.** | **300** |  |  |

**Exercise 3-4 (30 minutes)**

|  |  |  |  |
| --- | --- | --- | --- |
| **a.** | **Wages Expense** | **8,000** |  |
|  | **Wages Payable** |  | **8,000** |
|  | ***Record wages accrued but not yet paid.*** |  |  |
|  |  |  |  |
| **b.** | **Depreciation Expense—Equipment** | **18,000** |  |
|  | **Accumulated Depreciation—Equipment** |  | **18,000** |
|  | ***Record depreciation expense for the year.*** |  |  |
|  |  |  |  |
| **c.** | **Supplies Expense** | **5,000** |  |
|  | **Supplies\*** |  | **5,000** |
|  | ***Record supplies used ($240 + $5,200 - $440).*** |  |  |
|  |  |  |  |
| **d.** | **Insurance Expense** | **2,800** |  |
|  | **Prepaid Insurance†** |  | **2,800** |
|  | ***Record insurance coverage expired ($4,000 - $1,200).*** |  |  |
|  |  |  |  |
| **e.** | **Interest Receivable** | **1,050** |  |
|  | **Interest Revenue** |  | **1,050** |
|  | ***Record interest earned but not yet received.*** |  |  |
|  |  |  |  |
| **f.** | **Interest Expense** | **2,500** |  |
|  | **Interest Payable** |  | **2,500** |
|  | ***Record interest incurred but not yet paid.*** |  |  |

**Notes:**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Prepaid Insurance†** | | | | |  | **Supplies\*** | | | | | |
| **Beg. Bal.** | **4,000** |  |  |  | | | **Beg. Bal.** | **240** |  |  |
|  |  |  |  |  | | | **Purch.** | **5,200** |  |  |
|  |  | **?** | **Used** |  | | |  |  | **?** | **Used** |
| **End. Bal.** | **1,200** |  |  |  | | | **End. Bal.** | **440** |  |  |

**Exercise 3-5 (25 minutes)**

**a. Dec. 31 Accounts Receivable 7,000**

**Fees Earned 7,000**

**Record earned but unbilled fees.**

**b. Dec.31 Depreciation Expense—Computers 1,600**

**Accumulated Depreciation-Computers 1,600**

**Record depreciation on computers.**

**c. Dec.31 Depreciation Expense—Office Furniture . 1,850**

**Accumulated Depreciation—Office Furniture 1,850**

**Record depreciation on office furniture.**

**d. Dec. 31 Salaries Expense 2,250**

**Salaries Payable 2,250**

**Record accrued salaries.**

**e. Dec. 31 Insurance Expense 1,400**

**Prepaid Insurance 1,400**

**Record expired prepaid insurance.**

**f. Dec. 31 Office Supplies Expense 580**

**Office Supplies 580**

**Record use of office supplies.**

**g. Dec. 31 Utilities Expense 90**

**Utilities Payable 90**

**Record incurred and unpaid utility costs.**

Exercise 3-6 (20 minutes)

|  |  |  |  |
| --- | --- | --- | --- |
| **a.** | **Accounts Receivable** | **2,000** |  |
|  | **Revenue** |  | **2,000** |
|  | ***Record services provided but payment not yet received.*** |  |  |
|  |  |  |  |
| **b.** | **Wages Expense** | **1,000** |  |
|  | **Wages Payable** |  | **1,000** |
|  | ***Record wages expense accrued but not yet paid.*** |  |  |
|  | |  |  |
| **c.** | **Interest Expense** | **400** |  |
|  | **Interest Payable** |  | **400** |
|  | ***Record interest expense incurred but not yet paid.*** |  |  |
|  |  |  |  |
| **d.** | **Lawn Services Expense** | **500** |  |
|  | **Lawn Services Payable** |  | **500** |
|  | ***Record lawn services incurred but not yet paid.*** |  |  |
|  |  |  |  |
| **e.** | **Interest Receivable** | **200** |  |
|  | **Interest Revenue** |  | **200** |
|  | ***Record interest revenue earned but not yet received.*** |  |  |
|  |  |  |  |
| **f.** | **Salary Expense** | **900** |  |
|  | **Salary Payable** |  | **900** |
|  | ***Record salary expense accrued but not yet paid.*** |  |  |

