

Problem 6

Toto Motors is an automobile service center offering a full range of repair services for high performance cars. The following information is pertinent to adjusting entries that are needed for Toto, as of March 31, 20X5. Toto has a fiscal year ending on March 31, and only records adjusting entries at year end.

Toto has a large investment in repair equipment, and maintains detailed asset records. These records show that depreciation for fiscal “X5” is \$61,700.

As of March 31, 20X5, accrued interest on loans owed by Toto is \$10,839.

Auto dealerships outsource work to Toto. This work is done on account, and billed monthly. As of March 31, 20X5, \$27,400 of unbilled services have been provided.

Toto maintains a general business liability insurance policy. The prepaid annual premium is \$12,000. The policy was purchased on October 1, 20X4. Another policy is a 6-month property and casualty policy, and it was obtained on December 1, 20X4, at a cost of \$6,000. Both policies were initially recorded as prepaid insurance.

The company prepared a detailed count of shop supplies at March 31, 20X4. \$18,952 was on hand at that date. Management believed this level was greater than necessary and undertook a strategy to reduce these levels over the next year. During the fiscal year 20X5, Toto purchased an additional \$62,500 of supplies, and debited the Supplies account. By March 31, 20X5, the effort to reduce inventory was successful, as the count revealed an ending balance of only \$6,800.

During the fiscal year, Toto began offering a service contract to retail customers entitling them regular tire rotations, car washing, and other routine maintenance items. Customers prepay for this service agreement, and Toto records the proceeds in the Unearned Revenue account. The service plan is a flat fee of \$189, and Toto sold the plan to 678 customers. At March 31, 20X5, it is estimated that 25% of the necessary work has been provided under these agreements.

Toto’s primary advertising is on billboards. Big and Wide Outdoor Advertising sold Toto a plan for multiple sign locations around the city. Because Toto agreed to prepay the full price of \$13,000, Big and Wide agreed to leave the signs up for 13 months. Toto paid on June 1, 20X4, and recorded the full amount as a prepaid. However, the advertising campaign was not begun until July 1, 20X4. It will conclude on July 31, 20X5.

Toto leases shop space. Monthly rent is due and payable on the first day of each month. Toto paid March’s rent on March 1, and expects to pay April’s rent on April 1.

Prepare adjusting entries (hint: when necessary) for Toto, as of March 31, 20X5.

Worksheet 6

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

Solution 6

GENERAL JOURNAL			
Date	Accounts	Debit	Credit
Mar. 31	Depreciation Expense	61,700	
	Accumulated Depreciation		61,700
	<i>To record depreciation expense</i>		
Mar. 31	Interest Expense	10,839	
	Interest Payable		10,839
	<i>To record accrued interest</i>		
Mar. 31	Accounts Receivable	27,400	
	Revenues		27,400
	<i>To record unbilled services</i>		
Mar. 31	Insurance Expense	10,000	
	Prepaid Insurance		10,000
	<i>To record insurance expense (\$12,000 X 6/12) + (\$6000 X 4/6)</i>		
Mar. 31	Supplies Expense	74,652	
	Supplies		74,652
	<i>To record supplies expense (\$18,952 + \$62,500 - \$6,800)</i>		
Mar. 31	Unearned Revenues	32,461	
	Revenues		32,461
	<i>To record services provided (\$189 X 687 X 25%)</i>		
Mar. 31	Advertising Expense	9,750	
	Prepaid Advertising		9,750
	<i>To record advertising expense (\$13,000 X 9/13)</i>		