**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.

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:***

1. 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.

1. Prepare an income statement for August, an owner’s equity statement for August, and a balance sheet at August 31.

Solution: (a) Tabular Analysis

Assets = Liabilities + Owner’s Equity

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| SL. No. | Cash | + Accounts Receivable | +Supplies | +Equipment | = | Notes Payable | +Accounts Payable | +Owner’s Capital | -Owner’s Drawings | +Revenues | -Expenses |
| B/B | $5,000 | $1,500 | $500 | $6,000 |  | --- | $4,200 | $8,800 | --- | --- | --- |
| 1 | +1200 | -1200 |  |  |  |  |  |  |  |  |  |
| 2 | -2800 |  |  |  |  |  | -2800 |  |  |  |  |
| 3 | +3000 | +4500 |  |  |  |  |  |  |  | +7500 |  |
| 4 | -400 |  |  | +2000 | = |  | +1600 |  |  |  |  |
| 5 | -2500  -900  -400 |  |  |  |  |  |  |  |  |  | -2500  -900  -400 |
| 6 | -700 |  |  |  |  |  |  |  | -700 |  |  |
| 7 | +2000 |  |  |  |  | +2000 |  |  |  |  |  |
| 8 |  |  |  |  |  |  | +270 |  |  |  | -270 |
|  | $3500 | + $4800 | + $500 | + $8000 | = | + $2000 | + $3270 | + $8800 | -$700 | + $7500 | -$4070 |

$16,800 = $16,800

(b) Judi Salem

Income Statement

For the month ended August 31, 2017

Revenues

Service revenue $7500

Expenses

Salaries 2500

Advert expense 400

Rent expense 900

Uti expense 270 4070

Net Income 3430

Judi Salem

Owner’s Equity Statement

For the month ended August 31,2017

Capital, August 1 $8800

Add: Investment 0

Net income 3430

12230

Less: Drawing 700

Capital, August 31 $11530

Judi Salem

Balance Sheet

August 31, 2017

Assets

Cash $3500

Accounts receivable 4800

Supplies 500

Equipment 8000

Total assets $16,800

Liabilities & Owner’s Equity

Liabilities

Notes payable $2000

Accounts payable 3270

Total liabilities 5270

Owner’s equity

Owner’s capital 11530

Total liab. & owner’s equity 16800