

**Errata for 1st PRINTING of *Financial Accounting*, 3rd edition, by Dyckman, Magee, and Pfeiffer
UPDATED: 4/14/11**

Chapter 1

N/A

Chapter 2

N/A

Chapter 3

- Page 103: At the bottom of Exhibit 3.4, the Assets total **\$38,055**, the Liabilities total **\$16,900**, and the Equity totals **\$21,155**, not \$37,570, \$16,940, and \$20,630 as indicated.
- Page 108: At the bottom of the page in the template, the entry in the Earned Capital column should be **+30** Retained Earnings, not -30 Retained Earnings as indicated.
- Page 138, P3-54 requirement “g” should read, “**Record its closing entries in journal entry form. Then post these entries to their T-accounts.**” Requirement “g” should not require use of the financial statement effects template as indicated.

Chapter 4

N/A

Chapter 5

N/A

Chapter 6

N/A

Chapter 7

N/A

Chapter 8

- Page 384, C8-42, in the second table, labeled Capitalized Software Development Costs, the ending balance numbers should be **\$175,427 in 2008** and **\$175,906 in 2007**. They should not be \$108,428 in 2008 and \$64,332 in 2007 as indicated.

Chapter 9

N/A

Chapter 10

N/A

Chapter 11

N/A

Chapter 12

N/A

Appendix A

N/A

EXHIBIT 3.4 General Ledger for Natural Beauty Supply before Adjustments

| General Ledger | | | | | | | | | | | |
|-----------------------------------|--------|--------|-------|------|--------------------------------|--------|-------|-------|-------|--------------------------|-------|
| Assets | | | | = | Liabilities | | | | + | Equity | |
| Cash (A) | | | | | Accounts Payable (L) | | | | | Common Stock (SE) | |
| Bal. | 8,100 | | | | | | 3,700 | Bal. | | 20,000 | Bal. |
| (17) | 11,000 | 18,000 | (18) | (20) | 3,300 | 4,000 | | (26) | | | |
| (21a) | 8,500 | 700 | (19) | | | 4,400 | Bal. | | | 20,000 | Bal. |
| (23) | 1,200 | 3,300 | (20) | | | | | | | | |
| (25) | 3,200 | 1,625 | (24) | | | | | | | | |
| | | 1,500 | (27) | | | | | | | | |
| | | 50 | (28) | | | | | | | | |
| Bal. | 6,825 | | | | | 300 | Bal. | (28) | 50 | 30 | Bal. |
| | | | | | | 1,200 | (23) | | | | |
| | | | | | | 1,500 | Bal. | Bal. | 20 | | |
| Accounts Receivable (A) | | | | | Notes Payable (L) | | | | | Sales Revenue (R) | |
| Bal. | 950 | | | | | | | | | 8,500 | (21a) |
| (22a) | 4,500 | 3,200 | (25) | | | 0 | Bal. | | | 4,500 | (22a) |
| Bal. | 2,250 | | | | | 11,000 | (17) | | | 13,000 | Bal. |
| | | | | | | 11,000 | Bal. | | | | |
| Inventory (A) | | | | | Cost of Goods Sold (E) | | | | | | |
| Bal. | 11,300 | | | | | | | (21b) | 5,000 | | |
| (26) | 4,000 | 5,000 | (21b) | | | | | (22b) | 3,000 | | |
| | | 3,000 | (22b) | | | | | Bal. | 8,000 | | |
| Bal. | 7,300 | | | | | | | | | | |
| Prepaid Insurance (A) | | | | | Wages Expense (E) | | | | | | |
| Bal. | 1,680 | | | | | | | (24) | 1,625 | | |
| Bal. | 1,680 | | | | | | | Bal. | 1,625 | | |
| Security Deposit (A) | | | | | Rent Expense (E) | | | | | | |
| Bal. | 2,000 | | | | | | | (27) | 1,500 | | |
| Bal. | 2,000 | | | | | | | Bal. | 1,500 | | |
| Fixtures and Equipment (A) | | | | | Advertising Expense (E) | | | | | | |
| Bal. | 0 | | | | | | | (19) | 700 | | |
| (18) | 18,000 | | | | | | | Bal. | 700 | | |
| Bal. | 18,000 | | | | | | | | | | |

| | | | | |
|-------------------------------------|---|--|---|-------------------------------------|
| Assets = \$37,570 | = | Liabilities = \$10,540 | + | Equity = \$20,000 |
| \$38,055 | | \$16,900 | | \$21,155 |



ADJUSTING THE ACCOUNTS

It is important that accounts in financial statements be properly reported. For many accounts, the balances shown in the general ledger after all transactions are posted are not the proper balances for financial statements. Thus, when it is time to prepare financial statements, management must review account balances and make proper adjustments to these balances. The adjustments required are based on accrual accounting and generally accepted accounting principles. This section focuses on these issues.

LO3 Describe the adjusting process and illustrate adjusting entries.

