College Accounting Chapters 1-15 22nd edition Heintz Solutions Manual

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CHAPTER 2

REVIEW QUESTIONS

1. accounting equation
2. business entity
3. asset
4. liability
5. account payable
6. owner's equity
7. business entity
8. Owner's Equity
9. Liabilities
10. Owner's Equity
11. expense
12. net income
13. net loss
14. fiscal year
15. drawing
16. income statement
17. statement of owner's equity
18. balance sheet
19. liquidity

EXERCISES

Exercise 1

(a) $24,000 (b) $17,000 (c) $40,000

Exercise 2

(a) $90,000 (c) $60,000 (e) $50,000

(b) $35,000 (d) $55,000 (f) $10,000

Exercise 3

Net income = $7,000

Exercise 4

Owner's equity = $13,120

Exercise 5

(a) $16,000 (b) $2,880 net income

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Exercise 6

	ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
(a)	15,000				15,000
Bal.	15,000				15,000
(b)	(4,000)				
	4,000				
Bal.	15,000				15,000
(c)	9,000		9,000		
Bal.	24,000		9,000		15,000
(d)	(2,000)		(2,000)		
Bal.	22,000	=	7,000	+	15,000

Exercise 7

	ASSETS (Items Owned)	= LIABILITIES (Amts. Owed)	+ OWNER'S EQUITY (Owner's Investment)			(Earnings)			
	Cash	Accounts Payable	Glen Ross, Capital	–	Glen Ross, Drawing	+ Revenues	–	Expenses	Description
Bal.	28,000	8,000	20,000						
(a)	4,000					4,000			Service Fees
(b)	(1,200)							1,200	Rent Exp.
(c)	(200)							200	Utilities Exp.
(d)	(600)				600				
Bal.	30,000	= 8,000	+ 20,000	–	600	+ 4,000	–	1,400	
	30,000	=			30,000				

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Exercise 8

1.

	ASSETS (Items Owned)		= LIABILITIES (Amts. Owed)	+ OWNER'S EQUITY (Owner's Investment)			(Earnings)		
	Cash	+ Office Equipment	= Accounts Payable	+ J. Moore, Capital	– J. Moore, Drawing	+ Revenues	– Expenses	Description
(a)	10,000			10,000				
(b)		5,500	5,500					
(c)	900					900		Service Fees
(d)	(6,000)	6,000						
(e)	1,500					1,500		Service Fees
(f)	(800)						800	Rent Exp.
(g)	(75)						75	Phone. Exp.
(h)	(100)		(100)					
(i)	(500)				500			
Bal.	4,925	+ 11,500	= 5,400	+ 10,000	– 500	+ 2,400	– 875	
	16,425		=	16,425				

2.

Total assets	$ 16,425
Total liabilities	$ 5,400
Owner's equity	$ 11,025
Owner's equity in excess of original investment	$ 1,025
Total revenues	$ 2,400
Total expenses	$ 875
Net income	$ 1,525

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Exercise 9

Judith Moore Enterprises

Income Statement

For Month Ended July 31, 20--

Revenue:		
Service fees		$2,400
Expenses:		
Rent expense	$800	
Phone expense	75	
Total expenses		875
Net income		$1,525

Exercise 10

Judith Moore Enterprises

Statement of Owner's Equity

For Month Ended July 31, 20--

Judith Moore, capital, July 1, 20--		$ ——
Investment in July		10,000
Total investment		$10,000
Net income for July	$1,525	
Less withdrawals for July	500	
Increase in capital		1,025
Judith Moore, capital, July 31, 20--		$11,025

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Exercise 11

Judith Moore Enterprises
Balance Sheet
July 31, 20--

ASSETS		LIABILITIES	
Cash	$ 4,925	Accounts payable	$ 5,400
Office equipment	11,500		
		OWNER'S EQUITY	
		Judith Moore, capital	11,025
Total assets	$16,425	Total liabilities and owner's equity	$16,425

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PROBLEMS

Problem 12

	ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
1.	$18,800		$4,700		$14,100
2.	$23,400		$7,200		$16,200
3.	$21,900		$6,000		$15,900

4. Net income for January = $2,100
   Net loss for February = $300

Problem 13

1.

	ASSETS (Items Owned)			=	LIABILITIES (Amts. Owed)	+	OWNER'S EQUITY (Owner's Investment)			(Earnings)		
	Cash	+ Office Equip.	+ Prepaid Insur.	=	Accounts Payable	+	J. Moore, Capital	– J. Moore, Drawing	+ Revenues	– Expenses		Description
(a)	12,000						12,000					
(b)		7,500			7,500							
(c)	(800)	800										
(d)	700								700			Cons. Fees
(e)	(600)									600		Rent Exp.
(f)	(150)									150		Wages Exp.
(g)	(200)		200									
(h)	(3,000)				(3,000)							
(i)	(100)							100				
Bal.	7,850	+ 8,300	+ 200	=	4,500		+ 12,000	– 100	+ 700	– 750		
		16,350		=				16,350				

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Problem 13 (Concluded)

2.

Total assets	$ 16,350
Total liabilities	$ 4,500
Owner's equity	$ 11,850
Change in owner's equity from original investment	$ (150)
Total revenues	$ 700
Total expenses	$ 750
Net income (loss)	$ (50)

Problem 14

Susan Cole Consulting Services

Income Statement

For Month Ended October 31, 20—

Revenue:		
Consulting fees		$700
Expenses:		
Rent expense	$600	
Wages expense	150	
Total expenses		750
Net income (loss)		$ (50)

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Problem 15

Susan Cole Consulting Services
Statement of Owner's Equity
For Month Ended October 31, 20--

Susan Cole, capital, October 1, 20--		$ ——
Investment in October		12,000
Total investment		$12,000
Less: Net loss for October	$ 50	
Withdrawals for October	100	
Decrease in capital		(150)
Susan Cole, capital, October 31, 20--		$11,850

Problem 16

Susan Cole Consulting Services
Balance Sheet
October 31, 20--

ASSETS		LIABILITIES	
Cash	$ 7,850	Accounts payable	$ 4,500
Prepaid insurance	200		
Office equipment	8,300	OWNER'S EQUITY	
		Susan Cole, capital	11,850
Total assets	$16,350	Total liabilities and owner's equity	$16,350

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Problem 17

1.

	ASSETS (Items Owned)			= LIABILITIES (Amts. Owed)	+ OWNER'S EQUITY (Owner's Investment)			(Earnings)		
	Cash	+ Accounts Receivable.	+ Office Supplies	= Accounts Payable	+ S. Cassady, Capital	– S. Cassady, Drawing	+ Revenues	– Expenses	Description
(a)	10,000				10,000				
(b)	(200)		200						
(c)	(400)		800	400					
(d)	300						300		Typing Fees
(e)	(600)							600	Rent Exp.
(f)	(100)					100			
(g)	200	400					600		Typing Fees
(h)	(200)			(200)					
(i)	200	(200)							
Bal.	9,200	+ 200	+ 1,000	= 200	+ 10,000	– 100	+ 900	– 600	
		10,400		=		10,400			

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Problem 17 (Concluded)

2.

Stuart Cassady Typing Service
Income Statement
For Month Ended April 30, 20--

Revenue:		
Typing fees		$900
Expense:		
Rent expense		600
Net income		$300

Stuart Cassady Typing Service
Statement of Owner's Equity
For Month Ended April 30, 20--

Stuart Cassady, capital, April 1, 20--		$ —
Investment in April		10,000
Total investment		$10,000
Net income for April	$300	
Less withdrawals for April	100	
Increase in owner's equity		200
Stuart Cassady, capital, April 30, 20--		$10,200

Stuart Cassady Typing Service
Balance Sheet
April 30, 20--

ASSETS		LIABILITIES	
Cash	$ 9,200	Accounts payable	$ 200
Accounts receivable	200		
Office supplies	1,000	OWNER'S EQUITY	
		Stuart Cassady, capital	10,200
Total assets	$10,400	Total liabilities and owner's equity	$10,400

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Heintz & Parry

COLLEGE ACCOUNTING 22e



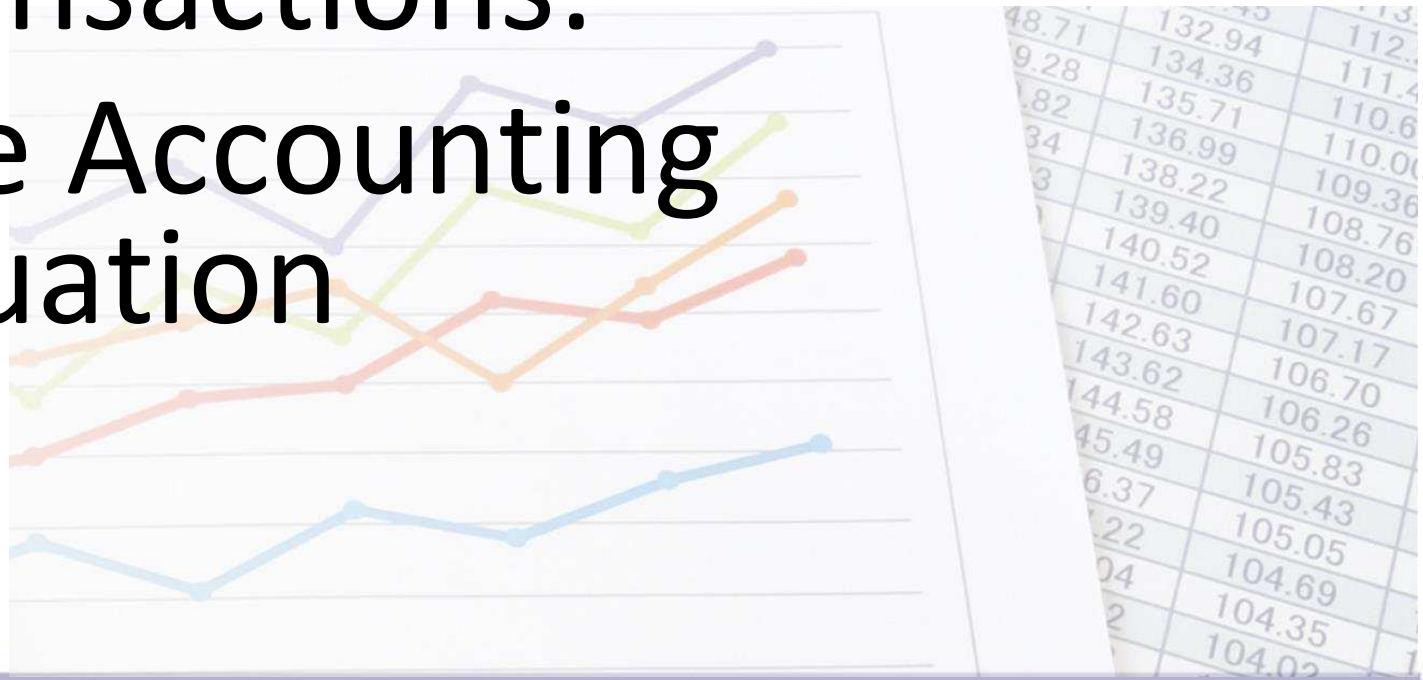
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Chapter 2

Analyzing Transactions:

The Accounting Equation



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Learning Objective 1

Define the accounting elements.

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Business Entity

- An individual, association, or organization that engages in economic activities and controls specific economic resources
- The business entity's finances are kept separate from the owner's nonbusiness assets and liabilities (business entity concept)

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Assets

- Items owned by a business that will provide future benefits.

MUST BE "OWNED"
NOT RENTED

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Assets (cont.)

- Items owned by a business that will provide future benefits.

BUT DOESN'T HAVE TO BE PAID OFF, COULD STILL BE MAKING PAYMENTS ON IT

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Assets (cont.)

- Examples:
  - Cash
  - Merchandise
  - Furniture
  - Fixtures
  - Machinery
  - Buildings
  - Land
  - Accounts Receivable

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Accounts Receivable

- The amount of money owed to the business by its customers as a result of making sales “on account” or “on credit”
- Simply put, the customers have promised to pay sometime in the future.

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Liabilities

- Something owed to another business entity
- A probable future outflow of assets as a result of a past transaction or event.

IN OTHER WORDS, DEBTS OR OBLIGATIONS OF THE BUSINESS THAT CAN BE PAID WITH CASH, GOODS, OR SERVICES.

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Liabilities (cont.)

- Examples:
  - Accounts Payable
  - Notes Payable

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Accounts Payable

- An unwritten promise to pay a supplier for assets purchased or services received
- Referred to as making a purchase "on account" or "on credit"

Be careful!! Don't confuse accounts receivable and accounts payable. Ask yourself: Are we waiting to receive? Or waiting to pay?

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Notes Payable

- Formal written promises to pay suppliers or lenders specified sums of money at definite future times

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Owner's Equity

- Amount by which the business assets exceed the business liabilities.

Also called:

NET WORTH OR *CAPITAL*

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Business Entity Concept

- The owner of a business may have business assets and liabilities as well as nonbusiness assets and liabilities.
- Nonbusiness assets and liabilities are not included in the business entity's accounting records.
- If the owner invests money or other assets in the business, the investment is now reclassified as a business asset.

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A Broader View

Assets and the Cost of Products We Buy

Next time you buy something, think of all the assets a company needs to produce that product. If the product comes from a capital-intensive industry, one that requires heavy investments in assets, the company must price the product high enough to cover the cost of using the assets and replacing them when they wear out. For example, AT&T recently reported that the cost of property, plant, and equipment used for operating purposes came to over $274 billion.

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Learning Objective 2

Construct the accounting equation.

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The Accounting Equation

Assets = Liabilities + Owner's Equity

The left side shows the assets.

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The Accounting Equation (cont.)

Assets = Liabilities + Owner's Equity

The right side shows where the money came from to buy the assets.

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Example

- If a business has total assets of $60,400 and total liabilities of $5,400, what is the owner's equity?

Once the debts are paid, the remaining assets belong to the owner (owner's equity).

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Example

- If a business has total assets of $60,400 and total liabilities of $5,400, what is the owner's equity?

ASSETS – LIABILITIES = OWNER'S EQUITY

$60,400 – $5,400 = $55,000

Can also be expressed as:

Assets = Liabilities + Owner's Equity

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Learning Objective 3

Analyze business transactions.

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Business Transaction

- An economic event that has a direct impact on the business
- Usually requires an exchange with an outside entity.
- We must be able to measure this exchange in dollars.
- All business transactions affect the accounting equation through specific accounts.

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Account

- A separate record used to summarize changes in each asset, liability, and owner's equity of a business.

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Analyzing Business Transactions

- **Three Questions:**
  - What happened?
  - Which accounts are affected?
  - How is the accounting equation affected?

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Question #1

- **What happened?**
  - Make certain you understand the event that has taken place.

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Question #2

- **Which accounts are affected?**
  - Identify the accounts that are affected.
  - Classify these accounts as assets, liabilities, or owner's equity.

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Question #3

- **How is the accounting equation affected?**
  - Determine which accounts have increased or decreased.
  - Make certain that the accounting equation remains in balance after the transaction has been entered.

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Learning Objective 4

Show the effects of business transactions on the accounting equation.

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Rohan's Campus Delivery

- Let's analyze the effect of transactions on the accounting equation.

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Investment Example

- Rohan Macsen, the owner, invested $2,000 in the business.

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Question #1

- **What happened?**

Rohan took $2,000 from his personal bank account and deposited it in a new account in the business's name.

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Question #2A

- Identify the accounts that are affected.

CASH

R.M., CAPITAL

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Question #2B

- Classify these accounts as assets, liabilities, or owner's equity.

CASH

ASSET

R.M., CAPITAL

OWNER'S EQUITY

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Question #3A

- Determine which accounts have increased or decreased.





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Question #3B

- Does the accounting equation balance?

ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
CASH	=			R.M., CAPITAL
+$2,000	=			+$2,000

It balances!

Assets of $2,000 = Liabilities of $0

+ Owner's Equity of $2,000

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Cash Purchase Example Question #1

- **What happened?**
  - Purchased delivery equipment for $1,200 cash.

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Question #2

- **Which accounts are affected?**
  - Identify the accounts that are affected.
  - Classify these accounts as assets, liabilities, or owner's equity.

DELIVERY EQUIPMENT
ASSET

CASH
ASSET

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Question #3A

- Determine which accounts have increased or decreased.





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Question #3B

- Let's look at the accounting equation

ASSETS			=	LIAB.	+	O. E.
CASH	+	DEL. EQUIP.	=			
–$1,200	+	+$1,200	=			

The right hand side of the equation is not affected.

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Question #3B (cont.)

- Does the accounting equation balance?

ASSETS			=	LIAB.	+	O. E.
CASH	+	DEL. EQUIP.	=			
–$1,200	+	+$1,200	=			

Yes!
Total assets stayed the same. One asset increased, the other decreased. No change in liabilities or owner's equity.

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Proving the Accounting Equation Balances

ASSETS

	CASH	DEL. EQUIP.
BAL.	$2,000	
	– 1,200	+ $1,200
BAL.	$ 800	$1,200

LEFT SIDE OF EQUATION:

CASH	$ 800
DEL. EQUIP.	1,200
TOTAL ASSETS	$2,000

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Proving the Accounting Equation Balances (cont.)

