Solutions for Intermediate Accounting 18th Edition by Kieso

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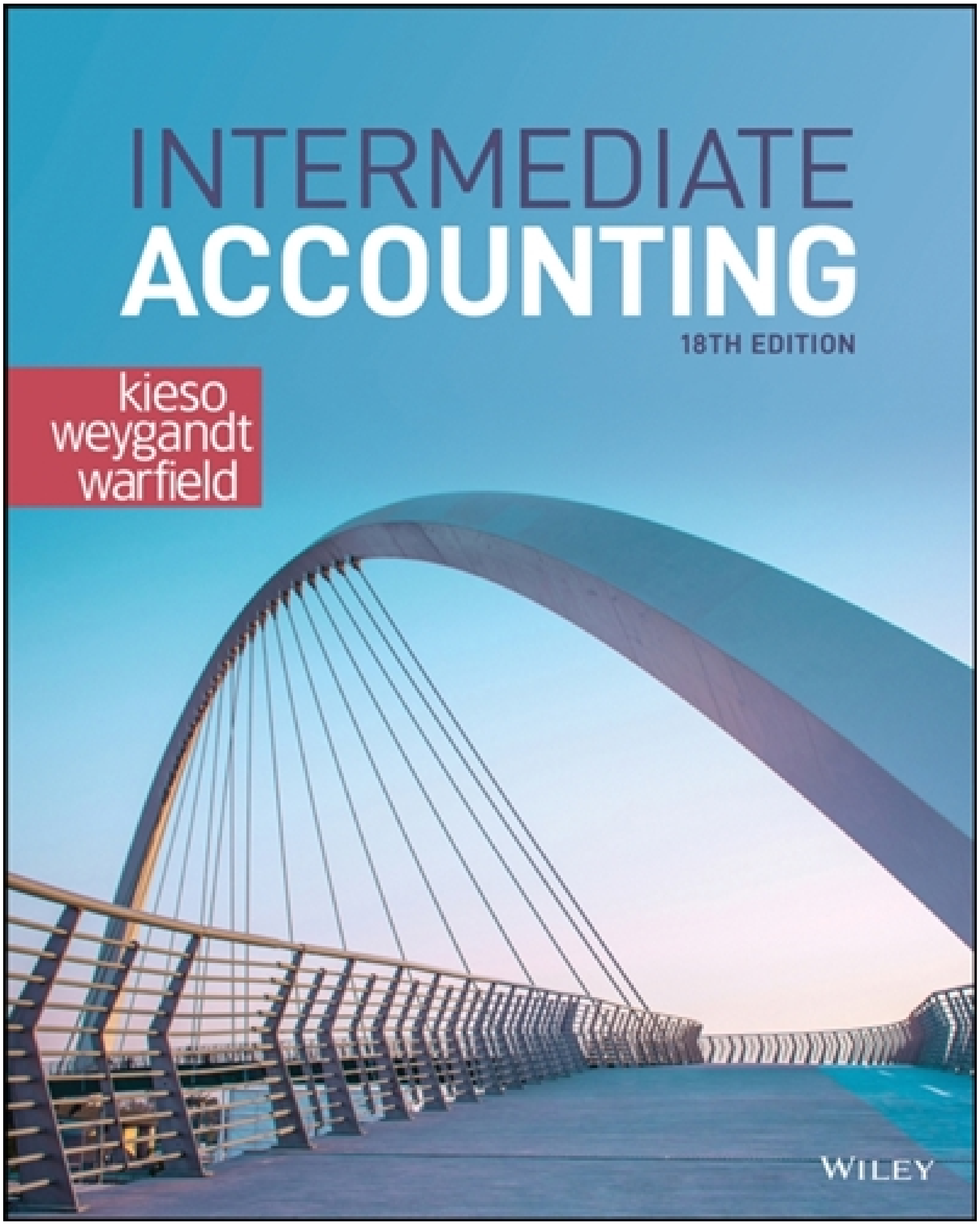

Solutions

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

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. Cost – Salvage Value = Depreciable Cost: \$4,000 – \$0 = \$4,000. Depreciable Cost ÷ Useful Life = Depreciation Expense for One Year \$4,000 ÷ 5 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 X 6/12 = amount to be reported on the 2025 income statement: \$800 X 6/12 = <u>\$400</u>.

