

## Basic Elements of Financial Position

Assets: Properties used in business that are owned and have monetary value; for instance, cash, inventory, buildings, equipments, etc.

Liabilities: Amounts owed to outsiders, such as notes payable, accounts payable, bonds payable, etc. Liabilities may also include deferred items such as income taxes to be allocated.

Owner's Equity: The interest of the owners in an enterprise.

**The Accounting Equation:**      **Assets = Liabilities + Owner's Equity**

### Bob Friedland Lawn Care Service

	Cash	+	Supplies	+	Equipment	=	Accounts Payable	+	Notes Payable	+	Capital
June 1	\$ 2200				\$ 3500				\$ 5700		
June 5	+ 325								+ 375	Lawn income	
Balance	\$ 2575				\$ 3500				\$ 6075		
June 7	+ 1100								+ 1100	Lawn income	
Balance	\$ 3675				\$ 3500				\$ 7175		
June 11	- 100				+ 200			+ 100			
Balance	\$ 2675				\$ 5500			\$ 1000		\$ 7175	
June 15	- 225								- 225	Gas bill expenses	
Balance	\$ 2400				\$ 5500			\$ 1000		\$ 6900	
June 19	- 200								- 200	Drawing	
Balance	\$ 2200				\$ 5500			\$ 1000		\$ 6700	
June 21	+ 100						+ 100				
Balance	\$ 2200		\$ 100		\$ 5500		\$ 100		\$ 1000		\$ 6800
June 25	- 400								- 400		
Balance	\$ 1800		\$ 100		\$ 5500		\$ 100		\$ 600		\$ 6700
June 30	+ 925								+ 925	Lawn income	
Balance	\$ 2725		<u>\$ 100</u>		<u>\$ 5500</u>		<u>\$ 100</u>		<u>\$ 600</u>		<u>\$ 7625</u>
June 30											

- (1) Opened his practice by investing \$50,000 in the business
- (2) Bought office equipment for \$27,000 on account from Medical Products, Inc.
- (3) Paid \$2,000 for various medical supplies for the office
- (4) Received \$11,600 in fees earned during the first month of operations
- (5) Paid office rent for the month, \$900
- (6) Paid medical assistant salary for the month, \$1,800
- (7) Paid Medical Products, Inc., \$3,000 on account
- (8) Withdrew \$1,500 for personal use

Enter each transaction in the following form:

	Assets			=	Liabilities	+	Owner's Equity		
	Cash	+	Supplies	+	Equipment	=	Accounts Payable	+	Capital
(1)	+\$ 50,000								+\$ 50,000 Investment
(2)									
Balance	\$ 50,000	+			+ 27,000	=	+ 27,000		
(3)	- 2,000		+ 2,000		+ \$ 27,000	=	\$ 27,000		
Balance	\$ 48,000	+	\$ 2,000		+ \$ 27,000	=	\$ 27,000		
(4)	+ 11,600		\$ 2,000		+ \$ 27,000	=	\$ 27,000		
Balance	\$ 59,600	+	\$ 2,000		+ \$ 27,000	=	\$ 27,000		
(5)	- 900								
Balance	\$ 58,700	+	\$ 2,000		+ \$ 27,000	=	\$ 27,000		
(6)	- 1,800								
Balance	\$ 56,900	+	\$ 2,000		+ \$ 27,000	=	\$ 27,000		
(7)	- 3,000								
Balance	\$ 53,900	+	\$ 2,000		+ \$ 27,000	=	\$ 24,000		
(8)	- 1,500								
Balance	\$ 52,400	+	\$ 2,000		+ \$ 27,000	=	\$ 24,000		
	=====	=====	=====		=====		=====		=====

# Financial Statements



**Income Statement:** The income statement may be defined as a summary of the revenue, expenses, and net income or net loss of a business entity for a specific period of time. This may also be called a profit and loss statement, operating statement, or statement of operations.

**Revenue:** The increase in capital resulting from the sale of goods or rendering of services by the business. In amount, the revenue is equal to the cash and receivables gained in compensation for the goods sold or services rendered.

**Expenses:** The decrease in capital caused by the business' revenue-producing operations. In amount, the expense is equal to the value of goods and services used up or consumed in obtaining revenue.

**Net Income:** The increase in capital resulting from profitable operation of a business. It's the excess of revenues over expenses.

**Net loss:** The decrease in capital resulting from the operations of a business. It's the excess of expenses over revenue.

**Balance Sheet:** The balance sheet may be defined as a statement showing the assets, liabilities, and owner's equity of a business at a specific date. This statement is also called a statement of financial position or statement of financial condition.

The information needed for the Balance Sheet items is the net balances at the end of the period, rather than the total for the period as in the income statement.

**Statement of Owner's Equity:** Instead of showing the details of the Capital account in the balance sheet, we may show the changes in a separate form called the Statement of Owner's Equity.

During the month of January, Mr. Alan Bagon, lawyer,

1. Invested \$5,000 to open his law practice
2. Bought supplies (stationery, forms, pencils, etc.) for cash, \$300
3. Bought office equipment from Altway Furniture Company on account, \$2,500
4. Received \$2,000 in fees earned during the month
5. Paid office rent for January, \$500
6. Paid salary for part-time help, \$200
7. Paid \$1,000 to Altway Furniture Company on account
8. After taking an inventory at the end of the month, found that he had used \$200 worth of supplies
9. Withdrew \$300 for personal use

