I **FINANCIAL STATEMENTS and the ACCOUNTING MODEL**

A **Review of Key Concepts and Terms:**

1 **Financial Accounting** is the language of business because it **communicates the financial information** of the business (accounting) entity. Financial accounting is distinct from managerial accounting. Financial accounting is concerned with presenting the results of business operation in accordance with Generally Accepted Accounting Principles (GAAP, to be discussed in Chapter Two) for use by creditors, investors and others not directly involved in the day to day operation of the business. **Managerial Accounting** is primarily concerned with the use of accounting information to make operating decisions by those involved in the day to day operations of the business. Because it is intended for internal use, managerial accounting does not have to conform to any accounting standards other than to provide information useful in making managerial decisions.

2 A **business entity** is that unit of accountability that the accounting process is designed to communicate information about. Typically, accounting entities are represented by proprietorships (one owner), partnerships (two or more owners) and corporations (many owners in the form of stockholders

3 Proprietorship: A proprietorship is a business operated by one owner, the proprietor. The proprietor may have any number of employees, but is the only individual responsible for the operation of the business. A proprietorship is an accounting entity but it is not an entity for legal or tax purposes.

a Principal advantages

i ease of formation

ii . flexibility due to freedom from outside constraints

iii Principal disadvantages

(i) unlimited liability of the proprietor because the proprietorship is not a legal entity

> Accounting Entities are **separate and distinct** from the owners of the business. Furthermore, the fact that a business is an **entity** in an accounting sense, does not mean it is a legal entity in a court of law or for tax purposes.

4. Partnerships: Same as proprietorship except two or more owners.

5. Corporation: Corporations differ from proprietorships and partnerships in that they are legal and taxable entities in addition to being an accounting entity.

a. Princi**ple advantages**:

i. separation of ownership (stockholders) from management usually insures a more professional management team;

ii. ability to raise capital through the sale of common stock

a. owners (stockholders) liability is limited to the amount of their investment (purchase price of their stock)

a. **Principle disadvantages**:

i. Strict regulations must be adhered to on formation to protect creditors, owners and other outsiders result in high initial costs;

ii. Because the corporation is a legal and taxable entity in addition to being an accounting entity, income is taxed at the corporate level and taxed again at the ownership level when dividends are declared.

6. A **financial transaction** is an exchange of economic resources (assets) between two or more parties. Financial transactions **reflect only measurable (in terms of dollars) effects of transactions**

7. An **asset (economic resource)** is anything that will provide economic benefit to the business both now and in the future. Assets are tangible or intangible items that the business will use to generate revenues in the present and future periods.

8. A **liability** is something owed by the business to another party that will require sacrifices of economic benefits (assets) in the present or future; a debt. Liabilities represent that portion of the business to which creditors have a claim (i.e. the creditors equity in the business).

9. **Equity** represents a claim to the assets of the business entity. The owners equity in the business is the residual interest of the owners i.e. the owners claim to the assets of the business less the liabilities (the claims to assets made by creditors). In other words, the owners equity in the business is that portion of the business that would be allocated to the owners of the business after all debts are satisfied. Note that liabilities can be thought of as the creditors equity in the business entity.

10. **An expense** is an asset whose utility has been or will be used up in the present accounting period.

11. **Revenues** represent the inflow of rights to assets (usually cash or accounts receivable) generated by the business entity i**n the normal course of its operations**. For example, a department store making merchandise sales of $50,000 would have revenues of $50,000. These revenues represent the sum of cash sales and the accounts receivable due from credit sales. Note that revenues do not necessarily correlate with cash. If all sales are on account, the income statement will reflect the sales as revenue but the business may have no cash to operate because the sales were on account, and the cash has not yet come into the business. This concept has very important implications.

12. **Net income** represents the difference between revenues and expenses; (net income = revenue - expenses)

> Note that net income has no direct relationship to cash. This means that even though a business is producing net income, it may have no cash.

13. **The Accounting Period** is *the longer of the accounting cycle or one year.* It is the time period covered by the financial statements of the business entity. If the accounting period is to be a year, it may be measured as a *calendar year* (a year ending on December 31) or a *fiscal year* (a year ending on any day chosen by the business). Once the business selects a year end (calendar or fiscal) that date must be adhered to consistently unless there are sound business reasons for change.

14. **Financial statements** are the means accountants use to communicate (present) financial information. Financial statements are produced primarily for the benefit of creditors. The financial statements consist of:

a. The Balance Sheet (Statement of Financial Position)

i. The balance sheet presents the position of the business entity at a given point in time (the end of the accounting period). Note that the balance sheet represents the position of the entity one specific date. The balance sheet has been compared to a "snap shot" of the business entity.

ii. The balance sheet consist of assets, liabilities and equity accounts only. These accounts are referred to as real accounts.

(1) The value of the real accounts on the balance sheet is their adjusted (net) value at the end of the accounting period (balance sheet date). A typical **classified** balance sheet is illustrated below. A classified balance sheet is one in which assets and liabilities are classified as current and noncurrent.

SHANE'S SKI AND SURF, INC.
Comparative Balance Sheet
December 31, Year 3 and Year 4

	December 31, Year 3	December 31, Year 4
ASSETS		
Current Assets:		
Cash	$ 30,000	$ 191,100
Accounts Receivable	63,000	128,000
Notes Receivable		10,000
Interest Receivable		150
Merchandise Inventory	175,000	140,000
Prepaid Insurance		1,000
Total Current Assets	$ 268,000	$ 470,250
Property, Plant, and Equipment:		
Land	$ 100,000	$ 100,000
Building and Equipment--at acquisition cost	$ 525,000	$ 525,000
Less: Accumulated Depreciation	85,000	115,000
Building and Equipment--net	440,000	410,000
Total Property, Plant, and Equipment	$ 540,000	$ 510,000
Total Assets	$ 808,000	$ 980,250
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	$ 135,000	$ 220,000
Salaries Payable		6,000
Dividends Payable		15,000
Advances from Tenants		50
Total Current Liabilities	$ 135,000	$ 241,550
Long-Term Debt:		
Bonds Payable	100,000	100,000
Total Liabilities	$ 235,000	$ 341,550
Shareholders' Equity:		
Common Stock--at par value	$ 250,000	$ 250,000
Additional Paid-in Capital	200,000	200,000
Retained Earnings	123,000	188,700
Total Shareholders' Equity	$ 573,000	$ 638,700
Total Liabilities and Shareholders Equity	$ 808,000	$ 980,250

b. The Income Statement (Statement of operations)

i. The income statement presents the results of operations of the business entity over the accounting period from beginning to end. Note that the income statement represents an entire time period as opposed to a specific date as in the case of the balance sheet. The income statement has been compared to a "video camera" that continually records the activities of a business from the beginning of the accounting period to the end. At the end of the period the tape is rewound and starts over (with zero balances) at the beginning of the next period.

ii. The income statement consists of revenues less expenses which yield net income (net income is the bottom line of the income statement and hence is sometimes referred to as "the bottom line"). These accounts are referred to as nominal (temporary) accounts. Nominal accounts are reduced to zero at the end of the year during the closing process when they are closed to the expense and revenue summary. The balance in the expense and revenue summary represents total revenues of the period less total expenses of the period (net income). This is done in order to measure the revenues and expenses of each period independent of prior periods and to measure the net income of the accounting period.

iii. The value of the nominal accounts on the income statement is their adjusted value at the end of the accounting period (balance sheet date). A typical income statement is illustrated below:

Dallas Industrial Supply
Income Statement
For the Year Ending December 31, 20X1

Revenue:			
Sales			$ 600,000
Less: Sales returns and allowances		$ (10,000)	
Sales discounts		(5,000)	(15,000)
Net sales			$ 585,000
Cost of goods sold:			
Inventory, Jan. 1, 20X1		$ 45,000	
Purchases		350,000	
Less: Purchase returns and allowances	$ (5,500)		
Purchase discounts	(3,500(	(9,000)	
Net purchases		$ 341,000	
Add: Transportation-in		15,000	
Delivered cost of purchases		356,000	
Cost of goods available for sale		$ 401,000	
Less: Inventory, Dec. 31, 20X1		51,000	
Cost of goods sold			350,000
Gross profit on sales			$ 235,000
Operating expenses:			
Selling expenses:			
Sales salaries expense		$ 60,000	
Advertising expense		35,000	
Delivery service expense		15,000	
Depreciation expense		3,000	
Total selling expenses		$ 113,000	
General & administrative expenses:			
Office salaries		$ 65,000	
Utilities		2,500	
Depreciation		2,000	
Total general & administrative expenses		61,100	
Total operating expenses		174,000	
Income from operations		$ 61,000	
Income taxes expense		22,000	
Net income		$ 39,000	

Note: -- income taxes are recorded separately;

-- the accounts on the income statement are called **nominal or temporary** accounts. This is because they are temporary in nature because they must all be reduced to zero value at the end of the period so that they can measure the income and expenses of the next period.

