

## PROBLEMS

Analyze transactions and compute net income.

(LO 3, 4)



**P1-1A** On April 1, Julie Spengel established Spengel's Travel Agency. The following transactions were completed during the month:

1. Invested \$15,000 cash to start the agency.
2. Paid \$600 cash for April office rent.
3. Purchased equipment for \$3,000 cash.
4. Incurred \$700 of advertising costs in the *Chicago Tribune*, on account.
5. Paid \$900 cash for office supplies.
6. Performed services worth \$10,000: \$3,000 cash is received from customers, and the balance of \$7,000 is billed to customers on account.
7. Withdrew \$600 cash for personal use.
8. Paid *Chicago Tribune* \$500 of the amount due in transaction (4).
9. Paid employees' salaries \$2,500.
10. Received \$4,000 in cash from customers who have previously been billed in transaction (6).

### Instructions

- (a) Prepare a tabular analysis of the transactions using the following column headings: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Owner's Capital, Owner's Drawings, Revenues, and Expenses.
- (b) From an analysis of the owner's equity columns, compute the net income or net loss for April.

Check figures provide a key number to let you know you are on the right track.

(a) Total assets \$20,800

(b) Net income \$6,200

**P1-2A** Judi Salem opened a law office on July 1, 2017. On July 31, the balance sheet showed Cash \$5,000, Accounts Receivable \$1,500, Supplies \$500, Equipment \$6,000, Accounts Payable \$4,200, and Owner's Capital \$8,800. During August, the following transactions occurred:

Analyze transactions and prepare income statement, owner's equity statement, and balance sheet.

(LO 3, 4, 5)



1. Collected \$1,200 of accounts receivable.
2. Paid \$2,800 cash on accounts payable.
3. Recognized revenue of \$7,500 of which \$3,000 is collected in cash and the balance is due in September.
4. Purchased additional equipment for \$2,000, paying \$400 in cash and the balance on account.
5. Paid salaries \$2,500, rent for August \$900, and advertising expenses \$400.
6. Withdrew \$700 in cash for personal use.
7. Received \$2,000 from Standard Federal Bank—money borrowed on a note payable.
8. Incurred utility expenses for month on account \$270.

#### Instructions

- (a) Prepare a tabular analysis of the August transactions beginning with July 31 balances. The column headings should be as follows: Cash + Accounts Receivable + Supplies + Equipment = Notes Payable + Accounts Payable + Owner's Capital - Owner's Drawings + Revenues - Expenses.
- (b) Prepare an income statement for August, an owner's equity statement for August, and a balance sheet at August 31.

(a) Total assets \$16,800

(b) Net income \$3,630  
Ending capital \$11,930

**P1-3A** On June 1, Cindy Godfrey started Divine Designs Co., a company that provides craft opportunities, by investing \$12,000 cash in the business. Following are the assets and liabilities of the company at June 30 and the revenues and expenses for the month of June.

Prepare income statement, owner's equity statement, and balance sheet.

(LO 5)

Cash	\$10,150	Service Revenue	\$6,500
Accounts Receivable	2,800	Advertising Expense	500
Supplies	2,000	Rent Expense	1,600
Equipment	10,000	Gasoline Expense	200
Notes Payable	9,000	Utilities Expense	150
Accounts Payable	1,200		

Cindy made no additional investment in June but withdrew \$1,300 in cash for personal use during the month.

#### Instructions

- (a) Prepare an income statement and owner's equity statement for the month of June and a balance sheet at June 30, 2017.
- (b) Prepare an income statement and owner's equity statement for June assuming the following data are not included above: (1) \$900 of services were performed and billed but not collected at June 30, and (2) \$150 of gasoline expense was incurred but not paid.

(a) Net income \$4,050  
Owner's equity \$14,750  
Total assets \$24,950  
(b) Owner's equity \$15,500

**P1-4A** Trixie Maye started her own consulting firm, Matrix Consulting, on May 1, 2017. The following transactions occurred during the month of May:

Analyze transactions and prepare financial statements.

(LO 3, 4, 5)

- May 1 Trixie invested \$7,000 cash in the business.
- 2 Paid \$900 for office rent for the month.
- 3 Purchased \$600 of supplies on account.
- 5 Paid \$125 to advertise in the *County News*.
- 9 Received \$4,000 cash for services performed.
- 12 Withdrew \$1,000 cash for personal use.
- 15 Performed \$5,400 of services on account.
- 17 Paid \$2,500 for employee salaries.
- 20 Paid for the supplies purchased on account on May 3.
- 23 Received a cash payment of \$4,000 for services performed on account on May 15.
- 26 Borrowed \$5,000 from the bank on a note payable.
- 29 Purchased equipment for \$4,200 on account.
- 30 Paid \$275 for utilities.

#### Instructions

- (a) Show the effects of the previous transactions on the accounting equation using the following format.

