# **Chapter 2—Analyzing Transactions: The Accounting Equation**

#### TRUE/FALSE

1. A business entity is an individual, association, or organization with control over economic resources and which engages in economic activities.

ANS: T PTS: 1 DIF: Difficulty: Easy

OBJ: LO: 2-1 NAT: BUSPROG: Communication STA: AICPA BB-Industry

TOP: ACBSP: APC-03-Business Forms KEY: Bloom's: Knowledge

NOT: 1 min.

2. Liabilities represent an "inside" interest in a business.

ANS: F PTS: 1 DIF: Difficulty: Easy

OBJ: LO: 2-1 NAT: BUSPROG: Communication STA: AICPA BB-Industry

TOP: ACBSP: APC-03-Business Forms KEY: Bloom's: Knowledge

NOT: 1 min.

3. The accounting equation shows the relationship among the three basic accounting elements—assets, revenues, and owner's equity.

ANS: F PTS: 1 DIF: Difficulty: Easy

OBJ: LO: 2-2 NAT: BUSPROG: Communication STA: AICPA BB-Industry

TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge

NOT: 1 min.

4. If owner's equity and liabilities increased during the period, then assets must also have increased.

ANS: T PTS: 1 DIF: Difficulty: Easy

OBJ: LO: 2-2 NAT: BUSPROG: Communication STA: AICPA BB-Industry

TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge

NOT: 1 min.

5. An accounts payable is an unwritten promise to pay a supplier for assets purchased or services rendered.

ANS: T PTS: 1 DIF: Difficulty: Easy

OBJ: LO: 2-1 NAT: BUSPROG: Communication STA: AICPA BB-Industry

TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge

NOT: 1 min.

6. If the revenue of a period exceeds the expenses, the excess represents a net loss.

ANS: F PTS: 1 DIF: Difficulty: Easy

OBJ: LO: 2-5 NAT: BUSPROG: Communication STA: AICPA BB-Industry TOP: ACBSP: APC-09-Financial Statements KEY: Bloom's: Evaluation

NOT: 1 min.

7.	Any accounting period of twelve months duration is usually referred to as a calendar year.
	ANS: F PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-5 NAT: BUSPROG: Communication STA: AICPA BB-Industry TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge NOT: 1 min.
8.	Revenues received during an accounting period increase owner's equity.
	ANS: T PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-4 NAT: BUSPROG: Communication STA: AICPA BB-Industry TOP: ACBSP: APC-09-Financial Statements KEY: Bloom's: Knowledge NOT: 1 min.
9.	Since supplies last for several months, they are recorded as assets.
	ANS: T PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-4 NAT: BUSPROG: Communication STA: AICPA FN-Measurement TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge NOT: 1 min.
10.	Since insurance lasts for several months, it is recorded as owner's equity.
	ANS: F PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-4 NAT: BUSPROG: Communication STA: AICPA FN-Measurement TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge NOT: 1 min.
11.	The income statement provides information about events over a period of a month, year, or other period of time.
	ANS: T PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-5 NAT: BUSPROG: Communication STA: AICPA BB-Industry TOP: ACBSP: APC-09-Financial Statements KEY: Bloom's: Knowledge NOT: 1 min.
12.	The terms "profit and loss statement" or "operating statement" are sometimes used as synonyms for the balance sheet.
	ANS: F PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-5 NAT: BUSPROG: Communication STA: AICPA BB-Industry TOP: ACBSP: APC-09-Financial Statements KEY: Bloom's: Knowledge NOT: 1 min.
13.	Other terms used for owner's equity include net worth and capital.
	ANS: T PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-1 NAT: BUSPROG: Communication STA: AICPA BB-Industry TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge NOT: 1 min.

14.	Any item a business owns that will provide future benefits is called owner's equity.
	ANS: F PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-1 NAT: BUSPROG: Communication STA: AICPA BB-Industry TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge NOT: 1 min.
15.	It is not necessary to measure a business transaction in dollars.
	ANS: F PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-3 NAT: BUSPROG: Communication STA: AICPA BB-Industry TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge NOT: 1 min.
16.	The accounting equation may be expressed as assets – liabilities = owner's equity.
	ANS: T PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-2 NAT: BUSPROG: Communication STA: AICPA BB-Industry TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge NOT: 1 min.
17.	According to the business entity concept, a proprietor may include nonbusiness assets and liabilities in the business entity's accounting records.
	ANS: F PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-1 NAT: BUSPROG: Communication STA: AICPA BB-Industry TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge NOT: 1 min.
18.	Recognizing the effects of transactions on assets, liabilities, owner's equity, revenue, and expenses of a business is the processing function.
	ANS: T PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-6 NAT: BUSPROG: Communication STA: AICPA FN-Measurement TOP: ACBSP: APC-06-Recording Transactions NOT: 1 min.
19.	Expenses represent a decrease in liabilities.
	ANS: F PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-4 NAT: BUSPROG: Communication STA: AICPA FN-Measurement TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge NOT: 1 min.
20.	Expenses that are incurred in operating the enterprise increase owner's equity.
	ANS: F PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-4 NAT: BUSPROG: Communication STA: AICPA FN-Measurement TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Comprehension NOT: 1 min.

