

SOLUTIONS

Learning Goal 11

LG 11-1.

	A	=	L	+	OE
	Step 1: assets affected?		Step 2: liabilities affected?		Step 3: owner's equity affected?
a. James Garcia invested \$10,000 cash in his business.	Yes. Cash ↑		No		Yes. OE ↑ (Capital ↑)
b. The business purchased \$300 of supplies on account.	Yes. Supplies ↑		Yes. Accts. Pay. ↑		No
c. Performed services and received cash of \$500.	Yes. Cash ↑		No		Yes. OE ↑ (Revenue ↑)
d. Paid office salaries \$2,500.	Yes. Cash ↓		No		Yes. OE ↓ (Expense ↑)
e. Performed services on account, \$700.	Yes. Accts. Rec. ↑		No		Yes. OE ↑ (Revenue ↑)
f. The business received bills that were not immediately paid: utilities, \$200; advertising \$900; accounting services, \$500.	No		Yes. Accts. Pay. ↑		Yes. OE ↓ (Expense ↑)
g. Paid accounts payable, \$750.	Yes. Cash ↓		Yes. Accts. Pay. ↓		No
h. Received an advance payment from a customer, \$1,000.	Yes. Cash ↑		Yes. Unearned Revenue ↑		No
i. Collected accounts receivable, \$900.	Yes. Cash ↑ Accts. Rec. ↓		No		No
j. Purchased supplies for cash \$200.	Yes. Supplies ↑ Cash ↓		No		No
k. The owner withdrew \$1,000 for personal use.	Yes. Cash ↓		No		Yes. OE ↓ (Withdrawal ↑)
l. The business purchased \$10,000 of equipment by paying \$6,000 cash and signing a note payable for the balance of \$4,000.	Yes. Equipment ↑ Cash ↓		Yes. Notes Pay. ↑		No

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Learning Goal 11, continued

LG 11-2.

	Assets								=	Liabilities				+	OE			
	Cash		Accts. Receivable		Supplies					Accts. Payable		Unearned Revenue		A. Wilson, Capital		Draw. (-)	Rev. (+)	Exp. (-)
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease		Decrease	Increase	Decrease	Increase	Decrease	Increase			
a.	25,000														25,000			
b.					950					950								
c.		500							500									
d.	1,000											1,000						
e.			3,000														3,000	
f.		1,800																1,800
g.										2,725								2,725
h.											1,000						1,000	
i.		2,500																2,500
j.	1,500			1,500														
k.		1,000														1,000		
Bal.	21,700		1,500		950					3,175		-0-		25,000	1,000	4,000	7,025	

Total revenue: \$4,000

Total expense: \$7,025

Net loss: \$3,025

Total combined owner's equity at end of the month: $\$25,000 - \$1,000 + \$4,000 - \$7,025 = \$20,975$

LG 11-3.

	Assets								=	Liabilities				+	OE			
	Cash		Accts. Receivable		Supplies		Equipment			Accts. Payable		Notes Payable		T. Hsu, Capital		Draw. (-)	Rev. (+)	Exp. (-)
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease		Decrease	Increase	Decrease	Increase	Decrease	Increase			
a.	12,000														12,000			
b.					750					750								
c.		300							300									
d.		3,000					5,000					2,000						
e.			350														350	
f.	250																250	
g.										1,290								1,290
h.		700																700
i.	300			300														
j.			2,300															2,300
k.		800														800		
l.						450												450
Bal.	7,750		2,350		300		5,000			1,740		2,000		12,000	800	2,900	2,440	

Total revenue: \$2,900

Total expense: \$2,440

Net income: \$ 460

Total combined owner's equity at end of the month: $\$12,000 - \$800 + 2,900 - \$2,440 = \$11,660$

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Learning Goal 11, continued

LG 11-4. Sugar Eclair’s Gym September transactions.

a. *Example:* Supplies of \$100 are purchased for cash.

Assets											=
\$40,020											
Cash		Accounts Receivable				Gym Supplies		Gym Equipment			
	Increase	Decrease	Increase	Decrease			Increase	Decrease	Increase	Decrease	
(Bal)	10,300		4,100				620		25,000		
A		100					100				
(New Bal.)	10,200		4,100				720		25,000		

b. The club collects \$2,000 cash from the accounts receivable.

Assets											=
\$40,020											
Cash		Accounts Receivable				Gym Supplies		Gym Equipment			
	Increase	Decrease	Increase	Decrease			Increase	Decrease	Increase	Decrease	
(Bal)	10,200		4,100				720		25,000		
B	2,000			2,000							
(New Bal.)	12,200		2,100				720		25,000		

c. The club prepays a nine-month fire insurance policy for \$1,500.

