

1

Asset, Liability, Owner's Equity, Revenue, and Expense Accounts

TEACHING TIPS

New to this edition:

This edition will provide students an opportunity to learn QuickBooks Online while they learn accounting. Chapters 1–5 will introduce QuickBooks Online using the journal entry method, and Chapters 9–12 will introduce the forms-based approach. QuickBooks Online features include: *Accounting with QuickBooks Online* and *Review It with QuickBooks Online*. At the end of Chapter 12, students will have the opportunity to complete a comprehensive problem under *Try It with QuickBooks Online*.

Unlike QuickBooks Desktop software, QuickBooks Online involves automatic updates. This means the "look and feel" of QuickBooks Online may change from time to time. Most of the updates will be minor and students can use the Intuit weblink (www.qbo.intuit.com) to review the most recent releases. However, sometimes there may be major QuickBooks Online updates deployed.

Therefore, this text will utilize the Cengage Learning companion site at CengageBrain.com for the QuickBooks Online Appendix, which includes *Accounting with QuickBooks Online* (a step-by-step guide to using QuickBooks Online) *Review It with QuickBooks Online*, and *Try it with QuickBooks* activities. The QuickBooks Online Appendix will be listed by chapter, similar to the text. Students can get started with QuickBooks Online by going to the Cengage Learning student companion site at CengageBrain.com.

Suggested in-class problems:

- Exercise 1-1 (accounting equation)
- Exercise 1-3 (accounting equation)
- Exercise 1-7 (transaction analysis)
- Demonstration Problem

Suggested homework:

- Problem 1-1 (transaction analysis)
- Problem 1-4 (transaction analysis)

Suggested in-class activity:

Create a set of three note cards for each student; label the cards "Assets," "Liabilities," and "Owner's Equity." Call out different account names and ask students to raise the correct note card. For example, if you call out "Prepaid Insurance," the students should raise the note card labeled "Assets."

QuickBooks Online Activities:

- Complete the QuickBooks Online Appendix, *Accounting with QuickBooks Online*, Chapter 1, Getting Started.

The QuickBooks Online Appendix is available on the Cengage Learning companion site at CengageBrain.com

LEARNING OBJECTIVES

1. Define and identify *asset*, *liability*, and *owner's equity* accounts.
2. Record, in column form, a group of business transactions involving changes in assets, liabilities, and owner's equity.
3. Define and identify *revenue* and *expense* accounts.
4. Record, in column form, a group of business transactions involving all five elements of the fundamental accounting equation.

1-1

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ACCOUNTING LANGUAGE

Account numbers	Equity
Accounts	Expenses
Accounts Payable	Fair market value
Accounts Receivable	Fundamental accounting equation
Assets	Liabilities
Backups	Manual accounting system
Business entity	Owner's equity
Capital	QuickBooks Online
Chart of accounts	Revenues
Cloud computing	Separate entity concept
Computerized accounting system	Sole proprietorship
Creditor	Withdrawal
Double-entry accounting	

KEY POINTS

1. There are five classifications of accounts: assets, liabilities, owner's equity, revenue, and expenses.
2. After each transaction has been recorded, the total of one side of the fundamental accounting equation must equal the total of the other side.

LECTURE OUTLINE

- I. Illustrations, discussion questions, exercises, and problems can be referred to in class. Students should consider their texts primary tools and record marginal notations to make the best possible use of the text.
- II. $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$: the fundamental accounting equation.
 - A. Assets: property or things of value owned by an economic unit (examples: cash, equipment, building, land).
 - B. Liabilities: amounts owed to creditors.
 1. Creditor: one to whom money is owed.
 2. Examples: Accounts Payable, Notes Payable, Mortgage Payable.
 - C. Owner's equity: owner's claim, investment, net worth, or proprietorship.
 1. Example: owner's name followed by the word *Capital*.
 2. Relationship of the fundamental accounting equation. Show how the amounts under each classification are determined and how a change in one classification affects the other classifications.
 3. Accounts: specific subheadings or breakdowns of assets, liabilities, and owner's equity.
 4. Withdrawals: taking of cash or other assets for personal use.
 - D. Recording business transactions.
 1. Every transaction is recorded as increases and/or decreases in two or more accounts—the introduction of double-entry accounting.
 2. One side of the equation is always equal to the other side of the equation.
 3. Discuss with students the steps demonstrated in the chapter. When working example exercises or problems, have students go through each of the steps.
 - E. Revenues: amounts of assets that a business gains (earns) from its operations; also called income.
 1. Earnings in the form of cash.
 2. Earnings in the form of other assets—usually as charge accounts (accounts receivable) that a firm maintains for its customers, to be received at a later time.
 3. Examples: fees earned, rent income, income from selling merchandise, interest income.

