Q1

1. ABC Company's total stockholders' equity at the beginning of the year was $200,000. During the year ABC reported the following: Net loss of $30,000. Stock issued in exchange for land totaling $80,000. Collections of accounts receivable $40,000. Dividends declared and paid totaling $2,000. What is ABC's total stockholders' equity at the end of the year?

X7

7. On January 1, 20X7, a company purchased a machine costing $40,000. The company also paid $1,000 for transportation and installation. The expected useful life of the machine is 6 years and the residual value is $5,000. The company uses the straight-line depreciation method. Calculate the following: a) Annual depreciation expense for the asset; b) Book value of the asset after recording the depreciation at the end December 31, 20X8.

N11

Classified Income Statement and Margins

Revenue	L01
Cost of sales (cost of goods sold) (COGS)	L02
Gross profit	L03
Selling, general and admin. (SG&A) expense	L04
R&D expense, marketing, restructuring, etc.	L05
Other operating items, gains and losses	L06
Operating income (income from operations)	L07
Interest income	L08
Interest expense	L09
Other nonoperating items, gains and losses	L10
Income before income taxes	L11
Income tax expense (provision for income taxes)	L12
Net income	L13

Margins:
Gross profit margin = Gross profit/Revenue
Operating margin = Operating income/Revenue
Net margin = Net income/Revenue

Notes:
1. Depreciation may be listed separately or may be included in COGS and/or SG&A.
2. Gains and losses from sale of fixed assets and litigation losses are operating items.
3. Gains and losses from sale of financial assets are nonoperating items.

X7A

7. a. $6,000 Annual depreciation expense = ($40,000 + $1,000 - $5,000) / 6 = $6,000 (The $1,000 paid for transportation is part of the asset's purchase cost)
b. $29,000 Book value at the end of year 2 = $41,000 – 2 x $6,000 = $29,000

X9

9. A company borrowed $100,000 cash on September 1, 20X8, and signed a one-year note payable bearing 6% per-year interest. Assume no adjusting entries have been made during the year. Give the required adjusting entry at the end of the December 31, 20X8.

X11A

11.

MJ Corporation
Stockholders' Equity, December 31, 20X4

Common stock, par $1, 100,000 authorized shares, 60,000 shares issued (see note 1), 59,000 shares outstanding (see note 2)	$60,000
Additional paid-in capital	$150,000
Retained earnings (see note 3)	$120,000
Treasury stock, 1,000 shares, at cost (Item B)	($8,000)
Total stockholders' equity	$322,000

(1) Before stock dividend, there were 30,000 issued shares. After 100% stock dividend, the number increases to 60,000 shares. Retained earnings is debited and common stock at par is credited by $30,000 (=30,000 new shares x $1 par value). Common stock at par now becomes $60,000. APIC is unchanged.
(2) Shares outstanding = Issued – Treasury shares = 60,000 – 1,000 = 59,000 shares
(3) Beginning RE $140,000 - stock dividend of 30,000 shares × $1 - cash dividend of $15,000 + net income of $25,000 = Ending RE $120,000.
(4) Treasury stock, shares, 1,000 from Item B.

Q3

3. D-Car Corp. is a car dealership. It has provided the following information:
Cash sales totaled $125,000.
Credit sales totaled $279,000.
Cash collections from customers for services yet to be provided totaled $38,000.
An $11,000 gain from the sale of display equipment occurred.
Interest income totaled $7,700.
How much of these items should be included in operating income? (I.e., How much revenue should be reported for the period?)

Q1A

1. $248,000 $200,000 - $30,000 + $80,000 - $2,000 = $248,000

11. On January 1, 20X4, the accounts of MJ Corporation showed the following:
Common stock, $1 par value, authorized 100,000 shares;

Issued 30,000 shares	$30,000
Additional paid-in capital	$150,000
Retained earnings	$140,000

During 20X4, the following transactions occurred (in the order given):
A. Issued a 100% stock dividend when the market price was at $5 per share.
B. Purchased treasury stock, 1,000 shares, at a total cost of $8,000.
C. Declared and paid cash dividends, $15,000.
D. Net income for 2016, $25,000.

Prepare the company's stockholders' equity section of the balance sheet as of December 31, 20X4.

