

## SOLUTIONS

### Learning Goal 20

#### Reinforcement Problems

#### LG 20-1.

Cash	Dean Jones, Capital	Supplies	Notes Payable	Wages Payable
+	+	+	+	+
Equipment	Accounts Receivable	Accounts Payable	Notes Receivable	Land
+	+	+	+	+

**LG 20-2.** The natural positive side of an account is an essential point of reference. When the natural positive side is agreed upon, then both the increases and decreases can be recorded in a consistent and accurate way. The natural positive side is used to: (1) record account increases; and (2) show account balances. The opposite side then becomes the side used for decreases.

#### LG 20-3.

a.

Cash	Accounts Receivable
750	750

- **Increase/decrease:** Cash increases and Accounts Receivable decreases.
- **Description:** The business collected \$750 cash from customers who owed the business on account.

b.

Supplies	Accounts Payable
1,000	1,000

- **Increase/decrease:** Supplies increases and Accounts Payable increases.
- **Description:** The business purchased \$1,000 of supplies on account (on credit).

c.

Cash	Supplies
500	500

- **Increase/decrease:** Cash decreases and Supplies increases.
- **Description:** The business purchased \$500 of supplies for cash.

d.

Equipment	Cash	Notes Payable
15,000	5,000	10,000

- **Increase/decrease:** Equipment increases, Cash decreases, and Notes Payable increases.
- **Description:** The business purchased \$15,000 of equipment, paying \$5,000 cash and signing a note payable for \$10,000.

## SOLUTIONS

### Learning Goal 20, continued

#### LG 20-3, continued

e.

Cash	Accts. Payable
300	300

- **Increase/decrease:** Cash decreases and Accounts Payable decreases.
- **Description:** The business used \$300 cash to pay \$300 owing of accounts payable.

f.

Accts. Receivable	Anna Chan, Capital
2,800	2,800

- **Increase/decrease:** Accounts Receivable increases and Anna Chan, Capital increases.
- **Description:** (from operations) The business earned \$2,800 revenue by providing services to customers on account. Revenue earned increases the owner's capital.

g.

Prepaid Insurance	Cash
500	500

- **Increase/decrease:** Prepaid Insurance increases and Cash decreases.
- **Description:** The business used up \$500 cash to buy some prepaid insurance.

h.

Supplies	Anna Chan, Capital
150	150

- **Increase/decrease:** Supplies decrease and Anna Chan, Capital decreases.
- **Description:** (from operations) The business used up \$150 of supplies; this is an expense that decreased the owner's capital.

i.

Cash	Unearned Revenue
750	750

- **Increase/decrease:** Cash increases and the liability Unearned Revenue increases.
- **Description:** The business received a \$750 advance payment from a customer, before services were provided to the customer.

j.

Cash	Anna Chan, Capital
1,000	1,000

- **Increase/decrease:** Cash decreases and Anna Chan, Capital decreases.
- **Description:** (not from operations) The owner, Anna Chan, withdrew \$1,000 cash from her business for personal use.

## SOLUTIONS

### Learning Goal 20, continued

#### LG 20-3, continued

k. Accounts Payable	Anna Chan, Capital
750	750

- **Increase/decrease:** Accounts Payable increases and Anna Chan, Capital decreases.
- **Description:** (from operations) The business received a \$750 bill for an expense, but the bill was not paid immediately. An expense reduces the owner's capital.

l. Cash	Accounts Receivable	Anna Chan, Capital
500	1,500	2,000

- **Increase/decrease:** Cash increases, Accounts Receivable increases, and Anna Chan, Capital increases.
- **Description:** (from operations) The business earned \$2,000 revenue by providing services to a customer; the customer made a cash payment of \$500 and will pay the rest later. (Revenue earned increases the owner's capital.)

#### LG 20-4.

a. St. Phillips Company

<b>Assets ↑</b>	=	<b>Liabilities ↑</b>	+	<b>Owner's Equity</b>
Supplies		Accounts Payable		
800		800		

- **Analysis** (identify which accounts increase and/or which accounts decrease): The **asset** Supplies **increases** by \$800 and the **liability** Accounts Payable **increases** by \$800.
- **Rules** (specify what entries on the left or right side of the accounts are required): Assets are increased by a left-side entry, so record \$800 on the left side of Supplies. Liabilities are increased by a right-side entry, so record \$800 on the right side of Accounts Payable.

