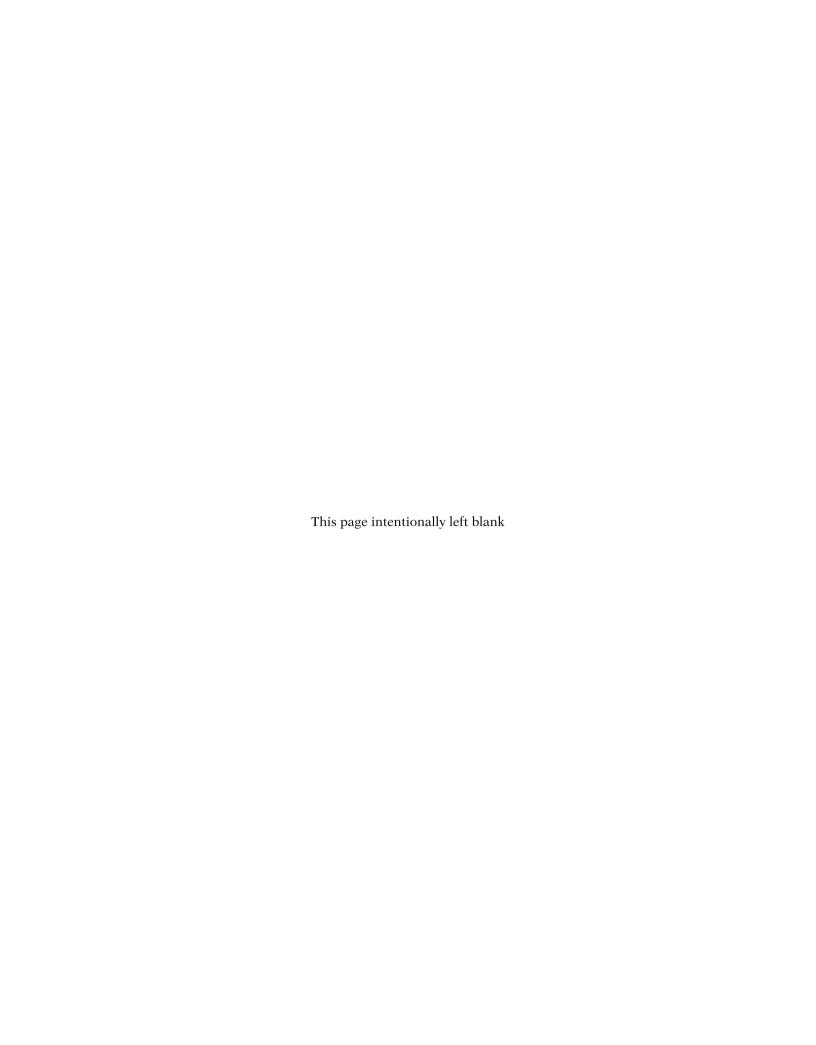
College Accounting

A Practical Approach

Chapters 1-25







College Accounting

A Practical Approach

Fifteenth Edition

Chapters 1-25

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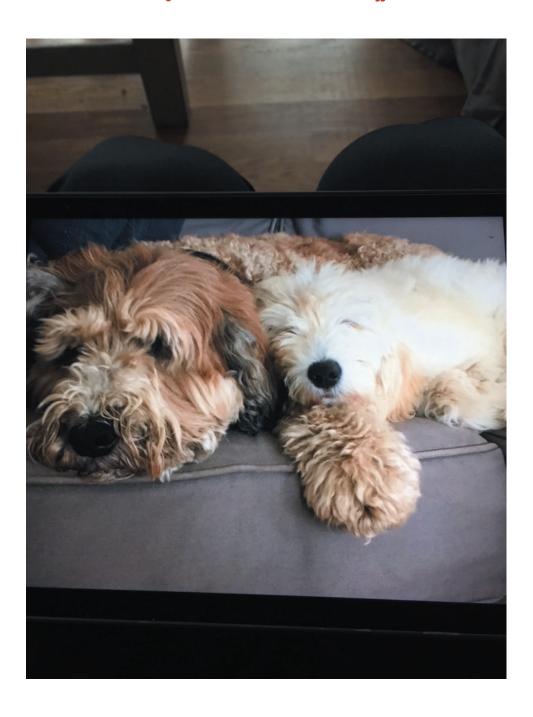
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To my best friends: Bernie and Fejjie



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Manufacturing Elements 802 • Discussion Questions and Critical Thinking/Ethical Case 803
• Concept Checks 803 • Exercises 804 • Problems 806 • Financial Report

Problem 808

Preface

NEW TO THIS EDITION

- New QuickBooks *Online* Software Simulations that give students the opportunity to practice key accounting principles in real-world applications. The scope of these simulations ranges from individual scenarios to a continuing problem set that engages students in accounting best practices in the digital environment.

 Instructors will have access to an easy-to-follow guide that will show them how to enroll their students in a free QuickBooks *Online* course section that will allow them to track student progress and provide effective guidance for the simulation completion. Students will have access to a Tip File that will assist in their work on the simulation.
- New American Institute of Professional Bookkeeping (AIPB) Putting Theory Into Action Bookkeeping Tips: Students can get a glimpse of the types of issues that bookkeepers regularly face in practice and how to successfully deal with them. These examples are culled from real-world situations that easily articulate the issues involved and how to prepare for them. The Instructor Resource page will also include information on how to expand your bookkeeping program, including sample course offerings, to prepare students for both career readiness and the AIPB certifying exam.
- New chapter videos that focus on key concepts and applications that will give students
 a handy visual reference in solving chapter homework assignments. Each video will
 be short and content focused to allow students to successfully integrate it into their
 class and assignment preparations.
- New extensive updates to Chapters 7 and 8, the payroll chapters, that reflect not only
 the recent significant changes to payroll reporting but an enhanced instructor and
 student experience, based on user feedback, to simplify the process of learning the key
 steps of payroll preparation and reporting.
- Updated Financial Report Problem discussions that integrate the use of modern accounting concepts and techniques as they apply to the examination of company financial statements in the 21st century.
- Updated chapter introductions as well as updated end-of-chapter exercise and problem material.
- Updated Success Tip format in every chapter to assist with student learning and retention.
- Revised chapter learning objectives that more easily tie to individual course student learning objectives and reflect changes in the accounting environment that are key to a successful accounting practice.

SAMPLE OF CHAPTER-SPECIFIC CHANGES

- Chapter 1: Accounting Concepts and Procedures
 - Updated chapter scenarios for a better illustration of accounting in action.
 - Updated chapter-wide continuing demonstration problems that are part of the new QuickBooks *Online* Software Simulations.
- Chapter 4: The Accounting Cycle Continued
 - Updated appendix on depreciation to help beginning accounting students in mastering the concept and assist in the application of those concepts to chapter exercises and problems.
- **Chapter 5:** The Accounting Cycle Completed
 - Updated QuickBooks *Online* Software Simulation problems that give instructors an option for the depth of topic complexity they can assign to students.

- **Chapter 6:** Banking Procedures and Control of Cash
 - A fresh update on how technology is changing the banking and finance functions including a look at the pros and cons of online banking and how best to protect banking information in the online environment.
- **Chapter 7:** Calculating Pay and Recording Payroll Taxes: The Beginning of the Payroll Process
 - Extensive revisions that provide a more concise and effective explanation of the recent changes to the payroll preparation process. Examples, figures, and rates have been updated to the 2021 rates. New examples provide an easier path for student learning as suggested by user comments.
- Chapter 8: Paying the Payroll, Depositing Payroll Taxes, and Filing the Required Quarterly and Annual Tax Forms: The Conclusion of the Payroll Process
 - A complete revision to this chapter that provides a more concise and effective explanation of the recent changes to the payroll reporting process. Examples, figures, and rates have been updated to the 2021 rates.
 - Chapter material has been condensed to provide the most meaningful elements of the payroll reporting process in a format that will enhance student understanding of the topic and allow instructors to focus more on student application of those key elements.
- **Chapters 9 through 12:** Updates and revisions to the application of the perpetual method of inventory system for a merchandise company. These include new examples and revised homework exercises and problems as well as a closer alignment to the Accounting Cycle Tutorial available in MyLab.

Visual Walkthrough

SOLVING TEACHING AND LEARNING CHALLENGES

Many students who take a college accounting course have difficulty understanding how they can use what they learn in the future. We use the following resources to engage students with the content and to highlight how college accounting is relevant and important for their employability and careers:

Inventory and revenue recognition accounting methods have been updated to follow current business trends so students are familiar with the rules and practices when they enter the workforce.

Accounting Cycle Tutorial—accessed by computer, smartphone, or tablet, the ACT provides students with brief explanations of each concept in the accounting cycle through engaging interactive activities.



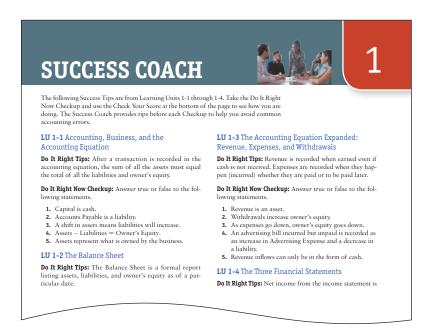
Discussion Questions and Critical Thinking/Ethical Case 1. What are the functions of accounting? 2. Define, compare, and contrast sole proprietorships, partnerships, and corporations. 3. How are businesses classified? 4. How has technology affected the role of the bookkeeper? 5. List the three elements of the basic accounting equation. 7. The total of the left-hand side of the accounting equation must equal the total of the right-hand side. True or false? Please explain 8. A balance sheet tells a company where it is going and how well it performs. True or 9. Revenue is an asset. True or false? Please explain. 10. Owner's equity is subdivided into what categories? 11. A withdrawal is a business expense. True or false? Please explain. 12. As expenses increase they cause owner's equity to increase. Defend or reject. 13. What does an income statement show? 14. The statement of owner's equity only calculates ending withdrawals. True or false? 15. Paul Kloss, accountant for Lowe & Co., traveled to New York on company business. His total expenses came to \$350. Paul felt that because the trip extended over the weekend he would "pad" his expense account with an additional \$100 of expenses. After all, weekends represent his own time, not the company's. What would you do? Write your specific recommendations to Paul. 16. As a result of the Covid-19 pandemic, how have small businesses changed or modified their operations? **Concept Checks** Classifying Accounts Classify each of the following items as an Asset (A), Liability (L), or part of Owner's a. Surface Pro

Discussion Questions, Critical Thinking, Ethical Cases, and Concept Checks afford an opportunity for students to think critically about what they've just learned. This content can be used to generate discussion in class or assigned as homework.

Designed to help students achieve success in their course, Success Tips have been placed strategically throughout the text where students are known to need a hint or reminder.



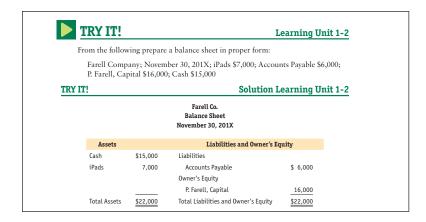
The Exercises and Problems (Sets A and B) have been updated for the new edition. Short exercises can be assigned or used in class to focus on building skills. The longer problems give students a chance to do one learning unit at a time or combine many units in one problem. These problems help put the pieces together. They're a great reinforcement of the accounting principles.



