ANSWERS TO QUESTIONS

1. (a) Under the time period assumption, an accountant is required to determine the relevance of each business transaction to specific accounting periods.
(b) An accounting time period of one year in length is referred to as a fiscal year. A fiscal year that extends from January 1 to December 31 is referred to as a calendar year. Accounting periods of less than one year are called interim periods.

2. The two generally accepted accounting principles that relate to adjusting the accounts are:
The revenue recognition principle, which states that revenue should be recognized in the accounting period in which it is earned.
The expense recognition principle, which states that efforts (expenses) be matched with accomplishments (revenues).

3. The law firm should recognize the revenue in April. The revenue recognition principle states that revenue should be recognized in the accounting period in which it is earned.

4. Information presented on an accrual basis is more useful than on a cash basis because it reveals relationships that are likely to be important in predicting future results. To illustrate, under accrual accounting, revenues are recognized when earned so they can be related to the economic environment in which they occur. Trends in revenues are thus more meaningful.

5. Expenses of $4,500 should be deducted from the revenues in April. Under the expense recognition principle efforts (expenses) should be matched with accomplishments (revenues).

6. No, adjusting entries are required by the revenue recognition and expense recognition principles.

7. A trial balance may not contain up-to-date information for financial statements because:
(1) Some events are not journalized daily because it is not efficient to do so.
(2) The expiration of some costs occurs with the passage of time rather than as a result of daily transactions.
(3) Some items may be unrecorded because the transaction data are not yet known.

8. The two categories of adjusting entries are deferrals and accruals. Deferrals consist of prepaid expenses and unearned revenues. Accruals consist of accrued revenues and accrued expenses.

9. In the adjusting entry for a prepaid expense, an expense is debited and an asset is credited.

10. No. Depreciation is the process of allocating the cost of an asset to expense over its useful life in a rational and systematic manner. Depreciation results in the presentation of the book value of the asset, not its fair value.

11. Depreciation expense is an expense account whose normal balance is a debit. This account shows the cost that has expired during the current accounting period. Accumulated depreciation is a contra asset account whose normal balance is a credit. The balance in this account is the depreciation that has been recognized from the date of acquisition to the balance sheet date.

12.

Equipment	$18,000	
Less: Accumulated Depreciation—Equipment	6,000	$12,000

Questions Chapter 3 (Continued)

13. In the adjusting entry for an unearned revenue, a liability is debited and a revenue is credited.

14. Asset and revenue. An asset would be debited and a revenue would be credited.

15. An expense is debited and a liability is credited in the adjusting entry.

16. Net income was understated $200 because prior to adjustment, revenues are understated by $900 and expenses are understated by $700. The difference in this case is $200 ($900 – $700).

17. The entry is:

Jan. 9	Salaries and Wages Payable	2,000	
	Salaries and Wages Expense	3,000	
	Cash		5,000

18.
(a) Accrued revenues.
(b) Unearned revenues.
(c) Accrued expenses.
(d) Accrued expenses or prepaid expenses.
(e) Prepaid expenses.
(f) Accrued revenues or unearned revenues.

19.
(a) Salaries and Wages Payable.
(b) Accumulated Depreciation.
(c) Interest Expense.
(d) Supplies Expense.
(e) Service Revenue.
(f) Service Revenue.

20. Disagree. An adjusting entry affects only one balance sheet account and one income statement account.

21. Financial statements can be prepared from an adjusted trial balance because the balances of all accounts have been adjusted to show the effects of all financial events that have occurred during the accounting period.

***22.** For Supplies Expense (prepaid expense): expenses are overstated and assets are understated. The adjusting entry is:

Assets (Supplies)	XX	
Expenses (Supplies Expense)		XX

For Rent Revenue (unearned revenues): revenues are overstated and liabilities are understated. The adjusting entry is:

Revenues (Rent Revenue)	XX	
Liabilities (Unearned Rent Revenue)		XX

23. PepsiCo's depreciation and amortization was $1,635 million for 2009 and $1,543 million for 2008.