

**LO8**  
(Appendix 3B)



**SE3-12. The Accounting Worksheet** The adjusted trial balance section of Menlo Company's worksheet shows a \$1,500 debit balance in utility expense. At the end of the accounting period the accounting manager accrues an additional \$300 of utility expense for the last week of the period. This will result in the following amounts appearing on Menlo's worksheet for utilities expense:

- \$300 debit adjustment; \$1,800 debit adjusted trial balance; \$1,800 debit balance sheet
- \$300 debit adjustment; \$1,800 debit adjusted trial balance; \$1,800 debit income statement
- \$300 credit adjustment; \$1,200 debit adjusted trial balance; \$1,800 debit income statement
- \$300 credit adjustment; \$1,800 debit adjusted trial balance; \$1,800 debit income statement

## EXERCISES—SET A

**LO4**



**E3-1A. Transaction Entries and Adjusting Entries** Deluxe Building Services offers janitorial services on both a contract basis and an hourly basis. On January 1, Deluxe collected \$30,000 in advance on a six-month contract for work to be performed evenly during the next six months.

- Provide the general journal entry on January 1 to record the receipt of \$30,000 for contract work.
- Provide the adjusting entry to be made on January 31, for the contract work done during January.
- At January 31, a total of 35 hours of hourly rate janitor work was unbilled. The billing rate is \$25 per hour. Provide the adjusting entry needed on January 31. (Note: The firm uses the account Fees Receivable to reflect amounts due but not yet billed.)

**LO3, 4**



**E3-2A. Adjusting Entries** Selected accounts of Ideal Properties Inc., a real estate management firm, are shown below as of January 31, before any adjusting entries have been made:

	Debit	Credit
Prepaid insurance .....	\$6,840	
Supplies .....	2,100	
Office equipment .....	6,240	
Unearned rent revenue .....		\$ 5,550
Salaries expense .....	3,250	
Rent revenue .....		16,000

Monthly financial statements are prepared. Using the following information, record in a general journal the adjusting entries necessary on January 31:

- Prepaid Insurance represents a three-year premium paid on January 1.
- Supplies of \$975 were on hand January 31.
- Office equipment is expected to last eight years. Depreciation is recorded monthly.
- On January 1, the firm collected six months' rent in advance from a tenant renting space for \$925 per month.
- Accrued salaries not recorded as of January 31 are \$510.

**LO3, 4**



**E3-3A. Adjusting Entries** For each of the following unrelated situations, prepare the necessary adjusting entry in general journal form:

- Unrecorded depreciation on equipment is \$750.
- The Supplies account has a balance of \$3,100. Supplies on hand at the end of the period totaled \$1,200.
- On the date for preparing financial statements, an estimated utilities expense of \$425 has been incurred, but no utility bill has been received.
- On the first day of the current month, rent for four months was paid and recorded as a \$2,800 debit to Prepaid Rent and a \$2,800 credit to Cash. Monthly statements are now being prepared.
- Nine months ago, Solid Insurance Company sold a one-year policy to a customer and recorded the receipt of the premium by debiting Cash for \$624 and crediting Unearned Premium Revenue for \$624. No adjusting entries have been prepared during the nine-month period. Annual financial statements are now being prepared.
- At the end of the accounting period, employee wages of \$1,050 have been incurred but not paid.
- At the end of the accounting period, \$350 of interest has been earned but not yet received on notes receivable that are held.

Rent Expense; Supplies Expense; Insurance Expense; Delivery Van Expense; Depreciation Expense—Delivery Van; and Depreciation Expense—Equipment.

- b. Record July transactions in the general journal and post to the ledger accounts.
- c. Prepare an unadjusted trial balance as of July 31.
- d. Record adjusting journal entries in the general journal and post to the ledger accounts. The following information is available on July 31:

Supplies on hand, \$1,600  
 Accrued wages, \$525  
 Estimated life of delivery van, three years  
 Estimated life of equipment, six years

Also, make any necessary adjusting entries for insurance, rent, and catering fees indicated by the July transactions.

**LO3, 4**
**P3-3A.**

**Trial Balance and Adjusting Entries** Photomake, Inc., a commercial photography studio, has just completed its first full year of operations on December 31. The general ledger account balances before year-end adjustments follow. No adjusting entries have been made to the accounts at any time during the year. Assume that all balances are normal.

Cash . . . . .	\$ 2,150	Accounts payable . . . . .	\$ 1,710
Accounts receivable . . . . .	3,600	Unearned photography fees . . . . .	2,600
Prepaid rent . . . . .	12,600	Common stock . . . . .	24,000
Prepaid insurance . . . . .	2,970	Photography fees earned . . . . .	34,480
Supplies . . . . .	4,250	Wages expense . . . . .	11,000
Equipment . . . . .	22,800	Utilities expense . . . . .	3,420

An analysis of the firm's records discloses the following items:

1. Photography services of \$1,450 have been rendered, but customers have not yet been billed. The firm uses the account Fees Receivable to reflect amounts due but not yet billed.
2. The equipment, purchased January 1, has an estimated life of 10 years.
3. Utilities expense for December is estimated to be \$650, but the bill will not arrive until January of next year.
4. The balance in Prepaid Rent represents the amount paid on January 1, for a two-year lease on the studio.
5. In November, customers paid **\$2,600** in advance for pictures to be taken for the holiday season. When received, these fees were credited to Unearned Photography Fees. By December 31, all fees are earned.
6. A three-year insurance premium paid on January 1, was debited to Prepaid Insurance.
7. Supplies on hand at December 31 are \$1,750.
8. At December 31, wages expense of \$500 has been incurred but not paid.