-- the only accounts that go on the income statement are revenue and expense accounts

c. Statement of Retained Earnings

1. The statement of retained earnings shows the excess of revenues (rights to assets generated from the normal operations of the business) over expenses (assets whose utility has been used by the in the present period) retained by the business entity for future use. Note that retained earnings *reflects only that portion of owners equity generated by the operations of the business enterprise.*

2. Retained earnings: The cumulative net income of the company from its inception to the balance sheet date less cumulative dividends, prior period adjustments and quasi-reorganizations. Refer to the statement of retained earnings. In simple terms, retained earning represents those earnings retained by a business for its own use. **Note that this is earnings and not cash. This difference must be understood.**

a. The statement is always presented in a specific format. That format is presented below in its entirety for purposes of reference only. Do not be concerned at this point that it contains items that have not been discussed in this chapter. It will be discussed in detail in future chapters.

Retained earnings: Beginning of year	$ xxxx
Add: Net income (or deduct net loss)	xxxx
Deduct: Dividends declared	(xxx)
Prior Period Adjustments (net of tax effect)	xxxx
Adjustments due to Quasi-reorganization	(xxx)
Retained earnings: End of year	$ xxxx

d. Statement of Cash Flows:

1. The statement of cash flows presents the sources and uses of cash from three specific activities:

a. operating activities: Transactions that are included in the determination of net income;

1. any transaction not defined as investing or financing activities and involved in the production or deliver of goods and/or services.

Cash provided by:
--sales of goods or services;
--interest from any source;
--dividends received from investments;
--all other income not directly related to operations such as other income; rental income etc.

Cash used to:
--purchase inventory;
--meet payroll expenses;
--pay direct and indirect operating costs of business (taxes, utilities, insurance etc)
--pay interest on debt;

b. investing activities: Transactions that are involved in the acquisition or disposition of noncurrent assets

1. making and collecting loans
2. acquisition and disposal of debt and equity instruments
3. acquisition and disposal of long lived productive assets

Cash provided by:
--sale of Property, Plant and Equipment
--collection of loans
--sale of securities that are not cash equivalents such as stock and bonds of other companies;

Cash used to:
--Purchase Property, Plant and Equipment
--Loan money to other companies (affiliated firms)
--Purchase securities that are not cash equivalents such as stock and bonds of other companies;

c. financing activities: Transactions (other than payment of interest) involving borrowing from creditors

1. obtaining resources from owners (equity instruments) and providing owners a return on and of their investment
2. borrowing and repaying amounts borrowed
3. obtaining and paying for long-term credit to finance productive resources

Cash provided by:
--short and long-term borrowing (notes, bonds, mortgages etc.)
--sales of capital stock

Cash used to:
--pay of principal of short and long-term borrowing (excludes interest)
--pay cash dividends (excludes stock dividends and splits)
--purchase treasury stock

II. The Accounting Model

The accounting "model" is typically represented by the equation:

assets = equities (refer to the definitions of assets and equity above)

or

assets = liabilities (creditors equity) + **owners equity**

Note: Recall that **equity** simply means "ownership interest". Therefor owners equity represents the residual owners interest and liabilities represent the creditors ownership interest (e.g. what is owed to or owned by the creditors).

A. Accountants use this model because it is an equation. This means that any change to one of the components of the equation must be offset by an equal change to that same component or elsewhere in the equation. The equation must always remain in balance. When a business transaction is analyzed in terms of how the accounting equation is affected, it is known as **transaction analysis.**

B. The fact that the equation must remain in balance is the basis of the **Double entry accounting system.** This double entry system is best illustrated by analyzing the transactions that affect the business entity

1. **Transactions Analysis**:

a. Recall that a **financial transaction** is an exchange of economic resources (assets) between two or more parties. Transactions affect the accounting equation. However, after recording the effect of each transaction, the accounting equation must remain balanced. **Transaction analysis** is the process of examining each financial transaction to determine the effect on the accounts of the business. For example, a purchase of a delivery truck for $40,000 cash would be recorded as follows:

Truck..........................	40,000	
Cash..........................		40,000

b. Since the accounting equation must always balance, a financial transaction must have one of the following effects:

i. An increase in an asset must equal a decrease in another asset, an increase in a liability, or an increase in a shareholders' equity item.
ii. A decrease in an asset must equal an increase in another asset, a decrease in a liability, or a decrease in a shareholders' equity item.
iii. An increase in a liability item must equal an increase in an asset, a decrease in another liability, or a decrease in a shareholders' equity item.
iv. An increase in shareholders' equity must equal an increase in an asset, a decrease in a liability, or a decrease in another shareholders' equity item.

c. This procedure can be illustrated using a transactions worksheet which is a multi-column sheet that shows the causes of any change in each asset, liability, or equity item. This can be achieved through the recording of each financial transaction in chronological order and noting the effect on the respective accounts. Each row represents the accounting equation (model) and must always be in balance. This concept is illustrated below in problem 1-2.

III. Application of the Accounting Process

A. What is the Accounting Process?

1. The accounting process is that set of procedures utilized in the preparation of financial information in the financial statements and in its simplest form consists of the following steps:
   a. transactions are **recorded in the general journal**;
   b. the amounts recorded in the journal are **posted to (recorded in) the appropriate ledger account**;
   c. a **pre-closing trial balance** is taken to assure that the accounting equation is in balance;
   d. the **nominal (temporary or income statement accounts) are closed** to the expense and revenue summary and any other adjustments necessary to correct the accounts to the end of year balances are made;
   e. a **post-closing trial balance** is taken to assure that the accounts remain in balance after adjustments;
   f. the **financial statements are produced** using the numbers in the post closing trial balance; the balance sheet (real) accounts are reported on the balance sheet and the income statement (nominal or expense and revenue) accounts are reported on the income statement. The statement of cash flows reconciles the changes that have occurred in each of the ledger accounts and explains the sources and uses of cash for the accounting period.

B. Understanding the Relationship Between Accounts and the Accounting Model

1. To understand the relationship between the accounting process and the accounts used to reflect the underlying transactions of the business it is necessary to understand the concept of debits and credits.
2. Debit means left and credit means right. These terms refer to which side of the account to record the amounts of a transaction. Accounts appear in the ledger in T-account format that is to say that the account has a left (debit) side and a right (credit) side. Where a given amount is recorded depends on the type of account in question.
3. To explain this relationship, consider the accounting model presented below:

Assets = **Liabilities** + **Owners Equity**
(Left side of the equation) (Right side of the equation)

accounts receivable

Debits Increase	Credits Decrease
Normal Balance	

accounts payable

Debits Decrease	Credits Increase
Normal Balance	

\+ owners capital

Debits Decrease	Credits Increase
Normal Balance	

\+ Revenues .

Debits Decrease	Credits Increase
	Normal Balance

\- Expenses .