**Summary of transactions  
Month of January 19X8**

	Assets	=	Liabilities + Owner's Equity
	Cash + Supplies + Equipment		Accounts payable A. Bagon Capital
1.	+ \$5,000	=	+ \$5,000 Investment
2.	- 300      + 300		
	<u>\$ 4,700</u> + <u>\$ 300</u>	=	<u>\$ 5,000</u>
3.	+ 2,500	+ 2,500	
	<u>\$ 4,700</u> + <u>\$ 300</u> + <u>\$ 2,500</u>	=	<u>\$ 2,500</u> + <u>\$ 5,000</u>
4.	+ 2,000		+ 2,000 Fees income
	<u>\$ 6,700</u> + <u>\$ 300</u> + <u>\$ 2,500</u>	=	<u>\$ 2,500</u> + <u>\$ 7,000</u>
5.	- 500		- 500 Rent expense
	<u>\$ 6,200</u> + <u>\$ 300</u> + <u>\$ 2,500</u>	=	<u>\$ 2,500</u> + <u>\$ 6,500</u>
6.	- 200		- 200 Salaries exp.
	<u>\$ 6,000</u> + <u>\$ 300</u> + <u>\$ 2,500</u>	=	<u>\$ 2,500</u> + <u>\$ 6,300</u>
7.	- 1,000		- 1,000
	<u>\$ 5,000</u> + <u>\$ 300</u> + <u>\$ 2,500</u>	=	<u>\$ 1,500</u> + <u>\$ 6,300</u>
8.	- 200		- 200 Supplies exp.
	<u>\$ 5,000</u> + <u>\$ 100</u> + <u>\$ 2,500</u>	=	<u>\$ 150</u> + <u>\$ 6,100</u>
9.	- 300		- 300 Drawing
	<u>\$ 4,700</u> + <u>\$ 100</u> + <u>\$ 2,500</u>	=	<u>\$ 1,500</u> + <u>\$ 5,800</u>

**Alan Bagon**  
**Income Statement**  
**Month of January 19X8**

Particulars	USD	USD
Fees Income		\$ 2,000
Operating Expenses		
Rent expense	\$ 500	
Salaries expense	\$ 200	
Supplies expense	\$ 200	
Total Operating Expenses	<u>\$ 900</u>	
Net Income		\$ 1,100

**Alan Bagon**  
**Balance Sheet**  
**January 31, 19X8**

Particulars	USD	USD	USD
<u>Assets</u>			
Cash			\$ 4,700
Supplies			\$ 100
Equipment			\$ 2,500
Total Assets			<u>\$ 7,300</u>
<u>Liabilities and Owner's Equity</u>			
Liabilities			
Accounts payable			\$ 1,500
Owner's Equity			
Balance, January 1, 19X8			\$ 5,000
① Net income for January	\$ 1,100		
② Withdrawal	<u>\$ 300</u>		
Increase in O/E			<u>\$ 800</u>
Total Owner's Equity			<u>\$ 5,800</u>
Total Liabilities and O/E			<u>\$ 7,300</u>

**Alan Bagon**  
**Statement of Owner's Equity**  
**Month of January, 19X8**

Particulars	USD	USD
Capital, January 1, 19X8		\$ 5,000
① Net Income	\$ 1,100	
② Drawing	<u>\$ 300</u>	
Increase in capital		<u>\$ 800</u>
Capital, January 31, 19X8		\$ 5,800

**Merina Monolova opens her own law office on July 1, 2006. During the first month of operations, the following transactions occurred:**

1. Invested Tk. 10,000 in cash in the law practice.
2. Paid Tk. 800 for July rent on office space.
3. Purchased office equipment on account, Tk. 3,000
4. Rendered legal services to clients for cash. Tk. 1,500. (use Fees Earned)
5. Borrowed Tk. 700 cash from a bank on a note payable
6. Rendered legal services to client on account. Tk. 2,000
7. Paid monthly expenses: Salaries. Tk. 500; utilities, Tk. 300; and telephone, Tk. 100.

**Instructions**

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

**Summary of transactions  
Month of July, 2006**

	<i>Assets</i>	<i>=</i>	<i>Liabilities</i>	<i>+</i>	<i>O/E</i>	
	Cash	Acc. receivable	Equipment	Acc. payable	Note payable	M. Monolova Capital
	Tk.	Tk.	Tk.	Tk.	Tk.	Tk.
1.	+ 10,000			=		+ 10,000
2.	- 800					- 800 Rent expense
	9,200			=		9,200
3.		+ 3,000		+ 3,000		
4.	9,200	+ 3,000		= 3,000		9,200
	+ 1,500					+ 1,500 Fees earned
5.	10,700	+ 3,000		= 3,000		+ 10,700
	+ 700					+ 700
6.	11,400	+ 3,000		= 3,000	+ 700	+ 10,700
	+ 2,000					+ 2,000 Fees earned
7.	11,400	+ 2,000	+ 3,000	= 3,000	+ 700	+ 12,700
	- 500					- 500 Salaries expense
						- 300 Utilities expense
						- 100 Telephone expense
	<u>10,500</u>	<u>+ 2,000</u>	<u>+ 3,000</u>	<u>= 3,000</u>	<u>+ 700</u>	<u>+ 11,800</u>

**Merina Monolova  
Income Statement  
Month of July, 2006**

Particulars	TK.	TL.
<i>Revenues</i>		
Fees earned		3,500
<i>Expenses</i>		
Rent expense	800	
Salaries expense	500	
Utilities expense	300	
Telephone expense	100	
Total Expense		1,700
<i>Net Income</i>		<u>1,800</u>

**Merina Monolova**  
**Statement of Owner's Equity**  
**For the Month Ended July 31, 2006**

Particulars	Tk.	Tk.
Merina Monolova, Capital, July 1, 2006	0	
Add Investment	10,000	
Net income	<u>1,800</u>	
Increase in Capital	11,800	
Merina Monolova, Capital, July 31, 2006	11,800	

