College Accounting Chapters 1 27 22nd edition Heintz Solutions Manual

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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 (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)*	

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												
(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	***$34,032***	***Total Liabilities***	***$ 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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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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Exercise M-2A

COMBINATION JOURNAL

	DATE		CASH DEBIT	CASH CREDIT	DESCRIPTION	POST. REF.	
1	20-- Oct.	1	15 0 0 0 00		Bill Rackes, Capital		1
2		2		3 0 0 00	Rent Expense		2
3		3			Bicycle Parts		3
4					Accounts Payable—Tracker's Bicycle Parts		4
5		5			Office Supplies		5
6					Accounts Payable—Downtown Office Supplies		6
7		8		3 8 00	Phone Expense		7
8		9	1 4 0 00			—	8
9		11		1 5 00	Miscellaneous Expense		9
10		12		1 0 0 00	Accounts Payable—Tracker's Bicycle Parts		10
11		14		3 0 0 00		—	11
12		15	3 5 0 00			—	12
13		16		4 8 00	Utilities Expense		13
14		19	2 5 0 00			—	14
15		23		5 0 00	Bill Rackes, Drawing		15
16		25		5 0 00	Accounts Payable—Downtown Office Supplies		16
17		29		3 0 0 00		—	17
18			15 7 4 0 00	1 2 0 1 00			18
19							19
20							20
21							21
22							22
23							23
24							24
25							25
26							26
27							27
28							28

Proving the Combination Journal:

Debit columns:		*Credit columns:*	
Cash	*$15,740*	*Cash*	*$ 1,201*
General	*2,851*	*General*	*17,250*
Wages Expense	*600*	*Repair Fees*	*740*
	$19,191		*$19,191*

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Exercise M-2A (Concluded)

PAGE 1

	GENERAL DEBIT	GENERAL CREDIT	REPAIR FEES CREDIT	WAGES EXPENSE DEBIT	
1		15000 00			1
2	3000 00				2
3	2000 00				3
4		2000 00			4
5	250 00				5
6		250 00			6
7	38 00				7
8			140 00		8
9	15 00				9
10	100 00				10
11				300 00	11
12			350 00		12
13	48 00				13
14			250 00		14
15	50 00				15
16	50 00				16
17				300 00	17
18	2851 00	17250 00	740 00	600 00	18
19					19
20					20
21					21
22					22
23					23
24					24
25					25
26					26
27					27
28					28

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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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Part 1: September 1-17

Coolspring Furniture
Chart of Accounts
8/31/2014

Classification	Account Number	Account Title
Assets		
	101	Cash
	103	Payroll Cash
	105	Petty Cash
	122	Accounts Receivable
	131	Merchandise Inventory
	141	Office Supplies
	142	Store Supplies
	145	Prepaid Insurance
Long-Term Assets		
	161	Land
	171	Building
	172	Accum. Depr. - Building
	181	Store Equipment
	182	Accum.Depr.-Store Equip.
	183	Office Equipment
	184	Accum.Depr.-Office Equip.
Liabilities		
	202	Accounts Payable
	211	Emp. Fed. Inc.Tax Payable
	212	Soc. Sec. Tax Payable
	213	Medicare Tax Payable
	214	Emp.State Inc.Tax Payable
	215	Emp. City Inc.Tax Payable
	218	Sales Salaries Payable
	219	Office Salaries Payable
	221	FUTA Tax Payable
	222	SUTA Tax Payable
	231	Sales Tax Payable
	241	Unearned Rent Revenue
Long-Term Liabilities		
	251	Mortgage Payable
Capital		
	311	Oliver Hayden, Capital
	312	Oliver Hayden, Drawing
	313	Income Summary

Classification	Account Number	Account Title
Revenue		
	401	Sales
	402	Sales Returns & Allow.
Cost		
	501	Purchases
	502	Purch. Returns & Allow.
	503	Purchases Discounts
	504	Freight-In
Expenses		
	511	Sales Salaries Expense
	512	Advertising Expense
	513	Bank Credit Card Expense
	514	Store Supplies Expense
	515	Travel & Entertain. Exp.
	519	Depr.Expense-Store Equip.
	522	Office Salaries Expense
	523	Office Supplies Expense
	525	Telephone Expense
	530	Payroll Taxes Expense
	533	Utilities Expense
	534	Charitable Contrib. Exp.
	535	Insurance Expense
	540	Depr. Expense - Building
	541	Depr.Expense-Office Equip
	549	Miscellaneous Expense
Other Revenue		
	550	Rent Revenue
Other Expenses		
	551	Interest Expense
	552	Cash Short and Over

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Coolspring Furniture A
Trial Balance
9/17/2014

Account Number	Account Title	Debit	Credit
101	Cash	106,396.97	-
103	Payroll Cash	1,000.00	-
105	Petty Cash	350.00	-
122	Accounts Receivable	8,658.75	-
131	Merchandise Inventory	115,750.00	-
141	Office Supplies	1,580.00	-
142	Store Supplies	1,459.15	-
145	Prepaid Insurance	8,100.00	-
161	Land	75,000.00	-
171	Building	200,000.00	-
172	Accum. Depr. - Building	-	20,500.00
181	Store Equipment	10,275.00	-
182	Accum. Depr.-Store Equip.	-	1,225.00
183	Office Equipment	13,525.00	-
184	Accum.Depr.-Office Equip.	-	1,850.00
202	Accounts Payable	-	16,966.85
211	Emp. Fed. Inc.Tax Payable	-	565.00
212	Soc. Sec. Tax Payable	-	1,021.02
213	Medicare Tax Payable	-	238.80
214	Emp.State Inc.Tax Payable	-	1,212.30
215	Emp. City Inc.Tax Payable	-	380.60
221	FUTA Tax Payable	-	44.69
222	SUTA Tax Payable	-	193.55
231	Sales Tax Payable	-	10,520.39
241	Unearned Rent Revenue	-	15,000.00
251	Mortgage Payable	-	248,724.74
311	Oliver Hayden, Capital	-	176,914.46
312	Oliver Hayden, Drawing	26,575.00	-
401	Sales	-	927,561.70
402	Sales Returns &Allowances	12,675.00	-
501	Purchases	549,570.00	-
502	Purch. Returns&Allowances	-	3,584.45
503	Purchases Discounts	-	7,094.49
504	Freight-In	11,551.00	-
511	Sales Salaries Expense	134,550.00	-
512	Advertising Expense	9,819.00	-
513	Bank Credit Card Expense	31,999.09	-
515	Travel&Entertain. Expense	22,650.00	-

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COMPREHENSIVE PROBLEM 2: ACCOUNTING CYCLE WITH SUBSIDIARY LEDGERS
GENERAL JOURNAL INSTRUCTIONS

PART 1: DECEMBER

1. Restore the file TJ's Specialty Shop CP2 (Backup).QBB.

From the ***File*** menu**,** click ***Open or Restore Company.*** Select ***Restore a backup copy*** and click ***Next.*** Select ***Local backup,*** and then select ***TJ's Specialty Shop CP2 (Backup).QBB*** from the CD on which your data files are provided. Click ***Next*** when the Open or Restore Company window appears. Key a new file name of ***TJ's Specialty Shop CP2 Your Name.QBW*** (for example, TJ's Specialty Shop CP2 John Doe.QBW).

2. The accounts listed in your text for this problem have already been opened for you.

To view the Chart of Accounts, select ***Chart of Accounts*** from the ***Lists*** menu or click on ***Chart of Accounts*** under ***Company*** from the home page. To view a list of customer accounts, click on ***Customer Center*** and select the ***Customers & Jobs*** tab. All active customers will be listed at the left of the window. To view a list of vendor accounts, click on ***Vendor Center*** and select the ***Vendors*** tab. All active vendors will be listed at the left of the window.

3. Enter the December 16-30 transactions in the General Journal, using a base year of 2015.

From the ***Company*** menu, select ***Make General Journal Entries***. When a message window appears, click ***OK***. Key the date of the transaction in the Date field, or click on the calendar icon and select the date. *For Year 1, use a date of* ***2015*** *for all entries.* Click in the Account column and select the account to be debited from the drop-down list. Tab to the Debit column and key the amount. Tab to the Memo column and key an explanation to the entry. Tab to the Name column and select a customer or vendor from the drop-down list if applicable. Tab to the next row and in the Account field, select the account to be credited. Tab over and enter the amount in the Credit column. Select a customer or vendor from the drop-down list if applicable. Click ***Save and New*** to continue to the next transaction or ***Save and Close*** if you are finished entering transactions. If a Retained Earnings or Fixed Assets alert window pops up, click ***OK*** and continue. For all Sales Tax Payable transactions, you must select a vendor; assume all taxes will be paid through Connecticut State Bank.