Debits Increase	Credits Decrease
Normal Balance	

Key Points:
a. Debit means left; Credit means right nothing more or less;
b. On the left side of the equation (asset side) the normal balance is a debit; debits increase the balance and credits decrease the balance;
c. On the right side of the equation debits decrease and credits increase account balances (**except for expenses**)
1. Expenses reduce equity (ownership interest, consequently, they are just the opposite of the other equity accounts i.e. expenses are increased by debits and decreased by credits.

4. **The Chart of Accounts**: A chart of accounts is a listing of account titles and account numbers being used by a particular organization. Throughout this text, numbers will often appear next to account names. these numbers represent the account numbers taken from the chart of accounts. The number of accounts required depends on the size of the organization and the amount of detailed information required by the organization's management. The accounts are normally listed in a manner that facilitates the preparation of the financial statement. Often the following number scheme is employed:

	Account Numbers
Assets.............	100
Liabilities.........	200
Owners Equity....	300
Revenues.........	400
Special use.........	500
Expenses...........	600

IV. GAAP and the Accounting Process

A. The necessity to standardize the process of reporting financial information for creditors, stockholders and government has resulted in the development of **G**enerally **A**ccepted **A**ccounting **P**rinciples (**GAAP**) by the accounting profession. These principles have *substantial authoritative support* of the accounting profession in that they represent the "consensus at any time as to which economic resources and obligations should be recorded as assets and liabilities, which changes in them should be recorded, when these changes should be recorded, how the recorded assets and liabilities should be measured, what information should be disclosed and how it should be disclosed, and which financial statements should be prepared" (Accounting Principles Board Statement No.4, paragraph 27). GAAP are promulgated in the Accounting Standard, Current Text by the Financial Accounting Standards Board. GAAP are not laws in that they are not legislated but are developed in the private sector. **GAAP are followed in practice because financial accounting auditors must attest to the fact that the financial statements are prepared in accordance with GAAP and fairly present the position of the business. Financial statements not prepared in accordance with GAAP would not be acceptable to the users of financial statements**.

B. The **development of GAAP**:

1. 1938--The American Institute of Certified Public Accountants (AICPA) establishes the **Committee on Accounting Procedure (CAP)** consisting of 21 volunteers who were AICPA members in order to standardize financial reporting.
    a. CAP issues 42 Accounting Research Bulletins (ARB's) between 1939 and 1953. In 1953, ARB 1-42 were revised and reissued as ARB-43. Between 1953 and 1959 eight more ARB's were issued (for a total of 51)
    b. ARB's were **advisory only** because the AICPA lacked authority to require compliance. ARB's were generally followed based on their general acceptance by the business community and to the extent they have not been superseded remain an important source of GAAP.
    c. Despite the CAP's success in standardizing acceptable accounting practices, the **CAP was criticized for its "piecemeal" approach to the development of accounting standards and procedures** which sometimes resulted in the promulgation of ARB's that were inconsistent. The financial community and the accounting profession desired framework of objectives and principles with which to resolve accounting issues in a coherent and consistent manner.
2. 1959--The AICPA replaced the CAP with the **Accounting Principles Board (APB)** consisting of 18-21 volunteer members who were accountants drawn from public practice, industry, colleges and universities and government.
    a. The APB issued 31 **Opinions (APBO's)** between 1959 and 1973 when it was superseded by the Financial Accounting Standards Board. To the extent that these opinions have not been superseded they still represent GAAP. **APBO's represented requirements that must be followed (subsequent to the adoption of Rule 203 in 1964) in order to have financial statements in conformity with GAAP.**
    b. The APB also issued four **statements**. Statements were considered recommendations as opposed to requirements. Financial statements not following these recommendations were still considered in conformity with GAAP.
    c. Because of the complexity of the issues faced by the APB, several **interpretations** were issued to guide practitioners in applying the APBO's. These interpretations were advisory only, and did not carry the weight of GAAP.

3. 1964--**Rule 203** was incorporated into the AICPA code of Professional Conduct.
    a. Rule 203 prohibited any AICPA member stating that financial statements conformed to GAAP unless the statements conformed to all ARB's and APBO's currently in effect. Rule 203 was a milestone in financial reporting because it forced conformity with GAAP by withholding the issuance of an unqualified auditors report for financial statements not in conformity with GAAP. This meant that those who failed to conform to GAAP had to assume the risk of litigation resulting from presenting financial information not in conformity with GAAP.
    b. The APB suffered from the same criticisms as the CAP and was also seen to be too influenced by the views of large public accounting firms and the large clients these firms represented.

4. 1973--**The Financial Accounting Standards Board (FASB)** as an independent body from the AICPA consisting of seven members that work full time for a salary and are not required to be members of the AICPA.
    a. The FASB promulgates three types of pronouncements:
        i. Statements of Financial Accounting Standards (**SFAS's**) to amend or create new GAAP;
        ii. **Interpretations** to clarify previous GAAP
        iii. **S**tatements of Financial Accounting Concepts (**SFAC's**) to set forth objectives and concepts utilized by the FASB in the development of GAAP.

    b. **FASB procedures in developing GAAP:**
        i. **Identify** an accounting problem area;
        ii. **issue Discussion Memorandum** summarizing the issues and possible solutions as a basis for public comment;
        iii. **conuct a public hearing** to solicit opposing views;
        iv. **issue an Exposure Draft** containing the proposed SFAS for public comment;
        v. **Issue the SFAS** based on comments to the exposure draft.

V. **The Conceptual Framework of Financial Accounting**: The framework consist of six interrelated parts:

A. Objectives of Financial Reporting:
1. Provide information useful to investors and creditors;
2. Provide information useful in predicting cash flows;
3. Provide information about an entities resources, claims to resources and changes in resources;

B. Qualitative Characteristics of Financial Accounting Information:
1. **Relevance**: Information is relevant if it has:
    a. predictive value
    b. confirmation value
    c. timeliness
2. **Reliability**: Information is reliable if it has:
    a. verifiability
    b. neutrality (freedom from bias)
    c. accuracy

C. Assumptions Made in Presenting Financial Accounting Information:
1. **Economic Entity Assumption:** the economic entity is the unit of accountability and is separate from the owners;
2. **Periodicity Assumption:** the economic activities of a business are best measured when related to arbitrary time periods shorter than the life of the firm; the longer of the accounting cycle or one year (calendar or fiscal)
3. **Going Concern Assumption:** in the absence of evidence to the contrary, the business is assumed have unlimited life and will not be liquidated in the foreseeable future.

D. The Concepts and Elements of Financial Accounting must reflect:
1. Financial Position: The financial position of a business is shown by presenting the economic resources at **a specific point in time** (balance sheet);
2. Changes in Financial Position: reflect changes that have occurred **during an accounting period** income statement and statement of cash flow;

E. Broad Principles of Financial Accounting:
1. **Monetary Unit Principle**: the monetary unit is the dollar and the value of the dollar is stable from period to period;

2. **Objectivity Principle**: to the extent possible, accounting information should be based on verifiable transactions between independent parties ("arms-length transactions);

3. **Historical Cost Principle**: Historical (acquisition) cost is the most relevant amount at which to record accounting transactions;

4. **Revenue Realization Principle**: Revenue should be recognized when

a. the earnings process is complete (or virtually complete) and
b. an exchange transaction has taken place;

5. **Matching Principle**: revenues should be matched with the expenses that were incurred to generate them. This is accomplished through the use of *accrual accounting*. Accrual basis accounting recognizes expenses when incurred and revenues when realized. This differs from *cash basis accounting* in which expenses are recognized when paid for and revenue is recognized when cash is received for goods or services rendered.
6. **Consistency Principle**: accountants should utilize the same GAAP to present financial information from one period to the next. To the extent that a business changes from one acceptable method of presentation to another, the fact that the change was made and the affect of the change must be disclosed.
7. **Disclosure Principle**: all information that could be useful in the decision-making process of reasonably informed users must be disclosed.

F. Modifying Conventions: Conventions designed to assist in the application of the financial accounting model.

1. **Materiality Convention**: Only material information need be disclosed; information is material if the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.