Q7

7. On January 1, 20X1, WS Inc. purchased a machine costing $40,000. The company also paid $1,000 for transportation and installation. The expected useful life of the machine is 6 years and the residual value is $5,000. How much is the annual depreciation expense assuming use of the straight-line depreciation method?

Q3A

3. $415,000 Operating revenues = $415,000 = $125,000 + $279,000 + $11,000.

X9A

9. Interest expense = $2,000 = Amount borrowed × Annual interest rate × Number of months borrowed = $100,000 × 6% × (4 ÷ 12).
Journal entry:

Dr. Interest expense	$2,000	
Cr. Accrued interest payable		$2,000

X1

1. A company's total stockholders' equity at the beginning of the year was $175,000. During the year the company reported the following: Net income of $79,000. Dividend declarations totaling $17,000. Issued stock to stockholders in exchange for $42,000 cash. Borrowed $20,000 from a stockholder. What is total stockholders' equity at the end of the year?

Q7A

7. $6,000 Depreciation expense = ($40,000 + $1,000 - $5,000) / 6 = $6,000
(The $1,000 paid for transportation is part of the asset's purchase cost.)

X1A

1. $279,000
Total SE = $279,000 = $175,000 + $79,000 - $17,000 + $42,000

Q9

9. A company borrowed $25,000 cash on October 1, 20X4, and signed a nine-month, interest-bearing note payable with interest payable at maturity. Interest rate will be calculated at an annual percentage rate of 6%, applied on monthly at the rate of 0.5% per month. Show the amount of accrued interest payable to be reported on the December 31, 20X4 balance sheet.

X3

3. CC Inc. has provided the following information: Revenues from customers = $199,700; Operating expenses for the store = $111,000; Interest expense = $9,200; Gain from sale of plant and equipment = $3,300 (assume this is part of operating income); Dividend payments to stockholders = $7,700; Income tax expense = $36,000; Prepaid rent = $5,000.
Calculate the following from the above data:
a. Income from operations;
b. Income before income taxes;
c. Net income.

Q9A

9. $375
December 31, 20X4 accrued interest payable will be for three months of interest for the year. Hence, accrued interest payable = Amount borrowed × 3 months x Monthly interest rate = $25,000 × 3 × 0.5% = $375

X3A

3. a. $92,000 Income from operations = $92,000 = $199,700 - $111,000 + $3,300.
b. $82,800 Income before income taxes = $82,800 = $92,000 - $9,200.
c. $46,800 Net income = $46,800 = $203,000 - $111,000 - $9,200 - $36,000.

Q11

11. On January 1, 20X1, the stockholders' equity section of GG Corporation's balance sheet reported the following:

Common stock, par $10, authorized 100,000 shares, issued 10,000 shares	$100,000
Additional paid-in capital	50,000
Retained earnings	160,000

During 20X1, the following selected transactions occurred (assume they occurred in the order given):

April 1	Issued a 10% stock dividend when the market price was $12
May 1	200 shares of treasury stock were purchased at $11 per share
Sept. 1	Declared and paid a cash dividend of $19,800.
Dec. 31	Net income was $30,000.

Prepare the stockholders' equity section of the balance sheet as of December 31,

Stock Dividend Accounting – Small Stock Dividend

Small stock dividend is one where additional shares distributed are less than 20 to 25% of pre-distribution outstanding shares. We then record the new shares at their fair value (market price) and reduce retained earnings by that amount.

Example: Colonial Bancorp, which has 2,000,000 shares of $1 par outstanding, executes a 10% stock dividend. Market price on distribution date = $30/share.
Note: This is a "small stock dividend" (New shares < 20-25% of outstanding)

What happens to par value? No change in par value. (It is a stock dividend.)

No. of new shares issued = 200,000 shares = 2,000,000 x 10%

Accounting:

Dr. Retained earnings (-SE)	$6,000,000		= 200,000 x $30 market price
Cr. Common stock at par (+SE)		$200,000	= 200,000 x $1 par value
Cr. Additional paid-in capital (+SE)		$5,800,000	= 200,000 x ($30 - $1)

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Q11A

11.

GG Corporation
Stockholders' Equity (Partial Balance Sheet)
December 31, 20X1

Common stock, par $10; authorized 100,000 shares; issued 11,000 shares; outstanding 10,800 shares	$110,0
Additional paid-in capital	52,0
Retained earnings	158,2
Less: Treasury stock, 200 shares (at cost)	(2,2(
Total stockholders' equity	$318,0

Retained earnings = $160,000 – $19,800 – (1,000 shares × $12) + $30,000 = $158,200

N2

Stock Dividend Accounting – Large Stock Dividend

Large stock dividend is one where additional shares distributed are greater than 20 to 25% of pre-distribution outstanding shares. We then record the new shares at their par value and reduce retained earnings by that amount.