Each Learning Unit of the chapter is summarized in the Success Coach section as a "Do It Right Tip" for students to review before taking the "Do It Right Now Checkup." These true/false questions, created by the authors, challenge the student to apply what's learned in each section and help students focus on the key topics in each chapter.

Developing Employability Skills

For students to succeed in a rapidly changing job market, they should be aware of their career options and how to go about developing a variety of skills. In this book and MyLab, we focus on developing these skills in the following ways:



Try It! Interactive Questions

Found at the end of each Learning Unit, these questions provide students a chance to check their understanding of key concepts in the unit. Linking in the eText will allow students to practice in MyLab Accounting without interrupting their interaction with the eText. Students' performance on the questions creates a precise adaptive study plan for additional practice.

American Institute of Professional Bookkeepers (AIPB) Putting Theory Into Action—Real World Bookkeeping Tips

American Institute of Professional Bookkeepers (AIPB) boxes have been added throughout the text so students are introduced to a future employability path as a bookkeeper.

American Institute of Professional Bookkeepers (AIPB) –

The AIPB is the bookkeeping profession's national association. AIPB's mission is to achieve the recognition of bookkeepers as accounting professionals and to certify bookkeepers who meet high national standards. More on the AIPB can found at https://www.aipb.org

(45 min) **LO3,4**

QuickBooks Online Software Simulation

The following problem continues from one chapter to the next, carrying the balances of each month forward. Each chapter focuses on the learning experience of the chapter, adds information as the business grows, and shows how critical the knowledge of accounting is to the performance of a business decision maker.

Assignment

1. Set up an expanded accounting equation spreadsheet using the following accounts:

Assets	Liabilities	Owner's Equity
Cash	Accounts Payable	Suarez, Capital
Supplies		Suarez, Withdrawals
Computer Shop Equipment		Service Revenue
Office Equipment		Expenses (notate type)

Quickbooks *Online*Software Simulations

Computer workshops allow students to experience software companies use in the real world, like Quickbooks and Sage 50.

Financial Report Problem

Using Amazon's 2020 annual financial report, students can apply theory and applications learned throughout the chapter to a real company.

Financial Report Problem



Reading Amazon's Annual Report Reports/Internet Project

- 1. In order to complete this question, you will need to reference Amazon's 2020 Annual Report. This can be found using your preferred search engine and going to Amazon's Investors Relations page, which can be accessed from the bottom of its home page. Once there, find the Consolidated Statement of Operations. How much did Amazon's net product sales increase or decrease from 2019 to 2020?
- 2. Go to Hershey's website and report sales figures for 2019 and 2020.

KEEPING IT REAL SUAREZ DIGITAL SERVICES

QuickBooks Online Software Simulation



The digital services business is picking up, so Sid Suarez, the owner, has decided to expand his bookkeeping system to a general journal/ledger system. The balances from August have been forwarded to the ledger accounts.

Assignment

1. Use the chart of accounts in Chapter 2 to record the following transactions in Figures 3.37 through 3.47.

Keeping It Real Continuing Problem

Students follow the activities of a fictional company, *Suarez Digital Services*, and then are asked to apply concepts to solve specific accounting problems for the company. Problems can be found in Chapters 1–15 and can be solved manually or by the new Quickbooks Online problem set feature.

Mini Practice Sets

The in-text Sherman Reality Practice Set (Chapter 5) includes actual source documents for each transaction, and the Fantastic Dress Shop Practice Set (Chapter 12) enables students to complete two cycles of transactions (either manually or with Quickbooks).

Mini Practice Set		
QuickBooks Online Softwar	e Simulation	
Sherman Realty		
Reviewing the Accounting Cycle T This comprehensive review proble: Sherman Realty twice. This practice the relationships between all parts c will see how the ending April balan First, look at the chart of accou	EST. TIME: 5 HOURS	
	Sherman Realty Chart of Accounts	
Assets	Revenue	
111 Cash		
112 Accounts Receivable		
114 Prepaid Rent		
115 Office Supplies	512 Salaries Expense	
121 Office Equipment	513 Gas Expense	

INSTRUCTOR TEACHING RESOURCES

This program comes with the following teaching resources.

Supplements available to instructors www.pearsonhighered.com/slater	Features of the Supplement				
Instructor's Manual	 Chapter-by-chapter summaries Examples and activities not in the main book Teaching outlines Teaching tips 				
Solutions Manual	Solutions to the end-of-chapter content				
Test Bank	Over 3,000 multiple-choice, true/false, and computational questions with these annotations: • Difficulty level (1 for straight recall, 2 for some analysis, 3 for complex analysis) • Learning Objective to which the question correlates • Learning outcome • AACSB learning standard (Written and Oral Communication; Ethical Understanding and Reasoning; Analytical Thinking; Interpersonal Relations and Teamwork; Diverse and Multicultural Work Environments; Reflective Thinking; Application of Knowledge)				
Computerized TestGen	TestGen allows instructors to: Customize, save, and generate classroom tests Edit, add, or delete questions from the test item files Analyze test results Organize a database of tests and student results				
PowerPoints	Slides include tables and equations from the textbook PowerPoints meet accessibility standards for students with disabilities. Features include but are not limited to: • Keyboard and Screen Reader access • Alternative text for images • High color contrast between background and fore- ground colors				

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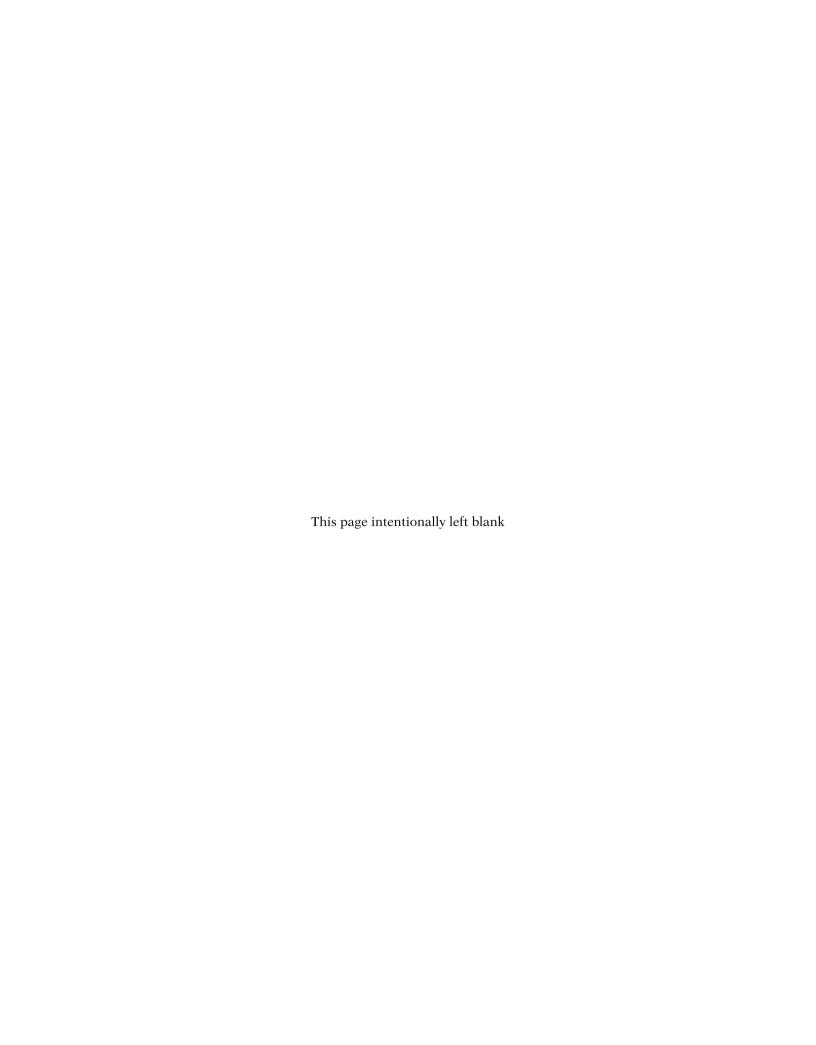
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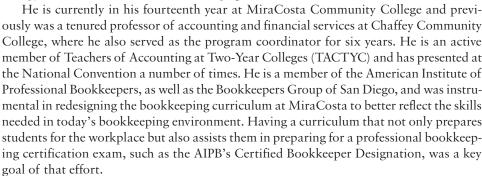
About the Authors

Jeff Slater has taught at North Shore Community College for 48 years. He has published 12 different texts selling over 2 million copies. Jeff has also worked as a consultant for the federal government. Jeff's teaching philosophy is to keep it simple. Over the years he has been known for his innovative ideas. Jeff received the Nisod Excellence Award for his teaching. He resides in Lexington, Massachusetts, with his wife Shelley and their two golden doodles Bernie and Fejjie. Jeff loves what he does and understands that students are his customers who need to be served in a professional manner. Jeff is available at jeffslater@aol.com and promises to get back to any student queries in 24 hours or less.

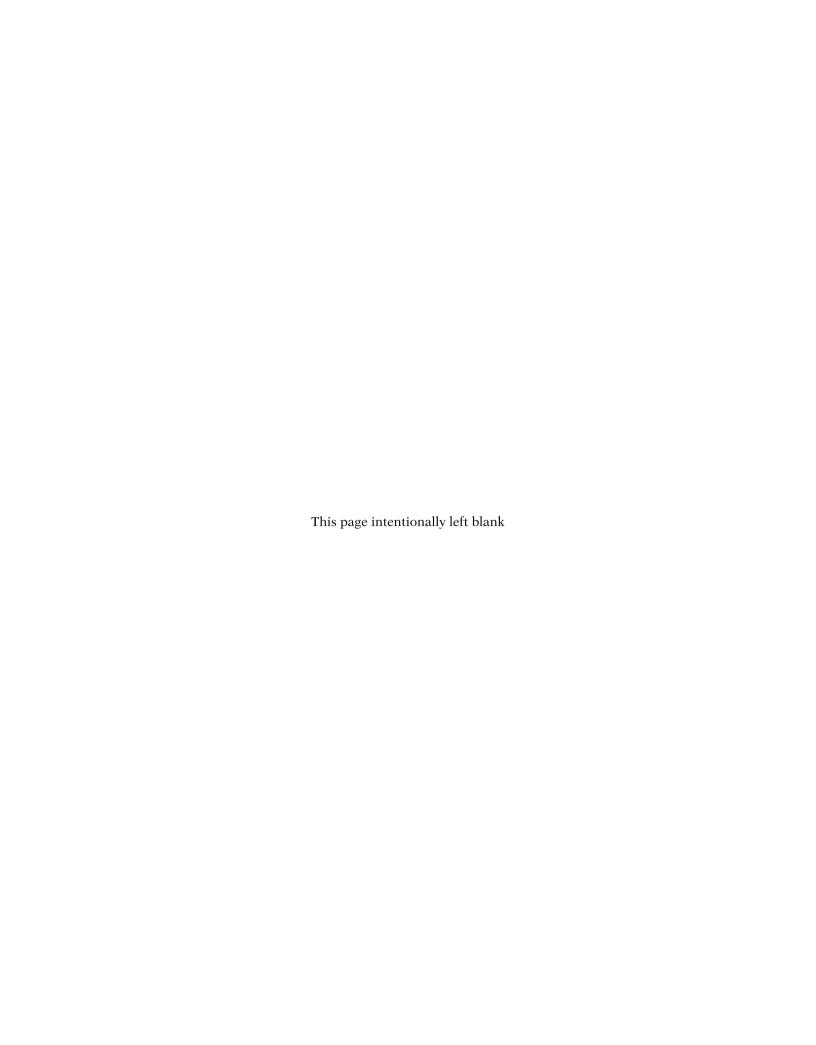


Mike Deschamps received a Bachelor of Science degree in accounting, graduating from the University of San Diego, where he served as the chapter president for Beta Alpha Psi, the national accounting honor society. Mike transferred to USD after completing several years at San Diego City Community College, where he really found his direction as a student, which was a significant factor in his desire to become a community college instructor.