	LIABILITIES	OWNER'S EQUITY
BAL.	$ 0	$2,000
BAL.	$ 0	$2,000

RIGHT SIDE OF EQUATION:

LIABILITIES	$ 0
OWNER'S EQUITY	2,000
TOTAL LIAB. & O.E.	$2,000

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Purchase On Account Example

- Purchased delivery equipment on account for $900.

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Question #1

- **What happened?**

Rohan is buying this delivery equipment "on account." He will be making payments on it over the next three months.
NO CASH WAS EXCHANGED TODAY.

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Question #2

- **Which accounts are affected?**
  - Identify the accounts that are affected.
  - Classify these accounts as assets, liabilities, or owner's equity.

DEL. EQUIP.

ASSET

ACCOUNTS PAYABLE

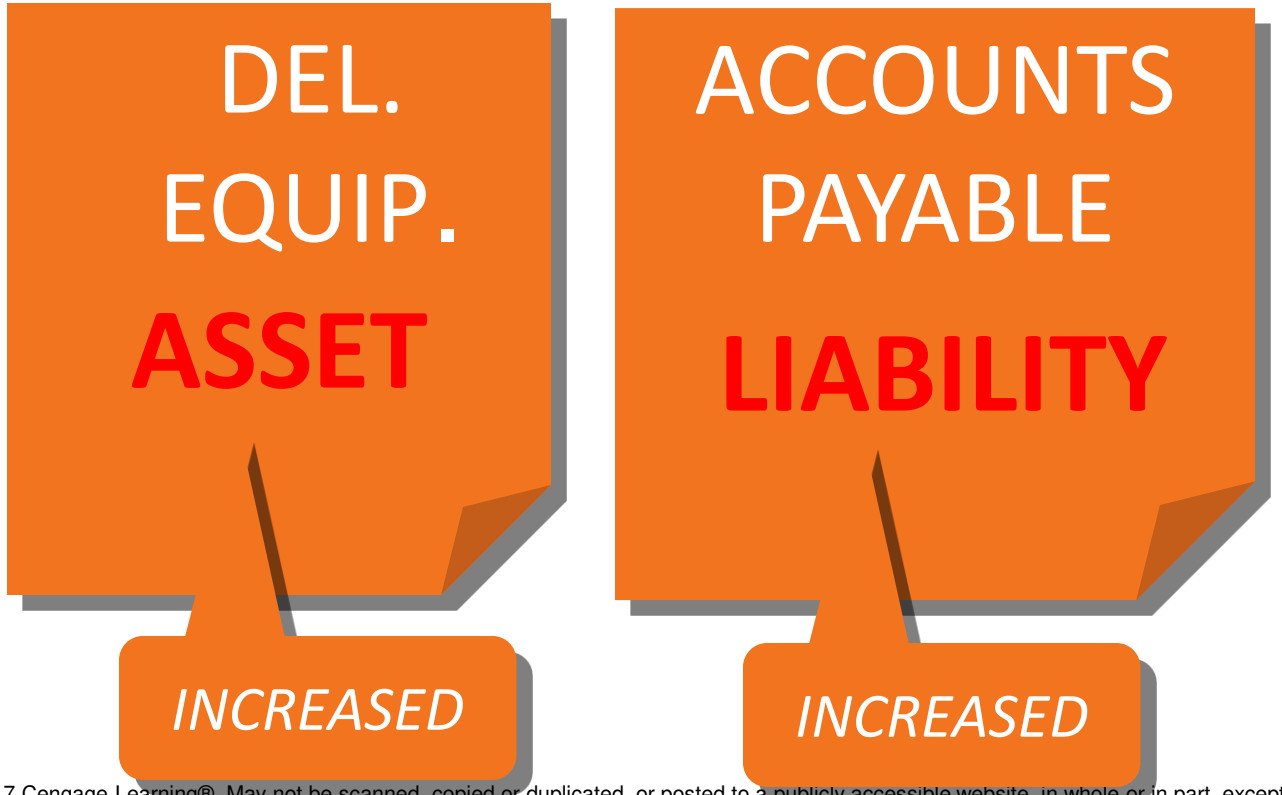
LIABILITY

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Question #3A

- Determine which accounts have increased or decreased.



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Question #3B

- Let's look at the accounting equation.

ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
DEL. EQUIP.	=	ACCOUNTS PAYABLE		
+$900	=	+$900		

This transaction had no effect on owner's equity.

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Question #3B (cont.)

- Does the accounting equation balance?

ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
DEL. EQUIP.	=	ACCOUNTS PAYABLE		
+$900	=	+$900		

It balances!

Assets increased by $900 = Liabilities increased by $900

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Proving the Accounting Equation Balances

	ASSETS		
	CASH	+	DEL. EQUIP.
	$2,000		
	– 1,200		$1,200
BAL.	$ 800		$1,200
			+ 900
BAL.	$ 800		$2,100

$800 + ($1,200 + $900) =

$2,900 TOTAL ASSETS

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Proving the Accounting Equation Balances (cont.)

	LIABILITIES	OWNER'S EQUITY
	ACCTS. PAY.	R.M., CAPITAL
		+$2,000
BAL.		$2,000
	+$900	
BAL.	$900	$2,000

$900 + $2,000 = $2,900

TOTAL LIABILITIES AND OWNER'S EQUITY

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Loan Payment Example Question #1

- **What happened?**
  - Made $300 payment on equipment loan.

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Question #2

- **Which accounts are affected?**
  - Identify the accounts that are affected.
  - Classify these accounts as assets, liabilities, or owner's equity.

CASH

ASSET

ACCOUNTS PAYABLE

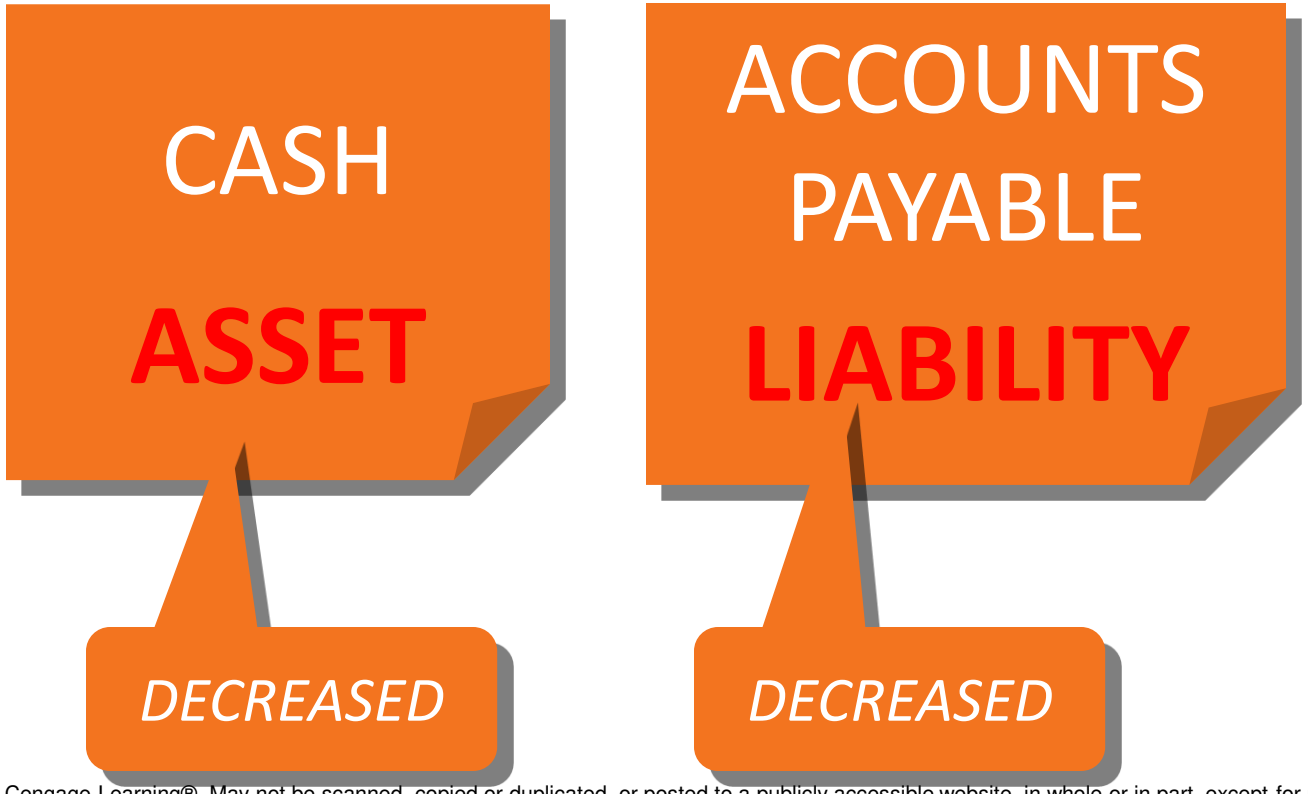
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Question #3A

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Question #3B

- Let's look at the accounting equation.

ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
CASH	=	ACCOUNTS PAYABLE		
–$300	=	–$300		

This transaction had no effect on owner's equity.

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Question #3B (cont.)

- Does the accounting equation balance?

ASSETS	=	LIABILITIES	+	OWNER'S EQUITY
CASH	=	ACCOUNTS PAYABLE		
–$300	=	–$300		

It balances!

Assets decreased by $300 = Liabilities decreased by $300

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Proving the Accounting Equation Balances

	ASSETS	
	CASH	DEL. EQUIP.
	$2,000	
	– 1,200	$1,200
BAL.	$ 800	$1,200
		+ 900
BAL.	$ 800	$2,100
	– 300	
BAL.	$ 500	$2,100

$2,600

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Proving the Accounting Equation Balances (cont.)

	LIABILITIES	OWNER'S EQUITY
	ACCTS. PAY.	R.M., CAPITAL
		+$2,000
BAL.		$2,000
	+$900	
BAL.	$900	$2,000
	– 300	
BAL.	$600	$2,000

$2,600

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Owner's Equity Transactions

FOUR TYPES:

DECREASE:	INCREASE:
EXPENSES	REVENUES
DRAWING	INVESTMENTS

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Revenues

- The amount a business charges customers for products sold or services performed
- Recognized when earned (even if cash has not yet been received)
- Increase both assets (cash or accounts receivable) and owner's equity

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Revenues (cont.)

- **Examples:**
  - Delivery Fees
  - Consulting Fees
  - Rent Revenue (if the business rents space to others)
  - Interest Revenue (for interest earned on bank deposits)
  - Sales (for sales of merchandise)

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Expenses

- Represent the decrease in assets (or increase in liabilities) as a result of efforts made to produce revenues
- Separate accounts are maintained for each type of expense.
- Either *decrease* assets or *increase* liabilities, but ALWAYS *decrease* owner's equity.

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Expenses (cont.)

- **Examples**:
  - Rent
  - Salaries
  - Supplies consumed
  - Taxes

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Net Income

REVENUES greater than EXPENSES = NET INCOME

EXAMPLE: Luke Perkins performed $6,000 of tax services (revenue) this year and incurred expenses of $1,500 for rent, $500 for supplies, and $3,000 in salaries.

REVENUE	–	EXPENSES	=	NET INCOME
$6,000	–	$5,000	=	$1,000

$1,500 + $500 + $3,000

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Net Loss

EXPENSES greater than REVENUES
= NET LOSS

EXAMPLE: John Atwood performed $8,000 of delivery services (revenue) this year and incurred expenses of $3,500 for rent, $500 for supplies, $3,000 in salaries, and $2,500 for gasoline.

REVENUE	–	EXPENSES	=	NET LOSS
$8,000	–	$9,500	=	($1,500)

$3,500 + $500 + $3,000 + $2,500

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Accounting Period Concept

- The concept that income determination can be made on a periodic basis (month, quarter, year, etc.)
- Any accounting period of 12 months is called a fiscal year.

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Withdrawals

- The owner taking (withdrawing) cash or other assets from the business for personal use
- Reduces owner's equity and assets
- Also referred to as drawing

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Revenue Example Question #1

- **What happened?**
  - Rohan performed services and received $500 in cash.

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Question #2

- **Which accounts are affected?**
  - Identify the accounts that are affected.
  - Classify these accounts as assets, liabilities, or owner's equity.

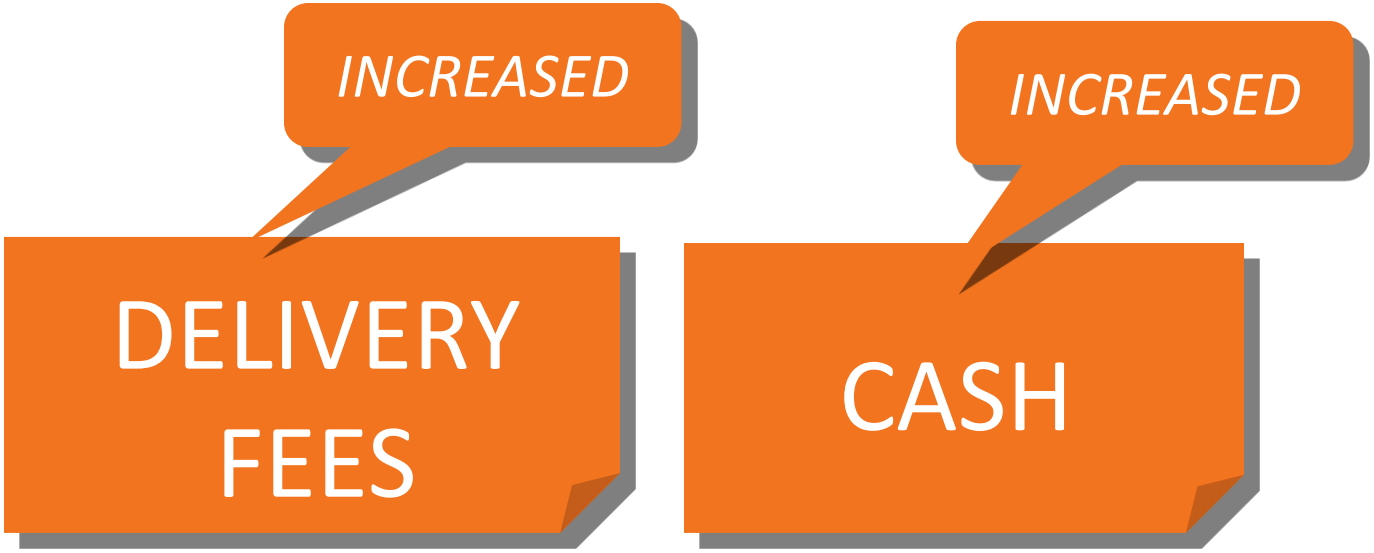
DELIVERY FEES
O.E. REVENUE

CASH
ASSET

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Question #3A

- Determine which accounts have increased or decreased.



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Question #3B

- Does the accounting equation balance?

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CASH	=			DELIVERY FEES
+$500	=			+$500

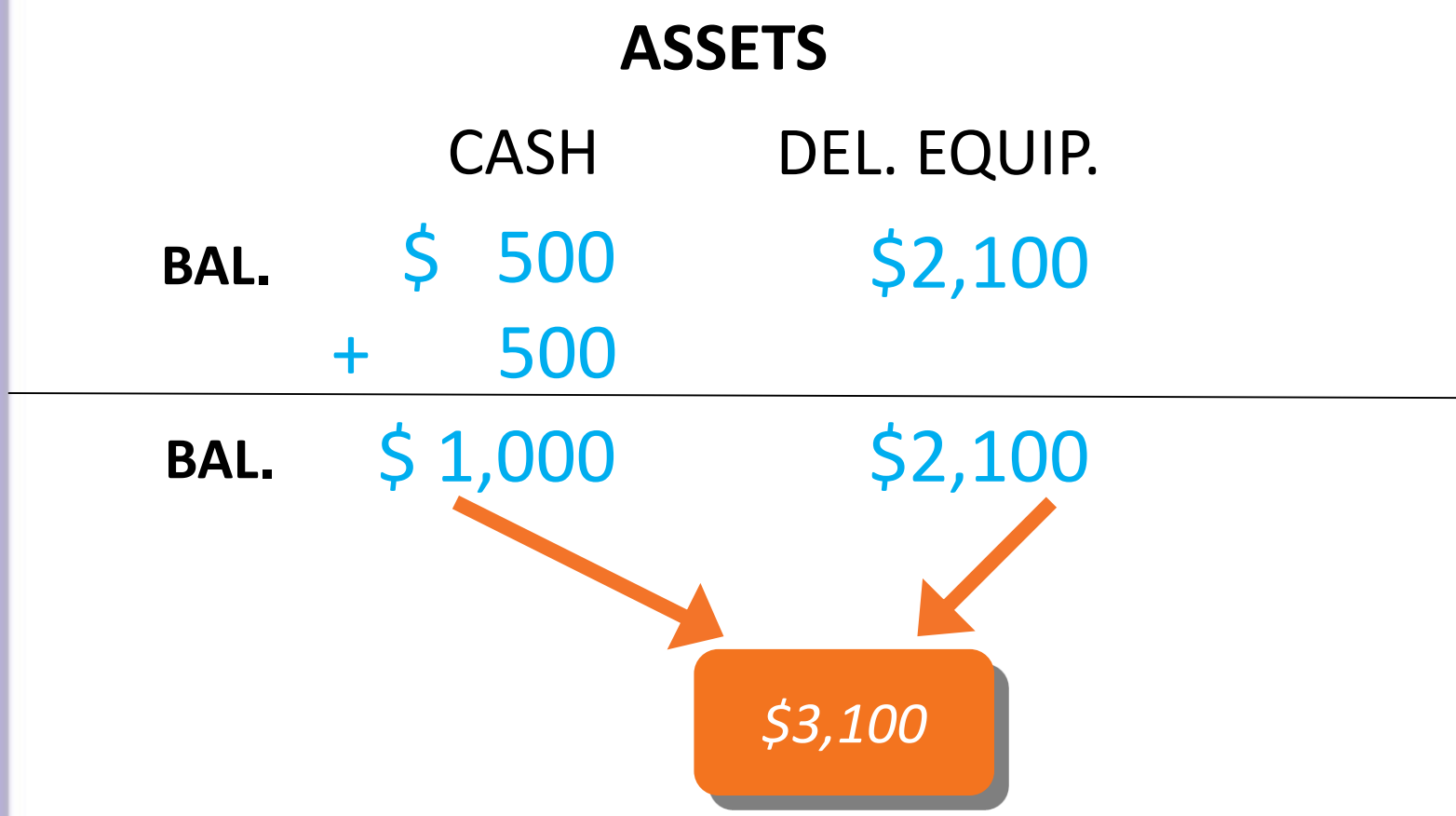
It balances!