Example: Colonial Bancorp, which has 2,000,000 shares of $1 par outstanding, executes a 30% stock dividend. Market price on distribution date = $30/share.
Note: This is a "large stock dividend" (New shares > 20-25% of outstanding)

What happens to par value? No change in par value. (It is a stock dividend.)

No. of new shares issued = 600,000 shares = 2,000,000 x 30%

Accounting:

Dr. Retained earnings (–SE)	$600,000		= 600,000 x $1 par value
Cr. Common stock at par (+SE)		$600,000	

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X4

4. On December 31, 20X1, DE Delivery Company completed its first year of operations. The following information has been provided for the year:
a. Sold packing supplies for $30,000 and provided $280,000 of delivery services.
b. All packing supplies sales were for cash.
c. Collected $212,000 of delivery service revenue.
d. Paid $15,000 cash to rent equipment, with $10,000 for rental in 2016 and the remaining for 2017 rental.
e. Spent $4,000 cash to repair delivery equipment during the year.
f. Bought packing supplies at a total cost of $46,000 and paid for $25,000 of these supplies. There were $20,000 of these supplies that have not yet been sold or used.
g. Paid employees $80,000 during the year.

1

h. Paid $16,000 for advertising for the year.
i. Paid $$55,000 to rent facilities. The company has not yet paid the $5,000 rent for December 20X1.
j. Used $14,000 in fuel for the delivery equipment.
k. Sold investments for $8,000 that had been purchased earlier in the year for $7,000. (Assume gain or loss from this sale is treated as a nonoperating item).
l. Ordered $500 in spare parts and supplies.
m. Income tax expense for the year is $18,000.
Prepare an income statement for the company for the year ended December 31, 2016.

N5

Recording the Sale of PPE and the Gain/Loss on Sale

A car with an acquisition cost of $41,000 and accumulated depreciation of $20,000 is sold for $27,000 cash. Give the journal entry to record the sale and gain/loss.

Dr. Cash (A)	$27,000	
Dr. Accumulated depreciation (-XA, A)	$20,000	
Cr. PP& E (or Car) (-A)		$41,000
Cr. Gain on sale of asset (+R, +SE)		$6,000

If it is a loss, make a debit entry, e.g., if car is sold for $14,000:

Dr. Cash (A)	$14,000	
Dr. Accumulated depreciation (-XA, A)	$20,000	
Cr. PP& E (or Car) (-A)		$41,000
Dr. Loss on sale of asset (+E, -SE)	$7,000	

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X4A

DE Delivery Company
Income Statement
For the Year Ended December 31, 20X1

Revenues:	
Sales Revenue	$30,000
Service revenue	280,000
Total revenue	**$310,000**
Operating expenses:	
Rental expense for equipment	$10,000
Repairs expense	4,000
Packing supplies expense	26,000
Wages expense	80,000
Rent expense for facilities	60,000
Fuel expense	14,000
Advertising	16,000
Total operating expenses	(210,000)
Income from operations	**$100,000**
Other (nonoperating) items: Gain on sale of investments	1,000
Income before income taxes	**$101,000**
Income tax expense	(18,000)
Net income	$83,000

N6

E9-1 Current Liabilities

Identify all current liabilities in the balance sheet excerpt below.
Also calculate current assets, working capital and current ratio.

Total assets	$530,000
Total noncurrent assets	362,000
Liabilities:	
Notes payable (8%, due in 5 years)	15,000
Accounts payable	56,000
Income taxes payable	14,000
Liability for withholding taxes	3,000
Rent revenue collected in advance	7,000
Bonds payable (due in 15 years)	90,000
Wages payable	7,000
Property taxes payable	3,000
Note payable (10%, due in 6 months)	12,000
Interest payable	400
Common stock	100,000

CL = 56,000 + 14,000 + 3,000 + 7,000 + 7,000 + 3,000 + 12,000 + 400 = $102,400

CA = Total assets – Noncurrent assets = $530,000 – $362,000 = $168,000

Working capital = CA – CL = $168,000 – $102,400 = $65,600

Current ratio = CA / CL = $168,000 / $102,400 = 1.64

24

N12

Assets (A) = Liabilities (L) + Stockholders' equity (SE)