- F. Expenses: amounts of assets that a business uses up as a result of its operations.
 - 1. Expenses in the form of cash.
 - 2. Expenses in the form of liabilities: payment to be made at a later time.
 - 3. Examples: wages to employees, rent to landlord, interest on a loan, supplies, insurance expired.
- G. Student input:
 - 1. Have students list possible asset, liability, owner's equity, revenue, and expense accounts for a car wash, an insurance office, and a travel agency.
- III. Relationship of revenues and expenses to owner's equity.
 - A. Revenues: Revenues earned increases owner's equity.
 - B. Expenses: Expenses incurred decrease owner's equity.
- IV. Chart of accounts: the official list of accounts tailor-made for the business.
 - A. All transactions must be recorded using the official account titles. The numbers preceding the accounting titles are the account numbers.
 - B. In the numbering of accounts for a service business, the 100s are used for assets, the 200s for liabilities, the 300s for owner's equity accounts, the 400s for revenue accounts, and the 500s for expense accounts.

DEMONSTRATION PROBLEM

During November of this year, James Kirkland opened an accounting practice called James Kirkland, CPA. The following transactions were completed during the first month.

- a. Deposited \$13,500 in a bank account in the name of James Kirkland, CPA.
- b. Paid rent for the month, \$1,600 (Rent Expense).
- c. Bought office equipment, including a computer and a printer, for \$9,500 from Bingham Company. Paid \$6,700 in cash, with the balance due in 30 days.
- d. Purchased office supplies and announcements for \$970 from City Stationers. Payment is due in 30 days.
- e. Billed clients \$5,500 for services rendered (Client Fees).
- f. Paid \$1,450 salary to secretary/assistant for the month.
- g. Paid telephone bill of \$210 (Telephone Expense).
- h. Received cash from clients previously billed on account, \$2,450.
- i. Paid Bingham Company \$970 to apply on account.
- j. Paid \$275 for continuing education course (Miscellaneous Expense).
- k. Kirkland withdrew \$2,200 for personal use.

Instructions

- 1. Record the transactions and the balance after each transaction, using the following headings.

Assets				=	Liabilities	+	Owner's Equity									
Cash	+	Accounts Receivable	+	Supplies	+	Equip.	=	Accounts Payable	+	J. Kirkland, Capital	-	J. Kirkland, Drawing	+	Revenue	-	Expenses

- 2. Demonstrate that the total of one side of the equation equals the total of the other side of the equation.

SOLUTION

Assets							=	Liabilities	+	Owner's Equity							
Cash		+	Accounts Receivable	+	Supplies	+	Equipment	=	Accounts Payable	+	J. Kirkland, Capital	-	J. Kirkland, Drawing	+	Revenue	-	Expenses
(a) +	13,500									+	13,500						+ 1,600
(b) -	1,600																(Rent Expense)
Bal.	11,900							=			13,500				-		1,600
(c) -	6,700					+	9,500		+	2,800							
Bal.	5,200					+	9,500	=	2,800	+	13,500				-		1,600
(d)					970				+	970							
Bal.	5,200			+	970	+	9,500	=	3,770	+	13,500			+	5,500	-	1,600
(e)			5,500												(Client Fees)		
Bal.	5,200	+	5,500	+	970	+	9,500	=	3,770	+	13,500			+	5,500	-	1,600
(f) -	1,450															+	1,450
																	(Salary Expense)
Bal.	3,750	+	5,500	+	970	+	9,500	=	3,770	+	13,500			+	5,500	-	3,050
(g) -	210															+	210
																	(Telephone Expense)
Bal.	3,540	+	5,500	+	970	+	9,500	=	3,770	+	13,500			+	5,500	-	3,260
(h) +	2,450		- 2,450														
Bal.	5,990	+	3,050	+	970	+	9,500	=	3,770	+	13,500			+	5,500	-	3,260
(i) -	970								- 970								
Bal.	5,020	+	3,050	+	970	+	9,500	=	2,800	+	13,500			+	5,500	-	3,260
(j) -	275															+	275
																	(Misc. Expense)
Bal.	4,745	+	3,050	+	970	+	9,500	=	2,800	+	13,500			+	5,500	-	3,535
(k) -	2,200													+	2,200		
Bal.	2,545	+	3,050	+	970	+	9,500	=	2,800	+	13,500			+	5,500	-	3,535

Left Side of Equals Sign:

Cash	\$ 2,545
Accounts Receivable	3,050
Supplies	970
Equipment	<u>9,500</u>
	<u>\$16,065</u>

Right Side of Equals Sign:

Accounts Payable	\$ 2,800
J. Kirkland, Capital	13,500
J. Kirkland, Drawing	-
Revenue	5,500
Expenses	<u>-</u>
	<u>\$16,065</u>