Assets											=
\$40,020											
Cash		Accounts Receivable		Prepaid Insurance		Gym Supplies		Gym Equipment			
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	
(Bal)	12,200		2,100				720		25,000		
C		1,500			1,500						
(New Bal.)	10,700		2,100		1,500		720		25,000		

SOLUTIONS

Learning Goal 11, continued

Liabilities + Owner's Equity

\$40,020

Accounts Payable						Sugar Eclair, Capital			
Decrease	Increase					Decrease	Increase	Exp.	Rev.
	200						39,820		
	200						39,820		

Liabilities + Owner's Equity

\$40,020

Accounts Payable						Sugar Eclair, Capital			
Decrease	Increase					Decrease	Increase	Exp.	Rev.
	200						39,820		
	200						39,820		

Liabilities + Owner's Equity

\$40,020

Accounts Payable						Sugar Eclair, Capital			
Decrease	Increase					Decrease	Increase	Exp.	Rev.
	200						39,820		
	200						39,820		

SOLUTIONS

Learning Goal 11, continued

LG 11-4, continued

d. The club receives member dues of \$5,300.

Assets											=
											\$45,320
Cash		Accounts Receivable		Prepaid Insurance		Gym Supplies		Gym Equipment			
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	
(Bal)	10,700		2,100		1,500		720		25,000		
D	5,300										
(New Bal.)	16,000		2,100		1,500		720		25,000		

e. The club sends out bills to members for dues for \$2,900.

Assets											=
											\$48,220
Cash		Accounts Receivable		Prepaid Insurance		Gym Supplies		Gym Equipment			
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	
(Bal)	16,000		2,100		1,500		720		25,000		
E			2,900								
(New Bal.)	16,000		5,000		1,500		720		25,000		

f. The club receives and pays the utilities bill of \$550.

Assets											=
											\$47,670
Cash		Accounts Receivable		Prepaid Insurance		Gym Supplies		Gym Equipment			
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	
(Bal)	16,000		5,000		1,500		720		25,000		
F		550									
(New Bal.)	15,450		5,000		1,500		720		25,000		

SOLUTIONS

Learning Goal 11, continued

Liabilities + Owner's Equity

\$45,320

Accounts Payable						Sugar Eclair, Capital			
Decrease	Increase					Decrease	Increase	Exp.	Rev.
	200						39,820		
							5,300		5,300
	200						45,120		5,300

Liabilities + Owner's Equity

\$48,220

Accounts Payable						Sugar Eclair, Capital			
Decrease	Increase					Decrease	Increase	Exp.	Rev.
	200						45,120		5,300
							2,900		2,900
	200						48,020		8,200

Liabilities + Owner's Equity

\$47,670

Accounts Payable						Sugar Eclair, Capital			
Decrease	Increase					Decrease	Increase	Exp.	Rev.
	200						48,020		8,200
						550		550	
	200						47,470	550	8,200

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Learning Goal 11, continued

LG 11-4, continued

g. The club receives but does not pay the telephone bill of \$185.

Assets											=
\$47,670											
	Cash		Accounts Receivable		Prepaid Insurance		Gym Supplies		Gym Equipment		
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	
(Bal)	15,450		5,000		1,500		720		25,000		
G											
(New Bal.)	15,450		5,000		1,500		720		25,000		

h. The club pays \$200 of the accounts payable.

Assets											=
\$47,470											
	Cash		Accounts Receivable		Prepaid Insurance		Gym Supplies		Gym Equipment		
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	
(Bal)	15,450		5,000		1,500		720		25,000		
H		200									
(New Bal.)	15,250		5,000		1,500		720		25,000		

i. The club borrows \$50,000 from the 5th National Bank and signs a 15-year note.

Assets											=
\$97,470											
	Cash		Accounts Receivable		Prepaid Insurance		Gym Supplies		Gym Equipment		
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	
(Bal)	15,250		5,000		1,500		720		25,000		
I	50,000										
(New Bal.)	65,250		5,000		1,500		720		25,000		

SOLUTIONS

Learning Goal 11, continued

Liabilities + Owner's Equity

\$47,670

Accounts Payable						Sugar Eclair, Capital			
Decrease	Increase					Decrease	Increase	Exp.	Rev.
	200						47,470	550	8,200
	185					185		185	
	385						47,285	735	8,200

Liabilities + Owner's Equity

\$47,470

Accounts Payable						Sugar Eclair, Capital			
Decrease	Increase					Decrease	Increase	Exp.	Rev.
	385						47,285	735	8,200
200									
	185						47,285	735	8,200

Liabilities + Owner's Equity

\$97,470

Accounts Payable		Notes Payable						Sugar Eclair, Capital			
Decrease	Increase	Decrease	Increase					Decrease	Increase	Exp.	Rev.
	185								47,285	735	8,200
			50,000								
	185		50,000						47,285	735	8,200

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Learning Goal 11, continued

LG 11-4, continued

j. Cash of \$590 is received from members who prepay next month's dues.