21.	Withdrawing cash fr	om a business	entity will res	ult in an increase	e in own	er's equity.
	ANS: F OBJ: LO: 2-4 TOP: ACBSP: APO NOT: 1 min.		ROG: Comm	Difficulty: Ea nunication T: Bloom's: Con	STA:	AICPA FN-Measurement sion
22.	An increase in a reve	enue account m	ay also result	in an increase in	the acc	counts receivable account.
	ANS: T OBJ: LO: 2-4 TOP: ACBSP: APO NOT: 1 min.	PTS: 1 NAT: BUSF C-09-Financial	ROG: Comm	Difficulty: Ea	STA:	AICPA FN-Measurement Bloom's: Comprehension
23.	Financial statements owner's equity, and a			nesses include a	n incom	e statement, a statement of
	ANS: T OBJ: LO: 2-5 TOP: ACBSP: APO NOT: 1 min.		ROG: Comm	: Difficulty: Ea nunication	STA:	AICPA FN-Measurement Bloom's: Knowledge
24.	The statement of ow	ner's equity sho	ows the state of	of the business of	n a spec	ific date.
	ANS: F OBJ: LO: 2-5 TOP: ACBSP: APO NOT: 1 min.		ROG: Comm	: Difficulty: Ea nunication	STA:	AICPA FN-Measurement Bloom's: Knowledge
25.	The balance sheet re	ports assets, lia	ibilities, and c	owner's equity on	a speci	fic date.
	ANS: T OBJ: LO: 2-5 TOP: ACBSP: APO NOT: 1 min.			: Difficulty: Ea nunication	STA:	AICPA FN-Measurement Bloom's: Knowledge
26.	The income statemen	nt and statemer	nt of owner's e	equity provide in	formatio	on covering a period of time.
	ANS: T OBJ: LO: 2-5 TOP: ACBSP: APO NOT: 1 min.	PTS: 1 NAT: BUSF C-09-Financial	ROG: Comm	: Difficulty: Ea nunication	STA:	AICPA FN-Measurement Bloom's: Knowledge
MUL	TIPLE CHOICE					
1.	The accounting equa a. owner's equity = b. revenue – expen c. revenue = net ind d. liabilities – owne	assets – liabili ses = net incon come – expens	ties. ne. es.			
	ANS: A OBJ: LO: 2-2 TOP: ACBSP: APO NOT: 1 min.	PTS: 1 NAT: BUSF C-02-GAAP		•	STA:	AICPA FN-Measurement

2. Jason purchased office equipment for \$4,800 on account. This transaction would a. increase assets and increase owner's equity. b. increase assets and increase liabilities. c. increase one asset and decrease another asset. d. decrease assets and decrease liabilities. ANS: B PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-4 NAT: BUSPROG: Analytic STA: AICPA FN-Measurement TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge NOT: 1 min. 3. Stephen purchased office supplies for \$800 in cash. This transaction would a. increase assets and increase owner's equity. b. increase one asset and decrease another asset. c. increase assets and increase liabilities. d. decrease assets and decrease liabilities. ANS: B PTS: 1 DIF: Difficulty: Moderate NAT: BUSPROG: Analytic OBJ: LO: 2-4 STA: AICPA FN-Measurement TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge NOT: 1 min. 4. Meghan started her business by investing \$30,000 in cash. This transaction would a. increase assets and increase owner's equity. b. increase assets and increase liabilities. c. increase one asset and decrease another asset. d. decrease assets and decrease liabilities. ANS: A PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-4 NAT: BUSPROG: Analytic STA: AICPA FN-Measurement TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge NOT: 1 min. 5. Any accounting period of twelve months' duration is usually referred to as a(n) a. fiscal year. b. calendar year. c. physical year. d. operational year. ANS: A PTS: 1 DIF: Difficulty: Easy NAT: BUSPROG: Communication OBJ: LO: 2-4 STA: AICPA BB-Industry TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge NOT: 1 min. 6. Increases to owner's equity may be from a. expenses that are incurred. b. expenses exceeding revenue for the period. c. withdrawals of cash from the business by the owner. d. revenue that is derived from sales of goods or services. ANS: D PTS: 1 DIF: Difficulty: Easy

OBJ: LO: 2-4 NAT: BUSPROG: Communication

STA: AICPA BB-Critical Thinking TOP: ACBSP: APC-09-Financial Statements

KEY: Bloom's: Comprehension NOT: 1 min.

