**Provide written answers to the following assignments from Ch. 3 of Financial Accounting:**

**2.** State two generally accepted accounting principles that relate to adjusting the accounts.

**3.** Rick Marsh, a lawyer, accepts a legal engagement in March, performs the work in April, and is paid in May. If Marsh’s law firm prepares monthly financial statements, when should it recognize revenue from this engagement? Why?

**4.** Why do accrual-basis financial statements provide more useful information than cash-basis statements?

**8.** Distinguish between the two categories of adjusting entries, and identify the types of adjustments applicable to each category.

**E3-7** The ledger of Piper Rental Agency on March 31 of the current year includes the following selected accounts before adjusting entries have been prepared.

|  |  |  |
| --- | --- | --- |
|  | **Debit** | **Credit** |
| Prepaid Insurance | $3,600  |  |
| Supplies | 2,800 |  |
| Equipment | 25,000 |  |
| Accumulated |  |  |
|  Depreciated Equipment |  | 8,400 |
| Notes Payable |  | 20,000 |
| Unearned Rent |  | 9,900 |
| Rent Revenue |  | 60,000 |
| Interest Expense | 0 |  |
| Wages Expense | 14,000 |  |

An analysis of the accounts shows the following.

**1.** The equipment depreciates $400 per month.

**2.** One-third of the unearned rent was earned during the quarter.

**3.** Interest of $500 is accrued on the notes payable.

**4.** Supplies on hand total $700.

**5.** Insurance expires at the rate of $200 per month.

**Instructions**

Prepare the adjusting entries at March 31, assuming that adjusting entries are made **quarterly**.

Additional accounts are: Depreciation Expense, Insurance Expense, Interest Payable, and Supplies Expense.

**E3-8** Andy Wright,D.D.S., opened a dental practice on January 1, 2008. During the first month of operations the following transactions occurred.

1. Performed services for patients who had dental plan insurance. At January 31, $875 of such services was earned but not yet recorded.
2. Utility expenses incurred but not paid prior to January 31 totaled $520.
3. Purchased dental equipment on January 1 for $80,000, paying $20,000 in cash and signing a $60,000, 3-year note payable.The equipment depreciates $400 per month. Interest is $500 per month.
4. Purchased a one-year malpractice insurance policy on January 1 for $12,000.
5. Purchased $1,600 of dental supplies. On January 31, determined that $400 of supplies were on hand.

**Instructions**

Prepare the adjusting entries on January 31.

Account titles are: Accumulated Depreciation— Dental Equipment, Depreciation Expense, Service Revenue, Accounts Receivable, Insurance Expense, Interest Expense, Interest Payable, Prepaid Insurance, Supplies, Supplies Expense, Utilities Expense, and Utilities Payable.