4. Generate a General Journal report.

From the ***Reports*** menu, select ***Accountant & Taxes*** and then ***Journal***. When the Journal window appears, select ***December 16, 2015*** in the From field and ***December 30, 2015*** in the To field. Click on ***Modify Report*** and unselect ***Trans#***, ***Type,*** and ***Num.*** and click ***OK***. Then click the ***Refresh*** button. For columns in which copy is getting truncated, you may wish to expand the width of the column. Do this by placing the cursor on the diamonds between the column heads, and when it turns to a cross with left and right arrows, drag the cross right to expand the width of the column. To print the report, click on the ***Print*** button.

5. Make corrections if necessary.

To correct general journal entries, click the ***Previous*** button in the General Journal window until the transaction you wish to correct appears. Make the needed changes and click ***Save and New*** or ***Save and Close*** as appropriate. Click ***Yes*** when asked to verify the change. To delete an entry, right click while the cursor is anywhere in the entry and select ***Delete General Journal*** (only the current entry will be deleted). Click ***Yes*** when asked to verify the deletion.

6. Generate a pre-adjusted Trial Balance report.

From the Reports menu, select ***Accountant & Taxes*** and then ***Trial Balance***. When the Trial Balance window appears, click on ***Modify Report*** and select ***December 16, 2015*** in the From field and ***December***

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31, 2015 in the To field. Click on the ***Advanced*** button in the Modify Report window and under Display Rows, select ***Non-zero***. Click ***OK*** to close the Advance Options window, and then click ***OK*** again to close the Modify Reports window. Then click the ***Refresh*** button to display the report with the new settings. To print the report, click on the ***Print*** button.

7. Prepare adjusting entries for the year ended December 31, 2015.

Using the Trial Balance report and the adjustment information provided in the text, enter the adjusting entries in the General Journal. For each entry, key "Adjusting Entry" in the Memo column. In QuickBooks, you will need to adjust inventory in a different manner than shown in the text. First, determine the amount of the adjustment by deducting the new inventory balance from the old inventory balance. In the General Journal window, click on the ***Account*** drop-down list and select ***<Add New>***. Select ***Other Account Types*** and ***Cost of Goods Sold***. Click ***Continue***, and then key ***Inventory Adjustment*** as the new account name. Click ***Save & Close***. Continue entering the journal entry, debiting Inventory Adjustment and crediting Merchandise Inventory for the adjustment amount.

8. Generate an adjusted Trial Balance report.

Generate the Trial Balance report as instructed in Step 6.

9. Generate a schedule of accounts payable.

From the ***Reports*** menu, select ***Vendors & Payables*** and then ***Vendor Balance Summary***. When the Vendor Balance Summary window appears, click on ***Modify Report***. Select ***December 16, 2015*** in the From field and ***December 31, 2015*** in the To field. Click ***OK*** to close the Modify Reports window. Then click the ***Refresh*** button to display the report with the new settings. To print the report, click on the ***Print*** button.

10. Generate a schedule of accounts receivable.

From the ***Reports*** menu, select ***Customers & Receivables*** and then ***Customer Balance Summary***. When the Vendor Balance Summary window appears, select ***December 16, 2015*** in the From field and ***December 31, 2015*** in the To field. Then click the ***Refresh*** button (or press Enter). To print the report, click on the ***Print*** button.

11. Generate an income statement.

From the ***Reports*** menu, select ***Company & Financial*** and then ***Profit & Loss Standard***. When the Profit and Loss window appears, select ***January 1, 2015*** in the From field and ***December 31, 2015*** in the To field. Then click the ***Refresh*** button (or press Enter). To print the report, click on the ***Print*** button.

12. Generate a statement of owner's equity

The statement of owner's equity is not a standard option. To display the desired information, customize a Balance Sheet report. From the ***Reports*** menu, select ***Company & Financial*** and then ***Balance Sheet Standard***. When the Balance Sheet window appears, select ***December 31, 2015*** in the As of field. Click the ***Refresh*** button (or press Enter). Then click on ***Modify Report*** and the ***Filters Tab***. In the Account drop-down list, select ***All equity and income/expense*** and click ***OK***. To print the report, click on the ***Print*** button.

13. Prepare closing entries for the year ended December 31.

Using information from the adjusted Trial Balance report, enter the closing entries in the General Journal. For each entry, key "Closing Entry" in the Memo column. Remember to close out the Inventory Adjustment account with the other expenses.

14. Generate a post-closing Trial Balance report.

Generate the Trial Balance report as instructed in Step 6.

15. Generate a Balance Sheet report.

From the ***Reports*** menu, select ***Company & Financial*** and then ***Balance Sheet Standard***. When the Balance Sheet window appears, select ***December 31, 2015*** in the As of field. Click the ***Refresh*** button (or press Enter). To print the report, click on the ***Print*** button.

16. Enter the reversing entry in the General Journal.

Reverse the adjusting entry for wages payable as of January 1, 2016. Key "Reversing Entry" in the Memo column.

17. Save a backup file of your work.

From the ***File*** menu, select ***Save copy or backup***. Select ***Backup copy*** and click ***Next***. Select ***Local backup*** and click ***Next***. Select ***Save it now*** and click ***Next***. Choose the drive/folder in which you want to save your work and key a file name, such as ***TJ's Specialty Shop CP2 Dec Your Name (Backup).QBB*** , and click ***Save.*** Submit your backup file to your instructor if requested.

PART 2: JANUARY

1. Enter the January 1-27 transactions in the General Journal, using the year 2016.

From the ***Company*** menu, select ***Make General Journal Entries***. When a message window appears, click OK. Key the date of the transaction in the Date field, or click on the calendar icon and select the date. *For Year 2, use a date of **2016** for all entries.*. Click in the Account column and select the account to be debited from the drop-down list. Tab to the Debit column and key the amount. Tab to the Memo column and key an explanation to the entry. Tab to the Name column and select a customer or vendor from the drop-down list if applicable. Tab to the next row and in the Account field, select the account to be credited. Tab over and enter the amount in the Credit column. Select a customer or vendor from the drop-down list if applicable. Click ***Save and New*** to continue to the next transaction or ***Save and Close*** if you are finished entering transactions. If a Retained Earnings or Fixed Assets alert window pops up, click ***OK*** and continue. For all Sales Tax Payable transactions, you must select a vendor; assume all taxes will be paid through Connecticut State Bank.

2. Generate a General Journal report.

From the ***Reports*** menu, select ***Accountant & Taxes*** and then ***Journal***. When the Journal window appears, select ***January 1, 2016*** in the From field and ***January 27, 2016*** in the To field. Click on ***Modify Report*** and unselect ***Trans#***, ***Type,*** and ***Num.***, and click ***OK***. Then click the ***Refresh*** button. For columns in which copy is getting truncated, you may wish to expand the width of the column. Do this by placing the cursor on the diamonds between the column heads, and when it turns to a cross with left and right arrows, drag the cross right to expand the width of the column. To print the report, click on the ***Print*** button.

3. Make corrections if necessary.

To correct general journal entries, click the ***Previous*** button in the General Journal window until the transaction you wish to correct appears. Make the needed changes and click ***Save and New*** or ***Save and Close*** as appropriate. Click ***Yes*** when asked to verify the change. To delete an entry, right click while the cursor is anywhere in the entry and select ***Delete General Journal*** (only the current entry will be deleted). Click ***Yes*** when asked to verify the deletion.

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4. Generate a pre-adjusted Trial Balance report.

From the Reports menu, select ***Accountant & Taxes*** and then ***Trial Balance***. When the Trial Balance window appears, click on ***Modify Report***. select ***January 1, 2016*** in the From field and ***January 31, 2016*** in the To field (be sure to select dates of the year used for Part 2 journal entries). Click on the ***Advanced*** button in the Modify Report window and under Display Rows, select ***Non-zero***. Click ***OK*** to close the Advance Options window, and then click ***OK*** again to close the Modify Reports window. Then click the ***Refresh*** button to display the report with the new settings. To print the report, click on the ***Print*** button.

5. Prepare adjusting entries for January.

Using the Trial Balance report and the adjustment information provided in the text, enter the adjusting entries in the General Journal. For each entry, key "Adjusting Entry" in the Memo column. Remember to use the Inventory Adjustment account for the Merchandise Inventory adjustment, as described in Part 1, Step 7.

6. Generate an adjusted Trial Balance report.

Generate the Trial Balance report as instructed in Step 4.

7. Generate a schedule of accounts payable.

From the ***Reports*** menu, select ***Vendors & Payables*** and then ***Vendor Balance Summary***. When the Vendor Balance Summary window appears, click on ***Modify Report***. Select ***January 1, 2016*** in the From field and ***January 31, 2016*** in the To field. Click ***OK*** to close the Modify Reports window. Then click the ***Refresh*** button to display the report with the new settings. To print the report, click on the ***Print*** button.

8. Generate a schedule of accounts receivable.

From the ***Reports*** menu, select ***Customers & Receivables*** and then ***Customer Balance Summary***. When the Vendor Balance Summary window appears, select ***January 1, 2016*** in the From field and ***January 31, 2016*** in the To field. Then click the ***Refresh*** button (or press Enter). To print the report, click on the ***Print*** button.