2. **Industry Practices**: modification of the model is permissible to the extent that the modifications of GAAP are necessitated by the unusual characteristics of the industry and acceptable to that industry.

3. **Conservatism**: when acceptable alternatives exist for financial reporting, the alternative that least favorably affects net income and/or assets should be utilized.

4. **Substance over Form**: when a conflict exists between the economic substance and the legal form of a business transaction, the financial statements should reflect the economic substance.

G. Detailed Principles

1. The detailed principles consist of GAAP as promulgated in the ASR's, APBO's and SFAS's described above.

VI. Financial versus Managerial Accounting:

A. Financial Accounting:

1. Focus on external reporting to those outside the firm (investors, stockholders and government) in accordance with GAAP.
2. Financial Accounting Professional Organizations:
   a. AICPA (American Institute of Certified Public Accountants)
   b. State and local organizations
   c. Groups delineated by specialty or special interest i.e. governmental auditors etc.

B. Managerial Accounting:

1. Focus on **internal uses of accounting data as an information system** for the purposes of:
   a. **Decision making for Planning** and **Control**
      1. Planning: is the process of (Problem Solving)
         a. choosing goals
         b. delineating alternative strategies to achieve the desired goals and
         c. selecting optimum procedures to obtain the chosen goals;
      2. Control: is the process of (Scorekeeping)
         a. evaluating the actual of achievement of chosen goals
         b. evaluating the efficacy of strategies employed to achieve chosen goals and
         c. making corrections and adjustments to strategies based on the **feedback** provided by the accounting information system
   b. **Product Costing for Inventory Valuation and Income Determination**
2. Managerial accounting systems have three broad purposes: (Attention Directing)
   a. provide information for internal decisions of routine matters
   b. provide information for internal decisions of non-routine matters
   c. provide accounting information to be used for external (financial accounting) reporting

> Management by Exception: These attention directing attributes allow managers to focus on the differences from plans and what caused them.

3. Managerial accounting differs from financial accounting in four very basic ways:
   a. **measurement of progress toward specific enterprise goals both large and small** (as opposed to measuring account balances, income and sources and uses of cash for only the firm as a whole);
   b. **oriented toward making decision in the present and future period** (as opposed to presenting a summary of what has occurred in the past);
   c. the importance of producing timely information is emphasized (as opposed to the financial statements which are not completed for months after the end of the fiscal year;
   d. **there is no need to adhere to GAAP; the important criteria is the cost/benefit test**. To the extent that the benefit provided by accounting information exceeds the total cost of obtaining the information, the information is valuable to the enterprise. The procedures used to obtain, utilize and report managerial accounting information is not constrained in any way by GAAP, only the cost/benefit test.
4. Managerial Accounting Professional Organizations:
   a. NAA (National Organization of Accountants)
   b. CMA (Certified Management Accountant)
   c. Industry groups

VII Accounting Duties in the Organization

A. Accounting Line and Staff Roles in the organization:

1. Line authority is exerted downward and is related to production or operational decisions regarding making and selling the company's products;

2. Staff authority is advisory only; The role of staff is to provide information to line managers

a. Chief Financial Officer (CFO) The CFO is the top executive dealing with all financial and accounting issues and reports directly to the Chief Operating Officer (COO or President);

b. Controller (Comptroller in Governmental Accounting): Chief accounting officer; responsible for both managerial and financial accounting; Reports to CFO

c. Treasurer: responsible for obtaining investment capital and cash management

3. Functional authority is command authority both laterally and downward; CFO's have functional authority over Controllers and Treasurers.

VII. **Self Test**
Complete the following statements:
1. Assets less________ equals ________.

2. Name three common forms of business organizations:
   a.

   b.

   c.

3. _________ represent the resources owned by an organization.

4. Total equities are composed of______ and

5. Expenses represent a reduction in ____________.

6. In the accounting equation, total ________must equal total ______.

7. Amounts owed by an organization are called __________.

8. The statement that shows the financial position of an organization at a point in time is the_______________.

9. Shareholders' equity represents the________claims on the entity's assets.

10. The statement that summarizes the results of the business activities for an entire accounting period is called the _______________.

11. Total____equal liabilities plus________.

12. ____________ are economic events that cause changes in the accounting equation.

13. Assets received in exchange for goods and services are called __________.

14. Revenues___________shareholders' equity.

15. If__________ exceed revenues, then there is a ___________for the accounting period.

16. The _______________ is a financial statement that summarizes the entity's assets, liabilities, and shareholders' equity.

17. A liability is created when goods or services are purchased on ________ rather than for cash.

18. A payment of salaries is called a_________ , when the salaries are paid as part of the business activity.

19. Net income that has not been paid as dividends is referred to as __________.

20. The entity concept views the ____________ separately from its ______.
21. Give six examples of business transactions:

a.___________________ d.

b.___________________ e.

c.___________________ f.

22. A book of *final* entry is called a ______________.

23. The_________is the list of accounts in the general ledger.

24. Posting is the process of transferring an amount recorded in the __________________ to the applicable account in the __________________.

25. A__________proves the equality of the debit and credit balances of all the T-accounts in the general ledger.

26. The_________principle assumes continuous operation of an organization.

27. The book of *original* entry is called the_______________.

28. Accrual accounting requires the ______ of all revenues and expenses incurred during an accounting period.

29. The first of the financial statements to be prepared is usually the_________.

30. The accounting process consists of_______,_______, and preparing a
_______________, and _______________.

31. The_____________ shows financial transactions in chronological order.

32. A T-account is a simple form of a___________________.

33. A journal entry with more than one debit account or more than one credit account is known as a ____________entry.

34. List the five components of shareholders' equity.
a.
b.
c.
d.
e.

35. List seven GAAP principles.

a.	e.
b.	f.
c.	g.
d.	

36. The difference between the total of all the debit and credit entries in a ledger account is called the_________.

TRUE OR FALSE/Multiple choice

1. A partnership cannot be owned by more than one person.
2. Total liabilities are equal to total assets minus shareholders' equity.
3. The accounting process is the recording of a single transaction.
4. Net income that remains in a corporation is referred to as retained earnings.
5. A financial change in one item is always accompanied by an equal financial change in another item or items.
6. There are only two types of statements in a set of financial statements.
7. Cash and equipment are both assets.
8. A corporation pays its shareholders in the form of dividends.
9. The balance sheet shows an accumulation of transactions over a period of time.
10. Total assets are usually less than the total of all liabilities and shareholders' equity.
11. Net income is the excess of revenues over expenses.
12. Double-entry accounting means that two or more accounts are affected by one transaction.
13. The entity concept means that assets of a business in which a person is involved should be separate from this person's personal assets.
14. Assets are cash and accounts payable.
15. The fiscal year-end of a company does not have to coincide with the calendar year-end.
16. The planning function includes predicting potential results
17. Feedback cannot be helpful in making changes in goals.
18. The choice of a management information system or technique inherently depends on specific circumstances.
19. The chief financial or accounting executives of a company do not have direct authority over the company's line departments.
20. The major function or task of the accounts receivable bookkeeper should be classified as "scorekeeping."
21. The product assembly activities in an appliance manufacturing company are typically LINE functions rather than STAFF functions.
22. The primary purpose of cost accounting today should be to provide data for:
    (a) valuing product inventories (c) computing income taxes
    (b) measuring net income (d) none of the above
23. The most uncontrollable element of a management control system is:
    (a) the operating process (c) subordinates
    (b) the environment (d) feedback data
24. "Management by exception" pertains mainly to:
    (a) use of deviations of results from budget amounts (c) selection of objectives and methods
    (b) selection and promotion of managers (d) application of the cost-benefit criterion
25. The "watchdog" role of the controller includes the task of:
    (a) scorekeeping (c) problem solving
    (b) attention directing (d) all of the above

PROBLEMS

Problem 1: Review of the accounting equation:
(assets= liabilities + shareholders' equity)

1. If the total assets of Taylor Inc. amount to $206,950 and the liabilities are $103,520, then the total shareholders' equity would be $________.