After working in public accounting and obtaining his CPA license, Mike returned to San Diego State University, where he earned a master's degree in Accounting and a Certificate in Financial Planning. In addition, he earned his Enrolled Agent certification in 2004. He is currently pursuing a master's degree in Online Teaching and Learning in the School of Education at California State University—East Bay. He believes that the delivery of meaningful accounting instruction for students must keep up with the changing technology environment in which accounting operates.







Accounting Concepts and Procedures

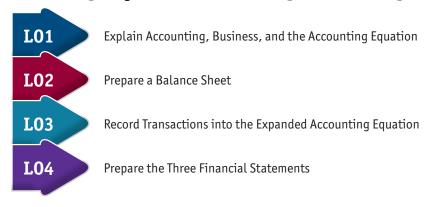
CHAPTER PREVIEW: ACCOUNTING IN ACTION

Kamil Henderson is an enthusiastic gamer. He has developed a very competitive skill set in this arena and regularly competes in local e-sports events that offer some small cash incentives. He has a vision of someday becoming a gaming professional and competing for the huge sums of prize money that are now available at that level. But becoming a successful gamer takes a lot of time and money to pay the entrance fees and buy the most up-to-date equipment. His mom is an accountant and told that him that he should get in the habit of tracking his expenses so that he can begin to see how much money he is actually earning at the end of each month, after taking into account what he had to spend to compete.

In this chapter, we see how a company records transactions and communicates its net income to the business world. How important is it for a businessperson to know just how much their expenses have been for a given period of time in order to determine their net income?



Learning Objectives - Relating Accounting Theory By Unit



LEARNING UNIT 1-1

L01



Accounting System that measures the business's activities in financial terms, provides written reports and financial statements about those activities, and communicates these reports to decision makers and others.

American Institute of Professional Bookkeepers (AIPB) -

The AIPB is the bookkeeping profession's national association. AIPB's mission is to achieve the recognition of bookkeepers as accounting professionals and to certify bookkeepers who meet high national standards. More on the AIPB can found at https://www.aipb.org

Sole proprietorship Type of business organization that has one owner. The owner is personally liable for paying the business's debts.

Partnership Form of business organization that has at least two owners. The partners usually are personally liable for the partnership's debts.

Accounting, Business, and the Accounting Equation

Public companies, which means their stock is traded in the open market, like Sony Computer Entertainment have to comply with many federal statutes as well as with accounting standards. These accounting standards are the rules that companies have to follow in the preparation of their financial information. These standards are called *GAAP*, or *generally accepted accounting principles*.

Accounting is the language of business; its main purpose is to provide information to managers, owners, investors, government agencies, and others inside and outside the organization. Accounting provides answers and insights to questions like:

- Which computer software will best fit our company?
- Should I invest in Apple or Nio stock?
- How will increasing fuel costs affect American Airlines?
- Can Boeing pay its debt obligations?
- What percentage of the GAP marketing budget is allocated to electronic commerce? How does that percentage compare with that of the competition? What is the overall financial condition of GAP?

Smaller businesses also need answers to their financial questions:

- At a local Coffee Bean, did business increase enough over the last year to warrant hiring a new barista?
- Should a local real estate agency spend more money to design, produce, and send out new brochures in an effort to generate more home listings and sales?
- What role should social media play in the future of business spending?

Accounting is as important to individuals as it is to businesses; it answers questions like:

- Should I take out a loan to buy a new computer or wait until I can afford to pay cash for it?
- With interest rates fluctuating, would my money work better in a money market or in the stock market?

The accounting process analyzes, records, classifies, summarizes, reports, and interprets financial information for decision makers—whether individuals, small businesses, large corporations, or governmental agencies—in a timely fashion. It is important that students understand the "whys" of this accounting process. Just knowing the mechanics is not enough.

Types of Business Organizations

The four main categories of business organizations are (1) sole proprietorships, (2) partnerships, (3) corporations, and (4) limited liability companies. Let's define each of them and look at their advantages and disadvantages. This information also appears in Table 1.1.

Sole Proprietorship. A **sole proprietorship**, such as Miguel's Hair Creations, is a business that has one owner. That person is both the owner and the manager of the business. An advantage of a sole proprietorship is that the owner makes all the decisions for the business. A disadvantage is that if the business cannot pay its obligations, the business owner must pay them, which means that the owner could lose some or all of his or her personal assets (e.g., house or savings).

Sole proprietorships are easy to form. They end if the business closes or when the owner dies.

Partnership. A partnership, such as Gail and Reggie, is a form of business ownership that has at least two owners (partners). Each partner acts as an owner of the company, which is an advantage because the partners can share the decision making and the risks of the business usually outlined in a partnership agreement. A disadvantage is that, as in

TABLE 1.1 Types of Business Organizations

	Sole Proprietorship (Miguel's Hair Creations)	Partnership (Gail and Reggie)	Corporation (Tesla)	Limited Liability Company (LLC) (Stolle, Watson, and Ramirez, LLC)
Ownership	Business owned by one person.	Business owned by more than one person.	Business owned by stockholders.	Business owned by a limited number of members.
Formation	No formal filing or agreement necessary to form.	Requires a partnership agreement to define the terms of partnership.	Requires filing with the state to be recognized.	Requires filing with the state a document called articles of organization.
Liability	Owner could lose personal assets to meet obligations of business.	Partners could lose personal assets to meet obligations of partnership.	Limited personal risk. Stock- holders' loss is limited to their investment in the company.	Limited personal risk. Members' loss is limited to their investment.
Closing	Ends with death of owner or closing of business.	Ends with death of partner or closing of business.	Can continue indefinitely.	May end with death of member.

a sole proprietorship, the partners' personal assets could be lost if the partnership cannot meet its obligations.

Partnerships are easy to form. They end when a partner dies or leaves the partnership or when the partners decide to close the business.

Corporation. A **corporation**, such as Tesla, is a business owned by stockholders. The corporation may have only a few stockholders, or it may have many. The stockholders are not personally liable for the corporation's debts, and they usually do not have input into the business's decisions.

Corporations are more difficult to form than sole proprietorships or partnerships, as the corporation must file with the state in order to gain the protections provided by this form of business. Corporations can exist indefinitely.

Limited Liability Company (LLC). A limited liability company, such as the law firm of Stolle, Watson, and Ramirez LLC, is a business owned by a few members. The members are liable only to the extent of their investment in the firm and, unlike a corporation, have input into the business's decisions. Like corporations, the LLC must file with the state in which it does business in order to gain the liability protection of this form of business.

Classifying Business Organizations

Whether we are looking at a sole proprietorship, a partnership, or a corporation, the business can be classified by what it does to earn money. Companies are categorized as service, merchandise, or manufacturing businesses.

A pet sitting company is a good example of a **service company** because it provides a service. The first part of this book focuses on service businesses.

Old Navy and Crate and Barrel sell products. They are called merchandise companies. Merchandise companies can either make their own products or sell products that are made by another supplier. Companies such as Nike and Tesla that make their own products are called manufacturers. (See Table 1.2.)

Definition of Accounting

Accounting (also called the *accounting process*) is a system that measures the activities of a business in financial terms. It provides reports and financial statements that show how the various transactions the business undertook (e.g., buying and selling goods) affected the business. This accounting process performs the following functions:

- Analyzing: Looking at what happened and how the business was affected.
- Recording: Putting the information into the accounting system.
- Classifying: Grouping all the same activities (e.g., all purchases) together.
- Summarizing: Totaling the results.

Corporation Type of business organization that is owned by stockholders. Stockholders are usually not personally liable for the corporation's debts, except to the extent of their investment.

Limited liability company (LLC)

Type of business organization that is owned by a few members. Members are only liable to the extent of their investment.

Service company Business that provides a service.

Merchandise company Business that makes its own products or buys a product from a manufacturing company to sell to its customers.

Manufacturer Business that makes a product and sells it to its customers.

TABLE 1 2	Evamples of Service	a Marchandica	, and Manufacturing	Rucinaccac
IABLE 1.2	examples of Services	e, merchanuise	, allu Mallulactul IIIu	Dusillesses

Service Businesses	Merchandise Businesses	Manufacturing Businesses
Miguel's Hair Creations	IKEA	Tesla
Instagram	Costco	Apple
Samuel Agarwal L.Ac.	Wayfair	Caterpillar
Kelly Services	The Home Depot	Nike
Heathman Electrical	Old Navy	Dell

- Reporting: Issuing the statements that tell the results of the previous functions.
- Interpreting: Examining the statements to determine how the various pieces of information they contain relate to each other.
- Communication: Providing the reports and financial statements to people who are interested in the information, such as the business's decision makers, investors, creditors, and government agencies (e.g., the Internal Revenue Service).

As you can see, a lot of people use these reports. A set of procedures and guidelines was developed to make sure that everyone prepares and interprets them the same way. As mentioned earlier, these guidelines are known as generally accepted accounting principles (GAAP). While GAAP is an United States accounting standard, the International Financial Reporting Standards (IFRS) are a group of guidelines developed by the International Accounting Standards Board that are becoming the international standard for the preparation of public companies' financial statements.

Now let's look at the difference between bookkeeping and accounting. Keep in mind that we use the terms *accounting* and the *accounting process* interchangeably.

Computer Software and the Bookkeeper

Bookkeeping is the recording (record keeping) function of the accounting process. Today, digital devices and software are used for routine bookkeeping operations that formerly took weeks or months to complete. This book explains the processes and logical steps behind those operations, giving the reader the hands-on knowledge that a bookkeeper needs even though computers and other digital devices perform many tasks. Bookkeepers today need to be trained to use the latest digital software that is available, including QuickBooks and Excel.

An accountant takes the bookkeeping records and prepares the financial statements that are used to analyze the company's financial position. Accounting involves many complex activities. Often, it includes the preparation of tax and financial reports, budgeting, and analyses of financial information.

The Accounting Equation: Assets, Liabilities, and Equities

Let's begin our study of accounting concepts and procedures by looking at a small business: Jess Bora's systems consulting firm. Jess decided to open his firm at the end of August. He consulted his accountant before he made his decision, and she gave him some important information. First, she told him the new business would be considered a separate business entity whose finances had to be kept separate and distinct from Jess's personal finances. The accountant went on to say that all transactions can be analyzed using the basic accounting equation: Assets = Liabilities + Owner's Equity.

Jess had never heard of the basic accounting equation. He listened carefully as the accountant explained the terms used in the equation and how the equation works.

Assets. Cash, land, supplies, office equipment, buildings, and other properties of value *owned* by a firm are called **assets**.

Equities. The rights or financial claims to the assets are called **equities**. Equities belong to those who supply the assets. If you are the only person to supply assets to the firm, you have the sole rights or financial claims to them. For example, if you supply the consulting firm with \$6,000 in cash and \$8,000 in office equipment, your equity in the firm is \$14,000.

