

## **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

**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.	<u>22,000</u>	=	<u>7,000</u>	+	<u>15,000</u>

**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.	<u>30,000</u>	=	<u>8,000</u>	+	<u>20,000</u>	–	<u>600</u>	+	<u>4,000</u>	–	<u>1,400</u>
	<u>30,000</u>	=	<u>30,000</u>								

**Exercise 8**

1.

	ASSETS (Items Owned)		=	LIABILITIES + (Amts. Owed)	OWNER'S EQUITY (Owner's Investment)			OWNER'S EQUITY (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.	<u>4,925</u>	+ <u>11,500</u>	=	<u>5,400</u>	+ <u>10,000</u>	- <u>500</u>	+	<u>2,400</u>	- <u>875</u>	
	<u>16,425</u>		=	<u>16,425</u>						

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

**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

**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

**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					=	LIABILITIES		+	OWNER'S EQUITY						
	(Items Owned)						(Amts. Owed)		(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.	<u>7,850</u>	+	<u>8,300</u>	+	<u>200</u>	=	<u>4,500</u>	+	<u>12,000</u>	-	<u>100</u>	+	<u>700</u>	-	<u>750</u>	
	<u>16,350</u>					=	<u>16,350</u>									

**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)



**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

**Problem 17****1.**

ASSETS				=	LIABILITIES +		OWNER'S EQUITY								
(Items Owned)					(Amts. Owed)	(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.	<u>9,200</u>	+	<u>200</u>	+	<u>1,000</u>	=	<u>200</u>	+	<u>10,000</u>	-	<u>100</u>	+	<u>900</u>	-	<u>600</u>
<u>10,400</u>				=	<u>10,400</u>										

**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--**

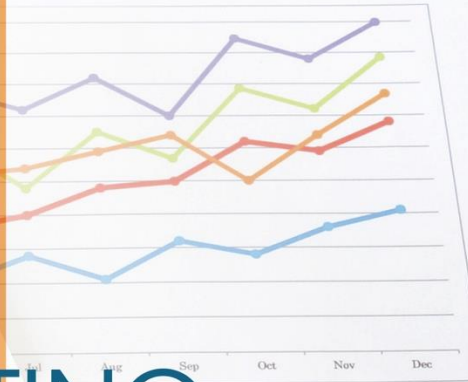
Stuart Cassady, capital, April 1, 20--		\$ —
Investment in April		10,000
Total investment		\$10,000
Net income for April	\$300	
Less withdrawals for April	100	
Increase in owner's equity		200
Stuart Cassady, capital, April 30, 20--		\$10,200

**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



# COLLEGE ACCOUNTING 22e



143.81	144.63	145.40	146.13	146.83	147.48	148.11	148.71	149.28	149.82	150.45	151.15	151.85	152.55	153.25	154.36	155.06	155.76	156.46	157.16	158.27	158.97	159.67	160.37	161.07	162.18	162.88	163.58	164.28	164.98
115.21	124.72	124.66	126.50	128.24	129.89	131.45	132.94	134.36	135.71	136.99	138.22	139.40	140.52	141.60	142.63	143.62	144.58	145.49	146.37	147.22	148.04	148.82	149.59	150.34	151.02	151.70	152.38	153.06	153.74
111.4	110.6	110.0	109.36	108.76	108.20	107.67	107.17	106.70	106.26	105.83	105.43	105.05	104.69	104.35	104.02	103.70	103.40	103.11	102.84	102.58	102.32	102.08	101.84	101.60	101.36	101.12	100.88	100.64	100.40



# Chapter 2

## Analyzing Transactions: The Accounting Equation



A spreadsheet with numerical data, likely representing financial transactions. The data is organized in columns and rows, with values ranging from 104.02 to 144.58.

48.71	132.94	112.45
9.28	134.36	111.4
1.82	135.71	110.6
34	136.99	110.0
3	138.22	109.36
	139.40	108.76
	140.52	108.20
	141.60	107.67
	142.63	107.17
	143.62	106.70
	144.58	106.26
	45.49	105.83
	6.37	105.43
	22	105.05
	04	104.69
	2	104.35
		104.02

# Learning Objective 1

Define the accounting elements.

# 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)

# Assets

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

*MUST BE “OWNED”  
NOT RENTED*



# 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*

# Assets (cont.)

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

# 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.

# 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.*

# Liabilities (cont.)

- Examples:
  - Accounts Payable
  - Notes Payable

# 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?*

# Notes Payable

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

# Owner's Equity

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

Also called:

*NET WORTH*

OR

*CAPITAL*



# 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.

# 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.

# Learning Objective 2

Construct the accounting equation.

# The Accounting Equation

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$



*The left side  
shows the  
assets.*

# The Accounting Equation (cont.)

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

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

# 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).*

# 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**

$$\text{\$60,400} - \text{\$5,400} = \text{\$55,000}$$

*Can also be expressed as:*

*Assets = Liabilities + Owner's Equity*

# Learning Objective 3

Analyze business transactions.



# 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.

# Account

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

# Analyzing Business Transactions

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

# Question #1

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

# Question #2

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

# 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.

# Learning Objective 4

Show the effects of business transactions on the accounting equation.

# Rohan's Campus Delivery

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



# Investment Example

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

# 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.*

# Question #2A

- Identify the accounts that are affected.

CASH

R.M.,  
CAPITAL

# Question #2B

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

CASH  
**ASSET**

R.M.,  
CAPITAL  
**OWNER'S  
EQUITY**

# Question #3A

- Determine which accounts have increased or decreased.

*INCREASED*

CASH

*INCREASED*

R.M.,  
CAPITAL

# 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*

# Cash Purchase Example

## Question #1

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

# 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**



# Question #3A

- Determine which accounts have increased or decreased.

*INCREASED*

DELIVERY  
EQUIPMENT

**ASSET**

*DECREASED*

CASH

**ASSET**

# 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.*

# 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.*

# 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

# Proving the Accounting Equation Balances (cont.)

## LIABILITIES

**BAL.**            \$ 0

## OWNER'S EQUITY

\$2,000

**BAL.**            \$ 0

\$2,000

### RIGHT SIDE OF EQUATION:

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

# Purchase On Account Example

- Purchased delivery equipment on account for \$900.

# 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.***

# 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**



# Question #3A

- Determine which accounts have increased or decreased.

DEL.  
EQUIP.  
**ASSET**

*INCREASED*

ACCOUNTS  
PAYABLE  
**LIABILITY**

*INCREASED*

# Question #3B

- Let's look at the accounting equation.

<b>ASSETS</b>	<b>=</b>	<b>LIABILITIES</b>	<b>+</b>	<b>OWNER'S EQUITY</b>
DEL. EQUIP.	<b>=</b>	ACCOUNTS PAYABLE		
+\$900	<b>=</b>	+\$900		

*This transaction had no effect on owner's equity.*

# Question #3B (cont.)

- Does the accounting equation balance?