2. If the total shareholders' equity of Lander Corporation is $209,760 and the Common Stock balance is $105,000, then the Retained Earnings balance is $________.

3. The net loss of Parnes Inc. is $10,280 and the total expenses are $17,305. The revenue is __________.

4. Ranch Corporation had revenue of $19,604 and expenses of $11,600. The net is___________.

5. The Common Stock balance of Balor Corporation is $70,000, the Accounts Payable is $35,250 and the Retained Earnings balance is $15,500.The total shareholders' equity is ________.

Problem 2: Preparation of Financial Statements

Bob Ervin operates a business called Ace T.V. Repairs Inc. In summary form below are the business transactions for the month of June 20X1.
1. Issued 500 shares of common stock for $15,000 cash.
2. Customers were billed $10,000 for work done during the month, and $1,200 is still unpaid.
3. Office rent for the month was paid: $300.
4. Repairmen salaries for the month were paid: $4,100.
5. The company purchased a new truck for $11,000 with $6,000 cash and a bank loan of $5,000.
6. Truck expenses were paid: $700.
7. Purchased repair supplies on credit for $3,000.
8. Interest expense at $100 for the month was paid.
9. Repair supplies used amounted to $2,300.
10. The company paid $700 for utilities and $300 for telephone expenses.

Required:
1. Prepare a transactions analysis statement for the month of June 20X1 in proper form.

2. Prepare an interim income statement for the month of June 20X1 in proper form.

3. prepare a balance sheet in proper form for Ace T.V. Repairs Inc. for the period ending on June 30, 20X1.

Problem 3 Preparation of financial statements

On January 2, 20X2 Jim Harmon opened up an electrical service business called Harmon Co. Inc. During the year, the following business transactions occurred:
1. Common shares were issued to Harmon for $25,000.
2. The company obtained a bank loan for $5,000.
3. The company paid $3,800 for the purchase of equipment.
4. Equipment costing $20,000 was purchased for $8,000 cash and the balance was payable in February 20X3.
5. $2,000 was spent on advertising and promotion.
6. Service revenue was $54,000 of which $4,600 is unpaid.
7. Store rent of $600 per month was paid.
8. Salaries for the year were $28,000 cash.
9. $10,000 of repair supplies were used during the year, and $2,600 of these purchases were unpaid at December 31, 20X2.

Required:
Prepare an income statement and a balance sheet for the year ended December 31, 20X2. A simplified transactions worksheet can be helpful.

Problem 4 Preparation of financial statements

Prepare a balance sheet and income statement for the year end December 31, 20X3 from the following financial data of Landesman Plumbing Co. Inc.:

Accounts Payable	$	2,590
Accounts Receivable		4,650
Advertising Expense......................		630
Bank Loan		4,500
Building		36,000
Cash		13,500
Common Stock		18,000
Land		8,000
Mortgage Payable		30,000
Plumbing Supplies		1,540
Plumbing Supplies Used		1,050
Plumbing Service Revenue		13,000
Retained Earnings, December 31, 20X		7,230
Telephone Expense		2,300
Utilities Expense		1,650
Wages Expense		6,000

Problem 5 (Trial balance preparation)

Martin Cohn operates a dental practice that is incorporated as Cohn's Dental Services Inc. The company's list of accounts and account balances for November 30, 20X4 are shown below in alphabetical order:

Accounts Payable	$ 4,800
Accounts Receivable.............................	5,600
Bank Loan.......................................	5,500
Cash..	7,300
Common Stock...................................	15,000
Dental Equipment...............................	10,200
Dental Fees Revenue............................	18,500
Furniture and Fixtures.........................	. 6,300
Office Supplies.................................	1,300
Office Supplies Used..........................	. 4,300
Rent Expense....................................	3,300
Salaries Expense................................	2,500
Telephone Expense..............................	1,800
Utilities Expense...............................	1,200

Required: From the above prepare a trial balance in good form.

PROBLEM 6 (Preparation of financial statements from a trial balance)
The following is the trial balance as at December 31, 20X2 for the Bernard Consulting Service Co. Inc. after its first year of business.

Bernard Consulting Service Co. Inc.
Trial Balance
December 31, 20X2

Account Title	Debit	Credit
Cash....................................	$ 31,200	
Accounts Receivable........................	14,650	
Office Supplies...............................	2,100	
Furniture and Fixtures	12,000	
Office Equipment....................................	14,800	
Bank Loan..		$ 18,500
Accounts Payable.....................................		4,800
Common Stock...		25,000
Consulting Service Revenue...........................		361,400
Miscellaneous Expense...........................	3,000	
Office Supplies Used..........................	8,700	
Rent Expense...	54,000	
Salaries Expense..................................	205,500	
Telephone Expense..................................	22,790	
Travel Expense...................................	32,760	
Utilities Expense...............................	8,200	
Totals..	$ 409,700	$ 409,700

Required:
1. Prepare an income statement for the year ending December 31, 20X2.
2. Prepare a balance sheet at December 31, 20X2.Problem 7 (Recreating posted general journal entries)

Problem 7 (Trial Balance Preparation)
Moran Moving Services Inc. provides moving services for industrial and residential moves. Rent Expense is $1,000 per month. The results of the posting of the first month's transactions to the general ledger accounts are as follows:

Moran Moving Services Inc.
GENERAL LEDGER

Cash	No. 101
(a) 30,000	(b) 6,000
(j) 20,000	(c) 4,600
	(d) 3,000
	(e) 230
	(g) 5,000
	(h) 370
	(i) 3,000
	(k) 13,000
Bal. 14,800	

Bank Loan	No. 201
(i) 3,000	(b) 10,000
	Bal. 7,000

Accounts Payable	No. 210
(k) 13,000	(d) 15,000
	Bal. 2,000

Accounts Receivable	No. 110
(e) 38,000	(j) 20,000
Bal. 18,000	

Common Stock	No. 320
	(a) 30,000
	Bal. 30,000

Prepaid Rent	No. 162
(d) 3,000	
Bal. 3,000	

Moving Service Revenue	No. 470
(e) 38.000	
Bal. 38,000	

Moving Supplies	No. 173
(c) 4,600	
Bal. 4,600	

Telephone Expense	No. 669
(h) 370	
Bal. 370	

Utilities Expense	No. 676
(e) 230	
Bal. 230	

Furniture	No. 183
(l) 15,000	
Bal. 15,000	

Wages Expense	No. 677
(g) 5,000	
Bal. 5,000	

Truck	No. 184
(b) 16,000	
Bal. 16,000	

Required: Reconstruct the original journal entries and include the appropriate explanation of the transaction beneath each entry.

Problem 8 (Journalizing and posting transactions)

The following are the trial balance of Minute Maid Services Inc. at May 31, 20X1 and the list of transactions that took place during June 20X1.

Minute Maid Services Inc.
TRIAL BALANCE
May 31, 20X1

Account Title	Debit	Credit
Cash	$ 7,400	
Accounts Receivable	3,950	
Prepaid Insurance	2,200	
Supplies	3,800	
Equipment	8,400	
Automobiles (No. 184)	28,800	
Bank Loan		$ 15,000
Accounts Payable		4,050
Common Stock		20,000
Service Revenue		72,900
Automobile Expense (No. 611)	4,150	
Insurance Expense	2,850	
Interest Expense	2,250	
Rent Expense	4,000	
Supplies Expense	3,900	
Telephone Expense	2,050	
Utilities Expense	1,800	
Wages Expense	36,400	
Totals:	$ 111,950	$ 111,950

June transactions:

a. Collected $2,850 in accounts receivable.
b. Received $5,100 cash for services rendered in June.
c. Paid June rent of $800.
d. Bought supplies for $1,300.
e. Received a bill for automobile expenses of $1,400.
f. Paid $4,000 toward the outstanding bank loan.
g. Paid June telephone bill of $380.
h. Received and paid the June utility bill of $320.
i. Invoiced customers $10,800 for work done in June; not yet paid.
j. Supplies used in June amounted to $400.
k. Paid June Wages of $7,800.