7. Tyler paid \$3,700 on account to the company from which equipment was purchased on credit. This transaction would a. decrease assets and decrease liabilities. b. increase assets and increase owner's equity. c. increase assets and increase liabilities. d. increase one asset and decrease another asset. PTS: 1 DIF: Difficulty: Moderate ANS: A OBJ: LO: 2-4 NAT: BUSPROG: Analytic STA: AICPA FN-Measurement TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge NOT: 1 min. 8. An example of an expense is a. investments. b. supplies consumed. c. prepaid insurance. d. withdrawals by the owner. DIF: Difficulty: Easy ANS: B PTS: 1 OBJ: LO: 2-4 NAT: BUSPROG: Communication STA: AICPA FN-Measurement TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge NOT: 1 min. 9. A decrease in owner's equity may result from a(n) a. purchase of office supplies for cash. b. withdrawal of cash from the business by the owner. c. revenue that is derived from sales of goods or services. d. investment of cash in the business by the owner. ANS: B PTS: 1 DIF: Difficulty: Easy NAT: BUSPROG: Analytic OBJ: LO: 2-4 STA: AICPA BB-Critical Thinking TOP: ACBSP: APC-09-Financial Statements KEY: Bloom's: Comprehension NOT: 1 min. 10. Which phase of the accounting process involves recognizing the effect of transactions on assets, liabilities, owner's equity, revenue, and expenses of a business? a. input b. processing c. output d. summarizing ANS: B DIF: Difficulty: Easy PTS: 1 NAT: BUSPROG: Communication OBJ: LO: 2-6 STA: AICPA BB-Industry TOP: ACBSP: APC-06-Recording Transactions KEY: Bloom's: Knowledge NOT: 1 min. 11. The financial statement that should be completed first is the a. balance sheet. b. statement of financial position. c. statement of financial condition. d. income statement. ANS: D PTS: 1 DIF: Difficulty: Easy NAT: BUSPROG: Communication OBJ: LO: 2-5 STA: AICPA FN-Measurement TOP: ACBSP: APC-09-Financial Statements KEY: Bloom's: Analysis NOT: 1 min.

PA FN-Measurement owner's equity on a  PA FN-Measurement om's: Analysis
PA FN-Measurement
PA FN-Measurement
ach of the accounts
ach

ANS: Ε 1. 2. L Α 3. 4. Α 5. OE 6. E 7. OE 8. Α 9. E 10. R

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-4

NAT: BUSPROG: Communication STA: AICPA BB-Industry TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge

NOT: 5 min.

- 2. Show the effect of each transaction on the three basic accounting elements by indicating the dollar amount of the increase or decrease under the proper element heading. Compute the resulting accounting equation.
  - a. Owner invested \$16,500 cash in the business.
  - b. Paid premium for two-year insurance policy, \$1,500.
  - c. Purchased a van valued at \$35,000 with \$5,000 down payment; the balance to be paid over three years.
  - d. Paid the rent for the month, \$900.
  - e. Purchased \$470 of supplies for cash.
  - f. Cash sales for the month, \$8,750.
  - g. Billed credit customers \$14,200 for monthly services.
  - h. Paid monthly utility bill, \$210.
  - i. Owner withdrew \$2,200 for personal use.
  - j. Received payments of \$3,300 from credit customers.

					ASSETS					=	>
	Cash	+	Accounts Rec.	+	Supplies	+	Prepaid Ins.	+	Van	=	>
											>
a.											>
b.											>
c.											>
d.											>
e.											>
f.											>
g.											>
h.											>
i.											>
j.											>
											>

<	LIAB.	+ OWNE	ER'S EQUITY
<	Notes Payable	+ Capital – Drawing	+ Revenues – Expenses
< <			
<	a b		
<	C		
<	d. e		
<	f		
<	g h		
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	<del></del>	<del></del>	<del>_</del> _
	ROOF Cash Accounts Receival Supplies Prepaid Insurance Van		ng nes
AN	NS:	ACCIDITO	
	Cash +	ASSETS Accounts Rec. + Supplies +	= > Prepaid
a. b. c. d. e. f.	16,500 (1,500) (5,000) (900) (470) 8,750	470	> 1,500
g.	(210)	14,200	
h. i.	(2,200)		> > > > > > > > > > > > > > > > > > >
j.	3,300 18,270	(3,300) 10,900 470	<u></u>
	==-	=======================================	<u>=</u> /
< <	LIAB. Note	+ OWNE	R'S EQUITY
	Payable	+ Capital - Drawing	+ Revenues - Expenses
<	a.	16,500	
< < < < <	b. c. 30,000 d. e.		900

< f.			8,750	
< g.			14,200	
< h.				210
< i.		2,200		
< j. 30,000	<u>16,500</u>	<u>2,200</u>	22,950	1,110
<u> </u>	<u> </u>	<u> </u>	22/300	<u> </u>
PROOF				
Cash	18,270	Notes Payable		30,000
Accounts Receivable	10,900	Capital		16,500
Supplies	470	Drawing		(2,200)
Prepaid Insurance	1,500	Revenues		22 <b>,</b> 950
Van	35,000	Expenses		<u>(1,110</u> )
	<u>66,140</u>	-		<u>66,140</u>
PTS: 1 DIF:	Difficulty: Easy		OBJ:	LO: 2-2   LO: 2-3   LO: 2-4
NAT: BUSPROG: Analytic	c S	TA: AICPA FN-	Measurei	ment

TOP: ACBSP: APC-06-Recording Transactions KEY: Bloom's: Application

NOT: 15 min.

- 3. Show the effects of each transaction on the accounting equation by indicating under the proper heading the dollar amount of increase or decrease for each transaction listed below. Compute the resulting accounting equation.
  - Owner deposited \$20,000 in his new business checking account. a.
  - Supplies were purchased for \$300 on account. b.
  - Paid a \$1,200 premium for six months of liability insurance. c.
  - Purchased supplies for \$200 cash. d.
  - Purchased equipment for \$4,000 by paying \$1,000; the rest to be paid in six months. e.
  - Paid the \$300 bill outstanding (from transaction b). f.
  - Owner withdrew \$700 from the business for personal use. g.

