

- e. a decrease in assets and a decrease in liabilities.
- f. an increase in liabilities and a decrease in owner's equity.
- g. an increase in owner's equity and a decrease in liabilities.

Solution

2. 1. c 3. a 5. d 7. e
2. d 4. b 6. b 8. f

Practice Problem

Prepare a tabular presentation and financial statements.

(LO 4, 5) Joan Robinson opens her own law office on July 1, 2022. During the first month of operations, the following transactions occurred.

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 for 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

- Prepare a tabular summary of the transactions.
- Financial Statement** Prepare the income statement, owner's equity statement, and balance sheet at July 31, 2022, for Joan Robinson, Attorney.

Solution

a.	Assets				=	Liabilities		+	Owner's Equity			
Transaction	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.	−900											−500
												−300
												−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>
	<u>\$15,500</u>					<u>\$15,500</u>						

b.

Joan Robinson, Attorney Income Statement For the Month Ended July 31, 2022		
Revenues		
Service revenue		\$3,500
Expenses		
Rent expense	\$800	
Salaries and wages expense	500	
Utilities expense	300	
Advertising expense	<u>100</u>	
Total expenses		<u>1,700</u>
Net income		<u><u>\$1,800</u></u>
Joan Robinson, Attorney Owner's Equity Statement For the Month Ended July 31, 2022		
Owner's capital, July 1		\$ 0
Add: Investments	\$11,000	
Net income	<u>1,800</u>	<u>12,800</u>
		12,800
Less: Drawings		<u>1,000</u>
Owner's capital, July 31		<u><u>\$11,800</u></u>
Joan Robinson, Attorney Balance Sheet July 31, 2022		
<u>Assets</u>		
Cash		\$10,500
Accounts receivable		2,000
Equipment		<u>3,000</u>
Total assets		<u><u>\$15,500</u></u>
<u>Liabilities and Owner's Equity</u>		
Liabilities		
Notes payable		\$ 700
Accounts payable		<u>3,000</u>
Total liabilities		3,700
Owner's equity		
Owner's capital		<u>11,800</u>
Total liabilities and owner's equity		<u><u>\$15,500</u></u>

Brief Exercises, DO IT! Exercises, Exercises, Problems, Data Analytics Activities, and many additional resources are available for practice in WileyPLUS.