Stockholders' equity = Contributed capital (CC) + Retained earnings (RE)

RE (ending) = RE (beginning) + Net Income – Dividends

Net income = Revenue – Expenses + Gains - Losses

X6

6. Three transactions described below were completed during 20X3 by a company.
   A. On June 1, the company paid $12,600 for one year's rent beginning on that date, and recorded it as Prepaid rent.
   B. On February 1, the company purchased office supplies that cost $700 and placed the supplies in a storeroom for use as needed. At December 31, a count showed unused office supplies of $200 in the storeroom. There was no beginning inventory of supplies on hand.
   C. On December 31, the company owed employees $2,000 for wages earned during December. Those wages had not been paid or recorded.
   For each, prepare the adjusting entries at December 31, 20X3, assuming no adjusting entries have been made during the year.

N9

E3-3 Expense Recognition Examples (Continued)

How much expense should be recognized in January? (Also, account title.)

g. Facillo pays its salespersons $63,800 in commissions for December sales.
No expense — Sales expense would have been reported in December

i. Wendy's gets a new cooking grill in January for $12,750 cash.
No expense — Property, plant and equipment asset = $12,750

j. On January 1, supplies of $3,500 were in storage. $2,600 of supplies were purchased in January. On January 31, $1,400 of supplies were in storage.
$4,700
$3,500 Beginning inventory + $2,600 purchase – $1,400 Ending inventory = $4,700 used

17

X6A

A. Dr. Rent expense $7,350
Cr. Prepaid rent $7,350
($12,600 × 7/12) = $7,350.

B. Dr. Office supplies expense $500
Cr. Office supplies $500
$700 - $200 = $500.

C. Dr. Wage expense $2,000
Cr. Wages payable $2,000

X8

8. A company purchased a computer that cost $10,000. It had an estimated useful life of five years and a residual value of $1,000. The computer was depreciated by the straight-line method and was sold at the end of the third year of use for $5,000 cash (after recording year 3 depreciation). How much of a gain or loss should the company record? Also show the journal entry to record the asset's sale.

X8A

8. Gain on sale of asset = $400
Annual straight-line depreciation expense = ($10,000 - $1,000) / 5 = $1,800
Accumulated depreciation at the time of asset sale after 3 years = 1,800 x 3 = $5,400
Book value at the time of sale of the asset = $10,000 - $5,400 = $4,600
Since the asset is sold for $5,000, gain on sale = $5,000 - $4,600 = $400

Journal entry:
Dr. Cash $5,000
Dr. Accumulated depreciation $5,400
Cr. Gain on sale of asset $400
Cr. Property, plant and equipment $10,000

Q2

2. Superior has provided the following information for its recent year of operation: The common stock account balance at the beginning of the year was $20,000 and the year-end balance was $25,000. The additional paid-in capital account balance increased $2,500 during the year. The retained earnings balance at the beginning of the year was $75,000 and the year-end balance was $91,000. Net income was $26,000. How much were Superior's dividend declarations during its recent year of operation?

N13

E1-13 Retained Earnings Review

Plummer Stonework Corporation was organized on January 1, 2022. (CS and RE were zero on that date.) For its first two years of operations, the company reported the following:

Net income for 2022	$31,000	Net income for 2023	$42,000
Dividends for 2022	$14,200	Dividends for 2023	$18,700
Common stock, end of 2022	$100,000	Common stock, end of 2023	$100,000

Calculate the company's total stockholders' equity at the end of 2023. (Note: To answer this, you will need to first calculate the retained earnings at the end of 2023.)

Solution strategy: 1) Calculate the RE at the end of 2022. 3) Use it to calculate the RE at the end of 2023. 3) Add up the 2023 CS of $100,000 and the RE computed in step 2 to get total SE.