**Merina Monolova**  
**Balance Statement**  
**July 31, 2006**

Particulars	Tk.	Tk.	Tk.
<u>Assets</u>			
Cash	10,500		
Accounts receivable	2,600		
Equipments	<u>3,000</u>		
Total Assets		<u>15,500</u>	
<u>Liabilities and O/E</u>			
Liabilities:			
Accounts payable	3,000		
Notes payable	<u>700</u>		
Total Liabilities	3,700		
Owner's Equity :			
Merina Monolova Capitals	<u>11,800</u>		
Total Liabilities and O/E		<u>15,500</u>	

**June Lake began the practice of dentistry and during a short period completed these transactions:**

- a. Invested Tk. 5,000 in cash and dental equipment having a Tk. 500 fair value in a dental practice.
- b. Paid the rent on suitable office space for two months in advance, Tk. 1,000.
- c. Purchased additional dental equipment for cash, Tk. 1,500.
- d. Completed dental work for a patient and immediately collected Tk. 200 cash for the work.
- e. Purchased additional dental equipment on credit, Tk. 800.
- f. Completed Tk. 600 of dental work for a patient on credit.
- g. Paid the dental assistant's wages, Tk. 300.
- h. Collected Tk. 300 of the amount owed by the patient of transaction (f).
- i. Paid for the equipment purchased in transaction (e).

**Required :**

Arrange the following asset, liability, and owner's equity titles in an equation form. Cash; Accounts Receivable; Prepaid Rent; Dental Equipment; Accounts Payable; and June Lake, Capital. Then show by additions and subtractions the effects of the transactions on the elements of the equation. Show new totals after each transaction.

**Summary of Transactions**

	Assets				=	Liabilities		Owner's Equity
	Cash Tk.	Accounts receivable Tk.	Prepaid rent Tk.	Dental Equipment Tk.		Accounts payable Tk.	June Lake Capital Tk.	
(a)	+ 5,000			+ 500			+ 5,500	Investment
(b)	- 1,000		+ 1,000					
	4,000	+ 1,000	+ 500	=			5,500	
(c)	- 1,500			+ 1,500				
	2,500	+ 1,000	+ 2,000	=			5,500	
(d)	+ 200						+ 200	Fees income
	2,700	+ 1,000	+ 2,000	=			5,700	
(e)			+ 800	+ 800				
	2,700	+ 1,000	+ 2,800	=	800	+ 5,700		
(f)	+ 600						+ 600	Fees income
	2,700	+ 600	+ 1,000	+ 2,800	=	800	+ 6,300	
(g)	- 300						- 300	Salaries expense
	2,400	+ 600	+ 1,000	+ 2,800	=	800	+ 6,000	
(h)	+ 300	- 300						
	2,700	+ 300	+ 1,000	+ 2,800	=	800	+ 6,600	
(i)	- 800					- 800		
	1,900	+ 300	+ 1,000	2,800	=	0	+ 6,000	
	<u>1,900</u>	<u>300</u>	<u>1,000</u>	<u>2,800</u>		<u>0</u>	<u>6,000</u>	

## Classified Financial Statements: The Balance Sheet

Assets	Liabilities
1. Current	1. Current
2. Fixed	2. Long-term
3. Other	3. Contingent

**Current assets:** Assets reasonably expected to be converted into cash or used in the current operation of the business.  
Examples are cash, notes receivable, accounts receivable, inventory, and prepaid expenses.

**Fixed assets:** Long-lived assets used in the production of goods or services. These assets, sometimes called plant assets, are used in the operation of the business rather than being held for sale, as are inventory items.

**Other assets:** Various assets other than current and fixed assets, or assets to which specific captions are given. For instance, the caption Investment would be used if significant sums were invested. If, however, the amounts are not large in relation to total assets, the various items may be grouped under Other Assets.

**Current liabilities:** Liabilities that are due for payment within the operating cycle or 1 year, whichever is longer.

1. Notes payable: Liabilities evidenced by a written promise to pay at a later date.

2. Accounts payable: Liabilities for goods or services purchased on account, trade payables, and also nontrade obligations.

3. Accrued liabilities: Liabilities that have accumulated but are not yet due, as payment does not coincide with the end of the period. These are shown on the Income Statement under:

Salaries and Wages, Commissions, Insurance, Interest, Property Taxes, Payroll Taxes, Sales Taxes, Income Taxes, Pensions, Royalties

4. Withholdings: Amounts that have been withheld from employees' pay and are to be turned over to govt agencies, insurance companies, etc. These aren't expenses of the company but must be properly safeguarded until they're transmitted to the specified agency. Includes:

Income taxes, Social security taxes, Unemployment taxes, Hospitalization, Group insurance, and Pensions.

5. Dividends payable: Dividends become payable only as declared by the board of directors of the company.

They don't accrue, or accumulate, as does interest on bonds.

6. Unearned revenues: Sometimes revenue is received in advance, such as magazine subscriptions or rent.

**Long-term Liabilities:** Where funds are needed for a long-term purpose such as construction of a building, a long-term liability account would be used. Presumably, increased earnings would be used to retire the debt. Almost always, long-term liabilities are interest-bearing and have a fixed due date.

1. Long-term notes payable: The company may be able to obtain the needed amount from one lender rather than by issuing bonds for sale to the public. Sometimes notes may be issued to await better terms for issuing bonds.

2. Mortgages payable: Pledge the property of the company as security. The mortgage involves a lien on the property, not a transfer of title.

3. Bonds payable: If the amounts of funds needed is larger than a single lender can supply, bonds may be sold to the investing public, splitting the loan into thousands of units. A bond is a written promise to pay the face amount at a future date and to make interest payments semiannually.

**Contingent Liabilities:** These are potential liabilities arising from past events. For example, when a note receivable is endorsed and transferred to another person, no liability is created. However, there is a possibility that a liability could exist in the future, because the maker of the note might not honor it. If that were to happen, the business that endorsed the note would be required to make payment.