			A	ASSE	TS		=	LIAB.	+	OWNER'S EQUITY			
	Cash	+	Supp.	+	Prep. Insur.	+	Equip	=	Accts. Pay.	+	Capital	_	Drawing
a.													
b.													
c.													
d.													
e.													
f.													
g.													

a.	<b>Cash</b> 20,000	+	Supp.	+	Prep. Insur.	+	Equip	=	Accts. Pay.	+	<b>Capital</b> – 20,000	Drawing
b.	.,		300						300		,	
c.	(1,200)				1,200							
d.	(200)		200									
e.	(1,000)						4,000		3,000			
f.	(300)								(300)			
g.	(700)											700
	<u>16,600</u>		<u>500</u>		<u>1,200</u>		4,000		<u>3,000</u>		<u>20,000</u>	<u>700</u>
PRC	OF											
C	ash				16,600	)	Accoun	nts Pa	ayable		3,000	
S	upplies				500	)	Capital	l			20,000	
P	repaid Insura	nce			1,200		Drawin	ng			(700)	
E	quipment				4,000	_						
					22,300	<u>)</u>					<u>22,300</u>	

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-2 | LO: 2-3 | LO: 2-4

NAT: BUSPROG: Analytic STA: AICPA FN-Measurement

TOP: ACBSP: APC-06-Recording Transactions KEY: Bloom's: Application

NOT: 15 min.

### 4. Madame Shira began a fortune telling business on May 1. The following transactions occurred:

- 1. Owner Madame Shira invested \$5,000 cash in the business.
- 2. Purchased \$2,000 of furniture with a down payment of \$500; the rest by issuing an account payable to be paid in three monthly installments.
- 3. Paid \$700 rent.
- 4. Purchased a crystal ball for \$300.
- 5. Paid \$1,700 for a 12-month insurance policy.
- 6. During the first month received \$2,500 from cash customers.
- 7. Sent billings of \$2,000 for services rendered to credit customers.
- 8. Paid assistant \$1,500 wages for the month.
- 9. Received \$600 in payments from credit customers.
- 10. Borrowed \$3,200 by signing a note.
- 11. Made a \$500 payment on the furniture bill (from transaction 2).
- 12. Owner withdrew \$300 cash for personal use.
- 13. Paid bills for advertising \$60, utilities \$39, and repairs \$52.

#### Required:

- 1. Enter the above transactions in an accounting equation work sheet.
- 2. Prepare an income statement for Madame Shira for the month of May.
- 3. Prepare a statement of owner's equity for the month of May.

ANS:

1	
- 1	

				ASS	ETS		<b>A</b>		D	=	LIABII	LITIE		>
	Cash	+	Furniture	+	Crystal Ball	+	Accounts Rec.	+	Prepaid Ins.	=	Accounts Payable	+	Notes Payable	>
1.	5,000	'	Turmeure		Dan	'	Hee.		1113.	_	1 ayabic		Tayabic	>
2.	(500)		2,000								1,500			>
3.	(700)													>
4.	(300)				300									>
5.	(1,700)								1,700					>
6.	2,500													>
7.							2,000							>
8.	(1,500)													>
9.	600						(600)							>
10.	3,200												3,200	>
11.	(500)										(500)			>
12.	(300)													>
13.	(60)													>
	(39)													>
	(52)													>
	<u>5,649</u>		<u>2,000</u>		300		1,400		<u>1,700</u>		<u>1,000</u>		<u>3,200</u>	>

WNER'S EQUITY
١

<	+	Shira, Capital	_	Shira, Drawing	+	Revenues	_	Expenses	Desc.
<		5,000							
<									
<								700	Rent
<									
<									
<						2,500			
<						2,000			
<								1,500	Wages
<									
<									
<									
<				300					
<								60	Advertising
<								39	Utilities
<								52	Repairs
<		5,000		300		4,500		2,351	

## **Madame Shira Fortune Telling Income Statement** For Month Ended May 31, 20--

Revenues:	-, - v	
Fortune telling fees		\$4 <b>,</b> 500
Expenses:		
Rent expense	\$ 700	
Wages expense	1,500	
Advertising expense	60	
Utilities expense	39	
Repairs expense	52	
Total expenses		_2 <b>,</b> 351
Net income		<u>\$2,149</u>
3.		
Madame Shira Fortune T	_	
Statement of Owner's E	<u> </u>	
For Month Ended May 3	1, 20	
Madame Shira, capital May 1, 20		\$ 0
Investment by owner		5,000
Net income for May	\$2,149	
Less withdrawals for May	300	
Increase in capital		1,849
Madame Shira, capital May 31, 20		<u>\$6,849</u>
PTS: 1 DIF: Difficulty: Moderate	OBJ: LO: 2-3   L0	O: 2-4   LO: 2-5
NAT: BUSPROG: Analytic STA: AICPA	A FN-Measurement	

TOP: ACBSP: APC-06-Recording Transactions KEY: Bloom's: Application

NOT: 15 min.

5. From the following list of accounts, prepare an income statement, statement of owner's equity, and balance sheet for the year ended or at December 31, 20--, for Milner's Star Express Cleaning Service.