DISCUSSION QUESTIONS***Suggested Responses***

1. Assets represent cash, properties, and other things of value owned by a business. Liabilities are debts or amounts owed to creditors. Owner's equity is the owner's right to or investment in a business or the excess of assets over liabilities. Revenues are the amounts a business earns as a result of selling a product or service to customers. Expenses are the costs involved in the earning of revenue.
2. The separate entity concept means that a business is treated as a separate economic accounting unit or entity from the owner. The business is independent, or stands by itself; it is separate from its owners, creditors, and customers.
3. Accounts Payable represents the amounts the business owes its creditors. Accounts Receivable represents the amounts due from charge customers or the amount the company is expected to receive from customers.
4. Two ways to increase owner's equity are (1) to make additional investments and (2) to earn revenues. Two ways to decrease owner's equity are (1) to make personal withdrawals and (2) to incur expenses.
5. The purchase of supplies on account results in an increase in Supplies (an asset) and an increase in Accounts Payable (a liability). Had the purchase been made with a cash payment, there would have been a decrease in cash (an asset) instead of an increase in Accounts Payable. Therefore, purchasing supplies on account or with cash has no effect on owner's equity. The owner's equity account will not change until the supplies are actually used.
6. In a withdrawal, the owner is reducing his or her investment, hoping that the reduction will be offset by net income. A Wages Expense account is used to record the cost of work or labor performed by employees of a company, not owner withdrawals.
7. The chart of accounts is a company's official list of accounts. The list is designed especially for the business. Usually, for a service business, the 100s are used for asset accounts, the 200s for liability accounts, the 300s for owner's equity accounts, the 400s for revenue accounts, and the 500s for expense accounts.
8. (*Note:* Answers to the question will vary.)

Assets

- 111 Cash
- 113 Accounts Receivable
- 124 Equipment

Liabilities

- 221 Accounts Payable

Owner's Equity

- 311 W. Sanders, Capital
- 312 W. Sanders, Drawing

Revenue

- 411 Tour Income

Expenses

- 511 Wages Expense
- 512 Rent Expense
- 513 Supplies Expense
- 516 Miscellaneous Expense

SOLUTIONS TO EXERCISES AND PROBLEMS**Exercise 1-1**

a.	\$22,800	A – L = OE	\$40,000	–	\$17,200	=	\$22,800
b.	\$40,000	L + OE = A	\$18,000	+	\$22,000	=	\$40,000
c.	\$12,000	A – OE = L	\$27,000	–	\$15,000	=	\$12,000

Exercise 1-2

a.	\$26,300	A – OE = L	\$60,800	–	\$34,500	=	\$26,300
b.	\$35,200	A – L = OE	\$57,000	–	\$21,800	=	\$35,200
c.	\$40,280	L + OE = A	\$11,780	+	\$28,500	=	\$40,280

Exercise 1-3

Assets = Liabilities + Owner's Equity

Assets = \$2,995 + \$63,000 + \$8,450

Liabilities = \$3,816 + \$3,728

Assets – Liabilities = Owner's Equity

Thus,

Assets \$74,445 = Liabilities \$7,544 + Owner's Equity \$66,901

Exercise 1-4

Examples of correct answers:

- Buy an asset on account. (Buy an office building using a mortgage.)**
- Pay a creditor on account. (Make a monthly cash loan payment to the bank.)**
- Pay a bill with cash. (Pay the cell phone bill with cash.)**
- Owner invests cash or other assets in the business. (Owner invests cash in the business.)**
- Sell an asset for cash or buy an asset for cash. (Sell a company building for cash.)**
- Sell services either for cash or on account. (An accountant does the tax return for a client and the client pays cash.)**

Exercise 1-5

- Company received \$18,200 cash from the owner, who was investing in the business.**
- Company paid \$1,375 cash to buy professional equipment.**
- Company bought office equipment costing \$640 and promised to pay that amount in the future (on account).**
- Company bought professional equipment costing \$7,000, paid \$2,200 in cash, and promised to pay the remaining \$4,800 in the future (on account).**
- Company paid \$1,000 cash to a creditor to pay an amount owed on account.**

Exercise 1-6

- | | |
|--------------|--------------|
| a. A | f. R |
| b. R | g. OE |
| c. A | h. A |
| d. OE | i. A |
| e. L | j. E |

Exercise 1-7

- a. **Paid the rent for the month, \$1,050.**
- b. **Bought advertising on account for \$835.**
- c. **Sold services on account for \$372.**
- d. **Owner withdrew \$410 for personal use.**
- e. **Bought equipment for \$1,850, paying \$850 in cash and placing the balance of \$1,000 on account.**
- f. **Customers paid \$1,650 of the amount owed on account.**

Exercise 1-8

- a. **Company received \$25,000 in cash and \$4,500 in equipment from the owner, who was investing in the business.**
- b. **Company paid the rent for the month, \$1,250.**
- c. **Company sold services on account, \$2,000.**
- d. **Company bought equipment for \$16,000, paying \$3,700 in cash and placing the balance of \$12,300 on account.**
- e. **Owner withdrew \$2,500 for personal use.**