<b>ASSETS</b>	<b>=</b>	<b>LIABILITIES + OWNER'S EQUITY</b>
DEL. EQUIP.	<b>=</b>	ACCOUNTS PAYABLE
+\$900	<b>=</b>	+\$900

*It balances!*

*Assets increased by \$900 =  
Liabilities increased by \$900*

# 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

# 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**

# Loan Payment Example

## Question #1

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

# Question #2

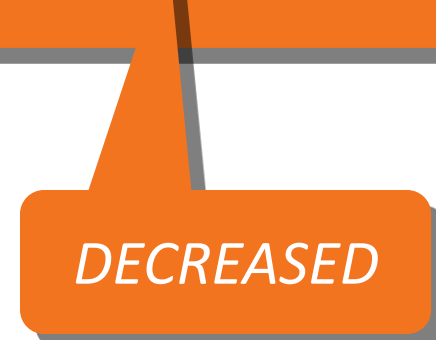
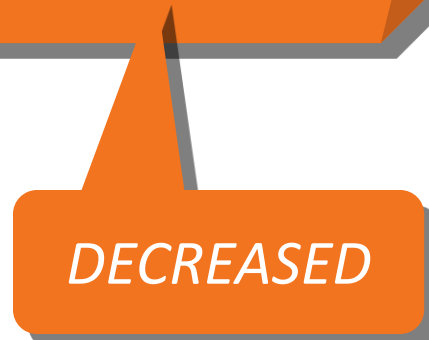
- **Which accounts are affected?**
  - Identify the accounts that are affected.
  - Classify these accounts as assets, liabilities, or owner's equity.

**CASH**  
**ASSET**

**ACCOUNTS  
PAYABLE**  
**LIABILITY**

# Question #3A

- Determine which accounts have increased or decreased.





# 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.*

# Question #3B (cont.)

- Does the accounting equation balance?

**ASSETS = LIABILITIES + OWNER'S EQUITY**

---

CASH = ACCOUNTS  
PAYABLE

-\$300 = -\$300

*It balances!*

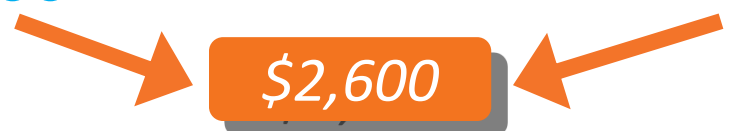
*Assets decreased by \$300 =  
Liabilities decreased by \$300*

# 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

# 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
		

# Owner's Equity Transactions

## FOUR TYPES:

### DECREASE:

**EXPENSES**

**DRAWING**

### INCREASE:

**REVENUES**

**INVESTMENTS**

# 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

# 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)

# 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.



# Expenses (cont.)

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

# 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*

# 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*

# 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.

# 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

# Revenue Example

## Question #1

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

# Question #2

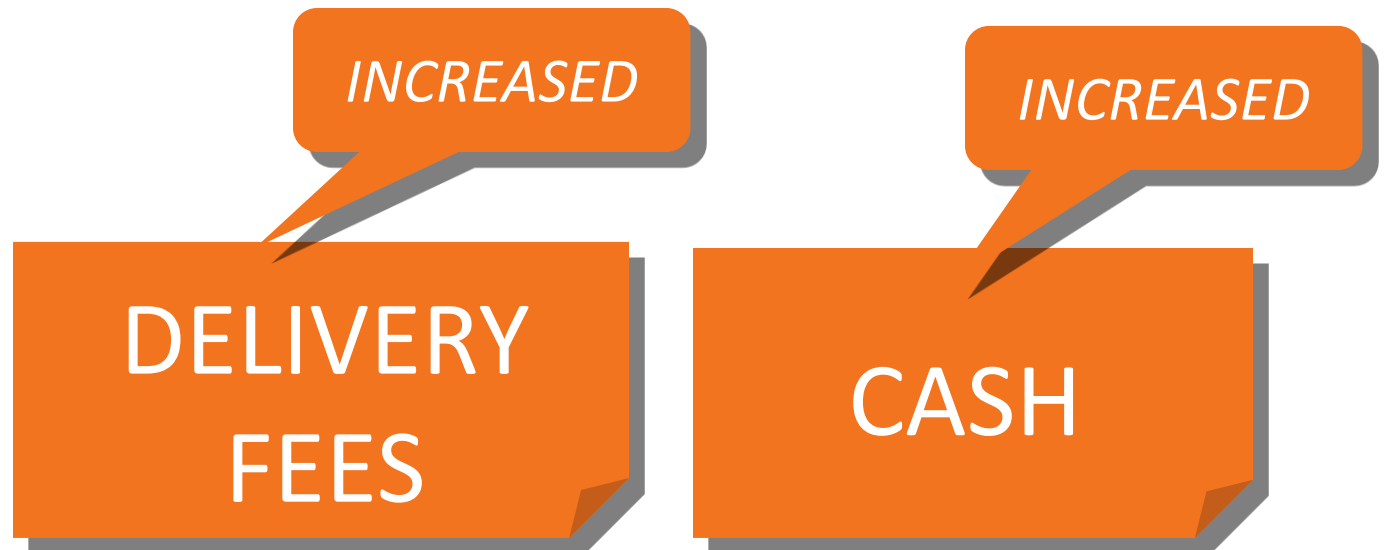
- **Which accounts are affected?**
  - Identify the accounts that are affected.
  - Classify these accounts as assets, liabilities, or owner's equity.

**DELIVERY  
FEES  
O.E.  
REVENUE**

**CASH  
ASSET**

# Question #3A

- Determine which accounts have increased or decreased.





# Question #3B

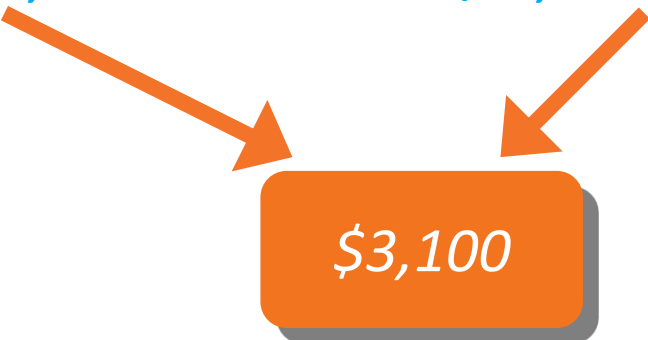
- Does the accounting equation balance?

ASSETS	=	LIAB. +	OWNER'S EQUITY
CASH	=		DELIVERY FEES
+\$500	=		+\$500

*It balances!*


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

# Proving the Accounting Equation Balances

ASSETS		
	CASH	DEL. EQUIP.
BAL.	\$ 500	\$2,100
	+ 500	
<hr/>		
BAL.	\$ 1,000	\$2,100
		
	\$3,100	

# 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



The diagram illustrates the accounting equation: Liabilities + Owner's Equity = Total. Three orange arrows point from the values \$600 (Liabilities), \$2,000 (Owner's Equity), and \$500 (Delivery Fees) to a central orange box containing the total value of \$3,100.

# Expense Example

## Question #1

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

# 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

# Question #3A

- Determine which accounts have increased or decreased.

*INCREASED*

RENT  
EXPENSE

*DECREASED*

CASH

# 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.*

# 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*



# Proving the Accounting Equation Balances

## ASSETS

	CASH	DEL. EQUIP.
BAL.	\$1,000	\$2,100
	— 200	

---


BAL.	\$ 800	\$2,100
------	--------	---------



\$2,900

# 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


$$\$600 + \$2,000 + \$500 - \$200 = \$2,900$$

# Expense Example

## Question #1

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

# 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

# Question #3A

- Determine which accounts have increased or decreased.

