

Chapter 3

Business Income: Measurement and Adjustment

Topic:

- Revenue – Expense = Net Income or Net loss
- Accrual Accounting
 - o Accrued Revenue (not yet record)
 - o Accrued Expense (not yet record)
- Prepaid Expense
- Depreciation of Fixed Assets
- Accumulated Depreciation
- Prepaid Revenue (Advance from client/Unearned fee)



Business Income: Measurement and Adjustment

As we have studied already in previous chapter about:

Revenue – Expense = Net Income or Net Loss

- Revenue: The increase in the capital resulting from the sale of goods or rendering of services by the business. In amount, the revenue is equal to the cash and receivables gained in the compensation for the goods sold or services rendered.
- Expense: The decrease in capital caused by the business's revenue-producing operations. In amount, the expense is equal to the value of goods and services used up or consumed in obtaining revenue.
- Net Income: The increase in capital resulting from the profitable operation of a business, It is the excess of revenues over expense for the accounting period.
- Net loss: The decrease in capital resulting from the operations of a business. It is the excess of expenses over revenue for the accounting period.

This equation is showed in the Income statement or Profit and Loss in Chapter 4.

- Accrual Accounting
 - o Accrued Revenue (not yet record)

Ex:

Assume that you earned \$ 300 in fees on Jan 31. For a job only partially completed, therefore you have yet invoiced to your client.

{	Fee Receivable	200
	Services	200

- o Accrued Expense (not yet record)

Ex:

Assume that you owe the salary to your staff for the month, cash \$150 so you need the record it into:

{	Salary expense	150
	Salary payable.....	150

- Prepaid Expense

Ex:

Assume that you paid the insurance \$ 200 for one year to your staff.

{	Prepaid insurance	\$200
{	Cash	\$200

- Depreciation of Fixed Assets
- Accumulated Depreciation

Ex:

Assume that you purchase office equipment \$1,000 you think that you use it for 5 years. So for per year is \$200.

{	Depreciation Expense	200
{	Accumulated Depreciation	200

- Prepaid Revenue (Advance from client/Unearned fee)

Mean that you get the money from your client but you have yet provide the service to your client.

You will provide the service to your client next month in the amount of \$500 but your client paid to you.

{	Cash	\$500
{	{ Advance from client	\$500
	(Unearned fee)	



Problem

- I- Please read the transaction as in the following:
- a) Ralph Harding invested \$10,000 personal funds in a account in the name of Ralph's Farrier Service.
 - b) Paid \$1,050 for the three months' rent on a new van to be used as a traveling blacksmith's shop
 - c) Purchase Farrier supplies, paying \$300.
 - d) Purchase equipment worth \$3,000 on credit.
 - e) Purchase a portable gas stove foe heating horseshoes for \$650.
 - f) Provide service to a cash customer, collecting \$35.
 - g) Provide services to charge customer, a local stable, for \$400
 - h) Paid the apprentice's weekly wage, \$200.
 - i) Received and the telephone bill, \$80.
 - j) Received the gas bill of \$125.
 - k) Ralph withdrew \$300 for the personal expense
 - l) Collected \$150 from the customer in transaction.
 - m) Received services to a charge customer for \$500.
 - n) Paid the apprentice's weekly wage, \$220.
 - o) Ralph withdrew \$700 to pay personal expenses.
 - p) Paid \$1,100 to credit to creditor.
 - q) Ralph decided to contribute his old pickup truck to the business for use by the apprentice. The truck has a fair value of \$4,200.
 - r) Provided \$900 worth of services to a customer. The customer paid \$300 down and promised to pay the balance next month.
 - s) Paid the gas bill.
 - t) Purchase \$1,500 worth of additional equipment to outfit the apprentice's truck. Paid \$600 down and place the balance on account.

Require:

- 1- Journal entry.
 - 2- Posting to general ledger.
 - 3- Making trial balance
 - 4- Make the depreciation.
- II- An insurance policy covering a 2-year period was purchased on Nov. 1, for the \$600. The amount was debited to prepaid insurance. Show the adjusting entry for the 2-month period ending Dec. 31.

- III- Taxes of \$900 were debited to prepaid Taxes representing payment made for a 6-month period beginning Dec. 1. What adjusting is needed on Dec. 31.
- IV- On Dec. 1, 200X, Big John construction company issued a \$10,000, ninety-day, 12 percent note. Big John's year ends December 31. What is the year-end adjusting entry for interest expense?
- V- On Jan. 1, 200X, Hill Top Far purchase a 3-year fire insurance policy for \$3,600, paying cash. The entry made on January 1, 200X was debit to Prepaid insurance and a credit to cash. What is the year-end adjusting entry?
- VI- Hill Top apartment rented an apartment on November 1, 200X for six months, receiving \$3,000 in advance. The entry on Nov. was:

{	Cash	3,000
	Rental Income	3,000

What would the year-end adjusting entry be?

- VII- On April 1, 19X8, Lucky printing company purchased a new printing press for \$7,000 paying cash. The printing press is being depreciated by straight-line method over a 5-year period with no salvage. Show the year-end adjusting entry.
- VIII- On September 1, \$2,400 was paid; this represented an advance payment for 6 months' rent of a new factory office. The account prepaid Rent was debited for this transaction. What adjusting entry is necessary in order to show the true value of the accounts at the end of the year?
- IX- Purchase of \$900 was debited to office supplies. A count of supplies at the end of the period showed \$500 still on hand. Make the adjusting entry at the end of the period.
- X- Below is the opening balance of the Store supplies account at the beginning of the year. after taking an inventory count of the remain supplies, it was discovered that \$750 had been used during the year.

Store Supplies	
Bal. 2,250	

- XI- The business received \$6,000 as an advance payment for work to be done for a customer. At the end of the year, \$4,000 of the services had been performed.
- Prepare the adjusting entry if the original amount had been credited to Unearned Income.
 - What type of account is Unearned Income?
- XII- Place a check mark in the appropriate box below to indicate the name of the account group in which each account belongs.

Acc. Des.	Income statement		Balance sheet		
	Income	Expense	Assets	Liabilities	O.E
Account Payable					
Account Receivable					
Building					
Capital					
Cash					
Drawing					
Equipment					
Fees Incomes					
General Expense					
Interest Expense					
Interest Income					
Land					
Note Payable					
Other income					
Rent Expense					
Rent Income					
Salary Expense					
Salary payable					
Supplies					
Supplies expense					
Tax expense					
Prepaid revenue					
Prepaid expense					
Accrual Revenue					
Accrual Expense					
Tax Payable					