**Exercise 3-7 (25 minutes)**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **WEstcott company**  **December 31** | | | | | | | | |
|  | **Unadjusted Trial Balance**  **Dr. Cr.** | | **Adjustments**  **Dr. Cr.** | | | | **Adjusted Trial Balance**  **Dr. Cr.** | |
| **Cash** | **21** |  |  |  |  |  | **21** |  |
| **Accounts receivable** | **12** |  |  |  |  |  | **12** |  |
| **Supplies** | **24** |  |  |  | **(d)** | **9** | **15** |  |
| **Prepaid insurance** | **18** |  |  |  | **(e)** | **15** | **3** |  |
| **Equipment** | **39** |  |  |  |  |  | **39** |  |
| **Accumulated depreciation–Equip** |  | **15** |  |  | **(a)** | **3** |  | **18** |
| **Accounts payable** |  | **6** |  |  |  |  |  | **6** |
| **Salaries payable** |  |  |  |  | **(b)** | **6** |  | **6** |
| **Unearned revenue** |  | **12** | **(c)** | **12** |  |  |  |  |
| **Common stock** |  | **10** |  |  |  |  |  | **10** |
| **Retained earnings** |  | **32** |  |  |  |  |  | **32** |
| **Dividends** | **6** |  |  |  |  |  | **6** |  |
| **Revenue** |  | **75** |  |  | **(c)** | **12** |  | **87** |
| **Depreciation expense–Equip** |  |  | **(a)** | **3** |  |  | **3** |  |
| **Salaries expense** | **18** |  | **(b)** | **6** |  |  | **24** |  |
| **Insurance expense** |  |  | **(e)** | **15** |  |  | **15** |  |
| **Supplies expense** |  |  | **(d)** | **9** |  |  | **9** |  |
| **Utilities expense** | **12** | **\_\_\_** |  | **\_\_** |  | **\_\_** | **12** | **\_\_\_** |
| **Totals** | **150** | **150** |  | **45** |  | **45** | **159** | **159** |

**Exercise 3-8 (20 minutes)**

**WILSON Trucking CoMPANY**

**Income Statement**

**For Year Ended December 31, 2018**

**Trucking fees earned $130,000**

**Expenses**

**Depreciation expense—Trucks $23,500**

**Salaries expense 61,000**

**Office supplies expense 8,000**

**Repairs expense—Trucks 12,000**

**Total expenses 104,500**

**Net income $ 25,500**

**WILSON Trucking CoMPANY**

**Statement of Retained Earnings**

**For Year Ended December 31, 2018**

**Retained earnings, December 31, 2017 $155,000**

**Add: Net income 25,500**

**180,500**

**Less: Dividends (20,000)**

**Retained earnings, December 31, 2018 $160,500**

**Exercise 3-8 (concluded)**

**WILSON Trucking CoMPANY**

**Balance Sheet**

**December 31, 2018**

***Assets***

**Cash $ 8,000**

**Accounts receivable 17,500**

**Office supplies 3,000**

**Trucks $172,000**

**Accumulated depreciation-Trucks (36,000) 136,000**

**Land 85,000**

**Total assets $249,500**

***Liabilities***

**Accounts payable $ 12,000**

**Interest payable 4,000**

**Long-term notes payable 53,000**

**Total liabilities 69,000**

***Equity***

**Common stock 20,000**

**Retained earnings 160,500**

**Total equity 180,500**

**Total liabilities and equity $249,500**

Exercise 3-9 (20 minutes)