*INCREASED*

PHONE  
EXPENSE

*DECREASED*

CASH

# 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*

# Proving the Accounting Equation Balances

## ASSETS

	CASH	DEL. EQUIP.
BAL.	\$ 800	\$2,100
	— 50	

---

BAL.	\$ 750	\$2,100
------	--------	---------



\$2,850

# 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
------	-------	---------	-------	--------


$$\$600 + \$2,000 + \$500 - \$250 = \$2,850$$



# Revenue On Account Example

- Rohan performed \$600 of delivery services on account.

# 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!***

# 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**

# Question #3A

- Determine which accounts have increased or decreased.

*INCREASED*

*INCREASED*

DELIVERY  
FEES

ACCOUNTS  
RECEIVABLE

# 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*

# Proving the Accounting Equation Balances

## ASSETS

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


+ \$600

BAL.	\$750	\$600	\$2,100
------	-------	-------	---------



\$3,450

# Proving the Accounting Equation Balances (cont.)

LIAB.		OWNER'S EQUITY		
ACCTS. PAY.	R.M., CAPITAL	REVENUES	EXPENSES	
BAL. \$600	\$2,000	\$ 500 + 600	\$250	
BAL. \$600	\$2,000	\$1,100	\$250	
 $\$600 + \$2,000 + \$1,100 - \$250 = \$3,450$				

# Purchase Of Supplies Example

## Question #1

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



# Question #2

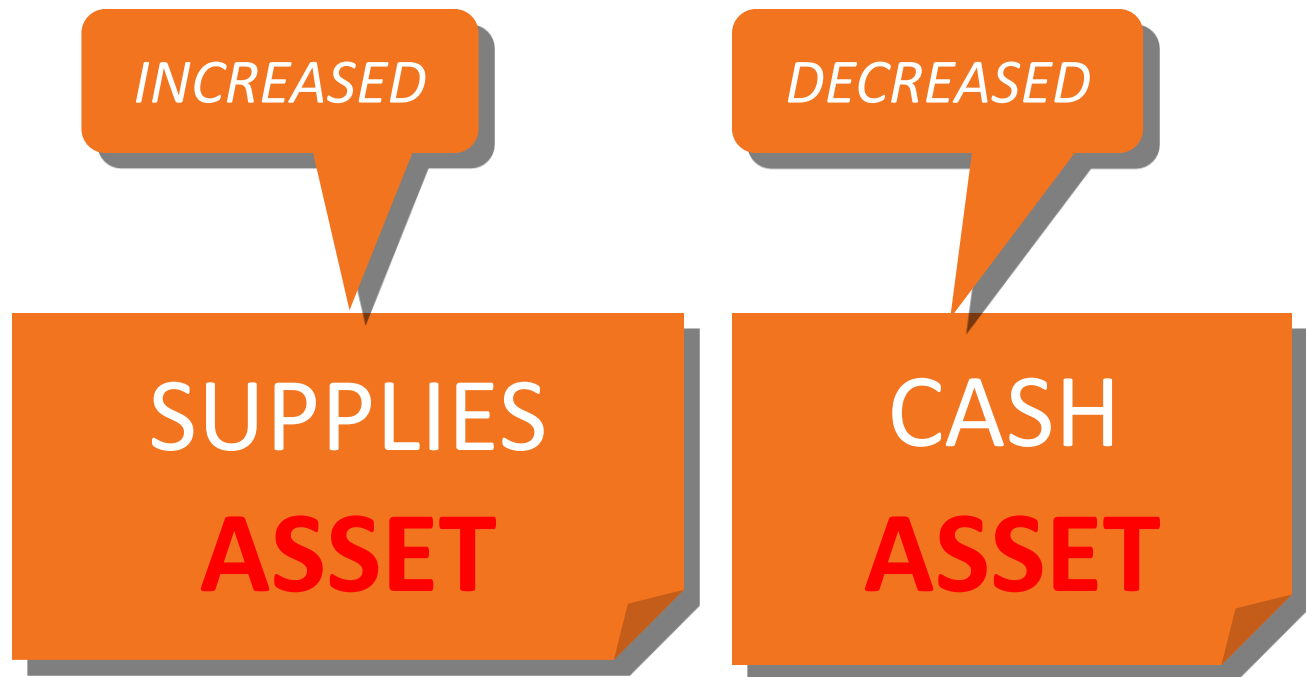
- **Which accounts are affected?**
  - Identify the accounts that are affected.
  - Classify these accounts as assets, liabilities, or owner's equity.

**SUPPLIES**  
**ASSET**

**CASH**  
**ASSET**

# Question #3A

- Determine which accounts have increased or decreased.



## Question #3B

- Does the accounting equation balance?


		<b>ASSETS</b>	=	<b>LIAB.</b>	+	<b>O. E.</b>
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.*

# Proving the Accounting Equation Balances

## ASSETS

	CASH	ACCTS. REC.	SUPPLIES	DEL. EQUIP.
BAL.	\$750	\$600		\$2,100
	– 80		+\$80	
<hr/>				
BAL.	\$670	\$600	\$80	\$2,100
				
	\$3,450			

# 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



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

# 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.

# 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**

# Question #3A

- Determine which accounts have increased or decreased.

*INCREASED*

PREPAID  
INSURANCE

**ASSET**

*DECREASED*

CASH

**ASSET**



# 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.*

# Proving the Accounting Equation Balances

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



\$3,450

# Proving the Accounting Equation Balances (cont.)

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


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

# Customer Payment Example

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

# 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.*

# Question #2

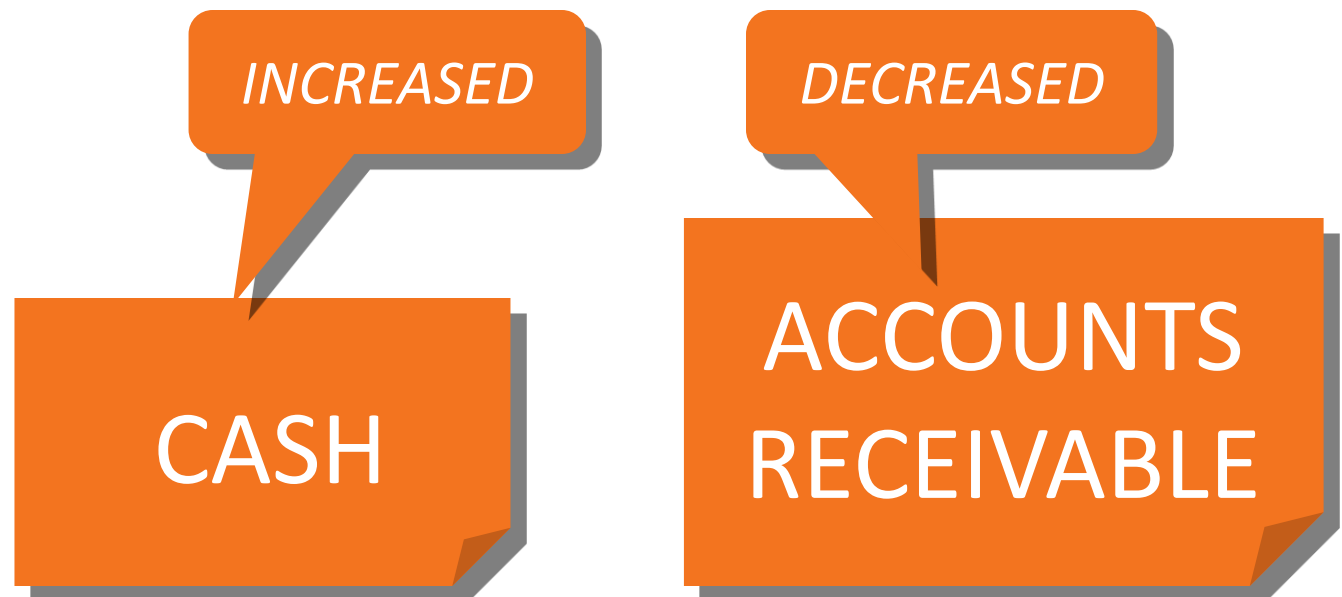
- **Which accounts are affected?**
  - Identify the accounts that are affected.
  - Classify these accounts as assets, liabilities, or owner's equity.

