

Problem 3

EarCreations Technologies of Manchester recently introduced a blue-tooth enabled hearing aid that allows hearing-disabled users to not only hear better, but also interface with their cell phones and digital music players.

The company reports the following four transactions and events related to December of 20X7, and is seeking your help to prepare the end-of-year adjusting entries needed at December 31.

- 1) On December 1, the company borrowed £20,000,000 at an 8% per annum interest rate. The loan, and all accrued interest, is due in 3 months.
- 2) Early in December, the company licensed their new technology to Quick Computer, Inc., for use in Quick's existing product lines. The agreement provides for a royalty payment from Quick to EarCreations based on Quick's sales of products using the licensed technology. As of December 31, £90,000 is due under the agreement for actual sales made by Quick to date.
- 3) EarCreations pays many employee's on an hourly basis. As of December 31, there are 10,640 unpaid labor hours already worked, at an average hourly rate of £34.
- 4) The company estimates that utilities used during December, for which bills will be received in January, amount to £40,000.

Worksheet 3

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Dec. 31			
Dec. 31			
Dec. 31			
Dec. 31			

Solution 3

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Dec. 31	Interest Expense	133,333	
	Interest Payable		133,333
	<i>Accrued interest for 1 month (£20,000,000 X 8% X 1/12)</i>		
Dec. 31	Accounts Receivable	90,000	
	Royalty Revenue		90,000
	<i>To record accrued revenue for December licensing agreement</i>		
Dec. 31	Wages Expense	361,760	
	Wages Payable		361,760
	<i>To record accrued wages (10,640 X £34 per hour)</i>		
Dec. 31	Utilities Expense	40,000	
	Utilities Payable		40,000
	<i>To record accrued utilities payable</i>		

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