

**Instructions**

Prepare the 2017 owner's equity statement for Alice Henning's legal practice.

## PROBLEMS

Analyze transactions and compute net income.

(LO 3, 4)



Check figures provide a key number to let you know you are on the right track.

(a) Total assets \$20,800

(b) Net income \$6,200

**P1-1A** On April 1, Julie Spengel established Spengel's Travel Agency. The following transactions were completed during the month:

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

**Instructions**

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

**P1-2A** Judi Salem opened a law office on July 1, 2017. On July 31, the balance sheet showed Cash \$5,000, Accounts Receivable \$1,500, Supplies \$500, Equipment \$6,000, Accounts Payable \$4,200, and Owner's Capital \$8,800. During August, the following transactions occurred:

1. Collected \$1,200 of accounts receivable.
2. Paid \$2,800 cash on accounts payable.
3. Recognized revenue of \$7,500 of which \$3,000 is collected in cash and the balance is due in September.
4. Purchased additional equipment for \$2,000, paying \$400 in cash and the balance on account.
5. Paid salaries \$2,500, rent for August \$900, and advertising expenses \$400.
6. Withdrew \$700 in cash for personal use.
7. Received \$2,000 from Standard Federal Bank—money borrowed on a note payable.
8. Incurred utility expenses for month on account \$270.

Analyze transactions and prepare income statement, owner's equity statement, and balance sheet.

(LO 3, 4, 5)



#### Instructions

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

(a) Total assets \$16,800

(b) Net income \$3,430  
Ending capital \$11,530

**P1-3A** On June 1, Cindy Godfrey started Divine 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 revenues and expenses for the month of June.

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

Prepare income statement, owner's equity statement, and balance sheet.

(LO 5)

#### Instructions

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

(a) Net income \$4,050  
Owner's equity \$14,750  
Total assets \$24,950

(b) Owner's equity \$15,500

**P1-4A** Trixie Maye started her own consulting firm, Matrix Consulting, on May 1, 2017. The following transactions occurred during the month of May:

Analyze transactions and prepare financial statements.

(LO 3, 4, 5)

- May 1 Trixie invested \$7,000 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 \$4,000 cash for services performed.
- 12 Withdrew \$1,000 cash for personal use.
- 15 Performed \$5,400 of services on account.
- 17 Paid \$2,500 for employee salaries.
- 20 Paid for the supplies purchased on account on May 3.
- 23 Received a cash payment of \$4,000 for services performed on account on May 15.
- 26 Borrowed \$5,000 from the bank on a note payable.
- 29 Purchased equipment for \$4,200 on account.
- 30 Paid \$275 for utilities.

#### Instructions

- (a) Show the effects of the previous transactions on the accounting equation using the following format.

(a) Total assets \$20,800

Assets	Liabilities				Owner's Equity	
Accounts	Notes	Accounts	Owner's	Owner's		
<u>Date Cash + Receivable + Supplies + Equipment</u>		<u>= Payable + Payable + Capital</u>		<u>- Drawings + Revenues - Expenses</u>		

- (b) Net income \$5,600  
 (c) Cash \$14,600

(b) Prepare an income statement for the month of May. ✓  
 (c) Prepare a balance sheet at May 31, 2017.

Determine financial statement  
accounts and prepare owner's  
equity statement.

(LO 4, 5)

**P1-5A** Financial statement information about four different companies is as follows:

	Alpha Company	Beta Company	Psi Company	Omega Company
January 1, 2017				
Assets	\$ 80,000	\$ 90,000	(g)	\$150,000
Liabilities	41,000	(d)	80,000	(j)
Owner's equity	(a)	40,000	49,000	90,000
December 31, 2017				
Assets	(b)	112,000	170,000	(k)
Liabilities	60,000	72,000	(h)	100,000
Owner's equity	50,000	(e)	82,000	151,000
Owner's equity changes in year				
Additional investment	(c)	8,000	10,000	15,000
Drawings	15,000	(f)	12,000	10,000
Total revenues	350,000	410,000	(i)	500,000
Total expenses	333,000	385,000	350,000	(l)

**Instructions**

- (a) Determine the missing amounts. (Hint: For example, to solve for (a), Assets - Liabilities = Owner's equity = \$39,000.)  
 (b) Prepare the owner's equity statement for Alpha Company.  
 (c) — Write a memorandum explaining the sequence for preparing financial statements and the interrelationship of the owner's equity statement to the income statement and balance sheet.