Problem 1-1A

Assets				=	Liabilities		=	Owner's Equity			
Cash		Supplies	Office Equipment		Accounts Payable			J. Larkin, Capital	J. Larkin, Drawing	Revenue	Expenses
(a) +	25,000										
(b) -	950										+ 950 (Rent Expense)
Bal.	24,050							25,000			950
(c) -	357	357									
Bal.	23,693	357						25,000			950
(d)			8,956		+ 8,956						
Bal.	23,693	357	8,956		8,956			25,000			950
(e) -	750		1,636		+ 886						
Bal.	22,943	357	10,592		9,842			25,000			950
(f) +	3,482								+ 3,482 (Professional Fees)		
Bal.	26,425	357	10,592		9,842			25,000		3,482	950
(g) -	886				- 886						
Bal.	25,539	357	10,592		8,956			25,000		3,482	950
(h) -	382										+ 382 (Utilities Expense)
Bal.	25,157	357	10,592		8,956			25,000		3,482	1,332
(i) -	1,050										+ 1,050 (Salary Expense)
Bal.	24,107	357	10,592		8,956			25,000		3,482	2,382
(j) +	3,295									3,295 (Professional Fees)	
Bal.	27,402	357	10,592		8,956			25,000		6,777	2,382
(k) -	1,250								+ 1,250		
Bal.	26,152	357	10,592		8,956			25,000	- 1,250	6,777	2,382

See the summary of accounts on the next page.

Problem 1-1A (concluded)

Left Side of Equals Sign:

Cash	\$26,152
Supplies	357
Office Equipment	<u>10,592</u>
	<u>\$37,101</u>

Right Side of Equals Sign:

Accounts Payable	\$ 8,956
J. Larkin, Capital	25,000
J. Larkin, Drawing	– 1,250
Revenue	6,777
Expenses	<u>– 2,382</u>
	<u>\$37,101</u>

Problem 1-2A

Assets										=	Liabilities		+	Owner's Equity				
Cash		+	Supplies	+	Office Equipment	+	Professional Equipment	=	Accounts Payable	+	R. Green, Capital	-	R. Green, Drawing	+	Revenue	-	Expenses	
(a)	+	30,000								+								
(b)	-	1,800								+	30,000					+	1,800	
Bal.		28,200									30,000				-		1,800	
(c)	-	362	+	362														
Bal.		27,838	+	362							30,000				-		1,800	
(d)						+	18,000		+	18,000								
Bal.		27,838	+	362		+	18,000		+	18,000	30,000				-		1,800	
(e)	-	890		+	2,890				+	2,000								
Bal.		26,948	+	362	+	2,890	+	18,000	+	20,000	30,000		+		4,600	-	1,800	
(f)	+	4,600													(Professional Fees)			
Bal.		31,548	+	362	+	2,890	+	18,000	+	20,000	30,000				-		1,800	
(g)	-	700							-	700								
Bal.		30,848	+	362	+	2,890	+	18,000	+	19,300	30,000		+		4,600	-	1,800	
(h)	-	367													+		367	
															(Utilities Expense)			
Bal.		30,481	+	362	+	2,890	+	18,000	+	19,300	30,000		+		4,600	-	2,167	
(i)	-	1,150													+		1,150	
															(Salary Expense)			
Bal.		29,331	+	362	+	2,890	+	18,000	+	19,300	30,000		+		4,600	-	3,317	
(j)	+	3,868											+		3,868			
															(Professional Fees)			
Bal.		33,199	+	362	+	2,890	+	18,000	+	19,300	30,000		+	1,800	8,468	-	3,317	
(k)	-	1,800																
Bal.		31,399	+	362	+	2,890	+	18,000	+	19,300	30,000	-	1,800	+	8,468	-	3,317	

See the summary of accounts on the next page.

Problem 1-2A (concluded)*Left Side of Equals Sign:*

Cash	\$31,399
Supplies	362
Office Equipment	2,890
Professional Equipment	<u>18,000</u>
	<u>\$52,651</u>

Right Side of Equals Sign:

Accounts Payable	\$19,300
R. Green, Capital	30,000
R. Green, Drawing	– 1,800
Revenue	8,468
Expenses	<u>– 3,317</u>
	<u>\$52,651</u>