9. Generate an income statement.

From the ***Reports*** menu, select ***Company & Financial*** and then ***Profit & Loss Standard***. When the Profit and Loss window appears, select ***January 1*** in the From field and ***January 31*** in the To field. Then click the ***Refresh*** button (or press Enter). To print the report, click on the ***Print*** button.

10. Generate a statement of owner's equity

The statement of owner's equity is not a standard option. To display the desired information, customize a Balance Sheet report. From the ***Reports*** menu, select ***Company & Financial*** and then ***Balance Sheet Standard***. When the Balance Sheet window appears, select ***January 31, 2016*** in the As of field. Click the ***Refresh*** button (or press Enter). Then click on ***Modify Report*** and the ***Filters Tab***. In the Account drop-down list, select ***All equity and income/expense*** and click ***OK***. To print the report, click on the ***Print*** button.

11. Prepare closing entries for January, 2016.

Using information from the adjusted Trial Balance report, enter the closing entries in the General Journal. For each entry, key "Closing Entry" in the Memo column.

12. Generate a post-closing Trial Balance report.

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Generate the Trial Balance report as instructed in Step 4.

13. Generate a Balance Sheet report.

From the ***Reports*** menu, select ***Company & Financial*** and then ***Balance Sheet Standard***. When the Balance Sheet window appears, select ***January 31, 2016*** in the As of field. Click the ***Refresh*** button (or press Enter). To print the report, click on the ***Print*** button.

14. Save a backup file of your work.

From the ***File*** menu, select ***Save copy or backup***. Select ***Backup copy*** and click ***Next***. Select ***Local backup*** and click ***Next***. Select ***Save it now*** and click ***Next***. Choose the drive/folder in which you want to save your work and key a file name, such as ***TJ's Specialty Shop CP2 Jan Your Name (Backup).QBB*** , and click ***Save.*** Submit your backup file to your instructor if requested.

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COMPREHENSIVE PROBLEM 2: ACCOUNTING CYCLE WITH SUBSIDIARY LEDGERS
SPECIAL JOURNALS INSTRUCTIONS

PART 1: DECEMBER

1. **Restore the file TJ's Specialty Shop CP2 Special Journals (Backup).QBB.**

   From the ***File*** menu**,** click ***Open or Restore Company*****.** Select ***Restore a backup copy*** and click ***Next*****.** Select ***Local backup,*** and then select ***TJ's Specialty Shop CP2 Special Journals (Backup).QBB*** from the CD on which your data files are provided. Click ***Next*** when the Open or Restore Company window appears. Key a new file name of ***TJ's Specialty Shop CP2 Special Journals Your Name.QBW*** (for example, TJ's Specialty Shop CP2 Special Journals John Doe.QBW).

2. **The accounts listed in your text for this problem have already been opened for you.**

   To view the Chart of Accounts, select ***Chart of Accounts*** from the ***Lists*** menu or click on ***Chart of Accounts*** under ***Company*** from the home page. To view a list of customer accounts, click on ***Customer Center*** and select the ***Customers & Jobs*** tab. All active customers will be listed at the left of the window. To view a list of vendor accounts, click on ***Vendor Center*** and select the ***Vendors*** tab. All active vendors will be listed at the left of the window.

3. **Enter the December 16-30 transactions as follows:**

   a. **For cash receipts:**

      (1) **From customers on account:** Select ***Receive Payments*** from the ***Customers*** menu. (If prompted to complete an interview, click ***No***.) In the ***Received From*** field, select a customer from the drop-down list. Enter/select a date in the ***Date*** field. (**Caution:** For all Part 1 transactions, be sure to choose a date for December ***2015***.) In the ***Memo*** field, key ***Cash Receipt*** (key in exactly this way for all transactions to aid in generating the Cash Receipts Journal report later). In the ***Deposit to*** field, select ***Cash***. (If asked if you want QuickBooks to automatically determine payment amounts, click ***No***.) Key the amount received in the ***Amount*** field, which should also automatically populate the ***Payment*** column/field below, but if necessary, key the amount in both places. All other fields may be left blank. (If alerted that the payment is less than the full amount owed, select to ***Leave this as an underpayment***.) Click ***Save & Close***.

      (2) **From cash customers:** Enter this transaction in the general journal, as described for "e. To record all other transactions" below. In the ***Memo*** field, key ***Cash Receipt*** (key in exactly this way for all transactions to aid in generating the Cash Receipts Journal report later).

      Your first cash receipt on account transaction should appear as follows:

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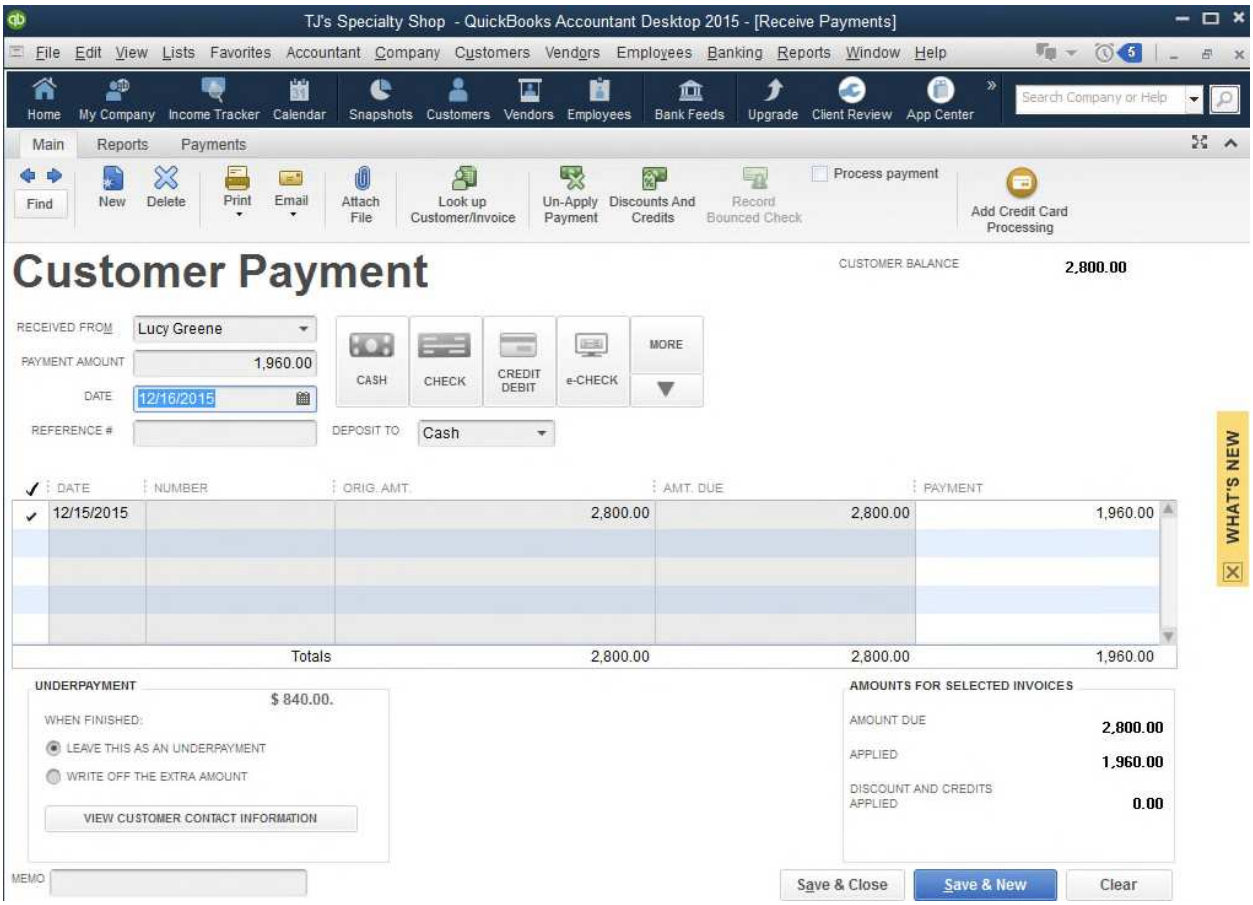
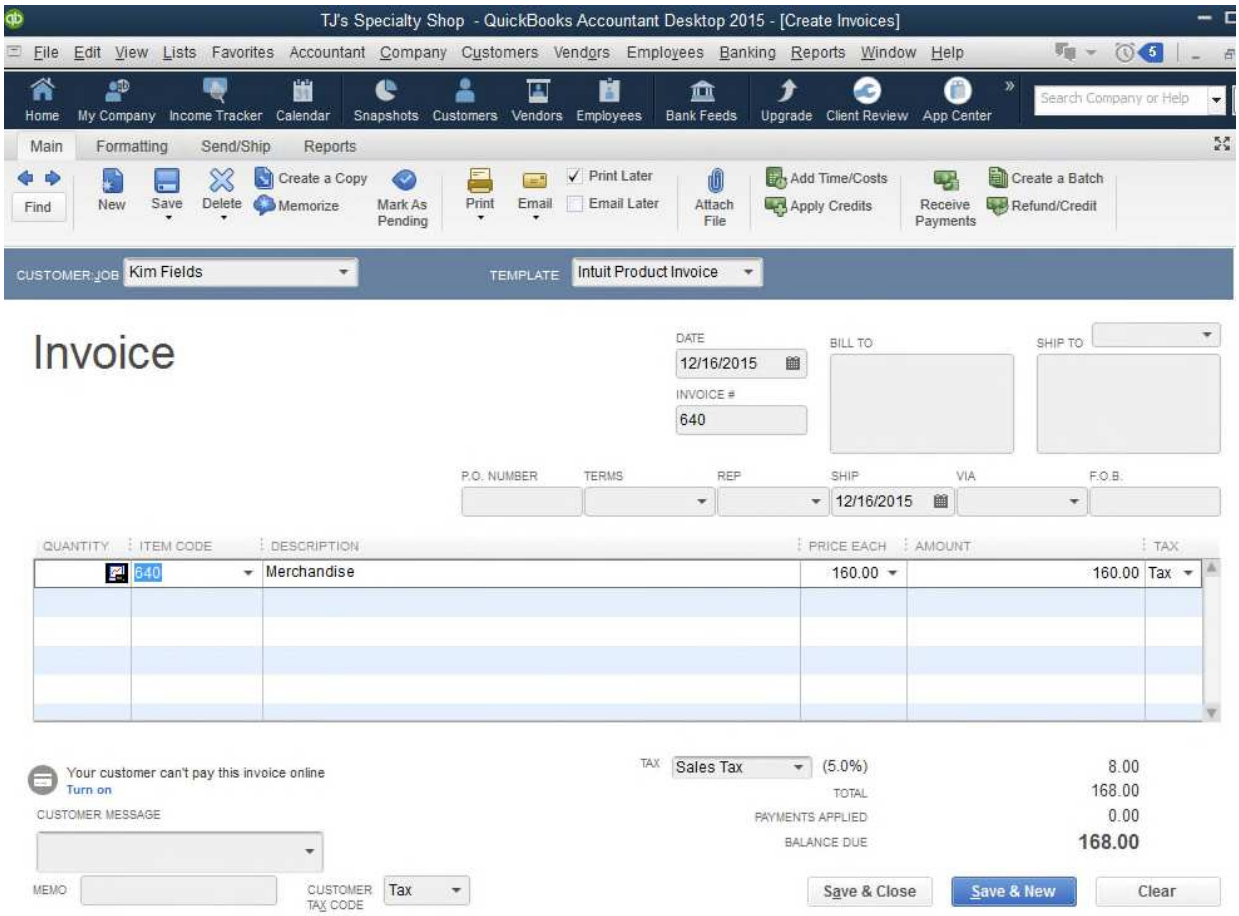