**CASH**  
**ASSET**

**ACCOUNTS  
RECEIVABLE**  
**ASSET**

# Question #3A

- Determine which accounts have increased or decreased.



# 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.*



# 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




Diagram illustrating the calculation of the total assets balance. Arrows point from the final balances of the asset accounts (CASH, ACCTS. REC., SUPPLIES, PREPD. INS., and DEL. EQUIP.) to a box containing the total assets balance, \$3,450.

**\$3,450**

# 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


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

# Purchase by Partial Payment and On Account Example

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

# 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.*

# Question #2

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

CASH

**ASSET**

DELIVERY  
EQUIP.

**ASSET**

ACCOUNTS  
PAYABLE

**LIABILITY**

# Question #3A

- Determine which accounts have increased or decreased.

*DECREASED*

CASH

**ASSET**

*INCREASED*

DELIVERY  
EQUIP.

**ASSET**

*INCREASED*

ACCOUNTS  
PAYABLE

**LIABILITY**

# 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*

# Proving the Accounting Equation Balances

## ASSETS

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



\$4,650



# Proving the Accounting Equation Balances (cont.)

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



$$\$1,800 + \$2,000 + \$1,100 - \$250 = \$4,650$$

# Payment Of Wages Example

## Question #1

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

# 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**

# Question #3A

- Determine which accounts have increased or decreased.

*INCREASED*

WAGES  
EXPENSE

*DECREASED*

CASH

# 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*

# Proving the Accounting Equation Balances

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



\$4,000

# 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
------	---------	---------	---------	-------


$$\begin{aligned} & \$1,800 + \$2,000 + \$1,100 - \$900 = \\ & \quad \$4,000 \end{aligned}$$

# Deliveries for Cash and On Account

## Question #1

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



# Question #2

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

CASH  
**ASSET**

ACCTS.  
REC.  
**ASSET**

DELIVERY  
FEES  
**O.E.**  
**REVENUE**

# Question #3A

- Determine which accounts have increased or decreased.

*INCREASED*

CASH  
**ASSET**

*INCREASED*

ACCTS.  
REC.  
**ASSET**

*INCREASED*

DELIVERY  
FEES  
**O.E.**  
**REVENUE**

# 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*

# Proving the Accounting Equation Balances

## ASSETS


CASH	ACCTS. REC.	SUPPLIES	PREPD. INS.	DEL. EQUIP.
BAL. \$ 90	\$ 30	\$80	\$200	\$3,600
+ 430	+ 620			
<hr/>				
BAL. \$520	\$650	\$80	\$200	\$3,600



\$5,050

# Proving the Accounting Equation Balances (cont.)

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


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

# Cash Withdrawal Example

- Rohan withdrew \$150 for personal expenses.

# 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.*

# 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**



# Question #3A

- Determine which accounts have increased or decreased.

*INCREASED*

R.M.,  
DRAWING

*DECREASED*

CASH

# 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.*

# 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*

# 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
------	-------	-------	------	-------	---------



# 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

$$\$1,800 + \$2,000 - \$150 + \$2,150 - \$900 = \$4,900$$

# Learning Objective 5

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

# Financial Statements

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

# 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



# 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*

*This column is used  
for listing items  
to be totaled.*

*This column is used  
for listing items  
to be totaled.*

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



*This column is used  
for totals.*

# 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.*

# 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
---------------	----

<b>Total expenses</b>	<b>900</b>
-----------------------	------------

*Underline before totaling.*

# 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
---------------	----

<b>Total expenses</b>	<b>900</b>
-----------------------	------------

<b>Net income</b>	<b>\$1,250</b>
-------------------	----------------

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

# 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
---------------	----

<b>Total expenses</b>	<b>900</b>
-----------------------	------------

<b>Net income</b>	<b>\$1,250</b>
-------------------	----------------

*Double underline the  
net income total.*

# 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



# 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.*

# 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	
		<u>1,100</u>

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

# 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	<u>1,100</u>	1,100
Rohan Macsen, capital, June 30, 20--		<u><u>\$3,100</u></u>

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

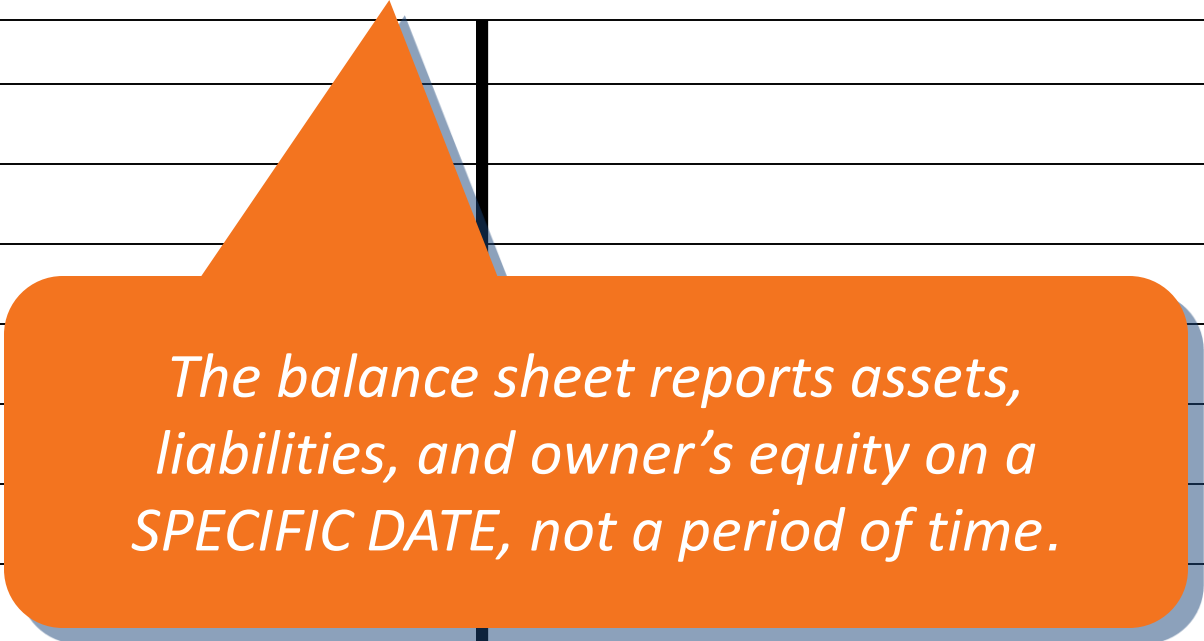
# The Balance Sheet

- 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

# 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.*

# Rohan's Campus Delivery

## Balance Sheet

### June 30, 20--

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

*It balances!!!*

# Learning Objective 6

Define the three basic phases of the accounting process.