Assets increased by $500 = Owner's equity increased by $500

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Proving the Accounting Equation Balances



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Proving the Accounting Equation Balances (cont.)

	LIAB.	OWNER'S EQUITY	
	ACCTS. PAY.	R.M., CAPITAL	DELIVERY FEES
BAL.	$600	$2,000	
			+$500
BAL.	$600	$2,000	$500



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Expense Example Question #1

- **What happened?**
  - Rohan paid $200 for office rent.

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Question #2

- **Which accounts are affected?**
  - Identify the accounts that are affected.
  - Classify these accounts as assets, liabilities, or owner's equity.

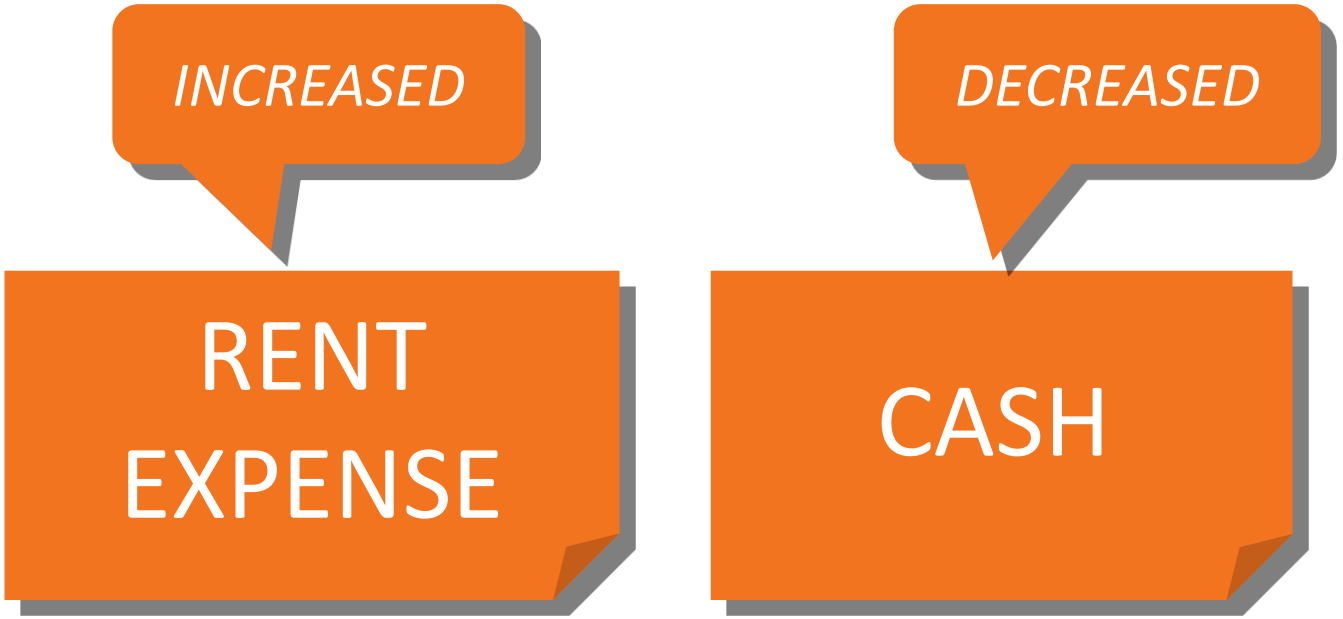
RENT EXPENSE
O.E.
EXPENSE

CASH
ASSET

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Question #3A

- Determine which accounts have increased or decreased.



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Question #3A (cont.)

- Determine which accounts have increased or decreased.

RENT EXPENSE

CASH

BE CAREFUL! While incurring an expense will increase the expense account, it will cause an overall DECREASE in OWNER'S EQUITY.

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Question #3B

- Does the accounting equation balance?

ASSETS	=	LIAB.	+	OWNER'S EQUITY
CASH	=			RENT EXPENSE
–$200	=			–$200

It balances!

Assets decreased by $200 = Owner's equity decreased by $200

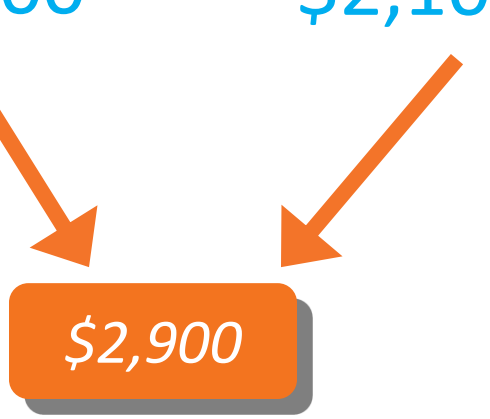
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Proving the Accounting Equation Balances

ASSETS

	CASH	DEL. EQUIP.
BAL.	$1,000	$2,100
	– 200	
BAL.	$ 800	$2,100

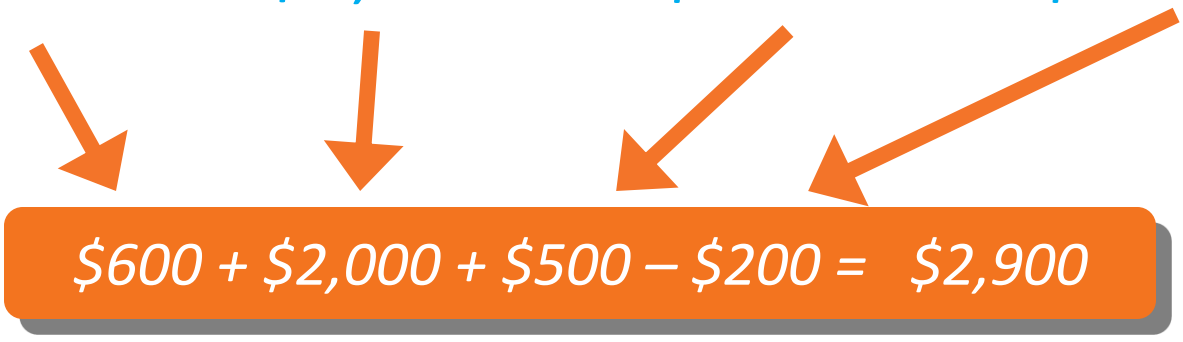


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Proving the Accounting Equation Balances (cont.)

	LIAB.	OWNER'S EQUITY		
	ACCTS. PAY.	R.M., CAPITAL	REVENUES	EXPENSES
BAL.	$600	$2,000	$500	
				+$200
BAL.	$600	$2,000	$500	$200



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Expense Example Question #1

- **What happened?**
  - Rohan paid $50 for phone service.

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Question #2

- **Which accounts are affected?**
  - Identify the accounts that are affected.
  - Classify these accounts as assets, liabilities, or owner's equity.

PHONE EXPENSE

O.E. EXPENSE

CASH

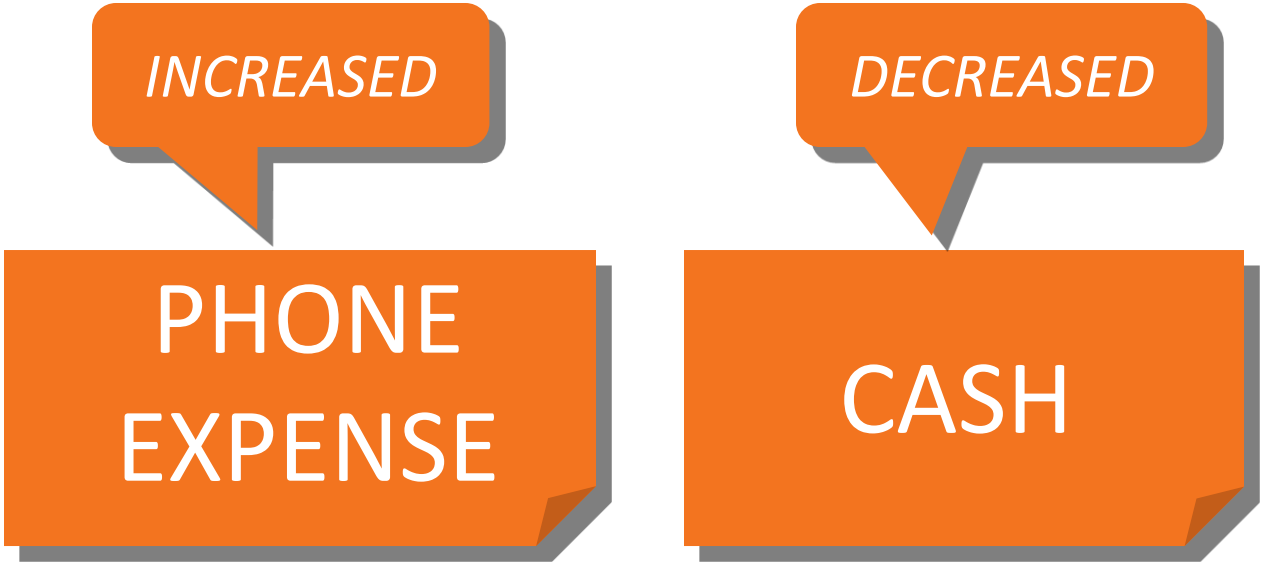
ASSET

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Question #3B

- Does the accounting equation balance?

ASSETS	=	LIAB.	+	OWNER'S EQUITY
CASH	=			PHONE EXPENSE
–$50	=			–$50

It balances! Assets decreased by $50 = Owner's equity decreased by $50

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Proving the Accounting Equation Balances

ASSETS

	CASH	DEL. EQUIP.
BAL.	$ 800	$2,100
	– 50	
BAL.	$ 750	$2,100



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Proving the Accounting Equation Balances (cont.)

	LIAB.	OWNER'S EQUITY		
	ACCTS. PAY.	R.M., CAPITAL	REVENUES	EXPENSES
BAL.	$600	$2,000	$500	$ 200
				+ 50
BAL.	$600	$2,000	$500	$ 250



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Revenue On Account Example

- Rohan performed $600 of delivery services on account.

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Question #1

- **What happened?**

Rohan has performed services for a client. The client will be paying Rohan at a later date.

IT IS REVENUE EVEN THOUGH NO CASH CHANGES HANDS TODAY!

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Question #2

- **Which accounts are affected?**
  - Identify the accounts that are affected.
  - Classify these accounts as assets, liabilities, or owner's equity.

DELIVERY FEES

O.E. REVENUE

ACCOUNTS RECEIVABLE

ASSET

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Question #3A

- Determine which accounts have increased or decreased.



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Question #3B

- Does the accounting equation balance?

ASSETS	=	LIAB.	+	OWNER'S EQUITY
ACCTS. RECEIVABLE	=			DELIVERY FEES
+$600	=			+$600

It balances!

Assets increased by $600 = Owner's equity increased by $600

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Proving the Accounting Equation Balances

ASSETS

	CASH	ACCTS. REC.	DEL. EQUIP.
BAL.	$750		$2,100
		+ $600	
BAL.	$750	$600	$2,100



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Proving the Accounting Equation Balances (cont.)

	LIAB.	OWNER'S EQUITY		
	ACCTS. PAY.	R.M., CAPITAL	REVENUES	EXPENSES
BAL.	$600	$2,000	$ 500	$250
			+ 600	
BAL.	$600	$2,000	$1,100	$250



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Purchase Of Supplies Example Question #1

- **What happened?**
  - Purchased supplies for $80 cash.

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Question #2

- **Which accounts are affected?**
  - Identify the accounts that are affected.
  - Classify these accounts as assets, liabilities, or owner's equity.

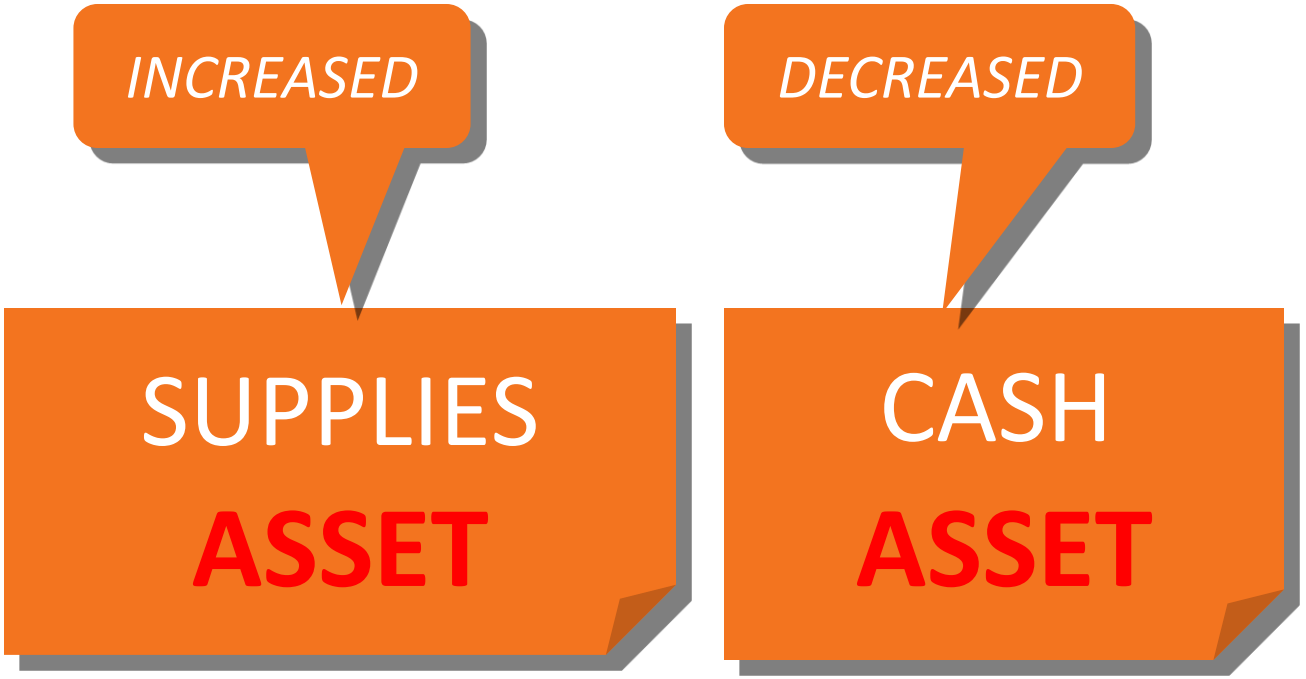
SUPPLIES
ASSET

CASH
ASSET

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Question #3A

- Determine which accounts have increased or decreased.



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Question #3B

- Does the accounting equation balance?

ASSETS			=	LIAB.	+	O. E.
CASH	+	SUPPLIES	=			
–$80	+	+$80	=			

It balances!

Total assets stayed the same. One asset increased, the other decreased. No change in liabilities or owner's equity.

