

Solutions Manual for Intermediate Accounting 18th Kieso

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Solutions Manual

Chapter 2

The Accounting Information System

Assignment Classification Table (By Topic)

Topics	Questions	Brief Exercises	Exercises	Problems
1. Transaction Identification.	1, 2, 3, 5	1, 2	1, 2, 3, 4, 17	1
2. Nominal Accounts.	4, 7			
3. Trial Balance.	6, 10		2, 3, 4	1
4. Adjusting Entries.	8, 11, 13, 14	3, 4, 5, 6, 7, 8, 9, 10	5, 6, 7, 8, 9, 10, 20	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 12
5. Financial Statements.			11, 12, 15, 22, 23	1, 2, 4, 6, 7, 8
6. Closing.	12	11	13, 14, 16	1, 4, 9, 10, 12
7. Inventory And Cost Of Goods Sold.	9		14, 15	
8. Comprehensive Accounting Cycle.				1, 4, 12
*9. Cash Vs. Accrual Basis.	15, 16, 17	12	18, 19	11
*10. Reversing Entries.	18	13	20	
*11. Worksheet.	19		21, 22, 23	12

*These topics are dealt with in an Appendix to the Chapter.

Assignment Classification Table (By Learning Objective)

Learning Objectives	Questions	Brief Exercises	Exercises	Problems
1. Explain the basic concepts of an accounting information system.	1, 2, 3, 4, 5, 7			
2. Record and summarize accounting transactions.	3, 6	1, 2, 3, 4, 5, 6,	1, 2, 3, 4, 9, 17	1, 9, 10
3. Identify and prepare adjusting entries.	8, 11, 13, 14	3, 4, 5, 6, 7, 8, 9, 10	5, 6, 7, 8, 9, 10, 20	2, 3, 4, 5, 6, 7, 8, 9, 10, 12
4. Prepare financial statements from the adjusted trial balance and prepare closing entries.	10, 12	11	11, 12, 13, 14, 16	1, 2, 4, 6, 7, 8, 9, 10, 12
5. Prepare financial statements for a merchandising company.	9		13, 15	4,
*6. Differentiate the cash basis of accounting from the accrual basis of accounting.	15, 16, 17	12	18, 19	11
*7. Identify adjusting entries that may be reversed.	18	13	20	
*8. Prepare a 10-column worksheet.	19		21, 22, 23	12

*These topics are dealt with in an Appendix to the Chapter.

Assignment Characteristics Table

Item	Description	Level Of Difficulty	Time (Minutes)
E2.1	Transaction Analysis—Service Company.	Simple	15–20
E2.2	Corrected Trial Balance.	Simple	10–15
E2.3	Corrected Trial Balance.	Simple	15–20
E2.4	Corrected Trial Balance.	Simple	10–15
E2.5	Adjusting Entries.	Moderate	10–15
E2.6	Adjusting Entries.	Moderate	10–15
E2.7	Analyze Adjusted Data.	Complex	15–20
E2.8	Adjusting Entries.	Moderate	10–15
E2.9	Adjusting Entries.	Moderate	15–20
E2.10	Adjusting Entries.	Complex	25–30
E2.11	Prepare Financial Statements.	Moderate	20–25
E2.12	Prepare Financial Statements.	Moderate	20–25
E2.13	Closing Entries.	Simple	10–15
E2.14	Closing Entries.	Moderate	10–15
E2.15	Missing Amounts.	Simple	10–15
E2.16	Closing Entries for a Corporation.	Moderate	10–15
E2.17	Transactions of a Corporation, Including Investment and Dividend.	Moderate	10–15
*E2.18	Cash to Accrual Basis.	Moderate	15–20
*E2.19	Cash and Accrual Basis.	Moderate	10–15
*E2.20	Adjusting and Reversing Entries.	Complex	20–25
*E2.21	Worksheet.	Simple	10–15
*E2.22	Worksheet and Balance Sheet Presentation.	Moderate	20–25
*E2.23	Partial Worksheet Preparation.	Moderate	10–15
P2.1	Transactions, Financial Statements—Service Company.	Moderate	25–35
P2.2	Adjusting Entries and Financial Statements.	Moderate	35–40
P2.3	Adjusting Entries.	Moderate	25–30
P2.4	Financial Statements, Adjusting and Closing Entries.	Moderate	40–50
P2.5	Adjusting Entries.	Moderate	15–20
P2.6	Adjusting Entries and Financial Statements.	Moderate	25–35
P2.7	Adjusting Entries and Financial Statements.	Moderate	25–35
P2.8	Adjusting Entries and Financial Statements.	Moderate	25–35
P2.9	Adjusting and Closing.	Moderate	30–40
P2.10	Adjusting and Closing.	Moderate	30–35
*P2.11	Cash and Accrual Basis.	Moderate	35–40
*P2.12	Worksheet, Balance Sheet, Adjusting and Closing Entries.	Complex	40–50

Answers to Questions

1. Examples are:
 - (a) Payment of accounts payable.
 - (b) Collection of accounts receivable from a customer. Also, a purchase of supplies or equipment for cash.
 - (c) Conversion of accounts payable to note payable.

LO: 1, Bloom: K, Difficulty: Simple, Time: 3-5, AICPA BB: Communication, AICPA FC: Reporting, AICPA PC: None

2. Transactions (a), (b), (d) are considered business transactions and are recorded in the accounting records because a change in assets, liabilities, and/or owners'/stockholders' equity has been effected as a result of a transfer of values from one party to another. Transactions (c) and (e) are not business transactions because a transfer of values has not resulted, nor can the event be considered financial in nature and capable of being expressed in terms of money.

LO: 1, Bloom: K, Difficulty: Simple, Time: 3-5, AICPA BB: Communication, AICPA FC: Reporting, AICPA PC: None

3. Transaction (a): Accounts Receivable (debit), Service Revenue (credit).
Transaction (b): Cash (debit), Accounts Receivable (credit).
Transaction (c): Supplies (debit), Accounts Payable (credit).
Transaction (d): Delivery Expense (debit), Cash (credit).

LO: 1, 2, Bloom: K, Difficulty: Simple, Time: 3-5, AICPA BB: Communication, AICPA FC: Reporting, AICPA PC: None

4. Revenue and expense accounts are referred to as temporary or nominal accounts because each period they are closed out to Income Summary in the closing process. Their balances are reduced to zero at the end of the accounting period; therefore, the term temporary or nominal is given to these accounts.

LO: 1, Bloom: K, Difficulty: Simple, Time: 3-5, AICPA BB: Communication, AICPA FC: Reporting, AICPA PC: None

5. Andrea is not correct. The double-entry system means that for every debit amount there must be a credit amount and vice-versa. At least two accounts are affected and debits must equal credits. It does not mean that each transaction must be recorded twice.

LO: 1, Bloom: C, Difficulty: Simple, Time: 3-5, AICPA BB: Communication, AICPA FC: Reporting, AICPA PC: None

6. Although it is not absolutely necessary that a trial balance be prepared periodically, it is customary and desirable. The trial balance accomplishes two principal purposes:
 - (1) It tests the accuracy of the entries in that it proves that debits and credits of an equal amount are in the ledger.
 - (2) It provides a list of ledger accounts and their balances, which may be used in preparing the financial statements and in supplying financial data about the concern.

LO: 2, Bloom: C, Difficulty: Simple, Time: 3-5, AICPA BB: Communication, AICPA FC: Reporting, AICPA PC: None

7.
 - (a) Real account; balance sheet.
 - (b) Real account; balance sheet.
 - (c) Inventory is generally considered a real account appearing on the balance sheet. (Note: Inventory has the elements of a nominal account when the periodic inventory system is used. It may appear on the income statement when the multiple-step format is used under a periodic inventory system.)
 - (d) Real account; balance sheet.
 - (e) Real account; balance sheet.
 - (f) Nominal account; income statement.
 - (g) Nominal account; income statement.
 - (h) Real account; balance sheet.

LO: 1, Bloom: K, Difficulty: Simple, Time: 3-5, AICPA BB: Communication, AICPA FC: Reporting, AICPA PC: None

Questions Chapter 2 (Continued)

8. At December 31, the three days' wages due to the employees represent an accrued expense which creates a current liability, salaries and wages payable. The related expense must be recorded in this period to properly reflect the expense incurred.

LO: 3, Bloom: K, Difficulty: Simple, Time: 3-5, AICPA FC: Reporting, AICPA PC: None

9. (a) In a service company, revenues are service revenues and expenses are operating expenses. In a merchandising company, revenues are sales revenues and expenses consist of cost of goods sold plus operating expenses.
(b) The measurement process in a merchandising company consists of comparing the sales price of the merchandise inventory to the cost of goods sold and operating expenses.

LO: 5, Bloom: K, Difficulty: Simple, Time: 3-5, AICPA FC: Reporting, AICPA PC: None

10. (a) No change.
(b) Before closing, balances exist in these accounts; after closing, no balances exist.
(c) Before closing, balances exist in these accounts; after closing, no balances exist.
(d) Before closing, a balance exists in this account exclusive of any dividends or the net income or net loss for the period; after closing, the balance is increased or decreased by the amount of net income or net loss and decreased by dividends declared.
(e) No change.

LO: 4, Bloom: C, Difficulty: Simple, Time: 3-5, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

11. Adjusting entries are prepared prior to the preparation of financial statements in order to bring the accounts up to date and are necessary (1) to achieve a proper recognition of revenues and expenses in measuring income and (2) to achieve an accurate presentation of assets, liabilities and stockholders' equity.

LO: 3, Bloom: K, Difficulty: Simple, Time: 3-5, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

12. Closing entries are prepared to transfer the balances of nominal accounts to capital (retained earnings) after the adjusting entries have been recorded and the financial statements prepared. Closing entries are necessary to reduce the balances in nominal accounts to zero in order to prepare the accounts for the next period's transactions.

LO: 4, Bloom: K, Difficulty: Simple, Time: 3-5, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

13. $\text{Cost} - \text{Salvage Value} = \text{Depreciable Cost}$: $\$4,000 - \$0 = \$4,000$. $\text{Depreciable Cost} \div \text{Useful Life} = \text{Depreciation Expense for One Year}$ $\$4,000 \div 5 \text{ years} = \800 per year . The asset was used for 6 months (7/1 – 12/31), therefore 1/2-year of depreciation expense should be reported. Annual depreciation $\times 6/12 = \text{amount to be reported on the 2025 income statement}$: $\$800 \times 6/12 = \underline{\$400}$.

LO: 3, Bloom: AP, Difficulty: Simple, Time: 5, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

14.

December 31	
Interest Receivable	10,000
Interest Revenue	10,000
(To record accrued interest revenue on loan)	

Accrued expenses result from the same causes as accrued revenues. In fact, an accrued expense on the books of one company (the borrower) is an accrued revenue to another company (the lender).

LO: 3, Bloom: AP, Difficulty: Simple, Time: 3-5, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Questions Chapter 2 (Continued)

- *15.** Under the cash basis of accounting, revenue is recorded only when cash is received and expenses are recorded only when paid. Under the accrual basis of accounting, revenue is recognized when a performance obligation is satisfied and expenses are recognized when incurred, without regard to the time of the receipt or payment of cash.

A cash-basis balance sheet and income statement are incomplete and inaccurate in comparison to accrual-basis financial statements. The accrual-basis matches effort (expenses) with accomplishment (revenues) in the income statement while the cash basis only presents cash receipts and cash disbursements. The accrual basis balance sheet contains receivables, payables, accruals, prepayments, and deferrals while a cash-basis balance sheet shows none of these.

LO:6, Bloom: C, Difficulty: Simple, Time: 3-5, AICPA FC: Measurement, Reporting, AICPA PC: None

- *16.** Salaries and wages paid during the year will include the payment of any wages attributable to the prior year but unpaid at the end of the prior year. This amount is an expense of the prior year and not of the current year, and thus should be subtracted in determining salaries and wages expense. Similarly, salaries and wages paid during the year will not include any salaries and wages attributable to hours worked during the current year but not actually paid until the following year. This should be added in determining salaries and wages expense.

LO: 6, Bloom: K, Difficulty: Simple, Time: 3-5, AACSB: None, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

- *17.** Although similar to the strict cash basis, the modified cash basis of accounting requires that expenditures for capital items be charged against income over all the periods to be benefited. This is done through conventional accounting methods, such as depreciation and amortization and inventory. Under the strict cash basis, expenditures would be recognized as expenses in the period in which the corresponding cash disbursements are made.

LO:6, Bloom: C, Difficulty: Simple, Time: 3-5, AACSB: None, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

- *18.** Reversing entries are made at the beginning of the period to reverse accruals and some deferrals. Reversing entries are not required. They are made to simplify the recording of certain transactions that will occur later in the period that relate to previous adjustments. The same net results will be attained whether or not reversing entries are recorded.

