

chapter 1 / study problems

Financial Accounting

- * 1 the following are users of financial statements.
 a Instruction identify the user as being either external users or internal users.
- Customers
 - Internal Revenue Service
 - Labor union
 - Marketing manager
 - Production supervisor
 - Security and exchange commission
 - Store Manager
 - Suppliers
 - Vice-president of finance

b The following questions could be asked by an internal user or an external user.
 Instructions: Identify each of the questions as being more likely asked by an internal user or an external user.

- Can we afford to give our employees a pay raise?
- Did the company earn a satisfactory income?
- Do we need to borrow in the near future?
- How does the company's profitability compare to other companies?
- What does it cost us to manufacture each unit produced?
- Which product should we emphasize?
- Will the company be able to pay its short-term debts?

* 2 The following situations involve accounting principles and assumptions.
 Instruction For each of the three situations, say if the accounting method use is correct or incorrect. If correct, identify which principle or assumption supports the method used. If incorrect, identify which principle or assumption has been violated.

- a Grossman Company owns buildings that are worth substantially more than they originally cost. In an effort to provide more relevant information, Grossman reports the buildings at market value in its accounting reports.
- b Jones company includes in its accountin records only transaction data that can be expressed in terms of money.
- c Caleb Borke, presient of Caleb's cantina, records his personal living costs as expenses of the Cantina.

* 3 An analysis of the transactions made by S. Moses & Co., a certified public accountin firm, for the month of August is shown below. Each increase and decrease instock holders equity explained
 Instruction Describe each transaction that occurred for the month.
 Determine how much stockholders' equity increase for the month.
 Compute the amount of net income for the month.

Cash	+	Accounts Receivable	+	Supplies	+	Office Equipment	=	Account Payable	+	Stockholders' Equity
+ \$15,000										+ \$5,000 Investment <i>this is +15,000</i>
-2,000						+ \$5,000		+ \$3,000		
-750				+ \$750						+ 8,300 Service Revenue
+ 4,600		+ \$3,700								
-1,500								- 1,500		- 2,000 Dividends
-2,000										- 650 rent Expense
-650										
+ 450		- 450								- 4,900 salaries Expense
-4,900								+ 500		- 500 Utilities expense

* 4 Deer Park, a public camping ground near the Lake Mead National Recreation Area, has compiled the following financial information as of December 31, 2008
 Instruction Determine Deer Park's net income for 2008.
 Prepare a balance sheet for Deer Park as of December 31, 2008

Revenue during 2008-camping fees	\$140,000	Notes payable	60,000
Revenue during 2008-general store	50,000	Expenses during 2008	150,000
Account Payable	11,000	Supplies on hand	2,500
Cash on hand	23,000	Common Stock	20,000
Original cost of equipment	105,500	Retained earnings	?
Market value of equipment	140,000		

* 5 Mark Miller started a delivery service, Miller Deliveries, on June 1, 2008. The following transaction occurred during the month of June.
 Instruction a. show the effects of the previous transactions on the accounting equation using the following format.

Date	ASSETS					=	Liabilities		Stockholders Equity			
	Cash	+	Accounts Receivable	+	Supplies		+	Deliver Van	Notes Payable	+	Accou Payable	Comm Stock

- b. Prepare an income statement for the mont of June.
- c. Prepare a balance sheet at June 30, 2008

- 1-Jun Stockholders invested \$10,000 cash n the business.
- 2-Jun Purchase a used van for deliveries for \$12,000. Mark paid \$2,000 cash and signed a note payable for the remaining balance
- 3-Jun Paid \$500.00 for office rent for th emonth
- 5-Jun Performed \$4,400 of services on account
- 9-Jun Paid \$200.00 incash dividends
- 12-Jun Purchased supplies for \$150.00 on account.
- 15-Jun Received a cash payment of \$1,250 for services provided on June 5.
- 17-Jun Purchased gasoline for \$100 on account.
- 20-Jun Received a cash payment of 1,500for services provided
- 23-Jun Made a cabs payment of \$500 on the note payable
- 26-Jun Paid \$250 for utilities.
- 29-Jun Paid for the gasoline purchased on account on June 17.

30-Jun Paid \$1,000 for employee salaries

* 6

Financial statement information about four different companies is as follows.

Instruction Determine the missing amounts (Hint: for example to solve for (a), Assets-Liabilities = Stockholders' equity= \$45,000

Prepare the retained earnings statement for Yates Company. Assume beginning retained earnings was \$20,000

Write a memorandum explaining the sequence for preparing financial statements and the interrelationship of the retained earnings statement to the income statement and balance sheet

	Karma Company	Yates Company	McCain Company	Dench Company
1-Jan-08				
Assets	\$95,000	\$110,000	(g)	\$170,000
Liabilities	50,000	(d)	75,000	(j)
Stockholder equity	(a)	60,000	45,000	90,000
31-Dec-08				
Assets	(b)	137,000	200,000	(k)
Liabilities	55,000	75,000	(h)	80,000
stockholder equity	60,000	(e)	130,000	170,000
Stockholders equity change in year				
Additional investment	(c)	15,000	10,000	15,000
Dividends	25,000	(f)	14,000	20,000
Total Revenues	350,000	420,000	(i)	520,000
total expenses	320,000	385,000	342,000	(l)

Chapter 2 / Study problems

*1. Selected transactions for D. Reyes Inc. and interior decorating firm, in its first month of business, are as follows.

Instructions: For each transaction indicate the following.

- (a) The basic type of account debited and credited (asset, liability, stockholders' equity).
- (b) The specific account debited and credited (cash, rent, expense, service revenue, etc).
- (c) Whether the specific account is increased or decreased.
- (d) The normal balance of the specific account.