**WILSON Trucking CoMPANY**

**Balance Sheet (Classified)**

**December 31, 2018**

***Assets***

**Current assets**

**Cash $ 8,000**

**Accounts receivable 17,500**

**Office supplies 3,000**

**Total current assets 28,500**

**Plant assets**

**Trucks $172,000**

**Accumulated depreciation-Trucks (36,000) 136,000**

**Land 85,000**

**Total plant assets 221,000**

**Total assets $249,500**

***Liabilities***

**Current liabilities**

**Accounts payable $ 12,000**

**Interest payable 4,000**

**Total current liabilities 16,000**

**Long-term notes payable 53,000**

**Total liabilities 69,000**

***Equity***

**Common stock 20,000**

**Retained earnings\* 160,500**

**Total equity 180,500**

**Total liabilities and equity $249,500**

\*From Exercise 3-8

OR

**\*Retained earnings computed as:**

|  |  |
| --- | --- |
| **Beginning balance** | **$155,000** |
| **Plus: Net income ($130,000 - $23,500 - $61,000 - $8,000 - $12,000)** | **25,500** |
| Less: Dividends | **(20,000)** |
| Ending balance | **$160,500** |

**Exercise 3-10 (10 minutes)**

**Mar. 31 Net Sales 504,459**

**Income Summary 504,459**

**Close revenue account.**

**Mar. 31 Income Summary 487,941**

**Cost of Sales 283,494**

**Advertising Expense 46,636**

**Other Expense, Net 157,811**

**Close expense accounts.**

Exercise 3-11 (10 minutes)

**a. $ 4,361 / $ 44,500 = 9.8%**

**b. $ 97,706 / $ 398,800 = 24.5%**

**c. $111,281 / $ 257,000 = 43.3%**

**d. $ 65,646 / $1,458,800 = 4.5%**

**e. $ 80,132 / $ 435,500 = 18.4%**

***Analysis and Interpretation*: Company *c* has the highest profitability according to the profit margin ratio. Company *c* earns 43.3 cents in net income for every one dollar of net sales earned.**

Exercise 3-12 (15 minutes)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Current Assets** |  | **Current  Liabilities** |  | **Current  Ratio** |
| **Twix** | **$ 79,040** | **/** | **$ 32,000** | **=** | **2.47** |
| **Wonka** | **104,880** | **/** | **76,000** | **=** | **1.38** |
| **Payday** | **45,080** | **/** | **49,000** | **=** | **0.92** |
| **KitKat** | **85,680** | **/** | **81,600** | **=** | **1.05** |
| **Heath** | **61,000** | **/** | **100,000** | **=** | **0.61** |

***Analysis*: Twix is in the strongest liquidity position. It has about $2.47 of current assets for each $1 of current liabilities. The only potential concern is that Twix may be carrying too much in current assets that could be better spent on more productive assets (note that its remaining competitors’ current ratios range from 1.38 to 0.61).**