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 Revenue 3,000	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	2,000	$28,000

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

Brief Exercise 2.11

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)	5,600
	Service revenue	$147,600
(b)	Payments for operating expenses	$ 97,000
	– Increase in prepaid expenses ($23,200 – $17,500)	(5,700)
	Operating expenses	$ 91,300

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

	Debit	Credit
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	
	$24,350	$24,350

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)	450		
Bal.	6,172		

Accounts Payable

		Bal.	7,044

Accounts Receivable

Bal.	5,240	(1)	450
Bal,	4,790		

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

Bal.	6,100		
(2)	3,200		
Bal.	9,300		

Service Revenue

		Bal.	5,200
		(3)	2,025
		(5)	80
		Bal.	7,305

Office Expense

Bal.	4,320	(2)	3,200
Bal.	1,120		

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

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

	Debit	Credit
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	1,120	
	$24,349	$24,349

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

	Debit	Credit
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	
	$15,581	$15,581

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)

		Debit	Credit
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	850	
	Beginning balance of supplies	$800	
(b)	Total prepaid insurance	$4,800	($400 X 12)
	Amount used (6 X $400)	2,400	
	Present balance	$2,400	

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 January 700	Beg. Bal. ?
	End Bal. 800

The beginning balance is therefore

Ending balance of salaries and wages payable	$ 800
Plus: Reduction of salaries and wages payable	700
Beginning balance of salaries and wages payable	$1,500

(d)	Service revenue	$2,000
	Cash received	(1,600)
	Unearned revenue reduced	$ 400

Ending unearned revenue January 31, 2025	$ 750
Plus: Unearned revenue reduced	400
Beginning unearned revenue December 31, 2024	$1,150

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)		
			*$120,000 X 10%		
		Aug. 31	Depreciation Expense	360	
			Accumulated Depreciation—Equipment		360
			($16,000 – $1,600** = $14,400; $14,400 X 10% = $1,440; $1,440 X 3/12 = $360)		
			**$16,000 X 10%		
	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

	Debit	Credit
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	
	$240,115	$240,115

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		$ 2,262

(b)

OLIVER CO.
Retained Earnings Statement
For the Year Ended December 31, 2025

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

(c)

OLIVER CO.
Balance Sheet
December 31, 2025

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

Exercise 2.11 (Continued)

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

*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	150	
Total expenses		26,700
Net income		$34,800

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

Retained earnings, January 1	$ 3,500
Add: Net income	34,800
Retained earnings, December 31	$38,300

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	35,000	25,000
Total assets		$65,350

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	1,300	
Total liabilities		$17,050
Stockholders' equity		
Common stock	$10,000	
Retained earnings	38,300	48,300
Total liabilities and stockholders' equity		$65,350

(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% X 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	15,000	39,000
	Net sales		$761,000
(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)
(b) $25,000 ($81,000 − $56,000)
(c) $10,000 ($25,000 − $15,000)
(d) $100,000 ($95,000 + $5,000)
(e) $57,000 ($95,000 − $38,000)

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

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	$95,178

Alternate solution:

Jill Accardo, M.D.
Conversion of Income Statement Data
from Cash Basis to Accrual Basis
For the Year 2025

	Cash	Adjustments		Accrual
	Basis	Add	Deduct	Basis
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	$142,600	$18,767	$13,361	$148,006
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			$3,232	
Operating expenses	$55,470	$4,025	$ 6,667	52,828
Net income—cash basis	$ 87,130			$ 95,178
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,

	2024	2025
Sales revenue	$295,000	$515,000
Expenses	225,000	272,000
Net income	$ 70,000	$243,000

(b)

Wayne Rogers Corp.
Income Statement (Accrual Basis)
For the Year Ended December 31,

	2024	2025
Sales revenue*	$485,000	$445,000
Expenses**	277,000	255,000
Net income	$208,000	$190,000

*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:

			Debit	Credit
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.**

		Dr.	Cr.
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)**

Accounts	Adjusted Trial Balance		Income Statement		Balance Sheet	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
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	63,700	63,700	10,828	12,590	52,872	51,110
Net income			1,762			1,762
Totals			12,590	12,590	52,872	52,872