LO:7, Bloom: K, Difficulty: Simple, Time: 3-5, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

- *19.** Disagree. A worksheet is not a permanent accounting record and its use is not required in the accounting cycle. The worksheet is an informal device for accumulating and sorting information needed for the financial statements. Its use is optional in helping to prepare financial statements.

LO:8, Bloom: C, Difficulty: Simple, Time: 3-5, AACSB: None, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Solutions to Brief Exercises

Brief Exercise 2.1

May	1	Cash	4,000	
		Common Stock		4,000
	3	Equipment	1,100	
		Accounts Payable		1,100
	13	Rent Expense	400	
		Cash		400
	21	Accounts Receivable	500	
		Service Revenue		500

LO: 2, Bloom: AP, Difficulty: Simple, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Brief Exercise 2.2

Aug.	2	Cash	12,000	
		Equipment.....	2,500	
		Owner's Capital		14,500
	7	Supplies	500	
		Accounts Payable		500
	12	Cash	1,300	
		Accounts Receivable	670	
		Service Revenue		1,970
	15	Rent Expense	600	
		Cash		600
	19	Supplies Expense.....	230	
		Supplies (\$500 – \$270).....		230

LO: 2, Bloom: AP, Difficulty: Simple, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Brief Exercise 2.3

July	1	Prepaid Insurance	15,000	
		Cash		15,000
Dec.	31	Insurance Expense	2,500	
		Prepaid Insurance		
		(\$15,000 X 6/12 X 1/3)		2,500

LO: 2, 3, Bloom: AP, Difficulty: Simple, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

Brief Exercise 2.4

July	1	Cash	15,000	
		Unearned Service Revenue		15,000
Dec.	31	Unearned Service Revenue3,000	2,500	
		Service Revenue		
		(\$15,000 X 6/12 X 1/3)		2,500

LO: 2, 3, Bloom: AP, Difficulty: Simple, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

Brief Exercise 2.5

Feb.	1	Prepaid Insurance	720,000	
		Cash		720,000
June	30	Insurance Expense	150,000	
		Prepaid Insurance		
		(\$720,000 X 5/24).....		150,000

LO: 2, 3, Bloom: AP, Difficulty: Simple, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

Brief Exercise 2.6

Nov.	1	Cash	2,400	
		Unearned Rent Revenue		2,400
Dec.	31	Unearned Rent Revenue	1,600	
		Rent Revenue		
		(\$2,400 X 2/3)		1,600

LO: 2, 3, Bloom: AP, Difficulty: Simple, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

Brief Exercise 2.7

Dec.	31	Salaries and Wages Expense	4,800	
		Salaries and Wages Payable		
		(\$8,000 X 3/5)		4,800
Jan.	2	Salaries and Wages Payable	4,800	
		Salaries and Wages Expense	3,200	
		Cash		8,000

LO: 3, Bloom: AP, Difficulty: Simple, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

Brief Exercise 2.8

Dec.	31	Interest Receivable.....	300	
		Interest Revenue		300
Feb.	1	Cash	12,400	
		Notes Receivable		12,000
		Interest Receivable		300
		Interest Revenue (\$12,000 X 10% X1/12).....		100

LO: 3, Bloom: AP, Difficulty: Simple, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

Brief Exercise 2.9

Aug.	31	Interest Expense.....	300	
		Interest Payable		300
	31	Accounts Receivable	1,400	
		Service Revenue		1,400
	31	Salaries and Wages Expense	700	
		Salaries and Wages Payable		700
	31	Bad Debt Expense	900	
		Allowance for Doubtful Accounts.....		900

LO: 3, Bloom: AP, Difficulty: Simple, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

Brief Exercise 2.10

Depreciation Expense.....	2,000	
Accumulated Depreciation—Equipment		2,000
Equipment	\$30,000	
Less: Accumulated Depreciation—Equipment	<u>2,000</u>	<u>\$28,000</u>

LO: 3, Bloom: AP, Difficulty: Simple, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

Brief Exercise 2.11

Sales Revenue.....	808,900	
Interest Revenue	13,500	
Income Summary		822,400
Income Summary	780,300	
Cost of Goods Sold		556,200
Administrative Expenses		189,000
Income Tax Expense		35,100
Income Summary (\$822,400 - \$780,300)	42,100	
Retained Earnings		42,100
Retained Earnings.....	18,900	
Dividends		18,900

LO: 4, Bloom: AP, Difficulty: Moderate, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

*Brief Exercise 2.12

(a) Cash receipts	\$142,000
+ Increase in accounts receivable	
(\$18,600 – \$13,000)	<u>5,600</u>
Service revenue	<u>\$147,600</u>
(b) Payments for operating expenses	\$ 97,000
– Increase in prepaid expenses	
(\$23,200 – \$17,500)	<u>(5,700)</u>
Operating expenses.....	<u>\$ 91,300</u>

LO: 6, Bloom: AP, Difficulty: Moderate, Time: 7-10, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

***Brief Exercise 2.13**

(a)	Salaries and Wages Payable.....	4,200	
	Salaries and Wages Expense		4,200
(b)	Salaries and Wages Expense.....	7,000	
	Cash		7,000
(c)	Salaries and Wages Payable.....	4,200	
	Salaries and Wages Expense (\$7,000 - \$4,200).....	2,800	
	Cash		7,000

LO: 7, Bloom: C, Difficulty: Moderate, Time: 5-7, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Solutions to Exercises

Exercise 2.1 (15–20 Minutes)

Apr.	2	Cash	32,000	
		Equipment.....	14,000	
		Owner's Capital		46,000
	2	No Entry—Not A Transaction.		
	3	Supplies	700	
		Accounts Payable		700
	7	Rent Expense.....	600	
		Cash		600
	11	Accounts Receivable	1,100	
		Service Revenue		1,100
	12	Cash	3,200	
		Unearned Service Revenue		3,200
	17	Cash	2,300	
		Service Revenue		2,300
	21	Insurance Expense.....	110	
		Cash		110
	30	Salaries And Wages Expense.....	1,160	
		Cash		1,160
	30	Supplies Expense.....	120	
		Supplies		120
	30	Equipment.....	6,100	
		Owner's Capital		6,100

LO: 2, Bloom: AP, Difficulty: Simple, Time: 15-20, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

Exercise 2.2 (10–15 minutes)

Wanda Landowska Company Trial Balance April 30, 2025

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 4,800	
Accounts Receivable	2,750	
Prepaid Insurance (\$700 + \$100)	800	
Equipment	8,000	
Accounts Payable (\$4,500 – \$100)		\$ 4,400
Property Taxes Payable		560
Owner's Capital (\$11,200 + \$1,500)		12,700
Owner's Drawing	1,500	
Service Revenue		6,690
Salaries and Wages Expense	4,200	
Advertising Expense (\$1,100 + \$300)	1,400	
Property Tax Expense (\$800 + \$100)	900	
	<u>\$24,350</u>	<u>\$24,350</u>

LO: 2, Bloom: AP, Difficulty: Simple, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Exercise 2.3 (15–20 minutes)

The ledger accounts are reproduced below, and corrections are shown in the accounts.

Cash			
Bal.	5,912	(4)	190
(1)	<u>450</u>		
Bal.	6,172		

Accounts Payable			
		Bal.	7,044

Accounts Receivable			
Bal.	5,240	(1)	450
Bal,	<u>4,790</u>		

Common Stock			
		Bal.	8,000

Supplies			
Bal.	2,967		

Retained Earnings			
		Bal.	2,000

(1)[\$1,830 - \$1,380] (4) [\$95 + \$95]

Exercise 2.3 (Continued)

Equipment		Service Revenue	
Bal.	6,100	Bal.	5,200
(2)	<u>3,200</u>	(3)	2,025
Bal.	9,300	(5)	<u>80</u>
		Bal.	7,305
		Office Expense	
		Bal.	<u>4,320</u>
		Bal.	<u>1,120</u>

(3)[\$2,250 - \$225]

Blues Traveler Corporation
Trial Balance (corrected)
April 30, 2025

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 6,172	
.....		
.....		
Accounts Receivable	4,790	
Supplies	2,967	
Equipment	9,300	
Accounts Payable		\$ 7,044
Common Stock		8,000
Retained Earnings		2,000
Service Revenue		7,305
Office Expense	<u>1,120</u>	
	<u>\$24,349</u>	<u>\$24,349</u>

LO: 2, Bloom: AP, Difficulty: Simple, Time: 15-20, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Exercise 2.4 (10–15 minutes)

**Watteau Co.
Trial Balance
June 30, 2025**

	<u>Debit</u>	<u>Credit</u>
Cash (\$2,870 + \$180 – \$65 – \$65)	\$ 2,920	
Accounts Receivable (\$3,231 – \$180)	3,051	
Supplies (\$800 – \$500)	300	
Equipment (\$3,800 + \$500)	4,300	
Accounts Payable (\$2,666 – \$206 – \$260)		\$ 2,200
Unearned Service Revenue (\$1,200 – \$325)		875
Common Stock		6,000
Dividends	575	
Retained Earnings		3,000
Service Revenue (\$2,380 + \$801 [\$890 – \$89] + \$325) ..		3,506
Salaries and Wages Expense (\$3,400 + \$670 – \$575)...	3,495	
Office Expense	940	
	<u>\$15,581</u>	<u>\$15,581</u>

LO: 2, Bloom: AP, Difficulty: Simple, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Exercise 2.5 (10–15 minutes)

1. Depreciation Expense (\$250 X 3)	750	
Accumulated Depreciation—Equipment		750
2. Unearned Rent Revenue (\$9,300 X 1/3)	3,100	
Rent Revenue		3,100
3. Interest Expense	500	
Interest Payable		500
4. Supplies Expense	1,950	
Supplies (\$2,800 – \$850)		1,950
5. Insurance Expense (\$300 X 3)	900	
Prepaid Insurance		900

LO: 3, Bloom: AP, Difficulty: Moderate, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Exercise 2.6 (10–15 minutes)

1.	Accounts Receivable	750	
	Service Revenue		750
2.	Utilities Expenses	520	
	Accounts Payable		520
3.	Depreciation Expense	400	
	Accumulated Depreciation – Equipment		400
	Interest Expense	500	
	Interest Payable		500
4.	Insurance Expense (\$12,000 X 1/12)	1,000	
	Prepaid Insurance		1,000
5.	Supplies Expense (\$1,600 – \$500)	1,100	
	Supplies		1,100

LO: 3, Bloom: AP, Difficulty: Moderate, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Exercise 2.7 (15–20 minutes)

(a)	Ending balance of supplies	\$700	
	Add: Adjusting entry	950	
	Deduct: Purchases	<u>850</u>	
	Beginning balance of supplies	<u>\$800</u>	
(b)	Total prepaid insurance	\$4,800	(\$400 X 12)
	Amount used (6 X \$400)	<u>2,400</u>	
	Present balance	<u>\$2,400</u>	

The policy was purchased six months ago (August 1, 2024)

(c) The entry in January to record salary and wages expense was

Salaries and Wages Expense	1,800	
Salaries and Wages Payable	700	
Cash		2,500

Exercise 2.7 (Continued)

The “T” account for salaries and wages payable is

Salaries and Wages Payable			
Paid	700	Beg. Bal.	?
January			
		End Bal.	800

The beginning balance is therefore

Ending balance of salaries and wages payable	\$ 800
Plus: Reduction of salaries and wages payable	<u>700</u>
Beginning balance of salaries and wages payable	<u>\$1,500</u>

(d) Service revenue	\$2,000
Cash received	<u>(1,600)</u>
Unearned revenue reduced	<u>\$ 400</u>

Ending unearned revenue January 31, 2025	\$ 750
Plus: Unearned revenue reduced	<u>400</u>
Beginning unearned revenue December 31, 2024	<u>\$1,150</u>

LO: 3, Bloom: AP, Difficulty: Complex, Time: 15-20, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Exercise 2.8 (10–15 minutes)

1.	Salaries and Wages Expense.....	1,900	
	Salaries and Wages Payable.....		1,900
2.	Utilities Expenses	600	
	Accounts Payable		600
3.	Interest Expense (\$30,000 X 8% X 1/12)	200	
	Interest Payable		200
4.	Telephone and Internet Expense	117	
	Accounts Payable		117

LO: 3, Bloom: AP, Difficulty: Moderate, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Exercise 2.9 (15–20 minutes)

(a)	10/15	Salaries and Wages Expense	800	
		Cash		800
		(To record payment of October 15 payroll)		
	10/17	Accounts Receivable	2,400	
		Service Revenue		2,400
		(To record revenue for services performed for which payment has not yet been received)		
	10/20	Cash	650	
		Unearned Service Revenue		650
		(To record receipt of cash for services not yet performed)		
(b)	10/31	Supplies Expense.....	470	
		Supplies		470
		(To record the use of supplies during October)		
	10/31	Accounts Receivable	1,650	
		Service Revenue		1,650
		(To record revenue for services performed for which payment has not yet been received)		
	10/31	Salaries and Wages Expense	600	
		Salaries and Wages Payable		600
		(To record liability for accrued payroll)		
	10/31	Unearned Service Revenue	400	
		Service Revenue		400
		(To reduce the Unearned Service Revenue account for service that has been performed)		