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Proving the Accounting Equation Balances

ASSETS

	CASH	ACCTS. REC.	SUPPLIES	DEL. EQUIP.
BAL.	$750	$600		$2,100
	– 80		+$80	
BAL.	$670	$600	$80	$2,100

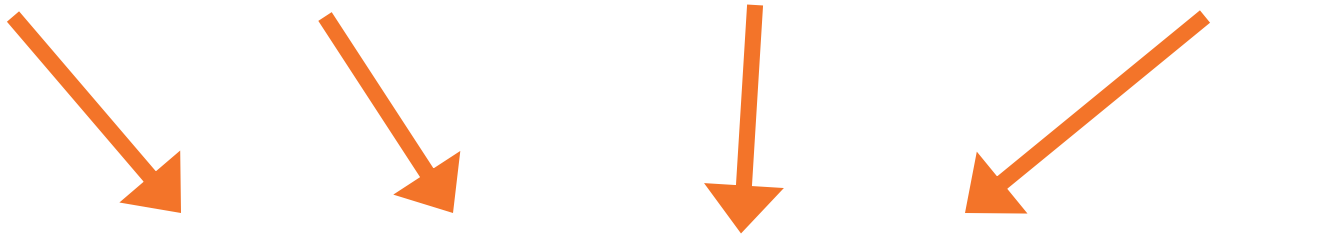


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Proving the Accounting Equation Balances (cont.)

	LIAB.	OWNER'S EQUITY		
	ACCTS. PAY.	R.M., CAPITAL	REVENUES	EXPENSES
BAL.	$600	$2,000	$1,100	$250
BAL.	$600	$2,000	$1,100	$250



$600 + $2,000 + $1,100 – $250 = $3,450

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Prepaid Insurance Premium Example Question #1

- **What happened?**
  - Rohan paid for an eight-month liability insurance policy with $200 cash.
  - Insurance is paid in advance and will provide future benefits.

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Question #2

- **Which accounts are affected?**
  - Identify the accounts that are affected.
  - Classify these accounts as assets, liabilities, or owner's equity.

PREPAID INSURANCE
ASSET

CASH
ASSET

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Question #3A

- Determine which accounts have increased or decreased.





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Question #3B

- Does the accounting equation balance?

ASSETS			=	LIAB.	+	O. E.
CASH	+	PREPAID INS.	=			
–$200	+	+$200	=			

It balances!

Total assets stayed the same. One asset increased, the other decreased. No change in liabilities or owner's equity.

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Proving the Accounting Equation Balances

	ASSETS				
	CASH	ACCTS. REC.	SUPPLIES	PREPD. INS.	DEL. EQUIP.
BAL.	$670	$600	$80		$2,100
	– 200			+$200	
BAL.	$470	$600	$80	$200	$2,100



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Proving the Accounting Equation Balances (cont.)

	LIAB.	OWNER'S EQUITY		
	ACCTS. PAY.	R.M., CAPITAL	REVENUES	EXPENSES
BAL.	$600	$2,000	$1,100	$250
BAL.	$600	$2,000	$1,100	$250



$600 + $2,000 + $1,100 – $250 = $3,450

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Customer Payment Example

- Received $570 in cash for services recognized in an earlier transaction.

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Question #1

- **What happened?**

When Rohan performed the delivery services, the client agreed to pay at a later date.

TODAY HE RECEIVED CASH OF $570 AS A PARTIAL PAYMENT.

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Question #2

- **Which accounts are affected?**
  - Identify the accounts that are affected.
  - Classify these accounts as assets, liabilities, or owner's equity.

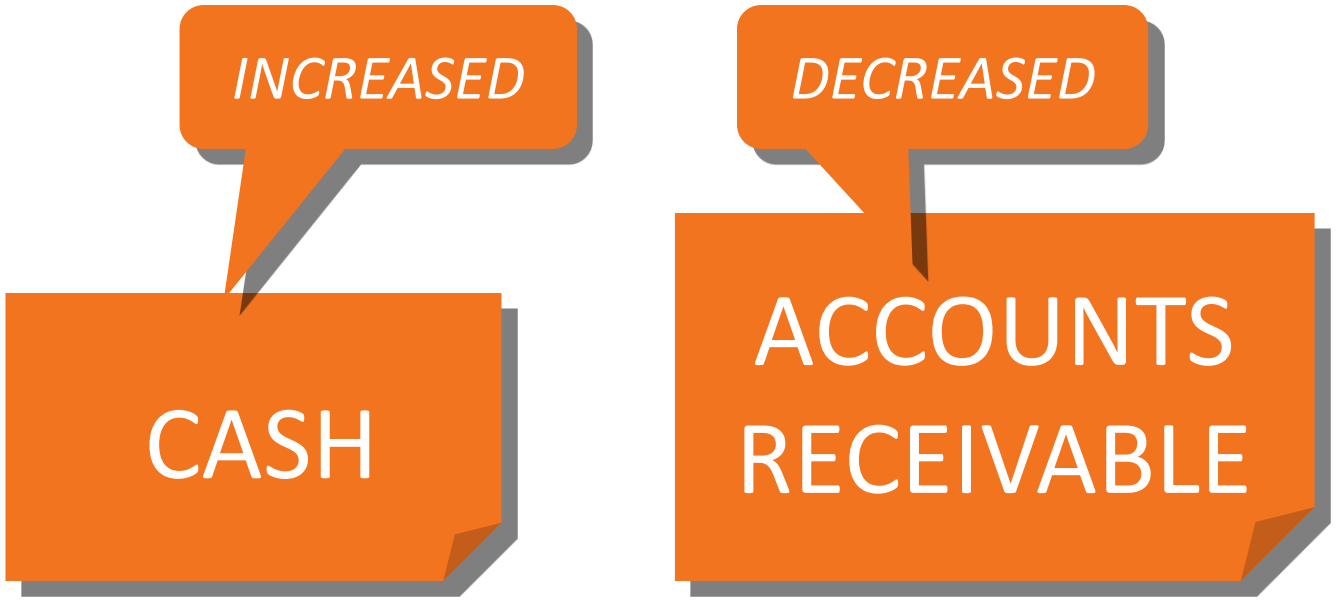
CASH
ASSET

ACCOUNTS RECEIVABLE
ASSET

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Question #3A

- Determine which accounts have increased or decreased.



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Question #3B

- Does the accounting equation balance?

ASSETS			=	LIAB.	+	O. E.
CASH	+	ACCTS. REC.	=			
+$570	+	–$570	=			

It balances!

Total assets stayed the same. One asset increased, the other decreased. No change in liabilities or owner's equity.

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Proving the Accounting Equation Balances

	ASSETS				
	CASH	ACCTS. REC.	SUPPLIES	PREPD. INS.	DEL. EQUIP.
BAL.	$ 470	$600	$80	$200	$2,100
	+ 570	– 570			
BAL.	$1,040	$ 30	$80	$200	$2,100



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Proving the Accounting Equation Balances (cont.)

	LIAB.	OWNER'S EQUITY		
	ACCTS. PAY.	R.M., CAPITAL	REVENUES	EXPENSES
BAL.	$600	$2,000	$1,100	$250

BAL.	$600	$2,000	$1,100	$250



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Purchase by Partial Payment and On Account Example

- Purchased delivery equipment for $300 cash and $1,200 on account.

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Question #1

- **What happened?**

Rohan is buying this delivery equipment by paying some cash now and the rest "on account." He will be making payments on it over the next four months.

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Question #2

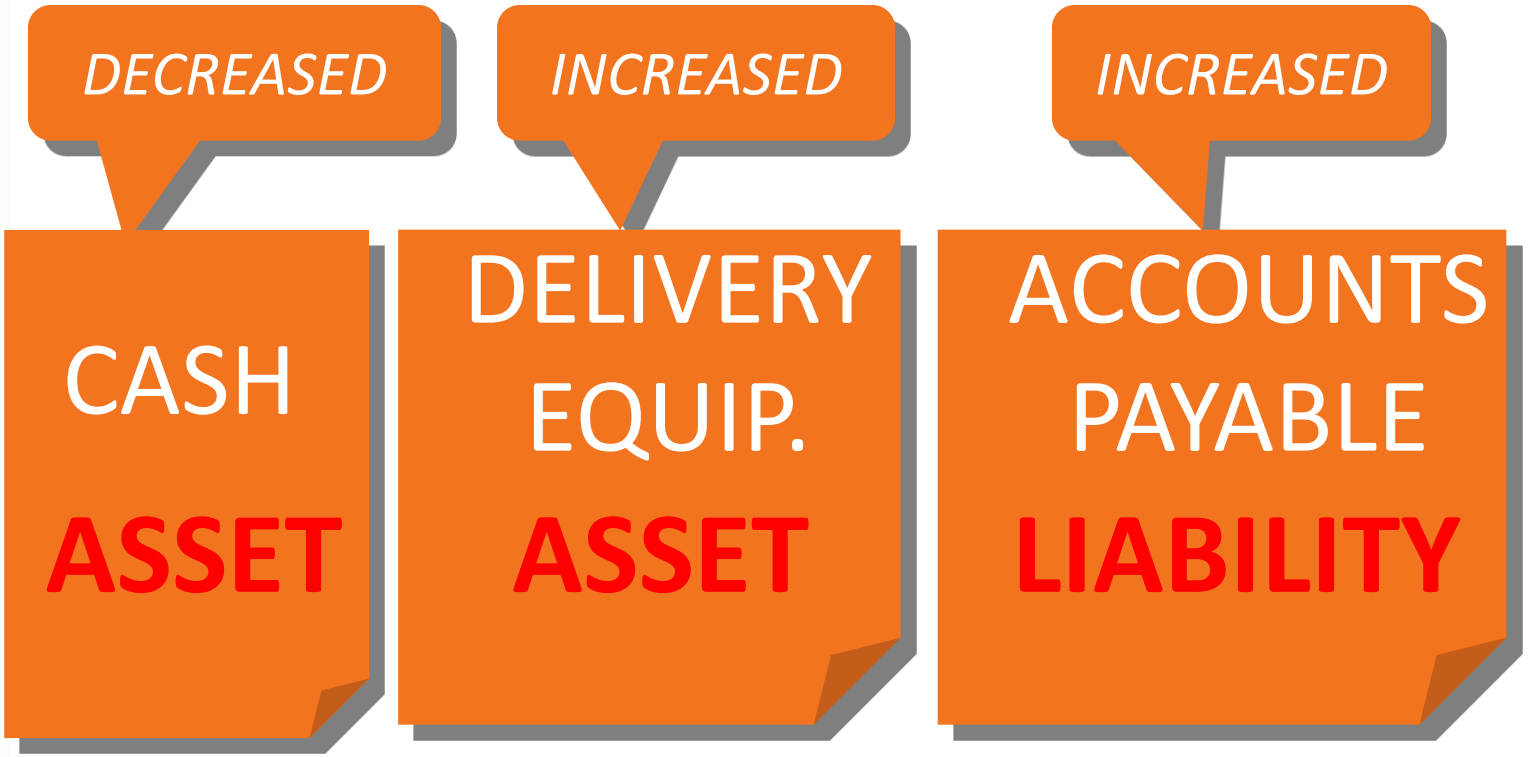
- **Which accounts are affected?**
  - Identify the accounts that are affected.
  - Classify these accounts as assets, liabilities, or owner's equity.

CASH	DELIVERY EQUIP.	ACCOUNTS PAYABLE
ASSET	**ASSET**	**LIABILITY**

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Question #3A

- Determine which accounts have increased or decreased.



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Question #3B

- Does the accounting equation balance?

ASSETS			=	LIABILITIES	+	OWNER'S EQUITY
CASH	+	DEL. EQUIP.	=	ACCOUNTS PAYABLE		
–$300	+	$1,500	=	+$1,200		

It balances!

Assets increased by $1,200 = Liabilities increased by $1,200

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Proving the Accounting Equation Balances

ASSETS

	CASH	ACCTS. REC.	SUPPLIES	PREPD. INS.	DEL. EQUIP.
BAL.	$1,040	$30	$80	$200	$2,100
	– 300				+1,500
BAL.	$ 740	$30	$80	$200	$3,600



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Proving the Accounting Equation Balances (cont.)

	LIAB.	OWNER'S EQUITY		
	ACCTS. PAY.	R.M., CAPITAL	REVENUES	EXPENSES
BAL.	$ 600	$2,000	$1,100	$250
	+1,200			
BAL.	$1,800	$2,000	$1,100	$250



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Payment Of Wages Example Question #1

- **What happened?**
  - Rohan paid his part-time employees $650 in wages.

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Question #2

- **Which accounts are affected?**
  - Identify the accounts that are affected.
  - Classify these accounts as assets, liabilities, or owner's equity.

WAGES EXPENSE

O.E.

EXPENSE

CASH

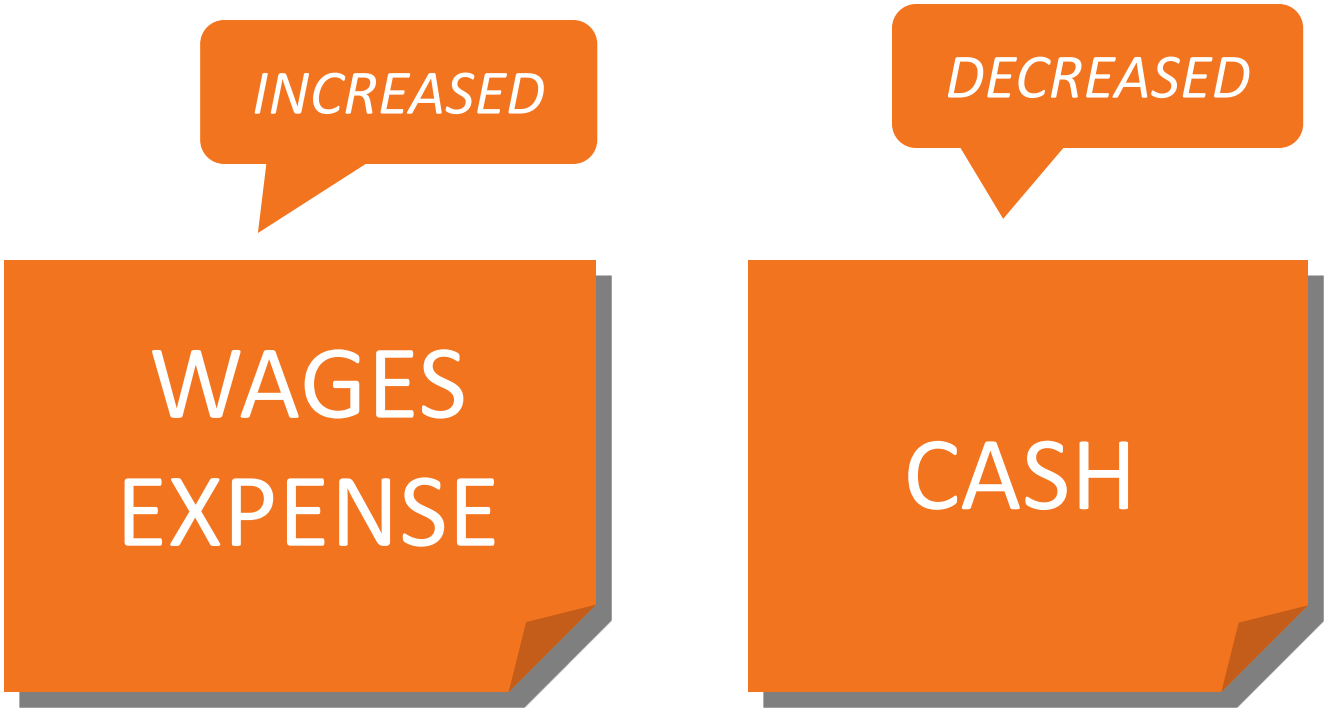
ASSET

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Question #3A

- Determine which accounts have increased or decreased.



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Question #3B

- Does the accounting equation balance?

ASSETS	=	LIAB.	+	OWNER'S EQUITY
CASH	=			WAGES EXPENSE
–$650	=			–$650

It balances!

Assets decreased by $650 =
Owner's equity decreased by $650

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Proving the Accounting Equation Balances

	ASSETS				
	CASH	ACCTS. REC.	SUPPLIES	PREPD. INS.	DEL. EQUIP.
BAL.	$740	$30	$80	$200	$3,600
	–650				
BAL.	$ 90	$30	$80	$200	$3,600



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Proving the Accounting Equation Balances (cont.)

	LIAB.	OWNER'S EQUITY		
	ACCTS. PAY.	R.M., CAPITAL	REVENUES	EXPENSES
BAL.	$1,800	$2,000	$1,100	$250 + 650
BAL.	$1,800	$2,000	$1,100	$900



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Deliveries for Cash and On Account Question #1

- **What happened?**
  - Rohan received delivery fees as follows: $430 in cash and $620 on account.

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Question #2

- **Which accounts are affected?**
  - Identify the accounts that are affected.
  - Classify these accounts as assets, liabilities, or owner's equity.

