

CHAPTER: ONE

ACCOUNTING IN ACTION

CHAPTER AT A GLANCE

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1.1: Definition of accounting

Origin: The word ‘Accounting’ comes from the Latin word ‘Calculi’ which means to count. But academically, accounting is an information system that identifies, records, and communicates the economic events of an organization to interested users.

Definition: Accounting is the process of identifying, recording, and communicating economic events of an organization to interested users.

- The first part of the process, **identifying**, involves selecting those events that are considered evidence of economic activity relevant to a particular business organization.
- **Recording** is the keeping of a chronological diary of measured events in an orderly and systematic manner.
- **Communication** occurs through the preparation and distribution of accounting reports.

Authorized Definition:

- According to American Accounting Association (AAA), accounting has been defined as, *“The process of identifying, measuring, and communicating information to permit judgment and decision by the users.”*
- According to American Institute of Certified Public Accountants (AICPA) is that *“Accounting is the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of financial character and interpreting the results thereof.”*
- According to FASB *“Accounting is the service activity of financial recording and reporting”*

Examples

- Calculation of income
- The activities of an accountant,

Conclusion: Accounting is the process of recording and informing economic events to make financial decisions.

1.2: The history of accounting:

Introduction: The history of accounting or accountancy is thousands of years old and can be traced to ancient civilizations. But the history of accounting profession is very young. It is indeed that modern civilization is impossible without accounting. .

Origin of Accounting: Accounting records dating back more than 7,000 years have been found in Mesopotamia, and documents from ancient Mesopotamia show lists of expenditures, and goods received and traded. The Italian Luca Pacioli, recognized as *The Father of accounting and bookkeeping* was the first person to publish a work on double-entry bookkeeping, and introduced the

field in Italy.

Modern accounting is based on the Luca Pacioli's book "Summa de Arithmetica, Geometric, Proportions et Proportionality" which means an Overview of arithmetic, geometry and proportions. It was published in 1494 in Venice. The modern profession of the chartered accountant originated in Scotland in the nineteenth century.

History Chronology: Modern accounting is developed through the following five stages:

1. Accounting in the primitive Age.
2. Accounting in the middle Ages.
3. Accounting in the pre-industrial revolution age.
4. Accounting from industrial revolution to nineteenth century.
5. Accounting in the twentieth century and present time.

They are briefly discussed below:

- (1) **Accounting in the primitive age:** The times before 476 year are known as primitive age of accounting. In this period accounting is limited upto counting. At that time the business activities were operated through barter system.
- (2) **Accounting in the middle age:** The period from the year 476 to 1453 is known as the middle age of accounting. In this period business activities were expanded from one country to another country. At that time the business activities were operated through monetary system.
- (3) **Accounting pre-industrial revolution age:** The period from the year 1454 to 1760 is known as the pre-industrial revolution of accounting. This is the golden period for accounting establishment. In this period some books on accounting written and published like Luca Pacioli's , Summa de Arithmetica, Geometric, Proportions et Proportionality, Cotrugli's Della etc.
- (4) **Accounting from industrial revolution to nineteenth century:** The period from the year 1760 to the end of nineteenth century is known as post industrial period of accounting. In this period some branches of accounting like cost accounting is originated. In this period some accounting standards and institutions like the Institute of Accountants in Edinburgh is established. Also in this period, the three types of business concerns - proprietorship, partnership, and corporation were established.
- (5) **Accounting in the twentieth century and present time:** After the year 1900 to date is known as modern accounting age. Within this period all types of branches of accounting like costing, management accounting, auditing, taxation, government accounting, socioeconomic accounting, human resource accounting etc are perfectly established. In recent years, electronic accountings like software, e-business, e-commerce, website etc are very popular to the users for easiness, cheapness, and fastness.

1.3: Father of accounting/Luca Pacioli

Father of Accounting: Fra Luca Bartolomeo de Pacioli (sometimes *Paccioli* or *Paciolo*; c. 1447–1517) was an Italian mathematician, Franciscan friar, collaborator with Leonardo da Vinci, and a seminal contributor to the field now known as accounting. He is referred to as "The Father of Accounting and Bookkeeping" and he was the first person to publish a work on the double-entry system of book-keeping.

The concept of accounting comes from his book. But it is considered the first book on -counting was *Della Mercatura e del Mercante Perfetto* written by Benedetto Cotrugli in 1458 and published in 1573.

Luca Pacioli was born in Sansepolcro, Italy in 1445. He was a Franciscan monk. But he was famous as an Italian Renaissance Mathematician.

Modern accounting is based on the book of Luca Pacioli named *Summa de Arithmetica, Geometric, Proportions et Proportionality* which means an Overview of arithmetic, geometry and proportions. It was published in 1494 in Venice. This book contains 36 chapters on bookkeeping. Present accounting concept comes from the chapter *De Computis et Scripturis* which means of reckoning and writings. In his text he described a system to ensure that financial information was recorded efficiently and accurately.

1.4: Users of accounting information

There are many different users of accounting information and the users may be classified into two groups;

- a. Internal users or Primary users -inside the organizations
 - b. External users or secondary users- outside the organizations
- a. Internal users (Primary users):** Internal users are the management of an organization who take part day to day decision of the organization. For example-
1. Sales Manager
 2. Purchase Manager,
- .
1. **Sales Manager:** Accounting information is of great assistance to sales manager for planning, controlling and decision making process.
 2. **Purchase Manager:** Purchase manager uses the accounting information to find out the total purchase and forecast the next year demand.

b. External users (Secondary users): Anybody other than management are called external users. For example-

1. Creditors
2. Tax authorities
3. Investors
4. Customers
5. Regulatory authorities
6. Suppliers
7. Labor union

1. **Creditors:** Creditors are interested in accounting information, because it enables them to determine the credit worthiness of the business. Terms of credit are set by creditors according to the assessment of their customers' financial health. Creditors include suppliers as well as lenders of finance such as banks.
2. **Tax authorities:** For determining the credibility of the tax returns filed on behalf of the company.
3. **Investors:** They need the information, because they are concerned with the risk inherent in investing and the returns. Investors want to make sure they can earn a reasonable return on their investment before they commit any financial resources to the company.
4. **Customers:** Customers have interest in the accounting information for assessing the financial position of a business, especially, when they have a long term involvement with, as it enables to maintain a steady source of business.
5. **Regulatory authorities:** The accounting information is needed for them to ensure that it is in accordance with the rules and regulations and it protects the interests of the stake holders who rely on such information.
6. **Suppliers:** Suppliers uses of accounting information to evaluate risks of granting credit.
7. **Labor union:** Labor union want to know whether the owner can pay, give benefits, increased wages etc.

Others users of accounting information:

- Competitors
- Auditors
- Researchers and academicians
- Representatives of others interest like brokers and underwriters
- Potential shareholders, etc.

Conclusion: In conclusion we can say, different users use accounting information to make better decision.

1.5: Importance of accounting in business

Without accounting information, it is impossible to run a business organization. The importance of accounting are shown below:

1. Permanent record
 2. To find out profit and loss
 3. To evaluating the performance of business
 4. To manage and monitor cash flow
 5. Helps business to be statutory compliant
 6. Create budget and future projections
 7. To satisfy the requirements of law
 8. To make decision
 9. Efficient use of resources
1. **Permanent Record:** Any business firm needs a permanent record of the transactions to use as future evidence. These records could be required for internal purpose, or for taxation purpose or for any other purpose. Accounting serves this function. Whenever the organization commits any resource of monetary value either within the firm or outside the firm, a record is made. This permanent record is held on for years and can be retrieved as and when needed.
 2. **To find out profit and loss:** It is one of the main objectives of accoutering. Accounting helps us to find out profit and loss.
 3. **To evaluating the performance of business:** The accounting records reflect the results of operations as well as statement of financial position. Users can compare previous period accounting data with current period as well as budgeted figures for variance analysis.
 4. **To manage and monitor cash flow:** The working capital and cash requirement of an enterprise can be duly taken care by proper accounting system.
 5. **Helps business to be statutory compliant:** Proper business accounting ensures timely recording our liabilities which needs to be paid within the prescribed time line. This includes provident fund, pension fund, VAT, sales tax, income tax. Timely payment of liabilities helps enterprises to be statutory compliant.
 6. **Create budget and future projections:** Accounting data helps an enterprise to prepare budget and forecast for future period. Business trends are projected based on past data produced by accounting system.
 7. **To satisfy the requirements of law:** Entities such as companies, societies, public trusts are compulsorily required to maintain accounts as per the law governing their operations such as

Companies Act., Societies Act., and Public Trust Act etc. Maintenance of accounts is also compulsory under the Sales Tax Act and Income Tax Act.

- 8. To make decision:** Accounting helps to make decision properly and accurately.
- 9. Efficient use of resources:** Firms can also conduct useful internal analysis with the help of accounting data. Accounting records tell the firm what resources were committed to what activity and what time. These records also summarize the return that was obtained from these activities. Management can then analyze past behavior and draw lessons about how they could have performed better and used resources more efficiently.

1.6: Branches of accounting

There are three branches of Accounting

1. Financial Accounting:
 2. Cost Accounting
 3. Management Accounting
- 1. Financial Accounting:** It is concerned with recording of business transactions in the books of accounts in such a way that operating result of a particular period and financial position on a particular date can be known.
 - 2. Cost Accounting:** Cost accounting is that branch of accounting which is related to calculate of total cost or per unit cost of goods or services. Its aim is to reduce cost of production and increase profitability. In other words, it is used in an organization for controlling the cost.
 - 3. Management Accounting:** Management accounting is that branch of accounting which is related to use accounting information for the determination of policies and other business decisions. It uses the accounting information for analyzing the efficiency of different department of an organization.