Generally accepted accounting principles (GAAP) Procedures and guidelines that must be followed during the accounting process.

International Financial Reporting Standards (IFRS)

Group of accounting standards and procedures that, if adopted by the United States, could be used in conjunction with GAAP.

Bookkeeping Recording function of the accounting process.

Assets Properties (resources) of value owned by a business (cash, supplies, equipment, land).

Equities Rights or financial claims of creditors (liabilities) and owners (owner's equity) who supply the assets to a firm.

Relationship between Assets and Equities. The relationship between assets and equities is

Assets = Equities

(Total value of items owned by business) (Total claims against the assets)

The total dollar value of the assets of your consulting firm will be equal to the total dollar value of the financial claims to those assets, that is, equal to the total dollar value of the equities.

The total dollar value is broken down on the left-hand side of the equation to show the specific items of value owned by the business and on the right-hand side to show the types of claims against the assets owned.

Liabilities. A firm may have to borrow money to buy more assets; when it does, it *buys assets on account* (buy now, pay later). Suppose the consulting firm purchases some new computer equipment for \$3,000 on account from Dell, and the company is willing to wait 10 days for payment. The consulting firm has created a **liability**: an obligation to pay that comes due in the future. Dell is called the **creditor**. This liability—the amount owed to Dell—gives the company the right, or the financial claim, to \$3,000 of the consulting firm's assets. When Dell is paid, the company's rights to the assets of the consulting firm will end because the obligation has been paid off.

Basic Accounting Equation. To best understand the various claims to a business's assets, accountants divide equities into two parts. The claims of creditors—outside persons or businesses—are labeled *liabilities*. The claim of the business's owner is labeled **owner's equity**. Let's see how the accounting equation looks now.

Assets = Equities

1. Liabilities: rights of creditors

2. Owner's equity: rights of owner

Assets = Liabilities + Owner's Equity

The total value of all the assets of a firm equals the combined total value of the financial claims of the creditors (liabilities) and the claim of the owner (owner's equity). This calculation is known as the **basic accounting equation**. The basic accounting equation provides a basis for understanding the conventional accounting system of a business. The equation records business transactions in a logical and orderly way that shows their impact on the company's assets, liabilities, and owner's equity.

Importance of Creditors. Another way of presenting the basic accounting equation is

Assets - Liabilities = Owner's Equity

This form of the equation stresses the importance of creditors. The owner's rights to the business's assets are determined after the rights of the creditors are subtracted. In other words, creditors have first claim to assets. If a firm has no liabilities—therefore no creditors—the owner has the total rights to assets. Another term for the owner's current investment, or equity, in the business's assets is capital.

As Jess Bora's consulting firm engages in business transactions (paying bills, serving customers, and so on), changes will take place in the assets, liabilities, and owner's equity (capital). Let's analyze some of these transactions.

Transaction A Aug. 28: Jess invests \$6,000 in cash and \$200 of computer equipment into the business.

On August 28, Jess withdraws \$6,000 from his personal bank account and deposits the money in the consulting firm's newly opened bank account. He also invests \$200 of computer equipment in the business. He plans to be open for business on September 1.

Liabilities Obligations that come due in the future; financial rights or claims of creditors to assets.

Creditor Someone who has a claim to assets.

Owner's equity Rights or financial claims to the assets of a business by the owner (in the accounting equation, assets minus liabilities).

Basic accounting equation

Assets = Liabilities + Owner's Equity.

Capital The owner's investment of equity in the company.



In accounting, capital does not mean cash. Capital is the owner's current investment, or equity, in the assets of the business. With the help of his accountant, Jess begins to prepare the accounting records for the business. We put this information into the basic accounting equation as follows:

Assets = Liabilities + Owner's Equity

Cash + Computer Equipment = Jess Bora, Capital

Transaction +\$6,000 + +\$200 = +\$6,200

\$6,200 = \$6,200

Note that the total value of the assets, cash, and computer equipment—\$6,200—is equal to the combined total value of liabilities (none, so far) and owner's equity (\$6,200). Remember, Jess has supplied all the cash and computer equipment, so he has the sole financial claim to the assets. Note how the heading "Jess Bora, Capital" is written under the owner's equity heading. The \$6,200 is Jess's investment, or equity, in the firm's assets.

Transaction B Aug. 29: Consulting practice buys computer equipment for cash, \$500.

Supplies One type of asset acquired by a firm; it has a much shorter life than equipment in that it is expected to be used up rather quickly.

From the initial investment of \$6,000 cash, the consulting firm buys \$500 worth of computer equipment (such as a tablet), which lasts a long time, whereas **supplies** (such as pens) tend to be used up relatively quickly.

Beginning Balance Transaction Ending Balance

	Assets		= Liab	ilities + Owner's Equity
Cash	+	Computer Equipment	=	Jess Bora, Capital
\$6,000	+	\$200	=	\$6,200
-500		+500		
\$5,500	+	\$700	=	\$6,200

\$6,200 = \$6,200

Shift in assets Shift that occurs when the composition of the assets has changed but the total of the assets remains the same.

Shift in Assets. As a result of the last transaction, the consulting firm has less cash but has increased its amount of computer equipment. This **shift in assets** indicates that the makeup of the assets has changed, but the total of the assets remains the same.

Suppose you go food shopping at Walmart with \$100 and spend \$60. Now you have two assets, food and money. The composition of your assets has *shifted*—you have more food and less money than you did—but the *total* of the assets has not increased or decreased. The total value of the food, \$60, plus the cash, \$40, is still \$100. When you borrow money from the bank, on the other hand, you increase cash (an asset) and increase liabilities at the same time. This action results in an increase in assets, not just a shift.

An accounting equation can remain in balance even if only one side is updated. The key point to remember is that the left-hand-side total of assets must always equal the right-hand-side total of liabilities and owner's equity.

Transaction C Aug. 30: Systems consulting firm buys additional computer equipment on account, \$300.

The consulting firm purchases an additional \$300 worth of computer equipment from Wilmington Company. Instead of demanding cash right away, Wilmington agrees to deliver the equipment and to allow up to 60 days for the consulting practice to pay the invoice (bill).

This liability, or obligation to pay in the future, has some interesting effects on the basic accounting equation. Wilmington Company accepts as payment a partial claim against the assets of the consulting practice. This claim exists until the consulting firm pays off the bill. This unwritten promise to pay the creditor is a liability called accounts payable.

Accounts payable Amounts owed to creditors that result from the purchase of goods or services on account—a liability.

	A	ssets	=	Liabilities	+	Owner's Equity
Cash	+	Computer Equipment	=	Accounts Payable	+	Jess Bora, Capital
\$5,500	+	\$ 700	=			\$6,200
		+300		+\$300		
\$5,500	+	\$1,000	=	\$300	+	\$6,200

Beginning Balance Transaction Ending Balance

\$6,500 = \$6,500

When this information is analyzed, we can see that the consulting practice increased what it owes (accounts payable) as well as what it owns (computer equipment) by \$300. The consulting practice gains \$300 in an asset but also takes on an obligation to pay Wilmington Company at a future date.

The owner's equity remains unchanged. This transaction results in an increase of total assets from \$6,200 to \$6,500.

Finally, note that after each transaction the basic accounting equation remains in balance. Now it's your turn to see if you understood what we have covered. This TRY IT! feature will be found after each learning unit. The solutions are right after the TRY IT! feature, but first give it an attempt to see how you do and then check your answer. If you are still having some difficulty with the concept, review the Success Tips at the end of the chapter.



Learning Unit 1-1

Record the following transactions into the basic accounting equation:

Cash + Salon Equipment = Accounts Payable + B. Reynold, Capital

- 1. Benson Reynold invests \$27,000 to open a hair salon company.
- **2.** The hair salon company buys new salon equipment for \$15,000, paying \$3,000 down and charging the balance.

Calculate the ending balances.

TRY IT!

Solution Learning Unit 1-1

		Assets			Liabilities	+	Owner's Equity
	Cash	+	Salon Equip.	=	Accounts Pay.	+	B. Reynold, Capital
1.	+\$27,000			=			+\$27,000
2.	-3,000		+\$15,000		+\$12,000		
	\$24,000	+	\$15,000	=	\$12,000	+	\$27,000

The Balance Sheet

In the first learning unit, the transactions for Jess Bora's systems consulting firm were recorded in the accounting equation. The transactions we recorded occurred before the consulting firm opened for business. A statement called a **balance sheet** or **statement of financial position** can show the financial position of a company before it opened. The balance sheet is a formal statement that presents the information from the ending balances of both sides of the accounting equation. Think of the balance sheet as a snapshot of the business's financial position as of a particular date.

LEARNING UNIT 1-2

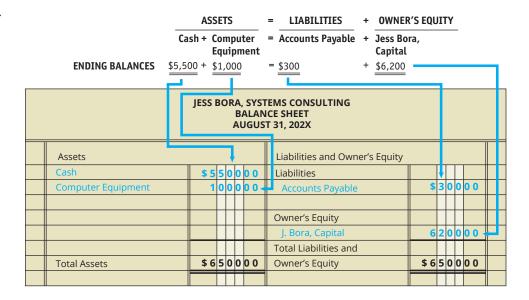


Balance sheet Statement, as of a particular date, that shows the amount of assets owned by a business as well as the amount of claims

as well as the amount of claims (liabilities and owner's equity) against these assets; also known as statement of financial position. Let's look at the balance sheet of Jess Bora's systems consulting practice for August 31, 202X, shown in Figure 1.1. The figures in the balance sheet come from the ending balances of the accounting equation for the consulting practice as shown in Learning Unit 1-1.

Note in Figure 1.1 that the assets owned by the consulting practice appear on the left-hand side and that the liabilities and owner's equity appear on the right-hand side. Both sides equal \$6,500. This *balance* between left and right gives the balance sheet its name. In later chapters we look at other ways to set up a balance sheet.

Figure 1.1
The Balance Sheet





The balance sheet shows the company's financial position as of a particular date. (In our example, that date is at the end of August.)

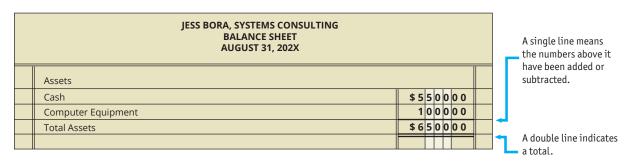
Points to Remember in Preparing a Balance Sheet

The Heading. The heading of the balance sheet provides the following information:

- The company name: Jess Bora, Systems Consulting
- The name of the statement: Balance Sheet
- The date for which the report is prepared: August 31, 202X

Use of the Dollar Sign. Note that the dollar sign is not repeated each time a figure appears. As shown in Figure 1.2, the partial balance sheet for Jess Bora's consulting practice, it is usually placed to the left of each column's top figure and to the left of the column's total.

Figure 1.2 Partial Balance Sheet



Distinguishing the Total. If you are using a paper ledger, when adding numbers down a column, use a single line above the total and a double line beneath it. A single line means that the numbers above it have been added or subtracted. A double line indicates a total.

These rules are the same for all accounting reports. With computer software today, the dollar sign and total are just a click away as the balance sheet's layout is preprogrammed.

The balance sheet gives Jess the information he needs to see the consulting firm's financial position before it opens for business. This information does not tell him, however, whether the firm made a profit.



