**The Accounting Information System Handout**

*Identify financial accounting concepts and principles*.  
**DO IT! 3.1** The following characteristics, assumptions, principles, and constraint guide the FASB when it creates accounting standards.

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| --- |
| a.Relevance  b.Faithful representation  c.Comparability  d.Consistency  e.Monetary unit assumption  f.Economic entity assumption  g.Periodicity assumption  h.Going concern assumption  i.Historical cost principle  j.Full disclosure principle  k.Materiality  l.Cost constraint |

Match each item above with a description below.

1.\_\_\_\_\_ Items not easily quantified in dollar terms are not reported in the financial statements.

2.\_\_\_\_\_ Accounting information must be complete, neutral, and free from error.

3.\_\_\_\_\_ Personal transactions are not mixed with the company's transactions.

4.\_\_\_\_\_ The cost to provide information should be weighed against the benefit that users will gain from having the information available.

5.\_\_\_\_\_ A company's use of the same accounting principles from year to year.

6.\_\_\_\_\_ Assets are recorded and reported at original purchase price.

7.\_\_\_\_\_ Accounting information should help users predict future events, and should confirm or correct prior expectations.

8.\_\_\_\_\_ The life of a business can be divided into artificial segments of time.

9.\_\_\_\_\_ The reporting of all information that would make a difference to financial statement users.

10.\_\_\_\_\_ The judgment concerning whether an item's size makes it likely to influence a decision-maker.

11.\_\_\_\_\_ Assumes a business will remain in operation for the foreseeable future.

12.\_\_\_\_\_ Different companies use the same accounting principles.

**Exercise 3-1 page 102**

Presented below are assumptions and principles discussed in this chapter.

|  |
| --- |
| 1. Full disclosure principle  2. Going concern assumption  3. Monetary unit assumption  4. Periodicity assumption  5. Historical cost principle  6. Economic entity assumption |

***Instructions***

Identify by number the accounting assumption or principle that is described below. Do not use a number more than once.

1. \_\_\_\_\_Belief that a company will remain in operation for the foreseeable future.
2. \_\_\_\_\_Indicates that personal and business recordkeeping should be separately maintained.
3. \_\_\_\_\_Only those items that can be expressed in money are included in the accounting

records.

1. \_\_\_\_\_Separates financial information into time periods for reporting purposes.
2. \_\_\_\_\_Measurement basis used when a reliable estimate of fair value is not available.
3. \_\_\_\_\_Dictates that companies should report all circumstances and events that make a

difference to financial statement users.

**P3-7 page 107**

Nancy Tercek started a delivery service, Tercek Deliveries, on June 1, 2017. The following transactions occurred during the month of June.

|  |  |  |
| --- | --- | --- |
| June | 1 | Stockholders invested $10,000 cash in the business in exchange for common stock. |
|  | 2 | Purchased a used van for deliveries for $14,000. Nancy paid $2,000 cash and signed a note payable for the remaining balance. |
|  | 3 | Paid $500 for office rent for the month. |
|  | 5 | Performed $4,800 of services on account. |
|  | 9 | Declared and paid $300 in cash dividends. |
|  | 12 | Purchased supplies for $150 on account. |
|  | 15 | Received a cash payment of $1,250 for services performed on June 5. |
|  | 17 | Purchased gasoline for $100 on account. |
|  | 20 | Received a cash payment of $1,500 for services performed. |
|  | 23 | Made a cash payment of $500 on the note payable. |
|  | 26 | Paid $250 for utilities. |
|  | 29 | Paid for the gasoline purchased on account on June 17. |
|  | 30 | Paid $1,000 for employee salaries. |

***Instructions***

1. Show the effects of the previous transactions on the accounting equation using the following format (**page 3**).

|  | **Assets** | | | | | | | **=** | **Liabilities** | | | **+** | **Stockholders' Equity** | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | Cash | + | Accounts Receivable | + | Supplies | + | Equipment | = | Notes Payable | + | Accounts Payable | + | Common Stock | + | Retained Earnings | | | | |
| Revenues | − | Expenses | − | Dividends |

Include margin explanations for any changes in revenues or expenses in your analysis.

|  |  |  |
| --- | --- | --- |
| (a) | Total assets | $25,800 |

1. Prepare an income statement and a retained earnings statement for the month of June (page 5).

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| (b) | Net income | $4,450 | (c) | Cash | $8,100 |

1. Prepare a classified balance sheet at June 30, 2017 (page 5).

|  | **Assets** | | | | | | | **=** | **Liabilities** | | | **+** | | **Stockholders' Equity** | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | Cash | + | Accounts Receivable | + | Supplies | + | Equipment | = | Notes Payable | + | Accounts Payable | + | Common Stock | + | Retained Earnings | | | | |
| Revenues | − | Expenses | − | Dividends |

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| Expenses |  |  |
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| Total Expenses |  |  |
| Net Income |  |  |

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| --- | --- | --- |
|  | | |
| Retained Earnings, June 1 |  |  |
| Add: |  |  |
|  |  |  |
| Less: |  |  |
| Retained Earnings, June 30 |  |  |

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| Current Assets |  |  |
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| Total Current Assets |  |  |
|  |  |  |
| Total Assets |  |  |
| Current Liabilities |  |  |
|  |  |  |
|  |  |  |
| Total Liabilities |  |  |
| Stockholders’ Equity |  |  |
|  |  |  |
|  |  |  |
| Total liabilities and stockholders’ equity |  |  |

**P3-5 page 106**

Fredonia Repair Inc. was started on May 1. A summary of May transactions is presented below.