LO: 2, 3, Bloom: AP, Difficulty: Moderate, Time: 15-20, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Exercise 2.10 (25–30 minutes)

(a)	1.	Aug. 31	Insurance Expense (\$4,500 X 3/12).....	1,125	
			Prepaid Insurance		1,125
	2.	Aug. 31	Supplies Expense (\$2,600 – \$450)	2,150	
			Supplies		2,150
3.	Aug. 31		Depreciation Expense	1,080	
			Accumulated Depreciation—		
			Buildings		1,080
			(\$120,000 – \$12,000* = \$108,000;		
			\$108,000 X 4% = \$4,320 per year;		
			\$4,320 X 3/12 = \$1,080)		
	Aug. 31		*\$120,000 X 10%		
			Depreciation Expense	360	
			Accumulated Depreciation—		
			Equipment.....		360
			(\$16,000 – \$1,600** = \$14,400;		
			\$14,400 X 10% = \$1,440;		
	4.	Aug. 31	Unearned Rent Revenue	3,800	
			Rent Revenue		3,800
	5.	Aug. 31	Salaries and Wages Expense.....	375	
			Salaries and Wages Payable		375
	6.	Aug. 31	Accounts Receivable.....	800	
			Rent Revenue		800
	7.	Aug. 31	Interest Expense	1,200	
			Interest Payable		1,200
			[(\$60,000 X 8%) X 3/12]		

Exercise 2.10 (Continued)

(b)

Greco Resort Adjusted Trial Balance August 31, 2025

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 10,600	
Accounts Receivable	800	
Prepaid Insurance (\$4,500 – \$1,125)	3,375	
Supplies (\$2,600 – \$2,150)	450	
Land	20,000	
Buildings	120,000	
Accumulated Depreciation—Buildings		\$ 1,080
Equipment	16,000	
Accumulated Depreciation—Equipment		360
Accounts Payable		4,500
Unearned Rent Revenue (\$4,600 – \$3,800)		800
Salaries and Wages Payable		375
Interest Payable		1,200
Mortgage Payable		60,000
Common Stock		91,000
Retained Earnings		0
Dividends	5,000	
Rent Revenue (\$76,200 + \$3,800 + \$800)		80,800
Salaries and Wages Expense (\$44,800 + \$375)	45,175	
Utilities Expenses	9,200	
Maintenance and Repair Expense	3,600	
Insurance Expense	1,125	
Supplies Expense	2,150	
Depreciation Expense (\$1,080 + \$360)	1,440	
Interest Expense	1,200	
	<u>\$240,115</u>	<u>\$240,115</u>

LO: 3, Bloom: AP, Difficulty: Complex, Time: 25-30, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Exercise 2.11 (20–25 minutes)

(a) **OLIVER CO.**
Income Statement
For the Year Ended December 31, 2025

Revenues		
Service revenue		\$11,590
Expenses		
Salaries and wages expense	\$6,840	
Rent expense	2,260	
Depreciation expense	145	
Interest expense	83	9,328
Net Income		<u>\$ 2,262</u>

(b) **OLIVER CO.**
Retained Earnings Statement
For the Year Ended December 31, 2025

Retained earnings, January 1	\$11,310
Add: Net income	<u>2,262</u>
	13,572
Less: Dividends	<u>3,000</u>
Retained earnings, December 31	<u>\$10,572</u>

(c) **OLIVER CO.**
Balance Sheet
December 31, 2025

<u>Assets</u>		
Current Assets		
Cash		\$19,472
Accounts receivable		6,920
Prepaid rent		<u>2,280</u>
Total current assets		28,672
Property, plant, and equipment		
Equipment	\$18,050	
Accumulated depreciation – equipment	<u>(4,895)</u>	13,155
Total assets		<u>\$41,827</u>

Exercise 2.11 (Continued)

Liabilities and Stockholders' Equity

Current liabilities		
Notes payable.....		\$ 5,700
Interest payable.....		83
Accounts payable		<u>5,472</u>
Total current liabilities		11,255
Stockholders' equity		
Common stock	\$20,000	
Retained earnings	<u>10,572*</u>	<u>30,572</u>
Total liabilities and stockholders' equity		<u>\$41,827</u>

***Beg. Balance + Net Income – Dividends = Ending Balance**

\$11,310 + \$2,262 – \$3,000 = \$10,572

LO: 4, Bloom: AP, Difficulty: Moderate, Time: 20-25, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Exercise 2.12 (20–25 Minutes)

(a)

SANTO DESIGN
Income Statement
For the Year Ended December 31, 2025

Revenues		
Service revenue		\$61,500
Expenses		
Salaries and wages expense	\$11,300	
Depreciation expense.....	7,000	
Rent expense	4,000	
Supplies expense	3,400	
Insurance expense	850	
Interest expense	<u>150</u>	
Total expenses.....		<u>26,700</u>
Net income.....		<u>\$34,800</u>

SANTO DESIGN
Retained Earnings Statement
For the Year Ended December 31, 2025

Retained earnings, January 1	\$ 3,500
Add: Net income.....	<u>34,800</u>
Retained earnings, December 31	<u>\$38,300</u>

Exercise 2.12 (Continued)

(a) Continued

SANTO DESIGN Balance Sheet December 31, 2025

Assets		
Cash.....		\$11,350
Accounts receivable		21,500
Supplies.....		5,000
Prepaid insurance.....		2,500
Equipment	\$60,000	
Less: Accumulated depreciation – equipment.....	<u>35,000</u>	<u>25,000</u>
Total assets		<u>\$65,350</u>

Liabilities and Stockholders' Equity

Liabilities

Notes payable.....	\$ 5,000	
Accounts payable	5,000	
Interest payable.....	150	
Unearned service revenue	5,600	
Salaries and wages payable.....	<u>1,300</u>	
Total liabilities		\$17,050

Stockholders' equity

Common stock	\$10,000	
Retained earnings.....	<u>38,300</u>	<u>48,300</u>
Total liabilities and stockholders' equity		<u>\$65,350</u>

(b) (1) Based on interest payable at December 31, 2025, interest is \$25 per month (\$150/6 months) or 0.5% of the note payable. $0.5\% \times 12 = 6\%$ interest per year.

(2) Salaries and Wages Expense, \$11,300 less Salaries and Wages Payable 12/31/25, \$1,300 = \$10,000. Total payments, \$17,500 – \$10,000 = \$7,500 Salaries and Wages Payable 12/31/24.

LO: 4, Bloom: AP, Difficulty: Moderate, Time: 20-25, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Exercise 2.13 (10–15 minutes)

(a)	Sales revenue		\$800,000
	Less: Sales returns and allowances	\$24,000	
	Sales discounts	<u>15,000</u>	<u>39,000</u>
	Net sales		<u>\$761,000</u>
(b)	Sales Revenue	800,000	
	Income Summary		800,000
	Income Summary	39,000	
	Sales Returns and Allowances		24,000
	Sales Discounts		15,000

LO: 4, 5 Bloom: AP, Difficulty: Simple, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Exercise 2.14 (10–15 minutes)

Sales Revenue	350,000	
Income Summary		350,000
Income Summary	329,000	
Cost of Goods Sold		208,000
Sales Returns and Allowances		13,000
Sales Discounts		8,000
Delivery Expense		7,000
Insurance Expense		12,000
Rent Expense		20,000
Salaries and Wages Expense		61,000
Income Summary (\$350,000 - \$329,000)	21,000	
Retained Earnings		21,000

LO: 4, Bloom: AP, Difficulty: Moderate, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Exercise 2.15 (10–15 minutes)

- | | |
|------------------------------------|------------------------------------|
| (a) \$9,000 (\$90,000 – \$81,000) | (d) \$100,000 (\$95,000 + \$5,000) |
| (b) \$25,000 (\$81,000 – \$56,000) | (e) \$57,000 (\$95,000 – \$38,000) |
| (c) \$10,000 (\$25,000 – \$15,000) | |

LO: 5, Bloom: AP, Difficulty: Simple, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Exercise 2.16 (10–15 minutes)

Sales Revenue.....	410,000	
Cost of Goods Sold		225,700
Sales Returns and Allowances		12,000
Sales Discounts		15,000
Selling Expenses		16,000
Administrative Expenses		38,000
Income Tax Expense		30,000
Income Summary.....		73,300

(or)

Sales Revenue.....	410,000	
Income Summary		410,000
Income Summary	336,700	
Cost of Goods Sold		225,700
Sales Returns and Allowances		12,000
Sales Discounts		15,000
Selling Expenses		16,000
Administrative Expenses		38,000
Income Tax Expense		30,000
Income Summary (\$410,000 - \$336,700)	73,300	
Retained Earnings		73,300
Retained Earnings	18,000	
Dividends		18,000

LO: 4, Bloom: AP, Difficulty: Moderate, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Exercise 2.17 (10–15 minutes)

J1				
Date	Account Titles and Explanation	Ref.	Debit	Credit
Mar. 1	Cash Common Stock (Investment of cash in business)		50,000	50,000
3	Land Buildings Equipment Cash (Purchased Michelle Wie's Golf Land)		10,000 22,000 6,000	38,000
5	Advertising Expense Cash (Paid for advertising)		1,600	1,600
6	Prepaid Insurance Cash (Paid for one-year insurance policy)		1,480	1,480
10	Equipment Accounts Payable (Purchased equipment on account)		2,500	2,500
18	Cash Service Revenue (Received cash for services performed)		1,200	1,200
25	Dividends Cash (Declared and paid a \$500 cash dividend)		500	500
30	Salaries and Wages Expense Cash (Paid wages expense)		900	900
30	Accounts Payable Cash (Paid creditor on account)		2,500	2,500
31	Cash Service Revenue (Received cash for services performed)		750	750

LO: 2, Bloom: AP, Difficulty: Moderate, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

***Exercise 2.18 (15–20 minutes)**

**Jill Accardo, M.D.
Conversion of Cash Basis to Accrual Basis
For the Year 2025**

Excess of cash collected over cash disbursed (\$142,600 – \$55,470)	\$87,130
Add increase in accounts receivable (\$9,250 – \$15, 927)	6,677
Deduct increase in unearned service revenue (\$2,840 – \$4,111)	(1,271)
Add decrease in accrued expenses (\$3,435 – \$2,108)	1,327
Add increase in prepaid expenses (\$1,917 – \$3,232)	1,315
Net income on an accrual basis	<u>\$95,178</u>

Alternate solution:

Jill Accardo, M.D. Conversion of Income Statement Data from Cash Basis to Accrual Basis For the Year 2025				
	Cash	<u>Adjustments</u>		Accrual
	<u>Basis</u>	<u>Add</u>	<u>Deduct</u>	<u>Basis</u>
Collections from customers:	\$142,600			\$142,600
–Accounts receivable, Jan. 1			\$9,250	(\$9,250)
+Accounts receivable, Dec. 31		\$15,927		\$15,927
+Unearned service revenue, Jan. 1		\$2,840		\$2,840
–Unearned service revenue, Dec. 31			\$4,111	(\$4,111)
Service revenue	<u>\$142,600</u>	<u>\$18,767</u>	<u>\$13,361</u>	<u>\$148,006</u>
Disbursements for expenses:	\$55,470			
–Accrued expenses, Jan. 1			\$3,435	
+Accrued expenses, Dec. 31		\$2,108		
+Prepaid expenses, Jan. 1		\$1,917		
–Prepaid expenses, Dec. 31			<u>\$3,232</u>	
Operating expenses	<u>\$55,470</u>	<u>\$4,025</u>	<u>\$ 6,667</u>	<u>52,828</u>
Net income—cash basis	<u>\$ 87,130</u>			<u>\$ 95,178</u>
Net income—accrual basis				

LO: 6, Bloom: AP, Difficulty: Moderate, Time: 15-20, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

*Exercise 2.19 (10–15 minutes)

(a) Wayne Rogers Corp. Income Statement (Cash Basis) For the Year Ended December 31,		
	<u>2024</u>	<u>2025</u>
Sales revenue	\$295,000	\$515,000
Expenses	<u>225,000</u>	<u>272,000</u>
Net income	<u>\$ 70,000</u>	<u>\$243,000</u>

(b) Wayne Rogers Corp. Income Statement (Accrual Basis) For the Year Ended December 31,		
	<u>2024</u>	<u>2025</u>
Sales revenue*	\$485,000	\$445,000
Expenses**	<u>277,000</u>	<u>255,000</u>
Net income	<u>\$208,000</u>	<u>\$190,000</u>

*2024: \$295,000 + \$160,000 + \$30,000 = \$485,000
2025: \$355,000 + \$90,000 = \$445,000
**2024: \$185,000 + \$67,000 + \$25,000 = \$277,000
2025: \$40,000 + \$160,000 + \$55,000 = \$255,000

