Problem 7

Examine each of the following fact scenarios, then prepare initial and end-of-year adjusting entries (when needed) assuming (a) use of a "balance sheet" approach versus (b) use of an "income statement" approach. You may assume a calendar year end for each scenario. Use T-accounts to show how the same financial statement results occur under either approach. The preprinted worksheet includes an illustrative solution for the first scenario.

Scenario 1	A \$4,500, one-year insurance policy was purchased on June 1, 20X1.
Scenario 2	\$60,000 of unearned revenue was collected on August 1, 20X1. 40% of this
	amount was earned by the end of the year.
Scenario 3	On December 1, 20X1, \$9,000 was prepaid for space in a trade-show booth.
	The trade show is in February of 20X2.
Scenario 4	A \$3,000 customer deposit for future services was received on April 1, 20X1. On
	June 20, 20X1, the customer canceled the agreement and received a full refund.



Worksheet 7

Scenario 1: Balance Sheet Approach

06/01/X1	Prepaid Insurance	4,500	
	Cash		4,500
	To record payment for 1-year policy		

12/31/X1	Insurance Expense	2,625	
	Prepaid Insurance		2,625
	To record insurance "used" (\$4,500 X 7/12)		

Prepaid Insurance				Insurance	e Expense		
06/01/X1	4,500	2,625	12/31/X1	12/31/X1	2,625		
	1,875						

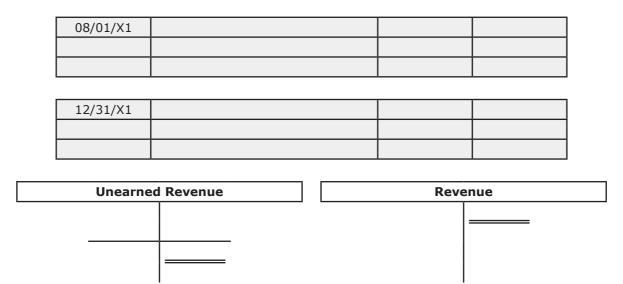
Scenario 1: Income Statement Approach

[06/01/X1	Insurance Expense	4,500	
		Cash		4,500
		To record payment for 1-year policy		

12/31/X1	Prepaid Insurance	1,875	
	Insurance Expense		1,875
	To record insurance "unused" (\$4,500 X 5/12)		

Prepaid Insurance	Insuran	ce Expense
12/31/X1 <u>1,875</u>	06/01/X1 4,500	1,875 12/31/X1
	2,62	5

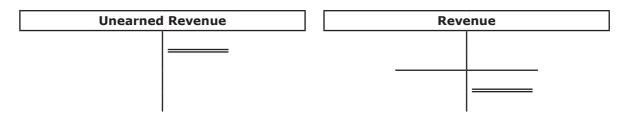
Scenario 2: Balance Sheet Approach



Scenario 2: Income Statement Approach

08/01/X1		

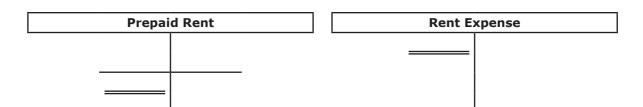
12/31/X1		



Scenario 3: Balance Sheet Approach

12/01/X1		

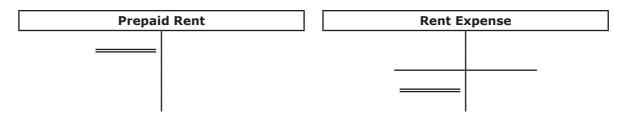
12/31/X1		



Scenario 3: Income Statement Approach

12/01/X1		

12/31/X1		



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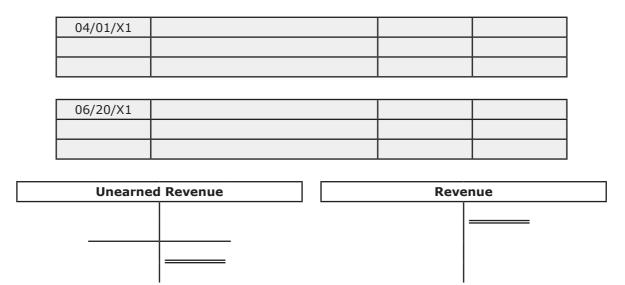
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Scenario 4: Balance Sheet Approach