***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)	13,155
Total assets		$46,877
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*	36,622
Total liabilities and Stockholders' equity		$46,877

***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

Sept.	1	20,000	Sept.	4	680
	8	1,690		5	942
	20	980		10	430
				18	3,600
				19	3,000
				30	1,800
				30	85
30	Bal	12,133			

Equipment

Sept.	2	17,280			

Common Stock

			Sept.	1	20,000
			Bal.	30	20,000

Retained Earnings

Sept.	30	3,000	Sept.	30	6,007
			Bal.	30	3,007

Accounts Receivable

Sept.	14	5,820	Sept.	20	980
	25	2,110			
Bal.	30	6,950			

Dividends

Sept.	19	3,000	Sept.30	3,000

Accounts Payable

Sept.	18	3,600	Sept.	2	17,280
			Bal.	30	13,680

Rent Expense

Sept.	4	680	Sept.	30	680

Supplies

Sept.	5	942	Sept.	30	330
Bal.	30	612			

Service Revenue

Sept.	30	9,620	Sept.	8	1,690
				14	5,820
				25	2,110
		9,620			9,620

Office Expense

Sept.	10	430	Sept.	30	515
	30	85			
		515			515

Accumulated Depreciation—Equipment

			Sept.	30	288

Salaries and Wages Expense

Sept.	30	1,800	Sept.	30	1,800

Supplies Expense

Sept.	30	330	Sept.	30	330

Problem 2.1 (Continued)

Depreciation Expense

Sept.	30	288	Sept.	30	288

Income Summary

Sept.	30		680	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

	Debit	Credit
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	$43,588	$43,588

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	515	
Total expenses		3,613
Net income		$6,007

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

Balance, September 1	$ 0
Add: Net income	6,007
	6,007
Less: Dividends	3,000
Balance, September 30	$3,007

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	(288)		
Total assets	$36,687	Total liabilities and stockholders' equity	$36,687

Problem 2.1 (Continued)

(d)

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

	Debit	Credit
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	$36,975	$36,975

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		27,050
Net income		$36,450

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	36,450
Retained earnings, December 31	$39,950

MASON ADVERTISING
Balance Sheet
December 31, 2025

Assets		
Cash		$11,000
Accounts receivable		23,500
Supplies		3,000
Prepaid insurance		2,500
Equipment	$60,000	
Less: Accumulated depreciation—equipment	33,000	27,000
Total assets		$67,000
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	150	
Total liabilities		$17,050
Stockholders' equity		
Common stock	10,000	
Retained earnings	39,950	49,950
Total liabilities and stockholders' equity		$67,000

(c) 1. Interest is $50 per month or 1% of the note payable. 1% X 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.

LO: 3, 4, Bloom: AP, Difficulty: Moderate, Time: 35-40, AACSB: Analytic, AICPA BB: None, AICPA FC: Reporting, AICPA PC: None

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) = 720		
		Total accrued salaries $2,120		
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) = 34,000		
		Total rent recognized $94,000		
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) = 900		
		Total advertising expense $4,900		
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	$1,004,700	$1,004,700

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			4,200
Net sales			753,000
Cost of goods sold			495,400
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	4,000		
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%)	2,800		
Total admin. expenses		61,700	
Total oper. expenses			252,200
Income from operations			5,400
Other expenses and losses			
Interest expense			11,000
Net loss	($5,000)		($ 5,600)

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	5,600
Retained earnings, November 30, 2025	$2,400

BELLEMY FASHION CENTER
Balance Sheet
November 30, 2025

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

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

	Debit	Credit
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
	$241,900	$241,900

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)

		Debit	Credit
	-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		48,280
Net income		$50,620

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	17,000
Retained Earnings, December 31	$ 75,630

[(a)]Retained Earnings—trial balance	$ 25,010
2025 Dividend recorded in Retained Earnings	17,000
Retained Earnings, as of January 1, 2025	$ 42,010

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	2,180*	52,320	
Supplies		1,960	
Prepaid insurance ($1,100 – $480)		620	
Prepaid rent		750	
Total current assets			$ 85,150
Equipment		25,000	
Less: Accumulated depreciation		8,750**	16,250
Total assets			$101,400