1.7: Difference between bookkeeping and accounting

	Basis for Comparison	Bookkeeping	Accounting
1.	Meaning	Bookkeeping is an activity of recording the financial transactions of the company in a systematic manner.	Accounting is an orderly recording and reporting of the financial affairs of an organization for a particular period.
2.	What is it?	It is the subset of accounting.	It is regarded as the language of business.

3.	Decision making	On the basis of bookkeeping records, decisions cannot be taken.	Decisions can be taken on the basis of accounting records.
4.	Preparation of financial statements	Not done in the bookkeeping process.	Part of accounting process.
5.	Tools	Journal and ledgers	Balance Sheet, Profit & Loss Account and Cash Flow Statement
6.	Method/sub-fields	Single entry system of bookkeeping and double entry system of bookkeeping	Financial Accounting, Cost Accounting, Management Accounting, Human Resource Accounting, Social Responsibility Accounting.
7.	Information types	It does not provide any ready information to take managerial decisions.	It provides ready information to take managerial decisions.
8.	Standards	It follows only own organizational standard	It follows internationally recognized standards
9.	Control	It has no controlling power over management	It has controlling power over management
10.	Determination of financial position	Bookkeeping does not reflect the financial position of an organization.	Accounting clearly shows the financial position of the entity.

1.8: Transaction and its characteristics/features

Transaction: Transactions are the economic events of the enterprise recorded by accountants. Transactions may be identified as either external or internal transactions. Event that brings changes in the financial position of the business is the transaction.

Feature/Characteristics of transaction

Following are the features of Transactions:

- **Change in financial position:** To be a transaction, there is to be changes in the financial position.
- **Measurable in monetary unit:** The events in the transaction are to be measurable in monetary unit.

- **Dual aspect:** According to the dual aspect concept, every transaction should have double effect.
- **Complete and independent:** The event in the transactions should not be dependent on another. It is to be complete and independent.
- **Visible and invisible:** The transactions may be visible or invisible. For example, depreciation, this is not visible.

Every transaction is to be supported by entry evidence. Otherwise it cannot be treated as transactions.

1.9: Difference between event and transaction

There are some difference between event and transaction. They are-

Sl. No	Event	Transaction
1.	All events are not transactions.	All transactions are events.
2.	An event may or may not bring change in the financial position of a person, family, or organization.	A transaction must bring financial change.
3.	Financial changes caused by events may or may not be measurable in terms of money. For example, death of a skilled employee may bring heavy loss to a business, but this loss is not measurable in terms of money.	The financial changes caused by transactions must be measurable in terms of money.
4.	Transfer of goods or services may or may not occur for an event.	As a consequence of transactions transfer of goods or service is a must. Of course in some cases there is exception. For example, burning of goods, fixed asset depreciation etc.
5.	It is not necessary that every event will be recorded in the books of accounts. It is needless to record any event in the books of accounts if it is not measurable in terms of money.	Every transaction must be recorded in the books of accounts; otherwise accurate results cannot be ascertained from the books of accounts.
6.	The scope of event is very wide.	The scope of transaction is limited.
7.	Transactions related to events are not always supported by evidence.	Business transactions must be supported by evidence

1.10: Generally Accepted Accounting Principles (GAAP)

Generally Accepted Accounting Principles (GAAP) are a common set of accounting principles, standards and procedures that companies must follow when they compile their financial statements. GAAP is a combination of authoritative standards (set by policy boards) and the commonly accepted ways of recording and reporting accounting information. GAAP improves the clarity of the communication of financial information.

GAAP are the foundation and ‘‘ground rules’’ for financial reporting. These principles provide the general framework determining what information is included in a financial statement and how this information is to be presented.

Generally Accepted Accounting Principles (GAAP) are the standard framework of guidelines for financial accounting used in any given jurisdiction; generally known as **accounting standards** or standard accounting practice. These include the standards, conventions, and rules that accountants follow in recording and summarizing and in the preparation of financial statements. In short, financial statements are prepared in accordance with GAAP.

Some famous definitions;

- (1) According to the International Accounting Standards Committee, 'GAAP are the standards that indicate how to report economic events.'
- (2) According to the AICPA, 'GAAP are the constitution for accountants and the canons of their art.'

1.11: The ethical issues of accounting

Ethics may be defined as a set of moral principles that distinguish what is right from what is wrong. Business ethics is the code of behavior that a business follows in its everyday operation. Ethics is a fundamental business concept especially in accounting. Ethics is a standard of conduct by which one's actions are judged as right or wrong, honest or dishonest, fair or unfair etc.

Accounting ethics refers to the standards of right and wrong conduct that apply to the accounting profession. Various accounting organizations maintain professional codes of conduct to assist accountants with upholding ethical behavior.

In the career of accounting, an accountant's action will affect other people and organizations. If a manager, customer, investors, co-workers and creditors all consistently lied and behaved unethically, effective communication and economic activities would be impossible. Information would have no credibility. In this case, ethical issues must be considered.

1.12: The accounting concepts

According concepts are as follows:

1. Business entity concept
 2. The stable monetary unit concept
 3. Dual aspect concept
 4. Going concern concept
 5. Cost concept
 6. Accounting year concept
 7. Matching concept
 8. Realization concept
-
1. **Business entity concept:** An accounting entity is an organization or a section of an organization that stands apart from other originations or individuals as a separate economic unit. From an accounting perspective, sharp boundaries are drawn around each entity so that it can separate its affairs with those of other entities.
 2. **The stable monetary unit concept:** This concept is the basis for ignoring the effect of inflation in the accounting records. Accountants assume that the dollar's purchasing power is relatively stable. This concept allows accountants to add and subtract dollar amounts as though each dollar had the same purchasing power.
 3. **Dual aspect concept:** For every credit, a corresponding debit is made. The recording of a transaction is completed only with this dual aspect.
 4. **Going concern concept:** This concept holds that the entity will remain in operation forever. Under the going concern concept, accountants assumes that the business will remain in operation long enough to use existing assets for their intended purpose.
 5. **Cost concept:** The fixed assets of a business are recorded on the basis of their original cost in the first year of accounting. Subsequently, these assets are recorded as book value. No rise or fall in market price is taken into account. The concept applies only to fixed assets.
 6. **Accounting year concept:** Each business chooses a specific time period to complete a cycle of the accounting process—for example, monthly, quarterly, or annually—as per a fiscal or a calendar year.
 7. **Matching concept:** This principle dictates that for every entry of revenue recorded in a given accounting period, an equal expense entry has to be recorded for correctly calculating profit or loss in a given period.

8. **Realization concept:** According to this concept, profit is recognized only when it is earned. An advance or fee paid is not considered as a profit until the goods or services have been delivered to the buyer.

1.13: Accounting conventions

There are four main conventions in practice in accounting: conservatism; consistency; full disclosure; and materiality.

1. **Conservatism:** Conservatism is the convention by which, when two values of a transaction are available, the lower-value transaction is recorded. By this convention, profit should never be overestimated, and there should always be a provision for losses.
2. **Consistency:** Consistency prescribes the use of the same accounting principles from one period of an accounting cycle to the next, so that the same standards are applied to calculate profit and loss.
3. **Materiality:** Materiality means that all material facts should be recorded in accounting. Accountants should record important data and leave out insignificant information.
4. **Full disclosure:** Full disclosure entails the revelation of all information, both favorable and detrimental to a business enterprise, and which are of material value to creditors and debtors.

1.14: Four assumptions that underlie the financial accounting structure

The major underlying assumption or concepts are as follows:

1. Business entity concept
 2. Going concern concept
 3. Constant money value concept
 4. Time period concept
1. **Business entity:** An accounting entity is an organization or a section of an organization that stands apart from other organizations or individuals as a separate economic unit. From an accounting perspective, sharp boundaries are drawn around each entity so as not to confuse its affairs with those of other entities.
2. **The going concern concept:** This concept holds that the entity will remain in operation forever. Under the going concern concept, accountants assume that the business will remain in operation long enough to use existing assets for their intended purpose.

3. **The stable monetary unit concept:** This concept is the basis for ignoring the effect of inflation in the accounting records. Accountants assume that the dollar's purchasing power is relatively stable. This concept allows accountants to add and subtract dollar amounts as though each dollar had the same purchasing power.
4. **Time period concept:** The time period concept ensures that accounting information is reported at regular interval. It interacts with the revenue principle and the matching principle to under the use of accruals. To measure income accurately, companies update the revenue and expense accounts immediately prior to the end of the period.

1.15: Monetary unit and economic entity assumption/accounting assumption

The Monetary Unit and Economic Entity Assumptions

The accounting profession has developed certain assumptions that serve as guidelines for the accounting process.

- a. The **monetary unit assumption** requires that only transaction data that can be expressed in terms of money be included in the accounting records of the economic entity.
- b. The **economic entity assumption** requires that the activities of the entity be kept separate and distinct from (1) the activities of its owner and (2) all other entities.

1.16: Accounting is the language of business

Accounting is the language of business because it helps people, both internal and external, to understand what is happening inside of a business. Just as language is universal to people, so is accounting in business. Regardless of where in the world a business is located, financial information is interpreted in the same way.

Experts use accounting information to assess how a business is doing. Financial documents, such as balance sheets, expense reports and audits, allow accountants to follow money and transactions. They use the data found in accounting documents to determine whether a business is financially solvent or not.

