Module 3 Class Exercises

P3-41. Assessing Financial Statement Effects of Adjustments Across Two Periods

(LO1, 2) The following selected accounts appear in Sloan Company’s unadjusted trial balance at December 31, the end of its fiscal year (all accounts have normal balances).

Prepaid Advertising .......... $ 1,200  Unearned Service Fees .......... $ 5,400
Wages Expense .............. 43,800  Service Fees Earned .......... 87,000
Prepaid Insurance .......... 3,420  Rental Income ............... 4,900

Required:

a. Prepare Sloan Company’s accounting adjustments at December 31
   1. Prepaid advertising at December 31 is $800.
      \[ \text{Prepaid Advertising} \rightarrow \text{Advertising Expense} \]
      \[ \text{Prepaid Advertising} \rightarrow 800 \]
      \[ 12/31 \text{ Advertising Expense} \rightarrow 400 \]
   2. Unpaid wages earned by employees in December are $1,300.
      \[ \text{Wages Expense} \rightarrow \text{Accrued Wages Pay.} \]
      \[ \text{Wages Expense} \rightarrow 1300 \]
      \[ 12/31 \text{ Wages Expense} \rightarrow 1300 \]
   3. Prepaid insurance at December 31 is $2,280.
      \[ \text{Insurance Expense} \rightarrow \text{Prepaid Insurance} \]
      \[ \text{Insurance Expense} \rightarrow 2280 \]
      \[ 12/31 \text{ Insurance Expense} \rightarrow 1140 \]
      \[ \text{Prepaid Insurance} \rightarrow 1140 \]
   4. Unearned service fees at December 31 are $3,000.
      \[ \text{Unearned Service Fees} \rightarrow \text{Service Fees Earned} \]
      \[ \text{Unearned Service Fees} \rightarrow 2400 \]
      \[ 12/31 \text{ Unearned Service Fees} \rightarrow 2400 \]
      \[ \text{Service Fees Earned} \rightarrow 2400 \]
   5. Rent revenue of $1,000 owed by a tenant is not recorded at December 31.
      \[ \text{Rent Receivable} \rightarrow \text{Rent Revenue} \]
      \[ \text{Rent Receivable} \rightarrow 1000 \]
      \[ 12/31 \text{ Rent Receivable} \rightarrow 1000 \]
      \[ \text{Rent Revenue} \rightarrow 1000 \]

b. Prepare entries on January 4, of the following year:
   1. Payment of $2,400 cash in wages
      \[ \text{Wages Expense} \rightarrow \text{Cash} \]
      \[ \text{Wages Expense} \rightarrow 1400 \]
      \[ \text{Cash} \rightarrow 2400 \]
      \[ 1/4 \text{ Wages Expense} \rightarrow 1300 \]
      \[ \text{Cash} \rightarrow 2400 \]
   2. Cash receipt from the tenant of the $1,000 rent revenue.
      \[ \text{Rent Receivable} \rightarrow \text{Cash} \]
      \[ \text{Rent Receivable} \rightarrow 1000 \]
      \[ 1/4 \text{ Cash} \rightarrow 1000 \]
      \[ \text{Rent Receivable} \rightarrow 1000 \]
M3-16. Assessing Financial Statement Effects of Transactions and Adjustments (LO1, 2)

Schrand Services offers janitorial services on both a contract basis and an hourly basis. On January 1, Schrand collected $20,100 cash in advance on a six-month contract for work to be performed evenly during the next six months.

a. Prepare the entry on January 1 to reflect the receipt of $20,100 cash for contract work; use the financial statement effects template.
b. Adjust the appropriate accounts on January 31 for the contract work done during January; use the financial statement effects template.
c. At January 31, a total of 30 hours of hourly rate janitor work was performed but unbilled. The billing rate is $19 per hour. Prepare the accounting adjustment needed on January 31, using the financial statement effects template. (The firm uses the account Fees Receivable to reflect revenue earned but not yet billed.)