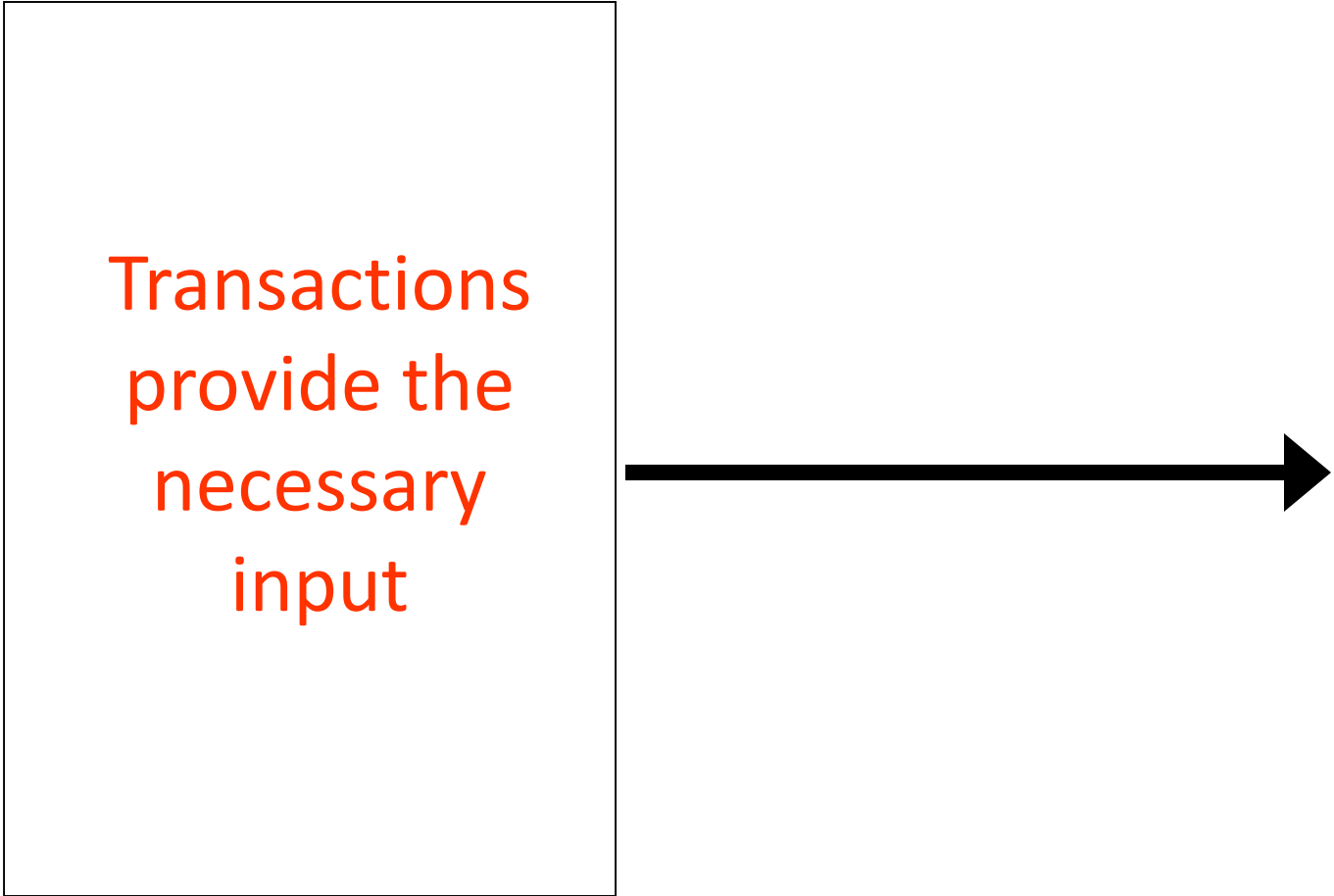
# Accounting Process

- Three basic phases:
  - Input
  - Processing
  - Output

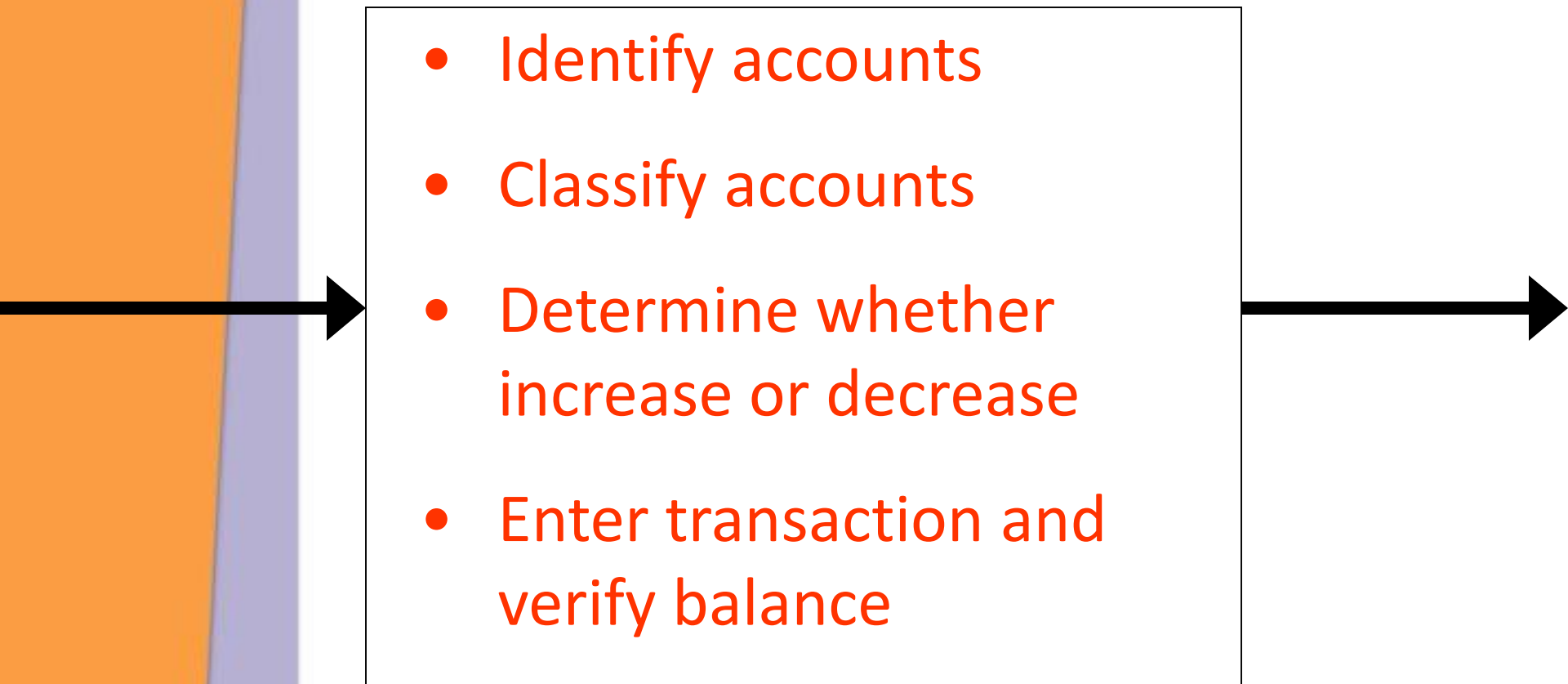


# Input

Transactions  
provide the  
necessary  
input

A diagram consisting of a white rectangular box with a black border. Inside the box, the text 'Transactions provide the necessary input' is written in red, centered. To the right of the box, a thick black arrow points horizontally towards the right edge of the slide.

# Processing

- 
- Identify accounts
  - Classify accounts
  - Determine whether increase or decrease
  - Enter transaction and verify balance

# Output

## **INCOME STATEMENT**

**REVENUES**

**—**

**EXPENSES**

**=**

**NET INCOME**

## **STATEMENT OF OWNER'S EQUITY**

**BEGINNING CAPITAL**

**+**

**INVESTMENTS**

**+**

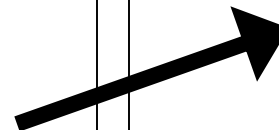
**NET INCOME**

**—**

**WITHDRAWALS**

**=**

**ENDING CAPITAL**



# Output (cont.)

## BALANCE SHEET

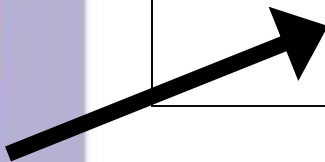
**ASSETS**

**=**

**LIABILITES**

**+**

**OWNER'S EQUITY  
(Ending Capital)**



## 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

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.  $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$

**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.

#### 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

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).



### 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 is 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.

## 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.  $\text{Revenue} - \text{Expenses} = \text{Net Income or Net Loss}$ .

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.  $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$

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.

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	<b>Owner's Equity</b>	
Office Equipment	<u>10,800</u>	Mark Hahn, Capital	<u>\$26,000</u>
Total Assets	<u>\$27,550</u>	Total Liabilities and Owner's Equity	<u>\$27,550</u>

### **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?

## 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.

## Exercise 2-1A

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

## Exercise 2-2A

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
<u>\$44,000</u>	=	\$27,000	+	\$17,000
\$32,000	=	\$18,000	+	<u>\$14,000</u>
\$27,000	=	<u>\$ 7,000</u>	+	\$20,000

## Exercise 2-3A

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

## Exercise 2-4A

	Owner's Equity											
	Assets	=	Liabilities	+	Capital	–	Drawing	+	Revenues	–	Expenses	Description
Bal. from E 2-3A (d)	32,200		5,200		27,000							
(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)		
<hr/>												
Total Assets			<u>\$31,586</u>		Total Liabilities			\$ 5,200				
					Capital			27,000				
					Drawing			(1,000)				
					Revenues			2,250				
					Expenses			(1,864)				