Some other examples are additional tax assessments, product guarantees, pending lawsuits, and litigation.

- 2.1.** Prepare an income statement based on the following information: Fees Income, \$38,000; Supplies Expense, \$16,000; Salaries Expense, \$12,000. Miscellaneous Expense, \$7,000.

Income Statement			
Fees income			\$ 38,000
Expenses			
Supplies expense		\$ 16,000	
Salaries expense		\$ 12,000	
Miscellaneous expense		\$ 7,000	
Total expenses			\$ 35,000
Net income			\$ 3,000

- 2.2.** Based on Prob. 2.1, what would the net income or net loss be if, in addition to the listed expenses, there was an additional expense of \$5,000 charged to Rent?

Income Statement			
Fees Income			\$ 38,000
Expenses			
Supplies exp.		\$ 16,000	
Supplies exp.		\$ 12,000	
Misc. exp.		\$ 7,000	
Rent exp.		\$ 5,000	
Total expenses			\$ 40,000
Net loss			\$ 2,000

- 2.9.** Based on the following information, determine the capital on December 31:

Cash	\$6,000
Supplies	400
Equipment	8,000
Accounts Payable	4,500
Notes Payable	2,500

Assets		Liabilities and Owner's Equity	
Cash	\$6,000	Liabilities	
Supplies	\$900	Accounts payable	\$4,500
Equipment	\$8,000	Notes payable	<u>\$2,500</u>
Total Assets	<u>\$14,900</u>	Total Liabilities	\$7,000
		Capital	\$7,400
		Total Liabilities and O/E	<u>\$14,900</u>

- 2.14.** Classify the following accounts by placing a check mark in the appropriate column.

	Current Asset	Fixed Asset	Current Liability	Long-Term Liability
(1) Accounts Receivable	✓			
(2) Accounts Payable			✓	
(3) Notes Payable			✓	
(4) Mortgage Payable				✓
(5) Cash	✓			
(6) Supplies	✓			
(7) Salaries Payable			✓	
(8) Bonds Payable				✓
(9) Equipment		✓		
(10) Land			✓	

- 2.13.** Prepare a statement of owner's equity and balance sheet as of December 31, 19X8, from the following data:

Accounts Payable	\$ 3,000
Cash	4,000
Equipment	16,000
Notes Payable	12,000
Supplies	200
Net Income	11,400
Drawing	10,200
Capital, January 1, 19X8	4,000

<i>Statement of Owner's Equity</i>	
Capital, January 1, 19X8	\$ 4,000
Net Income	\$ 11,400
Drawing	\$ 10,200
Increase in Capital	\$ 1,200
Capital, December 31, 19X8	<u>\$ 5,200</u>

<i>Balance Sheet</i>	
<b>ASSETS</b>	
Cash	\$ 4,000
Supplies	\$ 200
Equipment	\$ 16,000
Total Assets	<u>\$ 20,200</u>
<b>LIABILITIES AND OWNER'S EQUITY</b>	
Notes Payable	\$ 12,000
Accounts Payable	\$ 3,000
Total Liabilities	\$ 15,000
Capital, December 31, 19X8	\$ 5,200
Total Liabilities and Owner's Equity	<u>\$ 20,200</u>

- 2.15.** From the information that follows, prepare a classified balance sheet as of December 31.

Cash	\$ 6,000
Accounts Receivable	3,000
Supplies	1,000
Equipment	14,000
Accounts Payable	2,500
Notes Payable	1,500
Mortgage Payable	12,000
Capital, December 31	8,000

<b>ASSETS</b>	
Current Assets	
Cash	\$ 6,000
Supplies	\$ 1,000
Accounts receivable	<u>\$ 3,000</u>
Total Current Assets	\$ 10,000
Fixed Assets	
Equipment	\$ 14,000
Total Assets	<u>\$ 24,000</u>
<b>LIABILITIES AND OWNER'S EQUITY</b>	
Current Liabilities	
Accounts payable	\$ 2,500
Notes payable	\$ 1,500
Total Current Liabilities	\$ 4,000
Long-Term Liabilities	
Mortgage payable	\$ 12,000
Total Liabilities	\$ 16,000
Capital	\$ 8,000
Total Liabilities and Owner's Equity	<u>\$ 24,000</u>

- 2.17.** Complete the chart by writing in the appropriate column the name of the account group in which the particular account belongs and check the appropriate column for the classification of each balance sheet item.

	Income Statement	Balance Sheet	Current Asset	Fixed Asset	Current Liability	Long-Term Liability
Accounts Payable		Liabilities			✓	
Accounts Receivable		Asset	✓			
Advertising Expense	Expense					
Cash		Asset	✓			
Capital		O/E				
Equipment		Asset		✓		
Fees Income	Income					
Machinery		Asset		✓		
Mortgage Payable		Liabilities				✓
Notes Receivable		Asset	✓			
Other Income	Income					
Salaries Expense	Expense					
Supplies		Asset	✓			
Supplies Expense	Expense					

- 2.20.** Listed below are the year-end balances of the Sun Shine Service Company, which is owned by Mort Sunshine. Prepare the year-end classified financial statements.