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Balance Sheet</th>
<th>Income Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction</td>
<td>Cash Asset</td>
<td>Liabilities</td>
</tr>
<tr>
<td>Received $20,100 in advance for contract work</td>
<td>20,100</td>
<td></td>
</tr>
<tr>
<td>Adjusting entry for work completed by Jan. 31*</td>
<td>(3,350)</td>
<td>3,350</td>
</tr>
<tr>
<td>Adjust for fees earned but not billed</td>
<td>570</td>
<td></td>
</tr>
</tbody>
</table>

\[20,670 = 20,100 + 570 = 16,750 + 3,920 = 3,920 \]
Module 3 Review Questions

1. Cash collected on accounts receivable would produce what effect on the balance sheet?
   A) Increase liabilities and decrease equity
   B) Decrease liabilities and increase equity
   C) Increase assets and decrease assets
   D) Decrease assets and decrease liabilities
   E) None of the above

2. During fiscal 2010, E. I. DuPont de Nemours and Company recorded cash of $30,900 million from customers for accounts receivable collections. Which of the following financial statement effects template entries captures this transaction?

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Balance Sheet</th>
<th>Income Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cash Asset +</td>
<td>Liabilities +</td>
</tr>
<tr>
<td>A) +30,900</td>
<td>-30,900 (AR)</td>
<td>Contrib. Capital +</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Earned Capital +</td>
</tr>
<tr>
<td>A) +30,900</td>
<td>-30,900 (AR)</td>
<td>+30,900 (Retained Earnings)</td>
</tr>
<tr>
<td>B) +30,900</td>
<td>-30,900 (AR)</td>
<td></td>
</tr>
<tr>
<td>C) +30,900</td>
<td>-30,900 (AR)</td>
<td></td>
</tr>
<tr>
<td>D) -30,900</td>
<td>+30,900 (AR)</td>
<td></td>
</tr>
</tbody>
</table>

3. Which account is least likely to appear in an accounting adjustment?
   A) Interest expense
   B) Cost of goods sold
   C) Cash
   D) Sales

4. An accrual of wages expense would have what effect on the balance sheet?
   A) Decrease liabilities and increase equity
   B) Increase assets and increase liabilities
   C) Increase liabilities and decrease equity
   D) Decrease assets and decrease liabilities
   E) None of the above

5. Kay's Bakery, Inc., began operations in October 2012. The owner contributed cash of $6,000 and a delivery truck with fair value of $8,000 to the company. Which of the following describes how these transactions would affect the company's equity accounts? (in millions)
   A) Increase contributed capital by $14,000
   B) Increase earned capital by $14,000
   C) Increase contributed capital by $6,000 and earned capital by $8,000
   D) Increase earned capital by $6,000 and contributed capital by $8,000
   E) None of the above

6. A company records an adjusting journal entry to record $5,000 depreciation expense. Which of the following describes the entry?
   A) Debit Property Plant and Equipment and Credit Depreciation expense
   B) Debit Depreciation expense and Credit Property Plant and Equipment
   C) Debit Property Plant and Equipment and Credit Cash
   D) Debit Depreciation expense and Credit Cash
**Exercise** Record the following transactions in the financial statements effects template below.

a) Founder contributes $12,000 in cash in exchange for common stock.
   
   Cash: $12,000
   Common Stock: $12,000

d) Obtain $18,000 short-term bank loan.
   
   Cash: $18,000
   Loan Payable: $18,000

c) Purchase equipment costing $14,000 for cash.
   
   Equipment: $14,000
   Cash: $14,000

d) Purchase inventory costing $2,000 on account.
   
   Inventory: $2,000
   Accounts Payable: $2,000

**Exercise** The balance sheet of Santa Fe Promotion includes the amounts shown below. Analysis of the company's records reveals the following transactions during 2012, the company's first year of operations:

- Cash received from customers, recorded as service revenue: $103,825 - $7,350 = $96,475
- Purchase of supplies for cash, expensed: $14,500 - $7,650 = $6,850
- Cash paid for salaries, expensed: $42,700 - $40,000 = $2,700

Analysis of the company's balance sheet accounts reveals that at year-end, supplies on hand total $2,650, employees have earned $4,000 but have not yet been paid, and on the last day of the fiscal year, customers paid deposits of $7,350 for future promotions (this is included in total cash received from customers, above).

**Required:** Prepare journal entries to adjust the account balances for revenue, supplies expense and salary expense for the year-end. Prepare closing entries.