Required:

1. Journalize the above June entries.
2. Set up T-accounts for the items in the May trial balance.
3. Post the June transactions to the T-accounts.
4. Prepare a trial balance for June.
5. Prepare the interim income statement for the six months ended June 30, 20X1 and the balance sheet at June 30, 20X1.

Problem 9 (The accounting process)

Ben Lanes has worked for a large electrical contractor for the past eight years. During that time he saved $15,000. Now he has decided to open up his own electrical service business, which he will call **Lanes Electrical Services, Inc.** The following are the transactions for May 20X1, the company's first month in business.

a. As a shareholder, Ben Lanes invested $15,000 in the business and received common stock of Lanes Electrical Services, Inc.
b. The company bought a truck costing $12,000 for $2,000 cash and a bank loan of $10,000.
c. Lanes paid rent for the month $1,050.
d. The company bought equipment costing $6,000.
e. It bought electrical supplies costing $3,400 on credit.
f. It paid wages of $2,400 for the month.
g. It billed customers $6,000 for work done in May.
h. $4,000 was received on account from customers for May billings.
i. It paid interest expense of $90 for the month.
j. It paid $200 cash for gas and oil for the truck.
k. The month's utility bill of $150 was paid.
l. It paid $1,200 to its suppliers.
m. The company paid the telephone bill of $125.
n. It received $300 from a customer for electrical work done for cash.

Required:

1. Post these transactions to T-accounts.
2. Prepare a trial balance.
3. Prepare an interim income statement for the month of May, 20X1 and a balance sheet as at May 31, 20X1.

Problem 10 (Trial balance corrections)

The following list of account balances from the ledger of a company is shown at year-end. The trial balance prepared by the bookkeeper does not balance because of several errors.

	TRIAL BALANCE		
		Corrected Account Balances	
Account Title	Balances	Debit	Credit
Cash	$ 14,200		
Accounts Receivable	2,520		
Office Supplies	1,560		
Building	30,000		
Land	5,000		
Accounts Payable	2,603		
Common Stock	48,650		
Service Revenue	17,508		
Expenses	20,181		
	$	$	

In the process of comparing these amounts with the ledger, recomputing the balances of the accounts, and comparing the entries with the original evidence of the transactions, the following errors were discovered:

a. The Expenses account with a balance of $13,131 was overstated on the trial balance by $7,050.
b. Part of a journal entry was not posted correctly; that is, office supplies acquired at a cost of $280 were posted as a credit to Office Supplies.
c. A return to a vendor of $500 of defective office supplies was correctly journalized, but was erroneously posted as a $50 credit to Office Supplies.
d. Part of a journal entry was not posted; that is, a debit of $740 to Accounts Receivable was not recorded.
e. A debit of $650 for Accounts Payable was posted as a credit to the Common Stock account.
f. When totalling the credit and debit sides of the Cash account for determining its balance, the credit side was overstated by $200.

Required: Prepare the corrected trial balance using the additional information.

SOLUTIONS

Fill in solutions:

1. liabilities / shareholders' (owners') equity
2. a. Proprietorship
   b. Partnership
   c. Incorporated company
3. Assets
4. liabilities / shareholders' equity
5. shareholders' equity
6. assets / equities
7. liabilities
8. balance sheet
9. shareholders' (owners')
10. income statement
11. assets / shareholders' equity
12. Transactions
13. revenue
14. increase
15. expenses / net loss
16. balance sheet
17. account
18. transaction
19. retained earnings
20. organization / owners
21. a. Paid for truck repairs
    b. Received a loan from the bank
    c. Purchased a building for cash purchased on credit
    d. Performed services for a customer
    e. Paid rent
    f. Paid for the truck purchased on credit
22. general ledger
23. chart of accounts
24. general journal / general ledger
25. trial balance
26. going concern
27. general journal
28. matching
29. income statement
30. journalizing / posting / trial balance / financial statements
31. general journal
32. ledger account
33. compound
34. a. Share capital
    b. Retained earnings
    c. Dividends
    d. Revenues
    e. Expenses
35. a. The entity
    b. The going concern
    c. The stable unit of measure
    d. Historical cost
    e. Periodicity
    f. Accrual accounting and matching
    g. Revenue realization
36. Account Balance

True or False/multiple Choice Questions

1. F A partnership is an entity owned by two or more persons.
2. T
3. F The accounting process is applied to the way in which the dollars' amount of transactions is transformed into financial statements.
4. T
5. T
6. F There are four statements in a set of financial statements.
7. T
8. T
9. F The balance sheet shows the balances of the assets, liabilities, and shareholders' equity at a specific point in time.
10. F Total assets are equal to the total of the liabilities and the shareholders' equity.
11. T
12. T
13. T
14. F Accounts payable is a liability.
15. T
16. T
17. F
18. T
19. T

20. T.
21. T
22. D
23. B
24. A
25. A

SOLUTION TO PROBLEM 1

1. Assets = Liabilities + Shareholders' Equity
   $206,950 = $103,520 + **$103,430**

2. Shareholders' Equity = Common Stock + Retained Earnings
   $209,760 = $105,000 + **$104,760**

3. Revenue - Expenses = Net Loss
   $ 7,025 - $ 17,305 = ($ 10,280)

4. Revenue - Expenses = Net Income
   $19,604 - $11,600 = **$ 8,004**

5. Common Stock + Retained Earnings = Shareholders' Equity
   $70,000 + $15,500 = **$85,500**

Problem 2 (Note correct statement heading, each line on statement, and computation of net income)

Transaction Worksheet for Problem 2

Ace T.V. Repairs Inc.
SIMPLIFIED TRANSACTIONS WORKSHEET
For the Month of June 20X1

	Cash	+	Accounts Receivable	+	Repair Supplies	+	Truck	=	Accounts Payable	+	Bank Loan	+	Common Stock	+ / -	Revenue Expenses
1.	+ 15,000											+	(15,000)		
2.	+ 8,800	+	1,200											+	(10,000) (Service Revenue)
3.	- (300)													-	300 (Rent Expense)
4.	- (4,100)													-	4,100 (Salaries Expense)
5.	- (6,000)					+	11,000			+	(5,000)				
6.	- (700)													-	700 (Truck Expenses)
7.				+	3,000			=	(3,000)						
8.	- (100)													-	100 (Interest Expense)
9.				-	(2,300)									-	2,300 (Repair Supplies Used)
10.	- (700)													-	700 (Utilities Expense)
	- (300)													-	300 (Telephone Expense
Total	11,600		1,200		700		11,000		3,000		5,000		15,000		1,500

IIncome Statement Problem 2

Ace T.V. Repairs Inc.
INCOME STATEMENT
For the Month Ending June 30, 20X1

Revenue..		$ 10,000
EXPENSES:		
Interest Expense..........................	$ 100	
Office Rent Expense.......................	300	
Salaries Expense..........................	4,100	
T.V. Repair Supplies Used.................	2,300	
Telephone Expense.........................	300	
Truck Expense.............................	700	
Utilities Expense.........................	700	
Total Expenses...........................	8,500	
Net Income................................	$ 1,500	
	=======	

Solution Problem 2 Balance Sheet:

Ace T.V. Repairs Inc.
BALANCE SHEET
At June 30, 20X1

Assets:			
Cash..	$	11,600	
Accounts Receivable..		1,200	
T.V. Repair Supplies...		700	
Trucks...		11,000	
Total Assets..			$ 24,500
Liabilities and Shareholders' Equity:			
Accounts Payable..................................	$	3,000	
Bank Loan...		5,000	
Total Liabilities...	$		8,000
Common Stock....................................	$	15,000	
Retained Earnings**...		1,500	
Total Shareholders' Equity.............................			16,500
Total Liabilities and Shareholders' Equity.....................			$ 24,500