Fees	\$37,600
Wages Expense	17,400
Rent Expense	9,300
Drawing	4,000
Supplies Expense	7,200
Miscellaneous Expense	750
Cash	11,600
Capital, January 1, 19X8	17,100
Accounts Receivable	7,400
Supplies	1,300
Prepaid Insurance	1,200
Land (fixed asset)	4,200
Equipment (fixed asset)	3,700
Accounts Payable	2,950
Notes Payable	6,150
Mortgage Payable (long-term)	4,250

**Sun Shine Service Company  
Income Statement  
Year Ended December 31, 19X8**

Particulars		
Fees Income		\$ 37,600
Operating Expenses		
Wages expense	\$ 17,400	
Rent expense	9,300	
Supplies expense	7,200	
Miscellaneous expense	750	
Total expenses		<u>\$ 34,650</u>
Net Income		<u><u>\$ 2,950</u></u>

**Sun Shine Service Company**  
**Statement of Owner's Equity**  
**Year Ended December 31, 19X8**

Particulars		
Capital, January 1, 19X8	\$ 17,500	
④ Net Income of the year	\$ 2,950	
⑤ Withdrawals	<u>\$ 4,000</u>	
Net decrease in capital	\$ 1,050	
Capital, December 31, 19X8	<u><u>\$ 16,050</u></u>	

**Sun Shine Service Company**  
**Balance Sheet**  
**Year Ended December 31, 19X8**

Particulars		
<u><u>Assets:</u></u>		
<u><u>Current Assets:</u></u>		
Cash	\$ 11,600	
Accounts Receivable	7,400	
Supplies	1,300	
Prepaid Insurance	<u>1,200</u>	
Total Current Assets	<u><u>\$ 21,500</u></u>	
<u><u>Fixed Assets:</u></u>		
Land	\$ 4,200	
Equipment	<u>3,700</u>	
Total Fixed Assets	<u><u>\$ 7,900</u></u>	
Total Assets	<u><u>\$ 29,400</u></u>	
<u><u>Liabilities and Owner's Equity:</u></u>		
<u><u>Liabilities:</u></u>		
<u><u>Current Liabilities:</u></u>		
Accounts Payable	\$ 2,950	
Notes Payable	<u>6,150</u>	
Total Current Liabilities	<u><u>\$ 9,100</u></u>	
<u><u>Long-term Liabilities:</u></u>		
Mortgage Payable	\$ 9,250	
Total Liabilities	<u><u>\$ 18,350</u></u>	
<u><u>Owner's Equity:</u></u>		
Capital, Sun Shine Service Company	<u><u>\$ 16,050</u></u>	
Total Liabilities and Owner's Equity	<u><u>\$ 29,400</u></u>	

Using the forms provided below, prepare (a) an income statement, (b) a statement of owner's equity, and (c) a classified balance sheet.

The balances of the accounts of Dr. J. Hoflich, Dentist, appear as follows:

Accounts Payable	\$ 2,800
Accounts Receivable	3,600
Building	12,000
Capital, January 1, 19X8	19,000
Cash	12,200
Dental Income	38,000
Drawing	6,000
Equipment	15,000
Furniture	3,000
Mortgage Payable	10,000
Miscellaneous Expense	2,000
Notes Payable	2,000
Supplies	6,000
Salaries Expense	8,000
Supplies Expense	4,000

(a)

<i>Dr. J. Hoflich</i>	
<i>Income Statement</i>	
<i>Year Ended December 31, 19X8</i>	
Income from fees	\$ 34,000
Expenses	
Salaries expense	\$ 8,000
Supplies expense	4,000
Miscellaneous expense	2,000
Total Expenses	
Net Income	\$ 24,000

(b)

<i>Dr. J. Hoflich</i>	
<i>Statement of Owner's Equity</i>	
<i>Year Ended December 31, 19X8</i>	
Capital, January 1, 19X8	\$ 24,000
Add: Net Income	6,000
Less: Drawing	
Increase in Capital	\$ 18,000
Capital, December 31, 19X8	\$ 37,000

(c)

<i>Dr. J. Hoflich</i>	
<i>Balance Sheet</i>	
<i>December 31, 19X8</i>	
<b>ASSETS</b>	
Current Assets	
Cash	\$ 12,200
Accounts Receivable	3,600
Supplies	6,000
Total Current Assets	\$ 21,800
Fixed Assets	
Building	\$ 12,000
Equipment	15,000
Furniture	3,000
Total Fixed Assets	\$ 30,000
Total Assets	\$ 51,800
<b>LIABILITIES AND OWNER'S EQUITY</b>	
Current Liabilities	
Accounts Payable	\$ 2,800
Notes Payable	2,000
Total Current Liabilities	\$ 4,800
Long-Term Liabilities	
Mortgage Payable	\$ 10,000
Total Liabilities	\$ 14,800
Capital	\$ 37,000
Total Liabilities and Owner's Equity	\$ 51,800

## Analyzing and Classifying Transaction

### Debits and Credits: The Double-Entry System

Assets and Expenses		Liabilities, Owner's Equity and Income	
Dr.	Cr.	Dr.	Cr.
+	-	-	+
(Increases)	(Decreases)	(Decreases)	(Increases)

## Preparation of Journal, Ledger and Trail Balance:

### Problem-1

Bob Sample opened the Campus Laundromat on September 1, 2006. During the first month of operations the following transactions occurred.

Sept.-1 Invested \$20,000 cash in the business.

2 Paid \$1,000 cash for store rent for the month of September.

3 Purchased washers and dryers for \$25,000, paying \$10,000 in cash and signing a \$15,000, 6-month, 12% note payable.

4 Paid \$1,200 for one-year accident insurance policy.

10 Received bill from the *Daily News* for advertising the opening of the Laundromat \$200.

20 Withdrew \$700 cash for personal use.

30 Determined that cash receipts for laundry services for the month were \$6,200.

### General Journal

Date 2002	Account Titles and Explanation	Ref	Debit	Credit
Sept 1.	Cash Bob Sample, Capital (Owner's Investment of Cash in Business)		\$ 20,000	\$ 20,000
2.	Rent Expense Cash (Paid September rent)		\$ 1,000	\$ 1,000
3.	Laundry Equipment Cash Notes Payable (Purchased laundry equipment for cash and 6-month, 12% note payable)		\$ 25,000 \$10,000 \$15,000	
4.	Prepaid Insurance Cash (Paid one-year insurance policy)		\$1,200	\$1,200
10.	Advertisement Expense Accounts payable (Received bill from Daily News for advertising)		\$ 200	\$ 200
20.	Bob Sample, withdrawal Cash (Withdrew cash for personal use)		\$ 700	\$ 700
30.	Cash Service Revenue (Received cash for service provided)		\$6,200	\$6,200