When this entry is posted, it properly reflects the cost of using this asset during December, and the \$375 depreciation appears in the December income statement. On the balance sheet, the accumulated depreciation is subtracted from the asset amount. The resulting balance (cost less accumulated depreciation), which is the asset's **book value**, represents the unexpired asset cost to be allocated as an expense in future periods. For example, the December 31, 2010, balance sheet reports the equipment with a book value of \$17,625, as follows.

FYI An increase in the contra asset account Accumulated Depreciation reduces the book value of the asset.

| | |
|--------------------------------------|------------------------------|
| Fixtures and Equipment | \$18,000 |
| Less: Accumulated depreciation | 375 |
| Fixtures and Equipment, net. | <u>\$17,625</u> (book value) |

In each subsequent month, \$375 will be recognized as depreciation expense, and the accumulated depreciation contra asset will increase by the same amount (from \$375 to \$750 to \$1,125 and so on). As a result, the book value of the fixtures and equipment will decrease by \$375 each month.

Type 3: Accrued Revenues Revenues should be recognized in the period in which they are earned and realizable. Yet a company may provide services or earn income during a period that are neither paid for by clients or customers nor billed at the end of the period. Such values should be included in the firm's current period income statement. To accomplish this, end-of-period adjusting entries are made to reflect any revenues or income for the period that have been earned and realized, but are not received or billed. Such accumulated revenue is often called **accrued revenue** or **accrued income**.

ACCRUED SALES REVENUE/INCOME At the end of December, Natural Beauty Supply learns that its bank has decided to provide interest on checking accounts for small businesses like NBS. Each month, NBS earns interest income based on the average balance in its checking account. The interest will be paid into NBS's checking account on the fifth business day of the following month. Based on its average daily balance, NBS earned \$30 in interest during December.

In this instance, Natural Beauty Supply will not receive the interest payment until January. Nevertheless, the company has earned interest during the month of December, and it is sure to collect the amount owed. Therefore, it should recognize an interest receivable (or "other receivables") asset and an interest income in the income statement. (We might also call this interest revenue, but the term interest income is more commonly used for nonfinancial companies.) The entry in the FSET, the journal entry, and the T-account posting would be as follows.

| Transaction | Balance Sheet | | | | | Income Statement | | |
|---|---------------|--------------------------|---------------|--------------------|--------------------------|------------------------|------------|--------------|
| | Cash Asset | + Noncash Assets | = Liabilities | + Contrib. Capital | + Earned Capital | Revenues | - Expenses | = Net Income |
| (d) Adjusting entry for interest income earned. | | +30 Other Receivables | = | +30 | -30 Retained Earnings | +30 Interest Income | - | = +30 |

| | | |
|-----|--|----|
| (d) | Other receivables (+A) | 30 |
| | Interest income (+R, +SE) | 30 |
| | <i>To record interest income earned.</i> | |

| | |
|----------------------------|--------------------------|
| + Other Receivables (A) | - Interest Income (R) |
| (d) 30 | 30 (d) |

Revenue accruals also occur for landlords who receive rent payments after they are earned and for companies who engage in long-term projects in construction or consulting. In all these cases,

ANALYZE
JOURNALIZE
POST

| FISCHER CARD SHOP Balance Sheet December 31, 2010 | | | |
|---|----------|--|----------|
| Cash | \$ 8,500 | Accounts payable | \$ 5,200 |
| Inventories | 12,000 | Wages payable | 100 |
| Prepaid rent | 3,800 | Total current liabilities | 5,300 |
| Total current assets | 24,300 | Total equity (includes retained earnings) .. | 23,500 |
| Equipment | \$7,500 | Total liabilities and equity | \$28,800 |
| Less accumulated depreciation .. | 3,000 | | |
| Equipment, net | 4,500 | | |
| Total Assets | \$28,800 | | |

Required

- a. Prepare any necessary journal entries for 2011 and adjusting entries at December 31, 2011, (1) using the financial statement effects template, and (2) in journal entry form.
- b. Set up T-accounts, enter the balances above, and post the adjusting entries to them.
- c. Prepare its income statement for 2011, and its balance sheet at December 31, 2011.
- d. Prepare entries to close its temporary accounts in journal entry form and post the closing entries to the T-accounts.

LO2, LO3, LO4, LO5

P3-54. Applying the Entire Accounting Cycle

Rhoades Tax Services began business on December 1, 2010. Its December transactions are as follows.

- Dec.
- 1 Rhoades invested \$20,000 in the business in exchange for common stock.
 - 2 Paid \$1,200 cash for December rent to Bomba Realty.
 - 2 Purchased \$1,080 of supplies on account.
 - 3 Purchased \$9,500 of office equipment; paying \$4,700 cash with the balance due in 30 days.
 - 8 Paid \$1,080 cash on account for supplies purchased December 2.
 - 14 Paid \$900 cash for assistant’s wages for 2 weeks’ work.
 - 20 Performed consulting services for \$3,000 cash.
 - 28 Paid \$900 cash for assistant’s wages for 2 weeks’ work.
 - 30 Billed clients \$7,200 for December consulting services.
 - 31 Paid \$1,800 cash for dividends.