**Exercise 3-13A (30 minutes)**

**a.**

**Dec. 1 Supplies Expense 2,000**

**Cash 2,000**

**Purchased supplies.**

**b.**

**Dec. 2 Insurance Expense 1,540**

**Cash 1,540**

**Paid insurance premiums.**

**c.**

**Dec. 15 Cash 13,000**

**Remodeling Fees Earned 13,000**

**Received fees for work to be done.**

**d.**

**Dec. 28 Cash 3,700**

**Remodeling Fees Earned 3,700**

**Received fees for work to be done.**

**e.**

**Dec. 31 Supplies 1,840**

**Supplies Expense 1,840**

**Adjust expenses for unused supplies.**

**f.**

**Dec. 31 Prepaid Insurance 1,200**

**Insurance Expense 1,200**

**Adjust expenses for unexpired coverage ($1,540 - $340).**

**g.**

**Dec. 31 Remodeling Fees Earned 11,130**

**Unearned Remodeling Fees 11,130**

***Adjusted revenues for unfinished projects***

***($13,000 + 3,700 - $5,570).***

**Exercise 3-14A (25 minutes)**

**a. Initial credit recorded in the Unearned Fees account**

**July 1 Cash 3,000**

**Unearned Fees 3,000**

**Received fees for work to be done for Solana.**

**6 Cash 7,500**

**Unearned Fees 7,500**

**Received fees for work to be done for Haru.**

**12 Unearned Fees 3,000**

**Fees Earned 3,000**

**Completed work for Solana.**

**18 Cash 8,500**

**Unearned Fees 8,500**

**Received fees for work to be done for Jordan.**

**27 Unearned Fees 7,500**

**Fees Earned 7,500**

**Completed work for customer Haru.**

**31 No adjusting entries required.**

b. Initial credit recorded in the Fees Earned account

**July 1 Cash 3,000**

**Fees Earned 3,000**

**Received fees for work to be done for Solana.**

**6 Cash 7,500**

**Fees Earned 7,500**

**Received fees for work to be done for Haru.**

**12 No entry required.**

**18 Cash 8,500**

**Fees Earned 8,500**

**Received fees for work to be done for Jordan.**

**27 No entry required.**

**31 Fees Earned 8,500**

**Unearned Fees 8,500**

**Adjusted to reflect unearned fees for unfinished job for Jordan.**

**Exercise 3-14A –concluded**

**c. Under the first method (and using entries from a)**

**Fees Earned = $3,000 + $7,500 = $10,500**

**Unearned Fees = $3,000 + $7,500 - $3,000 + $8,500 - $7,500 = $8,500**

**Under the second method (and using entries from b)**

**Fees Earned = $3,000 + $7,500 + $8,500 - $8,500 = $10,500**

**Unearned Fees = $8,500**

**[Note: Both procedures yield identical results in financial statements.]**

**Exercise 3-15 (20 minutes)**

**adidas AG**

**Balance Sheet (Euros in millions)**

**December 31, 2016**

**Assets**

**Noncurrent assets**

**Intangible assets € 3,259**

**Property, plant and equipment 1,915**

**Other noncurrent assets 1,116**

**Total noncurrent assets 6,290**

**Current assets**

**Other current assets 1,413**

**Inventories 3,763**

**Accounts receivable 2,200**

**Cash and cash equivalents 1,510**

**Total current assets 8,886**

**Total assets €15,176**

**Equity**

**Total equity € 6,454**

**Liabilities**

**Total noncurrent liabilities 1,957**

**Total current liabilities 6,765**

**Total liabilities 8,722**

**Total equity and liabilities €15,176**

**Exercise 3-16 (30 minutes)**

|  |  |  |  |
| --- | --- | --- | --- |
| **a.** | **Depreciation Expense—Equipment** | **5,000** |  |
|  | **Accumulated Depreciation—Equipment** |  | **5,000** |
|  | ***Record depreciation expense for the year.*** |  |  |
|  |  |  |  |
| **b.** | **Insurance Expense** | **1,400** |  |
|  | **Prepaid Insurance** |  | **1,400** |
|  | ***Record insurance coverage expired ($2,000 - $600).*** |  |  |
|  |  |  |  |
| **c.** | **Unearned Revenue** | **1,000** |  |
|  | **Consulting Revenue** |  | **1,000** |
|  | ***Record earned portion of payment received in advance***  ***($3,000 x 1/3).*** |  |  |
|  |  |  |  |
| **d.** | **Wages Expense** | **1,200** |  |
|  | **Wages Payable** |  | **1,200** |
|  | ***Record wages accrued but not yet paid.*** |  |  |
|  |  |  |  |
| **e.** | **Interest Receivable** | **400** |  |
|  | **Interest Revenue** |  | **400** |
|  | ***Record interest incurred but not yet paid.*** |  |  |