S4 Section V · Using a Basic Accounting System

**SOLUTIONS**

**Learning Goal 20, continued**

**LG 20-4, continued**

b. Bryan Company

Assets ↑ ↓		=	Liabilities	+	Owner's Equity	
Cash	Accts. Rec.					
1,000	1,000					

- **Analysis** (*identify which accounts increase and/or which accounts decrease*): The **asset** Cash **increases** by \$1,000 and the **asset** Accounts Receivable **decreases** by \$1,000.
- **Rules** (*specify what entries on the left or right side of the accounts are required*): Assets are increased by a left-side entry, so record \$1,000 on the left side of Cash. Assets are decreased by a right-side entry, so record \$1,000 on the right side of Accounts Receivable.

c. Mountain View Company

Assets ↑			=	Liabilities	+	Owner's Equity ↑	
Cash						D. Mason, Capital	
10,000						10,000	

- **Analysis** (*identify which accounts increase and/or which accounts decrease*): The **asset** Cash **increases** by \$10,000 and the **owner's equity** D. Mason, **increases** by \$10,000.
- **Rules** (*specify what entries on the left or right side of the accounts are required*): Assets are increased by a left-side entry, so record \$10,000 on the left side of Cash. Owner's equity is increased by a right-side entry, so record \$10,000 on the right side of D. Mason Capital.

## SOLUTIONS

### Learning Goal 20, continued

#### LG 20-4, continued

d. Richland Company

Assets ↑			=	Liabilities ↑		+	Owner's Equity	
Cash				Unearned Revenue				
400				400				

- **Analysis** (identify which accounts increase and/or which accounts decrease): The **asset** Cash **increases** by \$400 and the **liability** Unearned Revenue **increases** by \$400.
- **Rules** (specify what entries on the left or right side of the accounts are required): Assets are increased by a left-side entry, so record \$400 on the left side of Cash. Liabilities are increased by a right-side entry, so record \$400 on the right side of Unearned Revenue.

e. North Harris Company

Assets ↓ ↑			=	Liabilities ↑		+	Owner's Equity	
Cash	Computer Equipment			Notes Payable				
3,000	5,000			2,000				

- **Analysis** (identify which accounts increase and/or which accounts decrease): The **asset** Cash **decreases** by \$3,000, the **asset** Equipment **increases** by \$5,000, and the **liability** Notes Payable **increases** by \$2,000.
- **Rules** (specify what entries on the left or right side of the accounts are required): Assets are decreased by a right-side entry, so record \$3,000 on the right side of Cash. Assets are increased by a left-side entry, so record \$5,000 on the left side of Equipment. Liabilities are increased by a right-side entry, so record \$2,000 on the right side of Notes Payable.

## SOLUTIONS

### Learning Goal 20, continued

#### LG 20-4, continued

f. San Jacinto Company

Assets ↓			=	Liabilities ↓		+	Owner's Equity	
Cash				Accounts Payable				
250				250				

- **Analysis** (*identify which accounts increase and/or which accounts decrease*): The **asset** Cash **decreases** by \$250 and the **liability** Accounts Payable **decreases** by \$250.
- **Rules** (*specify what entries on the left or right side of the accounts are required*): Assets are decreased by a right-side entry, so record \$250 on the right side of Cash. Liabilities are decreased by a left-side entry, so record \$250 on the left side of Accounts Payable.

g. El Paso Company

Assets ↑			=	Liabilities		+	Owner's Equity ↑	
Accts. Rec.							Diane Lee, Capital	
750							750	

- **Analysis** (*identify which accounts increase and/or which accounts decrease*): The **asset** Accounts Receivable **increases** by \$750 and the **owner's equity** Diane Lee, Capital **increases** by \$750.
- **Rules** (*specify what entries on the left or right side of the accounts are required*): Assets are increased by a left-side entry, so record \$750 on the left side of Accounts Receivable. Owner's equity is increased by a right-side entry, so record \$750 on the right side of Diane Lee, Capital.

## SOLUTIONS

### Learning Goal 20, continued

#### LG 20-4, continued

h. Tarrant Company

Assets ↓			=	Liabilities		+	Owner's Equity ↓	
Supplies						+	xxx, Capital	
100							100	

- **Analysis** (identify which accounts increase and/or which accounts decrease): The **asset** Supplies **decreases** by \$100 and the **owner's equity** xxx, Capital **decreases** by \$100.
- **Rules** (specify what entries on the left or right side of the accounts are required): Assets are decreased by a right-side entry, so record \$100 on the right side of Supplies. Owner's equity is decreased by a left-side entry, so record \$100 on the left side of xxx, Capital.

i. Kingwood Company

Assets			=	Liabilities ↑		+	Owner's Equity ↓	
				Accts. Pay.		+	xxx, Capital	
				500			500	

- **Analysis** (identify which accounts increase and/or which accounts decrease): The **liability** Accounts Payable **increases** by \$500 and the **owner's equity** xxx, Capital **decreases** by \$500.
- **Rules** (specify what entries on the left or right side of the accounts are required): Liabilities are increased by a right-side entry, so record \$500 on the right side of Accounts Payable. Owner's equity is decreased by a left-side entry, so record \$500 on the left side of xxx, Capital.