** Net Income becomes the Retained Earnings because this is the first period of operations:
Beginning Balance.................$ 0
add: Net income.................. 1,500
Ending Balance...................$ 1,500
=======

SOLUTION TO PROBLEM 3

Harmon Co. Inc.
SIMPLIFIED TRANSACTIONS WORKSHEET
for the year ended December 31, 20X2

	Cash	+	Accounts Receivable	+	Equipment	=	Accounts Payable	+	Bank Loan	+	Common Stock	+ / -	Revenues Expenses
1.	+25,000									+	(25,000)		
2.	+ 5,000							+	(5,000)				
3.	– (3,800)			+	3,800								
4.	– (8,000)			+	20,000	=	(12,000)						
5.	– (2,000)											-	2,000 (Advt/Promotion Expense)
6.	+49,400		+ 4,600									+	(54,000) (Service Revenue)
7.	– (7,200)*											-	7,200* (Store Rent of $600/month)
8.	–(28,000)											-	28,000 (Salaries Expense)
9.	– (7,400)					=	(2,600)					-	10,000 (Supplies Expense incurred; $2,600 was on account)
Total	23,000		4,600		23,800		14,600		5,000		25,000		6,800

*Rent expense is $600 per month; therefore 12 months would be $7,200

Harmon Co. Inc.
INCOME STATEMENT
For the year ended December 31, 20X2

Revenue..			$	54,000
EXPENSES:				
Advertising and Promotion Expense..	$	2,000		
Rent Expense.................................		7,200		
Salaries Expense.............................		28,000		
Supplies Used................................		10,000		
Total Expenses..........................				47,200
Net Income...................................			$	6,800

Harmon Co. Inc.
BALANCE SHEET
At December 31, 20X2

Assets				
Cash..	$	23,000		
Accounts Receivable...................................		4,600		
Equipment...		23,800		
Total Assets....................................	$	51,400		
Liabilities and Shareholders' Equity				
Bank Loan...................................	$	5,000		
Accounts Payable............................		14,600		
Total Liabilities......................			$	19,600
Common Stock................................	$	5,000		
Retained earnings...........................		6,800		
Total Shareholders' Equity.............				31,800
Total Liabilities and Shareholders' Equity...			$	51,400

SOLUTION TO PROBLEM 4

Landesman Plumbing Co. Inc.
INCOME STATEMENT
For the Year Ended December 31, 20X3

Plumbing Service Revenue		$ 13,000
EXPENSES:		
Advertising Expense	$ 630	
Plumbing Supplies Used	1,050	
Telephone Expense	2,300	
Utilities Expense	1,650	
Wages Expense	6,000	
Total Expense		11,630
Net Income		$ 1,370

Landesman Plumbing Co. Inc.
BALANCE SHEET
At December 31, 20X3

Assets		
Cash	$ 13,500	
Accounts Receivable	4,650	
Plumbing Supplies	1,540	
Land	8,000	
Building	36,000	
Total Assets	$ 63,690	
Liabilities and Shareholders' Equity		
Accounts Payable	$ 2,590	
Bank Loan	4,500	
Mortgage Payable	30,000	
Total Liabilities		$ 37,090
Common Stock	$ 18,000	
Retained Earnings	8,600**	
Total Shareholders' Equity		26,600
Total Liabilities and Shareholders' Equity		$ 63,690

**Computed by taking the Retained Earnings balance December 31, 20X2: $7,230 + the net income for the year ended December 31, 20X3 from the income statement: $1,370 = the Retained Earnings for December 31, 20X3: $8,600

Solution Problem 5

Cohn's Dental Services Inc.
TRIAL BALANCE
November 30, 20X4

Account Title	Debit	Credit
Cash	$ 7,300	
Accounts Receivable	5,600	
Office Supplies	1,300	
Dental Equipment	10,200	
Furniture and Fixtures	6,300	
Bank Loan		$ 5,500
Accounts Payable		4,800
Common Stock		15,000
Dental Fees Revenue		18,500
Office Supplies Used	4,300	
Rent Expense	3,300	
Salaries Expense	2,500	
Telephone Expense	1,800	
Utilities Expense	1,200	
Totals	$ 43,800	$ 43,800

Solution Problem 6

Bernard Consulting Service Co. Inc.
INCOME STATEMENT
For the Year Ended December 31, 20X2

Consulting Service Revenue......................		$ 361,400
EXPENSES		
Miscellaneous Expense	$ 3,000	
Office Supplies Used	8,700	
Rent Expense	54,000	
Salaries Expense	205,500	
Telephone Expense	22,790	
Travel Expense	32,760	
Utilities Expense	8,200	334,950
Net Income		$ 26,450

Bernard Consulting Service Co. Inc.
BALANCE SHEET
At December 31,20X2

Assets		
Cash	$ 31,200	
Accounts Receivable	14,650	
Office Supplies	2,100	
Furniture and Fixtures	12,000	
Office Equipment	14,800	
Total Assets	$ 74,750	
Liabilities and Shareholders' Equity		
Bank Loan	$ 18,500	
Accounts Payable	4,800	
Total Liabilities		$ 23,300
Common Stock	$ 25,000	
Retained Earnings*	26,450	
Total Shareholders' Equity		51,450
Total Liabilities and Shareholders' Equity		$ 74,750

* Net income taken from the income statement above

Solution Problem 7
Moran Moving Services Inc.
GENERAL JOURNAL

	Description	Acct	Debit	Credit
(A)	Cash	101	30,000	
	Common Stock	320		30,000
	To Record investment by shareholders			
(B)	Trucks	184	16,000	
	Cash	101		6,000
	Bank Loan	201		10,000
	To Record purchase of truck for $6,000 cash and note of $10,000			
(C)	Moving Supplies	173	4,600	
	Cash	101		4,600
	Purchase of moving supplies			
(D)	Prepaid Rent	162	3,000	
	Cash	101		3,000
	Payment of three months rent in advance			
(E)	Accounts Receivable	110	38,000	
	Moving Services Revenue	470		38,000
	Billings to customers for services provided			
(F)	Utilities Expense	676	230	
	Cash	101		230
	Payment of monthly utility bill			
(G)	Wages Expense	677	5,000	
	Cash	101		5,000
	Payment of employee wages for month			
(H)	Telephone Expense	669	370	
	Cash	101		370
	Payment of telephone bill			
(I)	Bank Loan	201	3,000	
	Cash	101		3,000
	Payment on bank loan			
(J)	Cash	101	20,000	
	Accounts Receivable	110		20,000
	Receipt of cash in partial payment of A/R			
(K)	Accounts Payable	210	13,000	
	Cash	101		13,000
	Payments to Creditors			

SOLUTION TO PROBLEM 8

Minute Maid Services Inc.
GENERAL JOURNAL

	Description	Acct	Debit	Credit
(A)	Cash	101	2,850	
	Accounts Receivable	110		2850
	Collections on Customer accounts			
(B)	Cash	101	5,100	
	Service Revenue	470		5,100
	Collections on June services rendered			
(C)	Rent Expense	654	800	
	Cash	101		800
	Payment of June rent			
(D)	Supplies	173	1,300	
	Cash	101		1,300
	Purchase of supplies			
(E)	Automotive Expense	611	1,400	
	Accounts Payable	210		1,400
	Record bill auto repair in June			
(F)	Bank Loan	201	4,000	
	Cash	101		4,000
	Payment on bank loan			
(G)	Telephone Expense	669	380	
	Cash	101		380
	Payment of June telephone bill			
(H)	Utilities Expense	676	320	
	Cash	101		320
	Payment of June Utilities expense			
(I)	Accounts Receivable	111	10,800	
	Service Revenue	701		10,800
	Billings to customers for June			
(J)	Supplies Expense	668	400	
	Supplies	173		400
	Cost of supplies used in June			
(K)	Wages Expense	677	7,800	
	Cash	101		7,800
	Payment of wages to employees in June			