					Total Liabilities and Owner's Equity			<u>\$31,586</u>				

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

[illegible]



## Exercise 2-7A

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

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

## Problem 2-8A

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

Problem 2-9A: See page 10

## Problem 2-10A

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

<b>Revenues:</b>		
<b>Service fees</b>		<b>\$3,300</b>
<b>Expenses:</b>		
<b>Rent expense</b>		<b>750</b>
<b>Net income</b>		<b>\$2,550</b>

Problem 2-9A

	Assets				=	Liabilities	+	Owner's Equity				Description
	(Items Owned)					(Amts. Owed)	(Owner's Investment)		(Earnings)			
	Cash	+ Accounts Receivable	+ Office Supplies	+ Prepaid Insurance	=	Accounts Payable	+	J. Pembroke, Capital	- J. Pembroke, Drawing	+ Revenues	- Expenses	
(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 Payable	\$ 300
Accounts Receivable	2,000	Jay Pembroke, Capital	18,000
Office Supplies	4,600	Jay Pembroke, Drawing	(100)
Prepaid Insurance	1,200	Service Fees	3,300
Total Assets	<u>\$20,750</u>	Rent Expense	<u>(750)</u>
		Total Liabilities and Owner's Equity	<u>\$20,750</u>

## Problem 2-11A

<i>Jay Pembroke</i>			
<i>Statement of Owner's Equity</i>			
<i>For Month Ended April 30, 20--</i>			
<i>Jay Pembroke, capital, April 1, 20--</i>		\$	—
<i>Investment during April</i>			18,000
<i>Total investment</i>			\$18,000
<i>Net income for April</i>	\$2,550		
<i>Less withdrawals for April</i>	100		
<i>Increase in capital</i>			2,450
<i>Jay Pembroke, capital, April 30, 20--</i>			\$20,450

## Problem 2-12A

<i>Jay Pembroke</i>			
<i>Balance Sheet</i>			
<i>April 30, 20--</i>			
<i>Assets</i>		<i>Liabilities</i>	
<i>Cash</i>	\$12,950	<i>Accounts payable</i>	\$ 300
<i>Accounts receivable</i>	2,000		
<i>Office supplies</i>	4,600	<i>Owner's Equity</i>	
<i>Prepaid insurance</i>	1,200	<i>Jay Pembroke, capital</i>	20,450
<i>Total assets</i>	\$20,750	<i>Total liab. &amp; owner's equity</i>	\$20,750

**Exercise 2-1B**

<u>Account</u>	<u>Classification</u>
Cash	<u>A</u>
Accounts Payable	<u>L</u>
Supplies	<u>A</u>
Bill Jones, Drawing	<u>OE</u>
Prepaid Insurance	<u>A</u>
Accounts Receivable	<u>A</u>
Bill Jones, Capital	<u>OE</u>

**Exercise 2-2B**

<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
<u>\$25,000</u>	=	\$20,000	+	\$ 5,000
\$30,000	=	\$15,000	+	<u>\$15,000</u>
\$20,000	=	<u>\$10,000</u>	+	\$10,000

**Exercise 2-3B**

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

## Exercise 2-4B

	Assets		=	Liabilities		+	Owner's Equity							
							Capital	–	Drawing	+	Revenues	–	Expenses	Description
Bal. from E 2-3B (d)	32,500			2,500			30,000							
(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				<u>\$34,032</u>			Total Liabilities				\$ 2,500			
							Capital				30,000			
							Drawing				(800)			
							Revenues				3,900			
							Expenses				<u>(1,568)</u>			
							Total Liabilities and Owner's Equity				<u>\$34,032</u>			