Cash	\$ 2,026
Fees Earned	13,835
Accounts Payable	7,530
D. Milner, Capital January 1, 20	6,000
D. Milner, Drawing	1,750
Utilities Expense	153
Prepaid Insurance	1,216
Rent Expense	1,200
Accounts Receivable	4,080
Equipment	15,290
Wages Expense	1,650

### Milner's Star Express Cleaning Service Income Statement For the Year Ended December 31, 20--

Revenues:		
Fees earned		\$13 <b>,</b> 835
Expenses:		
Utilities expense	\$ 153	
Rent expense	1,200	
Wages expense	1,650	
Total expenses		3,003
Net income		<u>\$10,832</u>
Milner's Star Express Cleaning Service Statement of Owner's Equity For the Year Ended December 31, 20		
D. Milner, capital January 1, 20		\$ 6,000
Net income for the year	\$10,832	
Less withdrawals for the year	1,750	
Increase in capital		9,082

### Milner's Star Express Cleaning Service Balance Sheet December 31, 20--

\$15,082

Assets		Liabilities		
Cash	\$ 2,026	Accounts payable	\$ 7,530	
Prepaid insurance	1,216			
Accounts receivable	4,080	Owner's Equity		
Equipment	_15 <b>,</b> 290	D. Milner, capital	_15 <b>,</b> 082	
Total assets	<u>\$22,612</u>	Total liab. & owner's equity	<u>\$22,612</u>	

PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-5

NAT: BUSPROG: Analytic STA: AICPA FN-Reporting

TOP: ACBSP: APC-09-Financial Statements KEY: Bloom's: Application

NOT: 15 min.

D. Milner, capital December 31, 20--

6. From the following list of accounts, prepare an income statement, statement of owner's equity, and balance sheet for the year ended or at December 31, 20--, for J. Carr's Delivery Service.

Cash	\$11,450
Accounts Payable	4,450
Fees Earned	41,500
J. Carr, Capital January 1, 20	14,500
J. Carr, Drawing	7,000
Office Supplies	250
Rent Expense	10,000
Accounts Receivable	7,000
Equipment	6,000
Wages Expense	14,000
Repairs Expense	250
Furniture	4,500

7.

Top Flight Office Equipment Co.

Island Gas Company

**Dunhill Medical Supplies Company** 

# J. Carr's Delivery Service Income Statement For the Year Ended December 31, 20--

1	roi the real En	ided December 31, 20				
Revenues:						
Fees earned			\$41 <b>,</b> 500			
Expenses:						
Rent expense		\$10,000				
		14,000				
Wages expense						
Repairs expense		250				
Total expenses			24,250			
Net income			<u>\$17,250</u>			
	Statement of	Delivery Service of Owner's Equity oded December 31, 20				
J. Carr, capital January 1, 20		,	\$14,500			
Net income for the year	,	\$17,250	,			
Less withdrawals for the year	ar	<u>7,000</u>	10 050			
Increase in capital			10,250			
J. Carr, capital December 31	1, 20		<u>\$24,750</u>			
J. Carr's Delivery Service Balance Sheet December 31, 20						
Assets		Liabilities				
Cash	\$11 <b>,</b> 450	Accounts Payable	\$ 4,450			
Accounts receivable	7,000					
Office supplies	250					
Equipment	6 <b>,</b> 000	Owner's Equity				
Furniture	4,500	_ · ·	24,750			
		J. Carr, capital				
Total assets	<u>\$29,200</u>	Total liab. & owner's equity	<u>\$29,200</u>			
PTS: 1 DIF: Difficulty: Moderate OBJ: LO: 2-5  NAT: BUSPROG: Analytic STA: AICPA FN-Reporting  TOP: ACBSP: APC-09-Financial Statements KEY: Bloom's: Application  NOT: 15 min.						
Dr. Etana Jenson is a podiat professional practice:	rist. As of Decen	nber 31, Jenson owned the following ass	sets related to the			
Cash	\$6,600	X-ray Equipment	\$9 <b>,</b> 000			
Office Equipment	3,500	Laboratory Equipment	3,000			
Office Equipment	-,000	Education's Equipment	-,			
As of that date, Jenson owed						

\$3,000 1,000

2,200

<b>D</b>		
$\mathbf{P} \Delta \alpha$	mrade	
$\mathbf{r}$	uired:	

a. Compute the amount of assets, liabilities, and owners' equity as of December 31.

Assets = Liabilities + Owner's Equity

b. Assuming that during January there is an increase of \$4,600 in Dr. Jenson's business assets and an increase of \$2,500 in the business liabilities, compute the resulting equation as of January 31.

c. Assuming that during February there is a decrease of \$1,500 in assets and a decrease of \$1,200 in liabilities, compute the resulting accounting equation as of February 28.

#### ANS:

	Assets	=	Liabilities	+	Owner's Equity
a.	\$22,100	=	\$6 <b>,</b> 200	+	\$15,900
b.	26,700	=	8,700	+	18,000
c.	25,200	=	7,500	+	17,700

PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-3 | LO: 2-4

NAT: BUSPROG: Analytic STA: AICPA FN-Measurement TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Comprehension

NOT: 3 min.

- 8. Kristin Holden started her own consulting business in July, 20--. During the first month, the following transactions occurred:
  - a. Owner invested \$12,000 cash in the business.
  - b. Purchased office equipment for \$7,500 cash.
  - c. Purchased computer equipment costing \$11,500 on account.
  - d. Paid \$1,100 office rent for the month.
  - e. Received \$1,700 cash from a client for services rendered.
  - f. Paid water bill for the month, \$170.
  - g. Paid \$2,400 on account for computer equipment purchased in transaction (c).
  - h. Paid the electric bill for the month, \$200.

