

Basic accounting equations essay sample

[Business](#), [Accounting](#)



Week One Exercise Assignment

Basic Accounting Equations

1. Recognition of normal balances

The following items appeared in the accounting records of Triguero's, a retail music store that also sponsors concerts. Classify each of the items as an asset, liability; revenue; or expense from the company's viewpoint. Also indicate the normal account balance of each item.

- a. Amounts paid to a mall for rent.
- b. Amounts to be paid in 10 days to suppliers.
- c. A new fax machine purchased for office use.
- d. Land held as an investment.
- e. Amounts due from customers.
- f. Daily sales of merchandise sold.
- g. Promotional costs to publicize a concert.
- h. A long-term loan owed to Citizens Bank.
- i. The albums, tapes, and CDs held for sale to customers.

2. Basic journal entries

The following transactions pertain to the Jennifer Royall Company:

May 1 Jennifer Royall invested cash of \$25, 000 and land valued at \$15, 000 into the business. 5 Provided \$1, 000 of services to Jason Ratchford, a client, on account. 9 Paid \$1, 250 of salaries to an employee.

14 Acquired a new computer for \$4, 200, on account.

20 Collected \$800 from Jason Ratchford for services provided on May 5.

24 Borrowed \$2,500 from BestBanc by securing a six-month loan. Prepare journal entries (and explanations) to record the preceding transactions and events. 3. Balance sheet preparation. The following data relate to Preston Company as of December 31, 20XX:

Building \$40,000 Accounts receivable \$24,000

Cash 21,000 Loan payable 30,000

J. Preston, Capital 65,000 Land 21,000

Accounts payable?

Prepare a balance sheet as of December 31, 20XX. (See Exhibit 1.1 and 1.4)

4. Basic transaction processing. On November 1 of the current year, Richard Simmons established a sole proprietorship. The following transactions occurred during the month:

1: Simmons invested \$32,000 into the business for \$32,000 in common stock. 2: Paid \$5,000 to acquire a used minivan.

3: Purchased \$1,800 of office furniture on account.

4: Performed \$2,100 of consulting services on account.

5: Paid \$300 of repair expenses.

6: Received \$800 from clients who were previously billed in item 4. 7: Paid \$500 on account to the supplier of office furniture in item 3. 8: Received a \$150 electric bill, to be paid next month.

9: Simmons withdrew \$800 from the business.

10: Received \$250 in cash from clients for consulting services rendered.

Instructions

a. Arrange the following asset, liability, and owner's equity elements of the accounting equation: Cash, Accounts Receivable, Office Furniture, Van, Accounts Payable, Common Stock/Dividends, and Revenues/Expenses. (See Exhibit 1. 5) b. Record each transaction on a separate line. After all transactions have been recorded, compute the balance in each of the preceding items. c. Answer the following questions for Simmons.

(1) How much does the company owe to its creditors at month-end? On which financial statement(s) would this information be found? (2) Did the company have a “ good” month from an accounting viewpoint? Briefly explain.

5. Transaction analysis and statement preparation. The transactions that follow relate to Burton Enterprises for March 20X1, the company's first month of activity.

3/1 Joanne Burton, the owner, invested \$20, 000 cash into the business.

3/4 Performed \$2, 400 of services on account.

3/7 Acquired a small parcel of land by paying \$6, 000 cash

3/12 Received \$500 from a client who was billed previously on March 4.

3/15 Paid \$200 to the Journal Herald for advertising expense. 3/18 Acquired 9, 000 of equipment from Park Central Outfitters by Paying

\$7, 000 down and agreeing to remit the balance owed within two weeks

(A/P). 3/22 Received \$300 cash from clients for services.

3/24 Paid \$1, 500 on account to Park Central Outfitters in partial settlement

of

the balance due from the transaction on March 18.

3/28 Rented a car from United Car Rental for use on March 28. Total charges amounted to \$125, with United billing Burton for the amount due. 3/31 Paid \$600 for March wages

3/31

Processed a \$600 cash withdrawal (dividend) from the business for Joanne Burton

Instructions

a. Determine the impact of each of the preceding transactions on Burton's assets, liabilities, and owner's equity. See exhibit 1. 5. Use the following format:

Assets = Liabilities + Owner's Equity
Cash, Accounts Receivable, Land,
Equipment Accounts Payable (+) Common Stock (+) Revenues (-) Dividends
(-) Expenses

a. Record each transaction on a separate line. Calculate balances only after the last transaction has been recorded. b. Prepare an income statement, a statement of retained earnings, and a balance sheet, (See Exhibit 1. 2, 1. 3 and 1. 4)

6. Entry and trial balance preparation. Lee Adkins is a portrait artist. The following schedule represents Lee's combined chart of accounts and trial balance as of May 31.

Account number	Account name	Debit	Credit
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110	Cash	\$ 2, 700	
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120	Accounts Receivable	12, 100	
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130	Equipment and Supplies	2, 800	
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140	Studio	45, 000	
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210	Accounts Payable	\$2, 600	
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310	Lee Adkins, Capital		57, 400
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320	Lee Adkins, Drawing	30, 000	
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410	Professional Fee Revenue		39, 000
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510	Advertising Expense	2, 300	
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520	Salaries Expense	2, 100	
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540	Utilities Expense	2, 000	
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		\$99, 000	\$99, 000
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The general ledger also revealed account no. 530, Legal and Accounting Expense. The following transactions occurred during June: 6/2 Collected \$3, 000 on account from customers 6/7 Sold 25% of the equipment and supplies to a young artist for \$700 cash 6/10

Received a \$300 invoice from the accountant for preparing last quarter's financial Statements. 6/15 Paid \$1, 900 to creditors on account.

6/27 Adkins withdrew \$2, 000 cash for personal use.

6/30 Billed a customer \$3, 000 for a portrait painted this month.

- Record the necessary journal entries for June on page 2 of the company's general journal. (See Exhibit 2. 6)
- Open running balance ledger " T" accounts by entering account titles, account num–bers, and May 31

balances. (See exhibit 2. 3 and 2. 4) c. Post the journal entries to the “ T” accounts.

d. Prepare a trial balance as of June 30. (See exhibit 2. 9)

7. Journal entry preparation. On January 1 of the current year, Peter Houston invested \$80, 000 cash into his company MuniServ. The cash was obtained from an owner investment by Peter Houston of \$50, 000 and a \$30, 000 bank loan. Shortly thereafter, the company acquired selected assets of a bankrupt competitor. The acquisition included land (\$10, 000), a building (\$40, 000), and vehicles (\$10, 000). MuniServ paid \$45, 000 at the time of the transaction and agreed to remit the remaining balance due of \$15, 000 (an account payable) by February 15.

During January, the company had additional cash outlays for the following items:

Purchases of store equipment \$4, 600

Note payment 500

Salaries expense 2, 300

Advertising expense 700

The January utility bill of \$200 was received on January 31 and will be paid next month. MuniServ rendered services to clients on account amounting to \$9, 400. All customers have been billed; by month end, \$3, 700 had been received in settlement of account balances.

Instructions

- a. Present journal entries that reflect MuniServ's January transactions, including the \$80, 000 raised from the owner investment and loan. (See exhibit 2. 6)
- b. Compute the total debits, total credits, and ending balance that would be found in the company's Cash account. (Post to " T" Accounts, see exhibit 2. 3 and 2. 4)
- c. Determine the amount that would be shown on the January 31 trial balance for Accounts Payable. Is the balance a debit or a credit?