### General Ledger

#### Cash

Date	Explanation	Ref	Debit	Credit	Balance
2006 Sept. 1			20,000		20,000
2			1,000		19,000
3			10,000		9,000
4			1,200		7,800
20			700		7,100
30			6,200		13,300

#### Accounts Payable

Date	Explanation	Ref	Debit	Credit
2006 Sept. 10				200
				Notes Payable
				15,000
				Sept. 3

#### Prepaid Insurance

Date	Explanation	Ref	Debit	Credit	Balance
2006, Sept. 7			1,200		1,200
					20,000

#### Bob Sample, Capital

Date	Explanation	Ref	Debit	Credit
2006, Sept. 1				20,000
				Sept. 3

#### Laundry Equipment

Date	Explanation	Ref	Debit	Credit	Balance
2006, Sept. 3			25,000		25,000
					15,000

#### Bob Sample, Drawing

Date	Explanation	Ref	Debit	Credit
2006, Sept. 20				700
				Sept. 3

#### Service Revenue

Date	Explanation	Ref	Debit	Credit
2006, Sept. 30				6,200
				20,000

#### Rent Expense

Date	Explanation	Ref	Debit	Credit
2006, Sept. 2				1,000
				Sept. 3

#### Advertisement Expense

Date	Explanation	Ref	Debit	Credit
2006, Sept. 10				200
				Sept. 3

### Campus Laundromat

#### Trial Balance

September 30, 2002

Accounts	Debit	Credit
Cash	\$ 13,000	
Prepaid Insurance	\$ 1,200	
Laundry Equipment	\$ 25,000	
Notes Payable		\$ 15,000
Accounts Payable		\$ 200
Bob Sample, Capital		\$ 20,000
Bob Sample, Withdrawal	700	\$ 700
Advertising Expense	200	
Rent Expense	1,000	
	\$ 41,900	\$ 41,400

### Problem-3

Patricia Perez is a licensed architect. During the first month of the operation of her business, the following events and transactions occurred.

April 1 Invested \$20,000 in cash.

- 1 Hired a secretary-receptionist at a salary of \$300 per week payable monthly.
- 2 Paid office rent for the month \$800.
- 3 Purchased architectural supplies on account from Halo Company \$1500.
- 10 Completed blueprints on a carport and billed client \$900 for services.
- 11 Received \$500 cash advance from R. William for the design of a new home.
- 20 Received \$1,500 cash for services completed and delivered to P. Donahue.
- 30 Paid secretary-receptionist for the month \$1,500.
- 30 Paid to Halo Company on account.

#### Instructions

- (a) Journalize the transactions.
- (b) Post to the ledger accounts.
- (c) Prepare a trial balance on April 30, 2006

**General Journal**

Date 2006	Account Titles and Explanation	Ref	Debit	Credit
April 1	Cash Patricia Perez, Capital (Owner's Investment of cash in business)		\$ 20,000	
1	Salary Expense (Salaries Payable (Hired a secretary-receptionist for \$800 per week))		\$ 1,200	
2	Rent Expense Cash (Paid office rent for month)		\$ 800	
3	Architectural Supplies Accounts payable (Purchased Architectural supplies from Halo Company on acc.)		\$1,500	\$1,500
10	Accounts Receivable Service Revenue (Billed client for service)		\$900	
11	Cash Unearned Revenue (Received cash advance from R. William)		\$500	
20	Cash Service Revenue (Received cash service provided)		\$1,500	
30	Salaries Expense Cash		\$1,500	\$1,500
30	Accounts Payable Cash		\$1,500	\$1,500

### General Ledger

#### Cash

Date	Debit	Credit	Balance
Apr. 1	20,000		20,000
2		800	19,200
11	500		19,700
20	1,500		21,200
30		1,500	19,700
30		1,500	18,200

#### Patricia Perez, Capital

Date	Debit	Credit	Balance
Apr. 1		20,000	20,000

#### Salaries Expense

Date	Debit	Credit	Balance
Apr. 1		1,200	1,200
30		1,500	2,700

#### Architectural Supplies

Date	Debit	Credit	Balance
Apr. 3	1,500		1,500

#### Accounts Receivable

Date	Debit	Credit	Balance
Apr. 10	900		900

#### Service Revenue

Date	Debit	Credit	Balance
Apr. 10		900	900
Apr. 20		1,500	2,400

#### Salaries Payable

Date	Debit	Credit	Balance
Apr. 1		1,200	1,200

#### Rent Expense

Date	Debit	Credit	Balance
Apr. 2		800	800

#### Unearned Revenue

Date	Debit	Credit	Balance
Apr. 11		500	500

### Patricia Perez

Trial Balance as of April 30, 2006

Accounts	Debit	Credit
Cash	\$ 18,200	
Accounts Receivable	\$ 900	
Architectural Supplies	\$ 1,500	
Salaries Payable		\$ 1,200
Unearned Revenue		\$ 500
Patricia Perez, Capital		\$ 20,000
Service Revenue		\$ 2,400
Salaries Expense	\$ 2,700	
Rent Expense	\$ 800	
	\$ 24,100	\$ 24,100

4.11. Listed below are the January transactions for Big Ben Clock Repair Store, owned by David McDonald. Record them in general journal form.