Problem 1-3A

Assets										=	Liabilities		+	Owner's Equity					
Cash		+	Supplies	+	Prepaid Insurance	+	Office Equipment	+	Photo Equipment	=	Accounts Payable	+	S. Davis, Capital	-	S. Davis, Drawing	+	Revenue	-	Expenses
(a)	+	20,000										+	20,000						
(b)							+	4,120				+	4,120						
Bal.		20,000					+	4,120	+	5,370		+	20,000						
(c)												+	5,370						
Bal.		20,000					+	4,120	+	5,370		+	25,370						
(d)	-	1,500										+							+ 1,500 (Rent Expense)
Bal.		18,500					+	4,120	+	5,370		+	25,370						1,500
(e)	-	215	+	215															
Bal.		18,285	+	215			+	4,120	+	5,370		+	25,370						1,500
(f)	-	1,840			+	1,840													
Bal.		16,445	+	215	+	1,840	+	4,120	+	5,370		+	25,370			+	3,616 (Professional Fees)		1,500
(g)	+	3,616																	
Bal.		20,061	+	215	+	1,840	+	4,120	+	5,370		+	25,370			+	3,616	-	1,500
(h)	-	982																	
Bal.		19,079	+	215	+	1,840	+	4,120	+	5,370		+	25,370			+	982 (Salary Expense)		1,500
(i)	-	134																	
Bal.		18,945	+	215	+	1,840	+	4,120	+	5,370		+	25,370			+	3,616	-	2,482
(j)	-	185																	+ 134 (Telephone Expense)
Bal.		18,760	+	215	+	1,840	+	4,120	+	5,370		+	25,370			+	3,616	-	2,616
(k)	+	3,693																	+ 185 (Repair Expense)
Bal.		22,453	+	215	+	1,840	+	4,120	+	5,370		+	25,370			+	3,616	-	2,801
(l)	-	650														+	3,693 (Professional Fees)		2,801
Bal.		21,803	+	215	+	1,840	+	4,120	+	5,370		+	25,370			+	7,309	-	2,801
(m)	-	1,800																	
Bal.		20,003	+	215	+	1,840	+	4,120	+	5,370		+	25,370			+	1,800	-	2,801
Bal.		20,003	+	215	+	1,840	+	4,120	+	5,370		+	25,370			+	1,800	-	2,801

See the summary of accounts on the next page.

Problem 1-3A (concluded)

Left Side of Equals Sign:

Cash	\$20,003
Supplies	215
Prepaid Insurance	1,840
Office Equipment	4,120
Photo Equipment	<u>5,370</u>
	<u>\$31,548</u>

Right Side of Equals Sign:

Accounts Payable	\$ 3,470
S. Davis, Capital	25,370
S. Davis, Drawing	– 1,800
Revenue	7,309
Expenses	<u>– 2,801</u>
	<u>\$31,548</u>

Problem 1-4A

Assets										Owner's Equity			
Accounts					Liabilities					Owner's Equity			
Cash	+ Receivable	+ Supplies	+ Insurance	+ Prepaid	Truck	+ Equipment	Catering	=	=	B. Gervais, Capital	- Drawing	+ Revenue	- Expenses
(a) + 25,000													
(b) - 8,000													
Bal. 17,000										25,000			
(c)													
Bal. 17,000										25,000			
(d) - 1,255													+ 1,255 (Rent Expense)
Bal. 15,745										25,000			1,255
(e) - 400													
Bal. 15,345										25,000			1,255
(f) + 3,012													
Bal. 18,357										25,000			1,255
(g) - 185													
Bal. 18,172										25,000			1,255
(h) + 4,307													
Bal. 18,172										25,000			1,255
(i) - 248													
Bal. 17,924										25,000			1,255
(j)													
Bal. 17,924										25,000			1,503
(k) + 2,649													
Bal. 20,573										25,000			1,631
(l) - 1,550													
Bal. 19,023										25,000			1,631
(m) - 1,150													
Bal. 17,873										25,000			2,781

See the summary of accounts on the next page.

Problem 1-4A (concluded)*Left Side of Equals Sign:*

Cash	\$17,873
Accounts Receivable	4,307
Supplies	185
Prepaid Insurance	400
Truck	26,329
Catering Equipment	<u>3,795</u>
	<u>\$52,889</u>

Right Side of Equals Sign:

Accounts Payable	\$22,252
B. Gervais, Capital	25,000
B. Gervais, Drawing	– 1,550
Revenue	9,968
Expenses	<u>– 2,781</u>
	<u>\$52,889</u>

Problem 1-5A

Assets						=	Liabilities		+	Owner's Equity									
Cash		+ Accounts Receivable		+ Supplies		+ Prepaid Insurance		+ Truck		+ Office Equipment		=	Accounts Payable	+	J. Rodriguez, Capital	- J. Rodriguez, Drawing	+	Revenue	- Expenses
(a)	+	70,000												+	70,000				+ 2,000 (Rent Expense)
(b)	-	2,000																	
Bal.		68,000												+	70,000			-	2,000
(c)				+	150									+	150			-	2,000
Bal.		68,000		+	150									+	70,000			-	2,000
(d)	-	2,500						+	23,500					+	21,000				
Bal.		65,500		+	150			+	23,500					+	21,150			-	2,000
(e)	-	2,400						+	2,400										
Bal.		63,100		+	150			+	2,400					+	21,150			-	2,000
(f)			+	4,700												+	4,700 (Service Income)		
Bal.		63,100	+	4,700		+	2,400	+	23,500					+	21,150			-	2,000
(g)														+	1,250				
Bal.		63,100	+	4,700		+	2,400	+	23,500	+	1,250			+	22,400			-	2,000
(h)	+	8,250														+	8,250 (Service Income)		
Bal.		71,350	+	4,700		+	2,400	+	23,500	+	1,250			+	22,400			-	2,000
(i)	-	280																+	280 (Utilities Expense)
Bal.		71,070	+	4,700		+	2,400	+	23,500	+	1,250			+	22,400			-	2,280
(j)														+	130			+	130 (Gas and Oil Expense)
Bal.		71,070	+	4,700		+	2,400	+	23,500	+	1,250			+	22,530			-	2,410
(k)	-	2,680																+	2,680 (Wages Expense)
Bal.		68,390	+	4,700		+	2,400	+	23,500	+	1,250			+	22,530			-	5,090
(l)	+	3,500														+	3,500 (Service Income)		
Bal.		71,890	+	4,700		+	2,400	+	23,500	+	1,250			+	22,530			-	5,090
(m)	-	4,000														+	4,000	-	
Bal.		67,890	+	4,700		+	2,400	+	23,500	+	1,250			+	22,530			-	5,090