Learning Unit 1-2

From the following prepare a balance sheet in proper form:

Farell Company; November 30, 201X; iPads \$7,000; Accounts Payable \$6,000; P. Farell, Capital \$16,000; Cash \$15,000

TRY IT!

Solution Learning Unit 1-2

Farell Co. Balance Sheet November 30, 201X

Assets		Liabilities and Owner's Eq	uity
Cash	\$15,000	Liabilities	
iPads	7,000	Accounts Payable	\$ 6,000
		Owner's Equity	
		P. Farell, Capital	16,000
Total Assets	\$22,000	Total Liabilities and Owner's Equity	\$22,000

The Accounting Equation Expanded: Revenue, Expenses, and Withdrawals

As soon as Jess Bora's office opened on September 1, he began performing systems consulting services for his clients and earning revenue, by generating consulting fees, for the business. At the same time, as a part of doing business, he incurred various expenses such as rent. Jess's accountant explained there are two types of accounting systems to record business transactions: the **cash basis** system and the **accrual basis** system. In the cash basis system, revenues are recorded when cash is received, and expenses are recorded when cash is paid. Some small businesses use this method, and individuals use the cash basis to do their personal income taxes. In the accrual basis system, revenue transactions are generally recorded when the earning process is completed (not when money is received), and expenses are recorded when they are incurred (or happen) whether paid in cash or not. The accountant told Jess that she would be using the accrual basis system of accounting because this system matches revenues and expenses in the same time period (not just when cash is paid). Now let's look at how the revenue transaction is recorded for Jess's business.

Revenue

A service company earns **revenue** when it provides services to its clients. Jess's consulting firm earned revenue when he provided consulting services to his clients for consulting fees. When revenue is earned, owner's equity is increased. In effect, revenue is a subdivision of owner's equity.

Assets are increased. The increase is in the form of cash if the client pays right away. If the client promises to pay in the future, the increase is called **accounts receivable**. When revenue is earned, the transaction is recorded as an increase in revenue and an increase in assets (either as cash or as accounts receivable, depending on whether it was paid right away or will be paid in the future).

LEARNING UNIT 1-3



Cash basis Accounting system that records revenue when cash is received and expenses when paid. This system does not match revenues and expenses like in the accrual basis of accounting.

Accrual basis Accounting system that matches revenues when earned with expenses that are incurred.

Revenue Amount earned by performing services for customers or selling goods to customers; can be in the form of cash or accounts receivable. Subdivision of owner's equity: As revenue increases, owner's equity increases.

Accounts receivable Asset that indicates amounts owed by customers.

Expense Cost incurred in running a business by consuming goods or services in producing revenue. Subdivision of owner's equity.

Net income When revenue totals more than expenses, the result is net income.

Net loss When expenses total more than revenue, the result is net loss.

Withdrawals Subdivision of owner's equity that records money or other assets an owner withdraws from a business for personal use.

Figure 1.3 Owner's Equity

Expanded accounting equation Assets = Liabilities

- + Capital Withdrawals
- + Revenue Expenses.

Expenses

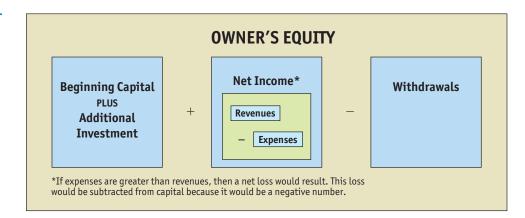
A business's **expenses** are the costs the company incurs in carrying on operations in its effort to create revenue. Expenses are also a subdivision of owner's equity; when expenses are incurred, they *decrease* owner's equity. Expenses can be paid for in cash or they can be charged.

Net Income/Net Loss

When revenue totals more than expenses, **net income** is the result; when expenses total more than revenue, **net loss** is the result.

Withdrawals

At some point Jess Bora may need to withdraw cash or other assets from the business to pay living or other personal expenses that do not relate to the business. We will record these transactions in an account called **withdrawals**. Sometimes this account is called the *owner's drawing account*. Withdrawals is a subdivision of owner's equity that records personal expenses not related to the business. Withdrawals decrease owner's equity (see Figure 1.3).



It is important to remember the difference between expenses and withdrawals. Expenses relate to business operations; withdrawals are the result of personal needs outside the normal operations of the business.

Now let's analyze the September transactions for Jess Bora's systems consulting firm using an **expanded accounting equation** that includes withdrawals, revenues, and expenses.

Expanded Accounting Equation

Transaction D Sept. 1–30: Provided consulting services for cash, \$2,000.

Transactions A, B, and C were discussed earlier, when the consulting firm was being formed in August. See Learning Unit 1-1.

		Assets			=	Liabilities	+		0w:	ner's	Equity	
	Cash	+ Accts. Rec.	+	Computer Equip.	=	Accts. Pay.	+	J. Bora, Capital	J. Bora,Withdr.	+	Revenue	Expenses
Bal. Forward	\$5,500		+	\$1,000	=	\$ 300	+	\$6,200				
Transaction	+2,000										+\$2,000	
End. Bal.	\$7,500		+	\$1,000	=	\$ 300	+	\$6,200		+	\$2,000	
				\$8,500	=	\$8,500						

In the consulting firm's first month of operation, a total of \$2,000 in cash was received for consulting services performed. In the accounting equation, the asset Cash is increased by \$2,000. Revenue is also increased by \$2,000, resulting in an increase in total owner's equity.

A revenue column was added to the basic accounting equation. Amounts are recorded in the revenue column when they are earned. They are also recorded in the assets column under Cash and/or Accounts Receivable (see also Transaction E below). Do not think of revenue as an asset. It is part of owner's equity. It is the revenue that creates an inward flow of cash and accounts receivable.



Transaction E Sept. 1–30: Provided consulting services on account, \$3,000.

Jess's consulting firm performed consulting work on account for \$3,000. The firm did not receive the cash for these earned consulting fees; it accepted an unwritten promise from these clients that payment would be received in the future.

		Assets			=	Liab	ilities	+			01	vner	s Equity			
Cash	+	Accts. Rec.	+	Computer Equip.	=	Acct	s. Pay.	+	J. Bora, Capital	-	J. Bora, Withdr.	+	Revenue	-	Expenses	
\$7,500			+	\$ 1,000	=	\$	300	+	\$6,200				+\$2,000			Bal
		+\$3,000											+3,000			Trar
\$7,500	+	\$3,000	+	\$ 1,000	=	\$	300	+	\$6,200				+\$5,000			End
				\$11,500	=	\$1	1,500									-

Transaction F Sept. 1–30: Received \$900 cash as partial payment from previous consulting services performed on account.

During September some of Jess's clients who had received services and promised to pay in the future decided to reduce what they owed the firm by making a payment of \$900. This decision is shown as follows on the expanded accounting equation:

		Assets			=	Liab	ilities	+			01	wner	s Equity		
Cash	+	Accts. Rec.	+	Computer Equip.	=	Accts	s. Pay.	+	J. Bora, Capital	-	J. Bora, Withdr.	+	Revenue	_	Expenses
\$7,500	+	\$3,000	+	\$ 1,000	=	\$	300	+	\$6,200			+	\$5,000		
+900		-900													
\$8,400	+	\$2,100	+	\$ 1,000	=	\$	300	+	\$6,200			+	\$5,000		
				\$11,500	=	\$1	1,500		,						

The consulting firm increased the asset Cash by \$900 and reduced another asset, Accounts Receivable, by \$900. The *total* of assets does not change. The right-hand side of the expanded accounting equation has not been touched because the total on the left-hand side of the equation has not changed. The revenue was recorded when it was earned (see Transaction E), and the *same revenue cannot be recorded twice*. This transaction analyzes the situation *after* the revenue has been previously earned and recorded. Transaction F shows a shift in assets resulting in more cash and less accounts receivable.

Transaction G Sept. 1–30: Paid salaries expense, \$700.

Record an expense when it is incurred, whether it is paid immediately or is to be paid later.

			Assets			=	Liab	ilities	+		0ν	vner's	Equity		
	Cash	+	Accts. Rec.	+	Computer Equip.	=	Accts	. Pay.	+	J. Bora, — Capital	J. Bora, Withdr.	+	Revenue	_	Expenses
Bal. Forward	\$8,400	+	\$2,100	+	\$ 1,000	=	\$	300	+	\$6,200		+	\$5,000		
Transaction	-700														+\$700
End. Bal.	\$7,700	+	\$2,100	+	\$ 1,000	=	\$	300	+	\$6,200		+	\$5,000	_	\$700
					\$10,800	=	\$1	0,800							

As expenses increase, they decrease owner's equity. This incurred expense of \$700 reduces the cash by \$700. Although the expense was paid, the total of the expenses to date has *increased* by \$700. Keep in mind that owner's equity decreases as expenses increase, so the accounting equation remains in balance because expenses are deducted from owner's equity.

Transaction H Sept. 1–30: Paid rent expense, \$400.

			Assets			=	Liabi	lities	+			0ν	vner's	Equity		
	Cash	+	Accts. Rec.	+	Computer Equip.	=	Accts	. Pay.	+	J. Bora, Capital	_	J. Bora, Withdr.	+	Revenue	_	Expenses
Bal. Forward	\$7,700	+	\$2,100	+	\$ 1,000	=	\$	300	+	\$6,200			+	\$5,000	_	\$ 700
Transaction	-400															+400
End. Bal.	\$7,300	+	\$2,100	+	\$ 1,000	=	\$	300	+	\$6,200			+	\$5,000	_	\$1,100
					\$10,400	=	\$10),400								

During September, the practice incurred rent expenses of \$400. This rent was not paid in advance; it was paid when it came due. The payment of rent reduces the asset Cash by \$400 as well as increases the expenses of the firm, resulting in a decrease in owner's equity. The firm's expenses are now \$1,100.

Transaction I Sept. 1–30: Incurred advertising expenses of \$200, to be paid next month.

			Assets			=	Liab	ilities	+		0ν	vner's	Equity		
	Cash	+	Accts. Rec.	+	Computer Equip.	=	Accts	s. Pay.	+	J. Bora, — Capital	J. Bora, Withdr.	+	Revenue	_	Expenses
Bal. Forward	\$7,300	+	\$2,100	+	\$ 1,000	=	\$	300	+	\$6,200		+	\$5,000	_	\$1,100
Transaction								+200							+200
End. Bal.	\$7,300	+	\$2,100	+	\$ 1,000	=	\$	500	+	\$6,200		+	\$5,000	_	\$1,300
					\$10,400	=	\$1	0,400							

Jess ran an ad in the local newspaper and incurred an expense of \$200. This increase in expenses caused a corresponding decrease in owner's equity. Because Jess has not paid the newspaper for the advertising yet, he owes \$200. Thus, his liabilities (Accounts Payable) increase by \$200. Eventually, when the bill comes in and is paid, both Cash and Accounts Payable will be decreased.

Transaction J Sept. 1–30: Jess withdrew \$100 for personal use.