- Jan. 1 Invested \$7,000 cash and equipment with a book value of \$2,800
- 3 Paid first month's rent, \$700
- 5 Cash repairs, \$1,400
- 7 Purchased supplies on account, \$325
- 8 Repaired grandfather clock on account, \$900
- 8 Paid wages, \$275
- 11 Purchased equipment, \$550 cash
- 12 Cash repairs, \$2,700
- 15 Purchased equipment on account, \$400
- 17 Paid for advertising, \$325
- 19 Withdrew \$500 for personal expenses
- 21 Received \$500 on account from Jan. 8 transaction
- 22 Paid wages, \$325
- 25 Cash repairs, \$3,400
- 26 Paid \$400 on account from Jan. 15 transaction
- 29 Repaired a clock on account, \$345

### General Journal

Date		Debit	Credit
Jan. 1	Cash	\$ 3,000	
	Equipment	\$ 2,800	
	Owner's Capital (Invested Cash and Equipment)		\$ 9,800
3	Rent Expense	\$700	
	Cash (Paid first month rent)		\$700
5	Cash	\$1,400	
	Repair Income (Cash received for repairing)		\$1,400
7	Supplies	\$325	
	Accounts Payable (Purchased supplies on account)		\$325
8	Acc. receivable	\$900	
	Repair Income (Repaired grandfather clock on acc.)		\$900
8	Salaries Expense	\$275	
	Cash (Paid wages)		\$275
11	Equipment	\$550	
	Cash (Purchased equipment on cash)		\$550
12	Cash	\$2,700	
	Repair Income (Received cash for repairing)		\$2,700
15	Equipment	\$400	
	Acc. payable (Purchased equipment on acc.)		\$400
17	Advertising Expense	\$325	
	Cash (Paid for advertising)		\$325
19	Owner's Withdrawal	\$500	
	Cash (Withdrew for personal expenses)		\$500
21	Cash	\$500	
	Acc. receivable (Received \$500 on acc. from Jan 8 trans)		\$500
22	Salaries Expense	\$325	
	Cash (Paid wages)		\$325
25	Cash	\$3,400	
	Repair Income (Received cash for repairing)		\$3,400
26	Acc. payable	\$400	
	Cash (Paid \$400 on acc. from Jan 15 trans)		\$400
29	Acc. receivable	\$345	
	Repair Income (Repaired clock on acc.)		\$345

**Big Ben Clock Repair Store**  
**General Ledger**  
**Month of January**

Cash			
Date	Debit	Credit	Balance
Jan. 1	2,000		2,000
3		700	6,300
5	1,900		7,700
8		275	7,425
11		550	6,875
12	2,700		9,575
17		325	9,250
19		500	8,750
21	500		9,250
22		325	8,925
25	3,400		12,325
26		900	11,925
<i>Repair Income</i>			
Date	Debit	Credit	Balance
Jan. 5	1,400		1,400
8		900	2,300
12	2,700		5,000
25	3,400		8,400
29		345	8,745

Equipment			
Date	Debit	Credit	Balance
Jan. 1	2,800		2,800
11	550		3,350
15	400		3,750
<i>Acc. Receivable</i>			
Date	Debit	Credit	Balance
Jan. 8	900		900
21		500	400
29	345		745
<i>Acc. Payable</i>			
Date	Debit	Credit	Balance
Jan. 7		325	325
15		400	725
26	900		325
<i>Advertising Expense</i>			
Date	Debit	Credit	Balance
Jan. 17	325		325

Supplies			
Date	Debit	Credit	Balance
Jan. 7	325		325
<i>Owner's Capital</i>			
Date	Debit	Credit	Balance
Jan. 1		9,800	9,800
<i>Owner's Withdrawal</i>			
Date	Debit	Credit	Balance
Jan. 19	500		500
<i>Rent Expense</i>			
Date	Debit	Credit	Balance
Jan. 3	700		700
<i>Salaries Expense</i>			
Date	Debit	Credit	Balance
Jan. 8	275		275
22	325		600

**Big Ben Clock Repair Store**  
**Trial Balance**  
**as of January 29**

Accounts	Debit	Credit
<i>Assets</i>		
<i>Cash</i>	\$ 11,925	
<i>Account Receivable</i>	\$ 745	
<i>Equipment</i>	\$ 3,750	
<i>Supplies</i>	\$ 325	
<i>Liabilities</i>		
<i>Account Payable</i>		\$ 325
<i>Owner's Equity</i>		\$ 9,800
<i>Owner's Capital</i>		\$ 9,800
<i>Revenues</i>		
<i>Repair Income</i>		\$ 8,745
<i>Expenses</i>		
<i>Owner's Withdrawal</i>	\$ 500	
<i>Advertising Expense</i>	\$ 325	
<i>Rent Expense</i>	\$ 700	
<i>Salaries Expense</i>	\$ 600	
	<b>\$ 18,870</b>	<b>\$ 18,870</b>

## Adjusting Entries

**Prepayments:**

1. **Prepaid Expenses:** Expenses paid in cash and recorded as assets before they are used or consumed.
2. **Unearned Revenues:** Cash received and recorded as liabilities before revenue is earned.

**Accruals:**

1. **Accrued Revenues:** Revenues earned but not yet received in cash or recorded.
2. **Accrued Expenses:** Expenses incurred but not yet paid in cash or recorded.