Investors use the information to determine whether they want to invest in a business. Accounting documents allow them to measure performance using ratios, such as inventory turnover, liquidity and stock performance. Without the knowledge of basic accounting principles, it is impossible to make smart decisions about investing.

Even governments use accounting to understand what businesses are doing with their money. Each year, corporations are responsible for paying taxes. The Internal Revenue Service (IRS) uses

accounting methods to determine the right amount of taxes they must pay. If the IRS desires to find out more about a business and whether or not its accounting documents are accurate, they conduct an audit.

Conclusion: Accounting fills the need for a common language of business. It records and processes financial information into an easily accessible format that can be understood by any person in the business world.

1.17: Basic accounting equation

Accounting Equation: Accounting transaction takes place within a framework called accounting equation. The accounting equation states that the economic resources of a specific entity are equal to the claims on those resources.

The accounting equation is also called the Balance sheet equation.

The **basic accounting equation** is:

Assets = Liabilities + Owner's Equity.

The accounting equation applies to all economic entities regardless of size, nature of business, or form of business organization.

Elements of Accounting Equation:

The key components/elements of the basic accounting equation are:

1. **Assets= Assets** are resources a business owns. The business uses its assets in carrying out such activities as production and sales. (Example: equipment, supplies, cash, accounts receivable)
2. **Liabilities = Liabilities** are claims against assets that is, existing debts and obligations. What the business owes outsiders (Example: bank loan, accounts payable, etc.)
3. **Owner's Equity** = the ownership claim on total assets is owner's equity. It is equal to total assets minus total liabilities. The assets of a business are claimed by either creditors or owners. what the owner owns (Example: investment and net profit)

1.17: Owner's equity and items affect owner's equity

Owner's equity: Owners Equity is the owner's interest or claim in an entity. The owner's equity in a company is called the shareholders equity. Example: Capital, Net Revenue, Reserve Fund etc.

Following are the example of some items which affects the owner's equity:

1. **Capital investment:** It is the initial and additional contribution by the owner to the business.
2. **Drawings:** It is the opposite of the capital investment. It is the money or anything that can be measured in monetary terms withdrawn by the owners.
3. **Revenues:** The revenues are inflows or other enhancement of economic benefits or service potential in the form of increases in assets or reduction in liability other than those relating to contributing by owner those results in an increase in equity during the reporting period.
4. **Expenses:** Expenses is the consumption or losses of economic benefit s or service potential in the form of reduction in assets or increases in liability of the reporting entity other than those relating to distributions to equity participants, which results in a decrease in equity during the accounting period.

1.18: Financial statement and its types

Financial statement: Financial Statements represent a formal record of the financial activities of an entity. These are written reports that quantify the financial strength, performance and liquidity of a company.

Types of financial statement:

There are four types of financial statement

1. Income statement
2. Owner's equity statement
3. Balance sheet
4. Statement of cash flows

1. Income statement:

Income Statement is also known as the Profit and Loss Statement. An income statement presents the revenues and expenses and resulting net income (or net loss) of a company for a specific period of time. The income statement lists revenues first, followed by expenses. Finally the statement shows net income (or net loss). **Net income** results when revenues exceed expenses. A **net loss** occurs when expenses exceed revenues.

2. Owner's equity statement

An owner's equity statement summarizes the changes in owner's equity for a specific period of time.

3. Balance sheet

A balance sheet reports the assets, liabilities, and owner's equity of a business enterprise at a specific date.

4. Statement of cash flows

A Statement of cash flows summarizes information concerning the cash inflows (receipts) and outflows (payments) for a specified period of time.

The statement of cash flows provides information on the cash receipts and payments for a specific period of time. The statement of cash flows reports (1) the cash effects of a company's operations during a period, (2) its investing transactions, (3) its financing transactions, (4) the net increase or decrease in cash during the period, and (5) the cash amount at the end of the period.

1.19: Financial Accounting & Management Accounting**Financial Accounting:**

Financial Accounting is an accounting system which is concerned with the preparation of financial statement for the outside parties like creditors, shareholders, investors, suppliers, lenders, customers, etc.

Management Accounting:

Management Accounting is the accounting for managers which helps the management of the organization to formulate policies and forecasting, planning and controlling the day to day business operations of the organization.

Difference between management accounting and financial accounting

Basis for Comparison	Financial Accounting	Management Accounting
1. Meaning	Financial Accounting is an accounting system that focuses on the preparation of financial statement of an organization to provide the financial information to the interested parties.	The accounting system which provides relevant information to the managers to make policies, plans and strategies for running the business effectively is known as Management Accounting.
2. Is it compulsory?	Yes	No
3. Objective	To provide financial information to outsiders.	To assist the management in planning and decision making process by providing detailed information on various matters.
4. Format	Specified	Not specified

5. Time Frame	Financial Statements are prepared at the end of the accounting period which is usually one year.	The reports are prepared as per the need and requirements of the organization.
6. User	Internal and external parties	Only internal management.
7. Reports	Summarized Reports about the financial position of the organization	Complete and Detailed reports regarding various information

GLOSSARY

- **Accounting:** The information system that identifies, records, and communicates the economic events of an organization to interested users.
- **Assets:** Resources a business owns.
- **Balance sheet:** A financial statement that reports the assets, liabilities, and owner's equity at a specific date.
- **Basic accounting equation:** $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$.
- **Bookkeeping:** A part of accounting that involves only the recording of economic events.
- **Corporation:** A business organized as a separate legal entity under state corporation law, having ownership divided into transferable shares of stock.
- **Cost principle:** An accounting principle that states that companies should record assets at their cost.
- **Drawings:** Withdrawal of cash or other assets from an unincorporated business for the personal use of the owner(s).
- **Economic entity assumption:** An assumption that requires that the activities of the entity be kept separate and distinct from the activities of its owner and all other economic entities.
- **Ethics:** The standards of conduct by which one's actions are judged as right or wrong, honest or dishonest, fair or unfair.
- **Expanded accounting equation:** $\text{Assets} = \text{Liabilities} + \text{Owner's Capital} - \text{Owner's Drawings} + \text{Revenues} - \text{Expenses}$
- **Expenses:** The cost of assets consumed or services used in the process of earning revenue.
- **Financial accounting:** The field of accounting that provides economic and financial information for investors, creditors, and other external users.
- **Financial Accounting Standards Board (FASB):** A private organization that establishes generally accepted accounting principles (GAAP).

- **Generally accepted accounting principles (GAAP):** Common standards that indicate how to report economic events.
- **Income statement:** A financial statement that presents the revenues and expenses that resulting net income or net loss of a company for a specific period of time.
- **International Accounting Standards Board (IASB):** An accounting standard-setting body that issues standards adopted by many countries outside of the United States.
- **Investments by owner:** The assets an owner puts into the business.
- **Liabilities:** Creditor claims on total assets.
- **Managerial accounting:** The field of accounting that provides internal reports to help users make decisions about their companies.
- **Monetary unit assumption:** An assumption stating that companies include in the accounting records only transaction data that can be expressed in terms of money.
- **Net income:** The amount by which revenues exceed expenses.
- **Net loss:** The amount by which expenses exceed revenues.
- **Owner's equity:** The ownership claim on total assets.
- **Owner's equity statement:** A financial statement that summarizes the changes in owner's equity for a specific period of time.
- **Partnership:** A business owned by two or more persons associated as partners.
- **Proprietorship:** A business owned by one person.
- **Revenues:** The gross increase in owner's equity resulting from business activities entered into for the purpose of earning income.
- **Sarbanes-Oxley Act of 2002 (SOX):** Law passed by Congress in 2002 intended to reduce unethical corporate behavior.
- **Securities and Exchange Commission (SEC):** A governmental agency that requires companies to file financial reports in accordance with generally accepted accounting principles.
- **Statement of cash flows:** A financial statement that summarizes information about the cash inflows (receipts) and cash outflows (payments) for a specific period of time.
- **Transactions:** The economic events of a business that are recorded by accountants.

(Ref: Accounting Principles, Weygandt, Kimmel, Kieso , Twelfth Edition)

Tips for doing Math

Transaction analysis includes the following five accounting treatments:

1. Tabular analysis by accounting Equation
2. Income statement (Single step)
3. Owner's equity statement
4. Balance sheet (Unclassified)
5. Cash flow statement

Transaction analysis by basic accounting equation:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity Or, } A = L + OE$$

Elements of owner's equity:

$$\text{Owner's equity} = \text{Owner's capital} - \text{Owner's drawing} + \text{Revenues} - \text{Expenses}$$

Tabular/Transaction Analysis (Question & Solution)

Problem 1.

(Ref: Accounting Principles, Kieso , Page: 23, Practice problem)

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

1. Joan invested \$11,000 in cash in the law practice.
2. Paid \$800 for July rent on office space.
3. Purchased office equipment on account \$3000.
4. Provided legal services to clients for cash \$1500.
5. Borrowed \$700 cash from a bank on a note payable.
6. Performed legal services for client on account \$2000.
7. Paid monthly expenses: salaries and wages \$500, utilities \$300, and advertising \$100.
8. Joan withdraws \$1000 cash for personal use.

Instructions:

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

Solution: a)

**Joan Robinson Attorney
Summary of transaction (Accounting Equations)**

For the month of July 31, 2017

Date	Assets=			Liabilities + Owner's Equity			Remarks
	Cash	Accounts Receivable	Office Equipment	Account Payable	Notes Payable	J.Robinson, Capital	

Bal.b/d	-	-	-	-	-	-	
1	+11000					+11000	Investment
2	(800)					-800	Rent Expense
3			+3000	+3000			
4	+1500					+1500	Service Revenue
5	+700				+700		
6		+2000				+2000	Service Revenue
7	(500)					(500)	Salary Expense
	(300)					(300)	Utility Expense
	(100)					(100)	Adv. Expense
8	(1000)					(1000)	Drawings
Total	<u>10500</u>	<u>2000</u>	<u>3000</u>	<u>3000</u>	<u>700</u>	<u>11800</u>	
Check	15000			15000			

Note: Remark column includes only transaction affecting the owner's equity.