b. For sales on account:

Select ***Create Invoices*** from the ***Customers*** menu. In the ***Customer*** field, select a customer from the drop-down list. Enter/select a date in the ***Date*** field. (**Caution:** For all Part 1 transactions, be sure to choose a date for December ***2015***.) Key the invoice number in the ***Invoice #*** field. Key a ***1*** in the ***Qty.*** field. In the ***Item Code*** field, select the code for the group of merchandise that matches the invoice number (for Invoice 640, this is Item Code ***640***). The description, price, tax, and total invoice amount should immediately be entered/calculated for you. (If sales tax is not included, be sure ***Tax*** is selected in the ***Tax*** column (at right of Amount column) and ***Sales Tax*** is selected in ***Tax*** field near bottom.) All other fields may be left blank. Click ***Save & Close***.

Your first sale on account transaction should appear as follows:

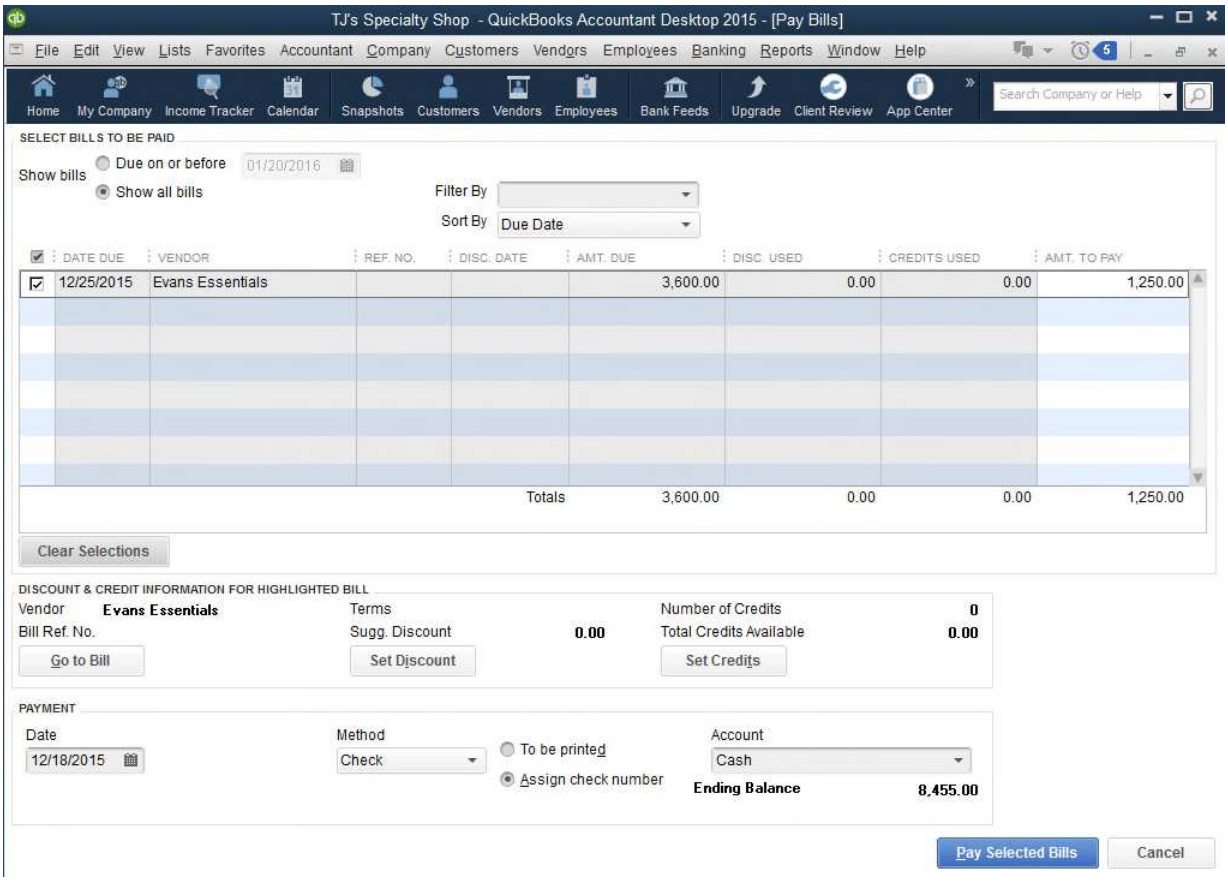


c. For cash payments:

(1) to vendors on account:

Select ***Pay Bills*** from the ***Vendors*** menu. Select the vendor you wish to pay from the ***Vendor*** list. If there is a credit to apply indicated in the lower portion of the window (from a purchases return), click ***Set Credits***. If a discount applies, click on ***Set Discount***. In the ***Set Discount*** window, enter the amount of the discount and select ***Purchases Discounts*** as the discount account. Click ***Done***. Enter the amount in the ***Amt. to Pay*** column (at far right). (**Note**: It is okay if the amount being paid is less than the indicated total amount owed to the selected vendor. Overwrite a computer-generated amount to pay if necessary.) In the fields at the bottom of the window, enter/select the date (**caution:** for all Part 1 transactions, be sure to choose a date for December ***2015***), the method (***Check***), and account (***Cash***). Select ***Assign check number***. Click on the ***Pay Selected Bills*** button. When the ***Assign Check Numbers*** window appears, select ***Let me assign check numbers*** and key in the check number. Click ***OK***.