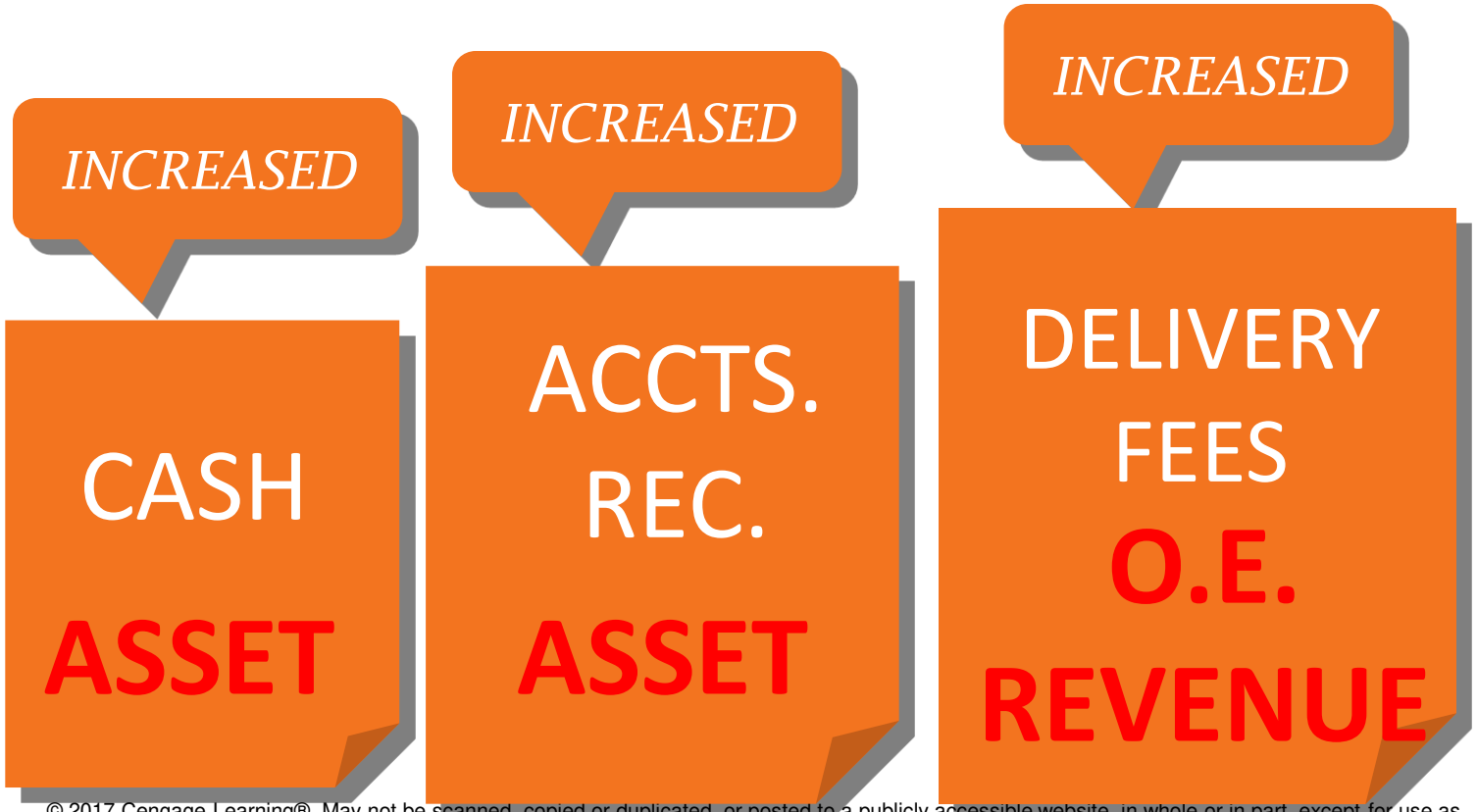


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Question #3A

- Determine which accounts have increased or decreased.



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Question #3B

- Does the accounting equation balance?

ASSETS		=	LIAB.	+	OWNER'S EQUITY
CASH	ACCTS. REC.	=			DELIVERY FEES
+$430	+$620	=			+$1,050

It balances!

Assets increased by $1,050 =
Owner's equity increased by $1,050

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Proving the Accounting Equation Balances

	ASSETS				
	CASH	ACCTS. REC.	SUPPLIES	PREPD. INS.	DEL. EQUIP.
BAL.	$ 90	$ 30	$80	$200	$3,600
	+ 430	+ 620			
BAL.	$520	$650	$80	$200	$3,600



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Proving the Accounting Equation Balances (cont.)

	LIAB.	OWNER'S EQUITY		
	ACCTS. PAY.	R.M., CAPITAL	REVENUES	EXPENSES
BAL.	$1,800	$2,000	$ 1,100	$900
			+ 1,050	
BAL.	$1,800	$2,000	$ 2,150	$900

$1,800 + $2,000 + $2,150 – $900 = $5,050

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Cash Withdrawal Example

- Rohan withdrew $150 for personal expenses.

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Question #1

- **What happened?**

Rohan is withdrawing some of his equity in the business by taking home an asset (cash). This will reduce the assets and reduce his owner's equity.

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Question #2

- **Which accounts are affected?**
  - Identify the accounts that are affected.
  - Classify these accounts as assets, liabilities, or owner's equity.

R.M., DRAWING

O.E. DRAWING

CASH

ASSET

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Question #3A

- Determine which accounts have increased or decreased.



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Question #3A (cont.)

- Determine which accounts have increased or decreased.

R.M., DRAWING

CASH

BE CAREFUL! Just like expenses, the drawing account will increase in this situation, but it will cause an overall DECREASE IN OWNER'S EQUITY.

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Question #3B

- Does the accounting equation balance?

ASSETS	=	LIAB.	+	OWNER'S EQUITY
CASH	=			R.M., DRAWING
–$150	=			+$150

It balances!

Assets decreased by $150 = Owner's equity decreased by $150

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Proving the Accounting Equation Balances

ASSETS

	CASH	ACCTS. REC.	SUPPLIES	PREPD. INS.	DEL. EQUIP.
BAL.	$ 520	$650	$80	$200	$3,600
	– 150				
BAL.	$370	$650	$80	$200	$3,600



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Proving the Accounting Equation Balances (cont.)

	LIAB.	OWNER'S EQUITY			
	ACCTS. PAY.	R.M., CAP.	R.M., DRAWING	REV.	EXP.
BAL.	$1,800	$2,000		$2,150	$900
			+$150		
BAL.	$1,800	$2,000	$150	$2,150	$900

$1,800 + $2,000 – $150 + $2,150 – $900 = $4,900

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Learning Objective 5

Prepare and describe the purposes of a simple income statement, statement of owner's equity, and balance sheet.

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Financial Statements

- Three commonly prepared financial statements:
  - Income statement
  - Statement of owner's equity
  - Balance sheet

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Income Statement

- Reports the profitability of business operations for a specific period of time
- Expenses are subtracted from revenues to determine net income/loss
- Also called the profit and loss statement or operating statement

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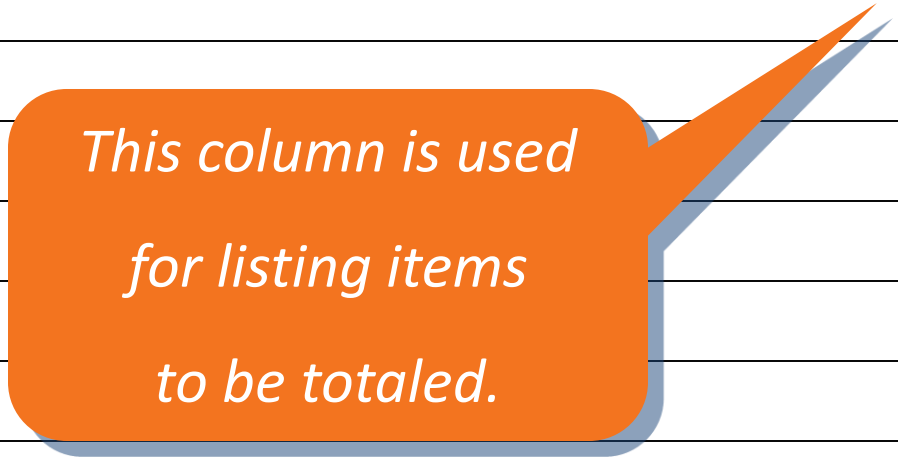
Rohan's Campus Delivery
Income Statement
For Month Ended June 30, 20--

Financial statement headings:

1st line: The name of the company
2nd line: The title of the statement
3rd line: The time period covered or the date of the statement

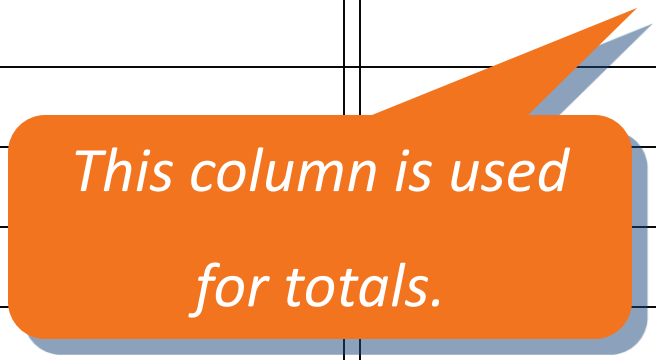
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Rohan's Campus Delivery
Income Statement
For Month Ended June 30, 20--



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Rohan's Campus Delivery
Income Statement
For Month Ended June 30, 20--



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Rohan's Campus Delivery
Income Statement
For Month Ended June 30, 20--

Revenues	
Delivery fees	$2,150

The first item at the top of a column should include a dollar sign.

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Rohan's Campus Delivery
Income Statement
For Month Ended June 30, 20--

Revenues		
Delivery fees		$2,150
Expenses		
Wages expense	$ 650	
Rent expense	200	
Phone expense	50	
Total expenses		900

Underline before totaling.

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Rohan's Campus Delivery
Income Statement
For Month Ended June 30, 20--

Revenues		
Delivery fees		$2,150
Expenses		
Wages expense	$ 650	
Rent expense	200	
Phone expense	50	
Total expenses		900
Net income		$1,250

Revenues are greater than expenses, therefore the total is called NET INCOME.

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Rohan's Campus Delivery
Income Statement
For Month Ended June 30, 20--

Revenues		
Delivery fees		$2,150
Expenses		
Wages expense	$ 650	
Rent expense	200	
Phone expense	50	
Total expenses		900
Net income		$1,250

Double underline the net income total.

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The Statement Of Owner's Equity

- Reports the activities that affected owner's equity for a specific period of time
- Uses Net Income from the income statement

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Rohan's Campus Delivery
Statement of Owner's Equity
For Month Ended June 30, 20--

Rohan Macsen, capital, June 1, 20--		$2,000
Net Income for June	$1,250	

Instead of showing revenue increasing and expenses decreasing the owner's equity, this statement uses the net effect (net income/loss) from the income statement.

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Rohan's Campus Delivery
Statement of Owner's Equity
For Month Ended June 30, 20---

Rohan Macsen, capital, June 1, 20--		$2,000
Net Income for June	$1,250	
Less Withdrawals for June	150	
		1,100

$1,250 net income – $150 withdrawal = $1,100 increase in capital

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Rohan's Campus Delivery
Statement of Owner's Equity
For Month Ended June 30, 20--

Rohan Macsen, capital, June 1, 20--		$2,000
Net Income for June	$1,250	
Less Withdrawals for June	150	
Increase in capital		1,100
Rohan Macsen, capital, June 30, 20--		$3,100

$2,000 beginning O. E. + $1,100 increase = $3,100

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The Balance Sheet

- Reports a firm's assets, liabilities, and owner's equity on a specific date
- Confirms that the accounting equation has remained in balance
- Also referred to as a statement of financial position or statement of financial condition

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Rohan's Campus Delivery
Balance Sheet
June 30, 20--

The balance sheet reports assets, liabilities, and owner's equity on a SPECIFIC DATE, not a period of time.

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Rohan's Campus Delivery
Balance Sheet
June 30, 20--

Assets		Liabilities	
Cash	$ 370	Accounts payable	$1,800
Accounts receivable	650		
Supplies	80	**Owner's Equity**	
Prepaid insurance	200	Rohan Macsen, capital	3,100
Delivery equipment	3,600		
		Total liabilities and	
Total assets	$4,900	**owner's equity**	$4,900

It balances!!!

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Learning Objective 6

Define the three basic phases of the accounting process.

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Accounting Process

- Three basic phases:
  - Input
  - Processing
  - Output

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Input

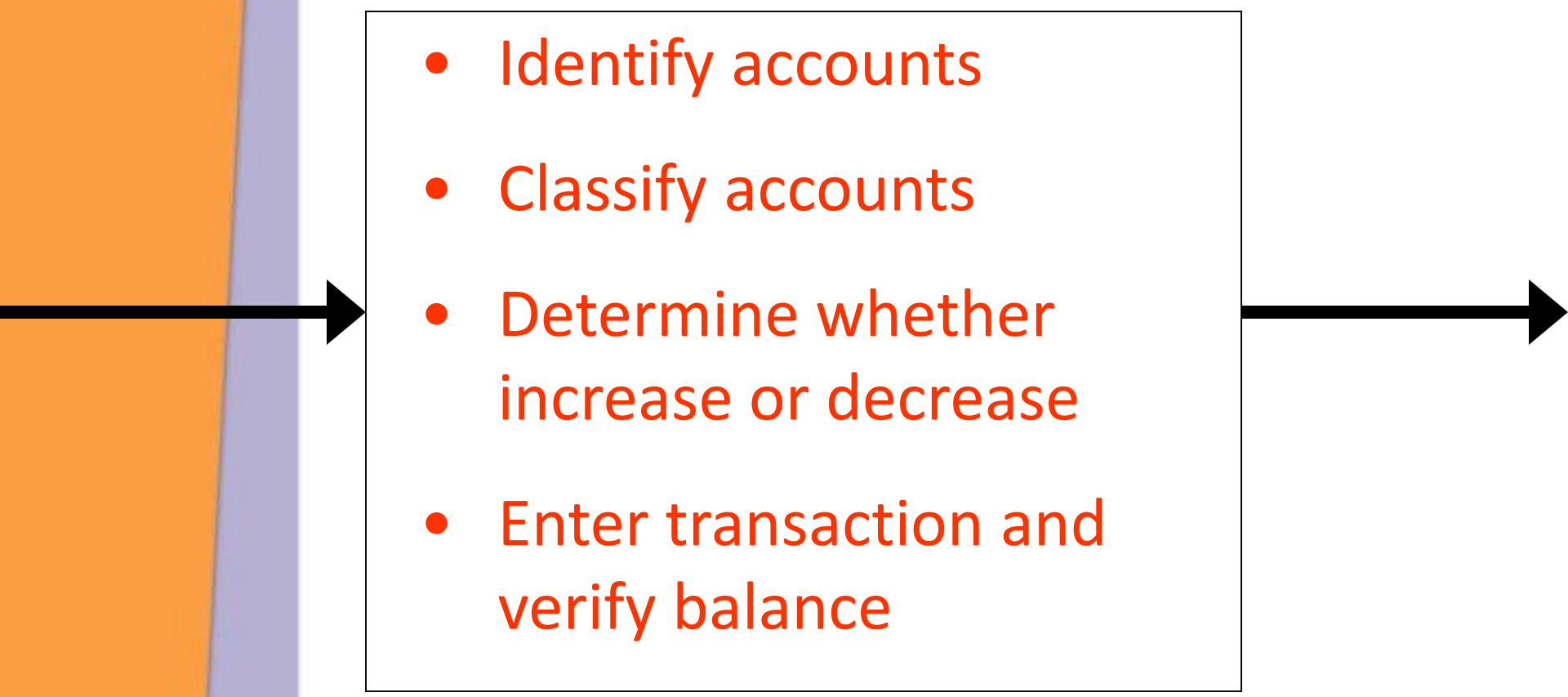
Transactions provide the necessary input



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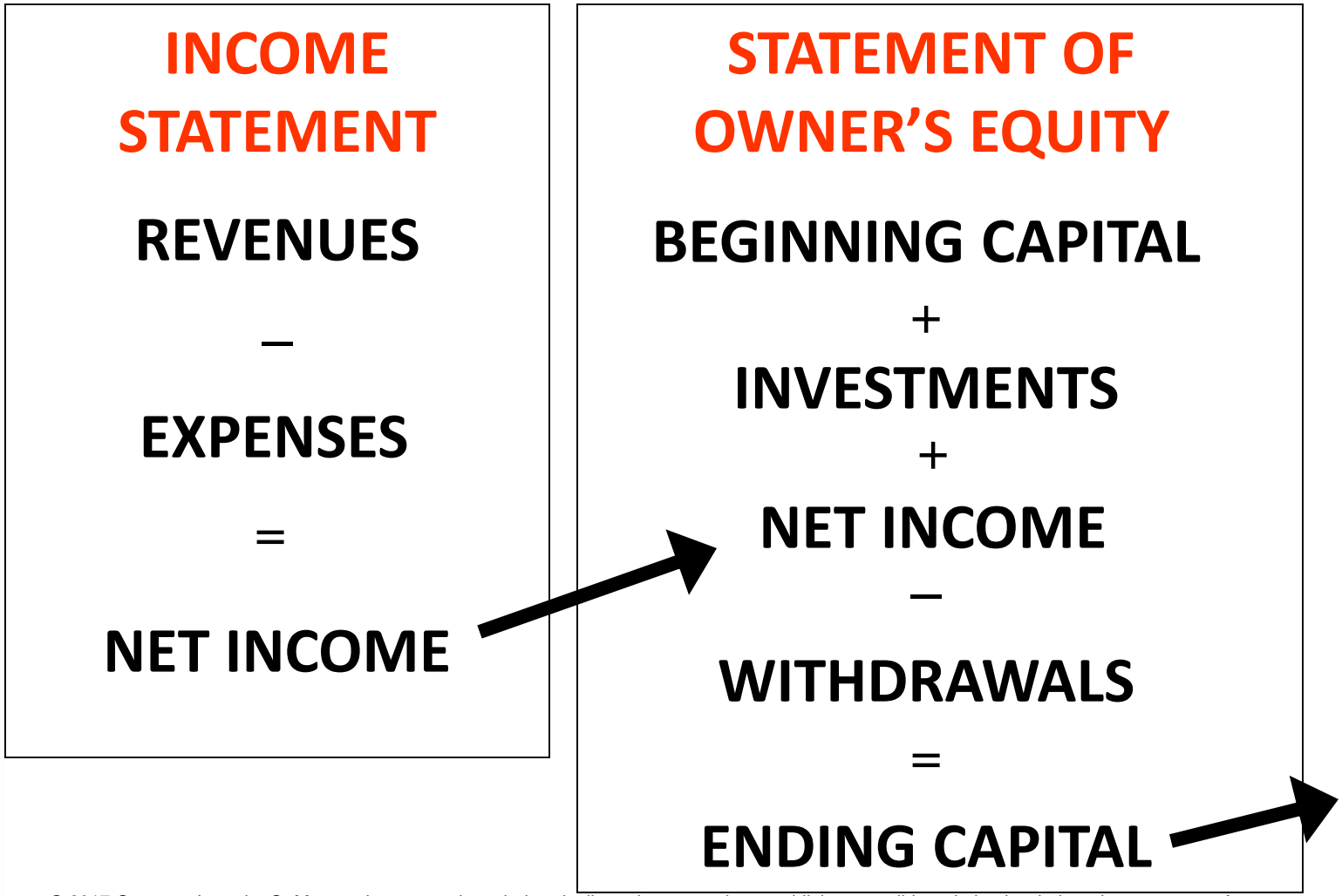
Processing



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Output



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Output (cont.)