Solution (b)

Joan Robinson Attorney

Income statement

For the month of July 31, 2017

Particulars	Details (\$)	Total (\$)
Revenues:		
Service Revenue (1500+2000)		3500
Less: Expenses		
Rent Expenses	800	
Salaries and wages Expenses	500	
Utilities Expenses	300	
Advertising Expenses	100	
Total Expenses		(1700)
Net income		<u>1800</u>

Joan Robinson Attorney

Owner's equity statement

For the month of July 31, 2017

	\$	\$
Beginning owner's capital		
Add: Investment	11000	
Net Income	1800	12800
Less: Drawing		(1000)
Ending owner's capital		<u>11800</u>

Joan Robinson Attorney
Balance sheet
 As at July 31, 2017

<u>Assets</u>	\$	\$
Cash	10,500	
Accounts Receivable	2,000	
Office Equipment	3,000	
Total Assets		<u>15500</u>
<u>Liabilities and Owner's Equity</u>		
Liabilities:		
Notes Payable	700	
Account Payable	3,000	
Total Liabilities		3700
<u>Owner's Equity:</u>		
Ending owner's equity		11800
Total Liabilities and owner's equity		<u>15,500</u>

Problem 2.

(Ref: Accounting Principles, Kieso , Page: 28,P1-1A)

On April 1, Julie Spengel established Spengel's Travel Agency .The following transaction was completed during the month.

- April
1. Invested \$15,000 cash to start the agency.
 2. Paid \$600 cash for April office rent.
 3. Purchased office equipment for \$3,000 cash.
 4. Incurred \$700 of advertising costs in the Chicago Tribune, on account.
 5. Paid \$900 cash for for office supplies.
 6. Performed service worth \$10,000:\$3,000 cash is received from customer, and the balance of \$7,000 is billed to customers on accounts.
 7. Withdrew \$600 cash for personal use.
 8. Paid Chicago Tribune \$500 of the account 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).

Instruction:

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

Solution: (a)

Spengel's Travel Agency
Summary of Transaction (Accounting equation)
For the month of April 30, 2017

Date	Assets=				Liabilities+ Owner's Equity		Remarks
	Cash	Accounts Receivable	Supplies	Equipment	Accounts Payable	J. Spengel Capital	
Bal. b/d	-	-	-	-	-	-	
1.	+15000					+15,000	Investment
2.	(600)					(600)	Rent expense
3.	(3000)			+3000			
4.					+700	(700)	Adv. expense
5.	(900)		+900				
6.	+3000	+7000				+10,000	Service Rev.
7.	(600)					(600)	Drawing
8.	(500)				(500)		
9.	(2500)					(2500)	Salary expense
10.	+4000	(4000)					
Bal. c/d	<u>13900</u>	<u>3000</u>	<u>900</u>	<u>3000</u>	<u>200</u>	<u>20600</u>	
	20800				20800		

Note: Remark column includes only transaction affecting the owner's equity.

Solution (b)

Spengel' Travel Agency
Income statement
For the month of April30, 2017

	Details (\$)	Total (\$)
<u>Revenues:</u>		
Service Revenue		10,000
<u>Less: Expenses</u>		
Rent Expenses	600	
Advertising Expenses	700	
Salary Expenses	<u>2,500</u>	
Total Expenses		<u>(3800)</u>
Net income		<u>6200</u>

Problem 3.

(Ref: Accounting Principles, Kieso , Page: 29, P1-2A)

Jodi 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 transaction occurred.

1. Collected \$1,200 of accounts receivable.
2. Paid \$2,800 cash on accounts payable.
3. Earned revenue of \$7,500 of which \$3,000 is collected in cash and the balance is due in September.
4. Purchased additional office equipment for \$2,000, paying \$400 in cash and 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 borrowing on a note payable.
8. Incurred utility expenses for month on account \$270

Instructions:

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

Solution (a)

Judi Salem
Summary of Transactions (Accounting Equation)
 For the Month of August 31, 2017

Date	Assets =				Liabilities+ Owner's Equity			Remarks
	Cash	Accounts Receivable	Supplies	Equipment	Notes Payable	Accounts Payable	J.Salem Capital	
Bal. b/d	5000	1500	500	6000		4200	8800	
1.	+1200	(1200)						
2.	(2800)					(2800)		
3.	+3000	+4500					+7500	Service Rev.
4.	(400)			2000		+1600		
5.	(2500) (900) (400)						(2500) (900) (400)	Salary expense Rent expense Adv. expense
6.	(700)						(700)	
7.	2000				+2000			

8.						+270	(270)	Utility exp.
Bal. c/d	<u>3500</u>	<u>4800</u>	<u>500</u>	<u>8000</u>	<u>2000</u>		<u>11530</u>	
Check	16800				16800			

Note: Remark column includes only transaction affecting the owner's equity.

Solution (b)

**Judi Salem
Income Statement**

For the month of August 31, 2017

Particular	Details (\$)	Total (\$)
<u>Revenues:</u>	Judi Salem	
Service Revenue	7500	
Total revenue		7500
<u>Less: Expense</u>		
Salaries expense	2500	
Rent expense	900	
Adv. Expense	400	
Utility expense	270	
		(4070)
Total expense		<u>3430</u>
Net income		

**Judi Salem
Owner's Equity Statement**

For the month of August, 31 2017

Particular	\$	\$
Beginning owner`s capital		-
Add: Investment	8800	
Net income	3430	12230
Less :Drawing		(700)
Ending owner`s capital		<u>11530</u>

Balance Sheet

August, 31 2017

	Details (\$)	Details (\$)
<u>Assets</u>		
Cash	3,500	
Accounts Receivable	4,800	
Supplies	500	
Equipment	8,000	

		Total assets	<u>16,800</u>
<u>Liabilities and owner's equity</u>			
Liabilities:			
Notes Payable		2,000	
Accounts Payable	Judi Salem	3,270	
	Total liabilities		5,270
<u>Owner's equity:</u>			
Ending owner's equity			11,530
Total liabilities and owner's equity			<u>16,800</u>

Problem-4

(Ref: Accounting Principles, Kieso , Page: 29, P1-3A)

On June 1, Cindy Godfrey started Devine 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 revenue and expenses for the month of June.

Cash	\$ 10,150	Service Revenue	\$6,500
Accounts Receivable	2,800	Advertising Expenses	500
Supplies	2,000	Rent Expense	1,600
Equipment	10,000	Gasoline Expense	200
Note 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:

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

Solution: (a)

Devine Designs Co.

Income Statement

For the month ended June 30, 2017

Particular	Details	Total
	\$	\$

<u>Revenues:</u>			
Service revenue		6,500	6,500
	Total revenue		
<u>Less: Expenses</u>			
Adv. Expense		500	(2,450)
Rent Expense		1,600	
Gasoline Expense		200	
Utility Expense		150	
	Total expenses		
Net income			<u>4,050</u>

Devine Designs Co.
Owner's Equity Statement
For the month ended June 30, 2017

Particular	Details (\$)	Total (\$)
Beginning owner's capital		-
Add: Investment	12,000	16,050
Net income	4,050	
Less: Drawing		(1,300)
Ending capital		<u>14,750</u>

Devine Designs Co.
Balance Sheet
June 30, 2017

<u>Assets</u>		Details (\$)	Total (\$)
Cash			
Accounts Receivable		10,150	
Supplies		2,800	
Equipment		2,000	
		10,000	<u>24,950</u>
	Total assets		
<u>Liabilities and Owner's Equity</u>			
Liabilities:			
Notes Payable		9,000	10,200
Accounts Payable		1,200	
	Total liabilities		
Owner's equity			
Ending owner's capital			14,700
Total liabilities and owner's equity			<u>24,950</u>

Solution (b)

**Devine Designs Co.
Income Statement**

For the month ended June 30, 2017

	Details (\$)	Total (\$)
<u>Revenues:</u>		
Service revenue	6500	
Add: Service revenue not recorded	900	
Total revenue		7400
<u>Less: Expenses</u>		
Adv. Expense	500	
Rent Expense	1600	
Gasoline Expense (200+150)	350	
Utility Expense	150	
Total expenses		(2600)
Net income		<u>4800</u>

**Devine Designs Co.
Owner's Equity Statement**

For the month ended June 30, 2017

	Details (\$)	Total (\$)
Beginning owner's capital		
Add: Investment		-
Net income	12000	
Less: Drawing	4800	16800
		(1300)
Ending owner's capital		<u>15500</u>

Problem 5.

(Ref: Accounting Principles, Kieso , Page: 29,P14A)

Trixie Maye started her own consulting firm, Matrix consulting, on May 1, 2017. The following transaction occurred during the Month of May.

- May
1. Maye invested \$7000 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 \$4000 cash for service provided.
12. Withdrew 1000 cash for personal use.
15. Performed \$5400 of service on account.
17. Paid \$2500 for employee salaries.
20. Paid for the supplies purchased on account on May 3.
23. Received a cash payment of \$4000 for service provided on account on May 15.
26. Borrowed \$5000 from the bank on a note payable.
29. Purchased office equipment for \$4200 on account.
30. Paid \$278 for utilities.