See the summary of accounts on the next page.

Problem 1-5A (concluded)

Left Side of Equals Sign:

Cash	\$67,890
Accounts Receivable	4,700
Supplies	150
Prepaid Insurance	2,400
Truck	23,500
Office Equipment	<u>1,250</u>
	<u>\$99,890</u>

Right Side of Equals Sign:

Accounts Payable	\$22,530
J. Rodriguez, Capital	70,000
J. Rodriguez, Drawing	– 4,000
Revenue	16,450
Expenses	<u>– 5,090</u>
	<u>\$99,890</u>

Problem 1-1B

Assets				=	Liabilities				=	Owner's Equity			
Cash	+	Supplies	+	Office Equipment	=	Accounts Payable	+	M. Wallace, Capital	+	M. Wallace, Drawing	+	Revenue	Expenses
(a) + 24,000													
(b) - 650								24,000					+ 650 (Rent Expense)
Bal.	23,350				=			24,000				-	650
(c) -	375	+	375										
Bal.	22,975	+	375		=			24,000				-	650
(d)				6,300			6,300						
Bal.	22,975	+	375	6,300	=		6,300	24,000				-	650
(e)							455						+ 455 (Advertising Expense)
Bal.	22,975	+	375	6,300	=		6,755	24,000				-	1,105
(f) + 3,944										3,944			
Bal.	26,919	+	375	6,300	=		6,755	24,000				-	1,105
(g) - 1,500							- 1,500						
Bal.	25,419	+	375	6,300	=		5,255	24,000				-	1,105
(h) - 340										3,944			+ 340 (Utilities Expense)
Bal.	25,079	+	375	6,300	=		5,255	24,000				-	1,445
(i) - 455							- 455						
Bal.	24,624	+	375	6,300	=		4,800	24,000				-	1,445
(j) - 435													+ 435 (Truck Maint. Exp.)
Bal.	24,189	+	375	6,300	=		4,800	24,000				-	1,880
(k) - 1,500										1,500			
Bal.	22,689		375	6,300	=		4,800	24,000				-	1,880

See the summary of accounts on the next page.

Problem 1-1B (concluded)

Left Side of Equals Sign:

Cash	\$22,689
Supplies	375
Office Equipment	<u>6,300</u>
	<u>\$29,364</u>

Right Side of Equals Sign:

Accounts Payable	\$ 4,800
M. Wallace, Capital	24,000
M. Wallace, Drawing	– 1,500
Revenue	3,944
Expenses	<u>– 1,880</u>
	<u>\$29,364</u>

Problem 1-2B

Assets				=	Liabilities				=	Owner's Equity				
Cash	Supplies	Office Equipment	Professional Equipment		Accounts Payable		K. Haas, Capital	K. Haas, Drawing		Revenue		Expenses		
(a) + 48,000														
(b) - 2,200							48,000					+ 2,200		(Rent Expense)
Bal. (c) - 45,800	2,138						48,000					-		2,200
Bal. (d) 43,662	2,138		18,000				48,000					-		2,200
Bal. (e) 43,662	2,138	1,955	18,000				48,000					-		2,200
Bal. (f) 43,662	2,138	1,955	18,000				48,000					-		2,200
	8,960									8,960				
Bal. (g) 52,622	2,138	1,955	18,000				48,000					-		2,200
	3,000													
Bal. (h) 49,622	2,138	1,955	18,000				48,000					-		2,200
	472													
Bal. (i) 49,150	2,138	1,955	18,000				48,000					-		2,672
	1,738													
Bal. (j) 47,412	2,138	1,955	18,000				48,000					-		1,738
	10,196													
Bal. (k) 57,608	2,138	1,955	18,000				48,000					-		4,410
	3,500													
Bal. 54,108	2,138	1,955	18,000				48,000					-		4,410

See the summary of accounts on the next page.