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

*($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	900	
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	50	
Total expenses		13,090
Net income		$ 2,510

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	600
Retained earnings, September 30, 2025	$1,910

ROLLING HILLS GOLF INC.
Balance Sheet
September 30, 2025

Assets		
Current assets		
Cash	$ 6,700	
Accounts receivable	1,000	
Supplies	180	
Prepaid rent	900	
Total current assets		$ 8,780
Equipment	15,000	
Less: Accumulated depreciation	350	14,650
Total assets		$23,430
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	50	$ 7,520
Stockholders' Equity		
Common stock	14,000	
Retained earnings	1,910	
Total stockholders' equity		15,910
Total liabilities and stockholders' equity		$23,430

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 X 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 . ($30,000 - $25,000)		5,000
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		24,190
Net income...		$38,810

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	10,000
Retained earnings, December 31	$34,310

VEDULA ADVERTISING
Balance Sheet
December 31, 2025

Assets		
Current assets		
Cash	$11,000	
Accounts receivable	19,500	
Supplies	6,500	
Prepaid insurance	1,790	
Total current assets		$38,790
Equipment	60,000	
Less: Accumulated depreciation	30,000	30,000
Total assets		$68,790
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	560	$ 14,480
Stockholders' Equity		
Common stock	20,000	
Retained earnings	34,310	
Total stockholders' equity		54,310
Total liabilities and stockholders' equity		$68,790

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 ÷ $8,000). 0.7% X 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
	5,500		

Salaries and Wages Expense

Bal.	80,000	Close	83,600
Adj.	3,600		
	83,600		83,600

Common Stock

		Bal.	400,000

Accounts Receivable

Bal.	13,000		

Retained Earnings

		Bal.	82,000
		Inc.	31,640
			113,640

Maintenance and Repairs Expense

Bal.	24,000	Close	24,000

Allow. for Doubtful Accts.

		Bal.	1,100
		Adj.	460
			1,560

Dues Revenue

Adj.	8,900	Bal.	200,000
Cls.	191,100		
	200,000		200,000

Depr. Expense

Adj.	4,000	Close	19,000
Adj.	15,000		
	19,000		

Land

Bal.	350,000		

Green Fees Revenue

Close	5,900	Bal.	5,900

Equipment

Bal.	150,000		

Buildings

Bal.	120,000		

Rent Revenue

Close	19,200	Bal.	17,600
		Adj.	1,600
	19,200		19,200

Accum. Depr.—Equipment

		Bal.	70,000
		Adj.	15,000
			85,000

Accum. Depr.—Buildings

		Bal.	38,400
		Adj.	4,000
			42,400

Utilities Expenses

Bal.	54,000	Close	54,000

Insurance Expense

Adj.	3,500	Close	3,500

Rent Receivable

Adj.	$1,600		

Bad Debt Expense

Adj.	460	Close	460

Income Summary

Exp.	184,560		216,200
Inc.	31,640		
	216,200		216,200

Problem 2.9 (Continued)

Salaries and Wages Payable			Unearned Dues Revenue		
	Adj.	3,600		Adj.	8,900

(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

	Dr.	Cr.
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	$839,660	$839,660

Problem 2.9 (Continued)

(d)

	Debit	Credit
-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

Bal.	18,500		

Accounts Receivable

Bal.	32,000		

Allogw. for Doubtful Accts.

		Bal.	700
		Adj.	1,400
			2,100

Inventory

Bal.	80,000		

Equipment

Bal.	84,000		

Accum. Depr.—Equipment

		Bal.	35,000
		Adj.	12,000
			47,000

Prepaid Insurance

Bal.	5,100	Adj.	2,550
	2,550		

Notes Payable

		Bal.	28,000

Interest Expense

Adj.	3,360	Cls.	3,360

Common Stock

		Bal.	80,600

Sales Revenue

Cls.	600,000	Bal.	600,000

Insurance Expense

Bal.	2,550	Cls.	2,550

Salaries and Wages Expense (Sales)

Bal.	50,000	Cls.	52,400
Adj.	2,400		
	52,400		52,400

Advertising Expense

Bal.	6,700	Adj.	700
		Cls.	6,000
	6,700		6,700

Salaries and Wages Expense (Administrative)

Adj.	65,000	Cls.	65,000

Bad Debt Expense

Adj.	1,400	Cls.	1,400

Supplies Expense

Bal.	5,000	Adj.	1,500
		Cls.	3,500
	5,000		5,000

Prepaid Advertising

Adj.	700		

Interest Payable

		Adj.	3,360

Depr. Exp.