Instructions:

- (a) Show the effect of the previous transaction on the accounting equation using the accounting equation format.
- (b) Prepare an income statement for the month of May.
- (c) Prepare a balance sheet at May 31, 2017.

Solution: (a)

Trixie Maye
Tabular Analysis

For the month ended May 31, 2017

Date	Assets=				Liabilities+ Owner's Equity			Remarks
	Cash	Accounts Receivable	Supplies	Equipment	Notes Payable	Accounts Payable	Trixie Maye Capital	
Bal. b/d	-	-	-	-	-	-	-	
May 1	+7000						+700	Investment
2	(900)						(900)	Rent exp.
3			+600			+600		
5	(125)						(125)	Adv. Exp.
9	+4000						+4000	Service Rev.
12	(1000)						(1000)	Drawing
15		+5400					+5400	Service Rev.
17	(2500)						(2500)	Salary exp.
20	(600)					(600)		
23	+4000	(4000)						
26	+5000				+5000			
29				+4200		+4200		
30	(2750)						(275)	Utility exp.
Bal. c/d	<u>14600</u>	<u>1400</u>	<u>600</u>	<u>4200</u>	<u>5000</u>	<u>4200</u>	<u>11600</u>	
Check	20800				20800			

Solution: (b)

**Trixie Maye
Income Statement**

For the month ended May 31, 2017

	Details (\$)	Total (\$)
<u>Revenues :</u>		
Service revenue(4000+5400)		
Total revenue		9400
<u>Expense:</u>		
Rent expense	900	
Adv. Expense	125	
Salaries expense	2500	
Utility expense	275	
Total expense		(3800)
Net income		<u>5600</u>

**Trixie Maye
Balance Sheet**

As at May 31, 2017

	\$	\$
<u>Assets</u>		
Cash	14600	
Accounts Receivable	1400	
Supplies	600	
Equipment	4200	
Total assets		<u>20,800</u>
<u>Liabilities and Owner's Equity</u>		
<u>Liabilities:</u>		
Notes Payable	5000	
Accounts Payable	4200	
Total liabilities		9,200
<u>Owner's equity</u>		
Ending owner's capital (7000+5600-1000)		11,600
Total liabilities and owner's equity		<u>20,800</u>

Problem 6.

(Ref: Accounting Principles, Kieso , Page: 30, P-5A)

Financial statement information about four different companies is as follows.

	Alpha Company	Beta Company	Psi Company	Omega Company
January,1 2017				
Assets	\$80000	\$90000	(g)	\$150000
Liabilities	41000	(d)	80000	(j)
Owner's equity	(a)	40000	49000	90000
December 31,2017				
Assets	(b)	112000	170000	(k)
Liabilities	60000	72000	(h)	100000
Owner's equity	50000	(e)	820000	151000
Owner's equity change in years				
Additional investment	(c)	8000	10000	15000
Drawings	15000	(f)	12000	10000
Total revenues	350000	410000	(i)	500000
Total expenses	333000	385000	350000	(l)

Instructions:

- Determine the missing amount.
- Prepare the owner's equity statement for Alpha Company.
- Write a memorandum explaining the sequence for preparing financial statement and the interrelationship of the owner's equity statement to the income and balance sheet.

Solution: a)

Alpha Company
Determination of the missing amount
using accounting equation

- (a) Beginning assets = Beginning liabilities + Beginning owner's equity
 $\Rightarrow \$80000 = \$41000 + \text{Beginning owner's equity}$
 $\Rightarrow \text{Beginning owner's equity} = \39000 (Ans.)
- (b) Ending assets = Ending liabilities + Ending owner's equity \Rightarrow Ending assets =
 $\$60000 + \$50000 \Rightarrow \text{Ending assets} = \110000 (Ans.)
- (c) Ending owner's equity = Beginning owner's equity + Additional Investment + Total revenue - Total expense - Drawing $\Rightarrow \$50000 = \$39000 + \text{Additional investment} + \$35000 - \$333000 - \$15000 \Rightarrow \$50000 = \$41000 + \text{Additional investment}$
 $\Rightarrow \text{Additional investment} = \9000 (Ans.)

Bata Company
Determination of the missing amount
using accounting equation

- d) Beginning assets = Beginning liabilities + Beginning owner's equity
 $\Rightarrow \$90000 = \text{Beginning liabilities} + 40000$

=> Beginning liabilities = \$ 50000 (Ans.)

e) Ending assets = Ending liabilities + Ending owner's equity
 => 112000 = 72000 + Ending owner's equity

Ending owner's equity = 40000 (Ans.)

f) Ending owner's equity = Beginning owner's equity + Additional Investment + Total revenue
 - Total expense - Drawing

=> \$ 40000 = \$ 40000 + 8000 + 410000 - 385000 - Drawing
 => Drawing = \$ 33000 (Ans.)

Psi Company
Determination of the missing amount
using accounting equation

g) Beginning assets = Beginning liabilities + Beginning owner's equity
 => Beginning assets = 80000 + 49000

=> Beginning assets = \$129000 (Ans.)

h) Ending assets = Ending liabilities + Ending owner's equity
 => \$17000 = Ending liabilities + \$ 82000

=> Ending liabilities = \$88000 (Ans.)

i) Ending owner's equity = Beginning owner's equity + Additional Investment + Total
 revenue - Total expense - Drawing

=> \$49000 = \$82000 + \$1000 + Total revenues - \$350000 - \$12000

=> Total revenues = \$319000 (Ans.)

Omega Company
Determination of the missing amount
using accounting equation

j) Beginning assets = Beginning liabilities + Beginning owner's equity
 => 150000 = Beginning liabilities + 90000

=> Beginning liabilities = 60000 (Ans)

k) Ending assets = Ending liabilities + Ending owner's equity

=> Ending assets = 100000 + 151000

=> Ending assets = 251000 (Ans)

l) Ending owner's equity = Beginning owner's equity + Additional Investment + Total
 revenue - Total expense - Drawing

=> \$ 151000 = 90000 + 15000 + 500000 - Total expenses - 10000

=> \$151000 = 595000 - Total expenses

=> Total expenses = \$444000 (Ans).

Problem 7.

(NU BBA-Professional 2005)

Mr. Rahman opened a law office. Mr. Rahman Attorney at law on July 1, 2005, July 31, the balance sheet showed Cash Tk. 8, 000, Accounts Receivable Tk.3, 000, Supplies' Tk. 1, 000, Office Equipment Tk. 10, 000, Accounts Payable Tk. 8, 400 and Mr. Rahman's Capital Tk. 13, 600. During August the following transactions occurred.

- i. Collected Tk. 2, 800 of accounts receivable.
- ii. Paid Tk.5, 400 cash on accounts payable.
- iii. Earned revenues of Tk. 15, 000 of which Tk.6, 000 is collected in cash and the balance is due in August.
- iv. Purchase additional office equipment for Tk.2, 000; paying Tk. 800 in cash and the balance on account.
- v. Paid salaries Tk. 6, 000; rent Tk. 1, 800 and advertising expenses Tk. 700.
- vi. Withdrew Tk.1, 100 in cash for personal use.
- vii. Received Tk.4, 000 from Standard bank-money borrowed on a notes payable.
- viii. Incurred utility expenses for month on account Tk.500.

Solution:

Mr. Rahaman

Tabular Analysis

For the month of August, 2005

Date	Assets=				Liabilities +Owner's Equity			Remarks
	Cash	Accounts Receivable	Supplies	Office Equipment	Notes Payable	Account Payable	Capital	
Bal. b/d	8,000	3000	1,000	10,000		8,400	13,600	
i.	+2800	(2800)						
ii.	(5400)					(5,400)		
iii.	+6000	+9000					+15,000	Service Rev.
iv.	(800)			+2,000		+1,200		
v.	(8500)						(6,000) (1,800) (700)	Salary exp. Rent Exp. Ad. Exp.
vi.	(1100)						(1,100)	Drawing
vii.	+4000				+4,000			
viii.						+500	(500)	Utilities exp.
Total	<u>5,000</u>	<u>9200</u>	<u>1,000</u>	<u>1,200</u>	<u>4,000</u>	<u>4,500</u>	<u>18,500</u>	
Check	27,200					27,200		

Note: Remarks column includes only the transaction affecting the owner's equity

Problem 8.

(NU BBA-Professional 2006)

Mr. Ali started his own consulting firm-“Ali Consulting” on July 01, 2006. The following transactions occurred during the month of July, 2006.

- | | | |
|------|-----|---|
| July | 1. | He invested Tk. 50,000 cash and Tk. 10,000 books on engineering. |
| | 3. | Paid office rent for three months in advance @ Tk. 3,000 per month. |
| | 4. | Purchased office supplies on credit Tk. 2,000. |
| | 10. | Received cash for service provided Tk. 25,000. |
| | 11. | Withdrew Tk.1,500 cash from business for personal use. |
| | 15. | Performed services to the clients on account Tk. 25,000. |
| | 16. | Paid utility bill for month of July Tk. 1,500. |
| | 17. | Received cash Tk. 23,000 for services provided on account on July15 |
| | 31. | One month's office rent had become expired and treated as expenses |
| | 31. | Paid cash for insurance premium Tk. 4,500 for 3 months in advance including current month Tk.1,500. |

You are required to prepare a tabular analysis of the transactions using appropriate account titles and arrange them in the format of accounting equation.