## Exercise 2-7B

<i>Lopez Financial Consulting</i>		
<i>Statement of Owner's Equity</i>		
<i>For Month Ended June 30, 20--</i>		
<i>Efran Lopez, capital, June 1, 20--</i>		\$ —
<i>Investment during June</i>		15,000
<i>Total investment</i>		\$15,000
<i>Less: Net loss for June</i>	\$2,000	
<i>Withdrawals for June</i>	7,000	
<i>Decrease in capital</i>		(9,000)
<i>Efran Lopez, capital, June 30, 20--</i>		\$ 6,000

## Problem 2-8B

	<u>Assets</u>	=	<u>Liabilities</u>	+	<u>Owner's Equity</u>
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

<i>David Segal</i>		
<i>Income Statement</i>		
<i>For Month Ended October 31, 20--</i>		
<i>Revenues:</i>		
<i>Service fees</i>		\$2,700
<i>Expenses:</i>		
<i>Rent expense</i>		650
<i>Net income</i>		\$2,050

## Problem 2-9B

	Assets				=	Liabilities	+	Owner's Equity										
	(Items Owned)					(Amts. Owed)		(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



## Problem 2-11B

<i>David Segal</i>		
<i>Statement of Owner's Equity</i>		
<i>For Month Ended October 31, 20--</i>		
<i>David Segal, capital, October 1, 20--</i>		<b>\$ —</b>
<i>Investment during October</i>		<b>15,000</b>
<i>Total investment</i>		<b>\$15,000</b>
<i>Net income for October</i>	<b>\$2,050</b>	
<i>Less withdrawals for October</i>	<b>150</b>	
<i>Increase in capital</i>		<b>1,900</b>
<i>David Segal, capital, October 31, 20--</i>		<b>\$16,900</b>

## Problem 2-12B

<i>David Segal</i>			
<i>Balance Sheet</i>			
<i>October 31, 20--</i>			
<i>Assets</i>		<i>Liabilities</i>	
<i>Cash</i>	<b>\$11,300</b>	<i>Accounts payable</i>	<b>\$ 200</b>
<i>Accounts receivable</i>	<b>1,000</b>		
<i>Office supplies</i>	<b>3,800</b>	<i>Owner's Equity</i>	
<i>Prepaid insurance</i>	<b>1,000</b>	<i>David Segal, capital</i>	<b>16,900</b>
<i>Total assets</i>	<b>\$17,100</b>	<i>Total liab. &amp; owner's equity</i>	<b>\$17,100</b>

**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.

## Mastery Problem

1.

	Assets							=	Liabilities	+	Owner's Equity												
	(Items Owned)								(Amts. Owed)		(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		

## Mastery Problem (Continued)

3.

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

<b>Revenues:</b>		
<i>Cleaning fees</i>		<b>\$2,100</b>
<b>Expenses:</b>		
<i>Wages expense</i>	<b>\$250</b>	
<i>Rent expense</i>	<b>150</b>	
<i>Advertising expense</i>	<b>75</b>	
<i>Phone expense</i>	<b>40</b>	
<i>Total expenses</i>		<b>515</b>
<b>Net income</b>		<b>\$1,585</b>

4.

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

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

**5.**

**July 31, 20--**

[illegible]

### Challenge Problem

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

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.

Comprehensive Problem 1: The Accounting Cycle

1.

GENERAL JOURNAL

PAGE 1

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

## Comprehensive Problem 1 (Continued)

## GENERAL JOURNAL

PAGE 2

	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	<sup>20--</sup> <b>Apr. 7</b>	<b>Cash</b>	<b>101</b>	<b>38 6 0 0 00</b>		1
2		<b>Registration Fees</b>	<b>401</b>		<b>38 6 0 0 00</b>	2
3		<b>Collected registration fees</b>				3
4						4
5	<b>10</b>	<b>Food Supplies</b>	<b>144</b>	<b>8 2 0 0 00</b>		5
6		<b>Accounts Payable</b>	<b>202</b>		<b>8 2 0 0 00</b>	6
7		<b>Purchased food supplies on account</b>				7
8		<b>from Acme Super Market</b>				8
9						9
10	<b>10</b>	<b>Wages Expense</b>	<b>511</b>	<b>10 0 0 0 00</b>		10
11		<b>Cash</b>	<b>101</b>		<b>10 0 0 0 00</b>	11
12		<b>Paid wages to guides</b>				12
13						13
14	<b>14</b>	<b>Cash</b>	<b>101</b>	<b>30 5 0 0 00</b>		14
15		<b>Registration Fees</b>	<b>401</b>		<b>30 5 0 0 00</b>	15
16		<b>Collected registration fees</b>				16
17						17
18	<b>16</b>	<b>Food Supplies</b>	<b>144</b>	<b>9 0 0 0 00</b>		18
19		<b>Accounts Payable</b>	<b>202</b>		<b>9 0 0 0 00</b>	19
20		<b>Purchased food supplies on account</b>				20
21		<b>from Acme Super Market</b>				21
22						22
23	<b>17</b>	<b>Wages Expense</b>	<b>511</b>	<b>10 0 0 0 00</b>		23
24		<b>Cash</b>	<b>101</b>		<b>10 0 0 0 00</b>	24
25		<b>Paid wages to guides</b>				25
26						26
27	<b>18</b>	<b>Postage Expense</b>	<b>536</b>	<b>1 5 0 0 00</b>		27
28		<b>Cash</b>	<b>101</b>		<b>1 5 0 0 00</b>	28
29		<b>Paid postage</b>				29
30						30
31						31
32						32
33						33
34						34
35						35



## Comprehensive Problem 1 (Continued)

## GENERAL JOURNAL

PAGE 3

	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20-- Apr. 21	Cash	101	35 6 0 0 00		1
2		Registration Fees	401		35 6 0 0 00	2
3		Collected registration fees				3
4						4
5	24	Food Supplies	144	8 5 0 0 00		5
6		Accounts Payable	202		8 5 0 0 00	6
7		Purchased food supplies on account				7
8		from Acme Super Market				8
9						9
10	24	Wages Expense	511	10 0 0 0 00		10
11		Cash	101		10 0 0 0 00	11
12		Paid wages to guides				12
13						13
14	28	Cash	101	32 0 0 0 00		14
15		Registration Fees	401		32 0 0 0 00	15
16		Collected registration fees				16
17						17
18	29	Wages Expense	511	10 0 0 0 00		18
19		Cash	101		10 0 0 0 00	19
20		Paid wages to guides				20
21						21
22	30	Food Supplies	144	6 0 0 0 00		22
23		Accounts Payable	202		6 0 0 0 00	23
24		Purchased food supplies on account				24
25		from Acme Super Market				25
26						26
27	30	Accounts Payable	202	32 7 0 0 00		27
28		Cash	101		32 7 0 0 00	28
29		Made payment on account to				29
30		Acme Super Market				30
31						31
32						32
33						33
34						34
35						35

## Comprehensive Problem 1 (Continued)

## GENERAL JOURNAL

PAGE 4

	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	<del>20--</del> <b>Apr. 30</b>	<b>Utilities Expense</b>	<b>533</b>	<b>2 0 0 0 00</b>		1
2		<b>Cash</b>	<b>101</b>		<b>2 0 0 0 00</b>	2
3		<b>Paid utility bill</b>				3
4						4
5	<b>30</b>	<b>Phone Expense</b>	<b>525</b>	<b>1 2 0 0 00</b>		5
6		<b>Cash</b>	<b>101</b>		<b>1 2 0 0 00</b>	6
7		<b>Paid phone bill</b>				7
8						8
9	<b>30</b>	<b>Bob Night, Drawing</b>	<b>312</b>	<b>6 0 0 0 00</b>		9
10		<b>Cash</b>	<b>101</b>		<b>6 0 0 0 00</b>	10
11		<b>Owner's withdrawal</b>				11

2., 6., and 11.

