Problem 4

Nathan Goldstien's administrative assistant maintains a very simple computerized general ledger system. This system includes intuitive routines for recording receipts, payments, and sales on account. However, the system is not sufficiently robust to automate end-of-period adjustments. Below is the trial balance for the month ending January 31, 20X8. This trial balance has not been adjusted for the various items that are described on the following page. Review the trial balance and narratives, and prepare the necessary adjusting entries.

NATHAN CORPORATION
Trial Balance
January 31, 20X8

	Debits	Credits
Cash	$ 112,500	$ -
Accounts Receivable	37,230	-
Prepaid Insurance	7,200	-
Supplies	21,339	-
Equipment	105,000	-
Accumulated Depreciation	-	30,000
Accounts Payable	-	22,707
Unearned Revenue	-	25,500
Loan Payable	-	45,000
Capital Stock	-	72,000
Retained Earnings, Jan. 1	-	46,371
Revenues	-	131,985
Salary Expense	36,294	-
Rent Expense	39,000	-
Office Expense	7,500	-
Dividends	7,500	-
	$ 373,563	$ 373,563

Nathan Corporation's equipment had an original life of 140 months, and the straight-line depreciation method is used. As of January 1, the equipment was 40 months old. The equipment will be worthless at the end of its useful life.

As of the end of the month, Asher Corporation has provided services to customers for which the earnings process is complete. Formal billings are normally sent out on the first day of each month for the prior month's work. January's unbilled work is $75,000.

Utilities used during January, for which bills will soon be forthcoming from providers, are estimated at $4,500.

A review of supplies on hand at the end of the month revealed items costing $10,500.

The $7,200 balance in prepaid insurance was for a 6-month policy running from January 1 to June 30.

The unearned revenue was collected in December of 20X7. 60% of that amount was actually earned in January, with the remainder to be earned in February.

The loan accrues interest at 1% per month. No interest was paid in January.

Worksheet 4

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
Jan. 31			
Jan. 31			
Jan. 31			
Jan. 31			
Jan. 31			
Jan. 31			
Jan. 31			

Solution 4

GENERAL JOURNAL			
Date	**Accounts**	**Debit**	**Credit**
Jan. 31	Depreciation Expense	750	
	Accumulated Depreciation		750
	To record depreciation expense ($105,000 /140 months)		
Jan. 31	Accounts Receivable	75,000	
	Revenues		75,000
	To record accrued revenues		
Jan. 31	Utilities Expense	4,500	
	Utilities Payable		4,500
	To record accrued utilities		
Jan. 31	Supplies Expense	10,839	
	Supplies		10,839
	To record supplies used ($7,113 - $3,500 = $3,613)		
Jan. 31	Insurance Expense	1,200	
	Prepaid Insurance		1,200
	To record expired insurance ($7,200/6 months = $400)		
Jan. 31	Unearned Revenue	15,300	
	Revenues		15,300
	To record revenues earned ($8,500 X 60% = $5,100)		
Jan. 31	Interest Expense	450	
	Interest Payable		450
	To record accrued interest ($45,000 X 1% = $450)		

Problem 5

Evaluate the following items, and determine the correct amount to report on the income statement for each, using the accrual basis of accounting for the referenced period of time.

Revenues	A Company had beginning accounts receivable of $16,000. The company reported cash basis revenues of $200,000. The ending accounts receivable amounted to $36,000.
Supplies	B Company purchased $50,000 of supplies. Supplies on hand decreased by $10,000 during the period.
Rent	C Company started the year with no prepaid rent, and ended the year with $2,000 in prepaid rent. Rent expense on a cash basis was $26,000.
Equipment	A the beginning of the year, D Company purchased and expensed an item of equipment for $40,000. The equipment has a 4-year life, and will be worthless after four years.
Wages	There were no wages payable at the beginning of the year. E Company paid $290,000 in wages during the year, and owed an additional $24,000 at year's end.

Worksheet 5

Revenues	
Supplies	
Rent	
Equipment	
Wages	

Solution 5

Revenues	$220,000. The increase in Accounts Receivable corresponds to services rendered but not yet collected. Therefore, accrual basis revenues exceed cash basis revenues by $20,000.
Supplies	$60,000. The decrease in supplies means that $10,000 more was used than purchased. The accrual basis will measure supplies used as the amount of expense for the period.
Rent	$24,000. The increase in Prepaid Rent signifies that payments exceeded consumption.
Equipment	$10,000. The accrual basis would result in depreciating 25% of the asset cost ($40,000/4 years).
Wages	$314,000. Accrual basis Wage Expense would include the amount owed at the end of the year.