Solution:

Mr. Ali

Tabular Analysis

For the month of July, 2006

Date	Assets=						Liabilities + Owner's Equity		Remarks
	Cash	Account Receivable	Books	Supplies	Prepaid Rent	Prepaid Insurance	Account Payable	Capital	
Bal. b/d	-	-	-						
July: 1	50,000		10,000				-	60,000	Investment
3	(9,000)				9000				
4				+2,000			+2,000		
10	25,000							25,000	Service Rev.
11	(1,500)							(1,500)	Drawing
15		25,000						25,000	Service Rev.
16	(1,500)							(1,500)	Utilities exp.
17	23,000	(23,000)							
31					(3,000)			(3,000)	Rent exp
31	(4,500)					3000		(1,500)	Insurance Exp.
Total	<u>81,500</u>	<u>2,000</u>	<u>10,000</u>	<u>2,000</u>	<u>6,000</u>	<u>3,000</u>	<u>2,000</u>	<u>1,02,500</u>	
Check	1,04,500						1,04,500		

Note: Remarks column includes only the transaction affecting the owner's equity

Problem 9.

(NU BBA-Professional 2007)

Determine the missing amount from the following transaction .

Alpha company**January 1, 2006**

Assets	2,00,000
Liabilities	(a)
Owner's Equity	1,00,000

December 31, 2006

Assets	(b)
Liabilities	60,000
Owner's Equity	2,00,000

Owners Equity changed during the year

Additional Investment	20,000
Drawing	10,000
Total Revenue	(c)
Total Expenses	4,00,000

Solution:**Alpha Company**

Determination of the missing amount
(Using accounting equation)

(a) Beginning Assets	=Beginning Liability	+ Owner's Equity
Tk. 2,00,000	=Beginning Liability	+Tk. 1,00,000
Beginning Liability	=Tk. 1,00,000	

(b) Ending Assets	=Ending Liability	+ Ending Owner's Equity
Ending Assets	=Tk. 60,000	+Tk. 2,00,000
Ending Assets	=Tk. 2,60,000	

(c) Ending Owner's Equity	= Beginning Owner's Equity	+additional Investment	+Total Revenue	-Total expenses	-Drawing
Tk. 2,00,000	= Tk. 1,00,000	+Tk. 20,000	+Total Revenue	-Tk. 40,000	-Tk. 10,000
Total Revenue		= Tk. 49,000			

Problem 10

(NU BBA-Professional 2007)

The following transactions took place during the month of April, 2007 on account of brother's corporation, Dhaka:

- July
1. Invested Tk.10, 00, 000 cash to start the business.
 3. Paid Tk.4, 000 cash for office rent.
 7. Purchase office equipment for Tk.25, 000 cash
 9. Incurred Tk.30, 000 of advertising cost in the Bangladesh Times on account.
 14. Paid Tk. 6, 000 cash for office supplies.
 19. Withdrawn Tk.20, 000 cash for personal use of the owner.
 22. Paid the "Bangladesh Times" due on advertising on April 09.
 26. Paid employee salaries Tk. 22, 000
 28. Performed services to the clients on account Tk. 35, 000.
 30. Received provided on account April 28

Prepare a tabular analysis of the transactions using appropriate account titles and arrange them in the format of accounting equation.

Solution:

Brothers Corporation, Dhaka

Tabular analysis

For the month of April, 2007

Date	Assets=				Liabilities + Owner's Equity		Remarks
	Cash	Accounts Receivable	Supplies	Office Equipment	Accounts Payable	Capital	
Bal.b/d	-	-	-		-	-	
April. 1	10,00,000					10,00,000	Investment
2	(4,000)					(4,000)	Rent exp.
7	(25,000)			+25,000			
9					30,000	(30,000)	Adver. exp.
14	(6,000)		6,000				
19	(20,000)					(20,000)	Drawing
22	(30,000)				(30,000)		
26	(22,000)					(22,000)	Salaries exp.
28.		35,000				35,000	Service Rev.
30.	35,000	(35,000)					
Total	<u>9,28,000</u>	Nil	<u>6,000</u>	<u>25,000</u>	<u>Nil</u>	<u>9,59,000</u>	
Check	9,59,000				9,59,000		

Problem-11

(NU BBA-Professional 2008)

Mr. Salman started his own consulting firm, Salman Consulting on January 1, 2008. The following transactions occurred during the month of January.

- January
1. Salma invested Tk. 20, 000 cash in the business
 2. Purchased office equipment for Tk. 15, 000. Salam paid Tk. 5, 000 cash and signed a note payable for the remaining balance.
 3. Paid Tk. 1000 for office rent for the month.
 5. Performed Tk. 10, 000 of services on account.
 10. Withdraw Tk.500 cash for personal use.
 12. Purchased supplies for Tk.300 on account.
 14. Received a cash payment of Tk.7000 for services provided on January 5.
 18. Incurred Tk.500 of advertising cost in the Bangladesh Observer on account.
 21. Received a cash payment of Tk.5000 for service provided.
 23. Made cash payment of Tk.3000 on the note payable.
 25. Paid Tk. 200 for utilities.
 30. Paid Bangladesh Observer amount due on January 18.
 31. Paid Tk.2000 for employee salaries.

Instructions:

- i. Show the effects of the previous transactions on the accounting equation using the suitable format.
- ii. Prepare an income statement for the month of January.
- iii. Prepare a balance sheet at January 31, 2008

Solution:**Requirement (i)**

Mr. Salman Consultancy
Tabular Analysis
For the month of January, 2008

Date	Assets=				Liabilities + Owner's Equity			Remarks
	Cash	Accounts Receivable	Equipment	Supplies	Accounts Payable	Notes Payable	Capital	
Bal. b/d	-	-	-					
July: 1	20,000						20,000	Investment
2	(5,000)		15,000			10,000		
3	(1,000)						(1,000)	Rent exp.
5		10,000					10,000	Service Rev.
10	(500)						(500)	Withdraw
12				300	300			
14	7,000	(7000)						
18					500		(500)	Adv. Exp.
21	5,000						5,000	Service Rev.
23	(3000)					(3,000)		

25	(200)						(200)	Utilities exp.
30	(500)				(500)			
31	(2,000)						(2,000)	Salaries exp.
Total	<u>19,800</u>	<u>3,000</u>	<u>15,000</u>	<u>300</u>	<u>300</u>	<u>7,000</u>	<u>30,800</u>	
Check	<u>38,100</u>				<u>38,100</u>			

Requirement (ii)

Mr. Salman Consultancy
Income Statement
For the month of January, 2008

	Taka	Taka
<u>Revenues:</u>		
Service Revenue		15,000
<u>Less: Expenses</u>		
Rent exp.	1,000	
Advertising exp.	500	
Utilities exp.	200	
Salaries exp.	2,000	
Total Expenses		(3,700)
Net income		<u>11,300</u>

Requirement (iii)

Mr. Salman Consultancy
Balance Sheet
As at July 31, 2008

<u>Assets</u>	Details (Taka)	Total (Taka)
Cash	19,800	
Accounts Receivable	3,000	
Equipment	15,000	
Supplies	300	
Total Assets		<u>38,100</u>
<u>Liabilities and Owner's Equity</u>		

Liabilities: Notes Payable Accounts Payable Total Liabilities Owner's Equity: Ending owner's equity Total liabilities and owner's equity		
	300	
	<u>7,000</u>	7,300
		30,800
		<u>38,100</u>

Problem 12.

(NU BBA-Professional 2009)

Raffi traders started his own delivery service. The following transactions occurred during the month of June.

1. Raffi invested Tk.20, 000.cash in his business.
2. Purchased a delivery van for Tk. 10, 000. Raffi paid Tk.3000 in cash signed a note payable for the remaining balance.
3. Paid Tk. 800 for office rent.
4. Performed Tk. 5400 of service on account.
5. Withdrew Tk.300 cash for personal use.
6. Purchase supplies for Tk.350 on account.
7. Receive a cash payment of Tk.750 for services provided on June 4.
8. Purchase gasoline for Tk.100 on account.
9. Receive a cash payment of Tk. 1500 for services provided.
10. Made cash payment of Tk.500 on the note payable.
11. Paid Tk.250 for utilities.
12. Paid for the gasoline purchased on account on June 8.
13. Paid Tk.500 for employee's salaries.

Required: You are required to show the effects of the above transactions on accounting equation.

Solution:

Raffi Traders
For the month of June
Tabular Analysis

Date	Assets=				Liabilities +Owner's Equity			Remarks
	Cash	Accounts Receivable	Supplies	Delivery Van	Account Payable	Notes Payable	Capital	
Bal. b/d	-	-	-					
July: 1	20,000						20,000	Investment
2	(3,000)			10,000		7,000		
3	(800)						(800)	Rent Exp.
4		5,400					5,400	Service Rev.

5	(300)						(300)	Drawing
6			350		350			
7	750	(750)						.
8					100		(100)	Gasoline Exp.
9	1,500						1,500	Service Rev.
10	(500)					(5,00)		
11	(250)						(250)	Utilities Exp.
12	(100)				(100)			
13	(500)						(500)	Salaries Exp.
Total	<u>16,800</u>	<u>4,650</u>	<u>350</u>	<u>10,000</u>	<u>350</u>	<u>6,500</u>	<u>24,950</u>	
Check	<u>31,800</u>				<u>31,800</u>			

Problem-13

(NU BBA Professionals 2011)

James Barger opened law office on July 1st. On July 31st the balance sheet showed Cash Tk.4,000, Accounts Receivable Tk. 1,500, Supplies Tk. 500, Office Equipment 5,000, Accounts Payable Tk.4,200 and James Barger Capital Tk.6,800. During August the following transactions occurred:-

- a. Collected Tk.1400 of account receivable.
- b. Paid Tk.2700 cash on accounts payable.
- c. Earned revenue of Tk.7500 of which Tk.3000 is collected in cash the balance is due in September.
- d. Purchased additional office equipment for Tk.1000 paying Tk.400 in cash and the balance is due in September.
- e. Paid salaries Tk.2500 rent for August Tk.900 and advertising expense Tk.350.
- f. Withdrew Tk.550 in cash for personal use.
- g. Received Tk.2000 from Standard Chartered Bank – money borrowed on a note payable
- h. Incurred utilities expenses for month on account Tk.250.