			Assets			=	Liab	ilities	+			0ν	vner's	Equity			
	Cash	+	Accts. Rec.	+	Computer Equip.	=	Acct	s. Pay.	+	J. Bora, Capital	-	J. Bora, Withdr.	+	Revenue	_	Expenses	
	\$7,300	+	\$2,100	+	\$ 1,000	=	\$	500	+	\$6,200			+	\$5,000	_	\$1,300	Bal. Forward
	-100											+\$100					Transaction
_	\$7,200	+	\$2,100	+	\$ 1,000	=	\$	500	+	\$6,200	_	\$100	+	\$5,000	_	\$1,300	End. Bal.
_					\$10,300	=	\$1	0,300									-

By taking \$100 for personal use, Jess *increased* his withdrawals from the business by \$100 and decreased the asset Cash by \$100. Note that as withdrawals increase, the owner's equity *decreases*. Keep in mind that a withdrawal is *not* a business expense. It is a subdivision of owner's equity that records money or other assets an owner withdraws from the business for *personal* use.

Subdivision of Owner's Equity Take a moment to review the subdivisions of owner's equity:

- As capital increases, owner's equity increases (see Transaction A).
- As withdrawals increase, owner's equity decreases (see Transaction J).
- As revenue increases, owner's equity increases (see Transactions D and E).
- As expenses increase, owner's equity decreases (see Transactions G through I).

Jess Bora's Expanded Accounting Equation The following is a summary of the expanded accounting equation for Jess Bora's systems consulting firm.



Revenue is shown when earned, not when cash is received.

However, for more complex transactions, GAAP has recently added some additional criteria.

Jess Bora, Systems Consulting Expanded Accounting Equation: A Summary

		Assets			=	Liabilities	+			0wn	er's E	quity		
Cash	+	Accts. Rec.	+	Computer Equip.	=	Accts. Pay.	+	J. Bora, Capital	_	J. Bora, Withdr.	+	Revenue	_	Expenses
\$6,000				+\$200	=			+\$6,200						
6,000			+	200	=			6,200						
-500				+500										
5,500			+	700	=			6,200						
				+300		+\$300								
5,500			+	1,000	=	300	+	6,200						
+2,000												+\$2,000		
7,500			+	1,000	=	300	+	6,200			+	2,000		
		+\$3,000								-		+3,000		
7,500	+	3,000	+	1,000	=	300	+	6,200			+	5,000		
+900		-900								-				
8,400	+	2,100	+	1,000	=	300	+	6,200			+	5,000		
-700														+\$700
7,700	+	2,100	+	1,000	=	300	+	6,200			+	5,000	_	700
-400										-				+400
7,300	+	2,100	+	1,000	=	300	+	6,200			+	5,000	_	1,100
						+200				-				+200
7,300	+	2,100	+	1,000	=	500	+	6,200			+	5,000	_	1,300
-100										+\$100				
\$7,200	+	\$2,100	+	\$ 1,000	=	\$ 500	+	\$6,200	_	\$100	+	\$5,000	_	\$1,300
				\$10,300	=	\$10,300								



Learning Unit 1-3

Use the expanded accounting equation to solve for the missing amount.

Assets \$37,000; Liabilities?; Owner's Capital, Beginning Balance \$19,000; Revenues \$13,000; Expenses \$6,000; Withdrawals \$4,000

TRY IT!

Solution Learning Unit 1-3

Total Assets \$37,000 Less Owner's Equity \$22,000 = Liabilities \$15,000

The calculation of \$22,000 was Owner's Capital, Beginning Balance \$19,000 + Revenue of \$13,000 Less Expenses and Withdrawals of \$10,000

LEARNING UNIT 1-4

The Three Financial Statements

L04



Jess Bora would like to be able to find out if his firm is making a profit, so he asks his accountant if she can measure the firm's financial performance on a monthly basis. His accountant replies that a number of financial statements that she can prepare, such as the income statement, will show Jess how well the consulting practice has performed over a specific period of time. The accountant can use the information in the income statement to prepare other reports.

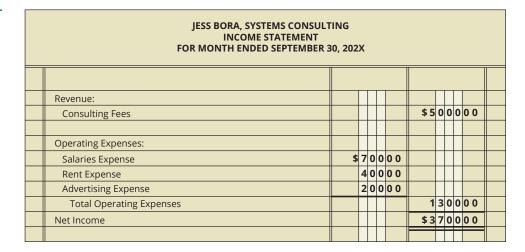
The Income Statement

did it lose by having a net loss?

An income statement is an accounting statement that shows business results in terms of revenue and expenses. If revenues are greater than expenses, the report shows net income. If expenses are greater than revenues, the report shows net loss. An income statement typically covers 1, 3, 6, or 12 months. It cannot cover more than 1 year. The statement shows the result of all revenues and expenses throughout the entire period and not just as of a specific date. The income statement for Jess Bora's consulting firm is shown in Figure 1.4. Think of the income statement as the "scoreboard" for the business. At the end of the "game," the current business period, did the business win, meaning having net income, or

Income statement Accounting statement that details the performance of a firm (revenue minus expenses) for a specific period of time.

Figure 1.4
The Income Statement





The income
statement is prepared from
data found in the revenue and
expense columns of the expanded
accounting equation. The inside column
of numbers (\$700, \$400, \$200) is used
to subtotal all expenses (\$1,300)
before subtracting from
revenue.

Points to Remember in Preparing an Income Statement

Heading. The heading of an income statement tells the company's name, the name of the statement, and the period of time the statement covers.

The Setup. As you can see on the income statement, the inside column of numbers (\$700, \$400, and \$200) is used to subtotal all expenses (\$1,300) before subtracting them from revenue (\$5,000 - \$1,300 = \$3,700).

Operating expenses may be listed in alphabetical order, in order of largest amount to smallest, or in a set order established by the accountant.

The Statement of Owner's Equity

As we said, the income statement is a business statement that shows business results in terms of revenue and expenses, but how does not income or not loss affect owner's equity? To find out, we have to look at a second type of statement, the statement of owner's equity.

The statement of owner's equity shows for a certain period of time what changes occurred in Jess Bora, Capital. The statement of owner's equity is shown in Figure 1.5.

Statement of owner's equity Financial statement that reveals the change in capital. The ending figure for capital is then placed on the balance sheet.

Figure 1.5
Statement of Owner's Equity—
Net Income

Comes from Income Statement

JESS BORA, SYSTEMS CONSULT STATEMENT OF OWNER'S EQU FOR MONTH ENDED SEPTEMBER 3	JITY	2X									
Jess Bora, Capital, September 1, 202X						\$ 6	2	0	0	0 0	
Net Income for September	\$ 3	7	0	0	0 0		F		Н		
Less: Withdrawals for September	-	1	0	0	0 0						
Increase in Capital						3	6	0	0	0 0	
Jess Bora, Capital, September 30, 202X						\$ 9	8	0	0	0 0	

The capital of Jess Bora can be:

Increased by: Owner Investment (in this case there is no additional investment by the owner)

Net Income (Revenue – Expenses) and Revenue Greater Than Expenses

Decreased by: Owner Withdrawals

Net Loss (Revenue - Expenses) and Expenses Greater Than Revenue

Remember, a withdrawal is *not* a business expense and thus is not involved in the calculation of net income or net loss on the income statement. It appears on the statement of owner's equity. The statement of owner's equity summarizes the effects of all the subdivisions of owner's equity (revenue, expenses, and withdrawals) on beginning capital. The ending capital figure (\$9,800) will be the beginning figure in the next statement of owner's equity.

Suppose Jess's consulting firm had operated at a loss in the month of September. Suppose that instead of net income, a \$400 net loss occurred and an additional investment of \$700 was made on September 15. Figure 1.6 shows how the statement would look with this net loss and additional investment.

JESS BORA, SYSTEMS CONSULT STATEMENT OF OWNER'S EQU FOR MONTH ENDED SEPTEMBER 3	JITY)2X	ζ								
Jess Bora, Capital, September 1, 202X						\$ 6	2	0	0	0 0	
Additional Investment, September 15, 202X			T	T			7	0	0	0 0	
Total Investment for September*			Τ			\$ 6	9	0	0	0 0	
Less: Net Loss for September		\$ 4	10	0	0 0						
Withdrawals for September		1	0	0	0 0						
Decrease in Capital			T			-	5	0	0	0 0	
Jess Bora, Capital, September 30, 202X						\$ 6	4	0	0	0 0	

^{*}Beginning capital and additional investments.



If this statement of owner's equity is omitted, the information will be included in the owner's equity section of the balance sheet.

Figure 1.6 Statement of Owner's Equity— Net Loss

The Balance Sheet

Now let's look at how to prepare a balance sheet from the expanded accounting equation (see Figure 1.7). As you can see, the asset accounts (cash, accounts receivable, and computer equipment) appear on the left side of the balance sheet.

Accounts payable and Jess Bora, Capital appear on the right side. Notice that the \$9,800 of capital can be calculated within the accounting equation or can be read from the statement of owner's equity.

Main Elements of the Income Statement, the Statement of Owner's Equity, and the Balance Sheet

In this chapter, we have discussed three financial statements: the income statement, the statement of owner's equity, and the balance sheet. A fourth statement, called the *statement of cash flows*, is not covered at this time. Let us review what elements of the expanded accounting equation go into each statement and the usual order in which the statements are prepared. Figure 1.7 presents a diagram of the accounting equation and the balance sheet.

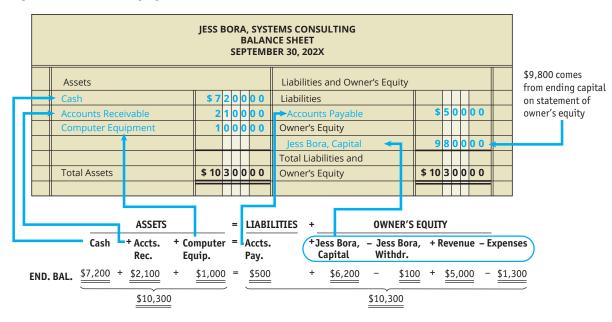


Figure 1.7 The Accounting Equation and the Balance Sheet

Ending capital

Beginning Capital + Additional Investments + Net Income - Withdrawals = Ending Capital; or Beginning Capital + Additional Investments - Net Loss - Withdrawals = Ending Capital.

Table 1.3 summarizes the following points:

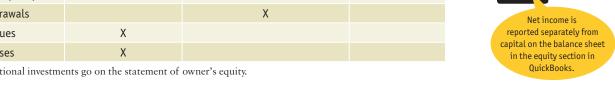
- The income statement is prepared first; it includes revenues and expenses and shows
 net income or net loss. This net income or net loss is used to update the next statement, the statement of owner's equity.
- The statement of owner's equity is prepared second; it includes beginning capital and any additional investments, the net income or net loss shown on the income statement, withdrawals, and the total, which is the ending capital.
- The balance sheet is prepared last; it includes the final balances of each of the elements listed in the accounting equation under Assets and Liabilities. The balance in Capital comes from the statement of owner's equity.

SUCCESS

TABLE 1.3 What Goes on Each Financial Statement

	Income Statement	Statement of Owner's Equity	Balance Sheet
Assets			X
Liabilities			X
Capital* (beg.)		X	
Capital (end.)		X	X
Withdrawals		X	
Revenues	Χ		
Expenses	X		

^{*} Additional investments go on the statement of owner's equity.





Learning Unit 1-4

From the following titles identify which financial statement(s) they would be placed on (Income Statement [IS], Statement of Owner's Equity [SOE], Balance Sheet [BS]).

- 1. Accounts Payable
- 2. John Ryan, Capital (ending)
- 3. Accounts Receivable
- **4.** Computer Equipment
- **5.** Legal Fees (Revenue)

- **6.** Office Expense
- **7.** Advertising Expense
- 8. John Ryan, Withdrawals
- **9.** Salaries Payable
- **10.** Cash

TRY IT!

