

SOLUTIONS

Learning Goal 5

Multiple Choice

1. b To record the supplies used up.
2. d To record the amount of revenue earned as time passes.
3. d
4. d Debit an expense, credit Prepaid Expense.
5. c Because the asset Prepaid Expense should have been reduced. Also, Insurance Expense should have been increased, so expenses are too low, which overstates net income.
6. a Because the liability Unearned Revenue should have been reduced. Also, revenue should have been increased, so revenue is too low, which understates net income.
7. d
8. c

Reinforcement Problems

LG 5-1.

Information Example	The key information type is . . .	and to determine the total revenue earned to decrease the liability . . .
1. On April 1, Adirondack Rental Company received \$1,750 for five months of equipment rental. The June 30 trial balance shows a balance of \$1,750 in the Unearned Rent Revenue account.	the unearned revenue per unit,	<ul style="list-style-type: none"> ■ calculate the unearned revenue per unit (per month) ■ multiply by the number of units provided
2. The trial balance of Manhattan Company shows the balance in the Unearned Sales account as \$4,040. A review of sales invoices shows that 75% of these orders was shipped.	the unearned revenue that was earned,	<ul style="list-style-type: none"> ■ use percent given to determine the portion earned
3. On October 1, Erie Insurance, Inc. received a \$9,000 payment for a 12-month insurance policy. The year-end trial balance on January 31 shows \$9,000 of Unearned Revenue.	the unearned revenue per unit,	<ul style="list-style-type: none"> ■ calculate the unearned revenue per unit (per month) ■ multiply by the number of units provided
4. The ledger of La Guardia Enterprises showed \$25,000 of Unearned Service Revenue as a beginning balance. This is a balance from the prior year for six months of services. During this year, La Guardia received \$52,000 of advance payments and earned \$40,000 of them.	the unearned revenue that was earned,	<ul style="list-style-type: none"> ■ \$25,000 beginning balance fully earned in the current period ■ \$40,000 earned from current receipts
5. The Nassau Company sells computer service contracts. Each \$1,500 contract is good for 10 service repairs calls. All contracts sold are recorded as Unearned Revenue. During the quarter ended September 30, Nassau Company made 710 service calls.	the unearned revenue per unit,	<ul style="list-style-type: none"> ■ calculate the unearned revenue per unit (per service call) ■ multiply by the number of units provided

SOLUTIONS

Learning Goal 5, continued

LG 5-1, continued

Information Example	The key information type is . . .	and to determine the total revenue earned to decrease the liability . . .								
6. Suffolk Printing Partnership received a \$10,000 advance payment on February 1 to print 5,000 calendars. By December 31, year end, 3,500 calendars were supplied to customers who made the prepayment.	the unearned revenue per unit,	<ul style="list-style-type: none">■ calculate the unearned revenue per unit (per calendar)■ multiply by the number of units provided								
7. Queensborough Corporation’s Unearned Revenue account showed an \$8,000 balance at year end. \$7,000 of the amount is for the last seven months’ rent. The remainder is a deposit for the last month’s rent of a rental agreement that expires next year.	the unearned revenue that was earned,	<ul style="list-style-type: none">■ \$7,000 is the amount earned during the last seven months of the current period								
8. On September 1, Kingsborough Banking Company made a loan that required the customer to prepay six months’ interest in the amount of \$9,000. On December 31, year end, the Kingsborough ledger showed: <div style="margin-left: 40px;"><table><tr><td style="text-align: center;">Deferred Interest Revenue</td><td></td></tr><tr><td style="border-top: 1px solid black; border-bottom: 1px solid black;"></td><td style="border-top: 1px solid black; border-bottom: 1px solid black; text-align: right;">9,000</td></tr><tr><td style="text-align: center;">Interest Revenue</td><td></td></tr><tr><td style="border-top: 1px solid black; border-bottom: 1px solid black;"></td><td style="border-top: 1px solid black; border-bottom: 1px solid black; text-align: right;">200,000</td></tr></table></div>	Deferred Interest Revenue			9,000	Interest Revenue			200,000	the unearned revenue per unit (per month),	<ul style="list-style-type: none">■ calculate the unearned revenue per month■ multiply by the number of months earned
Deferred Interest Revenue										
	9,000									
Interest Revenue										
	200,000									
9. On March 22, Suny Consulting Company received a \$14,000 advance payment from a client. By June 30, year end, \$1,500 of the advance was still not earned.	the unearned revenue actually remaining,	subtract the amount remaining from the unadjusted trial balance amount								
10. On March 22, Suny Consulting Company received a \$14,000 advance payment from a client. By June 30, year end, \$12,500 of the advance had been earned.	the unearned revenue that was earned,	use the dollar amount given								
11. At year end, Hudson Valley Test Labs, Inc. has a Deferred Revenue account that shows a beginning balance of \$50,000 from a prior year’s five-month service contract. During the current year, the company received an advance payment of \$200,000 to test 1,000 units. This was also recorded in Deferred Revenue. The company tested 212 units.	<i>Combination:</i> <ul style="list-style-type: none">■ the unearned revenue that was earned,■ the unearned revenue per unit,	<ul style="list-style-type: none">■ the beginning balance was fully earned.■ calculate the unearned revenue per unit (per test) and multiply by the number of units								