#### Required:

Record the effects of these transactions in an accounting equation worksheet.

	ASSETS					= LIABILITIES				>
	Cash	+	Office Equip.	+	Computer Equip.	=	Accounts Payable	+	K. Holden, Capital	>
a.										>
Bal.										>
b.										>
Bal.										>
c.										>
Bal.										>
d.										>
Bal.										>
e.										>

Bal.	 	 	 >
f.	 	 	 >
Bal.	 	 	 >
g.	 	 	 >
Bal.	 	 	 >
h.	 	 	 >
Bal.	 	 	 >

<		+			OWNER'S EQ	UITY	
<			Client				<b>Utilities</b>
		+	Fees	_	Rent Expense	_	Expense
<	a.						
<	Bal.						
<	b.						
<	Bal.						
<	c.						
<	Bal.						
<	d.						
<	Bal.						
<	e.						
<	Bal.						
<	f.						
<	Bal.						
<	g.						
<	Bal.						
<	h.						
<	Bal.						

ANS:

		ASSETS			=	LIAB	ILIT	TIES	>
		Office		Computer		Accounts		K. Holden,	>
	Cash	+ Equip.	+	Equip.	=	Payable	+	Capital	
a.	12,000							<u>12,000</u>	>
Bal.	12,000							12,000	>
b.	<u>(7,500</u> )	7,500							>
Bal.	4,500	7,500						12,000	>
c.				11,500		11,500			>
Bal.	4,500	7,500		11,500		11,500		12,000	>
d.	(1,100)								>
Bal.	3,400	7,500		11,500		11,500		12,000	>
e.	1,700								>
Bal.	5,100	7,500		11,500		11,500		12,000	>
f.	(170)								>
Bal.	4,930	7,500		11,500		11,500		12,000	>
g.	(2,400)					(2,400)			>
Bal.	2,530	7,500		11,500		9,100		12,000	>
h.	(200)								>
Bal.	2,330	7,500		11,500		9,100		12,000	>

	<		+			OWNER'S	S EQUIT	ΓY	
	,			Client		Dant Ermanaa		Utilities	
	< a.		+	Fees	-	Rent Expense	_	Expense	
	< Ba	1.							
	< b.	_							
	< Ba	1.							
	< c. < Ba	1							
	< d.	.1.				1,10	0		
	< Ba	1.							
	< e.			1,700 1,700		1,10			
	< Ba	ıl.		1,700		1,10	U	170	
	< Ba	1.		1,700		1,10	0	170	
	< g.						_		
	< Ba	1.		1,700		1,10	0	170	
	< h. < Ba	1		1,700		<u>1,10</u>	_	<u>200</u> <u>370</u>	
	< Da	.1.		<u> 1,700</u>		1,10	<u> </u>	<u>370</u>	
	PTS:	1		DIF:	Diff	iculty: Easy		OBJ: LO: 2	-4
				G: Analyti				A FN-Measurement	
				APC-06-Re	ecordi	ng Transactions		KEY: Bloom	n's: Knowledge
	NOT:	10 11	1111.						
COM	PLETI	ON							
1.	Most b		esses	recognize <sub>.</sub>			when	earned, even if cash	has not yet been
	ANS:	revei	nue						
	PTS:	1		DIF:	Diff	iculty: Easy		OBJ: LO: 2	-4
							AICPA	A FN-Measurement	
	TOP: NOT:			APC-04-Ca	ish vs	. Accrual		KEY: Bloom	n's: Knowledge
	NO1.	1 11111	11.						
2.				re	presei	nt the decrease in	assets (	or increase in liabilitie	es) as a result of efforts
	made t	o pro	duce	revenues.					
	ANS:	Expe	enses						
	PTS:								-4
							AICPA	A FN-Reporting	
				APC-09-Fi	nancia	al Statements		KEY: Bloom	n's: Knowledge
	NOT:	1 11111	и.						
3.	The				, soi	metimes called t	he profit	and loss statement, re	ports the profitability
	of busi	iness	opera	ations for a	speci	fic period of tim	e.		