SOLUTION TO PROBLEM 8 Continued

Minute Maid Services Inc.
GENERAL LEDGER

Cash	No. 101
Bal. 7,400	(c) 800
(a) 2,850	(d) 1,300
(b) 5,100	(f) 4,000
	(g) 380
	(h) 320
	(k) 7,800
Bal. 750	

Accounts Receivable	No. 110
Bal. 3,950	(a) 2,850
(i) 10,800	
Bal. 11 ,900	

Prepaid Insurance	No. 161
Bal. 2,200	

Supplies	No. 173
Bal. 3,800	
(d) 1,300	(j) 400
Bal. 4,700	

Equipment	No. 183
Bal. 8,400	

Automobile	No. 184
Bal. 28,800	

Bank Loan	No. 201
(f) 4,000	Bal. 15,000
	Bal. 11,000

Accounts Payable	No. 210
	Bal. 4,050
	(g) 1,400
	Bal. 5,450

Common Stock	No. 320
	Bal. 20,000

Service Revenue	No. 470
	Bal. 72,900
	(b) 5,100
	(i) 10,800
	Bal. 88,800

Automobile Expense	No. 611
Bal. 4,150	
(e) 1,400	
Bal. 5,550	

Insurance Expense	No. 631
Bal. 2,850	

Interest Expense	No. 632
Bal. 2,250	

Rent Expense	No. 654
Bal. 4,000	
(c) 800	
Bal. 4,800	

Supplies Used	No. 668
Bal. 3,900	
(j) 400	
Bal. 4,300	

Telephone Expense	No. 669
Bal. 2,050	
(g) 380	
Bal. 2,430	

Utilities Expense	No. 676
Bal. 1,800	
(i) 320	
Bal. 2,120	

Wages Expense	No. 677
Bal. 36,400	
(k) 7,800	
Bal. 44,200	

Minute Maid Service Inc.
TRIAL BALANCE
June 30, 20X1

Account Title	Debit	Credit
Cash	$ 750	
Accounts Receivable	11,900	
Prepaid Insurance	2,200	
Supplies	4,700	
Equipment	8,400	
Automobiles	28,800	
Bank Loan		$ 11,000
Accounts Payable		5,450
Common Stock		20,000
Service Revenue		88,800
Automobile Expense		5,550
Insurance Expense	2,850	
Interest Expense	2,250	
Rent Expense	4,800	
Supplies Used	4,300	
Telephone Expense	2,430	
Utilities Expense	2,120	
Wages Expense	44,200	
Totals	$ 125,250	$ 125,250

Minute Maid Services Inc.
INCOME STATEMENT
For the Six Months Ended June 30, 20X1

Service Revenue		$ 88,800
EXPENSES		
Automobile Expense	$ 5,550	
Insurance Expense	2,850	
Interest Expense	2,250	
Rent Expense	4,800	
Supplies Used	4,300	
Telephone Expense	2,430	
Utilities Expense	2,120	
Wages Expense	44,200	
Total Expense		68,500
Net Income		$ 20,300

Minute Maid Services Inc.
BALANCE SHEET
At June 30, 20X1

Assets		
Cash	$ 750	
Accounts Receivable.............	11,900	
Prepaid Insurance	2,200	
Supplies	4,700	
Equipment	8,400	
Automobiles....................	28,800	
Total Assets	$ 56,750	
Liabilities and Shareholders' Equity		
Bank Loan	$ 11,000	
Accounts Payable................	5,450	
Total Liabilities.............		$ 16,450
Common Stock....................	$ 20,000	
Retained Earnings*.............	20,300	
Total Shareholders' Equity		40,300
Total Liabilities and Shareholders' Equity		$ 56,750

~ Net income from the income statement above

Solution Problem 9 Lanes Electrical Services, Inc.
GENERAL LEDGER

Cash	No. 101
(a) 15,000	(b) 2,000
(h) 4,000	(c) 1,050
(n) 300	(d) 6,000
	(f) 2,400
	(i) 90
	(j) 200
	(k) 150
	(l) 1,200
	(m) 125
Bal. 6,085	

Accounts Receivable	No. 110
(g) 6,000	(h) 4,000
Bal. 2,000	

Service Supplies	No. 173
(e) 3,400	
Bal. 3,400	

Equipment	No. 183
(d) 6,000	
Bal. 6,000	

Truck	No. 184
(b) 12,000	
Bal. 12,000	

Bank Loan	No. 201
	(b) 10,000
	Bal.10,000

Bal. 150

Accounts Payable	No. 210
(l) 1,200	(e) 3,400
	Bal. 2,200

Common Stock	No. 320
	(a) 15,000
	Bal. 15,000

Service Revenue	No. 470
	(g) 6,000
	(n) 300
	Bal. 6,300

Interest Expense	No. 632
(i) 90	
Bal. 90	

Maintenance Expense-Truck	No. 641
(j) 200	
Bal. 200	

Rent Expense	No. 654
(c) 1,050	
Bal. 1,050	

Telephone Expense	No. 669
(m) 125	
Bal. 125	

Utilities Expense	No. 676
(k) 150	

Wages Expense	No. 677
(f) 2,400	
Bal. 2,400	

Solution Problem 9 (continued)

Lanes Electrical Services, Inc.
TRIAL BALANCE
May 31, 20X1

Account Titles	Debit	Credit
Cash	$ 6,085	
Accounts Receivable	2,000	
Service Supplies	3,400	
Equipment	6,000	
Trucks	12,000	
Bank Loan		$ 10,000
Accounts Payable		2,200
Common Stock		15,000
Service Revenue		6,300
Interest Expense	90	
Maintenance Expense-Truck	200	
Rent Expense	1,050	
Telephone Expense	125	
Utilities Expense	150	
Wages Expense	2,400	
Totals	$ 33,500	$ 33,500

Lanes Electrical Services, Inc.
INCOME STATEMENT
For the Month Ended May 31, 20X1

Electrical Service Revenue		$ 6,300
EXPENSES		
Interest Expense	$ 90	
Maintenance Expense-Truck	200	
Rent Expense	1,050	
Telephone Expense	125	
Utilities Expense	150	
Wages Expense	2,400	
Total Expenses		4,015
Net Income		$ 2,285

Solution Problem 10

TRIAL BALANCE
May 31, 20X1

Account Titles	Debit	Credit
Cash	$ 14,400	
Accounts Receivable	3,260	
Office Supplies	1,670	
Building	30,000	
Land	5,000	
Accounts Payable		$ 1,953
Common Stock		48,000
Service Revenue		17,508
Expenses	13,131	
Totals	$ 67,461	$ 67,461

Solution Problem 10 (continued)

Lanes Electrical Services, Inc.
BALANCE SHEET
May 31, 20X1

Assets		
Cash	$ 6,085	
Accounts Receivable	2,000	
Service Supplies	3,400	
Equipment	6,000	
Trucks	12,000	
Total Assets		$ 29,485
Liabilities and Stockholders' Equity		
Bank Loan	$ 10,000	
Accounts Payable	2,200	
Total Liabilities		$ 12,200
Common Stock	$ 15,000	
Retained Earnings	2,285	
Total Shareholders Equity		$ 29,485

Analysis of Accounts

Cash — No. 101

	Debit	Credit
	14,200	
	200	
Balance Should Be	14,400	

Accounts Receivable — No. 110

	Debit	Credit
	Bal. 2,520	
Post Omission	740	
	Bal. 3,260	

Office Supplies — No. 173

	Debit	Credit
Original Posting		280
Original Posting		50
	1,890	
	Bal. 1,560	
Correct Error	280	
Post Properly	280	
Correct Error	50	
Post Properly		500
	Bal. 1,670	

Accounts Payable — No. 210

	Debit	Credit
	Bal. 2,603	
Post Properly	650	
	Bal. 1,953	

Common Stock — No. 320

	Debit	Credit
		48,000
Original Posting		650
		Bal. 48,650
Correct Error	650	
		Bal. 48,000

Expenses — No. 642

	Debit	Credit
	Bal. 13,131	