Scenario 4: Income Statement Approach

04/01/X1		

06/20/X1		

Unearned	Revenue
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Revenue

Solution 7

Scenario 1: Balance Sheet Approach

06/01/X1	Prepaid Insurance	4,500	
	Cash		4,500
	To record payment for 1-year policy		

12/31/X1	Insurance Expense	2,625	
	Prepaid Insurance		2,625
	To record insurance "used" (\$4,500 X 7/12)		

Prepaid Insurance				Insurance	e Expense		
06/01/X1	4,500	2,625	12/31/X1	12/31/X1	2,625		
	1,875						

Scenario 1: Income Statement Approach

06/01/X1	06/01/X1 Insurance Expense		
	Cash		4,500
	To record payment for 1-year policy		

12/31/X1	Prepaid Insurance	1,875	
	Insurance Expense		1,875
To record insurance "unused" (\$4,500 X 5/12)			

	Prepaid I	repaid Insurance			Insurance Expense		
12/31/X1 =	1,875			06/01/X1	4,500	1,875	12/31/X1
					2,625		

Scenario 2: Balance Sheet Approach

08/01/X1	Cash	60,000	
	Unearned Revenue		60,000
To record receipt of payment for future service			

12/31/X1	Unearned Revenue	24,000	
	Revenue		24,000
To record revenue earned (\$60,000 X 40%)			

	Unearned Revenue			Revenue
12/31/X1	24,000	60,000	08/01/X1	12/31/X1
		36,000		



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Scenario 2: Income Statement Approach

08/01/X1	Cash	60,000	
	Revenue		60,000
	To record receipt of payment for future service		

12/31/X1	Revenue	36,000	
	Unearned Revenue		36,000
To record revenue not earned (\$60,000 X 60%)			

Unearned Revenue		[Reve	enue	
	<u>36,000</u> 12/31/X1	_	12/31/X1	36,000	60,000	08/01/X1
			-		24,000	

Scenario 3: Balance Sheet Approach

12/01/X1	Prepaid Rent	9,000	
	Cash		9,000
	To record payment for future booth space		

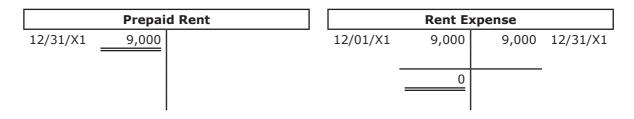
12/31/X1	No Entry	

	Prepai	d Rent	Rent Expense
12/01/X1	9,000		0
	9,000		

Scenario 3: Income Statement Approach

12/01/X1	Rent Expense	9,000	
	Cash		9,000
	To record payment for future booth space		

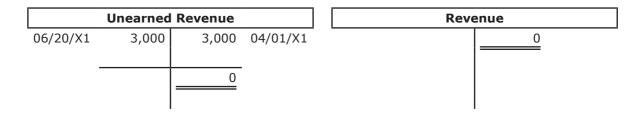
12/31/X1	Prepaid Rent	9,000	
	Rent Expense		9,000
	To record future booth space		



Scenario 4: Balance Sheet Approach

04/01/X1	Cash	3,000	
	Unearned Revenue		3,000
	To record receipt of payment for future service		

06/20/X1	Unearned Revenue	3,000	
	Cash		3,000
	To record fund		



Scenario 4: Income Statement Approach

04/01/X1	Cash	3,000	
	Revenue		3,000
	To record receipt of payment for future service		

06/20/X1	Revenue	3,000	
	Cash		3,000
	To record fund		

Unearned Revenue		Revenue			
0	06/20/X1	3,000	3,000	04/01/X1	
	-		0		



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