ANS: income statement

				ifficulty: Eas			LO: 2-5
	NAT:	BUSPROG: C	communica	ation	STA:	AICPA BB-Industry	
	TOP:	ACBSP: APC	-02-GAAI	•	KEY:	AICPA BB-Industry Bloom's: Knowledge	
	NOT:	1 min.					
4.			repres	ent the amo	unt a bu	isiness charges custor	ners for products sold or
	service	es performed.					
	ANS:	Revenues					
	PTS:	1	DIF: Di	ifficulty: Eas	sy	OBJ:	LO: 2-4
	NAT:	BUSPROG: C	communica	ation	STA:	AICPA BB-Industry	
	TOP:	ACBSP: APC	-02-GAAI	)	KEY:	Bloom's: Knowledge	
	NOT:	1 min.					
5.	The re	lationship betw	een the th	ree basic acc	countin	g elements:	······································
			, and _			, can be expresse	d in the form of a simple
	equation	on known as the	e accounti	ng equation.			
	ANS:						
		liabilities, own					
		owner's equity					
		ies, assets, own					
		ies, owner's equ	•				
		's equity, assets					
	owner	's equity, liabili	ties, assets	S			
		_					
							LO: 2-2
	NAT:	BUSPROG: C	communica	ation	STA:	AICPA BB-Industry Bloom's: Knowledge	
	TOP:	ACBSP: APC	-02-GAAI		KEY:	Bloom's: Knowledge	
	NOT:	1 min.					
_						1, ,1 1 1	
6.			repres	ent somethi	ng owe	d to another business	entity.
	A NIC.	Tiphilidian					
	ANS:	Liabilities					
	DTC.	1	DIE. D	fficulty, Fo		OD I.	10.21
				ifficulty: Eas			LO: 2-1
	NAI:	ACDED: ADC		ation	SIA:	AICPA BB-Industry Bloom's: Knowledge	
		1 min.	-02-GAAI		KE I :	blooms: Knowledge	
	NOI.	1 111111.					
7.	$\Delta(n)$		i	c a written r	romice	to pay a supplier for	assets purchased or services
/٠	receive		1	s a written p	Tomise	to pay a supplier for	assets purchased of services
	receive	cu.					
	ANG.	notes payable					
	1 11 1D.	notes payable					
	PTS:	1	DIF: Di	ifficulty: Eas	SV	ORI-	LO: 2-1
						AICPA BB-Industry	
	TOP.	ACBSP: APC	-02-GAAF	)	KEY.	Bloom's: Knowledge	<b>.</b>
	- 01.						•

NOT: 1 min.

	·
	ANS: balance sheet
	PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-5
	NAT: BUSPROG: Communication STA: AICPA FN-Reporting  TOP: ACRSP: APC 00 Financial Statements KEV: Rloom's: Comprehension
	TOP: ACBSP: APC-09-Financial Statements KEY: Bloom's: Comprehension NOT: 1 min.
9.	The reports the investments and withdrawals by the owner, the profits and losses generated through operations, and how they have affected the capital account.
	losses generated through operations, and now they have affected the capital account.
	ANS: statement of owner's equity
	PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-5
	NAT: BUSPROG: Communication STA: AICPA FN-Reporting
	TOP: ACBSP: APC-09-Financial Statements KEY: Bloom's: Comprehension
	NOT: 1 min.
10.	A(n) is a reduction in owner's equity as a result of the owner taking cash or
	other assets out of the business for personal use.
	ANS: withdrawal
	PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-4
	NAT: BUSPROG: Communication STA: AICPA FN-Reporting
	TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge
	NOT: 1 min.
11.	is the amount by which business assets exceed the business liabilities.
	ANS: Owner's equity
	PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-1
	NAT: BUSPROG: Communication STA: AICPA FN-Reporting
	TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge
	NOT: 1 min.
12.	Amounts owed to the business by its customers are called
	ANS: accounts receivable
	PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-1
	NAT: BUSPROG: Communication STA: AICPA FN-Reporting
	TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge
	NOT: 1 min.
13.	A(n) is an economic event that has a direct impact on the business.
	ANS: business transaction
	DTC. 1 DEC DESCRIPTION OF LOCAL
	PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-3 NAT: BUSPROG: Communication STA: AICPA BB-Industry
	1711. DODI KOO. COMMUNICATION STA. AICI A DD-MICUSU Y

8. The report which shows a firm's assets, liabilities, and owner's equity as of a specific date is called the

	TOP: ACBSP: APC-02-GAAP KE NOT: 1 min.	Y: Bloom's: Knowledge
14.	. A(n) is a separate reco	rd used to summarize changes in assets, liabilities, and
	PTS: 1 DIF: Difficulty: Easy NAT: BUSPROG: Communication ST TOP: ACBSP: APC-02-GAAP KE NOT: 1 min.	OBJ: LO: 2-3 A: AICPA BB-Industry Y: Bloom's: Knowledge
15.	. According to the, non business entity's accounting records.  ANS: business entity concept	business assets and liabilities are not included in the
	PTS: 1 DIF: Difficulty: Easy NAT: BUSPROG: Communication ST TOP: ACBSP: APC-02-GAAP KE NOT: 1 min.	A: AICPA BB-Industry
16.	. Items that are owned by a business and will pro	vide future benefits are called
	ANS: assets	
	PTS: 1 DIF: Difficulty: Easy NAT: BUSPROG: Communication ST TOP: ACBSP: APC-02-GAAP KE NOT: 1 min.	OBJ: LO: 2-1 A: AICPA BB-Industry Y: Bloom's: Knowledge

### **MATCHING**

Match the terms with the definitions.

- a. account
- b. accounts payable
- c. accounts receivable
- d. accounting equation
- e. assets
- f. balance sheet
- g. business entity
- h. business entity concept
- i. business transaction
- j. drawing
- k. expenses
- 1. income statement
- m. liability
- n. net income
- o. net loss
- p. notes payable
- q. owner's equity
- r. revenues
- s. statement of owner's equity

