

SOLUTIONS

Learning Goal 8

Multiple Choice

1. c Choice “a” is a deferral—cash has been paid before the expense. There is no expense with “b”—an asset is purchased.
2. d 3. a 4. c
5. b Accounts receivable are understated. Revenue is also understated, which understates net income.
6. a Accounts payable (or similar payables) are understated. Expense is also understated, which overstates net income.
7. c 8. a 9. d (\$3,300)

Reinforcement Problems

LG 8-1.

Item	Accrued . . .		Not an accrual
	Revenue	Expense	
a. Dutchess Company owes employee wages in the amount of \$15,000 that are not recorded.		✓	
b. Finger Lakes Tourist Company has fees earned but unbilled of \$7,500.	✓		
c. Niagra Company received the December telephone bill in early January.		✓	
d. On June 30, fiscal year end for Corning, Inc. \$10,000 of wages expense accrued since the last payday.		✓	
e. Briarcliffe Company collected \$4,500 from accounts receivable.	There is no revenue here—just collecting cash owed by customers.		✓
f. Services provided but unbilled are \$9,800.	✓		
g. Utica Partnership has \$3,000 of rent still due from tenants at year end.	✓		
h. Westchester Company earned \$2,500 of a customer advance that had been credited to unearned revenue.	This revenue has already been prepaid by the customer—a deferral.		✓
i. On December 31, year end, Jefferson Company records show \$1,500 of interest on money borrowed unpaid and not due until January 15.		✓	
j. On March 3, Rockaway Operations Co. signed a contract to provide \$12,000 of consulting services.	Signing a contract does not immediately affect the accounting equation.		✓
k. Accounts Receivable 700 Fees Earned 700	✓		
l. Unearned Rent 700 Fees Earned 700	We are reducing the Unearned Revenue, so the customer must have already paid us.		✓

SOLUTIONS

Learning Goal 8, continued

LG 8-1, *continued*

Item	Accrued . . .		Not an accrual
	Revenue	Expense	
m. Rent Expense 8,000 Rent Payable 8,000		✓	
n. Rent Expense 8,000 Prepaid Rent 8,000	We are reducing the Prepaid Rent, so the item was already prepaid.		✓
o. The trial balance shows a balance of \$2,500 in the Prepaid Rent account.			✓
p. The trial balance shows a balance of \$4,000 in the Unearned Service Revenue account.			✓

LG 8-2.

Date	Account Titles and Explanation	Post. Ref.	Debit	Credit
Sept. 30	Wages Expense		5,000	
	Wages Payable			5,000
	To accrue wages			
30	Accounts Receivable		4,400	
	Fees Earned			4,400
	To accrue fees earned			
30	Interest Expense		2,500	
	Interest Payable			2,500
	To accrue interest expense			
30	Accounts Receivable		800	
	Service Revenue			800
	To accrue service revenue			
30	Accounts Receivable		2,000	
	Consulting Revenue			2,000
	To accrue unbilled consulting revenue: $3,000 \times 2/3 = 2,000$			

SOLUTIONS

Learning Goal 8, continued

LG 8-2, continued

Date	Account Titles and Explanation	Post. Ref.	Debit	Credit
30	Rent Expense		4,000	
	Rent Payable			4,000
	To accrue rent owing but unpaid			
30	Wages Expense		3,600	
	Wages Payable			3,600
	To accrue four days of wages to Sept. 30 at \$900 per day			

Note on last item: First, you calculate the rate per day: $\$4,500/5 = \900 per day. Second, you count backwards from Oct. 4 to find what day of the week September 30 was on! If October 4 is a Monday, then September 30 must have been a Thursday. Therefore, at the end of business on September 30, there must have been four days of accrued wages: Monday, Tuesday, Wednesday, and Thursday: $4 \times \$900/\text{day} = \$3,600$.

LG 8-3.

Date	Account	Post. Ref.	Debit	Credit
2008				
December	(a)			
31	Accounts Receivable		7,600	
	Financial Service Revenue			7,600
	(b)			
31	Internet Service Expense		4,500	
	Accounts Payable			4,500
	(c)			
31	Wages Expense		12,600	
	Wages Payable			12,600
	(d)			
31	Computer Lease Expense		1,250	
	Accounts Payable			1,250
	(e)			
31	Interest Receivable		180	
	Interest Revenue			180

SOLUTIONS

Learning Goal 8, continued

LG 8-3, continued

Date	Account	Post. Ref.	Debit	Credit
	(f)			
31	Franchise Expense		34,200	
	Prepaid Franchise Expense			12,000
	Accounts Payable			22,200
January	(g)			
9	Wages Payable		12,600	
	Wages Expense		16,800	
	Cash			29,400
	(h)			
11	Cash		38,000	
	Accounts Receivable			7,600
	Financial Service Revenue			30,400

- $\$38,000 \times .2 = \$7,600$
- Accrue the amount given.
- $\$2,100 \times 6 = \$12,600$ (6 days expense as of December 31).
- $\$1,550 \times 25/31 = \$1,250$ (or $\$1,550/31 \times 25 = \$1,250$).
- One month of (December) interest has accrued, payable on January 1.
- $\$136,800 \times .25 = \$34,200$ of expense, of which \$12,000 has been prepaid. The balance is still payable. The prepayment is used up and becomes an expense. The rest of the franchise expense is an accrued expense.
- Total cash to pay is $\$2,100 \times 14 = \$29,400$. Eight days of this expense for January is $\$2,100 \times 8 = \$16,800$.
- For 2009, total revenue is \$38,000 for the job, minus the \$7,600 accrued for 2008.