## SOLUTIONS

### Learning Goal 20, continued

#### LG 20-4, continued

j. Grayson Company

Assets ↑		=	Liabilities		+	Owner's Equity ↑	
Cash						xxx, Capital	
750						750	

- **Analysis** (*identify which accounts increase and/or which accounts decrease*): The **asset Cash increases** by \$750 and the **owner's equity xxx, Capital increases** by \$750.
- **Rules** (*specify what entries on the left or right side of the accounts are required*): Assets are increased by a left-side entry, so record \$750 on the left side of Cash. Owner's equity is increased by a right-side entry, so record \$750 on the right side of xxx, Capital.

#### LG 20-5.

a. 

Cash	
5,000	
1,200	750
<u>5,000</u>	<u>2,500</u>
<b>7,950</b>	

b. 

Accounts Payable	
850	550
	500
	<u>3,000</u>
	<b>3,200</b>

c. 

xxx, Capital	
350	3,500
2,000	5,000
	<u>950</u>
	<b>7,100</b>

d. 

xxx, Capital	
5,000	5,000
<u>2,000</u>	1,000
<b>1,000</b>	

e. 

Supplies	
150	300
<u>500</u>	
<b>350</b>	

f. 

Wages Payable	
	500
	<u>4,000</u>
	<b>4,500</b>



# SOLUTIONS

## Learning Goal 20, continued

**LG 20-6.**

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**SOLUTIONS**

**Learning Goal 20, continued**

**LG 20-7.** Whenever you are asked to analyze an account, you have two good choices:

- Use a formula that calculates the balance of an account: **beginning balance + increases – decreases = ending balance.**
- You can also draw a T account. Fill in what you know, and then calculate what is missing. Each of the solutions below show both approaches.

a.  $4,500 + X - 5,500 = 3,100$ . So,  $X = \mathbf{4,100}$  of purchases.

Or:

Supplies	
4,500	
—?—	5,500
3,100	

b.  $7,800 + 12,500 - X = 15,900$ . So,  $X = \mathbf{4,400}$  of collections.  
(increases to A/R are from making credit sales)

Or:

Accounts Receivable	
7,800	
12,500	?
—	
15,900	

c.  $8,850 + X - 12,000 = 3,300$ . So,  $X = \mathbf{6,450}$  of purchases on account.

Or:

Accounts Payable	
12,000	8,850
—	—?—
3,300	

d.  $X + 55,200 - 81,000 = 75,700$ . So,  $X = \mathbf{101,500}$ .

Or:

Cash	
?	
55,200	
—	81,000
75,700	

**SOLUTIONS**

**Learning Goal 20, continued**

**LG20-8.**

<b>Wilson Appliance Services Company</b>		
<b>Income statement</b>		
<b>For the Year Ending June 30, 2018</b>		
Services Revenue		\$452,700
Expenses		
Wages expense	\$293,250	
Rent expense	42,000	
Utilities expense	12,180	
Supplies expense	9,250	
Insurance expense	5,430	
Office expense	<u>1,150</u>	
Total expenses		<u>363,260</u>
Net income		<u>\$99,440</u>

<b>Wilson Appliance Services Company</b>		
<b>Statement of Owner's Equity</b>		
<b>For the Year Ending June 30, 2018</b>		
J. Wilson, capital July 1	\$291,840	
Add: Net income	\$ 99,440	
Less: Withdrawals	<u>(65,000)</u>	
J. Wilson, capital June 30		<u>\$326,280</u>

<b>Wilson Appliance Services Company</b>		
<b>Balance Sheet</b>		
<b>June 30, 2018</b>		
<b>Assets</b>		
Cash	\$149,600	
Accounts receivable	15,640	
Supplies	32,980	
Prepaid insurance	4,800	
Equipment	<u>288,100</u>	
Total assets		<u>\$491,120.004</u>
<b>Liabilities</b>		
Wages payable	\$24,300	
Accounts payable	6,390	
Unearned revenue	9,150	
Notes payable	<u>125,000</u>	
Total liabilities		<u>164,840</u>
<b>Owner's Equity</b>		
J. Wilson, Capital	<u>326,280</u>	
Total liabilities and owner's equity		<u>\$491,120</u>

Cash is calculated as \$491,000 total liabilities and owner's equity minus all other assets except cash (\$341,520).