BALANCE SHEET

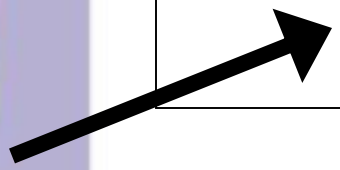
ASSETS

=

LIABILITES

+

OWNER'S EQUITY
(Ending Capital)



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Chapter 2
Analyzing Transactions: The Accounting Equation

Learning Objectives

LO1 Define the accounting elements.
LO2 Construct the accounting equation.
LO3 Analyze business transactions.
LO4 Show the effects of business transactions on the accounting equation.
LO5 Prepare and describe the purposes of a simple income statement, statement of owner's equity, and balance sheet.
LO6 Define the three basic phases of the accounting process.

Teaching Tips

- The definitions for the accounting elements are very important. Often students find memorizing definitions to be boring. Be sure to spend sufficient class time to ensure a solid understanding of these definitions. Throughout the course, students should be expected to identify the accounting elements represented by the accounts used in transactions.

- Now would be a good time to point out to your students that, at the end of this chapter and all subsequent chapters, there is a fully worked-out demonstration problem, which will aid them in completing and understanding their assignments.

LO1

I. The Accounting Elements

A. A **business entity** is an individual, association, or organization that engages in economic activities and controls specific economic resources.

B. **Assets**

1. Items owned by the business entity and will provide future benefits.
2. Cash, merchandise, fixtures, machinery, buildings, and land are examples of assets.
3. **Accounts receivable**—money owed to the business by its customers "on account" or "on credit"

C. **Liabilities**

1. Amounts owed to another business entity.
2. **Accounts payable—** an unwritten promise to pay a supplier for assets.
3. **Notes payable—** a formal written promise to pay a supplier or lender.

D. **Owner's Equity**

1. The amount by which all business assets exceed the business liabilities.
2. Also called **net worth** and/or **capital.**
3. The owner may have business assets/liabilities and nonbusiness assets/liabilities. According to the **business entity concept,** nonbusiness

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assets/liabilities must not be included in the business entity's accounting records.

In-Class Exercise: Complete Exercises E2-1A, E2-1B (5 minutes each)

LO2

II. The **Accounting Equation**
   A. Assets = Liabilities + Owner's Equity

Teaching Tip

- The left side of the equation represents the assets. The right side of the equation shows where the money came from to buy the assets. When two elements are known, the third can always be calculated.

In-Class Exercise: Complete Exercises E2-2A, E2-2B (5 minutes each)
In-Class Exercise: Complete Problems P2-8A, P2-8B (5 minutes each)

LO3

III. Analyzing Business Transactions
   A. A **business transaction** is an economic event; an event measured in dollars and has a direct impact on the business.

   B. All transactions affect at least two **accounts,** which are separate records used to summarize changes in each asset, liability, and owner's equity of the business.

   C. **Account titles** provide a description of each type of account.

   D. Three basic questions must be answered for each transaction:
      1. What happened?
      2. Which accounts are affected?
         a) Identify the accounts.
         b) Classify the accounts.
      3. How is the accounting equation affected?
         a) Determine which accounts increased or decreased.
         b) Ensure the accounting equation remains balanced.

LO4

Teaching Tip

- At the end of this Learning Objective (LO4), Figure 2-1 Summary of Transactions Illustrated can be used by students to see how the following transactions fit into the "big picture" on a step-by-step basis.

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IV. Summary of Transactions Illustrated **(See Figure 2-1)**
Effect of Transactions on the Accounting Equation

A. Transaction (a): Investment by owner

1. An increase in an asset (Cash) is offset by an increase in owner's equity (Rohan Macsen, Capital).

Teaching Tip

- Remember, Capital does not mean Cash. The cash is shown in the cash account.

B. Transaction-(b): Purchase of an asset for cash

1. An increase in an asset (Delivery Equipment) is offset by a decrease in another asset (Cash).

Teaching Tip

- Students often think that both sides of the accounting equation must be affected by a transaction. Point out that this is not true.

C. Transaction (c): Purchase of an asset on account

1. An increase in an asset (Delivery Equipment) is offset by an increase in a liability (Accounts Payable).

Teaching Tip

- Many students find Accounts Payable and Accounts Receivable and payments on those accounts confusing. It may be advisable to spend extra time explaining what "payment on account" means. One idea is to stress that whatever purchase or sale created the liability or receivable was in the past. The transaction has been completed. Accounts Receivable refers to a transaction between the business and its customers and Accounts Payable refers to a transaction between a vendor/creditor and the business.

D. Transaction (d): Payment on a loan

1. A decrease in an asset (Cash) is offset by a decrease in a liability (Accounts Payable).

In-Class Exercise: Complete Exercises E2-3A, E2-3B (10 minutes each)

V. Expanding the Accounting Equation: Revenue, Expenses, and Withdrawals

A. **Revenues**

1. The amount charged to customers for goods and services.
2. Separate revenue accounts may be used.
3. Revenues increase both assets and owner's equity.

Teaching Tip

- Revenue is not Cash. Revenue is recorded when earned through the sale of a product or providing a service. If cash is received as a result, the cash

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account is increased. If not, another asset, Accounts Receivable, is increased.

B. **Expenses**
   1. Created as a result of business operating activities that involve selling a product or providing services.
   2. Expenses either decrease assets or increase liabilities.
   3. Expenses reduce owner's equity.

Teaching Tips

- Students often confuse expenses and liabilities. Reinforce the definitions. An expense is the outflow of resources (decrease in assets or increase in liabilities) as a result of efforts made to produce revenues. The main purposes of recognizing an expense are to keep track of the amount and types of expenses incurred and to show the reduction in owner's equity. Note that an expense can cause a reduction in assets or an increase in liabilities. Wages earned by employees is a good example. If paid, the expense reduces an asset, Cash. If not paid, it increases a liability, Wages Payable.

- Students often think that the expense account should be decreased when expenses are incurred. Stress that each time an expense is incurred, it is recorded and added to the previous amount so that total expenses can be determined.

   4. **Net income** or **net loss**
      a) If revenues are greater than expenses, the business has a net income.
      b) If revenues are less than expenses, the business has a net loss.
   5. **Fiscal year**
      a) The concept that income determination can be made on a periodic basis is the **accounting period concept.**
      b) Any accounting period for 12 consecutive months for which business records are kept; generally coinciding with a calendar year.

C. **Withdrawals** or **Drawing**
   1. Amounts taken from the business by the owner for personal use.
   2. Withdrawals reduce assets.
   3. Withdrawals reduce owner's equity.

VI. Effect of Revenue, Expense, and Withdrawal Transactions on the Accounting Equation

A. Transaction (e): Delivery revenues earned in cash
   1. An increase in an asset (Cash) is offset by an increase in owner's equity resulting from an increase in the revenue account (Delivery Fees).

B. Transaction (f): Paid rent for month
   1. A decrease in an asset (Cash) is offset by a decrease in owner's equity resulting from an increase in an expense account (Rent Expense).

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Teaching Tip

- Students often think that expenses and drawing should have minus signs. Point out that as these items increase, owner's equity decreases.

C. Transaction (g): Paid phone bill
   1. A decrease in an asset (Cash) is offset by a decrease in owner's equity resulting from an increase in an expense account (Phone Expense).

D. Transaction (h): Delivery revenues earned on account
   1. An increase in an asset (Accounts Receivable) is offset by an increase in owner's equity resulting from an increase in the revenue account (Delivery Fees).

E. Transaction (i): Purchase of supplies
   1. An increase in an asset (Supplies) is offset by a decrease in an asset (Cash).

F. Transaction (j): Payment of insurance premium
   1. An increase in an asset (Prepaid Insurance) is offset by a decrease in an asset (Cash).

Teaching Tip

- If you think that the students are ready, you might mention that supplies and insurance used (expired) during this accounting period will be recognized as expenses. These "adjustments" will be discussed later.

G. Transaction (k): Cash receipts from prior sales on account
   1. An increase in an asset (Cash) is offset by a decrease in an asset (Accounts Receivable).
   2. The accounting equation in unchanged, an asset, cash, increases and another, accounts receivable, decreases in an equal amount.

H. Transaction (l): Purchase of an asset on account making a partial payment
   1. An increase in an asset (Equipment) is offset by a decrease in an asset (Cash) and an increase in a liability (Accounts Payable).

I. Transaction (m): Payment of wages
   1. A decrease in an asset (Cash) is offset by a decrease in owner's equity resulting from an increase in an expense account (Wages Expense).

J. Transaction (n): Deliveries made for cash and on account
   1. An increase in two assets (Cash and Accounts Receivable) is offset by an increase in owner's equity from an increase in a revenue account (Delivery Fees).

K. Transaction (o): Withdrawal of cash from business
   1. A decrease in an asset (Cash) is offset by a decrease in owner's equity (Rohan Macsen, Drawing) resulting from a withdrawal by the owner.

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Teaching Tip

- Point out that the owner does not receive a salary from the business. Cash or other assets are withdrawn to meet living expenses. The amount withdrawn depends on the personal needs of the owner. This amount may be more or less than net income in any given year.

In-Class Exercise: Complete Exercises E2-4A, E2-4B (20 minutes each)
In-Class Exercise: Complete Problems P2-9A, P2-9B (5 minutes each)

LO5

VII. Financial Statements

Teaching Tip

- It may be helpful to tell students that the headings to the financial statements answer three questions: Who? What? When?

A. The **Income Statement (See Figure 2-2)**
   1. Sometimes called the **profit and loss statement** or **operating statement.**
   2. Reports the profitability of a business for a specific time period.
   3. Revenue – Expenses = Net Income or Net Loss.

In-Class Exercise: Complete Problems P2-10A, P2-10B (10 minutes each)

B. The **Statement of Owner's Equity (See Figure 2-2)**
   1. Reports the activities in the owner's equity for a specific time period.
   2. Investments and Net Income increase capital.
   3. Withdrawals and Net Losses decrease capital. **(See Figure 2-3)**

In-Class Exercise: Complete Exercises E2-6A, E2-6B (10 minutes each)
In-Class Exercise: Complete Exercises E2-7A, E2-7B (10 minutes each)
In-Class Exercise: Complete Problems P2-11A, P2-11B (15 minutes each)

C. The **Balance Sheet (See Figure 2-2)**
   1. Reports the assets, liabilities, and owner's equity on a specific date.
   2. Sometimes called a **statement of financial position** or **statement of financial condition.**
   3. Assets = Liabilities + Owner's Equity

In-Class Exercise: Complete Problems P2-12A, P2-12B (10 minutes each)

D. Guidelines for Preparing Financial Statements
   1. Standard formats should be used.
   2. Headings should be used on all statements.
   3. Single underlines should be used to add or subtract numbers above the line; double underlines indicate a total.

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4. Dollar signs are used at the top of columns and beneath single (subtotal) underlines.
5. Expenses may be listed from highest to lowest dollar amount.
6. Assets are listed from most liquid to least liquid.
7. Liabilities are listed from most current to the least current.

In-Class Exercise: Complete Exercises E2-5A, E2-5B (10 minutes each)

LO6

VIII. Overview of the Accounting Process **(See Figure 2-4)**

A. **Input.** Business transactions provide the necessary information for input.

B. **Processing.** Recognizing the effect of transactions on the assets, liabilities, owner's equity, revenues, and expenses of a business.

C. **Output.** Recording the processed information on financial statements.

Learning Activities

1. Ask students to talk with the manager of a small business to identify the types of expenses in the business.

2. Students should be able to identify the difference between the six different types of accounts. Classifying accounts correctly in these early chapters is a must. The instructor should ask the students to give numerous examples of the types of accounts. Find out if the students know the difference between an asset and an expense. Ask the students to explain the difference between Accounts Payable and Accounts Receivable. Have them explain the effect of a "payment on account" by the business and by a customer.

Critical Thinking Activity

Mark Hahn invested $26,000 in cash to open a law office on April 28 of the current year. On April 29, he purchased office equipment for $10,800. He paid cash for all but $1,550 of the office equipment. On April 30, Mark paid $1,200 for six months' insurance for his law practice. Mark wants to know the financial condition of his business as of April 30.

Solution

Mark Hahn, Attorney at Law
Balance Sheet
April 30, 20--

Assets		**Liabilities**	
Cash	$15,550	Accounts Payable	$ 1,550
Prepaid Insurance	1,200	**Owner's Equity**	
Office Equipment	10,800	Mark Hahn, Capital	$26,000
Total Assets	$27,550	Total Liabilities and Owner's Equity	$27,550

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Homework Suggestions

LO1 Study Guide Review Questions 2, 3, 4, 5, 7; End of Chapter Review Question 1, 2
LO2 Study Guide Review Questions 1, 6, 8, 9, 10; Study Guide Exercises 1, 4, 5; Study Guide Problem 12
LO3 End of Chapter Review Question 3
LO4 Study Guide Review Questions 11, 12, 13, 14, 15; Study Guide Exercises 2, 6, 7, 8; Study Guide Problem 13; End of Chapter Review Question 2
LO5 Study Guide Review Questions 16, 17, 18, 19; Study Guide Exercises 3, 9, 10, 11; Study Guide Problems 14, 15, 16, 17; End of Chapter Review Questions 4, 5, 6
LO6 End of Chapter Review Question 7
Entire Chapter:
Managing Your Writing, Mastery Problem, and Challenge Problem

Ten Questions Your Students Will Always Ask

1. Can people be an asset?
2. Can an asset be something you cannot touch or see?
3. Is a lease you are obligated to pay a liability?
4. Do you always use two or more accounts in a journal entry?
5. Is capital the same as cash?
6. Shouldn't liabilities be subtracted?
7. How do we keep track of different receipts of cash from different people who owe us?
8. Whom do we ask if we don't understand what a particular transaction means?
9. Do all businesses use these formal statements?
10. Isn't this an unwieldy approach to keeping track of transactions?

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CHAPTER 2

ANALYZING TRANSACTIONS: THE ACCOUNTING EQUATION

REVIEW QUESTIONS

1. It is necessary to distinguish between business assets and liabilities and nonbusiness assets and liabilities of a single proprietor because, according to the business entity concept, nonbusiness assets and liabilities are not included in the business entity's accounting records. These distinctions allow the owner to make decisions based on the financial condition and results of the business apart from nonbusiness activities.

2. The six major elements of the accounting equation are listed below.
- **a.** Assets are items owned by a business that will provide future benefits.
- **b.** Liabilities are items owed to another business.
- **c.** Owner's equity is the amount by which the business assets exceed the business liabilities. Other terms used for owner's equity include net worth and capital.
- **d.** Revenues represent the amount a business charges customers for products sold or services performed.
- **e.** Expenses represent the decrease in assets (or increase in liabilities) as a result of efforts made to produce revenues.
- **f.** Withdrawals, or drawing, reduce owner's equity as a result of the owner taking cash or other assets out of the business for personal use.

