**PRINCIPLES OF ACCOUNTING**

**ACCT 101**

**ASSIGNMENT 3**

Last due date for submission 31st October 2015

**Essay Questions**

1. Identify the differences between accrual accounting and cash basis accounting.

**Answer Question**

Accounting used the two methodologies to keep track of a business's income and expenses, but each method has its merits, benefits and disadvantages. Of course there will bea different number in the last line in the account depending on which method you select. Cash basis usually used in small business, and it is principle is nothing is counted until the cash or check is received but the principle of accrual accounting is any transaction has been made is counted even though the cash did not received yet. The advantages of accrual accounting are more accurate and give clear picture of the firm finance situation, but in the other hand the disadvantage is the number of the last line of income is some time not the same number of firm's bank account due to some customers did not pay on time . the advantage of cash basis accounting is hiving accurate picture of how much the firm have in their bank account , but the disadvantage of this method is the firm finance situation which is not matching the reality.

2. How is the profit margin calculated? Discuss its use in analyzing a company's performance.

**Answer Question**

Profit margins are usually calculated as a ratio, specifically “earnings” as a percentage of sales. This will give some benefits which are:

1. Ability of comparing the profitability of different firms in easy way.
2. Give clear picture for investors to judge, over time, management’s ability to manage costs and expenses and to generate profits.
3. Kind of road map to assess the management’s success or failure according to the firm’s profitability.
4. Help the management to control the sales growth because strong sales growth is meaningless if management allows costs and expenses to grow disproportionately.

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3. What is the purpose of closing entries? Describe the closing process.

**Answer Question**

The purpose of closing entries is:

1- so that revenues, expenses and dividends will start with a zero balance at the beginning of the new year.

2- so that the firm’s retained earnings account will include an increase for revenues from prior year and a decrease for expenses and dividends from prior year.

The closing process are:

1- Identify the revenue accounts on the trial balance to make it go to zero by debit the revenue accounts. . The first journal entry recorded in the closing process will be: Debit to Consulting Revenue and Rental Revenue and Credit Income Summary.

2- Identify the expense accounts on the trial balance (depreciation expense and insurance expense) to make the account zero by credit the expense accounts. The second journal entry recorded in the closing process will be: Debit to Income Summary and Credit Depreciation Expense and Insurance Expense

3- Calculate the balance in income summary account and then close income summary to retained earnings by evaluate the income summary account. The third journal entry recorded in the closing process will be: Debit to Income Summary and Credit Retained Earnings. The income summary account is always closed to retained earnings.

4- Identify the dividend account on the trial balance. To take dividend account to go to zero by credit the dividend accounts. The last, fourth, journal entry recorded in the closing process will be: Debit to Retained Earnings and Credit Dividends. The dividends account is always closed to Retained Earnings.

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**Short Answer Questions**

1. On December 14 Bench Company received $3,700 cash for consulting services that will be performed in January. Bench records all such prepayments in a liability account. Prepare a general journal entry to record the $3,700 cash receipt.

**Answer Question**

Dec. 14 Cash 3,700  
Unearned Consulting Fees 3,700

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2. Complete the following by filling in the blanks:   
(1) The Prepaid Insurance account had a $455 debit balance at the beginning of the current year; $650 of insurance premiums were paid during the year; and the year-end balance sheet showed $420 of prepaid insurance; consequently, the income statement for the year must have shown $\_\_\_\_\_\_\_685 \_\_\_\_\_\_\_ of insurance expense.

**Answer Question**

$685

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3. Barnes Company has 20 employees who are each paid $80 per day for a 5-day workweek. The employees are paid each Friday. This year the accounting period ends on Tuesday. Prepare the December 31 year-end adjusting journal entry Barnes Company should make to accrue salaries.

**Answer Question**

|  |  |  |  |
| --- | --- | --- | --- |
| Ans: Dec. 31 Salaries Expense | | 3,200 | |
|  | Salaries Payable | | 3,200 |

To record accrued salaries ($80 x 20 x 2 = $3,200)