LO: 6, Bloom: AP, Difficulty: Moderate, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Measurement, Reporting, AICPA PC: None

*Exercise 2.20 (20–25 minutes)

(a) Adjusting Entries:		
1. Dec. 31 Insurance Expense (\$5,280 X 5/24)....	1,100	
Prepaid Insurance.....		1,100
2. Dec. 31 Rent Revenue (\$1,800 X 1/3)	600	
Unearned Rent Revenue.....		600
3. Dec. 31 Supplies	290	
Advertising Expense		290
4. Dec. 31 Interest Expense.....	770	
Interest Payable		770

***Exercise 2.20 (Continued)**

(b) Reversing Entries:

1. No reversing entry required.

2.	Unearned Rent Revenue	600	
	Rent Revenue		600
3.	Advertising Expense	290	
	Supplies		290
4.	Interest Payable	770	
	Interest Expense.....		770

LO: 7, Bloom: AP, Difficulty: Complex, Time: 20-25, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

***Exercise 2.21 (10–15 minutes)**

<u>Accounts</u>	<u>Adjusted Trial Balance</u>		<u>Income Statement</u>		<u>Balance Sheet</u>	
	<u>Dr.</u>	<u>Cr.</u>	<u>Dr.</u>	<u>Cr.</u>	<u>Dr.</u>	<u>Cr.</u>
Cash	9,000				9,000	
Inventory	80,000				80,000	
Sales Revenue		450,000		450,000		
Sales Returns and Allowances	10,000		10,000			
Sales Discounts	5,000		5,000			
Cost of Goods Sold	250,000		250,000			

LO: 8, Bloom: AP, Difficulty: Simple, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

***Exercise 2.22 (20–25 minutes)**

Ed Bradley Co. Worksheet (partial) For the Month Ended April 30, 2025						
	Adjusted Trial Balance		Income Statement		Balance Sheet	
Account Titles	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	24,522				24,522	
Accounts Receivable	6,920				6,920	
Prepaid Rent	2,280				2,280	
Equipment	18,050				18,050	
Accum. Depreciation – Equipment		4,895				4,895
Notes Payable		5,700				5,700
Accounts Payable		4,472				4,472
Common Stock		34,960				34,960
Retained Earnings		1,000				1,000
Dividends	1,100				1,100	
Service Revenue		12,590		12,590		
Salaries and Wages Expense	6,840		6,840			
Rent Expense	3,760		3,760			
Depreciation Expense	145		145			
Interest Expense	83		83			
Interest Payable		83				83
Totals	<u>63,700</u>	<u>63,700</u>	10,828	12,590	52,872	51,110
Net income			<u>1,762</u>			<u>1,762</u>
Totals			<u>12,590</u>	<u>12,590</u>	<u>52,872</u>	<u>52,872</u>

***Exercise 2.22 (Continued)**

**Ed Bradley Co.
Balance Sheet
April 30, 2025**

Assets

Current Assets			
Cash		\$24,522	
Accounts receivable	6,920		
Prepaid rent	2,280		
Total current assets			\$33,722
Property, plant, and equipment			
Equipment.....	18,050		
Accumulated depreciation – equipment	(4,895)		
Total assets			<u>\$46,877</u>

Liabilities and Stockholders' Equity

Liabilities			
Notes payable	\$ 5,700		
Accounts payable.....	4,472		
Interest payable	83		
Total current liabilities			\$10,255
Stockholders' equity			
Common stock	34,960		
Retained earnings	1,662*		
Total liabilities and Stockholders' equity.....			<u>\$46,877</u>

***Beg. Balance + Net Income – Dividends = Ending Balance**

\$1,000 + \$1,762 – \$1,100 = \$1,662

LO: 8, Bloom: AP, Difficulty: Moderate, Time: 20-25, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

***Exercise 2.23 (10–15 minutes)**

Jurassic Park Co.												
Worksheet (partial)												
For Month Ended February 28, 2025												
	Trial Balance		Adjustments				Adjusted Trial Balance		Income Statement ^a		Balance Sheet	
Account Titles	Dr.	Cr.	Dr.		Cr.		Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Supplies	1,756				(a)	1,041	715				715	
Accumulated depreciation – equipment		6,939			(b)	257		7,196				7,196
Interest payable		150			(c)	50		200				200
Supplies expense	1,500		(a)	1,041			2,541		2,541			
Depreciation expense	257		(b)	257			514		514			
Interest expense	50		(c)	50			100		100			

The following accounts and amounts would be shown in the February income statement^a:

Supplies expense	\$2,541
Depreciation expense	514
Interest expense	100

LO: 8, Bloom: AP, Difficulty: Moderate, Time: 10-15, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Time and Purpose of Problems

Problem 2.1 (Time 25–35 minutes)

Purpose—to provide an opportunity for the student to post daily transactions to a “T” account ledger, prepare a trial balance, prepare an income statement, a balance sheet and a retained earnings statement, close the ledger, and prepare a post-closing trial balance. The problem deals with routine transactions of a professional service firm and provides a good integration of the accounting process.

Problem 2.2 (Time 35–40 minutes)

Purpose—to provide an opportunity for the student to prepare adjusting entries, and prepare financial statements (income statement, balance sheet, and retained earnings statement). The student also is asked to analyze two transactions to find missing amounts.

Problem 2.3 (Time 25–30 minutes)

Purpose—to provide an opportunity for the student to prepare adjusting entries. The adjusting entries are fairly complex in nature.

Problem 2.4 (Time 40–50 minutes)

Purpose—to provide an opportunity for the student to prepare adjusting entries and an adjusted trial balance and then prepare an income statement, a retained earnings statement, and a balance sheet. In addition, closing entries must be made and a post-closing trial balance prepared.

Problem 2.5 (Time 15–20 minutes)

Purpose—to provide the student with an opportunity to determine what adjusting entries need to be made to specific accounts listed in a partial trial balance. The student is also required to determine the amounts of certain revenue and expense items to be reported in the income statement.

Problem 2.6 (Time 25–35 minutes)

Purpose—to provide the student with an opportunity to prepare year-end adjusting entries from a trial balance and related information presented. The problem also requires the student to prepare an income statement, a balance sheet, and a retained earnings statement. The problem covers the basics of the end-of-period adjusting process.

Problem 2.7 (Time 25–35 minutes)

Purpose—to provide an opportunity for the student to figure out the year-end adjusting entries that were made from a trial balance and an adjusted trial balance. The student is also required to prepare an income statement, a retained earnings statement, and a balance sheet. In addition, the student needs to answer a number of questions related to specific accounts.

Problem 2.8 (Time 25–35 minutes)

Purpose—to provide an opportunity for the student to figure out the year-end adjusting entries that were made from a trial balance and an adjusted trial balance. The student is also required to prepare an income statement, a retained earnings statement, and a balance sheet. In addition, the student needs to answer a number of questions related to specific accounts.

Problem 2.9 (Time 30–40 minutes)

Purpose—to provide an opportunity for the student to prepare adjusting, and closing entries. This problem presents basic adjustments including a number of accruals and deferrals. It provides the student with an integrated flow of the year-end accounting process.

Problem 2.10 (Time 30–35 minutes)

Purpose—to provide an opportunity for the student to prepare adjusting and closing entries from a trial balance and related information. The student is also required to post the entries to “T” accounts.

Time and Purpose of Problems (Continued)

***Problem 2.11** (Time 35–40 minutes)

Purpose—to provide an opportunity for the student to prepare and compare (a) cash-basis and accrual-basis income statements, (b) cash-basis and accrual-basis balance sheets, and (c) to discuss the weaknesses of cash-basis accounting.

***Problem 2.12** (Time 40–50 minutes)

Purpose—to provide an opportunity for the student to complete a worksheet and then prepare a classified balance sheet. In addition, adjusting and closing entries must be made and a post-closing trial balance prepared.

Solutions to Problems

Problem 2.1

(a) (Explanations are omitted.) and (d)

Cash				Equipment			
Sept. 1	20,000	Sept. 4	680	Sept. 2	17,280		
8	1,690	5	942				
20	980	10	430				
		18	3,600				
		19	3,000				
		30	1,800				
		30	85				
30 Bal	12,133						
Accounts Receivable				Common Stock			
Sept. 14	5,820	Sept. 20	980		Sept. 1	20,000	
25	2,110				Bal. 30	20,000	
Bal. 30	6,950						
Rent Expense				Retained Earnings			
Sept. 4	680	Sept. 30	680	Sept. 30	3,000	Sept. 30	6,007
						Bal. 30	3,007
Supplies				Dividends			
Sept. 5	942	Sept. 30	330	Sept. 19	3,000	Sept. 30	3,000
Bal. 30	612						
Office Expense				Accounts Payable			
Sept. 10	430	Sept. 30	515	Sept. 18	3,600	Sept. 2	17,280
30	85					Bal. 30	13,680
	515		515				
Salaries and Wages Expense				Service Revenue			
Sept. 30	1,800	Sept. 30	1,800	Sept. 30	9,620	Sept. 8	1,690
						14	5,820
Supplies Expense						25	2,110
Sept. 30	330	Sept. 30	330		9,620		9,620
				Accumulated Depreciation—Equipment			
					Sept. 30	288	

Problem 2.1 (Continued)

Depreciation Expense				Income Summary				
Sept.	30	288	Sept.	30	288	Sept.	30	9,620
				30	515			
				30	1,800			
				30	330			
				30	288			
				30 Inc.	6,007			
					9,620			9,620

(b) YASUNARI KAWABATA, D.D.S.
Trial Balance
September 30

	<u>Debit</u>	<u>Credit</u>
Cash	\$12,133	
.....		
.....		
Accounts Receivable	6,950	
Supplies	612	
Equipment	17,280	
Accumulated Depreciation—Equipment		\$ 288
Accounts Payable		13,680
Common Stock		20,000
Retained Earnings		0
Dividends	3,000	
Service Revenue		9,620
Rent Expense	680	
Office Expense	515	
Salaries and Wages Expense	1,800	
Supplies Expense	330	
Depreciation Expense	288	
Totals	<u>\$43,588</u>	<u>\$43,588</u>

Problem 2.1 (Continued)

(c)

**YASUNARI KAWABATA, D.D.S.
Income Statement
For the Month of September**

Service revenue		\$9,620
Expenses:		
Salaries and wages expense	\$1,800	
Rent expense	680	
Supplies expense	330	
Depreciation expense	288	
Office expense	<u>515</u>	
Total expenses		<u>3,613</u>
Net income		<u>\$6,007</u>

**YASUNARI KAWABATA, D.D.S.
Retained Earnings Statement
For the Month of September**

Balance, September 1	\$ 0
Add: Net income	<u>6,007</u>
	6,007
Less: Dividends	<u>3,000</u>
Balance, September 30	<u>\$3,007</u>

**YASUNARI KAWABATA, D.D.S.
Balance Sheet
September 30**

Assets		Liabilities and Stockholders' Equity	
Cash	\$12,133	Accounts payable	\$13,680
Accounts receivable	6,950	Common Stock	20,000
Supplies	612	Retained earnings	3,007
Equipment	17,280		
Accum. depreciation— equipment	<u>(288)</u>	Total liabilities and stockholders' equity	<u>\$36,687</u>
Total assets	<u>\$36,687</u>		

Problem 2.1 (Continued)

(d) YASUNARI KAWABATA, D.D.S.
Post-Closing Trial Balance
September 30

	<u>Debit</u>	<u>Credit</u>
Cash	\$12,133	
.....		
.....		
Accounts Receivable	6,950	
Supplies	612	
Equipment	17,280	
Accumulated Depreciation—Equipment ..		\$ 288
Accounts Payable		13,680
Common Stock		20,000
Retained Earnings		3,007
Totals	<u>\$36,975</u>	<u>\$36,975</u>

LO: 2, 4, Bloom: AP, Difficulty: Moderate, Time: 25-30, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Problem 2.2

(a)	Dec. 31	Accounts Receivable (\$23,500 – \$20,000).....	3,500	
		Service Revenue.....		3,500
	31	Unearned Service Revenue (\$7,000 – \$5,600).....	1,400	
		Service Revenue.....		1,400
	31	Supplies Expense.....	5,400	
		Supplies (\$8,400 – \$3,000)		5,400
	31	Depreciation Expense	5,000	
		Accumulated Depreciation— Equipment (\$33,000 – \$28,000).....		5,000
	31	Interest Expense(\$500 – \$350).....	150	
		Interest Payable.....		150
	31	Insurance Expense	850	
		Prepaid Insurance (\$3,350 - \$2,500)		850
	31	Salaries and Wages Expense (\$11,300 – \$10,000)	1,300	
		Salaries and Wages Payable		1,300

(b)

MASON ADVERTISING
Income Statement
For the Year Ended December 31, 2025

Revenues			
	Service revenue		\$63,500
Expenses			
	Salaries and wages expense.....	\$11,300	
	Supplies expense.....	5,400	
	Depreciation expense	5,000	
	Rent expense.....	4,000	
	Insurance expense.....	850	
	Interest expense.....	500	
	Total expenses		<u>27,050</u>
	Net income		<u>\$36,450</u>

Problem 2.2 (Continued)

MASON ADVERTISING
Retained Earnings Statement
For the Year Ended December 31, 2025

Retained earnings, January 1	\$ 3,500
Add: Net income	<u>36,450</u>
Retained earnings, December 31	<u><u>\$39,950</u></u>

MASON ADVERTISING
Balance Sheet
December 31, 2025

<u>Assets</u>	
Cash	\$11,000
Accounts receivable.....	23,500
Supplies	3,000
Prepaid insurance	2,500
Equipment.....	\$60,000
Less: Accumulated depreciation—equipment	<u>33,000</u> <u>27,000</u>
Total assets	<u><u>\$67,000</u></u>

Liabilities and Stockholders' Equity

Liabilities

Notes payable	\$ 5,000
Accounts payable.....	5,000
Unearned service revenue	5,600
Salaries and wages payable	1,300
Interest payable	<u>150</u>
Total liabilities	<u>\$17,050</u>

Stockholders' equity

Common stock.....	10,000
Retained earnings	<u>39,950</u> <u>49,950</u>
Total liabilities and stockholders' equity	<u><u>\$67,000</u></u>

- (c) 1. Interest is \$50 per month or 1% of the note payable. $1\% \times 12 = 12\%$ interest per year.
2. Salaries and Wages Expense, \$11,300 less Salaries and Wages Payable 12/31/25, \$1,300 = \$10,000. Total Payments, \$12,500 – \$10,000 = \$2,500 Salaries and Wages Payable 12/31/24.