Solution Learning Unit 1-4

- **1.** BS
- 2. SOE, BS
- **3.** BS
- **4.** BS
- **5.** IS
- **6.** IS **7.** IS
- **8.** SOE
- **9.** BS
- **10.** BS

DEMONSTRATION SUMMARY PROBLEM

Michaela Herrera opened her law office on June 1, 202X. During the first month of operation, Michaela conducted the following transactions:

- A. Invested \$6,000 in cash into the law practice.
- B. Paid \$600 for office equipment.
- C. Purchased additional office equipment on account, \$1,000.
- D. Received cash for performing legal services for clients, \$2,000.
- E. Paid salaries, \$800.
- F. Performed legal services for clients on account, \$1,000.
- G. Paid rent, \$1,200.
- H. Withdrew \$500 from her law practice for personal use.
- I. Received \$500 from customers in partial payment for legal services performed, Transaction F.



Requirements

- Record these transactions in the expanded accounting equation. Keep a running balance.
- 2. Prepare the financial statements at June 30 for Michaela Herrera, Attorney-at-Law.

Solutions

Requirement 1

Record these transactions in the expanded accounting equation. Keep a running balance.

Tips to Expanded Accounting Equation

- Transaction A: The business increased its Cash by \$6,000. Owner's Equity (capital) increased when Michaela supplied the cash to the business. Note how the equation is now in balance.
- Transaction B: A shift in assets occurred when the equipment was purchased. The business lowered its Cash by \$600, and a new column—Office Equipment—was increased for the \$600 of equipment that was bought. The amount of capital is not touched because the owner did not supply any new funds. You do not have to touch both sides of the equation to make it balance.
- Transaction C: When creditors supply \$1,000 of additional equipment, the business shows an increase in its debt. The business had increased what it *owes* the creditors. The end result is an increase in an asset and an increase in a liability.

Solution to Recording Transactions into Expanded Accounting Equation

			A	sset	s	=	Liabilities	+			0wne	r's E	quity		
	Cash	+	Accts. Rec.	+	Office Equip.	=	Accounts Payable	+	M. Herrera, Capital	-	M. Herrera, Withdr.	+	Legal Fees	-	Expenses
Α.	+\$6,000								+\$6,000						
Bal.	6,000					=			6,000						
В.	-600				+\$600										
Bal.	5,400			+	600	=			6,000						
C.					+1,000		+\$1,000								
Bal.	5,400			+	1,600	=	1,000	+	6,000						
D.	+2,000												+\$2,000		
Bal.	7,400			+	1,600	=	1,000	+	6,000			+	2,000		
E.	-800														+\$800
Bal.	6,600			+	1,600	=	1,000	+	6,000			+	2,000	_	800
F.			+\$1,000										+1,000		
Bal.	6,600	+	1,000	+	1,600	=	1,000	+	6,000			+	3,000	_	800
G.	-1,200														+1,200
Bal.	5,400	+	1,000	+	1,600	=	1,000	+	6,000			+	3,000	_	2,000
Н.	-500										+\$500				
Bal.	4,900	+	1,000	+	1,600	=	1,000	+	6,000	_	500	+	3,000	_	2,000
I.	+500		-500												
End. Bal.	\$5,400	+	\$ 500	+	\$1,600	=	\$1,000	+	\$6,000	_	\$500	+	\$3,000	_	\$2,000
					\$7,500	=	\$7,500								

- Transaction D: Legal Fees, a subdivision of Owner's Equity, is increased when the law firm provides a service even if no money is received. The service provides an inward flow of \$2,000 to Cash, an asset. Remember that Legal Fees is *not* an asset. As Legal Fees revenue increases, Owner's Equity increases. Keep in mind that revenue can provide an inflow of cash and/or accounts receivable. Cash and accounts receivable are assets. The revenue is part of Owner's Equity.
- Transaction E: The salary paid by Michaela creates an \$800 increase in Expenses
 and a corresponding decrease in Owner's Equity as well as a decrease in Cash.
 Keep in mind that as the expenses increase they do in fact lower Owner's Equity.
- Transaction F: Michaela did the work and earned the \$1,000. That \$1,000 is recorded as revenue. This time the legal fees create an inward flow of assets called Accounts Receivable for \$1,000. Remember that Legal Fees is *not* an asset. It is a subdivision of Owner's Equity.
- Transaction G: The \$1,200 rent expense reduces Owner's Equity as well as Cash. Remember to think of expenses as increasing. This increase in expenses then causes Owner's Equity to decrease.
- Transaction H: Withdrawals are for personal use. Here the business decreases Cash by \$500 while Michaela's withdrawals increase by \$500. Withdrawals decrease the Owner's Equity. Remember to think of withdrawals as increasing. This is the amount withdrawn by the owner for personal use, decreasing Owner's Equity.
- Transaction I: This transaction does not reflect new revenue in the form of Legal Fees. It is only a shift in assets: more Cash and less Accounts Receivable.

Requirement 2

Prepare the financial statements at June 30 for Michaela Herrera, Attorney-at-Law. Figures 1.8 and 1.9 show the completed statements for Michaela.

Solutions to Preparing Financial Statements

A MICHAELA HERRERA, ATTORNEY-AT-LAW INCOME STATEMENT FOR MONTH ENDED JUNE 30, 202X							
Revenue:							
Legal Fees	Legal Fees \$3,000						
Operating Expenses:							
Salaries Expense	\$ 800						
Rent Expense	<u>1,200</u>						
Total Operating Expenses							
Net Income	\$1,000						

Figure 1.8 Michaela Herrera's Income Statement and Statement of Owner's Equity

B MICHAELA HERRERA, ATTORNEY-AT-LAW STATEMENT OF OWNER'S EQUITY FOR MONTH ENDED JUNE 30, 202X					
Michaela Herrera, Capital, June 1, 202X Investment in June Total Investment Net Income for June	\$ 0 <u>6,000</u> 6,000 \$1,000				
Less: Withdrawals for June Increase in Capital Michaela Herrera, Capital, June 30, 202X		_			

Figure 1.9 Michaela Herrera's Balance Sheet

C MICHAELA HERRERA, ATTORNEY-AT-LAW BALANCE SHEET JUNE 30, 202X						
Assets	Liabilities and Owner's Equity					
Cash	\$5,400	Liabilities				
Accounts Receivable	500	Accounts Payable	\$ 1,000			
Office Equipment	1,600	Owner's Equity				
		M. Herrera, Capital	\$6,500			
Total Assets	<u>\$7,500</u>	Total Liabilities and Owner's Equity	\$7,500			

Tips to Preparing Financial Statements

- **A.** The income statement lists only revenues and expenses for a period of time. The inside column is for subtotaling. Withdrawals are not listed here.
- **B.** The statement of owner's equity takes the net income figure of \$1,000 and adds it to beginning capital plus investments less any withdrawals. This new capital figure of \$6,500 will go on the balance sheet. This statement shows changes in capital for a period of time.
- C. The \$5,400, \$500, \$1,600 (Assets), and \$1,000 (Liabilities) came from the totals of the expanded accounting equation. The capital figure of \$6,500 came from the statement of owner's equity. This balance sheet reports assets, liabilities, and a new figure for capital at a specific date.



Putting Theory Into Action > AIPB Bookkeeping Tips

Business Expenses

The Case

C was a sole proprietor whose consulting business primarily involved traveling within 30 miles of her home to train clients in software. She kept a regular mileage log, generally recording the date or range of dates for a trip, the city, a brief description of the purpose of the trip, the number of miles driven, and the person or people she consulted with. To compute her vehicle expense deduction, *she multiplied the standard mileage rate by the number of miles driven for business and added some actual operating expenses*. The IRS denied all the vehicle expense deductions.

Held

For the IRS. A taxpayer cannot deduct both the standard mileage rate and actual operating expenses—it's one or the other.

AIPB Bookkeeping Tip

Even if the IRS auditor believes your company or client used a vehicle for business and can determine the number of miles driven, the deduction will be denied if the records do not include all the details required by IRS code section §274 for each trip. As the bookkeeper, it is critically important that you remind the client that they must choose one method or the other for the deduction of their vehicle expenses and keep the necessary documentation required for the chosen method.

SUCCESS COACH



1

The following Success Tips are from Learning Units 1-1 through 1-4. Take the Do It Right Now Checkup and use the Check Your Score at the bottom of the page to see how you are doing. The Success Coach provides tips before each Checkup to help you avoid common accounting errors.

LU 1-1 Accounting, Business, and the Accounting Equation

Do It Right Tips: After a transaction is recorded in the accounting equation, the sum of all the assets must equal the total of all the liabilities and owner's equity.

Do It Right Now Checkup: Answer true or false to the following statements.

- **1.** Capital is cash.
- 2. Accounts Payable is a liability.
- 3. A shift in assets means liabilities will increase.
- **4.** Assets Liabilities = Owner's Equity.
- **5.** Assets represent what is owned by the business.

LU 1-2 The Balance Sheet

Do It Right Tips: The Balance Sheet is a formal report listing assets, liabilities, and owner's equity as of a particular date.

Do It Right Now Checkup: Answer true or false to the following statements.

- **1.** Cash is a liability.
- 2. Office Equipment is an asset.
- 3. Accounts Payable is listed under assets.
- 4. Capital is listed under liabilities.
- A heading of a financial report has no particular date.

LU 1-3 The Accounting Equation Expanded: Revenue, Expenses, and Withdrawals

Do It Right Tips: Revenue is recorded when earned even if cash is not received. Expenses are recorded when they happen (incurred) whether they are paid or to be paid later.

Do It Right Now Checkup: Answer true or false to the following statements.

- **1.** Revenue is an asset.
- 2. Withdrawals increase owner's equity.
- **3.** As expenses go down, owner's equity goes down.
- 4. An advertising bill incurred but unpaid is recorded as an increase in Advertising Expense and a decrease in a liability.
- **5.** Revenue inflows can only be in the form of cash.

LU 1-4 The Three Financial Statements

Do It Right Tips: Net income from the income statement is used to update the statement of owner's equity. The ending figure for capital on the statement of owner's equity is the one used to update the balance sheet.

Do It Right Now Checkup: Answer true or false to the following statements.

- **1.** Net income occurs when expenses are greater than revenue.
- **2.** Withdrawals will reduce owner's capital on the income statement.
- **3.** The balance sheet lists assets, liabilities, and expenses.
- **4.** Withdrawals are listed on the income statement.
- **5.** Assets are listed on the income statement.

CHECK YOUR SCORE: Answers to the Do It Right Now Checkup

LU 1-1

- **1.** False—Capital represents the owner's claim to the assets.
- **2.** True.
- **3.** False—A shift in assets means liabilities will stay the same.
- **4.** True.
- **5.** True.

LU 1-2

- **1.** False—Cash is an asset.
- **2.** True.
- **3.** False—Accounts Payable is listed under liabilities.
- **4.** False—Capital is listed under owner's equity.
- **5.** False—A heading of a financial report does have a particular date.