Assets											=
<u>\$98,060</u>											
	Cash		Accounts Receivable		Prepaid Insurance		Gym Supplies		Gym Equipment		
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	
(Bal)	65,250		5,000		1,500		720		25,000		
J	590										
(New Bal.)	65,840		5,000		1,500		720		25,000		

k. Sugar withdraws \$2,000 from the business for personal living expense.

Assets											=
<u>\$96,060</u>											
	Cash		Accounts Receivable		Prepaid Insurance		Gym Supplies		Gym Equipment		
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	
(Bal)	65,840		5,000		1,500		720		25,000		
K		2,000									
(New Bal.)	63,840		5,000		1,500		720		25,000		

l. The business purchases \$500 of supplies and \$1,000 of equipment on credit.

Assets											=
<u>\$97,560</u>											
	Cash		Accounts Receivable		Prepaid Insurance		Gym Supplies		Gym Equipment		
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	
(Bal)	63,840		5,000		1,500		720		25,000		
L							500		1,000		
(New Bal.)	63,840		5,000		1,500		1,220		26,000		

Note: Neither the supplies nor the equipment have been used yet, so there is no expense. The assets have been purchased, but not used up.

SOLUTIONS

Learning Goal 11, continued

Liabilities + Owner's Equity

\$98,060

Accounts Payable		Notes Payable		Unearned Revenue		Sugar Eclair, Capital			
Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Exp.	Rev.
	185		50,000				47,285	735	8,200
					590				
	185		50,000		590		47,285	735	8,200

Liabilities + Owner's Equity

\$96,060

Accounts Payable		Notes Payable		Unearned Revenue		Sugar Eclair, Capital			
Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Exp.	Rev.
	185		50,000		590		47,285	735	8,200
						2,000			
	185		50,000		590		45,285	735	8,200

Liabilities + Owner's Equity

\$97,560

Accounts Payable		Notes Payable		Unearned Revenue		Sugar Eclair, Capital			
Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Exp.	Rev.
	185		50,000		590		45,285	735	8,200
	1,500								
	1,685		50,000		590		45,285	735	8,200

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SOLUTIONS

Learning Goal 11, continued

LG 11-4, continued

m. Air conditioning repairs are required for \$900. The bill will be paid later.

Assets											=
\$97,560											
	Cash		Accounts Receivable		Prepaid Insurance		Gym Supplies		Gym Equipment		
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	
(Bal)	63,840		5,000		1,500		1,220		26,000		
M											
(New Bal.)	63,840		5,000		1,500		1,220		26,000		

(Notice that repair services are a resource consumed, so this is an expense. The decrease in cash will occur later when the bill is paid.)

n. Sugar spends the \$2,000 she withdrew for new furniture for her home.

Assets											=
\$97,560											
	Cash		Accounts Receivable		Prepaid Insurance		Gym Supplies		Gym Equipment		
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	
(Bal)	63,840		5,000		1,500		1,220		26,000		
N											
(New Bal.)	63,840		5,000		1,500		1,220		26,000		

This is a personal transaction of the owner. It is not recorded by the business!

SOLUTIONS

Learning Goal 11, continued

Liabilities + Owner's Equity

\$97,560

Accounts Payable		Notes Payable		Unearned Revenue		Sugar Eclair, Capital			
Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Exp.	Rev.
	1,685		50,000		590		45,285	735	8,200
	900					900		900	
	2,585		50,000		590		44,385	1,635	8,200

Liabilities + Owner's Equity

\$97,560

Accounts Payable		Notes Payable		Unearned Revenue		Sugar Eclair, Capital			
Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Exp.	Rev.
	2,585		50,000		590		44,385	1,635	8,200
	2,585		50,000		590		44,385	1,635	8,200

- What are the total revenues that the club received during September? \$8,200
- What are the total expenses of the club during September? \$1,635
- Calculate the club's net income or loss during September. $\$8,200 - 1,635 = \underline{\$6,565 \text{ net income}}$

SOLUTIONS

Learning Goal 11, continued

LG 11-5.

