Learning Goal 20: Explain the Use of Accounts

Reinforcement Problems

LG 20-1.

<table>
<thead>
<tr>
<th>Cash</th>
<th>Dean Jones, Capital</th>
<th>Supplies</th>
<th>Notes Payable</th>
<th>Wages Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Equipment</td>
<td>Accounts Receivable</td>
<td>Accounts Payable</td>
<td>Notes Receivable</td>
<td>Land</td>
</tr>
<tr>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
</tbody>
</table>

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.
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.
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

<table>
<thead>
<tr>
<th>Assets ↑</th>
<th>= Liabilities ↑ + Owner’s Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplies</td>
<td>Accounts Payable</td>
</tr>
<tr>
<td>800</td>
<td></td>
</tr>
</tbody>
</table>

- **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.
## Solutions

### LG 20-4, continued

#### b. Bryan Company

<table>
<thead>
<tr>
<th>Assets ↑ ↓</th>
<th>= Liabilities + Owner’s Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash 1,000</td>
<td>Accts. Rec. 1,000</td>
</tr>
</tbody>
</table>

- **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

<table>
<thead>
<tr>
<th>Assets ↑</th>
<th>= Liabilities + Owner’s Equity ↑</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash 10,000</td>
<td>D. Mason, Capital 10,000</td>
</tr>
</tbody>
</table>

- **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.
LG 20-4, continued

d. Richland Company

<table>
<thead>
<tr>
<th>Assets ↑</th>
<th>= Liabilities ↑ +</th>
<th>Owner’s Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>400</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Unearned Revenue</td>
<td>400</td>
</tr>
</tbody>
</table>

- **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

<table>
<thead>
<tr>
<th>Assets ↓ ↑</th>
<th>= Liabilities ↑ +</th>
<th>Owner’s Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Computer Equipment</td>
<td>Notes Payable</td>
</tr>
<tr>
<td>3,000</td>
<td>5,000</td>
<td>2,000</td>
</tr>
</tbody>
</table>

- **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.
f. San Jacinto Company

\[
\begin{array}{ccc}
\text{Assets} & \downarrow & \text{Liabilities} & \downarrow & \text{Owner's Equity} \\
\text{Cash} & 250 & \text{Accounts Payable} & 250 & \\
\end{array}
\]

- **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

\[
\begin{array}{ccc}
\text{Assets} & \uparrow & \text{Liabilities} & + & \text{Owner's Equity} & \uparrow \\
\text{Accts. Rec.} & 750 & \text{Diane Lee, Capital} & 750 & \\
\end{array}
\]

- **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.
h. Tarrant Company

\[
\begin{array}{ccc}
\text{Assets} & = & \text{Liabilities} + \text{Owner's Equity} \\
\text{Supplies} & & \text{xxx, Capital} \\
100 & & 100
\end{array}
\]

- **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

\[
\begin{array}{ccc}
\text{Assets} & = & \text{Liabilities} + \text{Owner's Equity} \\
\text{Accts. Pay.} & & \text{xxx, Capital} \\
& & 500 \\
& & 500
\end{array}
\]

- **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.
**LG 20-4, continued**

j. Grayson Company

<table>
<thead>
<tr>
<th>Assets</th>
<th>750</th>
<th>= Liabilities</th>
<th>+</th>
<th>Owner’s Equity</th>
<th>↑</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td></td>
<td></td>
<td></td>
<td>xxx, Capital</td>
<td>750</td>
</tr>
</tbody>
</table>

- **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.

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**LG 20-5.**

<table>
<thead>
<tr>
<th></th>
<th>a. Cash</th>
<th>b. Accounts Payable</th>
<th>c. xxx, Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5,000</td>
<td>850 550</td>
<td>350 3,500</td>
</tr>
<tr>
<td></td>
<td>1,200</td>
<td>500</td>
<td>2,000 5,000</td>
</tr>
<tr>
<td></td>
<td>5,000</td>
<td>3,000</td>
<td>950 7,100</td>
</tr>
<tr>
<td></td>
<td>7,950</td>
<td>3,200</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>d. xxx, Capital</th>
<th>e. Supplies</th>
<th>f. Wages Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5,000 5,000</td>
<td>150 300</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td>2,000 1,000</td>
<td>500 350</td>
<td>4,000 4,500</td>
</tr>
<tr>
<td></td>
<td>1,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
LG 20-6.

\[
\begin{array}{ccc}
A & = & L + OE \\
\hline
\text{Cash} & \text{Accounts Receivable} & \text{Accounts Payable} & \text{Unearned Revenue} & \text{R. Marcus, Capital} \\
(a) 50,000 & (c) 7,550 & (d) 1,750 & (l) 1,000 \\
(e) 1,100 & & & \\
(f) 2,380 & (i) 295 & (k) 350 & \\
(h) 2,200 & (j) 10,000 & (m) 1,500 & \\
(l) 1,000 & (n) 1,400 & (f) 2,380 & (a) 50,000 \\
34,885 & & & (d) 1,750 \\
& & (g) 125 & (e) 1,100 \\
& & (h) 2,200 & (g) 125 \\
& & (n) 1,400 & (m) 1,500 \\
& & & (n) 1,400 \\
\hline
\text{Notes Payable} & \text{Supplies} & \text{Equipment} & \text{Land} \\
(i) 5,000 & (b) 520 & (c) 7,550 & (j) 15,000 \\
& (i) 295 & & \\
& 815 & & \\
\end{array}
\]
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: \( \text{beginning balance} + \text{increases} - \text{decreases} = \text{ending balance} \).
- 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, \( X = 4,100 \) of purchases.  
   Or: 
   
<table>
<thead>
<tr>
<th>Supplies</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,500</td>
</tr>
<tr>
<td><strong>?</strong></td>
</tr>
<tr>
<td>5,500</td>
</tr>
<tr>
<td>3,100</td>
</tr>
</tbody>
</table>

b. \( 7,800 + 12,500 - X = 15,900 \). So, \( X = 4,400 \) of collections.  
   (increases to A/R are from making credit sales)  
   Or: 
   
<table>
<thead>
<tr>
<th>Accounts Receivable</th>
</tr>
</thead>
<tbody>
<tr>
<td>7,800</td>
</tr>
</tbody>
</table>
   | 12,500              | ?  
   |                     |  
   | 15,900              | 

c. \( 8,850 + X - 12,000 = 3,300 \). So, \( X = 6,450 \) of purchases on account.  
   Or: 
   
<table>
<thead>
<tr>
<th>Accounts Payable</th>
</tr>
</thead>
<tbody>
<tr>
<td>8,850</td>
</tr>
</tbody>
</table>
   | 12,000           | __?__  
   |                  | 3,300  

x. \( X + 55,200 - 81,000 = 75,700 \). So, \( X = 101,500 \).  
   Or: 
   
<table>
<thead>
<tr>
<th>Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>?</td>
</tr>
</tbody>
</table>
   | 55,200 | 81,000  
   | 75,700 |