Problem 2.3

1.	Dec. 31	Salaries and Wages Expense.....	2,120	
		Salaries and Wages Payable.....		2,120
		(5 X \$700 X 2/5) = \$1,400		
		(3 X \$600 X 2/5) = <u>720</u>		
		Total accrued salaries <u>\$2,120</u>		
2.	31	Unearned Rent Revenue	94,000	
		Rent Revenue		94,000
		(5 X \$6,000 X 2) = \$60,000		
		(4 X \$8,500 X 1) = <u>34,000</u>		
		Total rent recognized <u>\$94,000</u>		
3.	31	Advertising Expense	4,900	
		Prepaid Advertising.....		4,900
		(A650 – \$500 (\$6,000/12) per month for 8 months) = \$4,000		
		(B974 – \$300 per month (\$7,200/24) for 3 months) = <u>900</u>		
		Total advertising expense <u>\$4,900</u>		
4.	31	Interest Expense	4,200	
		Interest Payable		
		(\$60,000 X 12% X 7/12)		4,200

LO: 3, Bloom: AP, Difficulty: Moderate, Time: 25-30, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Problem 2.4

(a)	Nov. 30	Supplies Expense (\$5,500 – \$1,500)	4,000	
		Supplies.....		4,000
	30	Depreciation Expense.....	15,000	
		Accumulated Depreciation—		
		Equipment		15,000
	30	Interest Expense	11,000	
		Interest Payable		11,000

Problem 2.4 (Continued)

(b)

BELLEMY FASHION CENTER Adjusted Trial Balance November 30, 2025

	Dr.	Cr.
Cash	\$ 28,700	
Accounts Receivable	33,700	
Inventory	45,000	
Supplies (\$5,500 - \$4,000)	1,500	
Equipment	133,000	
Accumulated Depr.— Equipment (\$24,000 + \$15,000)		\$ 39,000
Notes Payable		51,000
Accounts Payable		48,500
Common Stock		90,000
Retained Earnings		8,000
Sales Revenue		757,200
Sales Returns and Allowances	4,200	
Cost of Goods Sold	495,400	
Salaries and Wages Expense	140,000	
Advertising Expense	26,400	
Utilities Expenses	14,000	
Maintenance and Repairs Expense	12,100	
Delivery Expense	16,700	
Rent Expense	24,000	
Supplies Expense (\$0 + \$4,000)	4,000	
Depreciation Expense (\$0 + \$15,000)	15,000	
Interest Expense (\$0 + \$11,000)	11,000	
Interest Payable (\$0 + \$11,000)		11,000
Totals	<u>\$1,004,700</u>	<u>\$1,004,700</u>

Problem 2.4 (Continued)

**(c) BELLEMY FASHION CENTER
Income Statement
For the Year Ended November 30, 2025**

Revenues		
Sales revenue.....		\$757,200
Less: Sales returns and allowances		<u>4,200</u>
Net sales.....		753,000
Cost of goods sold.....		<u>495,400</u>
Gross profit.....		257,600
Operating expenses		
Selling expenses		
Salaries and wages expense (\$140,000 X 70%).....	\$98,000	
Advertising expense.....	26,400	
Rent expense (\$24,000 X 80%).....	19,200	
Delivery expense	16,700	
Utilities expenses (\$14,000 X 80%).....	11,200	
Depreciation expense.....	15,000	
Supplies expense	<u>4,000</u>	
Total selling expenses.....		\$190,500
Administrative expenses		
Salaries and wages expense (\$140,000 X 30%).....	42,000	
Maintenance and repairs expense	12,100	
Rent expense (\$24,000 X 20%).....	4,800	
Utilities expenses (\$14,000 X 20%).....	<u>2,800</u>	
Total admin. expenses		<u>61,700</u>
Total oper. expenses .		<u>252,200</u>
Income from operations		5,400
Other expenses and losses		
Interest expense		<u>11,000</u>
Net loss	(\$5,000)	<u><u>(\$ 5,600)</u></u>

Problem 2.4 (Continued)

BELLEMY FASHION CENTER
Retained Earnings Statement
For the Year Ended November 30, 2025

Retained earnings, December 1, 2024	\$8,000
Less: Net loss.....	<u>5,600</u>
Retained earnings, November 30, 2025.....	<u><u>\$2,400</u></u>

BELLEMY FASHION CENTER
Balance Sheet
November 30, 2025

Assets			
Current assets			
Cash	\$28,700		
Accounts receivable.....	33,700		
Inventory	45,000		
Supplies	<u>1,500</u>		
Total current assets			\$108,900
Property, plant, and equipment			
Equipment.....	133,000		
Less: Accumulated depreciation— equipment	<u>39,000</u>	<u>94,000</u>	
Total assets.....			<u><u>\$202,900</u></u>
Liabilities and Stockholders' Equity			
Current liabilities			
Notes payable due next year	\$30,000		
Accounts payable.....	48,500		
Interest payable	<u>11,000</u>		
Total current liabilities			\$ 89,500
Long-term liabilities			
Notes payable (\$51,000 - \$30,000)		<u>21,000</u>	
Total liabilities			110,500
Stockholders' equity			
Common stock	90,000		
Retained earnings	<u>2,400</u>	<u>92,400</u>	
Total liabilities and stockholders' equity.....			<u><u>\$202,900</u></u>

Problem 2.4 (Continued)

(d)	Nov. 30	Sales Revenue.....	757,200	
		Income Summary.....		757,200
	30	Income Summary	762,800	
		Sales Returns and Allowances		4,200
		Cost of Goods Sold		495,400
		Salaries and Wages Expense.....		140,000
		Advertising Expense		26,400
		Utilities Expenses		14,000
		Maintenance and Repair Expense		12,100
		Delivery Expense		16,700
		Rent Expense		24,000
		Supplies Expense		4,000
		Depreciation Expense		15,000
		Interest Expense		11,000
	30	Retained Earnings	5,600	
		Income Summary (\$757,200 - \$762,800)		5,600

(e)

BELLEMY FASHION CENTER Post-Closing Trial Balance November 30, 2025

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 28,700	
.....		
.....		
Accounts Receivable	33,700	
Inventory	45,000	
Supplies	1,500	
.....		
Equipment	133,000	
Accumulated Depreciation—Equipment		\$ 39,000
Notes Payable		51,000
Accounts Payable		48,500
Interest Payable.....		11,000
Common Stock.....		90,000
Retained Earnings.....		2,400
	<u>\$241,900</u>	<u>\$241,900</u>

LO: 3, 4, 5, Bloom: AP, Difficulty: Moderate, Time: 40-50, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Problem 2.5

(a)		-1-		
Dec. 31	Depreciation Expense		10,500	
	Accum. Depreciation—Equipment			
	(1/16 X [\$192,000 – \$24,000])			10,500
		-2-		
Dec. 31	Interest Expense		1,440*	
	Interest Payable			
	(\$90,000 X 8% X 72/360)			1,440*
		-3-		
Dec. 31	Admissions Revenue		60,000	
	Unearned Admissions Revenue			
	(2,000 X \$30)			60,000
		-4-		
Dec. 31	Prepaid Advertising		1,100	
	Advertising Expense			1,100
		-5-		
Dec. 31	Salaries and Wages Expense		4,700	
	Salaries and Wages Payable			4,700

- (b)
1. Interest expense, \$2,840 (\$1,400 + \$1,440).
 2. Admissions revenue, \$320,000 (\$380,000 – \$60,000).
 3. Advertising expense, \$12,580 (\$13,680 – \$1,100).
 4. Salaries and wages expense, \$62,300 (\$57,600 + \$4,700).

***Note to instructor:** If 30-day months are assumed, interest expense = \$1,400 (\$90,000 X 8% X 70/360).

LO: 3, Bloom: AP, Difficulty: Moderate, Time: 15-20, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Problem 2.6

(a)		-1-		
Dec. 31	Service Revenue	6,000		
	Unearned Service Revenue		6,000	
		-2-		
Dec. 31	Accounts Receivable	4,900		
	Service Revenue.....		4,900	
		-3-		
Dec. 31	Bad Debt Expense.....	1,430		
	Allowance for Doubtful Accounts		1,430	
		-4-		
Dec. 31	Insurance Expense	480		
	Prepaid Insurance		480	
		-5-		
Dec. 31	Depreciation Expense.....	2,500		
	Accumulated Depreciation—Equipment			
	(\$25,000 X 10%)		2,500	
		-6-		
Dec. 31	Interest Expense	60		
	Interest Payable			
	(\$7,200 X 10% X 30/360)		60	
		-7-		
Dec. 31	Prepaid Rent.....	750		
	Rent Expense		750	
		-8-		
Dec. 31	Salaries and Wages Expense.....	2,510		
	Salaries and Wages Payable		2,510	

Problem 2.6 (Continued)

(b)

PEREZ CONSULTING ENGINEERS
Income Statement
For the Year Ended December 31, 2025

Service revenue (\$100,000 – \$6,000 + \$4,900)		\$98,900
Expenses		
Salaries and wages expense		
(\$30,500 + \$2,510)	\$33,010	
Rent expense (\$9,750 – \$750)	9,000	
Depreciation expense	2,500	
Bad debt expense	1,430	
Utilities expenses	1,080	
Office expense	720	
Insurance expense	480	
Interest expense	60	
Total expenses		<u>48,280</u>
Net income		<u>\$50,620</u>

PEREZ CONSULTING ENGINEERS
Retained Earnings Statement
For the Year Ended December 31, 2025

Retained Earnings, January 1	\$ 42,010^a
Add: Net income	50,620
Less: Dividends	<u>17,000</u>
Retained Earnings, December 31	<u>\$ 75,630</u>
 (a) Retained Earnings—trial balance	\$ 25,010
2025 Dividend recorded in Retained Earnings	<u>17,000</u>
Retained Earnings, as of January 1, 2025	<u>\$ 42,010</u>

Problem 2.6 (Continued)

PEREZ CONSULTING ENGINEERS Balance Sheet December 31, 2025

Assets

Current assets

Cash	\$29,500	
Accounts receivable (\$49,600 + \$4,900)	\$54,500	
Less: Allowance for doubtful accounts	<u>2,180*</u>	52,320
Supplies		1,960
Prepaid insurance (\$1,100 – \$480)		620
Prepaid rent	<u>750</u>	
Total current assets		\$ 85,150
Equipment	25,000	
Less: Accumulated depreciation ..	<u>8,750**</u>	<u>16,250</u>
Total assets		<u>\$101,400</u>

Liabilities and stockholders' equity

Current liabilities

Notes payable	\$7,200	
Unearned service revenue	6,000	
Salaries and wages payable	2,510	
Interest payable	<u>60</u>	\$ 15,770
Common Stock	10,000	
Retained earnings	<u>75,630</u>	<u>85,630</u>
Total liabilities and stockholders' equity		<u>\$101,400</u>

*(\$750 + \$1,430)

**(\$6,250 + \$2,500)

LO: 3, 4, Bloom: AP, Difficulty: Moderate, Time: 25-35, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Problem 2.7

(a)