Item	Step 1: Are assets affected?	Step 2: Are liabilities affected?	Step 3: Is owner's equity affected?	Correct Recording in Equation
a.	The asset equipment increases \$8,000 and the asset Cash decreases \$2,000.	A liability increase of \$6,000 occurs.	No	$\uparrow A = \uparrow L + OE$ 6,000 6,000
The recording was incorrect because the equation was not in balance and because assets should have shown a net increase of \$6,000. This was the equipment increase of \$8,000 less the cash decrease of \$2,000.				
b.	Cash increases by \$900 and accounts receivable decrease by \$900.	No	No	$\uparrow \downarrow A = L + OE$ 900 900
The recording was incorrect because the revenue was already earned in a previous period when the account receivable was recorded. Here, the receivable is simply eliminated when the cash is received.				
c.	Office Supplies increase by \$2,000 and cash decreases by \$2,000.	No	No	$\uparrow \downarrow A = L + OE$ 2,000 2,000
The recording was incorrect because there is no expense—one asset (Cash) is being given up to obtain another asset (Office Supplies). An expense would have occurred only if there had been a net decrease in assets because they were used up in the operations.				
d.	Cash decreases by \$750.	Accounts Payable decrease by \$750.	No	$\downarrow A = \downarrow L + OE$ 750 750
The recording was incorrect because there is no expense. Paying a debt is a reduction in a creditor's claim on assets; the cash is not being used in operations, so there is no expense.				
e.	No	Accounts Payable increase.	Owner's equity decreases because of telephone expense.	$A = \uparrow L + \downarrow OE$ 200 200 (expense)
Not recording the event was incorrect because an expense happens the moment a resource is consumed. In this case, when the telephone service was used the expense occurred and should have been recorded along with a liability, because the company did not immediately pay for the service.				
f.	Cash increases.	Unearned Revenue increases.	No	$\uparrow A = \uparrow L + OE$ 500 500
The recording was incorrect because there is no revenue—the services have not been provided yet. An advance payment from a customer creates a liability to either return the money or perform the services.				

SOLUTIONS

Learning Goal 11, continued

LG 11-6.

Assets									=
	Cash		Accounts Receivable		Supplies		Equipment		
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease	
(1)	15,000								
(2)		1,200					1,200		
(3)		210			210				
(4)	3,300								
(5)		1,100							
(6)	800								
(7)									
(8)					250				
(9)						120			
(10)			1,500						
(11)		900							
(12)		750							
(13)									
(14)	1,000		650						
(15)	1,500			1,500					
(16)									
(17)	250			250					
(18)		550							
(Bal.)	17,140		400		340		1,200		

SOLUTIONS

Learning Goal 11, continued

Liabilities + Owner's Equity

Accounts Payable		Unearned Revenue		Edgar Mendoza, Capital		
Decrease	Increase	Decrease	Increase	Decrease	Increase	
					15,000	
			3,300			
				1,100		Rent expense
					800	Revenue
	750			750		Legal expense
	250					
				120		Supplies expense
					1,500	Revenue
				900		Withdrawal
750						
	550			550		Advertising expense
					1,650	Revenue
		2,000			2,000	Revenue
550						
	250		1,300		17,530	

Net Income: 3,430

SOLUTIONS

Learning Goal 11, continued

LG 11-7.

	Assets		=	Liabilities		+	Owner's Equity	
	Increase	Decrease		Decrease	Increase		Decrease	Increase
a. A business collects \$1,000 of accounts receivable from a customer.	Cash	Accounts Receivable						
b. A business pays a bill to a vendor.		Cash		Accounts Payable				
c. A business purchases supplies on account.	Supplies				Accounts Payable			
d. A business makes a sale on account.	Accounts Receivable							Revenue
e. A business uses up some supplies.		Supplies					Supplies Expense	
f. A business buys a \$5,000 computer, pays \$1,000 cash, and signs a note.	Office Equipment \$5,000	Cash \$1,000			Notes Payable \$4,000			
g. A business receives an advance payment from a customer.	Cash				Unearned Revenue			
h. The owner removes some cash and supplies from her business.		Cash Supplies					Withdrawals (or drawing)	
i. A business prepays rent for 3 months in the amount of \$1,500.	Prepaid Rent \$1,500	Cash \$1,500						
j. The owner buys a new car for herself.	Not a business transaction.							
k. A business pays the wages to its employees.		Cash					Wages Expense	
l. One month has passed since the rent was prepaid in item i, above.		Prepaid Rent \$500					Rent Expense \$500	
m. A business receives a bill from the telephone company.					Accounts Payable		Telephone Expense	
n. The business performs services for the customer who prepaid in item G, above.				Unearned Revenue				Fees Revenue
o. A business that incurred a liability pays the liability.		Cash		Accounts Payable				
p. A customer pays a business for an amount owed.	Cash	Accounts Receivable						