Your first cash payment to a vendor on account should appear as follows:

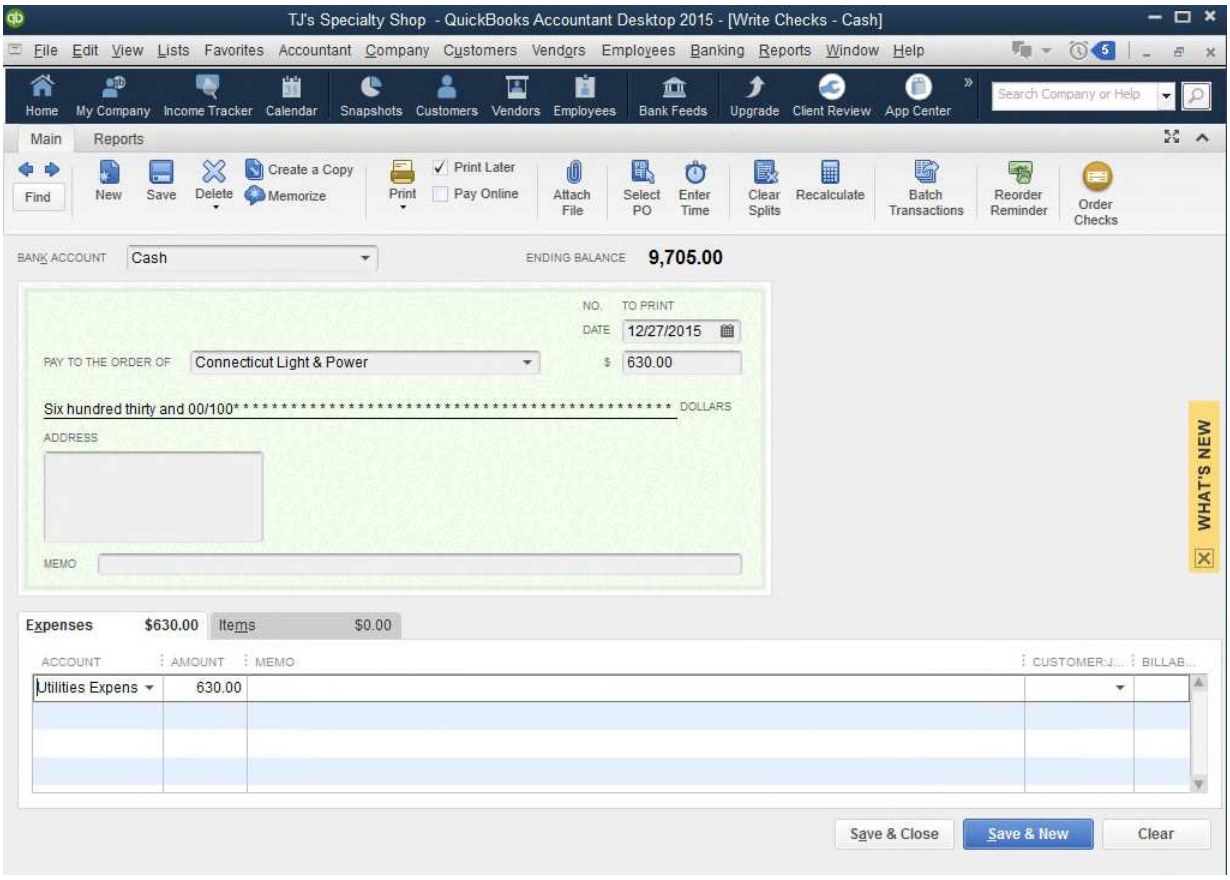


(2) to pay other bills: Select ***Write Checks*** from the ***Banking*** menu. Make sure the ***Bank Account*** field shows ***Cash***. For ***Pay to the Order of***, select a payee from the list as follows:

Item	Payee
For supplies	Simsbury Supplies
For utilities	Connecticut Power & Light
For telephone	Concom Communications
For wages	Payroll Cash

Key the check number in the ***No***. field (if this field is not available for entry, unselect "To be printed" below). Key the amount in the ***$*** field. In the ***Account*** column, select the account to be debited from the drop-down list. Leave all other fields blank. Click ***Save & Close***.

You first cash payment to pay another bill should appear as follows:



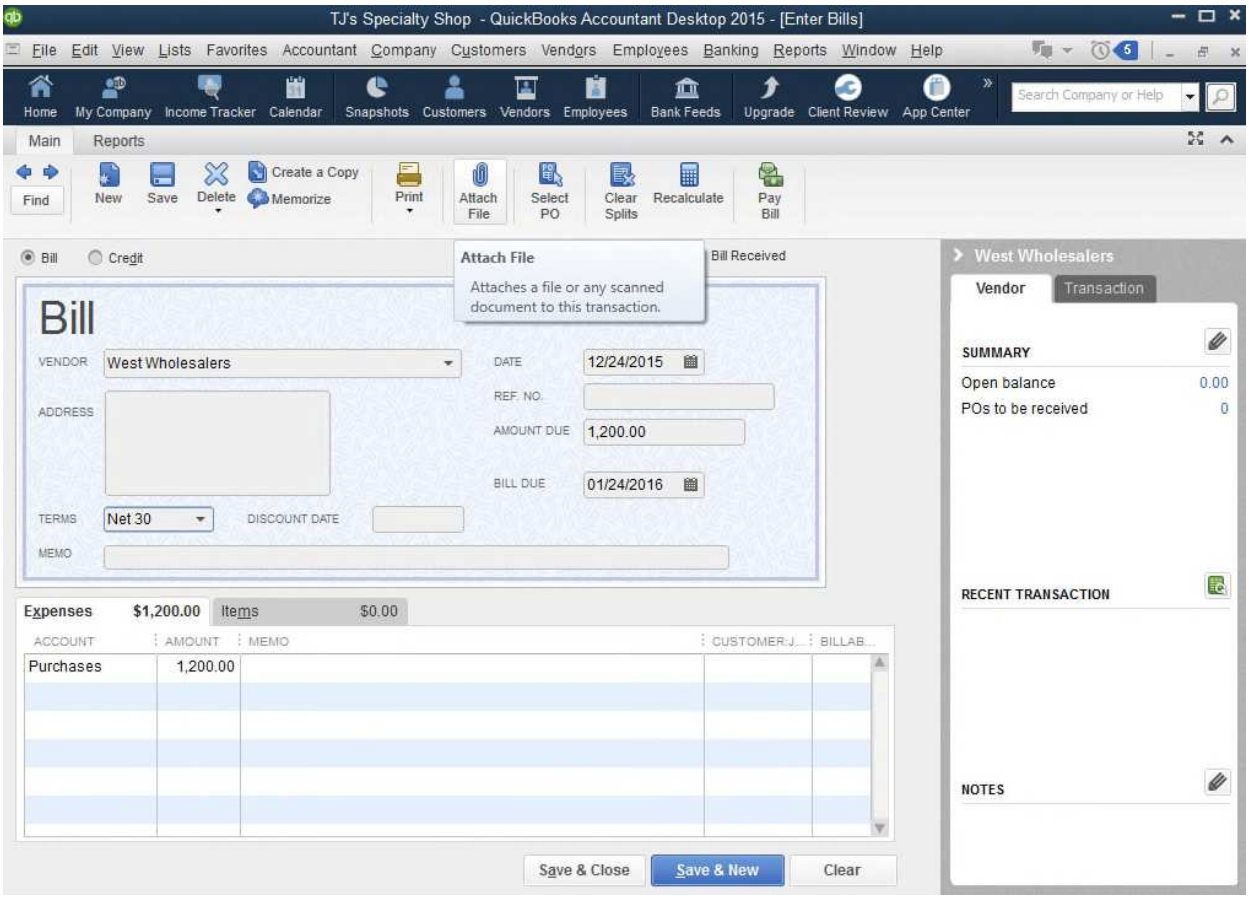
(3) For a cash purchase of merchandise to be resold:

Select ***Write Checks*** from the ***Banking*** menu. Make sure the ***Bank Account*** field shows ***Cash***. For ***Pay to the Order of***, select ***<Add New>*** and ***Vendor***. Enter the name of the new vendor (i.e., ***Meyers Trophy Shop***). Key the check number in the ***No***. field (if this field is not available for entry, unselect "To be printed" below). Key the amount in the ***$*** field. In the ***Account*** column, select the account ***Purchases*** from the drop-down list. Leave all other fields blank. Click ***Save & Close***.

d. To record a purchase on account:

Select ***Enter Bills*** from the ***Vendors*** menu. Select a vendor from the ***Vendor*** drop-down list. Enter/select a date in the ***Date*** field. (**Caution:** For all Part 1 transactions, be sure to choose a date for December ***2015***.) Enter the invoice number in the ***Ref. No.*** field. Enter the amount of the purchase in the ***Amount Due*** field. Select the terms from the drop-down list in the ***Terms*** field. Click on ***the Expenses*** tab; the amount of the purchase should appear by the Purchases account (select the account if necessary). All other fields may be left blank. Click ***Save & Close***.