(a) Total assets \$20,800



## PRACTICE PROBLEM

Joan Robinson opens her own law office on July 1, 2017. During the first month of operations, the following transactions occurred:

Prepare a tabular presentation and financial statements.  
(LO 4, 5)

1. Joan invested \$11,000 in cash in the law practice.
2. Paid \$800 for July rent on office space.
3. Purchased equipment on account \$3,000.
4. Performed legal services to clients for cash \$1,500.
5. Borrowed \$700 cash from a bank on a note payable.
6. Performed legal services for client on account \$2,000.
7. Paid monthly expenses: salaries and wages \$500, utilities \$300, and advertising \$100.
8. Joan withdrew \$1,000 cash for personal use.

### Instructions

- (a) Prepare a tabular summary of the transactions.
- (b) Prepare the income statement, owner's equity statement, and balance sheet at July 31, 2017, for Joan Robinson, Attorney.

### Solution

Trans- action	Assets			=	Liabilities		+	Owner's Equity			
	Cash	+ Accounts Receivable	+ Equipment	=	Notes Payable	+ Accounts Payable	+	Owner's Capital	- Owner's Drawings	+ Revenues	- Expenses
(1)	+\$11,000			=				+\$11,000			
(2)	-800										-\$800
(3)			+\$3,000	=		+\$3,000					
(4)	+1,500									+\$1,500	
(5)	+700				+\$700						
(6)		+\$2,000								+\$2,000	
(7)	-500										-500
	-300										-300
	-100										-100
(8)	-1,000								-\$1,000		
	<u>\$10,500</u>	+ <u>\$2,000</u>	+ <u>\$3,000</u>	=	<u>\$700</u>	+ <u>\$3,000</u>	+ <u>\$11,000</u>	- <u>\$1,000</u>	+ <u>\$3,500</u>	- <u>\$1,700</u>	
	\$15,500				\$15,500						

# ACC

$$\text{Asset} = \text{Liability} + \text{Owner Equity}$$

Transaction:

Basic Data Sheet:

Transaction	Assets				Liabilities		Owner's Equity		
	Cash	APC Re	Supplies	Equipm	APC Pay	Capital	Drawing	Revenue	Expense
1.	+15000					-15000			
2.	-7000			+7000					
3.			+1600		+1600				
4.	+1200						-1200		
5.					+250				-250
6.	+1500	+2000						+3500	
7.	-1700								-1700
8.	-250				-250				
9.	+600	-600							
10.	-1300						-1300		
	8050	1900	1600	7000	1600	15000	-1300	9800	-1950

18050

18050

Correct

	Assets				Liabilities		Owner's Equity			Remarks	
Transaction	Cash	Acc Rece	Supplies	Equipment	Acc Pay	Notes Pay	Capital	Drawing	Revenue		Expense
1.	+11000						+11000				Invest
2.	-800									-800	Rent
3.				+3000	+3000						Purchased Equi
4.	+1500								+1500		
5.	+700					+700					
6.		+2000							+2000		
7.	-900									-900	Expense
8.	-1000							-1000			
	10500	2000		3000	3000	700	11000	-1000	3500	-1700	
	15500						15500				

Right



P1/1A

# Tabular Analysis of Jan the month of

Transaction	Assets				Liabilities		Owner's Equity			Remarks
	Cash	Acc Re	Supplies	Equi	Acc Pay	Capital	Drawing	Revenue	Expenses	
1.	+15000					+15000				Invest
2.	-600								-600	Rent
3.	-3000			+3000						P. Equi
4.					+300				-300	
5.	-900		+900							
6.	+3000	+3000						+10000		
7.	-600						-600			
8.	-500				-500					
9.	-2500								-2500	
10.	<del>3000</del>	<del>3000</del>								
	13900	3000	900	3000	200	+15000	-600	+10000	-3800	
	20800				20800					

(Right)

P1/2A

Transaction	Assets				Liability		Owners Equity			
	Cash	Acc Re	Supplies	Equip	Acc Pay	Notes Pay	Capital	Drawings	Revenue	Expense
0	5000	1500	500	6000	9200		3300			
1.	+1200	-1200								
2.	-2800				-2800					
3.	+3000	+9500							7500	
4.	-900			+2000	-11600					
5.	-3800									-2700
6.	-700							-700		
7.	+2000					-12000				
8.					-1270					-270
	3500	9800	500	8000	3270	2000	3700	-700	12500	<del>2530</del> 1670
	16800				16800					

Right

(Right)

20802

12/9A

Date	Assets				Liabilities		Owner's Equity			
	Cash	APCR	Supp	Equi	APC Pay	Note Pay	Capital	Drawing	Revenue	Expense
1.	+2000						+2000			
2.	-900									-900
3.			+600		+600					
5.	-125									-125
69.	+9000								+9000	
12.	-1000							-1000		
15.		+5900			<del>5900</del>				+5900	
17.	-2500									-2500
20.	<del>600</del>		<del>600</del>		-600					
23.	9000	-9000								
26.	5000					+5000				
29.				+9200	+9200					
30.	-275									-275
	19600	+1900	+600	+9200	4200	+5000	77000	-1000	9900	-3800
	= 20800				20800					

(Right)