SOLUTIONS**Learning Goal 5, continued****LG 5-2.**

1.

Calculate the Amount of the Adjustment	Make the Journal Entry
Unearned revenue per month: $\$1,750/5 \text{ mo.} = \$350/\text{mo.}$	June 30 Unearned Revenue 1,050 Rent Revenue 1,050
Amount earned: $\$350 \times 3 \text{ mo.} = \$1,050$ (April, May, and June = 3 months in the current accounting period until June 30, the date of the trial balance)	A = L ↓ + OE ↑ Unearned Rent Revenue Revenue -1,050 +1,050

Determine the New Balances of the Accounts Affected			
Unearned Revenue		Rent Revenue	
	1,750		-0-
1,050			1,050
	<u>700</u>		<u>1,050</u>

2.

Calculate the Amount of the Adjustment	Make the Journal Entry
Amount earned: $\$4,040 \times .75 = \$3,030$	Unearned Revenue 3,030 Sales Revenue 3,030
	A = L ↓ + OE ↑ Unearned Sales Revenue Revenue -3,030 +3,030

Determine the New Balances of the Accounts Affected			
Unearned Revenue		Sales Revenue	
	4,040		-0-
3,030			3,030
	<u>1,010</u>		<u>3,030</u>

SOLUTIONS

Learning Goal 5, continued

LG 5-2, *continued*

3.

Calculate the Amount of the Adjustment	Make the Journal Entry
Unearned revenue per month: $\$9,000/12 \text{ mo.} = \$750/\text{mo.}$	Jan. 31 Unearned Revenue 3,000 Insurance Revenue 3,000
Amount earned: $\$750 \times 4 \text{ mo.} = \$3,000$ (Oct., Nov., Dec., and Jan. = 4 months in the current accounting period until Jan. 31, the date of the trial balance)	A = L ↓ + OE ↑ Unearned Insurance Revenue Revenue -3,000 +3,000

Determine the New Balances of the Accounts Affected			
Unearned Revenue		Insurance Revenue	
	9,000		-0-
3,000			3,000
	<u>6,000</u>		<u>3,000</u>

4.

Calculate the Amount of the Adjustment	Make the Journal Entry
Beginning account balance: \$25,000 (fully earned because we know 6 months from last year does not extend beyond the current year)	Unearned Revenue 65,000 Service Revenue 65,000
Earned during the year: <u>40,000</u>	A = L ↓ + OE ↑ Unearned Service Revenue Revenue -65,000 +65,000
Total: <u>\$65,000</u>	

Determine the New Balances of the Accounts Affected			
Unearned Revenue		Service Revenue	
	77,000		-0-
65,000			65,000
	<u>12,000</u>		<u>65,000</u>

SOLUTIONS**Learning Goal 5, continued****LG 5-2, continued**

5.

Calculate the Amount of the Adjustment	Make the Journal Entry
Unearned revenue per service call: $\$1,500/10 \text{ calls} = \150 per call	Sept. 30 Unearned Revenue 106,500 Service Revenue 106,500
Amount earned: $\$150 \times 710 \text{ calls} = \$106,500$	A = L ↓ + OE ↑ Unearned Service Revenue Revenue -106,500 +106,500

Determine the New Balances of the Accounts Affected			
Unearned Revenue		Service Revenue	
	no information		-0- (?)
Cannot determine final balances. There is no information about the unadjusted balances of either account.			

