

M3-3 Identifying Revenues

L02, 3

The following transactions are July 2011 activities of Craig's Bowling, Inc., which operates several bowling centers (for games and equipment sales). If revenue is to be recognized in **July**, indicate the revenue account title and amount. If revenue is not to be recognized in July, explain why.

Activity	Revenue Account Title and Amount
a. Craig's collected \$13,000 from customers for games played in July.	
b. Craig's sold bowling equipment inventory for \$7,000; received \$3,000 in cash and the rest on account. [The cost of goods sold (expense) related to these sales is in M3-4e.]	
c. Craig's received \$2,500 from customers on account who purchased merchandise in June.	
d. The men's and ladies' bowling leagues gave Craig's a deposit of \$2,600 for the upcoming fall season.	

M3-4
L02, 3

Identifying Expenses

The following transactions are July 2011 activities of Craig's Bowling, Inc., which operates several bowling centers (for games and equipment sales). If expense is to be recognized in **July**, indicate the expense account title and amount. If expense is not to be recognized in July, explain why.

Activity	Expense Account Title and Amount
e. Craig's sold bowling merchandise costing \$3,890. [The sale related to the use of this merchandise is in M3-3b.]	
f. Craig's paid \$1,900 on the electricity bill for June (recorded as expense in June).	
g. Craig's paid \$4,700 to employees for work in July.	
h. Craig's purchased \$1,800 in insurance for coverage from July 1 to October 1.	
i. Craig's paid \$1,400 to plumbers for repairing a broken pipe in the restrooms.	
j. Craig's received the July electricity bill for \$2,600 to be paid in August.	

M3-5 Recording Revenues

L04

For each of the transactions in M3-3, write the journal entry in good form.

M3-6 Recording Expenses

L04

For each of the transactions in M3-4, write the journal entry in good form.

M3-7 Determining the Financial Statement Effects of Operating Activities Involving Revenues

L04

The following transactions are July 2011 activities of Craig's Bowling, Inc., which operates several bowling centers (for games and equipment sales). For each of the following transactions, complete the tabulation, indicating the amount and effect (+ for increase and - for decrease) of each transaction. (Remember that $A = L + SE$, $R - E = NI$, and NI affects SE through Retained Earnings.) Write NE if there is no effect. The first transaction is provided as an example.

- c. Sold sports equipment to customers for \$630,000; received \$520,000 in cash and the rest on account. The cost of the equipment was \$387,000.
- d. Paid \$17,200 cash for utilities for the year.
- e. Received \$35,000 from customers as deposits on orders of new winter sports equipment to be sold to the customers in January 2013.
- f. Received a \$1,740 bill for December 2012 utilities that will be paid in January 2013.

Required:

1. Complete the following statements:

Cash Basis Income Statement	Accrual Basis Income Statement
Revenues	Revenues
Cash sales	Sales to customers
Customer deposits	
Expenses	Expenses
Inventory purchases	Cost of sales
Wages paid	Wages expense
Utilities paid	Utilities expense
Net income	Net income

2. Which basis of accounting (cash or accrual) provides more useful information to investors, creditors, and other users? Why?

Identifying Revenues

Revenues are normally recognized when the delivery of goods or services has occurred, there is persuasive evidence of an arrangement for customer payment, the price is fixed or determinable, and collection is reasonably assured. The amount recorded is the cash-equivalent sales price. The following transactions occurred in **September** 2013:

- a. A popular ski magazine company receives a total of \$11,980 today from subscribers. The subscriptions begin in the next fiscal year. Answer from the magazine company's standpoint.
- b. On September 1, 2013, a bank lends \$1,200 to a company; the note principal and \$144 ($\$1,200 \times 12$ percent) annual interest are due in one year. Answer from the bank's standpoint.
- c. Fucillo Hyundai, Inc., sells a truck with a list, or "sticker," price of \$20,050 for \$18,050 cash.
- d. Macy's department store orders 1,000 men's shirts for \$15 each for future delivery from Phillips-Van Heusen Corporation, manufacturer of Izod, Arrow, Van Heusen, and Calvin Klein shirts. The terms require payment in full within 30 days of delivery. Answer from Phillips-Van Heusen's standpoint.
- e. Phillips-Van Heusen Corporation completes production of the shirts described in (d) and delivers the order. Answer from Phillips-Van Heusen's standpoint.
- f. Phillips-Van Heusen receives payment from Macy's for the events described in (d) and (e). Answer from Phillips-Van Heusen's standpoint.
- g. A customer purchases a ticket from American Airlines for \$610 cash to travel the following January. Answer from American Airlines's standpoint.
- h. Ford Motors issues \$20 million in new common stock.
- i. Penn State University receives \$18,300,000 cash for 80,000 five-game season football tickets.
- j. Penn State plays the first football game referred to in (i).
- k. Precision Builders signs a contract with a customer for the construction of a new \$1,500,000 warehouse. At the signing, Precision receives a check for \$150,000 as a deposit on the future construction. Answer from Precision's standpoint.
- l. A customer orders and receives 10 personal computers from Dell; the customer promises to pay \$18,400 within three months. Answer from Dell's standpoint.
- m. Sears, a retail store, sells a \$100 lamp to a customer who charges the sale on his store credit card. Answer from Sears's standpoint.