Instructions:

Prepare a tabular analysis of the August transactions beginning with July balances.

Solution:

James Berger
Tabular Analysis
For the month of August

Date	Assets=				Liabilities + Owner's Equity			Remarks
	Cash	Accounts Receivable	Supplies	Office Equipment	Accounts Payable	Notes Payable	Capital	
Bal. b/d	4,000	1,500	500	5,000	4,200		6,800	
Aug: a.	1,400	(1,400)						
b.	(2,700)				(2,700)			
c.	3,000	4,500					7,500	Service Rev.

d.	(400)			1,000	600			
e.	(2,500) (9,00) (350)						(2,500) (900) (350)	Salaries exp. Rent Exp. Advertising exp.
f.	(550)						(550)	Withdraw
g.	2,000					2,000		
h.					250		(250)	Utilities exp.
Total	<u>3,000</u>	<u>4,600</u>	<u>500</u>	<u>6,000</u>	<u>2,350</u>	<u>2,000</u>	<u>9,750</u>	
Check	<u>14,100</u>				<u>14,100</u>			

Problem 14.**(NU BBA-Professional 2011)**

Maria Gonzalez opened a veterinary business in Nashville, Tennessee, on August 1. On August 31, the balance sheet showed Cash Tk.9,000, Accounts Receivable Tk.1700, Supplies Tk. 600, Office equipment Tk.6000, Accounts Payable Tk.3,600 and M. Gonzalez Capital Tk.13,700. During September the following transactions occurred:-

1. Paid Tk. 2900 cash on accounts payable.
2. Collected Tk.1300 on accounts receivable.
3. Purchased additional office equipment for Tk.2100, paying Tk.800 in cash and the balance on account.
4. Earned revenue of Tk.8000 of which Tk.2500 is paid in cash and the balance is due in October.
5. Withdrew Tk.1000 cash for personal use.
6. Paid salaries Tk.1700 rent for September Tk.900 and advertising expense Tk.300.
7. Incurred utilities expenses for month on account Tk.170.
8. Received Tk. 10, 000 from capital Bank money borrowed on a note payable

Instruction: Show the effect of the transaction on accounting equation in a tabular form using appropriate head of money column.

Solution**Maria Gonzale**

For the month of September

Tabular Analysis (Summary of transaction)

Date	Asset=				Liabilities +OE			Remarks
	Cash	Accounts Receivable	Supplies	Office Equipment	Account Payable	Notes Payable	Capital	
Bal. b/d	9,000	1,700	600	6,000	3,600		13,700	
1.	(2,900)				(2900)			
2.	1,300	1300						
3.	(800)			2,100	1,300			
4.	2,500	5,500					8,000	Service Rev.

5.	(1,000)						(1,000)	Drawing
6.	(1,700) (900) (300)						(1,700) (900) (300)	Salaries Exp. Rent Exp. Advertising Exp.
7.					170		(170)	Utilities Exp.
8.	10,000					10,000		
Total	<u>15,200</u>	<u>5,900</u>	<u>600</u>	<u>8,100</u>	<u>2,170</u>	<u>10,000</u>	<u>17,630</u>	
Check	<u>29,800</u>				<u>29,800</u>			

Problem 15.

(NU BBA Professional-2012 & 15)

Mr. Hasan invested Tk. 15,000 cash in the business on June 1. Actually he started his own delivery service “Ajanta” on June 1, 2011. The following transaction occurred during the month of June:

- | | | |
|------|----|--|
| June | 2 | Purchased a used van for deliveries for Tk. 10,000. Hasan paid Tk. 2,000 cash and signed a note for the remaining balance. |
| | 3 | Paid Tk. 500 for wages. |
| | 4 | Borrowed Tk. 700 cash from a bank on a note payable. |
| | 5 | Performed Tk. 1,000 of service on account. |
| | 9 | Hasan withdrew Tk. 200 cash for personal use. |
| | 12 | Purchased supplies for Tk. 150 on account. |
| | 15 | Received a cash payment of Tk. 750 for service provided on June 5. |
| | 17 | Purchased gasoline for Tk. 100 on account. |
| | 20 | Received a cash payment of Tk. 1,500 for services provided. |
| | 25 | Made cash payment of Tk. 500 on the note payable. |
| | 30 | Paid monthly salaries Tk. 500. |

Instructions:

- a. Show the effect of the transaction on the accounting equation.
- b. Prepare an income statement for the month of June 30, 2011.

Solution (a)

Ajanta
Summary of Transaction
For the month of June 30, 2011

Date	Assets=				Liabilities+ Owner's Equity			Remarks
	Cash	Accounts Receivable	Supplies	Delivery Van	Account Payable	Notes payable	M.Hasan Capital	
Bal .b/d	-	-	-	-	-	-	-	
June 1	15000						15000	Investment
2	(2000)			+10000		+8000		

3	(500)						(500)	Wages Exp.
4	700					700		
5		1000					+1000	Service Exp.
9	(200)						(200)	Drawing
12			150		150			
15	750	(750)						
17					100		(100)	Gasoline Exp.
20	1500						1500	Service Exp.
25	(500)					(500)		
30	(500)						(500)	Salaries Exp.
Bal..c/d	<u>14250</u>	<u>250</u>	<u>150</u>	<u>10000</u>	<u>250</u>	<u>8200</u>	<u>16200</u>	
Check	24650				24650			

Note: Remark column includes only the transaction affecting the owner's equity.

Solution (b)

Ajanta
Income Statement
For the month of June 30, 2011

<u>Revenues:</u>	(Taka)	(Taka)
Service revenues(1,000+1,500)	2,500	2,500
Total revenues		
<u>Less: Expenses</u>		
Wages expense	500	(1,100)
Gasoline expense	100	
Salaries expense	500	
Total expense		(1,100)
Net income		<u>1,400</u>

Problem 16:

(NU BBA-Professional 2013)

The following transaction look place during the month of April, 2012 on Acme Corporation , Dhaka:

- April
1. Invested Tk. 10,00,000 cash and furniture Tk. 2,50,000 to start the business.
 3. Paid Tk. 4000 cash for office rent.
 7. Purchased office equipment for Tk. 25000 and half the amount is paid in cash and the remaining amount due.
 9. Incurred Tk. 30000 of advertising cost in the Bangladesh Times on account.
 14. Paid Tk. 6000 cash for office supplies.
 16. Purchased gasoline on cash Tk. 10000.
 19. Withdrew Tk. 20000 cash for personal use by the owner.
 22. Paid the Bangladesh Times due on advertising on April 9.
 26. Paid employee salaries Tk. 22000.
 28. Performed service to the clients on accounts Tk. 35000.
 30. Received Tk. 35000 in cash from the customer for service provided on account April 28.

Required:

- (a) Prepare a tabular analysis of the transaction using appropriate account titles and arrange them in the format accounting equation.
- (b) Prepare an income statement for April, an owner's equity statement and a balance sheet at April 30, 2012.

Solution (a)

Acme Corporation, Dhaka
Summary of Transaction
 For the month of April 30, 2012

Date	Asset =				Liabilities+ Owner's Equity		Remarks
	Cash	Accounts Receivable	Office Supplies	Office Equipment	Accounts Payable	Capital	
Bal.b/d	-	-	-	-	-	-	
April 1	1000000			250000		1250000	Investment
3	(4000)					(4000)	Rent Exp.
7	(12500)			25000	12500		
9					30000	(30000)	Advert. Exp.
14	(6000)		6000				
16	(10000)					(10000)	Gasoline Exp.
19	(20000)					(20000)	Drawings
22	(30000)				(30000)		
26	(22000)					(22000)	Salaries exp.

28		35000				35000	Service Rev.
30	35000	(35000)					
Bal. c/d	<u>930500</u>	<u>Nil</u>	<u>6000</u>	<u>275000</u>	<u>12500</u>	<u>1199000</u>	
Check	1211500				1211500		

(b)

Acme Corporation, Dhaka**Income Statement**

For the month of April 30, 2012

	(Taka)	(Taka)
<u>Revenues</u>		
Service revenue	35000	35000
Total revenue		
<u>Less; Expenses</u>		
Rent expense	4000	(66000)
Advertising expense	30000	
Gasoline expense	10000	
Salaries expense	22000	
Total expense		
Net loss		<u>31000</u>

Acme Corporation, Dhaka**Owner's Equity Statement**

For the month of April 30, 2012

	Taka	Taka
Beginning owner's capital		1,25,0000
Less: Net loss		(31000)
Less: Drawing		(20000)
Ending owner's capital		<u>1199000</u>

Acme Corporation, Dhaka**Balance Sheet**

April 30, 2012

	Taka	Taka
<u>Assets</u>		
Cash	9,30,500	
Accounts Receivable	-	

Office Supplies	6,000	
Office Equipment	2,75,000	
Total assets		<u>12,11,500</u>
<u>Liabilities and Owner's Equity:</u>		
Liabilities:		
Accounts Payable	12500	
Total liabilities		12500
Owner's Equity:		
Ending owner's capital		11,99,000
Total liabilities and owner's equity		<u>12,11,500</u>

Questions

1. What is accounting? Describe shortly the history of accounting.
2. What is the importance of accounting in business?
3. Why accounting is called the language of business?
4. "Accounting is an information system" - Explain.
5. Describe different users of accounting information.
6. The primary purpose of accounting is to produce information that is useful in making .investment and credit decisions' - Explain.
7. Explain the monetary unit and economic entity assumptions.
8. What is the basic accounting equation? Discuss the elements of the basic accounting equation.
9. Define GAAP. Discuss any five concepts and conventions.
10. Discuss the image of accounting in business.
11. Briefly describe four assumptions that underlie the financial accounting structure.
12. What items affect owner's equity?
13. What is financial statement? Describe different types of financial statement.
14. What are Financial Accounting and Management Accounting? Distinguish between Financial Accounting and Management Accounting.