**Required**

- a. Prove that the sum of the debits equals the sum of the credits for Photomake's unadjusted account balances by preparing an unadjusted trial balance as of December 31.
- b. Record adjusting entries in the general journal.

**LO3, 4**
**P3-4A.**

**Adjusting Entries** Dole Carpet Cleaners ended its first month of operations on June 30. Monthly financial statements will be prepared. The unadjusted account balances are as follows:

DOLE CARPET CLEANERS Unadjusted Trial Balance June 30, 2015		
	Debit	Credit
Cash . . . . .	\$ 1,180	
Accounts receivable . . . . .	450	
Prepaid rent . . . . .	3,100	
Supplies . . . . .	2,520	
Equipment . . . . .	4,440	
Accounts payable . . . . .		\$ 760
Common stock . . . . .		2,500
Retained earnings . . . . .		5,000
Dividends . . . . .	200	
Service fees earned . . . . .		4,650
Wages expense . . . . .	1,020	
	<u>\$12,910</u>	<u>\$12,910</u>

The following information is also available:

1. The balance in Prepaid Rent was the amount paid on June 1 for the first two months' rent.
2. Supplies on hand at June 30 were \$950.
3. The equipment, purchased June 1, has an estimated life of five years.
4. Unpaid wages at June 30 were \$450.
5. Utility services used during June were estimated at \$650. A bill is expected early in July.
6. Fees earned for services performed but not yet billed on June 30 were \$380. The firm uses the account Fees Receivable to reflect amounts due but not yet billed.

#### Required

Prepare the adjusting entries needed at June 30 for the general journal.

**P3-5A. Adjusting Entries** The following information relates to December 31 adjustments for Finest Print, a printing company. The firm's fiscal year ends on December 31.

**LO3, 4**



1. Weekly salaries for a five-day week total \$2,520, payable on Fridays. December 31 of the current year is a Tuesday.
2. Finest Print has \$25,000 of notes payable outstanding at December 31. Interest of \$250 has accrued on these notes by December 31, but will not be paid until the notes mature next year.
3. During December, Finest Print provided \$1,000 of printing services to clients who will be billed on January 2. The firm uses the account Fees Receivable to reflect amounts due but not yet billed.
4. Starting December 1, all maintenance work on Finest Print's equipment is handled by Prompt Repair Company under an agreement whereby Finest Print pays a fixed monthly charge of \$125. Finest Print paid six months' service charge in advance on December 1, debiting Prepaid Maintenance for \$750.
5. The firm paid \$900 on December 15 for a series of radio commercials to run during December and January. One-third of the commercials have aired by December 31. The \$900 payment was debited to Prepaid Advertising.
6. Starting December 16, Finest Print rented 400 square feet of storage space from a neighboring business. The monthly rent of \$0.80 per square foot is due in advance on the first of each month. Nothing was paid in December, however, because the neighbor agreed to add the rent for one-half of December to the January 1 payment.
7. Finest Print invested \$7,500 in securities on December 1 and earned interest of \$62 on these securities by December 31. No interest will be received until January.
8. The annual depreciation on the firm's equipment is \$2,425. No depreciation has been recorded during the year.

#### Required

Prepare the required December 31 adjusting entries in the general journal.

## SHORT EXERCISES



- LO1 SE5-1. Merchandising versus Service Firm** For each of the following accounts, indicate whether it would be found in the records of a merchandising firm, a service firm, or both.

- Cost of goods sold.
- Service revenue.
- Purchase returns and allowances.
- Inventory.
- Accounts receivable.
- Accounts payable.
- Sales revenue.
- Freight-out.



- LO2 SE5-2. Accounting for Purchase Transactions** Debra Company began operations on June 1. The following transactions took place in June:

- Purchases of merchandise on account were \$600,000.
- The cost of freight to receive the inventory was \$20,000. This was paid in cash.
- Debra returned \$10,000 of the merchandise due to an ordering error. Debra received a full credit for the return.
- Debra paid the remaining balance for the merchandise.

Calculate the dollar amount that Debra will have in inventory at the end of the month. Assume Debra uses the perpetual inventory system and there were no sales.



- LO2 SE5-3. Accounting for Purchase Transactions** Use the data from SE5-2 and prepare the journal entries to record the June transactions.