Problem 1-2B (concluded)

Left Side of Equals Sign:

Cash	\$54,108
Supplies	2,138
Office Equipment	1,955
Professional Equipment	<u>18,000</u>
	<u>\$76,201</u>

Right Side of Equals Sign:

Accounts Payable	\$16,955
K. Haas, Capital	48,000
K. Haas, Drawing	– 3,500
Revenue	19,156
Expenses	<u>– 4,410</u>
	<u>\$76,201</u>

Problem 1-3B

Assets										Liabilities				Owner's Equity					
Cash		Supplies		Prepaid Insurance		Office Equipment		Library		Accounts Payable		P. Schwartz, Capital		P. Schwartz, Drawing		Revenue		Expenses	
(a)	+	25,000									+	9,670	25,000						
(b)							+	9,670			+	9,670							
Bal.		25,000					+	9,670	+	2,800	+	9,670	25,000						
(c)											+	9,670	2,800						
Bal.		25,000					+	9,670	+	2,800	+	9,670	27,800						
(d)	-	1,700																	
Bal.		23,300					+	9,670	+	2,800	+	9,670	27,800						
(e)	-	418					+	418											
Bal.		22,882					+	418	+	2,800	+	9,670	27,800						
(f)	-	944																	
Bal.		21,938					+	944	+	2,800	+	9,670	27,800						
(g)	+	8,518																	
Bal.		30,456					+	944	+	2,800	+	9,670	27,800						
(h)	-	1,820																	
Bal.		28,636					+	944	+	2,800	+	9,670	27,800						
(i)	-	388																	
Bal.		28,248					+	944	+	2,800	+	9,670	27,800						
(j)	-	368																	
Bal.		27,880					+	944	+	2,800	+	9,670	27,800						
(k)	+	9,260																	
Bal.		37,140					+	944	+	2,800	+	9,670	27,800						
(l)	-	2,670																	
Bal.		34,470					+	944	+	2,800	+	9,670	27,800						
(m)	-	2,500																	
Bal.		31,970					+	944	+	2,800	+	9,670	27,800						

See the summary of accounts on the next page.

Problem 1-3B (concluded)*Left Side of Equals Sign:*

Cash	\$31,970
Supplies	418
Prepaid Insurance	944
Office Equipment	9,670
Library	<u>2,800</u>
	<u>\$45,802</u>

Right Side of Equals Sign:

Accounts Payable	\$ 7,000
P. Schwartz, Capital	27,800
P. Schwartz, Drawing	– 2,500
Revenue	17,778
Expenses	<u>– 4,276</u>
	<u>\$45,802</u>

Problem 1-4B

Assets										=	Liabilities		+	Owner's Equity												
Cash		+ Receivable		+ Supplies		+ Prepaid Insurance		+ Truck		+ Equipment		=	Accounts Payable		+	T. Carter, Capital		-	+ T. Carter, Drawing		+	Revenue		-	Expenses	
(a)	+	25,000				+		15,140				=			+	25,000						+				
(b)	-	5,140											+ 10,000													
Bal.		19,860				+		15,140		+ 3,450			10,000				25,000									
(c)													+ 3,450													
Bal.		19,860				+		15,140		+ 3,450			13,450				25,000									
(d)	-	1,000																					+ 1,000		(Rent Expense)	
Bal.		18,860				+		15,140		+ 3,450			13,450				25,000						+ 6,927		1,000	
(e)	+	6,927																					(Service Income)			
Bal.		25,787				+		301		+ 3,450			13,450				25,000						+ 6,927		1,000	
(f)	-	301																								
Bal.		25,486				+		301		+ 3,450			13,450				25,000									
(g)	-	1,200						+ 1,200																		
Bal.		24,286				+		301		+ 3,450			13,450				25,000								+ 1,000	
(h)	-	349																							+ 349	
Bal.		23,937				+		301		+ 3,450			13,450		+ 218		25,000								(Utilities Expense)	
(i)																										
Bal.		23,937				+		301		+ 3,450			13,668				25,000						+ 6,927		1,349	
(j)																									+ 218	
Bal.		23,937		+ 3,603						+ 3,450			13,668				25,000						+ 6,927		(Gas and Oil Expense)	
(k)																							+ 3,603		1,567	
Bal.		23,937		+ 3,603		+		301		+ 3,450			13,668				25,000						+ 10,530		1,567	
(l)	+	4,612																					+ 4,612			
Bal.		28,549		+ 3,603		+		301		+ 3,450			13,668				25,000						+ 15,142		1,567	
(l)	-	3,958																							+ 3,958	
Bal.		24,591		+ 3,603		+		301		+ 3,450			13,668				25,000						+ 15,142		(Wages Expense)	
(m)																										
Bal.		23,341		+ 3,603		+		301		+ 3,450			13,668				25,000						+ 1,250		5,525	
Bal.		23,341		+ 3,603		+		301		+ 3,450			13,668				25,000						+ 15,142		5,525	

See the summary of accounts on the next page.