1. RE at the end of 2022 = 0 (RE, beg.) + $31,000 (NI) – $14,200 (dividend) = $16,800
2. RE at the end of 2023 = 16,800 (RE, beg.) + $42,000 (NI) – $18,700 (dividend) = $40,100
3. Total stockholders' equity at the end of 2023 = $100,000 (CS) + $40,100 (RE) = $140,100

Q4

4. The following information has been provided by FG Company for the year ended December 31, 20X2:
   Net income was $71,000;
   Income tax expense was $47,000;
   Dividends declared and paid totaled $7,500;
   Interest expense was $8,700;
   Loss on sale of plant assets was $15,000 (this is treated as operating income);
   Operating expenses for rent, wages, and insurance totaled $91,000;
   Cash collected from customers was $220,000.
   Calculate Flatiron's operating income.

X10

10. The following is a partial list of account balances for CN Inc. as of December 31, 20X2:

Accounts payable	$5,000
Accounts receivable	6,000

2

Bonds payable	40,000
Note payable	10,000
Bank loan payable	2,000
Salaries payable	800
Sales revenue	49,000
Income taxes payable	8,000
Unearned revenue	800

Additional data:
1. All of bonds payable is due in 10 years.
2. 10% of the Note Payable is due within one year; balance is due in 3 years.
3. Bank loan is due in six months.

Prepare the liabilities section of the company's classified balance sheet for December 31, 20X2, showing current and noncurrent liabilities.

X10A

CN Inc.
Partial Balance Sheet
December 31, 20X2

LIABILITIES	
Current Liabilities:	
Note payable	$2,000
Accounts payable	5,000
Note payable (current portion)	1,000
Salaries payable	800
Income taxes payable	8,000
Unearned revenue	800
Total Current Liabilities	$17,600
Long-term Liabilities:	
Bonds payable	40,000
Note payable	9,000
Total Long-term Liabilities	49,000
Total Liabilities	$66,600

Q2A

2. $10,000
   Ending RE ($91,000) = Beginning RE ($75,000) + Net income ($26,000) – Dividends declared ($10,000).

X2

2. A company has provided the following account balances: Cash $76,000; Short-term investments $8,000; Accounts receivable $96,000; Supplies $12,000; Long-term notes receivable $4,000; Equipment $192,000; Factory Building $360,000; Intangible assets $12,000; Accounts payable $90,000; Accrued liabilities payable $12,000; Short-term notes payable $42,000; Long-term notes payable $184,000. What is the company's current ratio?

X2A

2. 1.33
   Current assets = $192,000 = $76,000 + $8,000 + $96,000 + $12,000.
   Current liabilities = $144,000 = $90,000 + $12,000 + $42,000.
   Hence Current ratio = $192,000 / $144,000 = 1.33

Q6

6. Below are four transactions that were completed during 20X7 by Slumber Lodge. The annual accounting period ends on December 31. Each transaction will require an adjusting entry at December 31, 20X7.
   A. On July 1, 20X7, the company paid $8,000 for a two-year insurance premium for a policy on its facilities.
   B. On December 31, 20X7, a tenant renting some storage space from the company had not paid the rent of $750 for December.
   C. On September 1, 20X7, the company borrowed $25,000 cash and gave a one-year, 6 percent, note payable. The interest is payable on the note's due date of August 31, 20X8.
   D. On October 1, 20X7, the company collected $10,000 from a tenant for two years

   For each of the above transaction, prepare the 20X7 adjusting entries required for the company.

Q4A

4. $126,700
   Working from the bottom of the income statement, beginning with net income and adding back the expenses until reaching operating income:
   Step 1: Net income $71,000 + Income tax expense $47,000 = Income before taxes $11
   Step 2: Income before taxes $118,000 + Interest expense $8,700 = Oper. income $126

X12

Dividends on Preferred Stock – Example

Zoria Company has the following outstanding: 1) Preferred stock: $20 par, 5 percent ($1.00/share), 20,000 shares. 2) Common stock: $0.01 par, 50,000 shares. Zoria has not paid preferred dividends for the last two years. It has $75,000 available for dividends. How much can it pay in common dividends?

Note: Before paying any common dividend, Zoria must first pay all preferred dividends in arrears and also pay this year's preferred dividend.

Annual preferred stock dividend = $1.00 x 20,000 = $20,000

Preferred stock dividends in arrears = $20,000 x 2= $40,000

Common stock dividend that can be paid = $75,000 - $40,000 (arrears) - $20,000 (this year's preferred dividend) = $15,000

This equals $15,000/50,000 shares = $0.30/share common stock dividend.