## GENERAL LEDGER

ACCOUNT Cash

ACCOUNT NO. 101

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

## Comprehensive Problem 1 (Continued)

ACCOUNT Office Supplies

ACCOUNT NO. 142

DATE		ITEM	POST. REF.	DEBIT				CREDIT				BALANCE			
												DEBIT		CREDIT	
20-- Apr.	5		J1	5	0	0	00					5	0	0	00
	30	Adjusting	J5					4	0	0	00	1	0	0	00

ACCOUNT Food Supplies

ACCOUNT NO. 144

DATE		ITEM	POST. REF.	DEBIT				CREDIT				BALANCE			
												DEBIT		CREDIT	
20-- Apr.	3		J1	7	0	0	00					7	0	0	00
	10		J2	8	2	0	00					15	2	0	00
	16		J2	9	0	0	00					24	2	0	00
	24		J3	8	5	0	00					32	7	0	00
	30		J3	6	0	0	00					38	7	0	00
	30	Adjusting	J5					30	7	0	00	8	0	0	00

ACCOUNT Prepaid Insurance

ACCOUNT NO. 145

DATE		ITEM	POST. REF.	DEBIT				CREDIT				BALANCE			
												DEBIT		CREDIT	
20-- Apr.	1		J1	9	0	0	00					9	0	0	00
	30	Adjusting	J5					1	5	0	00	7	5	0	00

ACCOUNT Fishing Boats

ACCOUNT NO. 181

DATE		ITEM	POST. REF.	DEBIT				CREDIT				BALANCE			
												DEBIT		CREDIT	
20-- Apr.	2		J1	60	0	0	00					60	0	0	00

## Comprehensive Problem 1 (Continued)

ACCOUNT Accumulated Depreciation—Fishing Boats

ACCOUNT NO. 181.1

DATE		ITEM	POST. REF.	DEBIT				CREDIT				BALANCE									
												DEBIT			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				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		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				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

## Comprehensive Problem 1 (Continued)

ACCOUNT Bob Night, Drawing

ACCOUNT NO. 312

DATE	ITEM	POST. REF.	DEBIT	CREDIT	BALANCE			
					DEBIT		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		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		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					

## Comprehensive Problem 1 (Continued)

ACCOUNT Wages Expense

ACCOUNT NO. 511

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

ACCOUNT Rent Expense

ACCOUNT NO. 521

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

ACCOUNT Office Supplies Expense

ACCOUNT NO. 523

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

## Comprehensive Problem 1 (Continued)

ACCOUNT Phone Expense

ACCOUNT NO. 525

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

ACCOUNT Depreciation Expense—Fishing Boats

ACCOUNT NO. 542

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

**Comprehensive Problem 1 (Continued)**  
**3. and 4.**

*The General's Favorite*

*Work*

*For the Month Ended*

	ACCOUNT TITLE	TRIAL BALANCE								ADJUSTMENTS												
		DEBIT						CREDIT		DEBIT				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	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	0	00					
13	Rent Expense	40	0	0	0	00																
14	Office Supplies Expense											(a)	4	0	0	0	00					
15	Food Supplies Expense											(b)	30	7	0	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	0	00				
19	Postage Expense		1	5	0	00																
20	Depr. Exp.—Fishing Boats											(d)	1	0	0	0	0	00				
21		328	2	0	0	00	328	2	0	0	00	34	1	0	0	0	00	34	1	0	0	00
22	Net Income																					
23																						
24																						
25																						
26																						
27																						
28																						
29																						
30																						
31																						



Comprehensive Problem 1 (Continued)

Fishing Hole

Sheet

April 30, 20--

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

## Comprehensive Problem 1 (Continued)

7.

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

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

8.

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

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

**9.**

**April 30, 20--**

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## Comprehensive Problem 1 (Continued)

5. and 10.

## GENERAL JOURNAL

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	DATE	DESCRIPTION	POST. REF.	DEBIT	CREDIT	
1	20-- Apr.	<b>Adjusting Entries</b>				1
2	30	<b>Office Supplies Expense</b>	<b>523</b>	<b>4 0 0 00</b>		2
3		<b>Office Supplies</b>	<b>142</b>		<b>4 0 0 00</b>	3
4						4
5	30	<b>Food Supplies Expense</b>	<b>524</b>	<b>30 7 0 0 00</b>		5
6		<b>Food Supplies</b>	<b>144</b>		<b>30 7 0 0 00</b>	6
7						7
8	30	<b>Insurance Expense</b>	<b>535</b>	<b>1 5 0 0 00</b>		8
9		<b>Prepaid Insurance</b>	<b>145</b>		<b>1 5 0 0 00</b>	9
10						10
11	30	<b>Depreciation Expense—Fishing Boats</b>	<b>542</b>	<b>1 0 0 0 00</b>		11
12		<b>Accum. Depreciation—Fishing Boats</b>	<b>181.1</b>		<b>1 0 0 0 00</b>	12
13						13
14	30	<b>Wages Expense</b>	<b>511</b>	<b>5 0 0 0 00</b>		14
15		<b>Wages Payable</b>	<b>219</b>		<b>5 0 0 0 00</b>	15
16						16
17		<b>Closing Entries</b>				17
18	30	<b>Registration Fees</b>	<b>401</b>	<b>171 7 0 0 00</b>		18
19		<b>Income Summary</b>	<b>313</b>		<b>171 7 0 0 00</b>	19
20						20
21	30	<b>Income Summary</b>	<b>313</b>	<b>117 4 5 0 00</b>		21
22		<b>Wages Expense</b>	<b>511</b>		<b>40 5 0 0 00</b>	22
23		<b>Rent Expense</b>	<b>521</b>		<b>40 0 0 0 00</b>	23
24		<b>Office Supplies Expense</b>	<b>523</b>		<b>4 0 0 0 00</b>	24
25		<b>Food Supplies Expense</b>	<b>524</b>		<b>30 7 0 0 00</b>	25
26		<b>Phone Expense</b>	<b>525</b>		<b>1 2 0 0 00</b>	26
27		<b>Utilities Expense</b>	<b>533</b>		<b>2 0 0 0 00</b>	27
28		<b>Insurance Expense</b>	<b>535</b>		<b>1 5 0 0 00</b>	28
29		<b>Postage Expense</b>	<b>536</b>		<b>1 5 0 0 00</b>	29
30		<b>Depreciation Expense—Fishing Boats</b>	<b>542</b>		<b>1 0 0 0 00</b>	30
31						31
32						32
33						33
34						34
35						35

### Comprehensive Problem 1 (Concluded)

PAGE 6

[illegible]

**12.**

### ***The General's Favorite Fishing Hole***

### **Post-Closing Trial Balance**

**April 30, 20--**

[illegible]

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