Problem 1-4B (concluded)

Left Side of Equals Sign:

Cash	\$23,341
Accounts Receivable	3,603
Supplies	301
Prepaid Insurance	1,200
Truck	15,140
Equipment	<u>3,450</u>
	<u>\$47,035</u>

Right Side of Equals Sign:

Accounts Payable	\$13,668
T. Carter, Capital	25,000
T. Carter, Drawing	– 1,250
Revenue	15,142
Expenses	<u>– 5,525</u>
	<u>\$47,035</u>

Problem 1-5B

Assets										Liabilities		Owner's Equity									
Cash		+ Accounts Receivable		+ Supplies		+ Prepaid Insurance		+ Truck		+ Office Equipment		Accounts Payable		+ A. Nguyen, Capital		+ A. Nguyen, Drawing		+ Revenue		- Expenses	
(a)	+ 25,000														+ 25,000					+ 1,200	
(b)	- 1,200																				(Rent Expense)
Bal.	23,800														+ 25,000				-		1,200
(c)				+ 225									+ 225								
Bal.	23,800			+ 225									225		+ 25,000				-		1,200
(d)	- 1,000								+ 18,000				+ 17,000								
Bal.	22,800			+ 225					+ 18,000				17,225		+ 25,000				-		1,200
(e)	- 1,400					+ 1,400															
Bal.	21,400			+ 225		+ 1,400			+ 18,000				17,225		+ 25,000			+ 5,000	-		1,200
(f)				+ 5,000																	
Bal.	21,400			+ 5,000		+ 1,400			+ 18,000				17,225		+ 25,000			+ 5,000	-		1,200
(g)													+ 2,300								
Bal.	21,400			+ 225		+ 1,400			+ 18,000		+ 2,300		2,300		+ 25,000			+ 5,000	-		1,200
(h)	+ 6,050												19,525		+ 25,000			+ 5,000	-		1,200
Bal.	27,450			+ 5,000		+ 225		+ 1,400		+ 18,000		+ 2,300	19,525		+ 25,000						
(i)	- 150																				
Bal.	27,300			+ 5,000		+ 225		+ 1,400		+ 18,000		+ 2,300	19,525		+ 25,000			+ 11,050	-		1,200
(j)																					
Bal.	27,300			+ 5,000		+ 225		+ 1,400		+ 18,000		+ 2,300	19,525		+ 25,000			+ 11,050	-		1,350
(k)	- 1,400																				
Bal.	27,300			+ 5,000		+ 225		+ 1,400		+ 18,000		+ 2,300	19,605		+ 25,000			+ 11,050	-		1,430
(l)																					
Bal.	25,900			+ 5,000		+ 225		+ 1,400		+ 18,000		+ 2,300	19,605		+ 25,000			+ 11,050	-		2,830
(m)																					
Bal.	30,100			+ 5,000		+ 225		+ 1,400		+ 18,000		+ 2,300	19,605		+ 25,000						
(n)	- 2,000																				
Bal.	28,100			+ 5,000		+ 225		+ 1,400		+ 18,000		+ 2,300	19,605		+ 25,000			+ 2,000			2,830

Problem 1-5B (concluded)

Left Side of Equals Sign:

Cash	\$28,100
Accounts Receivable	5,000
Supplies	225
Prepaid Insurance	1,400
Truck	18,000
Office Equipment	<u>2,300</u>
	<u>\$55,025</u>

Right Side of Equals Sign:

Accounts Payable	\$19,605
A. Nguyen, Capital	25,000
A. Nguyen, Drawing	– 2,000
Revenue	15,250
Expenses	<u>– 2,830</u>
	<u>\$55,025</u>

SOLUTIONS TO ACTIVITIES

WHY DOES IT MATTER?

Suggested Response

Cash: Asset
Accounts Receivable: Asset
Supplies: Asset
Equipment: Asset
Furniture: Asset
Accounts Payable: Liabilities
Capital: Owner's Equity
Drawing: Owner's Equity
Catering Fees: Owner's Equity
Wages Expense: Owner's Equity
Rent Expense: Owner's Equity
Utilities Expense: Owner's Equity
Advertising Expense: Owner's Equity
Miscellaneous Expense: Owner's Equity

WHAT WOULD YOU SAY?

Suggested Response

Explain to your friend that the separate entity concept demands a separate business checking account. The separate entity concept states that a business is treated as a separate economic or accounting entity. The business stands by itself, separate from its owners, creditors, and customers. Mixing together and confusing personal and business funds is one of the most common reasons that small businesses fail.

WHAT DO YOU THINK?

Suggested Response

TO: J. Perrault, Supervisor DATE: July 31, 20--
FROM: Your Name SUBJECT: Calculations for Richter Co.

The calculations you requested are as follows:

1. The checkbook balance of cash for Richter Company of \$13,364 does tie to (match) the Cash account balance. The following calculation confirms this: Total assets of \$43,560 minus noncash assets totaling \$30,196 (Professional Equipment of \$24,375 plus Office Equipment of \$3,896 plus Prepaid Insurance of \$1,925) equals \$13,364 Cash.
2. Richter Company's owner's equity is \$35,618. The following calculation confirms this: Total assets of \$43,560 minus liabilities of \$7,942 equals \$35,618.