6.

Calculate the Amount of the Adjustment	Make the Journal Entry
Unearned revenue per calendar: $\$10,000/5,000 \text{ calendars} = \2 per calendar	Dec. 31 Unearned Sales Revenue 7,000 Sales Revenue 7,000
Amount earned: $\$2 \times 3,500 = \$7,000$	A = L ↓ + OE ↑ Unearned Sales Sales Revenue Revenue +7,000 -7,000

Determine the New Balances of the Accounts Affected			
Unearned Sales Revenue		Sales Revenue	
	10,000		-0-
7,000			7,000
	<u>3,000</u>		<u>7,000</u>

SOLUTIONS

Learning Goal 5, continued

LG 5-2, continued

7.

Calculate the Amount of the Adjustment	Make the Journal Entry
\$7,000 is the dollar amount given as the revenue earned in the current period.	<div> Aug. 31 <div> Unearned Rent 7,000 <div> Rent Revenue 7,000 </div> </div> </div>
	<div> A = L ↓ + OE ↑ <div> Unearned Rent -7,000 <div> Rent Revenue +7,000 </div> </div> </div>

Determine the New Balances of the Accounts Affected			
Unearned Rent		Rent Revenue	
	8,000		-0-
7,000			7,000
	<u>1,000</u>		<u>7,000</u>

8.

Calculate the Amount of the Adjustment	Make the Journal Entry
Interest earned per month: $\$9,000/6 = \$1,500$ per month $\$1,500 \times 4 = \$6,000$ revenue earned	<div> Dec. 31 <div> Unearned Interest 6,000 <div> Interest Earned 6,000 </div> </div> </div>
	<div> A = L ↓ + OE ↑ <div> Unearned Interest -6,000 <div> Interest Earned +6,000 </div> </div> </div>

Determine the New Balances of the Accounts Affected			
Unearned Interest		Interest Earned	
	9,000		200,000
6,000			6,000
	<u>3,000</u>		<u>206,000</u>

SOLUTIONS**Learning Goal 5, continued****LG 5-2, continued**

9.

Calculate the Amount of the Adjustment	Make the Journal Entry
Unadjusted liability account balance: \$14,000 Less: actual remaining balance: <u>1,500</u> Amount earned during the year: \$12,500	June 30 Unearned Revenue 12,500 Consulting Revenue 12,500 A = L ↓ + OE ↑ Unearned Consulting Revenue Revenue -12,500 +12,500

Determine the New Balances of the Accounts Affected			
Unearned Revenue		Consulting Revenue	
	14,000		-0-
12,500			12,500
	<u>1,500</u>		<u>12,500</u>

10.

Calculate the Amount of the Adjustment	Make the Journal Entry
The revenue that has been earned is given to you: \$12,500	June 30 Unearned Revenue 12,500 Consulting Revenue 12,500 A = L ↓ + OE ↑ Unearned Consulting Revenue Revenue -12,500 +12,500

Determine the New Balances of the Accounts Affected			
Unearned Revenue		Consulting Revenue	
	14,000		-0-
12,500			12,500
	<u>1,500</u>		<u>12,500</u>

SOLUTIONS

Learning Goal 5, continued

LG 5-2, continued

11.

Calculate the Amount of the Adjustment		Make the Journal Entry	
Unearned Revenue earned:	\$50,000	Dec. 31	Deferred Revenue 92,400 Testing Revenue 92,400
Unearned Revenue per test: \$200,000/1,000 units = \$200 per unit			
\$200 per unit × 212 units =	<u>\$42,400</u>	A =	L ↓ + OE ↑
Total earned	\$92,400		Deferred Revenue -92,400 Testing Revenue +92,400

Determine the New Balances of the Accounts Affected	
Deferred Revenue	Testing Revenue
<div>250,000</div> <div>92,400</div> <div><u>157,600</u></div>	<div>-0-</div> <div>92,400</div> <div><u>92,400</u></div>