1. Stockholders invested $10,000 cash in the business in exchange for common stock.

2. Purchased equipment for $5,000 cash.

3. Paid $400 cash for May office rent.

4. Paid $300 cash for supplies.

5. Incurred $250 of advertising costs in the *Beacon News* on account.

6. Received $4,700 in cash from customers for performing repair service.

7. Paid a $700 cash dividend.

8. Paid part-time employee salaries $1,000.

9. Paid utility bills $140.

10. Performed repair services worth $1,100 on account.

11. Collected cash of $120 for services billed in transaction (10).

***Instructions***

1. Prepare a tabular analysis of the transactions using the following column headings: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Common Stock, and Retained Earnings (with separate columns for Revenues, Expenses, and Dividends). Include margin explanations for any changes in revenues or expenses. Revenue is called Service Revenue **(page 6).**

|  |  |  |
| --- | --- | --- |
| (a) | Total assets | $13,560 |

1. From an analysis of the Retained Earnings columns, compute the net income or net loss for May.

|  |  |  |
| --- | --- | --- |
| (b) | Net income | $4,010 |

|  | **Assets** | | | | | | | **=** | **Liabilities** | | | **+** | | **Stockholders' Equity** | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | Cash | + | Accounts Receivable | + | Supplies | + | Equipment | = | Notes Payable | + | Accounts Payable | + | Common Stock | + | Retained Earnings | | | | |
| Revenues | − | Expenses | − | Dividends |

|  |
| --- |
| $10,000 $10,000 |
| -$5,000 $5,000 |
| -$400 $400 |
| -$300 $300 |
| $250 $250 |
| $4,700 $4,700 |
| -$700 $700 |
| -$1,000 $1,000 |
| -$140 $140 |
| $1,100 $1,100 |
| $120 |
| $2,330 + $5,900 + $300 + $5,000 250 + 10,000 + 5,900 - 1,790 - 700  Assets = |

**P3-4 page 106**

Bindy Crawford created a corporation providing legal services, Bindy Crawford Inc., on July 1, 2017. On July 31 the balance sheet showed Cash $4,000, Accounts Receivable $2,500, Supplies $500, Equipment $5,000, Accounts Payable $4,200, Common Stock $6,200, and Retained Earnings $1,600. During August, the following transactions occurred.

|  |  |  |
| --- | --- | --- |
| Aug. | 1 | Collected $1,100 of accounts receivable due from customers. |
|  | 4 | Paid $2,700 cash for accounts payable due. |
|  | 9 | Performed services worth $5,400, of which $3,600 is collected in cash and the balance is due in September. |
|  | 15 | Purchased additional office equipment for $4,000, paying $700 in cash and the balance on account. |
|  | 19 | Paid salaries $1,400, rent for August $700, and advertising expenses $350. |
|  | 23 | Paid a cash dividend of $700. |
|  | 26 | Borrowed $5,000 from American Federal Bank; the money was borrowed on a 4-month note payable. |
|  | 31 | Incurred utility expenses for the month on account $380. |

***Instructions***

1. Prepare a tabular analysis of the August transactions beginning with July 31 balances. The column headings should be Cash + Accounts Receivable + Supplies + Equipment = Notes Payable + Accounts Payable + Common Stock + Retained Earnings + Revenues − Expenses − Dividends. Include margin explanations for any changes in revenues or expenses **(page 8).**

|  |  |  |
| --- | --- | --- |
| (a) | Cash | $7,150 |

1. Prepare an income statement for August, a retained earnings statement for August, and a classified balance sheet at August 31 **(page 9).**

|  |  |  |
| --- | --- | --- |
| (b) | Net income | $2,570 |
|  | Ret. earnings | $3,470 |

|  | **Assets** | | | | | | | **=** | **Liabilities** | | | **+** | | **Stockholders' Equity** | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Date | Cash | + | Accounts Receivable | + | Supplies | + | Equipment | = | Notes Payable | + | Accounts Payable | + | Common Stock | + | Retained Earnings | | | | |
| Revenues | − | Expenses | − | Dividends |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **$1,100** | **-$1,100** |  |  |  |  |  |  |  |  |
| **-$2,700** |  |  |  |  | **-$2,700** |  |  |  |  |
| **$3,600** | **$1,800** |  |  |  |  |  | **$5,400** |  |  |
| **-$700** |  |  | **$4,000** |  | **$3,300** |  |  |  |  |
| **-$2,450** |  |  |  |  |  |  |  | **-$1,400**  **-700-350** |  |
| **-$700** |  |  |  |  |  |  |  |  | **$700** |
| **$5,000** |  |  |  | **$5,000** |  |  |  |  |  |
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| Revenues |  |  |
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| Expenses |  |  |
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| Total Expenses |  |  |
| Net Income |  |  |

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|  | | |
| Retained Earnings, June 1 |  |  |
| Add: |  |  |
|  |  |  |
| Less: |  |  |
| Retained Earnings, June 30 |  |  |

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| Current Assets |  |  |
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| Total Current Assets |  |  |
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| Total Assets |  |  |
| Current Liabilities |  |  |
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| Total Liabilities |  |  |
| Stockholders’ Equity |  |  |
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| Total liabilities and stockholders’ equity |  |  |