Your first purchase on account transaction should appear as follows:



e. To record all other transactions:

From the ***Company*** menu, select ***Make General Journal Entries***. When a message window appears, click ***OK***. Key the date of the transaction in the ***Date*** field, or click on the calendar icon and select the date. Click in the ***Account*** column and select the account to be debited from the drop-down list. Tab to the ***Debit*** column and key the amount. Tab to the ***Memo*** column and key an explanation to the entry. Tab to the ***Name*** column and select a customer or vendor from the drop-down list if applicable. Tab to the next row and in the ***Account*** field, select the account to be credited. Tab over and enter the amount in the ***Credit*** column. Select a customer or vendor from the drop-down list if applicable. Click ***Save and Close***. (If a Retained Earnings or Fixed Assets alert window pops up, click ***OK*** and continue.) For all Sales Tax Payable transactions, you must select a vendor; assume all taxes will be paid through Connecticut State Bank.

4. Generate special journal reports.

a. From the ***Reports*** menu, select ***Memorized Reports*** and then ***Sales Journal***. Be sure the ***From*** and ***To*** dates are set from ***12/16/2015*** to ***12/31/2015***. If not, change these dates and click ***Refresh***. To print the report, click on the ***Print*** button.

b. From the ***Reports*** menu, select ***Memorized Reports*** and then ***Cash Receipts Journal***. Be sure the ***From*** and ***To*** dates are set from ***12/16/2015*** to ***12/31/2015***. If not, change these dates and click ***Refresh***. To print the report, click on the ***Print*** button.

c. From the ***Reports*** menu, select ***Memorized Reports*** and then ***Purchases Journal***. Be sure the ***From*** and ***To*** dates are set from ***12/16/2015*** to ***12/31/2015***. If not, change these dates and click

Refresh. To print the report, click on the ***Print*** button.

d. From the ***Reports*** menu, select ***Memorized Reports*** and then ***Cash Payments Journal***. Be sure the ***From*** and ***To*** dates are set from ***12/16/2015*** to ***12/31/2015***. If not, change these dates and click ***Refresh***. To print the report, click on the ***Print*** button.

5. Generate a General Journal report.

From the ***Reports*** menu, select ***Accountant & Taxes*** and then ***Journal***. When the Journal report appears, click on ***Modify Report.*** Select ***12/16/2015*** in the ***From*** field and ***12/31/2015*** in the ***To*** field. Unselect ***Trans#***, ***Type***, and ***Num.*** Click on ***Filters*** and select ***Transaction Type*** and ***Journal***. Click ***OK***. Then click the ***Refresh*** button. For columns in which copy is getting truncated, you may wish to expand the width of the column. Do this by placing the cursor on a diamond between the column heads, and when it turns to a cross with left and right arrows, drag the cross right to expand the width of the column. To print the report, click on the ***Print*** button.

6. Make corrections if necessary.

To make corrections, go back to the window of original entry, click the ***Previous*** button until the transaction you wish to correct appears. Make the needed changes and click ***Save and New*** or ***Save and Close*** as appropriate. Click ***Yes*** when asked to verify the change. To delete an entry, right click while the cursor is anywhere in the entry and select ***Delete*** (only the current entry will be deleted). Click ***Yes*** when asked to verify the deletion.

7. Generate a pre-adjusted Trial Balance report.

From the Reports menu, select ***Accountant & Taxes*** and then ***Trial Balance***. When the Trial Balance window appears, click on ***Modify Report***. Select ***12/16/2015*** on the ***From*** field and ***12/31/2015*** in the ***To*** field. Click on the ***Advanced*** button in the Modify Report window and under Display Rows, select ***Non-zero***. Click ***OK*** to close the Advance Options window, and then click ***OK*** again to close the Modify Reports window. Then click the ***Refresh*** button to display the report with the new settings. To print the report, click on the ***Print*** button.

8. Prepare adjusting entries for the year ended December 31.

Using the Trial Balance report and the adjustment information provided in the text, enter the adjusting entries in the General Journal. For each entry, key ***Adjusting Entry*** in the ***Memo*** column. In QuickBooks, you will need to adjust inventory in a different manner than shown in the text. First, determine the amount of the adjustment by deducting the new inventory balance from the old inventory balance. In the General Journal window, click on the ***Account*** drop-down list and select ***<Add New>***. Select ***Other Account Types*** and ***Cost of Goods Sold***. Click ***Continue***, and then key ***Inventory Adjustment*** as the new account name. Click ***Save & Close***. Continue entering the journal entry, debiting Inventory Adjustment and crediting Merchandise Inventory for the adjustment amount.

9. Generate an adjusted Trial Balance report.

Generate the Trial Balance report as instructed in Step 7.

10. Generate a schedule of accounts payable.

From the ***Reports*** menu, select ***Vendors & Payables*** and then ***Vendor Balance Summary***. When the Vendor Balance Summary window appears, click on ***Modify Report***. Select ***12/16/2015*** in the ***From*** field and ***12/31/2015*** in the ***To*** field. For Sort by and Sort in options, select ***Total*** and ***Descending Order***. Click ***OK*** to close the Modify Reports window. Then click the ***Refresh*** button to display the report with the new settings. To print the report, click on the ***Print*** button.

11. Generate a schedule of accounts receivable.

From the ***Reports*** menu, select ***Customers & Receivables*** and then ***Customer Balance Summary***. When the Vendor Balance Summary window appears, select ***12/16/2015*** in the From field and ***12/31/2015*** in the To field. Then click the ***Refresh*** button (or press Enter). To print the report, click on the ***Print*** button.

12. Generate an income statement.

From the ***Reports*** menu, select ***Company & Financial*** and then ***Profit & Loss Standard***. When the Profit and Loss window appears, click on ***Modify Report***. Select ***12/16/2015*** in the ***From*** field and ***12/31/2015*** in the ***To*** field. Click on the ***Advanced*** button and set Display Rows to ***Non-Zero***. Click ***OK*** to close the Advanced window and click ***OK*** again to close the Modify Reports window. Then click the ***Refresh*** button to display the report with the new settings. To print the report, click on the ***Print*** button.

13. Generate a statement of owner's equity

The statement of owner's equity is not a standard option. To display the desired information, customize a Balance Sheet report. From the ***Reports*** menu, select ***Company & Financial*** and then ***Balance Sheet Standard***. When the Balance Sheet report appears, select ***12/31/2015*** in the ***As of*** field. Click on ***Modify Report*** and the ***Filters*** tab. In the ***Account*** drop-down list, select ***All equity and expense*** and click ***OK***. Click the ***Refresh*** button to display the report with the new settings. To print the report, click on the ***Print*** button.

14. Prepare closing entries for the year ended December 31.

Using information from the adjusted Trial Balance report, enter the closing entries in the General Journal. For each entry, key ***Closing Entry*** in the ***Memo*** column. Remember to include the newly added Inventory Adjustment account in the closing entries.

15. Generate a post-closing Trial Balance report.

Generate the Trial Balance report as instructed in Step 7.

16. Generate a Balance Sheet report.

From the ***Reports*** menu, select ***Company & Financial*** and then ***Balance Sheet Standard***. When the Balance Sheet window appears, select ***12/31/2015*** in the ***As of*** field. Click the ***Refresh*** button (or press Enter). To print the report, click on the ***Print*** button.

17. Enter the reversing entry in the General Journal.

Reverse the adjusting entry for wages payable. Key "Reversing Entry" in the Memo column.

18. Save a backup file of your work.

From the ***File*** menu, select ***Save copy or backup***. Select ***Backup copy*** and click ***Next***. Select ***Local backup*** and click ***Next***. Select ***Save it now*** and click ***Next***. Choose the drive/folder in which you want to save your work and key a file name, such as ***TJ's Specialty Shop CP2 Special Journals Dec Your Name (Backup).QBB***, and click ***Save.*** Submit your backup file and/or report printouts to your instructor if requested.

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PART 2: JANUARY

1. **Enter the January 1-27 transactions.**

   Following the procedures you used in December (Step 3), EXCEPT use dates for January ***2016***.

2. **Generate special journal reports.**

   a. From the ***Reports*** menu, select ***Memorized Reports*** and then ***Sales Journal***. Modify the report by selecting ***01/01/2016*** in the ***From*** field and ***01/31/2016*** in the To field. Click ***Refresh***. To print the report, click on the ***Print*** button.

   b. From the ***Reports*** menu, select ***Memorized Reports*** and then ***Cash Receipts Journal***. Modify the report by selecting ***01/01/2016*** in the ***From*** field and ***01/31/2016*** in the To field. Click ***Refresh***. To print the report, click on the ***Print*** button.

   c. From the ***Reports*** menu, select ***Memorized Reports*** and then ***Purchases Journal***. Modify the report by selecting ***01/01/2016*** in the ***From*** field and ***01/31/2016*** in the To field. Click ***Refresh***. To print the report, click on the ***Print*** button.

   d. From the ***Reports*** menu, select ***Memorized Reports*** and then ***Cash Payments Journal***. Modify the report by selecting ***01/01/2016*** in the ***From*** field and ***01/31/2016*** in the To field. Click ***Refresh***. If some entered cash payments are missing, click on ***Write Checks*** from the ***Banking*** menu and using the ***Previous*** button, review all cash payments you've issued and ensure "Cash Payment" is included in the ***Memo*** field. To print the report, click on the ***Print*** button.