Sep. 30	Accounts Receivable (\$1,000 - \$400)	600	
	Service Revenue		600
30	Rent Expense.....	900	
	Prepaid Rent (\$1,800 - \$900).....		900
30	Supplies Expense.....	1,020	
	Supplies (\$1,200 - \$180).....		1,020
30	Depreciation Expense	350	
	Accumulated Depreciation—Equipment .		350
30	Interest Expense.....	50	
	Interest Payable.....		50
30	Unearned Rent Revenue (\$1,000 - \$800)	200	
	Rent Revenue		200
30	Salaries and Wages Expense (\$9,400 - \$8,800) ..	600	
	Salaries and Wages Payable		600

(b)

ROLLING HILLS GOLF INC. Income Statement For the Quarter Ended September 30, 2025

Revenues			
	Service revenue	\$14,700	
	Rent revenue	<u>900</u>	
	Total revenue.....		\$15,600
Expenses			
	Salaries and wages expense.....	\$9,400	
	Rent expense	1,800	
	Supplies expense.....	1,020	
	Utilities expenses.....	470	
	Depreciation expense	350	
	Interest expense.....	<u>50</u>	
	Total expenses		<u>13,090</u>
	Net income		<u>\$ 2,510</u>

Problem 2.7 (Continued)

**ROLLING HILLS GOLF INC.
Retained Earnings Statement
For the Quarter Ended September 30, 2025**

Retained earnings, July 1, 2025	\$ 0
Add: Net income	2,510
Less: Dividends	<u>600</u>
Retained earnings, September 30, 2025	<u><u>\$1,910</u></u>

**ROLLING HILLS GOLF INC.
Balance Sheet
September 30, 2025**

Assets

Current assets

Cash	\$ 6,700	
Accounts receivable.....	1,000	
Supplies	180	
Prepaid rent	<u>900</u>	
Total current assets.....		\$ 8,780
Equipment.....	15,000	
Less: Accumulated depreciation..	<u>350</u>	<u>14,650</u>
Total assets		<u><u>\$23,430</u></u>

Liabilities and Stockholders' Equity

Current liabilities

Notes payable	\$ 5,000	
Accounts payable.....	1,070	
Unearned rent revenue	800	
Salaries and wages payable	600	
Interest payable	<u>50</u>	\$ 7,520

Stockholders' Equity

Common stock	14,000	
Retained earnings	<u>1,910</u>	
Total stockholders' equity		<u>15,910</u>
Total liabilities and stockholders' equity		<u><u>\$23,430</u></u>

Problem 2.7 (Continued)

- (c) The following accounts would be closed: Service Revenue, Rent Revenue, Salaries and Wages Expense, Rent Expense, Utilities Expenses, Depreciation Expense, Supplies Expense, Interest Expense, Dividends.
- (d) Interest of 12% per year equals a monthly rate of 1%; monthly interest is \$50 ($\$5,000 \times 1\%$). Since total interest expense is \$50, the note has been outstanding one month.

LO: 3, 4, Bloom: AP, Difficulty: Moderate, Time: 25-35, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Problem 2.8

(a)

Dec. 31	Accounts Receivable (\$19,500 – \$16,000).....	3,500	
	Service Revenue.....		3,500
31	Supplies Expense.....	2,900	
	Supplies (\$9,400 – \$6,500)		2,900
31	Insurance Expense.....	1,560	
	Prepaid Insurance (\$3,350 – \$1,790)		1,560
31	Depreciation Expense	5,000	
	Accumulated Depreciation—Equipment .		5,000
	(\$30,000 - \$25,000)		
31	Interest Expense.....	560	
	Interest Payable.....		560
31	Unearned Service Revenue (\$5,000 – \$3,100). ..	1,900	
	Service Revenue.....		1,900
31	Salaries and Wages Expense (\$9,820 - \$9,000) ..	820	
	Salaries and Wages Payable		820

(b)

VEDULA ADVERTISING
Income Statement
For the Year Ended December 31, 2025

Revenues		
Service revenue		\$63,000
Expenses		
Salaries and wages expense.....	\$9,820	
Depreciation expense	5,000	
Rent expense.....	4,350	
Supplies expense.....	2,900	
Insurance expense.....	1,560	
Interest expense.....	560	
Total expenses		<u>24,190</u>
Net income.....		<u>\$38,810</u>

Problem 2.8 (Continued)

VEDULA ADVERTISING
Retained Earnings Statement
For the Year Ended December 31, 2025

Retained earnings, January 1	\$ 5,500
Add: Net income	38,810
Less: Dividends	<u>10,000</u>
Retained earnings, December 31	<u><u>\$34,310</u></u>

VEDULA ADVERTISING
Balance Sheet
December 31, 2025

Assets

Current assets

Cash	\$11,000	
Accounts receivable	19,500	
Supplies	6,500	
Prepaid insurance	<u>1,790</u>	
Total current assets		\$38,790
Equipment	60,000	
Less: Accumulated depreciation	<u>30,000</u>	<u>30,000</u>
Total assets		<u><u>\$68,790</u></u>

Liabilities and Stockholders' Equity

Current liabilities

Notes payable	\$ 8,000	
Accounts payable	2,000	
Unearned service revenue	3,100	
Salaries and wages payable	820	
Interest payable	<u>560</u>	\$ 14,480

Stockholders' Equity

Common stock	20,000	
Retained earnings	<u>34,310</u>	
Total stockholders' equity		<u><u>54,310</u></u>
Total liabilities and stockholders' equity		<u><u>\$68,790</u></u>

Problem 2.8 (Continued)

- (c) **Service Revenue, Salaries and Wages Expense, Depreciation Expense, Rent Expense, Supplies Expense, Insurance Expense, Interest Expense, Dividends.**
- (d) **Interest is \$56 per month or 0.7% of the note payable ($\$56 \div \$8,000$). $0.7\% \times 12 = 8.4\%$ interest per year.**
- (e) **Salaries and Wages Expense, \$9,820, less Salaries and Wages Payable 12/31/25, \$820 = \$9,000. Total payments, $\$10,500 - \$9,000 = \$1,500$ Salaries and Wages Payable 12/31/24.**

LO: 3, 4, Bloom: AP, Difficulty: Moderate, Time: 25-35, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Problem 2.9

(a), (b), (d)

Cash Bal. 15,000		Prepaid Insurance Bal. 9,000 Adj. 3,500 <u>5,500</u>		Salaries and Wages Expense Bal. 80,000 Close 83,600 Adj. <u>3,600</u> <u>83,600</u>	
		Common Stock Bal. 400,000			
Accounts Receivable Bal. 13,000		Retained Earnings Bal. 82,000 Inc. <u>31,640</u> 113,640		Maintenance and Repairs Expense Bal. <u>24,000</u> Close <u>24,000</u>	
Allow. for Doubtful Accts. Bal. 1,100 Adj. <u>460</u> 1,560		Dues Revenue Adj. 8,900 Bal. 200,000 Cls. <u>191,100</u> <u>200,000</u>		Depr. Expense Adj. 4,000 Close <u>19,000</u> Adj. <u>15,000</u> 19,000	
Land Bal. 350,000		Green Fees Revenue Close <u>5,900</u> Bal. <u>5,900</u>		Equipment Bal. <u>150,000</u>	
Buildings Bal. 120,000		Rent Revenue Close 19,200 Bal. 17,600 <u>19,200</u> Adj. <u>1,600</u> <u>19,200</u>		Accum. Depr.—Equipment Bal. 70,000 Adj. <u>15,000</u> <u>85,000</u>	
Accum. Depr.—Buildings Bal. 38,400 Adj. <u>4,000</u> 42,400		Utilities Expenses Bal. <u>54,000</u> Close <u>54,000</u>		Insurance Expense Adj. <u>3,500</u> Close <u>3,500</u>	
Rent Receivable Adj. <u>\$1,600</u>		Bad Debt Expense Adj. <u>460</u> Close <u>460</u>		Income Summary Exp. 184,560 216,200 Inc. <u>31,640</u> <u>216,200</u>	

Problem 2.9 (Continued)

<u>Salaries and Wages Payable</u>		<u>Unearned Dues Revenue</u>	
	Adj. <u>3,600</u>		Adj. <u>8,900</u>
(b)	-1-		
Dec. 31	Depreciation Expense	4,000	
	Accumulated Depreciation—Buildings		
	(1/30 X \$120,000)		4,000
	-2-		
Dec. 31	Depreciation Expense	15,000	
	Accumulated Depreciation—		
	Equipment (10% X \$150,000)		15,000
	-3-		
Dec. 31	Insurance Expense	3,500	
	Prepaid Insurance		3,500
	-4-		
Dec. 31	Rent Receivable	1,600	
	Rent Revenue (1/11 X \$17,600)		1,600
	-5-		
Dec. 31	Bad Debt Expense	460	
	Allowance for Doubtful Accounts		
	[(\$13,000 X 12%) – \$1,100]		460
	-6-		
Dec. 31	Salaries and Wages Expense	3,600	
	Salaries and Wages Payable		3,600
	-7-		
Dec. 31	Dues Revenue	8,900	
	Unearned Dues Revenue		8,900

Problem 2.9 (Continued)

(c)

**CRESTWOOD GOLF CLUB, INC.
Adjusted Trial Balance
December 31, XXXX**

	<u>Dr.</u>	<u>Cr.</u>
Cash	\$ 15,000	
Accounts Receivable	13,000	
Allowance for Doubtful Accounts		\$ 1,560
Rent Receivable.....	1,600	
Prepaid Insurance	5,500	
Land	350,000	
.....		
.....		
Buildings.....	120,000	
Accum. Depreciation—Buildings		42,400
Equipment.....	150,000	
Accum. Depreciation—Equipment		85,000
Salaries and Wages Payable		3,600
Unearned Dues Revenue		8,900
Common Stock		400,000
Retained Earnings		82,000
Dues Revenue.....		191,100
Green Fees Revenue		5,900
Rent Revenue		19,200
Utilities Expenses.....	54,000	
Salaries and Wages Expense	83,600	
Maintenance and Repairs Expense.....	24,000	
Bad Debt Expense	460	
Depreciation Expense (\$15,000 + \$4,000)	19,000	
Insurance Expense.....	3,500	
Totals	<u>\$839,660</u>	<u>\$839,660</u>

Problem 2.9 (Continued)

(d)	-Dec. 31-		
Dues Revenue		191,100	
Green Fees Revenue		5,900	
Rent Revenue		19,200	
Income Summary			216,200 ^a

	-Dec 31-		
Income Summary		184,560 ^b	
Utilities Expenses			54,000
Bad Debt Expense			460
Salaries and Wages Expense			83,600
Maintenance and Repairs Expense			24,000
Depreciation Expense			19,000
Insurance Expense			3,500

	-Dec 31-		
Income Summary (\$216,200 ^a - \$184,560 ^b)		31,640	
Retained Earnings			31,640

LO: 2, 3, 4,, Bloom: AP, Difficulty: Moderate, Time: 30-40, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

Problem 2.10

(a), (b), (c)

Cash		Accounts Receivable		Allogw. for Doubtful Accts.	
Bal.	18,500	Bal.	32,000	Bal.	700
				Adj.	<u>1,400</u>
					<u>2,100</u>
Inventory		Equipment		Accum. Depr.—Equipment	
Bal.	80,000	Bal.	84,000	Bal.	35,000
				Adj.	<u>12,000</u>
					<u>47,000</u>
Prepaid Insurance		Notes Payable		Interest Expense	
Bal.	<u>5,100</u>	Bal.	28,000	Adj.	<u>3,360</u>
Adj.	2,550			Cls.	<u>3,360</u>
	<u>2,550</u>				
Common Stock		Sales Revenue		Insurance Expense	
	Bal. 80,600	Cls.	<u>600,000</u>	Bal.	<u>2,550</u>
		Bal.	<u>600,000</u>	Cls.	<u>2,550</u>
Salaries and Wages Expense (Sales)		Advertising Expense		Salaries and Wages Expense (Administrative)	
Bal.	50,000	Bal.	6,700	Adj.	<u>65,000</u>
Adj.	<u>2,400</u>	Adj.	700	Cls.	<u>65,000</u>
	<u>52,400</u>		<u>6,700</u>		
	<u>52,400</u>		<u>6,700</u>		
Bad Debt Expense		Supplies Expense		Prepaid Advertising	
Adj.	<u>1,400</u>	Bal.	5,000	Adj.	700
	<u>1,400</u>	Adj.	1,500		
		Cls.	<u>3,500</u>		
			<u>5,000</u>		
			<u>5,000</u>		
Interest Payable		Depr. Exp.		Income Summary	
	Adj. 3,360	Adj.	<u>12,000</u>	Exp.	554,210
		Cls.	<u>12,000</u>	Inc.	<u>45,790</u>
					<u>600,000</u>
					<u>600,000</u>
Supplies		Salaries and Wages Payable			
Adj.	1,500	Adj.	2,400		
Retained Earnings		Cost of Goods Sold			
	Bal. 10,000	Bal.	<u>408,000</u>		
	Inc. <u>45,790</u>	Cls.	<u>408,000</u>		
	Bal. <u>55,790</u>				

Problem 2.10 (Continued)