## Preparation of Financial Statement/Final Account

**For Sole Tradership Business**

1. **Income Statement (Single Step Method and Multiple Step Method)**
2. **Classified Balance Sheet**

**For Company Business**

1. **Income Statement (Single Step Method and Multiple Step Method)**
2. **Retained Earnings Statement**
3. **Classified Balance Sheet**

**Problem-5**

The following is the Trial Balance of Abdullah Ltd on 31.12.2006

Dr.	Tk.	Cr. Tk.
Calls in arrear in respect of 200 shares	400 each Tk. 9 called up.	40,000
Purchases	38,000	Sales
Inventory (1-1-2006)	2,720	General Reserve
Sundry Expenses	2,820	Taxation Reserve
Wages and Salaries	4,320	Investment Income
Investment	49,500	Investment Fluctuation Fund
Plant	7,500	Accounts Payable
Rent Paid	4,120	Profit and Loss Account
Accounts Receivable	14,200	
Cash in hand	700	
Cash at Bank	20,070	
Preliminary Expenses	<u>1,000</u>	
	<u>1,45,350</u>	<u>1,45,350</u>

Adjustments:

- (a) Ending Inventory Tk. 16,000 (Market price Tk. 18,000);
  - (b) Investment Income accrued Tk. 150;
  - (c) Create a provision of 10% on Accounts Receivable for Bad and Doubtful Debts;
  - (d) Taxation Reserve is to be increased to Tk. 17,000;
  - (e) Wages outstanding Tk. 500.
  - (f) Write off Preliminary Expenses 50%;
  - (g) There is a contingent liability of Tk. 5,000 for bills accepted on behalf of another company;
  - (h) Proposed dividend 10%.
- Required
1. Income statement (Multiple-step method)
  2. Retained Earnings Statement
  3. Balance Sheet.

**Abdullah Ltd  
Income Statement  
for the Year Ended on December 31, 2006**

Particulars	Tk.-	Tk.-	Tk.-
<i>Sales Revenue :</i>			
Net Sales			75,310
<i>(-) Cost of Goods sold :</i>			
Opening Stock		2,720	
Purchases		38,000	
Wages	4,320		
Due	<u>500</u>		
Goods available for sale		<u>49,820</u>	
<i>(-) Ending Inventory</i>		<u>45,540</u>	
Total Cost of Goods sold		<u>16,000</u>	
<i>Gross Profit</i>			<u>29,540</u>
			<u>45,770</u>
<i>(-) Operating Expenses :</i>			
Alliance for bad debt		1,420	
Rent paid		5,120	
Sundry Expenses		<u>2,820</u>	
<i>Operating Income</i>			<u>8,360</u>
			<u>37,410</u>
<i>(+) Non-Operating Income :</i>			
Investment Income		620	
Accrued		<u>150</u>	
			<u>770</u>
<i>(-) Non-Operating Expenses :</i>			
Income Tax Provision		2,000	
Preliminary Expense Write off		<u>500</u>	
			<u>2,500</u>
<i>Income for the Period</i>			<u>35,680</u>

Abdullah Ltd  
Retained Earnings Statement  
for the Year Ended on December 31, 2006

Retained Earnings Balance	6,050
(+) Net Income	35,680
	<u>41,730</u>
(-) Proposed Dividend	3,960
Retained Earnings Closing	<u>37,770</u>

Abdullah Ltd  
Balance Sheet  
As on December 31, 2006

	Tk.	Tk.	Tk.
<u>Assets :</u>			
Current Assets :			
Cash in hand	700		
Cash in Bank	20,070		
Accounts Receivable	19,200		
(-) Allowance for bad debt	<u>1,420</u>		
Ending Stock	12,780		
Income Receivable on Investment	16,000		
Total Current Assets	<u>150</u>		
Long-Term Investment	49,500		
(-) Fluctuation Fund	<u>300</u>		
Fixed Assets :			
Plant		7,500	
Preliminary Expense	6,000		
(-) Written off	<u>500</u>		
Total Assets		<u>500</u>	
<u>Liabilities :</u>			
Current Liabilities :			
Accounts Payable	2,070		
Proposed Dividend	3,960		
Wages Payable	500		
Taxation Provision		<u>17,000</u>	
Total Liabilities			23,530
<u>Stockholder's Equity :</u>			
Common Stock	40,000		
(-) Calls in arrear	<u>400</u>		
Retained Earnings		39,600	
General Reserve		37,770	
Total Stockholder's Equity		<u>6,000</u>	
Total Liabilities and Stockholder's Equity			<u>1,06,900</u>

## Store Ledger

**Methods of Store Ledger preparation:**

1. First In First Out (FIFO)
2. Last In First Out (LIFO)
3. Average Method
  - i. Simple Average Method
  - ii. Weighed Average Method

Weighed average:  $Rate = \frac{Amount}{Quantity}$

Simple average:  $Rate = avg(rate)$

**Problem 31:** prepare a stores ledger under the LIFO method of pricing the issues of stores, using the following information:

2002			Units
Jan	1	Balance in hand @ Rs. 1.10 per unit	100
	2	Received @ Rs. 1.20 per unit	200
	10	Issued	150
	14	Received @ Rs. 1.30 per unit	100
	18	Issued	150
	23	Returned from the issues on 10 <sup>th</sup> January	20
	26	Received @ Rs. 1.20 per unit	100
	30	Wastage	10
	31	Issued	110

**Company Name  
Store Ledger  
Method: FIFO**

Date	Receive/Purchase			Issued			Balance		
	Qty Unit	Rate Tk.	Amount Tk.	Qty Unit	Rate Tk.	Amount Tk.	Qty Unit	Rate Tk.	Amount Tk.
1-1-02	—	—	—	—	—	—	100	1.10	110
2-1-02	200	1.20	240	—	—	—	100	1.10	110
							200	1.20	240
10-1-02	—	—	—	100	1.10	110	50	1.20	60
							150	1.20	180
14-1-02	100	1.30	130	—	—	—	150	1.20	180
							100	1.30	130
18-1-02	—	—	—	150	1.20	180	100	1.30	130
23-1-02	20	1.20	24	—	—	—	100	1.30	130
							20	1.20	24
26-1-02	100	1.20	120	—	—	—	100	1.30	130
							120	1.20	144
30-1-02	—	—	—	10	1.30	13	90	1.30	117
							120	1.20	144
31-1-02	—	—	—	90	1.30	117	20	1.20	24
							100	1.20	120