Jan 2, Invested \$10,000 cash in the business in exchange for common stock.

Jan 3, Purchased used car for \$4,000 cash for use in business.

Jan 9, Purchased supplies on account for \$500

Jan 11, Billed customers \$1,800 for services performed.

Jan 16, Paid \$200 cash for advertising

Jan 20, received \$700 cash from customers billed on January 11

Jan 23, Paid creditor \$300 cash on balance owed

Jan 28, declared and paid a \$1,000 cash dividend.

Use the following format, in which the January 2 transaction is given as an example.

Date	Account Debited				Account Credited			
	(a) Basic Type	(b) Specific Account	(c) Effect	(d) Normal Balance	(a) Basic Type	(b) Specific Account	(c) Effect	(d) Normal Balance
Jan. 2	Asset	Cash	Increase	Debit	Stock- holders' Equity	Common Stock	Increase	Credit

*2. Data for D. Reyes, Inc., interior decorating are presented in question 1.

Instructions: Journalize the transactions using journal page J1 (you may omit explanations)

*3. Rowand Enterprises had the following selected transactions.

Instruction:

a. Indicate the effect each transaction has on the basic accounting equation (Assets=Liabilities+Stockholders' equity), using plus and minus signs

b. Journalize each transaction

- a. Aaron Rowand invested \$4,000 cash in the business in exchange for common stock
- b. Paid office rent of \$1,100
- c. Performed consulting services and billed a client \$5,200
- d. Paid a \$700 cash dividend

*4. The T accounts below summarize the ledger of Simon Landscaping Company at the end of the first month of operations.

Instruction:

a. Prepare the complete general journal (indicate explanations) from which the postings to Cash were made.

b. Prepare a trial balance at April 30, 2008

4/1	15,000	4/15	600
4/12	900	4/25	1,500
4/29	400		
4/30	1,000		

Accounts Receivable No. 112

4/7	3,200	4/29	400
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Supplies No. 126

4/4	1,800
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Accounts Payable No. 201

4/25	1,500	4/4	1,800
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4/30	1,000
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Common Stock No. 311

4/1	15,000
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Service Revenue No. 400

4/7	3,200
4/12	900

Salaries Expense No. 726

4/15	600
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* 5. Jack Shellenkamp owns and manages a computer repair service service, which had the following trial balance on December 31, 2007 (the end of its fiscal year).

Instructions

- Open T accounts for each of the accounts listed in the trial balance, and enter the opening balances for 2008.
- Prepare journal entries to record each of the January transactions.
- Post the journal entries to the accounts in the ledger. (Add accounts as needed)
- Prepare a trial balance as of January 31, 2008.

Byte Repair Service INC.
Trial Balance
December 31, 2007

Cash	\$8,000	
Accounts Receivable	15,000	
Parts Inventory	13,000	
Prepaid Rent	3,000	
Shop Equipment	21,000	
Account Payable	\$19,000	
Common Stock	30,000	
Retained Earning	11,000	
	\$60,000	\$60,000 XXXX

Summarized transactions for January 2008 were as follows:

- Advertising costs, paid in cash \$1,000
- Additional repair parts inventory acquired on account \$4,000
- Miscellaneous expenses, paid in cash \$2,000
- Cash collected form customer in payment of accounts receivable \$14,000
- Cash paid to creditors for accounts payable due \$15,000
- Repair parts used during January \$4,000 (Hint: Debit this to Repair Parts Expense.)
- Repair services performed during January: for cash \$6,000; on account \$9,000
- Wages for January, paid in cash, \$3,000
- Dividends paid in January were \$3,000

* 6. The Lake Theater opened on April 1. All facilities were completed on March 31. At this time, the ledger showed: No101 Cash \$6,000; No 140 Land \$10,000; No 145 Building (concession stand, projection room, ticket booth, and screen) \$8,000; No157 equipment \$ 6,000; No. 201 account Payable @ 2,000; No. 275 Mortgage Payable \$8,000; and No. 311 Common Stock \$20,000. During April, the following events and transactions occurred.

Instructions:

- a. Enter the beginning balances in the ledger as of April 1. Insert a check mark () in the reference column of the ledger for the beginning balance.
- b. Journalize the April transactions
- c. Post the April Journal entries to the ledger. Assume that all entries are posted from page 1 of the journal.
- d. Prepare a trial balance on April 30, 2008

April 2 Paid film rental of \$800 on first movie.

3 Ordered two additional films at \$1,000 each.

9 Received \$2,800 cash from admissions.

10 Made \$2,000 payment on mortgage and \$ 1,000 for account payable due.

11 Lake Theater contracted with R. Wynns Company to operate the concession stand.

Wynns is to pay 17% of gross concession receipts (payable monthly) for the right to operate the concession stand.

12 Paid advertising expenses \$500.

20 Received one of the films ordered on April 3 and was billed \$1,000. The films will be shown in April.

25 Received \$5,200 cash from admissions.

29 Paid salaries \$2,000.

30 Received statement from R. Wynns showing gross concession receipts of \$ 1,000 and the balance due to The Lake Theater of \$170 ($\$1,000 \times 17\%$) for April. Wynns paid one-half of the balance due and will remit the remainder of May 5.

30 prepaid \$900 rental on special films to be run in May.

In addition to the accounts identified above, the chart of accounts shows: No.112 Accounts Receivable, No. 136 Prepaid Rentals, and No.405 Admission Revenue, No. 406 concession Revenue, No. 610 Advertising Expense, No. 632 Film Rental Expense, and No.726 Salaries Expense