Adj.	12,000	Cls.	12,000

Income Summary

Exp.	554,210	Sales	600,000
Inc.	45,790		
	600,000		600,000

Supplies

Adj.	1,500		

Salaries and Wages Payable

		Adj.	2,400

Retained Earnings

		Bal.	10,000
		Inc.	45,790
		Bal.	55,790

Cost of Goods Sold

Bal.	408,000	Cls.	408,000

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) Cash Basis	(2) Accrual Basis
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	8,400	10,400[b]
Total expenses	106,500	84,500
Net income (loss)	$(31,500)	$13,900

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

[a]Original investment	$ 90,000
Cash sales	75,000
Cash purchases	(82,500)
Rent paid	(6,000)
Salaries paid	(9,600)
Other operating expenses	(8,400)
Cash balance Jan. 31	$ 58,500

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

[c]Initial investment minus net loss: $90,000 – $31,500.

[d]Initial 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

*Problem 2.12

(a)

COOKE COMPANY
Worksheet
For the Year Ended September 30, 2025

Account Titles	Trial Balance Dr.	Trial Balance Cr.		Adjustments Dr.		Adjustments Cr.	Adjusted Trial Balance Dr.	Adjusted Trial Balance Cr.	Income Statement Dr.	Income Statement Cr.	Balance Sheet Dr.	Balance Sheet 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	6,000		(f)	6,000			12,000		12,000			
Totals	491,700	491,700										
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)	3,000		3,000				3,000
Totals				59,200		59,200	506,500	506,500	247,000	280,500	259,500	226,000
Net Income									33,500			33,500
Totals									280,500	280,500	259,500	259,500

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)

***Problem 2.12 (Continued)**

(b)

COOKE COMPANY
Balance Sheet
September 30, 2025

Assets

Current assets			
Cash		$37,400	
Supplies		4,200	
Prepaid insurance		3,900	
Total current assets			$ 45,500
Property, plant, and equipment			
Land		80,000	
Equipment	$120,000		
Less: Accum. depreciation – equipment	42,000	78,000	158,000
Total assets			$203,500

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	700	
Total current liabilities		$ 34,300
Long-term liabilities		
Mortgage payable ($50,000 - $10,000*)		40,000
Total liabilities		74,300
Stockholders' equity		
Common stock	107,700	
Retained earnings ($2,000 + $33,500 – $14,000)	21,500	129,200
Total liabilities and stockholders' equity		$203,500

***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

	Debit	Credit
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])		21,500
	$245,500	$245,500

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)	86,381[b]
Difference	$915[a]

$915[a] ÷ $86,381[b] = 1.1%

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

Total assets (December 26, 2020)	$92,918
Less: Total assets (December 28, 2019)	78,547[c]
Difference	$14,371[d]

$14,371[d] ÷ $78,547[c] = 18.3%

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

(b)

	3-Year Growth Rate	
	The Coca-Cola Company	PepsiCo, Inc.
Net sales	(3.75)%[e]	8.83%[g]
Net income	19.95%[f]	(42.87)%[h]

[e]($33,014 ÷ $34,300)-1

[f]($7,768 ÷ $6,476)-1

[g]($70,372 ÷ $64,661) -1

[h]($7,175 ÷ $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)

	The Coca-Cola Company	PepsiCo, Inc.
Property, plant, and equipment (net)	$ 10,777	$21,369
Amortizable intangible assets (net)	649	1,703
	$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	(1,400)	(8,250)[d]	(9,650)
Net income	$272,320		$258,570

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.

<u>Search String</u>: 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.

<u>Search String</u>: 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.

<u>Search Strings</u>: "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

IFRS2.5

(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 amotisation), 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

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