

Study Notes  
Financial Accounting: An Introduction to  
Concepts, Methods, and Uses, 14e  
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## 1 Problem 1.2 for Self-Study

**Cash versus accrual basis of accounting.** *Thompson Hardware Store* commences operations on January 1, 2013, when Jacob Thompson invests \$30,000.00 for all of the common stock of the firm. The firm rents a building on January 1 and pays two months' rent in advance in the amount of \$2,000.00. On January 1 it also pays the \$1,200.00 premium for property and liability insurance coverage for the year ending December 31, 2013. The firm purchases \$28,000.00 of merchandise inventory on account on January 2 and pays \$10,000.00 of this amount on January 25. On January 31 the cost of unsold merchandise is \$15,000.00. During January the firm makes cash sales to customers totaling \$20,000.00 and sales on account totaling \$9,000.00. The firm collects \$2,000.00 from these credit sales by the end of January. The firm pays other costs during January as follows: utilities, \$400.00; salaries, \$650.00; and taxes, \$350.00. What are *Thompson Hardware Store's* revenues, expenses, and income for January, assuming (1) the *accrual basis of accounting* and (2) the *cash basis of accounting*?

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Sales Revenue .....	€ 140,000.00
Cost of Goods Sold .....	(42,000.00)
Rent Expense .....	(7,000.00)
Salaries Expense .....	(25,000.00)
Net Income .....	€ 66,000.00

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