Exercises**Exercise-1**

Mark Miller started his own delivery service. Miller Deliveries, on June 1, 2010. The following transactions occurred during the month of June

- | | | |
|------|-----|---|
| June | 1. | Mark invested Tk. 10, 000 cash in the business. |
| | 2. | Purchased a used van for deliveries worth Tk. 12, 000. Mark paid Tk. 2000 cash and signed a note for the remaining balance. |
| | 3. | Paid Tk. 500 for office rent for the month. |
| | 5. | Service performed Tk. 4, 400 on account. |
| | 9. | Withdrew Tk. 200 cash for personal use. |
| | 12. | Purchased supplies for Tk. 150 on account. |
| | 15. | Received a cash payment of Tk. 250 for services provided on June 5. |
| | 17. | Purchased gasoline for Tk. 100 on account. |
| | 18. | Received a cash payment of Tk. 1500 for services provided. |
| | 20. | Made cash payment of Tk. 500 on the note payable. |
| | 21. | Paid Tk.250 for utilities |
| | 23. | Paid for the gasoline purchased on account on June 17. |
| | 26. | Paid Tk.1000 for employee salaries. |

Instructions:

- i. Show the effect of the transaction on accounting equation in a tabular form using appropriate head of money column.
- ii. Prepare an income statement for the month of June.
- iii. Prepare a balance sheet at June 30, 2010.

Exercise-2

The following transaction took place during the month of April, 2012 on account of Acme Corporation, Dhaka:-

- | | | |
|-------|----|--|
| April | 1 | Invested Tk. 10, 00,000 cash and Furniture Tk. 2, 50,000 to start the business. |
| | 3 | Paid TK. 4,000 cash for office rent. |
| | 7 | Purchased office equipment for Tk. 25,000 and half of the amount is paid in cash and the remaining amount due. |
| | 9 | Incurred Tk. 30,000 of advertising cost in the Bangladesh Times on account. |
| | 14 | Paid Tk. 6,000 cash for office supplies. |
| | 16 | Purchased gasoline on cash for personal use by the owner Tk. 1,000. |
| | 19 | Withdrawn Tk. 20,000 cash for personal use by the owner. |
| | 22 | Paid the “Bangladesh Times” due on advertising on April 9 |
| | 26 | Paid employee salaries Tk. 22,000 |
| | 28 | Performed services to the clients on accounts Tk. 35,000. |
| | 30 | Received Tk. 35,000 in cash from the customer for service provided on account April 28. |

Required:

- (a) Prepare a tabular analysis of the transactions using appropriate account titles and arrange them in the format of accounting equation.
- (b) Prepare an Income Statement for April, an Owner's Equity Statement and a Balance Sheet at April 30, 2012.

Exercise-3.

Barone's Repair Shop was started on May 1, 2015. Summary of May transactions is presented below:

- May
- 1. Invested Tk.1,00,000 Cash to start the repairs shop (Repairs shop Tk.1,00,000).
 - 2. Purchased equipment for Tk.5, 000 cash (Equipment Tk.5, 000).
 - 3. Paid Tk.400 cash for May office rent Tk.400.
 - 4. Paid Tk.500 cash supplies (supplies Tk.500).
 - 5. Incurred Tk.250 of advertising at the Beacon News on account
 - 6. Received Tk.5100 in cash from customers for repair services
 - 7. Withdrew Tk.1000 cash for personal useTk.1000.
 - 8. Paid part-time employee salaries Tk.2000.
 - 9. Paid utilities bill Tk.140.
 - 10. Provided repair service on account to customers Tk.750.
 - 11. Collected cash of Tk.120 for services billed in transaction (10).

Instructions:

- (a) Prepare a tabular analysis of transactions, using the following column headings: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable and Nancy Barone's Capital. Revenue is called Service Revenue.
- (b) From an analysis of the column Nancy Barone's Capital, compute the net income or net loss for May.

Exercise-4

Mr. Firoj is a licensed architect. During the first month of the operation of his business, the following events and transactions occurred:-

- June
- 1. Mr. Firoj invested Tk.50, 000 cash.
 - 1. Hired a secretary-receptionist at a salary of Tk.5, 000 per month.
 - 2. Paid office rent for the month Tk.2,000.
 - 3. Purchased architectural supplies on account from Dhaka Company Tk. 20, 000
 - 10. Completed blueprints on a carport and billed client Tk. 3,000 for services.
 - 20. Received Tk.5,000 cash for services completed and delivered to Salma and Co.
 - 30. Paid secretary reception for the month Tk. 5000.
 - 30. Paid Tk. 1,000 to Dhaka Company for accounts due.

Instructions:

- 1. Show the effects of the previous transactions on the accounting equation using the suitable format.
- 2. Prepare an income statement for the month.
- 3. Prepare a balance sheet.

Exercise-5

Sohana started her own consulting firm, named consult Sohana, on January 1, 2008. During the first month of operation the following transactions occurred.

- Jan. 1. Sohana invested Tk.10, 000 in cash in the business.
 10. Paid Tk.800 for the monthly rent.
 15. Purchased office equipment on account Tk.3000.
 19. Rendered consulting services to the clients for cash Tk.1500.
 22. Borrowed Tk.700 cash on a note payable.
 25. Rendered consulting services to the clients on credit Tk.2000
 28. Paid monthly salary Tk.500
 29. Paid monthly utilities Tk.400
 30. Paid Tk. 1000 for equipment purchased on January 15.
 31. Cash received Tk. 1000 for services rendered on January 25.
 31. Received Tk. 1000 for services rendered on January 25.
 31. Sohana Withdraw Tk. 200 from business for personal use.

Instructions:

- Show the effects of the previous transactions on the accounting equation using the suitable format.
- Prepare an income statement for the month.
- Prepare a balance sheet.

Exercise-6

Auhon opened a business on September 2009. During the first month of operation the following transactions occurred.

- Sep. 1. Invested Tk.20, 000 cash in the business;
 2. Paid Tk.1000 cash for store rent for the month of September;
 3. Purchased washer and dryer for 25, 000 paying Tk.10, 000 in cash and signing a 15000 six month notes payable.
 4. Paid Tk.1200 for one year accident policy.
 10. Received bill from the daily news for advertising the opening of the business Tk.200.
 20. Withdrew Tk.700 cash for personal use.
 30. Determine that cash receipts for laundry services for the month were Tk.6,200.

Instructions:

- Show the effects of the previous transactions on the accounting equation using the suitable format.
- Prepare an income statement for the month.
- Prepare a balance sheet .

Exercise-7

Harun Traders started its delivery business on August 2010. In the month, the following transactions occurred.

- August. 1. Mr. Harun, the owner, invested Tk.1,50,000 in the business
 2. Purchased a delivery van for Tk.50,000 paying Tk.20.000 in cash and signing a Tk.30.000 note occupied an office and Tk.5.000 cash as rent.

- 10. Purchase supplies of Tk.3,500 in cash.
- 15. Performed delivery service of Tk. 9,000 on account.
- 18. Received cash payment of Tk.5,000 for August 15 transaction.
- 23. Performed delivery service for cash for Tk. 6,000
- 27. Paid Tk. 1,500 cash for trade license fees.
- 31. Paid utilities expense, Tk.2,000 and salaries expenses, Tk. 5,000 in cash

Instructions:

- a. Show the effects of the previous transactions on the accounting equation using the suitable format.
- b. Prepare an income statement for the month.
- c. Prepare a balance sheet.

Exercise-8

Naved owns and operates Naved plumbing service, which has the following assets: Cash Tk. 10,000, plumbing supplies Tk. 1,000 tools Tk. 2,000 and truck Tk. 8,000. The business owes plumbing supply company Tk. 1,000 for supplies previously purchased. During a short period, the service company completed these transactions.

- Jan.
- 1. Paid the rent on the shop space for two month in advance Tk. 2,000.
 - 2. Purchased tools for cash Tk. 2,000.
 - 4. Purchased plumbing supplies on credit from plumbing supply company Tk. 2,500.
 - 5. Completed repair work for a customer and immediately and collected Tk. 3,000 cash for the work done
 - 6. Completed repair work for X Co. on credit Tk. 3,000.
 - 8. Paid plumbing supply company the amount owed at the beginning of the month.
 - 10. X Co. paid for the work completed.
 - 15. Purchased plumbing supply on credit from plumbing supply company Tk. 1,500.
 - 20. Paid the electric bill for the month Tk. 1,500.
 - 29. Naved withdrew Tk. 600 cash from the business to pay personal expenses.
 - 31. Paid for the supplies purchased in transaction Jan. 4.
 - 31. One month's rent expired out of advance payment of rent.

Required:

- (a) Arrange the following assets, liability and owner's equity titles on an equation cash, accounts receivable, prepaid rent, supplies, tools, truck, accounts payable, and Naved Capital.
- (b) Enter the beginning assets and liability under the proper titles of the equation.