# *Intermediate Accounting 18th edition Kieso Solutions Manual*

SKU: 9781119790976-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.



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## 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.


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## 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 |



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# 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



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**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 = $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



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***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



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# 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



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## 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



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## 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



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## 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



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## *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**



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# 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**


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## 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]



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## 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


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## 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)

| | | | |
|---|---|---|---|
| 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



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## 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 |



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## 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



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## 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


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## 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] | | |



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## 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


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## 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 |



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## 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 |


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## 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**



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## 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



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## 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**



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## 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


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## *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



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***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:**

| | | | | |
|---|---|---|---|---|
| 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 |



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## *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)

| 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**



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***Exercise 2.22 (20–25 minutes)**

| Ed Bradley Co.<br>Worksheet (partial)<br>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 |


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***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**



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## *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**


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# 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.



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## 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.



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# 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 | | | |

**Accounts Receivable**

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

**Rent Expense**

| | | | | | |
|---|---|---|---|---|---|
| Sept. | 4 | 680 | Sept. 30 | | 680 |

**Supplies**

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

**Office Expense**

| | | | | | |
|---|---|---|---|---|---|
| Sept. | 10 | 430 | Sept. 30 | | 515 |
| | 30 | 85 | | | |
| | | 515 | | | 515 |

**Salaries and Wages Expense**

| | | | | | |
|---|---|---|---|---|---|
| Sept. | 30 | 1,800 | Sept. 30 | | 1,800 |

**Supplies Expense**

| | | | | | |
|---|---|---|---|---|---|
| Sept. | 30 | 330 | Sept. 30 | | 330 |

**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 |

**Dividends**

| | | | | | |
|---|---|---|---|---|---|
| Sept. | 19 | 3,000 | Sept. | 30 | 3,000 |

**Accounts Payable**

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

**Service Revenue**

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

**Accumulated Depreciation—Equipment**

| | | | | | |
|---|---|---|---|---|---|
| | | | Sept. | 30 | 288 |



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## 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 |


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



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## 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


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## 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 |



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**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

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## 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



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## 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 |


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**(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 |



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**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) |


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**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 |



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**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


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## 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



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## 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 |


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**(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 |



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**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**

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## 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 |



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**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 |


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## 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**



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## 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 |


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**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 |



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## 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**



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## Problem 2.9

### (a), (b), (d)

**Cash**

| | | | |
|---|---|---|---|
| Bal. | 15,000 | | |

**Prepaid Insurance**

| | | | |
|---|---|---|---|
| Bal. | 9,000 | Adj. | 3,500 |
| | 5,500 | | |

**Common Stock**

| | | | |
|---|---|---|---|
| | | Bal. | 400,000 |

**Salaries and Wages Expense**

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

**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 |



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## 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 |


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(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 |



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## 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**


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## 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 |



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**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 |


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## 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**



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***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)


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**(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.



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***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**



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(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 | 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)**

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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 ..... | | 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 |


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***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 |



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***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


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# 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**



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# 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.**


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## 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**



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# 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**


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# 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 |



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## 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


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**(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**



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**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**



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# 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**



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**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.**



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**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**



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**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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