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N4

Comparing SL and DDB Methods

Data: Acquisition cost = $41,000; Useful life = 4 years; Salvage value = $1,000

	Straight-Line (SL)			Double-Declining Balance (DDB)		
	Beginning Net Book Value	Depreciation Expense	Ending Net Book Value	Beginning Net Book Value	Depreciation Expense	Ending Net Book Value
0			$41,000			$41,000
1	$41,000	$10,000	$31,000	$41,000	$20,500	$20,500
2	$31,000	$10,000	$21,000	$20,500	$10,250	$10,250
3	$21,000	$10,000	$11,000	$10,250	$5,125	$5,125
4	$11,000	$10,000	$1,000	$5,125	$4,125	$1,000
Total		$40,000			$40,000	= Salvage value

SL rate = 100%/4 = 25%.
SL depreciation = ($41,000 - $1,000) x 25% = $10,000

SL rate = 100%/4 = 25%. Hence, DDB rate = 2 x 25%
DDB year 1 depreciation = $41,000 x 2 x 25% = $20,500
DDB Year 2 depreciation = $20,500 x 2 x 25% = $10,250

14

Q6A

6.

A. Dr. Insurance expense $2,000
Cr. Prepaid insurance $2,000
$8,000 × 6/24 = $2,000.

B. Dr. Rent revenue receivable $750
Cr. Rent revenue $750

C. Dr. Interest expense $500
Cr. Interest payable $500
$25,000 × 6% × 4/12 = $500.

D. Dr. Unearned rent revenue $1,250
Cr. Rent revenue $1,250
$10,000 × 3/24 = $1,250.

Q10

10. An appliance company prepares annual financial statements and at December 31, 20X3. The company needs to analyze the following items to determine the whether any adjusting entries are required for the year 20X3.
   1. Some employees who worked during the year are expected to take their earned vacation in 20X4. Compensation expense for the earned vacation is estimated to be $28,000.
   2. Office rent for January, 20X4 has not yet been paid.

2

3. The company sold 3,000 coffee brewing machines for total sales of $150,000 ... expects that 30 machines will need warranty repairs in the next two years and e... cost of repairs to be $2,400.
4. The company has been sued by a customer and assesses the probability of lo... lawsuit to be reasonably possible. The estimate of the contingency loss is $20,0...

For each item listed, determine whether there should be an accrual and adjusting entry at December 31, 20X3. If so, then prepare the adjusting entry. If not, state the reason for not accruing a liability.

N10

E3-3 Expense Recognition Examples

How much expense should be recognized in January? (Also, account title.)

a. McGraw-Hill used $3,800 of electricity/gas in January. (Has not been billed yet.)
$3,800 Dr. Utilities expense $3,800; Cr. Utilities payable $3,800

b. On January 1, Turner paid $1,350 for advertising to run in January, February, March.
January expense = $1,350/3 = $450 Advertising expense

c. Dell paid $403,000 salaries for the two weeks ended January 7. (Dec. 31 FY end)
January 1-7 expense = $403,000/2 = $201,500 Salaries expense

e. A bookstore received 500 books costing $210 each. Payment is due in 30 days.
No expense yet. Report as inventory. Inventory = 500 x $210 = $105,000

f. The bookstore sold 400 of the above books in January for $280 each.
400 books x $210/book = $84,000 Cost of goods sold (Expense)

16

X14

E9-3 Payroll

Oaks Company's January payroll has the following data: Salaries and wages earned: $86,000; Employee income tax withheld: $10,000; FICA payroll tax: $6,000 assessed on employer; $6,000 assessed on employee.

What was the total labor cost for January? = $86,000 (wages) + $6,000 (FICA employer) = $92,000

What is the employee take-home pay? = $86,000 (wages) – $10,000 (tax withheld) – $6,000 (FICA employee) = $70,000

List the balance sheet liabilities (employees have been paid).

Employees' income tax withheld and payable	$10,000
Employees' FICA payroll tax withheld and payable	$6,000
Employer's FICA payroll tax payable	$6,000
Total current liabilities related to payroll	$22,000

30

Q10A

10.
Item 1:
Dr. Compensation expense $28,000
Cr. Accrued vacation liability $28,000

Item 2: No accrual for this year because the rent is for the next year.

Item 3:
Dr. Warranty expense $2,400
Cr. Accrued warranty liability $2,400

Item 4: No accrual because a contingency that is reasonably possible and reasonably estimated need only be disclosed in the notes to the financial statements.