

B-02.02

Review the following list of accounts, and indicate the debit/credit rules for the account, as well as the account's normal balance. The first one is done as an example.

| | <u>INCREASED</u> <u>WITH A:</u> | <u>DECREASED</u> <u>WITH A:</u> | <u>NORMAL</u> <u>BALANCE:</u> |
|-------------------------|------------------------------------|------------------------------------|----------------------------------|
| (a) Cash | Debit | Credit | Debit |
| (b) Capital Stock | | | |
| (c) Accounts Payable | | | |
| (d) Revenues | | | |
| (e) Rent Expense | | | |
| (f) Equipment | | | |
| (g) Dividends | | | |
| (h) Utilities Expense | | | |
| (i) Accounts Receivable | | | |
| (j) Loan Payable | | | |

Mo Lambert formed a corporation to provide concrete construction work. His jobs typically involve building parking lots, drives, and foundations. Mo provided the following information about transactions occurring during the first month of operation. Evaluate the transactions and prepare journal entries for this activity.

- Jan. 2, 20X5 Mo Lambert invested \$10,000 cash in the capital stock of the newly formed corporation.
- Jan. 4, 20X5 Purchased equipment on account for \$7,500.
- Jan. 12, 20X5 Received \$15,000 from customers for services rendered.
- Jan. 15, 20X5 Received a bill for construction supplies used in the amount of \$2,000.
- Jan. 18, 20X5 Provided \$3,200 of services on account.
- Jan. 20, 20X5 Paid employees \$2,300 for wages earned.
- Jan. 22, 20X5 Collected 60% of the amount due for the work provided on January 18.
- Jan. 23, 20X5 Paid 40% of the amount due on the equipment purchased on January 4.
- Jan. 25, 20X5 Purchased (and immediately used) construction supplies for cash in the amount of \$600.
- Jan. 31, 20X5 The company paid Mo Lambert a \$1,500 dividend.

Tom Pryor formed a management consulting firm specializing in cost management systems. Below are the transactions that occurred during the initial month of operation.

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|---------|--|
| June 2 | Tom Pryor invested \$25,000 cash in the capital stock of the newly formed corporation. |
| June 3 | Hired an administrative assistant, to be paid \$3,000 per month. Leased office space at the rate of \$1,000 per month. Signed a contract with Pomero to deliver consulting services valued at \$7,500. |
| June 8 | Purchased (and immediately used) office supplies on account for \$750. |
| June 9 | Received \$2,500 from Pomero for work performed to date. |
| June 15 | Paid \$1,200 for travel costs associated with consultation work. |
| June 16 | Provided services on account to Arpy for \$3,000. |
| June 17 | Paid \$1,500 to administrative assistant for salary. |
| June 23 | Billed Farris for \$4,000 consulting engagement performed. |
| June 25 | The company paid Tom Pryor a \$1,000 dividend. |
| June 26 | Collected 50% of the amount due for the billing on June 23. |
| June 27 | Purchased computer furniture for \$4,000, paying \$1,000 down. |
| June 27 | Paid \$750 on the open account relating to the June 8 purchase. |
| June 28 | Completed the Pomero job and billed the remaining amount. |
| June 30 | Paid \$1,500 to administrative assistant for salary. |
| June 30 | Paid rent for June, \$1,000. |

Pryor consulting uses the following accounts:

- Cash
- Accounts Receivable
- Equipment
- Accounts Payable
- Capital Stock
- Revenues
- Salary Expense
- Rent Expense
- Travel Expense
- Supplies Expense
- Dividends

- (a) Journalize the listed transactions.
- (b) Post the transactions to the appropriate general ledger accounts.
- (c) Prepare a trial balance as of June 30.

Paul Morris is a doctor of veterinary medicine specializing in horses. At the beginning of March, he incorporated his practice, and has completed his first month in business. He has come to you seeking help setting up his "books." The following is a transcript of your conversation with Dr. Morris.

- Dr. Morris "I specialize in embryo transplants for horses that will be used in cutting horse competitions. I started the month by investing \$30,000 of my own money in the stock of the business."
- You "By stock, do you mean livestock animals or capital stock?"
- Dr. Morris "I mean the capital stock of the business -- I don't actually own any animals. I work with my clients' animals only."
- You "Ok, is that all the money you had to start out the business? Were there any other investors?"
- Dr. Morris "I am the only owner, but the business did borrow \$50,000 to buy some land on which I plan to build a barn next year. Is that what you mean by other investors?"
- You "Not exactly. The loan will need to be listed as a liability of the business. Have you paid off any of the loan yet?"
- Dr. Morris "Not yet. The loan is not due for several years. But, I did pay \$400 interest on the loan for the month."
- You "I see. So, you plan to build a barn next year on the land. I guess that is where you will be working with animals in the future. But, where are you caring for animals currently?"
- Dr. Morris "I rent stalls from Tri-County arena. That costs me \$1,500 per month. Which reminds me, I need to pay them for the first month. I forgot to send them their check!"
- You "Besides the interest, what other bills have you paid so far?"
- Dr. Morris "I knew you would ask that, so I kept a list. I paid for salaries of \$2,000, for supplies used of \$3,300, and utilities of \$700. That's it so far."
- You "Do you have any other bills that have not been paid yet?"
- Dr. Morris "Nope, just the rent, but we already talked about."
- You "Good. Let's talk about your revenues. Do you have list of what customers paid you this month?"
- Dr. Morris "No, just a total of all my bank deposits. They come to a total of \$26,315 -- excluding the cash deposits for my original investment and the \$50,000 loan."

- You "I see, and this \$26,315 all relates to services provided to customers? Have you done any work for which you have not been paid?"
- Dr. Morris "Yes, my wife keeps up with the outstanding balances due from customers. She told me that we are still owed \$9,500."
- You "Well, Dr. Morris, I think that gives me enough information to get started. I will prepare you a set of financial statements for your first month of business, and we will see where you stand. Then, I think the first order of business for next month will be to get you set up with a computerized accounting system. You really will need an organized accounting system going forward, and that is best handled with a basic computer program. There are many from which to choose."
- Dr. Morris "Great, that is what I was hoping you would say. I cannot tell you how much I appreciate your help on this."

- (a) Prepare summary journal entries that reflect the first month of business.
- (b) Use T-accounts to capture the impact of the transactions on the accounts.
- (c) Prepare a trial balance as of the end of March.
- (d) Prepare an income statement and statement of retained earnings for the month of March. Prepare the resulting balance sheet as of the end of the month.