**Exercise 3-17B (30 minutes)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **WEstcott company**  **December 31** | | | | | | | | | | | | |
|  | **Unadjusted Trial Balance**  **Dr. Cr.** | | **Adjustments**  **Dr. Cr.** | | | | **Adjusted Trial Balance**  **Dr. Cr.** | | **Income Statement**  **Dr. Cr.** | | **Balance Sheet**  **Dr. Cr.** | |
| **Cash** | **21** |  |  |  |  |  | **21** |  |  |  | **21** |  |
| **Accounts receivable** | **12** |  |  |  |  |  | **12** |  |  |  | **12** |  |
| **Supplies** | **24** |  |  |  | **(d)** | **9** | **15** |  |  |  | **15** |  |
| **Prepaid insurance** | **18** |  |  |  | **(e)** | **15** | **3** |  |  |  | **3** |  |
| **Equipment** | **39** |  |  |  |  |  | **39** |  |  |  | **39** |  |
| **Accum. depreciation–Equip** |  | **15** |  |  | **(a)** | **3** |  | **18** |  |  |  | **18** |
| **Accounts payable** |  | **6** |  |  |  |  |  | **6** |  |  |  | **6** |
| **Salaries payable** |  |  |  |  | **(b)** | **6** |  | **6** |  |  |  | **6** |
| **Unearned revenue** |  | **12** | **(c)** | **12** |  |  |  |  |  |  |  |  |
| **Common stock** |  | **10** |  |  |  |  |  | **10** |  |  |  | **10** |
| **Retained earnings** |  | **32** |  |  |  |  |  | **32** |  |  |  | **32** |
| **Dividends** | **6** |  |  |  |  |  | **6** |  |  |  | **6** |  |
| **Revenue** |  | **75** |  |  | **(c)** | **12** |  | **87** |  | **87** |  |  |
| **Depreciation expense–Equip** |  |  | **(a)** | **3** |  |  | **3** |  | **3** |  |  |  |
| **Salaries expense** | **18** |  | **(b)** | **6** |  |  | **24** |  | **24** |  |  |  |
| **Insurance expense** |  |  | **(e)** | **15** |  |  | **15** |  | **15** |  |  |  |
| **Supplies expense** |  |  | **(d)** | **9** |  |  | **9** |  | **9** |  |  |  |
| **Utilities expense** | **12** | **\_\_\_** |  | **\_\_** |  | **\_\_** | **12** | **\_\_\_** | **12** | **\_\_** | **\_\_** | **\_\_** |
| **Totals** | **150** | **150** |  | **45** |  | **45** | **159** | **159** | **63** | **87** | **96** | **72** |
| **Net income** |  |  |  |  |  |  |  |  | **24** |  |  | **24** |
| **Totals** |  |  |  |  |  |  |  |  | **87** | **87** | **96** | **96** |

**Exercise 3-18C (30 minutes)**

**1. Adjusting entries**

**Oct. 31 Rent Expense 2,800**

**Rent Payable 2,800**

**Record accrued rent expense.**

**31 Rent Receivable 850**

**Rent Earned 850**

**Record accrued rent income.**

**2. Subsequent entries without reversing**

**Nov. 5 Rent Payable 2,800**

**Rent Expense 2,800**

**Cash 5,600**

**Record payment of 2 months’ rent.**

**8 Cash 1,700**

**Rent Receivable 850**

**Rent Earned 850**

**Record collection of 2 months’ rent.**

**3. Reversing entries and subsequent entries**

**Nov. 1 Rent Payable 2,800**

**Rent Expense 2,800**

**Reverse accrual of rent expense.**

**1 Rent Earned 850**

**Rent Receivable 850**

**Reverse accrual of rent income.**

**5 Rent Expense 5,600**

**Cash 5,600**

**Record payment of 2 months’ rent.**

**8 Cash 1,700**

**Rent Earned 1,700**

**Record collection of 2 months’ rent.**