3. The three basic questions that must be answered when analyzing the effects of a business transaction on the accounting equation are as follows:
- **a.** What happened?
- **b.** Which accounts are affected?
- **c.** How is the accounting equation affected?

4. The function of an income statement is to report the profitability of business operations for a specific period of time.

5. The function of a statement of owner's equity is to report the investments and withdrawals by the owner and the profits and losses generated through operating activities for a specific period of time.

6. The function of a balance sheet is to report the assets, liabilities, and owner's equity on a specific date. It is called a balance sheet because it confirms that the accounting equation is in balance.

7. The three basic phases of the accounting process are listed below.
Input—Business transactions are used as input to the accounting process.
Processing—The transactions are processed by recognizing their effects on assets, liabilities, owner's equity, revenues, and expenses.
Output—Output from the accounting process is provided in the form of financial statements.

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Exercise 2-1A

Item	Account	Classification
Money in bank	Cash	*A*
Office supplies	Supplies	*A*
Money owed	Accounts Payable	*L*
Office chairs	Office Furniture	*A*
Net worth of owner	John Smith, Capital	*OE*
Money withdrawn by owner	John Smith, Drawing	*OE*
Money owed by customers	Accounts Receivable	*A*

Exercise 2-2A

Assets	=	Liabilities	+	Owner's Equity
$44,000	=	$27,000	+	$17,000
$32,000	=	$18,000	+	*$14,000*
$27,000	=	*$ 7,000*	+	$20,000

Exercise 2-3A

	Assets	=	Liabilities	+	Owner's Equity
(a)	*27,000*				*27,000*
Bal.	*27,000*				*27,000*
(b)	*7,500*		*7,500*		
Bal.	*34,500*		*7,500*		*27,000*
(c)	*(1,600)*				
	1,600				
Bal.	*34,500*		*7,500*		*27,000*
(d)	*(2,300)*		*(2,300)*		
Bal.	*32,200*		*5,200*		*27,000*

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Exercise 2-4A

	Assets	=	Liabilities	+	Owner's Equity: Capital	–	Drawing	+	Revenues	–	Expenses	Description
Bal. from E 2-3A	*32,200*		*5,200*		*27,000*							
(d)												
(e)	*1,500*								*1,500*			*Service fees*
(f)	*(600)*										*(600)*	*Rent expense*
(g)	*(64)*										*(64)*	*Phone expense*
(h)	*(1,000)*						*(1,000)*					
(i)	*750*								*750*			*Service fees*
(j)	*(1,200)*										*(1,200)*	*Wages expense*
(k)	*400*											
	(400)											
Bal.	*31,586*		*5,200*		*27,000*		*(1,000)*		*2,250*		*(1,864)*	

Total Assets	***$31,586***	***Total Liabilities***	***$ 5,200***
		Capital	***27,000***
		Drawing	***(1,000)***
		Revenues	***2,250***
		Expenses	***(1,864)***
		Total Liabilities and Owner's Equity	***$31,586***

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Exercise 2-5A

Account	Classification	Financial Statement
Cash	*A*	*BS*
Rent Expense	*E*	*IS*
Accounts Payable	*L*	*BS*
Service Fees	*R*	*IS*
Supplies	*A*	*BS*
Wages Expense	*E*	*IS*
Ramon Martinez, Drawing	*OE*	*SOE*
Ramon Martinez, Capital	*OE*	*SOE, BS*
Prepaid Insurance	*A*	*BS*
Accounts Receivable	*A*	*BS*

Exercise 2-6A

Betsy Ray's Accounting Service
Statement of Owner's Equity
For Month Ended June 30, 20--

Betsy Ray, capital, June 1, 20--		***$ —***
Investment during June		***20,000***
Total investment		***$20,000***
Net income for June	***$10,000***	
Less withdrawals for June	***8,000***	
Increase in capital		***2,000***
Betsy Ray, capital, June 30, 20--		***$22,000***

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Exercise 2-7A

Betsy Ray's Accounting Service
Statement of Owner's Equity
For Month Ended June 30, 20--

Betsy Ray, capital, June 1, 20--		*$ —*
Investment during June		*20,000*
Total investment		*$20,000*
Less: Net loss for June	*$3,000*	
Withdrawals for June	*8,000*	
Decrease in capital		*(11,000)*
Betsy Ray, capital, June 30, 20--		*$ 9,000*

Problem 2-8A

	Assets	=	Liabilities	+	Owner's Equity
1.	*$26,960*		*$ 7,550*		*$19,410*
2.	*$35,500*		*$10,910*		*$24,590*
3.	*$32,040*		*$12,910*		*$19,130*

Problem 2-9A: See page 10

Problem 2-10A

Jay Pembroke
Income Statement
For Month Ended April 30, 20--

Revenues:		
Service fees		*$3,300*
Expenses:		
Rent expense		*750*
Net income		*$2,550*

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Problem 2-9A

	Assets (Items Owned)				= Liabilities (Amts. Owed)	+ Owner's Equity (Owner's Investment)		(Earnings)		
	Cash	+ Accounts Receivable	+ Office Supplies	+ Prepaid Insurance	= Accounts Payable	+ J. Pembroke, Capital	– J. Pembroke, Drawing	+ Revenues	– Expenses	Description
(a)	*18,000*					*18,000*				
(b)	*(2,000)*		*4,600*		*2,600*					
(c)	*(1,200)*			*1,200*						
(d)	*1,300*	*2,000*						*3,300*		*Service fees*
(e)	*(2,300)*				*(2,300)*					
(f)	*(750)*								*750*	*Rent expense*
(g)	*(100)*						*100*			
Bal.	*12,950*	*2,000*	*4,600*	*1,200*	*300*	*18,000*	*100*	*3,300*	*750*	

Cash	*$12,950*
Accounts Receivable	*2,000*
Office Supplies	*4,600*
Prepaid Insurance	*1,200*
Total Assets	*$20,750*

Accounts Payable	*$ 300*
Jay Pembroke, Capital	*18,000*
Jay Pembroke, Drawing	*(100)*
Service Fees	*3,300*
Rent Expense	*(750)*
Total Liabilities and Owner's Equity	*$20,750*

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Problem 2-11A

Jay Pembroke
Statement of Owner's Equity
For Month Ended April 30, 20--

Jay Pembroke, capital, April 1, 20--		*$ —*
Investment during April		*18,000*
Total investment		*$18,000*
Net income for April	*$2,550*	
Less withdrawals for April	*100*	
Increase in capital		*2,450*
Jay Pembroke, capital, April 30, 20--		*$20,450*

Problem 2-12A

Jay Pembroke
Balance Sheet
April 30, 20--

Assets		*Liabilities*	
Cash	*$12,950*	*Accounts payable*	*$ 300*
Accounts receivable	*2,000*		
Office supplies	*4,600*	*Owner's Equity*	
Prepaid insurance	*1,200*	*Jay Pembroke, capital*	*20,450*
Total assets	*$20,750*	*Total liab. & owner's equity*	*$20,750*

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Exercise 2-1B

Account	Classification
Cash	*A*
Accounts Payable	*L*
Supplies	*A*
Bill Jones, Drawing	*OE*
Prepaid Insurance	*A*
Accounts Receivable	*A*
Bill Jones, Capital	*OE*

Exercise 2-2B

Assets	=	Liabilities	+	Owner's Equity
$25,000	=	$20,000	+	$ 5,000
$30,000	=	$15,000	+	*$15,000*
$20,000	=	*$10,000*	+	$10,000

Exercise 2-3B

	Assets	=	Liabilities	+	Owner's Equity
(a)	*30,000*				*30,000*
Bal.	*30,000*				*30,000*
(b)	*4,500*		*4,500*		
Bal.	*34,500*		*4,500*		*30,000*
(c)	*1,600*				
	(1,600)				
Bal.	*34,500*		*4,500*		*30,000*
(d)	*(2,000)*		*(2,000)*		
Bal.	*32,500*		*2,500*		*30,000*

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Exercise 2-4B

	Assets	=	Liabilities	+	Owner's Equity: Capital	–	Drawing	+	Revenues	–	Expenses	Description
Bal. from E 2-3B	32,500		2,500		30,000							
(d)												
(e)	3,000								3,000			Service fees
(f)	(1,000)										1,000	Rent expense
(g)	(68)										68	Phone expense
(h)	(800)						800					
(i)	900								900			Service fees
(j)	(500)										500	Wages expense
(k)	500											
	(500)											
Bal.	34,032		2,500		30,000		800		3,900		1,568	

Total Assets	**$34,032**	**Total Liabilities**	**$ 2,500**
		Capital	**30,000**
		Drawing	**(800)**
		Revenues	**3,900**
		Expenses	**(1,568)**
		Total Liabilities and Owner's Equity	**$34,032**

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Exercise 2-5B

Account	Classification	Financial Statement
Cash	*A*	*BS*
Rent Expense	*E*	*IS*
Accounts Payable	*L*	*BS*
Service Fees	*R*	*IS*
Supplies	*A*	*BS*
Wages Expense	*E*	*IS*
Amanda Wong, Drawing	*OE*	*SOE*
Amanda Wong, Capital	*OE*	*SOE, BS*
Prepaid Insurance	*A*	*BS*
Accounts Receivable	*A*	*BS*

Exercise 2-6B

Lopez Financial Consulting
Statement of Owner's Equity
For Month Ended June 30, 20--

Efran Lopez, capital, June 1, 20--		*$ —*
Investment during June		*15,000*
Total investment		*$15,000*
Net income for June	*$6,000*	
Less withdrawals for June	*7,000*	
Decrease in capital		*(1,000)*
Efran Lopez, capital, June 30, 20--		*$14,000*

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Exercise 2-7B

Lopez Financial Consulting
Statement of Owner's Equity
For Month Ended June 30, 20--

Efran Lopez, capital, June 1, 20--		*$ —*
Investment during June		*15,000*
Total investment		*$15,000*
Less: Net loss for June	*$2,000*	
Withdrawals for June	*7,000*	
Decrease in capital		*(9,000)*
Efran Lopez, capital, June 30, 20--		*$ 6,000*

Problem 2-8B

	Assets	=	Liabilities	+	Owner's Equity
1.	*$22,860*		*$ 4,605*		*$18,255*
2.	*$27,425*		*$ 8,515*		*$18,910*
3.	*$25,235*		*$10,165*		*$15,070*

Problem 2-9B: See page 16

Problem 2-10B

David Segal
Income Statement
For Month Ended October 31, 20--

Revenues:		
Service fees		*$2,700*
Expenses:		
Rent expense		*650*
Net income		*$2,050*

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Problem 2-9B

	Assets (Items Owned)				= Liabilities (Amts. Owed)	+ Owner's Equity (Owner's Investment)		(Earnings)		
	Cash	+ Accounts Receivable	+ Office Supplies	+ Prepaid Insurance	= Accounts Payable	+ D. Segal, Capital	– D. Segal, Drawing	+ Revenues	– Expenses	Description
(a)	*15,000*					*15,000*				
(b)	*(1,800)*		*3,800*		*2,000*					
(c)	*(1,000)*			*1,000*						
(d)	*1,700*	*1,000*						*2,700*		*Service fees*
(e)	*(1,800)*				*(1,800)*					
(f)	*(650)*								*650*	*Rent expense*
(g)	*(150)*						*150*			
Bal.	*11,300*	*1,000*	*3,800*	*1,000*	*200*	*15,000*	*150*	*2,700*	*650*	

Cash	*$11,300*
Accounts Receivable	*1,000*
Office Supplies	*3,800*
Prepaid Insurance	*1,000*
Total Assets	*$17,100*

Accounts Payable	*$ 200*
David Segal, Capital	*15,000*
David Segal, Drawing	*(150)*
Service Fees	*2,700*
Rent Expense	*(650)*
Total Liabilities and Owner's Equity	*$17,100*

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Problem 2-11B

David Segal
Statement of Owner's Equity
For Month Ended October 31, 20--

David Segal, capital, October 1, 20--		*$ —*
Investment during October		*15,000*
Total investment		*$15,000*
Net income for October	*$2,050*	
Less withdrawals for October	*150*	
Increase in capital		*1,900*
David Segal, capital, October 31, 20--		*$16,900*

Problem 2-12B

David Segal
Balance Sheet
October 31, 20--

Assets		*Liabilities*	
Cash	*$11,300*	*Accounts payable*	*$ 200*
Accounts receivable	*1,000*		
Office supplies	*3,800*	*Owner's Equity*	
Prepaid insurance	*1,000*	*David Segal, capital*	*16,900*
Total assets	*$17,100*	*Total liab. & owner's equity*	*$17,100*

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MANAGING YOUR WRITING

The students should focus on the following differences:

1. An expense is an outflow of assets or increase in liabilities as a result of the efforts made to earn revenues. A withdrawal is an outflow of assets for the owner's personal use. The withdrawal is not related to the earning process.
2. A withdrawal that increases a liability would be unusual. Expenses often increase liabilities.

The student should focus on the following similarity:

1. Expenses and withdrawals reduce owner's equity.

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Mastery Problem

1.

	Assets (Items Owned)						= Liabilities (Amts. Owed)	+ Owner's Equity (Owner's Investment)			(Earnings)		
	Cash	+ Accts. Rec.	+ Sup-plies	+ Prepaid Ins.	+ Tools	+ Van	= Accts. Payable	+ L. Vozniak, Capital	– L. Vozniak, Drawing	+ Rev.	– Exp.	Description
(a)	*8,000*							*8,000*				
(b)	*(150)*										*150*	*Rent expense*
(c)	*(5,000)*					*5,000*						
(d)					*600*		*600*					
(e)	*(200)*		*300*				*100*					
(f)	*(100)*										*100*	*Wages expense*
(g)	*(75)*										*75*	*Adver. expense*
(h)	*(480)*			*480*								
(i)	*800*									*800*		*Cleaning fees*
(j)		*500*								*500*		*Cleaning fees*
(k)	*(40)*										*40*	*Phone expense*
(l)	*200*	*(200)*										
(m)	*(150)*										*150*	*Wages expense*
(n)	*(200)*						*(200)*					
(o)	*600*	*200*								*800*		*Cleaning fees*
(p)	*(100)*								*100*			
2. Bal.	*3,105*	*500*	*300*	*480*	*600*	*5,000*	*500*	*8,000*	*100*	*2,100*	*515*	

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Mastery Problem (Continued)

3.

We Do Windows
Income Statement
For Month Ended July 31, 20--

Revenues:		
Cleaning fees		*$2,100*
Expenses:		
Wages expense	*$250*	
Rent expense	*150*	
Advertising expense	*75*	
Phone expense	*40*	
Total expenses		*515*
Net income		*$1,585*

4.

We Do Windows
Statement of Owner's Equity
For Month Ended July 31, 20--

Lisa Vozniak, capital, July 1, 20--		*$ —*
Investment in July		*8,000*
Total investment		*$8,000*
Net income for July	*$1,585*	
Less withdrawals for July	*100*	
Increase in capital		*1,485*
Lisa Vozniak, capital, July 31, 20--		*$9,485*

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Mastery Problem (Concluded)

5.

We Do Windows
Balance Sheet
July 31, 20--

Assets		Liabilities	
Cash	*$3,105*	*Accounts payable*	*$ 500*
Accounts receivable	*500*		
Supplies	*300*		
Prepaid insurance	*480*		
Tools	*600*	*Owner's Equity*	
Van	*5,000*	*Lisa Vozniak, capital*	*9,485*
Total assets	*$9,985*	*Total liab. & owner's equity*	*$9,985*

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Challenge Problem

Cash from customers		***$3,700***
Cash paid for wages	***$450***	
Cash paid for rent	***300***	
Cash paid for utilities	***50***	
Cash paid for insurance	***600***	
Cash paid for supplies	***100***	
Cash paid for phone	***35***	
Total cash paid for operating items		***1,535***
Difference between cash received from customers and		
cash paid for goods and services		***$2,165***

Yes, there is a difference of $2,000. Net income does a better job of measuring profits because it offers a better matching of revenues and expenses. However, cash flows are important. If you don't have enough cash to pay your bills, you will go out of business.

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Comprehensive Problem 1: The Accounting Cycle

1.