- 1. The amount by which the business assets exceed the business liabilities.
- 2. Reports assets, liabilities, and owner's equity on a specific date.
- 3. Withdrawals that reduce owner's equity as a result of the owner taking cash or other assets out of the business for personal use.
- 4. The decrease in assets (or increase in liabilities) as a result of efforts to produce revenues.
- 5. A formal written promise to pay a supplier or lender a specified sum of money at a definite future time.
- 6. The excess of total revenues over total expenses for the period.
- 7. Reports the profitability of business operations for a specific period of time.
- 8. Reports beginning capital, plus net income, less withdrawals to compute ending capital.
- 9. An economic event that has a direct impact on the business.
- 10. The concept that nonbusiness assets and liabilities are not included in the business' accounting records.
- 11. Consists of the three basic accounting elements: assets = liabilities + owner's equity.
- 12. Items a business owns that will provide future benefits.
- 13. An unwritten promise to pay a supplier for assets purchased or services rendered.
- 14. A separate record used to summarize changes in each asset, liability, and owner's equity of a business.
- 15. An amount owed to a business by its customers as a result of the sale of goods or services.
- 16. An individual, association, or organization that engages in economic activities and controls specific economic resources.
- 1. ANS: Q PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-1 NAT: BUSPROG: Communication STA: AICPA BB-Industry TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge NOT: 1 min. 2. ANS: F PTS: 1 DIF: Difficulty: Easy NAT: BUSPROG: Communication STA: AICPA BB-Industry OBJ: LO: 2-5 TOP: ACBSP: APC-09-Financial Statements KEY: Bloom's: Knowledge NOT: 1 min. 3. ANS: J PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-4 NAT: BUSPROG: Communication STA: AICPA BB-Industry TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge NOT: 1 min. 4. ANS: K PTS: 1 DIF: Difficulty: Easy NAT: BUSPROG: Communication STA: AICPA BB-Industry OBJ: LO: 2-4 KEY: Bloom's: Knowledge TOP: ACBSP: APC-02-GAAP NOT: 1 min. 5. ANS: P PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-1 NAT: BUSPROG: Communication STA: AICPA BB-Industry TOP: ACBSP: APC-02-GAAP KEY: Bloom's: Knowledge NOT: 1 min. 6. ANS: N PTS: 1 DIF: Difficulty: Easy OBJ: LO: 2-4 NAT: BUSPROG: Communication STA: AICPA BB-Industry TOP: ACBSP: APC-09-Financial Statements KEY: Bloom's: Knowledge NOT: 1 min. 7. ANS: L PTS: 1 DIF: Difficulty: Easy NAT: BUSPROG: Communication STA: AICPA BB-Industry OBJ: LO: 2-5 TOP: ACBSP: APC-09-Financial Statements KEY: Bloom's: Knowledge NOT: 1 min.

```
8. ANS: S
                    PTS: 1
                                    DIF: Difficulty: Easy
                    NAT: BUSPROG: Communication
   OBJ: LO: 2-5
                                                     STA: AICPA BB-Industry
   TOP: ACBSP: APC-09-Financial Statements
                                                     KEY: Bloom's: Knowledge
   NOT: 1 min.
9. ANS: I
                    PTS: 1
                                    DIF: Difficulty: Easy
                    NAT: BUSPROG: Communication
   OBJ: LO: 2-3
                                                     STA: AICPA BB-Industry
                                    KEY: Bloom's: Knowledge
   TOP: ACBSP: APC-02-GAAP
   NOT: 1 min.
10. ANS: H
                    PTS: 1
                                    DIF: Difficulty: Easy
                    NAT: BUSPROG: Communication STA: AICPA BB-Industry
   OBJ: LO: 2-1
   TOP: ACBSP: APC-02-GAAP
                                    KEY: Bloom's: Knowledge
   NOT: 1 min.
11. ANS: D
                    PTS: 1
                                     DIF: Difficulty: Easy
   OBJ: LO: 2-2
                    NAT: BUSPROG: Communication
                                                     STA: AICPA BB-Industry
   TOP: ACBSP: APC-02-GAAP
                                    KEY: Bloom's: Knowledge
   NOT: 1 min.
12. ANS: E
                    PTS: 1
                                    DIF: Difficulty: Easy
   OBJ: LO: 2-1
                    NAT: BUSPROG: Communication STA: AICPA BB-Industry
   TOP: ACBSP: APC-02-GAAP
                                     KEY: Bloom's: Knowledge
   NOT: 1 min.
13. ANS: B
                    PTS: 1
                                     DIF: Difficulty: Easy
   OBJ: LO: 2-1
                    NAT: BUSPROG: Communication
                                                     STA: AICPA BB-Industry
   TOP: ACBSP: APC-02-GAAP
                                    KEY: Bloom's: Knowledge
   NOT: 1 min.
14. ANS: A
                    PTS: 1
                                    DIF: Difficulty: Easy
   OBJ: LO: 2-3
                    NAT: BUSPROG: Communication
                                                     STA: AICPA BB-Industry
   TOP: ACBSP: APC-02-GAAP
                                    KEY: Bloom's: Knowledge
   NOT: 1 min.
15. ANS: C
                    PTS: 1
                                    DIF: Difficulty: Easy
   OBJ: LO: 2-1
                    NAT: BUSPROG: Communication
                                                     STA: AICPA BB-Industry
   TOP: ACBSP: APC-02-GAAP
                                     KEY: Bloom's: Knowledge
   NOT: 1 min.
16. ANS: G
                    PTS: 1
                                    DIF: Difficulty: Easy
   OBJ: LO: 2-1 NAT: BUSPROG: Communication
                                                     STA: AICPA BB-Industry
   TOP: ACBSP: APC-02-GAAP
                              KEY: Bloom's: Knowledge
   NOT: 1 min.
```