Required

- a. Set up a general ledger in T-account form for the following accounts: Cash; Fees Receivable; Supplies; Office Equipment; Accumulated Depreciation—Office Equipment; Accounts Payable; Wages Payable; Common Stock; Retained Earnings; Consulting Revenue; Supplies Expense; Wages Expense; Rent Expense; and Depreciation Expense.
- b. Record these transactions (1) using the financial statement effects template, and (2) in journal entry form. (3) Post these entries to their T-accounts (key numbers in T-accounts by date).
- c. Prepare an unadjusted trial balance at December 31, 2010.
- d. Journalize the adjusting entries at December 31 (using both the financial statement effects template and journal entry form), drawing on the following information.
 1. Supplies available at December 31 are \$710.
 2. Accrued wages payable at December 31 are \$270.
 3. Depreciation for December is \$120.
 4. Rhoades has spent 30 hours on an involved tax fraud case during December. When completed in January, his work will be billed at \$75 per hour. (It uses the account Fees Receivable to reflect amounts earned but not yet billed.)

Then post adjusting entries to their T-accounts.
- e. Prepare an adjusted trial balance at December 31, 2010.
- f. Prepare a December 2010 income statement and statement of stockholders’ equity, and a December 31, 2010, balance sheet.
- g. Record its closing entries ~~(1) using the financial statement effects template and (2) in journal entry form.~~ Post these entries to their T-accounts.
- h. Prepare a post-closing trial balance at December 31, 2010.

WebAssign



LO4, LO5, LO6 C8-42. Determining the Effects of Capitalizing Versus Expensing Software Development Costs

TAKE-TWO INTERACTIVE SOFTWARE, INC.
NASDAQ:TTWO

The following excerpts are taken from the 2008 annual report of **Take-Two Interactive Software, Inc.**, a maker and distributor of video games. All amounts are in thousands of U.S dollars.

| Income Statement Information: | 2008 | 2007 |
|-------------------------------|-------------|-------------|
| Net sales | \$1,537,530 | \$ 981,791 |
| Cost of goods sold | 988,695 | 735,034 |
| Operating expenses | 432,982 | 374,455 |
| Income from operations | \$ 115,853 | \$(127,698) |

Information from the Management Discussion, Balance Sheet and Note 5 :

Software Development Costs

The Company capitalizes internal software development costs including third-party production and other costs, subsequent to establishing technological feasibility of a title. Amortization of such costs as a component of cost of goods sold is recorded on a title-by-title basis commencing when the product is released and is based on the greater of the proportion of the current year's revenues to the total expected revenues to be recorded over the life of the title or the straight-line method over the remaining estimated useful life of the title, whichever is greater. At each balance sheet date, the Company evaluates the recoverability of capitalized software costs based on undiscounted future cash flows and charges to cost of goods sold any amounts that are deemed unrecoverable.

| Capitalized Software Development Costs | 2008 | 2007 |
|--|----------------------|---------------------|
| Beginning balance | \$175,906 | \$116,561 |
| Additions | 145,623 | 166,020 |
| Amortization and write-downs | (146,102) | (106,675) |
| Ending balance | \$106,428 | \$81,932 |

\$175,427

\$175,906

Assume an income tax rate of 35% where necessary.

Required:

- You wish to compare the performance of Take-Two with one of its competitors, **Electronic Arts, Inc.** However, Electronic Arts does not capitalize any significant amounts of its software development costs. Estimate Take-Two's 2008 Income from operations if it did not capitalize any software development costs. *Briefly* explain your adjustment(s).
- Is there any indication that Take-Two might have changed its software amortization estimates from 2007 to 2008? Explain *briefly*.

SOLUTIONS TO REVIEW PROBLEMS

Mid-Chapter Review

Solution

- Straight-line Depreciation expense = $(\$95,000 - \$10,000)/5 \text{ years} = \underline{\underline{\$17,000 \text{ per year}}}$
- Double-declining-balance (twice straight-line rate = $2 \times (100\%/5) = 40\%$)

| Year | Book Value × Rate | Depreciation Expense |
|---------|---------------------------------------|----------------------|
| 1 | $\$95,000 \times 0.40 =$ | \$38,000 |
| 2 | $(\$95,000 - \$38,000) \times 0.40 =$ | 22,800 |
| 3 | $(\$95,000 - \$60,800) \times 0.40 =$ | 13,680 |
| 4 | $(\$95,000 - \$74,480) \times 0.40 =$ | 8,208 |
| 5 | $(\$95,000 - \$82,688) \times 0.40$ | 2,312* |

*The formula value of \$4,925 is not reported because it would depreciate the asset below residual value. Only the \$2,312 needed to reach residual value is depreciated.