

TEXT ASSIGNMENT – CHAPTER FOUR – ACCRUALS AND DEFERRALS

This is the first of your **required text assignments**. From the fourth week to the seventh week text assignments will be the only assignments given. For those who have done the Practice Text Assignment or the Extra Credit Text Assignments will have an idea of what this assignment is like. The assignment is taken from the end-of-chapter problems and exercises. The answers to the assignment must be entered in the designated Answer worksheet for you to be given credit.

The instructor will grade your work, enter it into your grade sheet, and return the assignment with corrections. In this way, you will only see what grade you have gotten and some of the correct answers.

Instructions You will need a small calculator to complete the assignment and you will need to have **your text at hand** to complete the work.

- 1) Enter the appropriate account name in the "yellow boxes" on the Answer worksheet. Enter the answer or amount in the "tan boxes" on the answer worksheet. When asked, **Don't Update!**
- 2) Print out this instruction sheet to remind yourself of the instructions by activating the printing link below.
- 3) When you are ready to begin, activate the link below to down-load the Answer spreadsheet, where you will enter the required information.
- 4) Enter your name on the first page of the spreadsheet in the box shown. Note: Failure to do so will cause your work not to be identified.
- 5) Each question is referenced to the exercise or problem from the text. The page number refers to the page number circled in black at the top of the page. More detailed instructions are given in the referenced text and are incorporated by reference to this practice assignment.
- 6) When you are finished, save the spreadsheet to the Drop Box with the title "Chapter 4: Text Assignment" and the assignment will be finished.

Requirements: [Print this instruction sheet](#) [Answer Worksheet Link](#)

- 1) Record your answers in the "yellow boxes" (descriptions, account name, or explanation) or the "tan boxes" (answer or amount), as instructed.
- 2) You will note that there may be questions posed by the text that are not to be answered and you will be so instructed on the Answer worksheet. Likewise, there may be an additional question or two that was not asked in the text instructions. If additional questions are asked, you will also be so instructed on the Answer worksheet.
- 3) You must submit your answers two "work-days" prior to the next class session.

EXERCISES

EXERCISE 4.1 (FROM PAGE 151)

Accounting Terminology

LO1 through LO9



Listed below are nine technical accounting terms used in this chapter:

- | | | |
|--------------------|--------------------|--------------------------|
| Unrecorded revenue | Adjusting entries | Accrued expenses |
| Book value | Matching principle | Accumulated depreciation |
| Unearned revenue | Materiality | Prepaid expenses |

Each of the following statements may (or may not) describe one of these technical terms. For each statement, indicate the accounting term described, or answer "None" if the statement does not correctly describe any of the terms.

- The net amount at which an asset is carried in the accounting records as distinguished from its market value.
- An accounting concept that may justify departure from other accounting principles for purposes of convenience and economy.
- The offsetting of revenue with expenses incurred in generating that revenue.
- Revenue earned during the current accounting period but not yet recorded or billed, which requires an adjusting entry at the end of the period.
- Entries made at the end of the period to achieve the goals of accrual accounting by recording revenue when it is earned and by recording expenses when the related goods and services are used.
- A type of account credited when customers pay in advance for services to be rendered in the future.
- A balance sheet category used for reporting advance payments of such items as insurance, rent, and office supplies.
- An expense representing the systematic allocation of an asset's cost over its useful life.

EXERCISE 4.4 (FROM PAGE 152)

Preparing Adjusting Entries to Convert an Asset to an Expense and to Convert a Liability to Revenue

LO1 through LO7

Carnival Corporation is the world's largest cruise line company. Its printing costs for brochures are initially recorded as Prepaid Advertising and are later charged to Advertising Expense when they are mailed. Passenger deposits for upcoming cruises are considered unearned revenue and are recorded as Customer Deposits as cash is received. Deposited amounts are later converted to Cruise Revenue as voyages are completed.

- Where in its financial statements does Carnival Corporation report Prepaid Advertising? Where in its financial statements does it report Customer Deposits?
- Prepare the adjusting entry necessary when brochures costing \$18 million are mailed.
- In its most recent annual report, Carnival Corporation reported Customer Deposits of \$628 million. Prepare the adjusting entry necessary in the following year as \$90 million of this amount is earned.
- Consider the entire adjusting process at Carnival Corporation. Which adjusting entry do you think results in the most significant expense reported in the company's income statement?

EXERCISE 4.7 (FROM PAGE 153)

Preparing Various Adjusting Entries

LO1 through LO9



Sweeney & Associates, a large marketing firm, adjusts its accounts at the end of each month. The following information is available:

- A bank loan had been obtained on December 1. Accrued interest on the loan at December 31 amounts to \$1,200. No interest expense has yet been recorded.
 - Depreciation of the firm's office building is based on an estimated life of 25 years. The building was purchased in 2001 for \$330,000.
 - Accrued, but unbilled, revenue during December amounts to \$64,000.
 - On March 1, the firm paid \$1,800 to renew a 12-month insurance policy. The entire amount was recorded as Prepaid Insurance.
 - The firm received \$14,000 from the King Biscuit Company in advance of developing a six-month marketing campaign. The entire amount was initially recorded as Unearned Revenue. At December 31, \$3,500 had actually been earned by the firm.
 - The company's policy is to pay its employees every Friday. Since December 31 fell on a Wednesday, there was an accrued liability for salaries amounting to \$2,400.
- Record the necessary adjusting journal entries on December 31, 2005.
 - By how much did Sweeney & Associates' net income increase or decrease as a result of the adjusting entries performed in part a? (Ignore income taxes.) *↳ DO NOT ANSWER*