LU 1-3

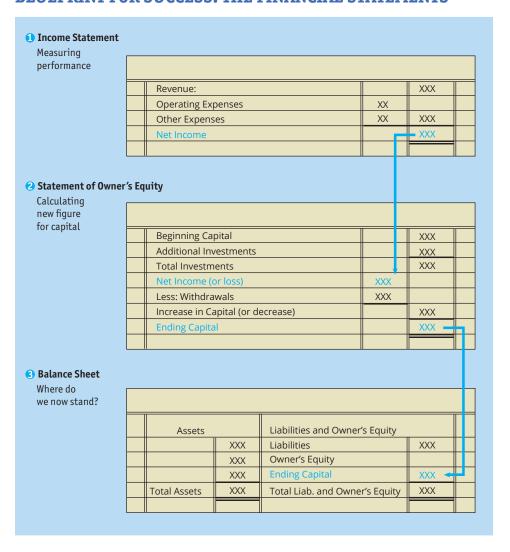
- **1.** False—Revenue is part of owner's equity.
- 2. False—Withdrawals decrease owner's equity.

- **3.** False—As expenses go down, owner's equity goes up.
- **4.** False—An advertising bill incurred but unpaid is recorded as an increase in Advertising Expense and an increase in liability.
- False—Revenue inflows can be in the form of cash and/or accounts receivable.

LU 1-4

- **1.** False—Net income occurs when expenses are less than revenue.
- False—Withdrawals will reduce owner's capital on the statement of owner's equity.
- **3.** False—Expenses are listed on the income statement.
- **4.** False—Withdrawals are listed on the statement of owner's equity.
- **5.** False—Assets are listed on the balance sheet.

BLUEPRINT FOR SUCCESS: THE FINANCIAL STATEMENTS



Discussion Questions and Critical Thinking/Ethical Case

- 1. What are the functions of accounting?
- **2.** Define, compare, and contrast sole proprietorships, partnerships, and corporations.
- 3. How are businesses classified?
- **4.** How has technology affected the role of the bookkeeper?
- **5.** List the three elements of the basic accounting equation.
- 6. Define capital.
- **7.** The total of the left-hand side of the accounting equation must equal the total of the right-hand side. True or false? Please explain.
- **8.** A balance sheet tells a company where it is going and how well it performs. True or false? Please explain.
- 9. Revenue is an asset. True or false? Please explain.
- 10. Owner's equity is subdivided into what categories?
- 11. A withdrawal is a business expense. True or false? Please explain.
- 12. As expenses increase they cause owner's equity to increase. Defend or reject.
- **13.** What does an income statement show?
- **14.** The statement of owner's equity only calculates ending withdrawals. True or false? Please explain.
- **15.** Paul Kloss, accountant for Lowe & Co., traveled to New York on company business. His total expenses came to \$350. Paul felt that because the trip extended over the weekend he would "pad" his expense account with an additional \$100 of expenses. After all, weekends represent his own time, not the company's. What would you do? Write your specific recommendations to Paul.
- **16.** As a result of the Covid-19 pandemic, how have small businesses changed or modified their operations?

Concept Checks

Classifying Accounts

	_	•			
1.		assify each of the follow uity (OE).	ving items as an Asset (A), Liability (L), or part of Owner's	L 01	(5 min)
	a.	Surface Pro			
	b.	Accounts Receivable			
	c.	Accounts Payable			
	d.	Smartphone			
	e.	J. Small, Capital			
	f.	Cash			

The Accounting Equation

2.	Complete th	L01	(5 min)	
	a	: rights of the creditors to a company's assets	•	
	b	are total value of items owned by a business.		
	с	is an unwritten promise to pay the creditor.		

Shift versus Increase in Assets

L01	
	L01

- Identify which transaction results in a shift in assets (S) and which transaction causes an increase in assets (I).
 - **a.** Target bought computer equipment on account.
 - **b.** Macy's bought office equipment for cash.

The Balance Sheet

(5 min) **LO2**

4. From the following, calculate what would be the total of assets on the balance sheet.

B. Fleese, Capital	\$50,000
Computer Equipment	20,000
Accounts Payable	6,000
Cash	\$36,000

The Accounting Equation Expanded

- From the following, which are subdivisions of owner's equity?
 - **a.** Smartphone
 - **b.** Rashad Lewis, Capital
 - **c.** Accounts Payable _____
 - **d.** Rashad Lewis, Withdrawals
 - e. Accounts Receivable
 - **f.** Advertising Expense _____
 - g. Taxi Fees Earned _____
 - **h.** Microsoft Tablet

Identifying Assets

(5 min)	L02	
---------	-----	--

- **5.** Identify which of the following are *not* assets.
 - **a.** Apple iPad
 - **b.** Accounts Receivable
 - c. Accounts Payable
 - **d.** Grooming Fees Earned

The Accounting Equation Expanded

(5 min) **LO3**

- **7.** Which of the following statements are false?
 - **a.** _____ Revenue provides only outward flows of cash.
 - **b.** _____ Revenue is a subdivision of Assets.
 - **c.** ______ Revenue provides an inward flow of cash or accounts receivable.
 - **d.** _____ Expenses are part of Total Assets.

Preparing Financial Statements

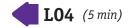
8. Indicate whether the following items would appear on the income statement (IS), statement of owner's equity (OE), or balance sheet (BS).

LO4 (5 min)

- **a.** _____ Tutoring Fees Earned
- **b.** Office Equipment
- **c.** _____ Accounts Receivable
- **d.** Office Supplies
- e. _____ Legal Fees Earned
- **f.** _____ Advertising Expenses
- g. P. Fleis, Capital (Beg.)
- h. _____ Accounts Payable

Preparing Financial Statements

9. Indicate next to each statement whether it refers to the income statement (IS), statement of owner's equity (OE), or balance sheet (BS).



- **a.** _____ Withdrawals found on it
- **b.** _____ List total of all assets
- **c.** _____ Statement that is prepared last
- **d.** _____ Statement listing net income

Exercises

Set A

1A-1. Complete the following table:

min)

	Assets	=	Liabilities	+	Owner's Equity
a.	\$20,000	=	?	+	\$11,500
b.	?	=	\$ 5,000	+	\$60,000
c.	\$15,000	=	\$12,000	+	?

1A-2. Record the following transactions in the basic accounting equation. Treat each one separately.



- **A.** Tatyana invests \$70,000 in company.
- **B.** Bought equipment for cash, \$8,000.
- **C.** Bought equipment on account, \$900.
- **1A-3.** From the following, prepare a balance sheet for Kim Co. Cleaners at the end of September 202X: Cash, \$67,000; Equipment, \$7,000; Accounts Payable, \$13,000; B. Kim, Capital.
- **LO3** (15 min)

L02 (10 min)

1A-4. Record the following transactions in the expanded accounting equation. Do not calculate a running balance.

Assets			=	Liabilities	+			Owner's Equ	ity			
Cash +	Accounts Receivable	+ Computer Equipment	=	Accounts Payable	+	X. Becerra, Capital	_	X. Becerra, Withdrawals	+	Revenues	-	Expenses

- **A.** Becerra invested \$80,000 in a computer company.
- **B.** Bought computer equipment on account, \$4,000.
- **C.** Becerra paid personal telephone bill from company checkbook, \$125.
- **D.** Received cash for services rendered, \$13,600.
- **E.** Billed customers for services rendered for month, \$30,000.
- **E.** Paid current rent expense, \$4,100.
- **G.** Paid supplies expense, \$1,490.

(20 min) **L04**

1A-5. From the following account balances, prepare in proper form for June (a) an income statement, (b) a statement of owner's equity, and (c) a balance sheet for Freeman Realty.

Cash	\$ 5,200	S. Freeman, Withdrawals	\$ 225
Accounts Receivable	1,370	Professional Fees	3,100
Office Equipment	11,500	Salaries Expense	450
Accounts Payable	6,000	Utilities Expense	150
S. Freeman, Capital, June 1, 202X	10,245	Rent Expense	450

Set B

(5 min) **L01**

1B-1. Complete the following table:

	Assets	= Liabilities		+	Owner's Equity			
a.	\$28,000	=	?	+	\$13,000			
b.	?	=	\$ 4,000	+	\$96,000			
c.	\$45,000	=	\$10,000	+	?			

(5 min) **LO1**

1B-2. Record the following transactions in the basic accounting equation. Treat each one separately.

Assets = Liabilities + Owner's Equity

- **A.** Hamed invests \$90,000 in company.
- **B.** Bought equipment for cash, \$1,650.
- **C.** Bought equipment on account, \$1,200.

(10 min) **LO2**

1B-3. From the following, prepare a balance sheet for Rauscher Co. Cleaners at the end of November 202X: Cash, \$65,000; Equipment, \$10,000; Accounts Payable,

\$29,000; B. Rauscher, Capital.

(15 min) **LO3**1B-4. Record the following transactions in the expanded accounting equation. Do not calculate a running balance.

Assets		=	Liabilities	+			Owner's Equ	ity			
	+ Computer Equipment		Accounts Payable	+	B. Pedroza, Capital	_	B. Pedroza, Withdrawals	+	Revenues	_	Expenses

- **A.** Pedroza invested \$65,000 in a computer company.
- **B.** Bought computer equipment on account, \$7,500.
- **C.** Pedroza paid personal telephone bill from company checkbook, \$225.
- **D.** Received cash for services rendered, \$13,500.
- **E.** Billed customers for services rendered for month, \$29,600.
- **E.** Paid current rent expense, \$3,800
- **G.** Paid supplies expense, \$1,530.
- **1B-5.** From the following account balances, prepare in proper form for November (a) an income statement, (b) a statement of owner's equity, and (c) a balance sheet for Singh Realty.

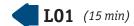
L 04	(20 min)
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Cash	\$ 4,500	S. Singh, Withdrawals	\$ 175
Accounts Receivable	1,490	Professional Fees	4,000
Office Equipment	13,000	Salaries Expense	300
Accounts Payable	6,000	Utilities Expense	250
S. Singh, Capital, Nov. 1, 202X	10,015	Rent Expense	300

Problems

Set A

1A-1. Mai Abington decided to open Mai's Nail Spa. Mai completed the following transactions:



- **A.** Invested \$20,000 cash from her personal bank account into the business.
- **B.** Bought store equipment for cash, \$2,000.
- **C.** Bought additional store equipment on account, \$6,100.
- **D.** Paid \$1,200 cash to partially reduce what was owed from Transaction C.

Based on this information, record these transactions into the basic accounting equation. Keep a running balance.

Check Figure: Ending Balance Cash \$16,800

1A-2. Felicia Johnson is the accountant for Johnson's Digital Services. From the following information, her task is to construct a balance sheet as of November 30, 202X, in proper form. Could you help her?

L	02 (15 min)
---	------	---------

Building	\$40,000	Cash	\$45,000
Accounts Payable	26,500	Equipment	24,000
F. Johnson, Capital	82,500		

Check Figure: Total Assets \$109,000

1A-3. At the end of June, Rena Falcone decided to open her own bookkeeping service called By the Numbers. Analyze the following transactions she completed by recording their effects in the expanded accounting equation. Keep a running balance.



- **A.** Invested \$40,000 in her bookkeeping service.
- **B.** Bought new computer equipment on account, \$6,500.
- **C.** Received cash for bookkeeping services rendered, \$1,300.
- **D.** Performed bookkeeping services on account, \$2,200.
- **E.** Paid assistant's salary, \$325.
- **E.** Paid office supplies expense for the month, \$220.
- **G.** Rent expenses for office due but unpaid, \$800.
- **H.** Withdrew cash for personal use, \$300.

Check Figure: Total Assets \$49,155