- LO2 SE5-4. Accounting for Purchase Discounts** Ken Company purchased \$5,000 of merchandise from Marilyn Company with terms of 3/10 n/45. What percent discount will Ken Company get if it pays within the allowed discount period? If Ken Company fails to pay within the discount period, how many days does Ken Company have from the date of purchase before the payment is considered to be late?



- LO2 SE5-5. Accounting for Purchase Discounts** Using the information in SE5-4, what amount will Ken Company pay to Marilyn Company if Ken Company takes advantage of the purchase discount?



- LO3 SE5-6. Accounting for Sales Transactions** Kate Company uses the perpetual inventory system. Record the journal entries for the following transactions:

- On July 16, Kate sold \$600 of merchandise with terms of 2/10 n/30. The cost of the merchandise was \$360.
- On July 19, the customer returned \$100 of the merchandise from (a). The cost of the merchandise was \$60.
- On July 22, the customer paid the entire balance due to Kate.



- LO4 SE5-7. Gross Profit Percentage** Using the data below, compute Dino's gross profit percentage for the month of January.

Net sales .....	\$10,000
Cost of goods sold .....	4,000
Operating expenses .....	3,000
Other income .....	500
Income tax expense .....	1,200



- LO4 SE5-8. Return on Sales Ratio** Using the data in **SE5-7**, compute Dino's return on sales ratio for the month of January.



(Appendix 5A)

- LO5 SE5-9. Cost of Goods Sold and the Periodic System** Kanzu Company uses the periodic inventory system. Kanzu started the period with \$10,000 in inventory. The Company purchased an additional \$25,000 of merchandise, and returned \$1,000 for a full credit. A physical count of inventory at the end of the period revealed that there was an ending inventory balance of \$8,000. What was Kanzu's cost of goods sold during the period?

1. Deposits in transit on June 30 total \$2,550.
2. The bank statement shows a debit memorandum for a \$10 check printing charge.
3. Check No. 160 payable to Simon Company was recorded in the accounting records for \$124 and cleared the bank for this same amount. A review of the records indicated that the Simon account now has an \$18 credit balance and the check to them should have been \$142.
4. Outstanding checks as of June 30 totaled \$3,100.
5. Check No. 176 was correctly written and paid by the bank for \$203. The check was recorded in the accounting records as a debit to accounts payable and a credit to cash for \$230.
6. The bank returned a NSF check in the amount of \$311.
7. The bank included a credit memorandum for \$630 representing a collection of a customer's note. The principal portion was \$610 and the interest portion was \$20. The interest had not been accrued.

**Required**

- a. Prepare the June bank reconciliation for the Chicago Scooter Company.
- b. Prepare any necessary adjusting entries.

**SERIAL PROBLEM: KATE'S CARDS**

(Note: This is a continuation of the Serial Problem: Kate's Cards from Chapters 1 through 6.)

**SP7.** On February 15, 2016, Kate Collins, owner of Kate's Cards, asks you to investigate the cash handling activities in her business. She believes that a new employee might be stealing funds. "I have no proof," she says, "but I'm fairly certain that the January 31, 2016, undeposited receipts amounted to more than \$12,000, although the January 31 bank reconciliation prepared by the cashier (who works in the treasurer's department) shows only \$7,238.40. Also, the January bank reconciliation doesn't show several checks that have been outstanding for a long time. The cashier told me that these checks needn't appear on the reconciliation because he had notified the bank to stop payment on them and he had made the necessary adjustment on the books. Does that sound reasonable to you?"

At your request, Kate shows you the following (unaudited) January 31, 2016, bank reconciliation prepared by the cashier:



KATE'S CARDS Bank Reconciliation January 31, 2016			
Ending balance from bank statement . . . . .	\$ 4,843.69	Balance from general ledger . . . . .	\$10,893.89
Add: Deposits in transit . . . . .	7,238.40		
	\$12,082.09		
Less:		Less:	
Outstanding checks:		Bank service charge . . . . .	\$ 60.00
No. 2351 . . . . .	\$1,100.20	Unrecorded credit. . . . .	1,200.00
No. 2353 . . . . .	378.32		(1,260.00)
No. 2354 . . . . .	969.68		
	(2,448.20)		
Reconciled cash balance . . . . .	\$ 9,633.89	Reconciled cash balance . . . . .	\$ 9,633.89

You discover that the \$1,200 unrecorded bank credit represents a note collected by the bank on Kate's behalf; it appears in the deposits column of the January bank statement. Your investigation also reveals that the December 31, 2015, bank reconciliation showed three checks that had been outstanding longer than 10 months: No. 1432 for \$600, No. 1458 for \$466.90, and No. 1512 for \$253.10. You also discover that these items were never added back into the Cash account in Kate's books. In confirming that the checks shown on the cashier's January 31 bank reconciliation were outstanding on that date, you discover that check No. 2353 was actually a payment of \$1,658.32 and had been recorded on the books for that amount.

To confirm the amount of undeposited receipts at January 31, you request a bank statement for February 1–12 (called a cutoff bank statement). This indeed shows a January 1 deposit of \$7,238.40.