3. **Generate a General Journal report.**

   From the ***Reports*** menu, select ***Accountant & Taxes*** and then ***Journal***. When the Journal report appears, click on ***Modify Report.*** Select ***01/13/2016*** in the ***From*** field and ***01/31/2016*** in the To field. Unselect ***Trans#***, ***Type***, and ***Num***. Click on the Filters tab and select ***Transaction Type*** and ***Journal***. Click ***OK***. Then click the ***Refresh*** button to display the report with the new settings. For columns in which copy is getting truncated, you may wish to expand the width of the column. Do this by placing the cursor on a diamond between the column heads, and when it turns to a cross with left and right arrows, drag the cross right to expand the width of the column. To print the report, click on the ***Print*** button.

4. **Make corrections if necessary.**

   To make corrections, go back to the window of original entry, click the ***Previous*** button until the transaction you wish to correct appears. Make the needed changes and click ***Save and New*** or ***Save and Close*** as appropriate. Click ***Yes*** when asked to verify the change. To delete an entry, right click while the cursor is anywhere in the entry and select ***Delete*** (only the current entry will be deleted). Click ***Yes*** when asked to verify the deletion.

5. **Generate a pre-adjusted Trial Balance report.**

   From the ***Reports*** menu, select ***Accountant & Taxes*** and then ***Trial Balance***. When the Trial Balance report appears, click on ***Modify Report***. Select ***01/01/2016*** in the ***From*** field and ***01/31/2016*** in the To field. Click on the ***Advanced*** button in the Modify Report window and under Display Rows, select ***Non-zero***. Click ***OK*** to close the Advance Options window, and then click ***OK*** again to close the Modify Reports window. Then click the ***Refresh*** button to display the report with the new settings. To print the report, click on the ***Print*** button.

6. **Prepare adjusting entries for January.**

   Using the Trial Balance report and the adjustment information provided in the text, enter the adjusting

entries in the General Journal. For each entry, key ***Adjusting Entry*** in the ***Memo*** column. Remember to use the Inventory Adjustment account for the Merchandise Inventory adjustment, as described in Part 1, Step 8.

7. Generate an adjusted Trial Balance report.

Generate the Trial Balance report as instructed in Step 5.

8. Generate a schedule of accounts payable.

From the ***Reports*** menu, select ***Vendors & Payables*** and then ***Vendor Balance Summary***. When the Vendor Balance Summary report appears, click on ***Modify Report***. Select ***01/01/2016*** in the ***From*** field and ***01/31/2016*** in the ***To*** field. For Sort by and Sort in options, select ***Total*** and ***Descending Order***. Click ***OK*** to close the Modify Reports window. Then click the ***Refresh*** button to display the report with the new settings. To print the report, click on the ***Print*** button.

9. Generate a schedule of accounts receivable.

From the ***Reports*** menu, select ***Customers & Receivables*** and then ***Customer Balance Summary***. When the Vendor Balance Summary window appears, select ***01/01/2016*** in the ***From*** field and ***01/31/2016*** in the ***To*** field. Then click the ***Refresh*** button (or press Enter). To print the report, click on the ***Print*** button.

10. Generate an income statement.

From the ***Reports*** menu, select ***Company & Financial*** and then ***Profit & Loss Standard***. When the Profit and Loss window appears, click on ***Modify Report***. Select ***01/01/2016*** in the ***From*** field and ***01/31/2016*** in the ***To*** field. Click on the ***Advanced*** button and set Display Rows to ***Non-Zero***. Click ***OK*** to close the Advanced window and click ***OK*** again to close the Modify Reports window. Then click the ***Refresh*** button to display the report with the new settings. To print the report, click on the ***Print*** button.

11. Generate a statement of owner's equity.

The statement of owner's equity is not a standard option. To display the desired information, customize a Balance Sheet report. From the ***Reports*** menu, select ***Company & Financial*** and then ***Balance Sheet Standard***. When the Balance Sheet report appears, select ***01/01/2016*** in the ***As of*** field. Click on ***Modify Report*** and the ***Filters*** tab. In the ***Account*** drop-down list, select ***All equity and expense*** and click ***OK***. Click the ***Refresh*** button to display the report with the new settings. To print the report, click on the ***Print*** button.

12. Prepare closing entries for January 2016.

Using information from the adjusted Trial Balance report, enter the closing entries in the General Journal. For each entry, key ***Closing Entry*** in the ***Memo*** column. Remember to include the Inventory Adjustment account in the closing entries.

13. Generate a post-closing Trial Balance report.

Generate the Trial Balance report as instructed in Step 5.

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14. Generate a Balance Sheet report.

From the ***Reports*** menu, select ***Company & Financial*** and then ***Balance Sheet Standard***. When the Balance Sheet window appears, select ***01/31/2016*** in the ***As of*** field. Click the ***Refresh*** button (or press Enter). To print the report, click on the ***Print*** button.

15. Save a backup file of your work.

From the ***File*** menu, select ***Save copy or backup***. Select ***Backup copy*** and click ***Next***. Select ***Local backup*** and click ***Next***. Select ***Save it now*** and click ***Next***. Choose the drive/folder in which you want to save your work and key a file name, such as ***TJ's Specialty Shop CP2 Special Journals Jan Your Name (Backup).QBB***, and click ***Save.*** Submit your backup file and/or report printouts to your instructor if requested.

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Part 2: December 19-31

Trey's Fast Cleaning Service
Bank Reconciliation
12/27/2014

Checkbook Balance			24,662.32

Adjusted Checkbook Balance			24,662.32
			==========
Bank Statement Balance			22,542.05
Plus Outstanding Deposits:			
		8,075.00	

			8,075.00
Less Outstanding Checks:			
	C482	23.90	
	C487	53.00	
	C488	72.83	
	C489	75.00	
	C490	100.00	
	C491	35.00	
	C492	50.00	
	C493	5,310.00	
	C494	235.00	

			5,954.73

Adjusted Bank Balance			24,662.32
			==========

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Trey's Fast Cleaning Service
Trial Balance
12/31/2014

Account Number	Account Title	Debit	Credit
101	Cash	24,834.05	-
105	Petty Cash	625.00	-
110	Accounts Receivable	3,260.00	-
141	Cleaning Supplies	12,738.90	-
142	Office Supplies	7,884.83	-
150	Prepaid Insurance	1,270.00	-
181	Office Equipment	29,224.00	-
182	Accum.Depr.-Office Equip.	-	6,260.00
188	Vehicles	70,670.00	-
189	Accum.Depr.-Vehicles	-	24,280.00
201	Accounts Payable	-	685.89
311	Trey Anderson, Capital	-	62,500.00
312	Trey Anderson, Drawing	65,364.37	-
401	Service Revenue	-	204,656.70
512	Advertising Expense	1,454.35	-
521	Rent Expense	25,800.00	-
522	Salary Expense	36,790.00	-
525	Telephone Expense	1,854.40	-
534	Charitable Contr. Expense	1,540.00	-
535	Insurance Expense	4,326.00	-
538	Vehicles Expense	8,961.17	-
549	Miscellaneous Expense	1,785.52	-
		---	---
	Totals	298,382.59	298,382.59
		==========	==========

Trey's Fast Cleaning Service
Schedule of Accounts Receivable
12/31/14

Name	Balance
L&T Tanning Salon	1,570.00
Petegry	840.00
Shore to Shore Realty	850.00

Total	3,260.00
	==========

Trey's Fast Cleaning Service
Schedule of Accounts Payable
12/31/14

Name	Balance
Computer Specialists	184.64
Olympia Supplies	201.25
Topper Supply Co.	300.00

Total	685.89
	==========

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Trey's Fast Cleaning Service
General Journal
12/31/2014 (before adjustments)

Date	Refer.	Acct.	Title	Debit	Credit	Vendor	Customer
12/19		101	Cash	1,450.00			
		110	Accounts Receivable		1,450.00		Shore to Shore Realty
12/19		110	Accounts Receivable	840.00			Petegry
		401	Service Revenue		840.00		
12/20	C487	312	Trey Anderson, Drawing	53.00			
		101	Cash		53.00		
12/20		101	Cash	1,265.00			
		110	Accounts Receivable		1,265.00		Stars and Stripes Inc.
12/20	C488	201	Accounts Payable	72.83		Jack Dandy Supply Co.	
		101	Cash		72.83		
12/21		101	Cash	550.00			
		401	Service Revenue		550.00		
12/21	C489	549	Miscellaneous Expense	75.00			
		101	Cash		75.00		
12/21	C490	312	Trey Anderson, Drawing	100.00			
		101	Cash		100.00		
12/22		101	Cash	1,270.00			
		110	Accounts Receivable		1,270.00		Studio Line
12/22		101	Cash	1,740.00			
		401	Service Revenue		1,740.00		
12/23	C491	549	Miscellaneous Expense	35.00			
		101	Cash		35.00		
12/23		101	Cash	1,800.00			
		110	Accounts Receivable		1,800.00		Refreshing Waters Inc.
12/23	C492	534	Charitable Contr. Expense	50.00			
		101	Cash		50.00		
12/24	C493	312	Trey Anderson, Drawing	5,310.00			
		101	Cash		5,310.00		
12/24	C494	522	Salary Expense	235.00			
		101	Cash		235.00		