Required:

For each of the transactions, if revenue is to be recognized in September, indicate the revenue account title and amount. If revenue is not to be recognized in September, explain why.

E3-3
LO2, 3

Required:

For each of the transactions, complete the tabulation, indicating the effect (+ for increase and - for decrease) of each transaction. (Remember that $A = L + SE$, $R - E = NI$, and NI affects SE through Retained Earnings.) Write NE if there is no effect. The first transaction is provided as an example.

Transaction	BALANCE SHEET			INCOME STATEMENT		
	Assets	Liabilities	Stockholders' Equity	Revenues	Expenses	Net Income
(a) (example)	+	NE	+	NE	NE	NE

Determining Financial Statement Effects of Various Transactions

Wolverine World Wide, Inc., manufactures military, work, sport, and casual footwear and leather accessories under a variety of brand names, such as Hush Puppies, Wolverine, and Bates, to a global market. The following transactions occurred during a recent year. Dollars are in thousands.

- a. Issued common stock to investors for \$7,047 cash (example).
- b. Purchased \$765,472 of additional inventory on account.
- c. Borrowed \$59,500.
- d. Sold \$1,220,568 of products to customers on account; cost of the products sold was \$734,547.
- e. Paid cash dividends of \$20,758.
- f. Purchased for cash \$24,126 in additional property, plant, and equipment.
- g. Incurred \$345,183 in selling expenses, paying three-fourths in cash and owing the rest on account.
- h. Earned \$1,757 interest on investments, receiving 90 percent in cash.
- i. Incurred \$2,850 in interest expense to be paid at the beginning of next year.

E3-6
L04

Wolverine World Wide, Inc.

Required:

For each of the transactions, complete the tabulation, indicating the effect (+ for increase and - for decrease) of each transaction. (Remember that $A = L + SE$, $R - E = NI$, and NI affects SE through Retained Earnings.) Write NE if there is no effect. The first transaction is provided as an example.

Transaction	BALANCE SHEET			INCOME STATEMENT		
	Assets	Liabilities	Stockholders' Equity	Revenues	Expenses	Net Income
(a) (example)	+7,047	NE	+7,047	NE	NE	NE

Recording Journal Entries

Sysco, formed in 1969, is North America's largest marketer and distributor of food service products, serving approximately 400,000 restaurants, hotels, schools, hospitals, and other institutions. The following summarized transactions are typical of those that occurred in a recent year (dollars are in thousands).

- a. Purchased plant and equipment for \$515 in cash.
- b. Borrowed \$758 from a bank, signing a short-term note.
- c. Provided \$37,522 in service to customers during the year, with \$27,250 on account and the rest received in cash.
- d. Paid \$4,300 cash on accounts payable.
- e. Purchased \$30,449 inventory on account.
- f. Paid payroll, \$3,500 during the year.
- g. Received \$37,410 on account paid by customers.
- h. Purchased and used fuel of \$750 in delivery vehicles during the year (paid for in cash).
- i. Declared and paid \$497 in dividends for the year.
- j. Incurred \$68 in utility usage during the year; paid \$55 in cash and owed the rest on account.

Required:

For each of the transactions, prepare journal entries. Determine whether the accounting equation remains in balance and debits equal credits after each entry.

E3-7
L04
Sysco

Required:

1. Create T-accounts for the balance sheet accounts and for these additional accounts: Rebuilding Fees Revenue, Rent Revenue, Wages Expense, and Utilities Expense. Enter the beginning balances.
2. Enter the following January 2011 transactions in the T-accounts, using the letter of each transaction as the reference:
 - a. Rebuilt and delivered five pianos in January to customers who paid \$18,400 in cash.
 - b. Received a \$600 deposit from a customer who wanted her piano rebuilt.
 - c. Rented a part of the building to a bicycle repair shop; received \$820 for rent in January.
 - d. Received \$7,200 from customers as payment on their accounts.
 - e. Received an electric and gas utility bill for \$520 to be paid in February.
 - f. Ordered \$960 in supplies.
 - g. Paid \$2,140 on account in January.
 - h. Received from the home of Stacey Eddy, the major shareholder, a \$920 tool (equipment) to use in the business.
 - i. Paid \$15,000 in wages to employees who worked in January.
 - j. Declared and paid a \$2,600 dividend.
 - k. Received and paid cash for the supplies in (f).
3. Using the data from the T-accounts, amounts for the following on January 31, 2011, were

$$\begin{array}{l} \text{Revenues } \$ \underline{\hspace{2cm}} - \text{Expenses } \$ \underline{\hspace{2cm}} = \text{Net Income } \$ \underline{\hspace{2cm}} \\ \text{Assets } \$ \underline{\hspace{2cm}} = \text{Liabilities } \$ \underline{\hspace{2cm}} + \text{Stockholders' Equity } \$ \underline{\hspace{2cm}} \end{array}$$
4. What is net income if Stacey's used the cash basis of accounting? Why does this differ from accrual basis net income (in requirement 3)?