(b) -1-			
Dec. 31	Bad Debt Expense	1,400	
	Allowance for Doubtful Accounts.....		1,400
-2-			
Dec. 31	Depreciation Expense (\$84,000 ÷ 7)	12,000	
	Accumulated Depreciation— Equipment.....		12,000
-3-			
Dec. 31	Insurance Expense	2,550	
	Prepaid Insurance.....		2,550
-4-			
Dec. 31	Interest Expense	3,360	
	Interest Payable		3,360
-5-			
Dec. 31	Salaries and Wages Expense (Sales).....	2,400	
	Salaries and Wages Payable.....		2,400
-6-			
Dec. 31	Prepaid Advertising.....	700	
	Advertising Expense		700
-7-			
Dec. 31	Supplies	1,500	
	Supplies Expense		1,500

Problem 2.10 (Continued)

(c)	Dec. 31		
Sales Revenue.....		600,000	
Income Summary			600,000 ^a
	Dec. 31		
Income Summary		554,210 ^b	
Cost of Goods Sold			408,000
Advertising Expense			6,000
Salaries and Wages Expense (Admin.)			65,000
Salaries and Wages Expense (Sales)			52,400
Supplies Expense			3,500
Insurance Expense			2,550
Bad Debt Expense			1,400
Depreciation Expense			12,000
Interest Expense			3,360
	Dec. 31		
Income Summary (\$600,000 ^a - \$554,210 ^b)		45,790	
Retained Earnings			45,790

LO: 2, 3, 4 Bloom: AP, Difficulty: Moderate, Time: 30-35, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

***Problem 2.11**

**(a) ARKANSAS SALES AND SERVICE
Income Statement
For the Month Ended January 31, 2025**

	(1) <u>Cash Basis</u>	(2) <u>Accrual Basis</u>
Revenues	\$ 75,000	\$98,400*
Expenses		
Cost of computers & printers:		
Purchased and paid	82,500**	
Cost of goods sold.....		59,500***
Salaries and wages	9,600	12,600
Rent.....	6,000	2,000^a
Other operating expenses	<u>8,400</u>	<u>10,400^b</u>
Total expenses	<u>106,500</u>	<u>84,500</u>
Net income (loss)	<u>\$(31,500)</u>	<u>\$13,900</u>

*(\$2,550 X 30) + (\$3,600 X 4) + (\$500 X 15)

**(\$1,500 X 40) + (\$2,500 X 6) + (\$300 X 25)

***(\$1,500 X 30) + (\$2,500 X 4) + (\$300 X 15)

^a(\$6,000 / 3 months)

^b(\$8,400 + \$2,000)

***Problem 2.11 (Continued)**

(b) **ARKANSAS SALES AND SERVICE**
Balance Sheet
As of January 31, 2025

	(1) <u>Cash Basis</u>	(2) <u>Accrual</u> <u>Basis</u>
<u>Assets</u>		
Cash	\$58,500 ^a	\$ 58,500 ^a
Accounts receivable		23,400
Inventory		23,000 ^b
Prepaid rent (\$6,000 - \$2,000)		<u>4,000</u>
Total assets	<u>\$58,500</u>	<u>\$108,900</u>
<u>Liabilities and owners' equity</u>		
Salaries and wages payable		\$ 3,000
Accounts payable		2,000
Owner's capital	<u>\$58,500^c</u>	<u>103,900^d</u>
Total liabilities and owner's equity	<u>\$58,500</u>	<u>\$108,900</u>

^a Original investment	\$ 90,000
Cash sales	75,000
Cash purchases	(82,500)
Rent paid	(6,000)
Salaries paid	(9,600)
Other operating expenses	<u>(8,400)</u>
Cash balance Jan. 31	<u>\$ 58,500</u>

^b[(40 – 30) @ \$1,500] + (2 @ \$2,500) + (10 @ \$300).

^cInitial investment minus net loss: \$90,000 – \$31,500.

^dInitial investment plus net income: \$90,000 + \$13,900.

***Problem 2.11 (Continued)**

- (c)
1. The \$23,400 in receivables from customers is an asset and a future cash flow resulting from sales that is ignored. The cash basis understates the amount of revenues and inflow of assets in January from the sale of computers and printers by \$23,400.
 2. The cost of computers and printers sold in January is overstated by \$23,000. The unsold computers and printers are an asset of \$23,000 in the form of inventory.
 3. The cash basis ignores \$3,000 of the salaries that have been earned by the employees in January and will be paid in February.
 4. Rent expense on the cash basis is overstated by \$4,000. This prepayment is an asset in the form of two months' future right to the use of office, showroom, and repair space and should appear on the balance sheet.
 5. Other operating expenses on a cash basis are understated by \$2,000 as is the liability for the unpaid portion of these expenses incurred in January.

LO: 6, Bloom: AP, Difficulty: Moderate, Time: 35-40, AACSB: Analytic, Communication, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication

(a)

COOKE COMPANY
Worksheet
For the Year Ended September 30, 2025

Account Titles	Trial Balance		Adjustments		Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	37,400				37,400				37,400	
Supplies	18,600		(b)	14,400	4,200				4,200	
Prepaid Insurance	31,900		(a)	28,000	3,900				3,900	
Land	80,000				80,000				80,000	
Equipment	120,000				120,000				120,000	
Accum. Depr.-Equip.		36,200	(c)	5,800		42,000				42,000
Accounts Payable		14,600				14,600				14,600
Unearned Service Rev.		2,700	(d)	2,000		700				700
Mortgage Payable		50,000				50,000				50,000
Common Stock		107,700				107,700				107,700
Retained Earnings		2,000				2,000				2,000
Dividends	14,000				14,000				14,000	
Service Revenue		278,500	(d)	2,000		280,500	280,500			
Sal. and Wages Exp.	109,000				109,000		109,000			
Maintenance and Repairs Expense	30,500				30,500		30,500			
Advertising Expense	9,400				9,400		9,400			
Utilities Expenses	16,900				16,900		16,900			
Prop. Tax Expense	18,000		(e)	3,000	21,000		21,000			
Interest Expense	<u>6,000</u>		(f)	6,000	12,000		12,000			
Totals	<u>491,700</u>	<u>491,700</u>								
Insurance Expense			(a)	28,000	28,000		28,000			
Supplies Expense			(b)	14,400	14,400		14,400			
Interest Payable				(f)	6,000	6,000				6,000
Depreciation Expense			(c)	5,800	5,800		5,800			
Prop. Taxes Payable				(e)	<u>3,000</u>	<u>3,000</u>				<u>3,000</u>
Totals			<u>59,200</u>	<u>59,200</u>	<u>506,500</u>	<u>506,500</u>	247,000	280,500	259,500	226,000
Net Income							<u>33,500</u>			<u>33,500</u>
Totals							<u>280,500</u>	<u>280,500</u>	<u>259,500</u>	<u>259,500</u>

Key: (a) Expired Insurance (\$31,900 - \$3,900); (b) Supplies Used (\$18,600 - \$4,200); (c) Depreciation Expensed (\$42,000 - \$36,200); (d) Service Revenue Recognized (\$2,700 - \$700); (e) Accrued Property Taxes (\$21,000 - \$18,000); (f) Taxes Accrued (\$0 - \$6,000)

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***Problem 2.12 (Continued)**

(b)

COOKE COMPANY
Balance Sheet
September 30, 2025

Assets			
Current assets			
Cash		\$37,400	
.....			
Supplies.....		4,200	
Prepaid insurance.....		<u>3,900</u>	
Total current assets.....			\$ 45,500
Property, plant, and equipment			
Land		80,000	
.....			
Equipment.....	\$120,000		
Less: Accum. depreciation – equipment.....	<u>42,000</u>	<u>78,000</u>	<u>158,000</u>
Total assets.....			<u>\$203,500</u>
Liabilities and Stockholders' Equity			
Current liabilities			
Accounts payable.....		\$14,600	
Current maturity of long-term debt.....		10,000*	
Interest payable.....		6,000	
Property taxes payable.....		3,000	
Unearned service revenue.....		<u>700</u>	
Total current liabilities.....			\$ 34,300
Long-term liabilities			
Mortgage payable (\$50,000 - \$10,000*).....			<u>40,000</u>
Total liabilities.....			74,300
Stockholders' equity			
Common stock.....	107,700		
Retained earnings (\$2,000 + \$33,500 – \$14,000).....	<u>21,500</u>	<u>129,200</u>	
Total liabilities and stockholders' equity			<u>\$203,500</u>

***Problem 2.12 (Continued)**

(c)	Sep. 30	Insurance Expense	28,000	
		Prepaid Insurance		28,000
30		Supplies Expense	14,400	
		Supplies		14,400
30		Depreciation Expense	5,800	
		Accum. Depreciation— Equipment.....		5,800
30		Unearned Service Revenue (\$2,700 - \$700)	2,000	
		Service Revenue.....		2,000
30		Property Tax Expense	3,000	
		Property Taxes Payable		3,000
30		Interest Expense	6,000	
		Interest Payable		6,000
(d)	Sep. 30	Service Revenue	280,500	
		Income Summary		280,500 ^a
30		Income Summary	247,000 ^b	
		Salaries and Wages Expense		109,000
		Maintenance and Repairs Expense		30,500
		Insurance Expense		28,000
		Property Tax Expense		21,000
		Supplies Expense		14,400
		Utilities Expenses		16,900
		Interest Expense		12,000
		Advertising Expense		9,400
		Depreciation Expense		5,800
30		Income Summary (\$280,500 ^a - \$247,000 ^b)..	33,500	
		Retained Earnings		33,500 ^c
30		Retained Earnings	14,000 ^d	
		Dividends		14,000

***Problem 2.12 (Continued)**

(e)

COOKE COMPANY
Post-Closing Trial Balance
September 30, 2025

	<u>Debit</u>	<u>Credit</u>
Cash	\$ 37,400	
.....		
.....		
Supplies	4,200	
Prepaid Insurance	3,900	
Land	80,000	
.....		
.....		
Equipment	120,000	
Accumulated Depreciation – Equipment		\$ 42,000
Accounts Payable		14,600
Unearned Service Revenue		700
Interest Payable.....		6,000
Property Tax Payable.....		3,000
Mortgage Payable		50,000
Common Stock.....		107,700
Retained Earnings		
(\$2,000 + \$33,500 ^c - \$14,000 ^d)		<u>21,500</u>
	<u>\$245,500</u>	<u>\$245,500</u>

LO: 3, 4, 8, , Bloom: AP, Difficulty: Complex, Time: 40-50, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

UYJ2.1 Financial Reporting Problem

- (a) June 30, 2020 total assets: \$120,700 million.
June 30, 2019 total assets: \$115,095 million.
- (b) June 30, 2020 cash and cash equivalents: \$16,181 million.
- (c) 2020 research and development costs: \$1,834 million.
2019 research and development costs: \$1,861 million.
- (d) 2020 net sales: \$70,950 million.
2019 net sales: \$67,684 million.
- (e) An adjusting entry for deferrals is necessary when the receipt/disbursement precedes the recognition in the financial statements. Accounts such as prepaid insurance and prepaid rent may be included in the Prepaid Expenses and Other Current Assets (\$2,130 million at June 30, 2020). Both of these accounts would require an adjusting entry to recognize the proper amount of expense incurred during the period. In addition, depreciation expense is an adjusting entry related to a deferral.

An adjusting entry for an accrual is necessary when recognition in the financial statements precedes the cash receipt/disbursement, such as interest or taxes payable. Other adjusting entries probably made by P&G include interest revenue and expense and interest receivable and interest payable. P&G reports \$9,722 million of Accrued and Other Liabilities at June 30, 2020.
- (f) 2020 Depreciation and amortization expense: \$3,013 million
2019 Depreciation and amortization expense: \$2,824 million

(From the Statement of Cash Flows)

LO: 3, 4, Bloom: AN, Difficulty: Moderate, Time: 30-35, AACSB: Analytic, Communication, AICPA BB: None, AICPA FC: Reporting, Research, AICPA PC: Communication

UYJ2.2 Comparative Analysis Case

- (a) The Coca-Cola Company percentage increase is computed as follows:

Total assets (December 31, 2020).....	\$87,296
Less: Total assets (December 31, 2019)	<u>86,381^b</u>
Difference	<u>\$915^a</u>

$$\$915^a \div \$86,381^b = \underline{1.1\%}$$

PepsiCo, Inc.'s percentage increase is computed as follows:

Total assets (December 26, 2020).....	\$92,918
Less: Total assets (December 28, 2019)	<u>78,547^c</u>
Difference	<u>\$14,371^d</u>

$$\$14,371^d \div \$78,547^c = \underline{18.3\%}$$

Coca-Cola Company had a very small increase; but, PepsiCo had a larger increase.

