

I-12.01

Following are selected transactions or events of Amazon Company relating to its first month of operation.

- 1-May Amazon borrowed \$100,000 via a note payable bearing interest at 1% per month. This note and all accrued interest is due at the end of July.
- 10-May Purchased \$25,000 of inventory, terms 2/10,n/30. The purchase was initially recorded at the net amount. The obligation was not paid during May.
- 17-May The company adopted an employee health insurance plan. The total estimated cost is \$100 per day. None of this cost was funded during May.
- 20-May Sold goods for \$80,000 cash. Amazon offers a warranty on the goods, and anticipates that total warranty cost will be 2% of sales.
- 25-May Amazon was involved in an accident that resulted in damage to another person's property. Amazon expects to be held responsible for an estimated \$10,000 in damages.
- 31-May At month end, it was estimated that employees are owed for \$13,000 in accrued wages. In addition, \$400 was spent on warranty service work.

- (a) Prepare any initial journal entries necessary to record the above transactions or events.
- (b) Prepare month-end adjusting journal entries that are deemed appropriate related to the above transactions or events.
- (c) Prepare the current liability section of the company's balance sheet as of the end of the month. The only obligations are those related to the above transactions or events.