Debit - ढरीण , Credit - ढाण

Liabilities / Revenue / Capital  $\rightarrow$  + Cr  
- Dr

Drawing / Expense / Asset  $\rightarrow$  + Dr  
- Cr

Practice [56 Page]

1. General Journal

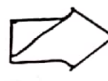
Date	Account titles & explanation	Ref	Dr	Cr
1.	Cash Capital		30000	30000
2.	Expense Cash		700	700
3.	Equipment Account Payable		2800	2800
6.	Acc Recieue Service Revenue		4400	4400
27.	Account Payable Cash		1100	1100
30.	Expense Liabilities		130	130

# Practice Problem (57)

## General Journal

Date	Account Titles & Explanation	Ref	Dr	Cr
1.	Cash		20000	
	Capital			20000
2.	Expense		1000	
	Cash			1000
3.	Equipment		25000	
	Cash			10000
	<del>Net</del> Liability			15000
4.	Expense		1200	
	Cash			1200
10.	Expense		200	
	Acc Recd			200
20.	Drawing		700	
	Cash			700
30.	Services Cash		6200	
	Revenue			6200

E2-2



Date	Account title & Ex	Ref	Dr	Cr
2	Cash (Dr)  Owner's Capital (Cr) (Owner Investment in Cash)		\$10000	10000
3.	<del>Equipment</del> (Dr)  Cash (Cr) (Purchased car)		9000	9000
9	Supplies (Dr)  Accounts Payable <del>Liability</del> (Cr) (Purchased supplies on account)		500	500
11.	Acc receivable  Revenue		2100	2100



# Creditor - Payable

Date				
2.	Cash (Dr) <del>Cash</del> Owners Capital (Cr) (Investment by Cash)		10000	10000
3.	Equipment (Dr) Cash (Cr) (Purchased Car)		9000	9000
9.	Supplies (Dr) Acc Payable (Cr) (Purchased Supplies on acc)		500	500
11.	Acc Receivable (Dr) Revenue (Cr) (Billed Customers)		2100	2100
16.	Advertisement (Dr) Cash (Cr) (Paid advertising expense)		350	350
20.	Cash (Dr) Acc Receivable (Cr) (Received from customers billed)		200	200
28.	A/P Payable (Dr) Cash (Cr) Paid Creditor on balance		300	300

# Journal Entries

in the books of A. Mane

for the month of January

Date	Particulars	Re	Dr	Cr
Jan 2	Cash ..... Dr Capital Owners - Cr Owner's Investment		10000	10000
Jan 3	Car purchased ... Dr Cash ..... Cr (Purchased car for cash)		3000	3000
Jan 9	Supplies ... Dr Acc Payable .... Cr (Purchased supplies on Acc)		500	500
Jan 11	Acc Receivable ... Dr Service Revenue ... Cr (Billed customers for services provided)		2900	2900
Jan 16	Ad Expense ..... Dr Cash ..... Cr Paid advertising exp)		350	350

Jan 20	Cash . . . . . Dr A/c Receivable Cr  (Received from customers billed)	700	700
Jan 23	A/c Payable . . . (Dr) Cash . . . . . (Cr)  (Paid to creditor)	300	300
Jan 28	Drawing . . . . (Dr) Cash . . . . . (Cr)  (Withdraw for personal use)	1000	1000
		18250	18250



## Cash

Date	Particular	Ref	Dr	Cr	Balance
Jan 2	Capital Owners		10000	-	10000 (Dr)
Jan 3	Car Purchased		-	3000 (Cr)	7000 (Dr)
Jan 16	Expense		-	350 (Cr)	6650 (Dr)
Jan 20	Acc Receivable		700	-	7350 (Dr)
Jan 23	Acc Payable		-	300	7050 (Dr)
Jan 28	Drawing		-	1000	6050 (Dr)

## Capital

Date	Particular	Ref	Dr	Cr	Balance
Jan 2	Cash		-	10000	10000 (Cr)

## Car

Date	Particular	Ref	Dr	Cr	Balance
Jan 3	Cash		3000	-	3000 (Dr)

## Supplies

Date	Particulars	Ref	Dr	Cr	Balance
Jan 9	A/C Payable		500	-	500 (Dr)

## A/C Payable

Date	Particulars	Ref	Dr	Cr	Balance
Jan 9	Supplies		-	500	500 (Cr)
Jan 23	Cash		300	-	200 (Cr)

## A/C Receivable

Date	Particulars	Ref	Dr	Cr	Balance
Jan 11	Service Revenue		2900	-	2900 (Dr)
Jan 20	Cash		-	2900	1700 (Dr)

## Service Revenue

Date	Particulars	Ref	Dr	Cr	Balance
Jan 11	A/C Receivable		-	2900	2900 (Cr)

## Advertisement

Date	Particulars	Ref	Dr	Cr	Balance
Jan 16	Cash		350	-	350 (Dr)

## Drawings

Date	Particulars	Ref	Dr	Cr	Balance
Jan 28	Cash		1000	-	1000 (Dr)