- (b)

	<u>3-Year Growth Rate</u>	
	<u>The Coca-Cola Company</u>	<u>PepsiCo, Inc.</u>
Net sales	(3.75)% ^e	8.83% ^g
Net income	19.95% ^f	(42.87)% ^h

$$^e(\$33,014 \div \$34,300) - 1$$

$$^g(\$70,372 \div \$64,661) - 1$$

$$^f(\$7,768 \div \$6,476) - 1$$

$$^h(\$7,175 \div \$12,559) - 1$$

- (c) The Coca-Cola Company had depreciation and amortization expense of \$1,536 million; PepsiCo, Inc. had depreciation and amortization expense of \$2,548 million.

Comparative Analysis Case (Continued)

PepsiCo has substantially more property, plant, and equipment than does Coca-Cola. PepsiCo is engaged in three different types of businesses: soft drinks, snack-food, and juices. As a result, it has more tangible fixed assets. PepsiCo also has substantially more amortizable intangible assets. Amortizable intangible assets for Coke and Pepsi increase the amount of amortization expense recorded in income. The amount of property, plant, and equipment and amortizable intangible assets reported for these two companies is as follows: (000,000)

	<u>The Coca-Cola Company</u>	<u>PepsiCo, Inc.</u>
Property, plant, and equipment (net)	\$ 10,777	\$21,369
Amortizable intangible assets (net)	<u>649</u>	<u>1,703</u>
	\$11,426	\$23,072

LO: 3, 4, Bloom: AN, Difficulty: Moderate, Time: 30-35, AACSB: Analytic, Communication, AICPA BB: None, AICPA FC: Reporting, Research, AICPA PC: Communication

UYJ2.3 Financial Statement Analysis

(a)	Current Year	Prior Year	2 Years Ago	% Change Current year	% Change Last year
Sales	\$14,580	\$14,792	\$14,197	-1.43%	4.19
Operating Profit	1,024	2,837	1,562	-63.91%	81.63%
Net Cash Flow less Capital Expenditures	1,211	1,170	1,225	3.50%	-4.49%
Net Earnings	633	1,808	961	-64.99%	88.14%

- (b) Kellogg experienced a slight decrease in sales in the current year which followed an increase in the previous year. The gross profit percentage decreased after an increase in the prior year. This coincides with declining operating profit but a solid increase in cash flows, compared to prior years, suggests it faces a challenging period and might be starting to recover. This may bode well for the strength and flexibility of its business model.

LO: 4, Bloom: AN, Difficulty: Moderate, Time: 15-20, AACSB: Analytic, Communication, AICPA BB: None, AICPA FC: Reporting, Research, AICPA PC: Communication

UYJ2.4 Accounting, Analysis, and Principles

Accounting

Dec. 31	Depreciation Expense	9,500 ^a	
	Accumulated Depreciation—		
	Equipment		9,500
	(\$9,500 = (\$192,000 – \$40,000) ÷ 16)		
Dec. 31	Interest Expense	8,250 ^d	
	Interest Payable		8,250
	\$8,250 = (\$90,000 X 10%) X 11/12)		
Dec. 31	Unearned Service Revenue.....	10,000	
	Service Revenue.....		10,000
	(\$10,000 = (\$50 X 200))		
Dec. 31	Advertising Expense	2,500 ^b	
	Prepaid Advertising		2,500
Dec. 31	Salaries and Wages Expense	3,500 ^c	
	Salaries and Wages Payable		3,500

Accounting, Analysis, and Principles (Continued)

Analysis

	Income before Adjustments	Adjustments	Income after Adjustments
Ticket revenue	\$360,000	\$10,000	\$370,000
Less:			
Depreciation expense		(9,500) ^a	(9,500)
Advertising expense	(18,680)	(2,500) ^b	(21,180)
Salaries and wages expense	(67,600)	(3,500) ^c	(71,100)
Interest expense	<u>(1,400)</u>	(8,250) ^d	<u>(9,650)</u>
Net income	<u>\$272,320</u>		<u>\$258,570</u>

Without recording the adjusting entries, Amato's income is overstated. In addition, without the adjustments, Amato's current liabilities and current assets are misstated, which could affect the evaluation of Amato's liquidity.

Principles

The tradeoffs are between the *timeliness* of the reports, which contributes to relevance, and verifiability, the lack of which detracts from faithful representation. That is, by preparing reports more frequently, the company provides more timely information, which can make a difference to a statement reader who needs to make a decision. However, preparing statements more frequently requires more subjective estimates, which reduces faithful representation.

LO: 3, 4, Bloom: AN, Difficulty: Moderate, Time: 20-25, AACSB: Analytic, Communication, AICPA BB: None, AICPA FC: Reporting, AICPA PC: Communication

Codification Research Case

- (a) The three essential characteristics of assets.

Search String: asset and characteristics.

CON6, Par26. An asset has three essential characteristics: (a) it embodies a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash inflows, (b) a particular entity can obtain the benefit and control others' access to it, and (c) the transaction or other event giving rise to the entity's right to or control of the benefit has already occurred.

- (b) Three essential characteristics of liabilities.

Search String: liability and characteristic.

CON6, Par36. A liability has three essential characteristics: (a) it embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand, (b) the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and (c) the transaction or other event obligating the entity has already happened.

- (c) Uncertainty, and its effects on financial statements.

Search Strings: "uncertainty", effect of uncertainty.

CON6, Par44. Uncertainty about economic and business activities and results is pervasive, and it often clouds whether a particular item qualifies as an asset or a liability of a particular entity at the time the definitions are applied. The presence or absence of future economic benefit that can be obtained and controlled by the entity or of the entity's legal, equitable, or constructive obligation to sacrifice assets in the future can often be discerned reliably only with hindsight. As a result, some items that with hindsight actually qualified as assets or liabilities of the entity under the definitions may, as a practical matter, have been recognized as expenses, losses, revenues, or gains or

Codification Research Case (Continued)

remained unrecognized in its financial statements because of uncertainty about whether they qualified as assets or liabilities of the entity or because of recognition and measurement considerations stemming from uncertainty at the time of assessment. Conversely, some items that with hindsight did not qualify under the definitions may have been included as assets or liabilities because of judgments made in the face of uncertainty at the time of assessment.

CON6, Par45. An effect of uncertainty is to increase the costs of financial reporting in general and the costs of recognition and measurement in particular. Some items that qualify as assets or liabilities under the definitions may, therefore, be recognized as expenses, losses, revenues, or gains or remain unrecognized as a result of cost and benefit analyses indicating that their formal incorporation in financial statements is not useful enough to justify the time and effort needed to do it. It may be possible, for example, to make the information more reliable in the face of uncertainty by exerting greater effort or by spending more money, but it also may not be worth the added cost.

Note to instructors: The FASB codification does not contain the Concepts Statements. However, the Concepts Statements can be accessed at another link on the FASB website.

(d) The difference between realization and recognition

Search String: realization, recognition.

CON6, Par143. Realization in the most precise sense means the process of converting noncash resources and rights into money and is most precisely used in accounting and financial reporting to refer to sales of assets for cash or claims to cash. The related terms realized and unrealized, therefore, identify revenues or gains or losses on assets sold and unsold, respectively. Those are the meanings of realization and related terms in the Board's conceptual framework. Recognition is the process of formally recording or incorporating an item in the financial statements of an entity. Thus, an asset, liability, revenue, expense, gain, or loss may be recognized (recorded) or unrecognized (unrecorded). Realization and recognition are not used as synonyms, as they sometimes are in accounting and financial literature.

LO: 1, Bloom: C, Difficulty: Moderate, Time: 25-30, AACSB: Communication, Technology, AICPA BB: Technology, AICPA FC: Measurement, Reporting, Research, AICPA PC: Communication

IFRS CONCEPTS AND APPLICATION

IFRS2.1

The date of transition is the beginning of the earliest period for which full comparative IFRS information is provided. The date of reporting is the closing balance sheet date for the first IFRS financial statements.

LO: 9, Bloom: K, Difficulty: Simple, Time: 3-5, AACSB: Diversity, Communication, AICPA BB: Global, AICPA FC: Reporting, AICPA PC: Communication

IFRS2.2

When countries accept IFRS for use as accepted accounting policies, companies need guidance to ensure that their first IFRS financial statements contain high-quality information. Specifically, *IFRS 1* requires that information in a company's first IFRS statements (1) be transparent, (2) provide a suitable starting point, and (3) have a cost that does not exceed the benefits.

LO: 9, Bloom: K, Difficulty: Simple, Time: 3-5, AACSB: Diversity, Communication, AICPA BB: Global, AICPA FC: Reporting, AICPA PC: Communication

IFRS2.3

A company follows these steps:

1. Identify the timing of its first IFRS statements.
2. Prepare an opening balance sheet at the date of transition to IFRS.
3. Select accounting principles that comply with IFRS, and apply these principles retrospectively.
4. Make extensive disclosures to explain the transition to IFRS.

LO: 9, Bloom: K, Difficulty: Simple, Time: 3-5, AACSB: Diversity, Communication, AICPA BB: Global, AICPA FC: Reporting, AICPA PC: Communication

IFRS2.4

The date of the opening balance sheet is January 1, 2025. The IFRS financial statements will include years ended December 31, 2026 and 2025.

LO: 9, Bloom: K, Difficulty: Simple, Time: 3-5, AACSB: Diversity, Communication, AICPA BB: Global, AICPA FC: Reporting, AICPA PC: Communication

(a) Assets

- 53** The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity. The potential may be a productive one that is part of the operating activities of the entity. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows, such as when an alternative manufacturing process lowers the costs of production.
- 54** An entity usually employs its assets to produce goods or services capable of satisfying the wants or needs of customers; because these goods or services can satisfy these wants or needs, customers are prepared to pay for them and hence contribute to the cash flow of the entity. Cash itself renders a service to the entity because of its command over other resources.
- 55** The future economic benefits embodied in an asset may flow to the entity in a number of ways. For example, an asset may be:
- a. used singly or in combination with other assets in the production of goods or services to be sold by the entity;
 - b. exchanged for other assets;
 - c. used to settle a liability; or
 - d. distributed to the owners of the entity.

(b) Liabilities

- 60** An essential characteristic of a liability is that the entity has a present obligation. An obligation is a duty or responsibility to act or perform in a certain way. Obligations may be legally enforceable as a consequence of a binding contract or statutory requirement. This is normally the case, for example, with amounts payable for goods and services received. Obligations also arise, however, from normal business practice, custom and a desire to maintain good business relations or act in an equitable manner. If, for example, an entity decides as a matter of policy to rectify faults in its products even when these become apparent after the warranty period has expired, the amounts that are expected to be expended in respect of goods already sold are liabilities.

IFRS2.5 (Continued)

- 61 A distinction needs to be drawn between a present obligation and a future commitment. A decision by the management of an entity to acquire assets in the future does not, of itself, give rise to a present obligation. An obligation normally arises only when the asset is delivered or the entity enters into an irrevocable agreement to acquire the asset. In the latter case, the irrevocable nature of the agreement means that the economic consequences of failing to honour the obligation, for example, because of the existence of a substantial penalty, leave the entity with little, if any, discretion to avoid the outflow of resources to another party.
- 62 The settlement of a present obligation usually involves the entity giving up resources embodying economic benefits in order to satisfy the claim of the other party. Settlement of a present obligation may occur in a number of ways, for example, by:
- a. payment of cash;
 - b. transfer of other assets;
 - c. provision of services;
 - d. replacement of that obligation with another obligation; or
 - e. conversion of the obligation to equity.

(c) Accrual basis

- 22 In order to meet their objectives, financial statements are prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash but also of obligations to pay cash in the future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions.

LO: 9, Bloom: K, Difficulty: Simple, Time: 10-15, AACSB: Diversity, Communication, Technology, AICPA BB: Global, AICPA FC: Reporting, AICPA PC: Communication

IFRS2.6

- (a) **March 28, 2020 total assets: £10,183.90 million.
March 30, 2019 total assets: £8,851.00 million.**
- (b) **March 28, 2020 cash and cash equivalents: £248.4 million.**
- (c) **2020 selling and administrative expense: £3,036.4 million.
2019 selling and administrative expense: £3,134.9 million.**
- (d) **2020 revenue: £10,181.9 million.
2019 revenue: £10,377.3 million.**
- (e) **An adjusting entry for deferrals is necessary when the receipt/disbursement precedes the recognition in the financial statements. Accounts such as property, plant and equipment (leading to depreciation), intangible assets (leading to amortisation), and retirement benefit assets would require deferral adjusting entries.**

An adjusting entry for an accrual is necessary when recognition in the financial statements precedes the cash receipt/disbursement, such as interest or taxes payable. Other adjusting entries probably made by M&S include finance income and finance costs and bank and other interest receivables and interest payables.

- (f) **2020 Depreciation (£503.8) and amortization (£164.8) expense: £668.6 million
2019 Depreciation (£605.3) and amortization (£184.4) expense: £789.7 million**

LO: 9, Bloom: K, Difficulty: Simple, Time: 10-15, AACSB: Diversity, Communication, Technology, AICPA BB: Global, AICPA FC: Reporting, AICPA PC: Communication