Preparing an Income Statement, Statement of Stockholders' Equity, and Classified Balance Sheet

E3-11
L05

Refer to E3-10.

Required:

Use the ending balances in the T-accounts in E3-10 to prepare the following:

1. An income statement for January 2011 in good form (ignore income taxes).
2. A statement of stockholders' equity for January 2011.
3. A classified balance sheet as of January 31, 2011, in good form.

Preparing a Statement of Cash Flows

Refer to E3-10.

Required:

Use the transactions in E3-10 to prepare a statement of cash flows in good form.

Analyzing the Effects of Transactions in T-Accounts

Lisa Frees and Amelia Ellinger had been operating a catering business for several years. In March 2011, the partners were planning to expand by opening a retail sales shop and decided to form the business as a corporation called Traveling Gourmet, Inc. The following transactions occurred in March 2011:

- a. Received \$80,000 cash from each of the two shareholders to form the corporation, in addition to \$2,000 in accounts receivable, \$5,300 in equipment, a van (equipment) appraised at a fair market value of \$13,000, and \$1,200 in supplies.
- b. Purchased a vacant store for sale in a good location for \$360,000, making a \$72,000 cash down payment and signing a 10-year mortgage from a local bank for the rest.
- c. Borrowed \$50,000 from the local bank on a 10 percent, one-year note.
- d. Purchased and used food and paper supplies costing \$10,830 in March; paid cash.
- e. Catered four parties in March for \$4,200; \$1,600 was billed, and the rest was received in cash.
- f. Made and sold food at the retail store for \$11,900 cash.
- g. Received a \$420 telephone bill for March to be paid in April.
- h. Paid \$363 in gas for the van in March.

E3-12
L05



E3-13
L04

- i. Paid \$6,280 in wages to employees who worked in March.
- j. Paid a \$300 dividend from the corporation to each owner.
- k. Purchased \$50,000 of equipment (refrigerated display cases, cabinets, tables, and chairs) and renovated and decorated the new store for \$20,000 (added to the cost of the building); paid cash.

Required:

1. Set up appropriate T-accounts for Cash, Accounts Receivable, Supplies, Equipment, Building, Accounts Payable, Note Payable, Mortgage Payable, Contributed Capital, Retained Earnings, Food Sales Revenue, Catering Sales Revenue, Supplies Expense, Utilities Expense, Wages Expense, and Fuel Expense.
2. Record in the T-accounts the effects of each transaction for Traveling Gourmet, Inc., in March. Identify the amounts with the letters starting with (a). Compute ending balances.

E3-14 Preparing an Income Statement, Statement of Stockholders' Equity, and Classified Balance Sheet
L05

Refer to E3-13.

Required:

Use the balances in the completed T-accounts in E3-13 to respond to the following:

1. Prepare an income statement in good form for the month of March 2011.
2. Prepare a statement of retained earnings for the month of March 2011.
3. Prepare a classified balance sheet in good form as of March 2011.
4. What do you think about the success of this company based on the results of the first month of operations?

E3-15 Preparing a Statement of Cash Flows
L05



Refer to E3-13.

Required:

Use the transactions in E3-13 to prepare a statement of cash flows in good form.

E3-16 Inferring Operating Transactions and Preparing an Income Statement and Balance Sheet
L02, 3, 4, 5

Kate's Kite Company (a corporation) sells and repairs kites from manufacturers around the world. Its stores are located in rented space in malls and shopping centers. During its first month of operations ended April 30, 2011, Kate's Kite Company completed eight transactions with the dollar effects indicated in the following schedule:

Accounts	DOLLAR EFFECT OF EACH OF THE EIGHT TRANSACTIONS								Ending Balance
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	
Cash	\$63,300	\$(13,700)	\$(6,200)	\$8,680		\$(1,240)	\$(2,480)	\$3,720	
Accounts Receivable				3,720					
Inventory			24,800	(6,510)					
Prepaid Expenses							1,860		
Store Fixtures		13,700							
Accounts Payable			18,600		\$1,480				
Unearned Revenue								2,480	
Contributed Capital	63,300								
Sales Revenue				12,400				1,240	
Cost of Sales				6,510					
Wages Expense						1,240			
Rent Expense							620		
Utilities Expense					1,480				