## PROBLEMS

**P2-1A** Holz Disc Golf Course was opened on March 1 by Ian Holz. The following selected events and transactions occurred during March:

- Mar. 1 Invested \$20,000 cash in the business.  
3 Purchased Rainbow Golf Land for \$15,000 cash. The price consists of land \$12,000, shed \$2,000, and equipment \$1,000. (Make one compound entry.)  
5 Paid advertising expenses of \$900.  
6 Paid cash \$600 for a one-year insurance policy.  
10 Purchased golf discs and other equipment for \$1,050 from Stevenson Company payable in 30 days.  
18 Received \$1,100 in cash for golf fees (Holz records golf fees as service revenue).  
19 Sold 150 coupon books for \$10 each. Each book contains 4 coupons that enable the holder to play one round of disc golf.  
25 Withdrew \$800 cash for personal use.  
30 Paid salaries of \$250.  
30 Paid Stevenson Company in full.  
31 Received \$2,700 cash for golf fees.

Journalize a series of transactions.

(LO 1, 2)



Holz Disc Golf uses the following accounts: Cash, Prepaid Insurance, Land, Buildings, Equipment, Accounts Payable, Unearned Service Revenue, Owner's Capital, Owner's Drawings, Service Revenue, Advertising Expense, and Salaries and Wages Expense.

### Instructions

Journalize the March transactions.

**P2-2A** Emily Valley is a licensed dentist. During the first month of the operation of her business, the following events and transactions occurred:

- April 1 Invested \$20,000 cash in her business.  
1 Hired a secretary-receptionist at a salary of \$700 per week payable monthly.  
2 Paid office rent for the month \$1,100.  
3 Purchased dental supplies on account from Dazzle Company \$4,000.  
10 Performed dental services and billed insurance companies \$5,100.  
11 Received \$1,000 cash advance from Leah Mataruka for an implant.  
20 Received \$2,100 cash for services performed from Michael Santos.  
30 Paid secretary-receptionist for the month \$2,800.  
30 Paid \$2,400 to Dazzle for accounts payable due.

Journalize transactions, post, and prepare a trial balance.

(LO 1, 2, 3, 4)



Emily uses the following chart of accounts: No. 101 Cash, No. 112 Accounts Receivable, No. 126 Supplies, No. 201 Accounts Payable, No. 209 Unearned Service Revenue, No. 301 Owner's Capital, No. 400 Service Revenue, No. 726 Salaries and Wages Expense, and No. 729 Rent Expense.

### Instructions

- (a) Journalize the transactions.  
(b) Post to the ledger accounts.  
(c) Prepare a trial balance on April 30, 2017.

(c) Trial balance totals  
\$29,800

Journalize transactions, post, and prepare a trial balance.

**P2-5A** The Starr Theater, owned by Meg Vargo, will begin operations in March. The Starr will be unique in that it will show only triple features of sequential theme movies. As of March 1, the ledger of Starr showed: No. 101 Cash \$3,000, No. 140 Land \$24,000, No. 145 Buildings (concession stand, projection room, ticket booth, and screen) \$10,000, No. 157 Equipment \$10,000, No. 201 Accounts Payable \$7,000, and No. 301 Owner's Capital \$40,000. During the month of March, the following events and transactions occurred:

*Journalize transactions, post, and prepare a trial balance.*  
(LO 1, 2, 3, 4)

GLS

- Mar. 2 Rented the three *Indiana Jones* movies to be shown for the first 3 weeks of March. The film rental was \$3,500; \$1,500 was paid in cash and \$2,000 will be paid on March 10.
- 3 Ordered the *Lord of the Rings* movies to be shown the last 10 days of March. It will cost \$200 per night.
- 9 Received \$4,300 cash from admissions.
- 10 Paid balance due on *Indiana Jones* movies rental and \$2,100 on March 1 accounts payable.
- 11 Starr Theater contracted with Adam Ladd to operate the concession stand. Ladd is to pay 15% of gross concession receipts, payable monthly, for the rental of the concession stand.
- 12 Paid advertising expenses \$900.
- 20 Received \$5,000 cash from customers for admissions.
- 20 Received the *Lord of the Rings* movies and paid the rental fee of \$2,000.
- 31 Paid salaries of \$3,100.
- 31 Received statement from Adam Ladd showing gross receipts from concessions of \$6,000 and the balance due to Starr Theater of \$900 ( $\$6,000 \times 15\%$ ) for March. Ladd paid one-half the balance due and will remit the remainder on April 5.
- 31 Received \$9,000 cash from customers for admissions.

In addition to the accounts identified above, the chart of accounts includes: No. 112 Accounts Receivable, No. 400 Service Revenue, No. 429 Rent Revenue, No. 610 Advertising Expense, No. 726 Salaries and Wages Expense, and No. 729 Rent Expense.

#### Instructions

- (a) Enter the beginning balances in the ledger. Insert a check mark (✓) in the reference column of the ledger for the beginning balance.
- (b) Journalize the March transactions. Starr records admission revenue as service revenue, rental of the concession stand as rent revenue, and film rental expense as rent expense.
- (c) Post the March journal entries to the ledger. Assume that all entries are posted from page 1 of the journal.
- (d) Prepare a trial balance on March 31, 2017.
- (d) Trial balance totals  
\$64,100

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