GENERAL JOURNAL PAGE 1

	DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT
1	20-- Apr.	1	Cash	101	90 0 0 0 00	
2			Bob Night, Capital	311		90 0 0 0 00
3			Owner's original investment			
4						
5		1	Prepaid Insurance	145	9 0 0 0 00	
6			Cash	101		9 0 0 0 00
7			Paid insurance premium for camping			
8			season			
9						
10		2	Rent Expense	521	40 0 0 0 00	
11			Cash	101		40 0 0 0 00
12			Paid rent for April			
13						
14		2	Cash	101	35 0 0 0 00	
15			Registration Fees	401		35 0 0 0 00
16			Collected registration fees			
17						
18		2	Fishing Boats	181	60 0 0 0 00	
19			Accounts Payable	202		60 0 0 0 00
20			Purchased fishing boats on account			
21						
22		3	Food Supplies	144	7 0 0 0 00	
23			Accounts Payable	202		7 0 0 0 00
24			Purchased food supplies on account			
25			from Acme Super Market			
26						
27		5	Office Supplies	142	5 0 0 00	
28			Accounts Payable	202		5 0 0 00
29			Purchased office supplies on account			
30			from Gordon Office Supplies			
31						
32						
33						
34						

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Comprehensive Problem 1 (Continued)

GENERAL JOURNAL PAGE 2

	DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT
1	20-- Apr.	7	Cash	101	3860000	
2			Registration Fees	401		3860000
3			Collected registration fees			
4						
5		10	Food Supplies	144	820000	
6			Accounts Payable	202		820000
7			Purchased food supplies on account			
8			from Acme Super Market			
9						
10		10	Wages Expense	511	1000000	
11			Cash	101		1000000
12			Paid wages to guides			
13						
14		14	Cash	101	3050000	
15			Registration Fees	401		3050000
16			Collected registration fees			
17						
18		16	Food Supplies	144	900000	
19			Accounts Payable	202		900000
20			Purchased food supplies on account			
21			from Acme Super Market			
22						
23		17	Wages Expense	511	1000000	
24			Cash	101		1000000
25			Paid wages to guides			
26						
27		18	Postage Expense	536	15000	
28			Cash	101		15000
29			Paid postage			
30						
31						
32						
33						
34						
35						

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Comprehensive Problem 1 (Continued)

GENERAL JOURNAL PAGE 3

	DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT
1	20-- Apr.	21	Cash	101	3500000	
2			Registration Fees	401		3500000
3			Collected registration fees			
4						
5		24	Food Supplies	144	850000	
6			Accounts Payable	202		850000
7			Purchased food supplies on account			
8			from Acme Super Market			
9						
10		24	Wages Expense	511	1000000	
11			Cash	101		1000000
12			Paid wages to guides			
13						
14		28	Cash	101	3200000	
15			Registration Fees	401		3200000
16			Collected registration fees			
17						
18		29	Wages Expense	511	1000000	
19			Cash	101		1000000
20			Paid wages to guides			
21						
22		30	Food Supplies	144	600000	
23			Accounts Payable	202		600000
24			Purchased food supplies on account			
25			from Acme Super Market			
26						
27		30	Accounts Payable	202	3270000	
28			Cash	101		3270000
29			Made payment on account to			
30			Acme Super Market			
31						
32						
33						
34						
35						

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Comprehensive Problem 1 (Continued)

GENERAL JOURNAL

PAGE 4

	DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT
1	20-- Apr.	30	Utilities Expense	533	200 00	
2			Cash	101		200 00
3			Paid utility bill			
4						
5		30	Phone Expense	525	120 00	
6			Cash	101		120 00
7			Paid phone bill			
8						
9		30	Bob Night, Drawing	312	600 00	
10			Cash	101		600 00
11			Owner's withdrawal			

2., 6., and 11.

GENERAL LEDGER

ACCOUNT Cash ACCOUNT NO. 101

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Apr.	1		J1	90 0 0 0 00		90 0 0 0 00	
	1		J1		9 0 0 0 00	81 0 0 0 00	
	2		J1		40 0 0 0 00	41 0 0 0 00	
	2		J1	35 0 0 0 00		76 0 0 0 00	
	7		J2	38 6 0 0 00		114 6 0 0 00	
	10		J2		10 0 0 0 00	104 6 0 0 00	
	14		J2	30 5 0 0 00		135 1 0 0 00	
	17		J2		10 0 0 0 00	125 1 0 0 00	
	18		J2		1 5 0 00	124 9 5 0 00	
	21		J3	35 6 0 0 00		160 5 5 0 00	
	24		J3		10 0 0 0 00	150 5 5 0 00	
	28		J3	32 0 0 0 00		182 5 5 0 00	
	29		J3		10 0 0 0 00	172 5 5 0 00	
	30		J3		32 7 0 0 00	139 8 5 0 00	
	30		J4		2 0 0 0 00	137 8 5 0 00	
	30		J4		1 2 0 0 00	136 6 5 0 00	
	30		J4		6 0 0 0 00	130 6 5 0 00	

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Comprehensive Problem 1 (Continued)

ACCOUNT Office Supplies ACCOUNT NO. 142

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Apr. 5		J1	500		500	
30	Adjusting	J5		400	100	

ACCOUNT Food Supplies ACCOUNT NO. 144

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Apr. 3		J1	700000		700000	
10		J2	820000		1520000	
16		J2	900000		2420000	
24		J3	850000		3270000	
30		J3	600000		3870000	
30	Adjusting	J5		3070000	800000	

ACCOUNT Prepaid Insurance ACCOUNT NO. 145

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Apr. 1		J1	900000		900000	
30	Adjusting	J5		150000	750000	

ACCOUNT Fishing Boats ACCOUNT NO. 181

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Apr. 2		J1	6000000		6000000	

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Comprehensive Problem 1 (Continued)

ACCOUNT Accumulated Depreciation—Fishing Boats ACCOUNT NO. 181.1

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Apr. 30	Adjusting	J5		1 0 0 0 00		1 0 0 0 00

ACCOUNT Accounts Payable ACCOUNT NO. 202

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Apr. 2		J1		60 0 0 0 00		60 0 0 0 00
3		J1		7 0 0 0 00		67 0 0 0 00
5		J1		5 0 0 00		67 5 0 0 00
10		J2		8 2 0 0 00		75 7 0 0 00
16		J2		9 0 0 0 00		84 7 0 0 00
24		J3		8 5 0 0 00		93 2 0 0 00
30		J3		6 0 0 0 00		99 2 0 0 00
30		J3	32 7 0 0 00			66 5 0 0 00

ACCOUNT Wages Payable ACCOUNT NO. 219

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Apr. 30	Adjusting	J5		5 0 0 00		5 0 0 00

ACCOUNT Bob Night, Capital ACCOUNT NO. 311

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Apr. 1		J1		90 0 0 0 00		90 0 0 0 00
30	Closing	J6		54 2 5 0 00		144 2 5 0 00
30	Closing	J6	6 0 0 0 00			138 2 5 0 00

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Comprehensive Problem 1 (Continued)

ACCOUNT Bob Night, Drawing ACCOUNT NO. 312

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Apr.	30		J4	6 0 0 0 00		6 0 0 0 00	
	30	Closing	J6		6 0 0 0 00		

ACCOUNT Income Summary ACCOUNT NO. 313

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Apr.	30	Closing	J5		171 7 0 0 00		171 7 0 0 00
	30	Closing	J5	117 4 5 0 00			54 2 5 0 00
	30	Closing	J6	54 2 5 0 00			

ACCOUNT Registration Fees ACCOUNT NO. 401

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Apr.	2		J1		35 0 0 0 00		35 0 0 0 00
	7		J2		38 6 0 0 00		73 6 0 0 00
	14		J2		30 5 0 0 00		104 1 0 0 00
	21		J3		35 6 0 0 00		139 7 0 0 00
	28		J3		32 0 0 0 00		171 7 0 0 00
	30	Closing	J5	171 7 0 0 00			

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Comprehensive Problem 1 (Continued)

ACCOUNT Wages Expense ACCOUNT NO. 511

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Apr. 10		J2	10 0 0 0 00		10 0 0 0 00	
17		J2	10 0 0 0 00		20 0 0 0 00	
24		J3	10 0 0 0 00		30 0 0 0 00	
29		J3	10 0 0 0 00		40 0 0 0 00	
30	Adjusting	J5	5 0 0 00		40 5 0 0 00	
30	Closing	J5		40 5 0 0 00		

ACCOUNT Rent Expense ACCOUNT NO. 521

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Apr. 2		J1	40 0 0 0 00		40 0 0 0 00	
30	Closing	J5		40 0 0 0 00		

ACCOUNT Office Supplies Expense ACCOUNT NO. 523

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Apr. 30	Adjusting	J5	4 0 0 00		4 0 0 00	
30	Closing	J5		4 0 0 00		

ACCOUNT Food Supplies Expense ACCOUNT NO. 524

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Apr. 30	Adjusting	J5	30 7 0 0 00		30 7 0 0 00	
30	Closing	J5		30 7 0 0 00		

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Comprehensive Problem 1 (Continued)

ACCOUNT Phone Expense ACCOUNT NO. 525

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Apr.	30		J4	1 2 0 0 00		1 2 0 0 00	
	30	Closing	J5		1 2 0 0 00		

ACCOUNT Utilities Expense ACCOUNT NO. 533

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Apr.	30		J4	2 0 0 0 00		2 0 0 0 00	
	30	Closing	J5		2 0 0 0 00		

ACCOUNT Insurance Expense ACCOUNT NO. 535

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Apr.	30	Adjusting	J5	1 5 0 0 00		1 5 0 0 00	
	30	Closing	J5		1 5 0 0 00		

ACCOUNT Postage Expense ACCOUNT NO. 536

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Apr.	18		J2	1 5 0 00		1 5 0 00	
	30	Closing	J5		1 5 0 00		

ACCOUNT Depreciation Expense—Fishing Boats ACCOUNT NO. 542

DATE		ITEM	POST. REF.	DEBIT	CREDIT	BALANCE DEBIT	BALANCE CREDIT
20-- Apr.	30	Adjusting	J5	1 0 0 0 00		1 0 0 0 00	
	30	Closing	J5		1 0 0 0 00		

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Comprehensive Problem 1 (Continued)
3. and 4.

The General's Favorite

Work

For the Month Ended

	ACCOUNT TITLE	TRIAL BALANCE DEBIT	TRIAL BALANCE CREDIT	ADJUSTMENTS DEBIT	ADJUSTMENTS CREDIT
1	Cash	130 6 5 0 00			
2	Office Supplies	5 0 0 00			(a) 4 0 0 00
3	Food Supplies	38 7 0 0 00			(b)30 7 0 0 00
4	Prepaid Insurance	9 0 0 0 00			(c) 1 5 0 0 00
5	Fishing Boats	60 0 0 0 00			
6	Accum. Depr.—Fishing Boats				(d) 1 0 0 0 00
7	Accounts Payable		66 5 0 0 00		
8	Wages Payable				(e) 5 0 0 00
9	Bob Night, Capital		90 0 0 0 00		
10	Bob Night, Drawing	6 0 0 0 00			
11	Registration Fees		171 7 0 0 00		
12	Wages Expense	40 0 0 0 00		(e) 5 0 0 00	
13	Rent Expense	40 0 0 0 00			
14	Office Supplies Expense			(a) 4 0 0 00	
15	Food Supplies Expense			(b)30 7 0 0 00	
16	Phone Expense	1 2 0 0 00			
17	Utilities Expense	2 0 0 0 00			
18	Insurance Expense			(c) 1 5 0 0 00	
19	Postage Expense	1 5 0 00			
20	Depr. Exp.—Fishing Boats			(d) 1 0 0 0 00	
21		328 2 0 0 00	328 2 0 0 00	34 1 0 0 00	34 1 0 0 00
22	Net Income				
23					
24					
25					
26					
27					
28					
29					
30					
31					

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Comprehensive Problem 1 (Continued)

Fishing Hole

Sheet

April 30, 20--

	ADJUSTED TRIAL BALANCE										INCOME STATEMENT										BALANCE SHEET										
	DEBIT					CREDIT					DEBIT					CREDIT					DEBIT					CREDIT					
1	130	6	5	0	00																130	6	5	0	00						1
2		1	0	0	00																	1	0	0	00						2
3	8	0	0	0	00																8	0	0	0	00						3
4	7	5	0	0	00																7	5	0	0	00						4
5	60	0	0	0	00																60	0	0	0	00						5
6						1	0	0	0	00																1	0	0	0	00	6
7						66	5	0	0	00																66	5	0	0	00	7
8							5	0	0	00																	5	0	0	00	8
9						90	0	0	0	00																90	0	0	0	00	9
10	6	0	0	0	00																6	0	0	0	00						10
11						171	7	0	0	00						171	7	0	0	00											11
12	40	5	0	0	00						40	5	0	0	00																12
13	40	0	0	0	00						40	0	0	0	00																13
14		4	0	0	00							4	0	0	00																14
15	30	7	0	0	00						30	7	0	0	00																15
16	1	2	0	0	00						1	2	0	0	00																16
17	2	0	0	0	00						2	0	0	0	00																17
18	1	5	0	0	00						1	5	0	0	00																18
19		1	5	0	00							1	5	0	00																19
20	1	0	0	0	00						1	0	0	0	00																20
21	329	7	0	0	00	329	7	0	0	00	117	4	5	0	00	171	7	0	0	00	212	2	5	0	00	158	0	0	0	00	21
22											54	2	5	0	00											54	2	5	0	00	22
23											171	7	0	0	00	171	7	0	0	00	212	2	5	0	00	212	2	5	0	00	23
24																															24
25																															25
26																															26
27																															27
28																															28
29																															29
30																															30
31																															31

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Comprehensive Problem 1 (Continued)

7.

The General's Favorite Fishing Hole
Income Statement
For Month Ended April 30, 20--

Revenues:		
Registration fees		*$171,700*
Expenses:		
Wages expense	*$40,500*	
Rent expense	*40,000*	
Office supplies expense	*400*	
Food supplies expense	*30,700*	
Phone expense	*1,200*	
Utilities expense	*2,000*	
Insurance expense	*1,500*	
Postage expense	*150*	
Depreciation expense—fishing boats	*1,000*	
Total expenses		*117,450*
Net income		*$ 54,250*

8.

The General's Favorite Fishing Hole
Statement of Owner's Equity
For Month Ended April 30, 20--

Bob Night, capital, April 1, 20--		*$ ——*
Investments during April		*90,000*
Total investment		*$ 90,000*
Net income for April	*$54,250*	
Less withdrawals for April	*6,000*	
Increase in capital		*48,250*
Bob Night, capital, April 30, 20--		*$138,250*

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Comprehensive Problem 1 (Continued)

9.

The General's Favorite Fishing Hole
Balance Sheet
April 30, 20--

Assets		
Current assets:		
Cash	*$130,650*	
Office supplies	*100*	
Food supplies	*8,000*	
Prepaid insurance	*7,500*	
Total current assets		*$146,250*
Property, plant, and equipment:		
Fishing boats	*$ 60,000*	
Less accumulated depreciation	*1,000*	*59,000*
Total assets		*$205,250*
Liabilities		
Current liabilities:		
Accounts payable	*$ 66,500*	
Wages payable	*500*	
Total current liabilities		*$ 67,000*
Owner's Equity		
Bob Night, capital		*138,250*
Total liabilities and owner's equity		*$205,250*

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Comprehensive Problem 1 (Continued)

5. and 10.

GENERAL JOURNAL PAGE 5

	DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT
1	20-- Apr.		*Adjusting Entries*			
2		30	*Office Supplies Expense*	523	400 00	
3			*Office Supplies*	142		400 00
4						
5		30	*Food Supplies Expense*	524	307 000 00	
6			*Food Supplies*	144		307 000 00
7						
8		30	*Insurance Expense*	535	150 000 00	
9			*Prepaid Insurance*	145		150 000 00
10						
11		30	*Depreciation Expense—Fishing Boats*	542	100 000 00	
12			*Accum. Depreciation—Fishing Boats*	181.1		100 000 00
13						
14		30	*Wages Expense*	511	50 000 00	
15			*Wages Payable*	219		50 000 00
16						
17			*Closing Entries*			
18		30	*Registration Fees*	401	1717 000 00	
19			*Income Summary*	313		1717 000 00
20						
21		30	*Income Summary*	313	1174 500 00	
22			*Wages Expense*	511		405 000 00
23			*Rent Expense*	521		400 000 00
24			*Office Supplies Expense*	523		400 00
25			*Food Supplies Expense*	524		307 000 00
26			*Phone Expense*	525		120 000
27			*Utilities Expense*	533		200 000 00
28			*Insurance Expense*	535		150 000 00
29			*Postage Expense*	536		150 00
30			*Depreciation Expense—Fishing Boats*	542		100 000 00
31						
32						
33						
34						
35						

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Comprehensive Problem 1 (Concluded)

GENERAL JOURNAL PAGE 6

	DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT
1	20-- Apr.	30	Income Summary	313	54 2 5 0 00	
2			Bob Night, Capital	311		54 2 5 0 00
3						
4		30	Bob Night, Capital	311	6 0 0 0 00	
5			Bob Night, Drawing	312		6 0 0 0 00
6						
7						
8						
9						

12.

The General's Favorite Fishing Hole

Post-Closing Trial Balance

April 30, 20--

ACCOUNT	ACCT. NO.	DEBIT BALANCE	CREDIT BALANCE
Cash	101	130 6 5 0 00	
Office Supplies	142	1 0 0 00	
Food Supplies	144	8 0 0 0 00	
Prepaid Insurance	145	7 5 0 0 00	
Fishing Boats	181	60 0 0 0 00	
Accumulated Depreciation—Fishing Boats	181.1		1 0 0 0 00
Accounts Payable	202		66 5 0 0 00
Wages Payable	219		5 0 0 00
Bob Night, Capital	311		138 2 5 0 00
		206 2 5 0 00	206 2 5 0 00

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