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(continued)

12/27		110	Accounts Receivable	1,570.00			L&T Tanning Salon
		401	Service Revenue		1,570.00		
12/29	C495	538	Vehicles Expense	615.20			
		101	Cash		615.20		
12/29		101	Cash	2,950.00			
		110	Accounts Receivable		2,950.00		Klyn & Stanford
12/29		101	Cash	730.00			
		401	Service Revenue		730.00		
12/30	C496	201	Accounts Payable	256.75		Sunshine Cleaners	
		101	Cash		256.75		
12/30	C497	538	Vehicles Expense	57.50			
		101	Cash		57.50		
12/31	C498	312	Trey Anderson, Drawing	255.15			
		101	Cash		255.15		
12/31	C499	522	Salary Expense	1,340.00			
		101	Cash		1,340.00		
12/31	C500	522	Salary Expense	425.00			
		101	Cash		425.00		
12/31	C501	312	Trey Anderson, Drawing	115.00			
		525	Telephone Expense	11.30			
		534	Charitable Contr. Expense	150.00			
		538	Vehicles Expense	129.50			
		549	Miscellaneous Expense	152.87			
		101	Cash		558.67		
				---	---		
			Totals	23,604.10	23,604.10		
				==========	==========		

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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, Part 1

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

MUST BE "OWNED"

NOT RENTED

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Assets, Part 2

- 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, Part 3

- 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, Part 1

- 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, Part 2

- 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, Part 1

Assets = Liabilities + Owner's Equity

The left side shows the assets.

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The Accounting Equation, Part 2

Assets = Liabilities + Owner's Equity

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

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Example, Part 1

- 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, Part 2

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

ASSETS – LIABILITES = 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, Part 1

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

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Question #2, Part 1

- **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, Part 2

- **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, Part 1

- Determine which accounts have increased or decreased.

INCREASED	*INCREASED*
CASH	R.M., CAPITAL

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Question #3B, Part 1

- 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, Part 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, Part 2

- Determine which accounts have increased or decreased.

INCREASED	*DECREASED*
DELIVERY EQUIPMENT **ASSET**	CASH **ASSET**

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Question #3B, Part 2

- 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, Part 3

- 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, Part 1

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, Part 2

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

RIGHT SIDE OF EQUATION:

LIABILITES $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, Part 3

- **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, Part 3

- **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, Part 3

- Determine which accounts have increased or decreased.

DEL. EQUIP. **ASSET**	ACCOUNTS PAYABLE **LIABILITY**
INCREASED	*INCREASED*

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Question #3B, Part 4

- 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, Part 5

- 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, Part 3

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, Part 4

	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, Part 4

- **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

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Question #3A, Part 4

- Determine which accounts have increased or decreased.

CASH
ASSET

DECREASED

ACCOUNTS PAYABLE
LIABILITY

DECREASED

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Question #3B, Part 6

- 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, Part 7

- 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, Part 5

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, Part 6

	LIABILITIES ACCTS. PAY.	OWNER'S EQUITY 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, Part 1

- 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, Part 2

- **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, Part 1

- 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, Part 2

- **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, Part 5

- **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, Part 5

- Determine which accounts have increased or decreased.

INCREASED

DELIVERY FEES

INCREASED

CASH

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Question #3B, Part 8

- 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

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Proving the Accounting Equation Balances, Part 7

ASSETS

	CASH	DEL. EQUIP.
BAL.	$ 500	$2,100
	+ 500	
BAL.	$ 1,000	$2,100

$3,100

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Proving the Accounting Equation Balances, Part 8

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

$3,100

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Expense Example Question #1, Part 1

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

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Question #2, Part 6

- **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, Part 6

- Determine which accounts have increased or decreased.

INCREASED	*DECREASED*
RENT EXPENSE	CASH

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Question #3A, Part 7

- 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, Part 9

- 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, Part 9

ASSETS

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

$2,900

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Proving the Accounting Equation Balances, Part 10

	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

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Expense Example Question #1, Part 2

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

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Question #2, Part 7

- **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 #3A, Part 8

- Determine which accounts have increased or decreased.

INCREASED	*DECREASED*
PHONE EXPENSE	CASH

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Question #3B, Part 10

- 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, Part 11

ASSETS

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

$2,850

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Proving the Accounting Equation Balances, Part 12

	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

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Revenue On Account Example

- Rohan performed $600 of delivery services on account.

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Question #1, Part 4

- **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, Part 8

- **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, Part 9

- Determine which accounts have increased or decreased.

INCREASED

DELIVERY FEES

INCREASED

ACCOUNTS RECEIVABLE

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Question #3B, Part 11

- 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, Part 13

ASSETS

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

$3,450

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Proving the Accounting Equation Balances, Part 14

	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

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

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Purchase Of Supplies Example Question #1

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

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Question #2, Part 9

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

SUPPLIES	CASH
ASSET	**ASSET**

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Question #3A, Part 10

- Determine which accounts have increased or decreased.

INCREASED	*DECREASED*
SUPPLIES **ASSET**	CASH **ASSET**

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Question #3B, Part 12

- 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, Part 15

ASSETS

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

$3,450

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Proving the Accounting Equation Balances, Part 16

	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, Part 10

- **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, Part 11

- Determine which accounts have increased or decreased.

INCREASED	*DECREASED*
PREPAID INSURANCE **ASSET**	CASH **ASSET**

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Question #3B, Part 13

- 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, Part 17

ASSETS

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

$3,450

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Proving the Accounting Equation Balances, Part 18

	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, Part 5

- **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, Part 11

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

CASH	ACCOUNTS RECEIVABLE
ASSET	**ASSET**

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Question #3A, Part 12

- Determine which accounts have increased or decreased.

INCREASED	*DECREASED*
CASH	ACCOUNTS RECEIVABLE

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Question #3B, Part 14

- 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, Part 19

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

$3,450

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Proving the Accounting Equation Balances, Part 20

	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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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, Part 6

- **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, Part 12

- **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, Part 13

- Determine which accounts have increased or decreased.

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

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Question #3B, Part 15

- 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, Part 21

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

$4,650

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Proving the Accounting Equation Balances, Part 22

	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

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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, Part 13

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

WAGES EXPENSE	CASH
O.E. EXPENSE	**ASSET**

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Question #3A, Part 14

- Determine which accounts have increased or decreased.

INCREASED	*DECREASED*
WAGES EXPENSE	CASH

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Question #3B, Part 16

- 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, Part 23

ASSETS

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

$4,000

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Proving the Accounting Equation Balances, Part 24

	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

$1,800 + $2,000 + $1,100 – $900 = $4,000

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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, Part 14

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

CASH	ACCTS. REC.	DELIVERY FEES
ASSET	**ASSET**	**O.E. REVENUE**

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Question #3A, Part 15

- Determine which accounts have increased or decreased.

INCREASED	*INCREASED*	*INCREASED*
CASH **ASSET**	ACCTS. REC. **ASSET**	DELIVERY FEES **O.E. REVENUE**

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Question #3B, Part 17

- 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, Part 25

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

$5,050

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Proving the Accounting Equation Balances, Part 26

	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

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Cash Withdrawal Example

- Rohan withdrew $150 for personal expenses.

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Question #1, Part 7

- **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, Part 15

- **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, Part 16

- Determine which accounts have increased or decreased.

INCREASED	*DECREASED*
R.M., DRAWING	CASH

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Question #3A, Part 17

- 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, Part 18

- 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, Part 27

ASSETS

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

$4,900

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Proving the Accounting Equation Balances, Part 28

	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--, Part 1

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--, Part 2

This column is used for listing items to be totaled.

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Rohan's Campus Delivery Income Statement
For Month Ended June 30, 20--, Part 3

This column is used for totals.

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Rohan's Campus Delivery Income Statement
For Month Ended June 30, 20--, Part 4

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--, Part 5

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--, Part 6

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--, Part 7

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--, Part 1

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---, Part 2

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--, Part 3

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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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--, Part 1

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--, Part 2

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

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

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Output, Part 1

INCOME STATEMENT

REVENUES

–

EXPENSES

=

NET INCOME

STATEMENT OF OWNER'S EQUITY

BEGINNING CAPITAL

+

INVESTMENTS

+

NET INCOME

–

WITHDRAWALS

=

ENDING CAPITAL

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Output, Part 2

BALANCE SHEET

ASSETS

=

LIABILITES

+

OWNER'S EQUITY
(Ending Capital)

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