

SOLUTIONS

Learning Goal 26

Multiple Choice

1. d
2. d
3. d Choices (a), (b), and (c) all keep total debits equal to credits, so a trial balance would stay in balance.
4. a This is the only choice in this question that would cause the trial balance to not balance.
5. d Tricky question. The trial balance would remain in balance, but it would not be “completely unaffected” because one account would be overstated and another would be understated.
6. c Total debits are understated by \$450, because Cash was debited for \$50 instead of \$500.

Use T accounts to visualize this:

| | |
|------|-----------------------|
| Cash | Some other account |
| 50 | 500 |

7. b Use T accounts to visualize:
(Total credits are understated by \$225.)

| | |
|---------------------|----------|
| Supplies Expense | Supplies |
| 250 | 25 |

8. c

SOLUTIONS

Learning Goal 26, continued

Reinforcement Problems

LG 26-1.

| Overland Park Company | | |
|------------------------------|------------------------|------------------------|
| Trial Balance | | |
| December 31, 2008 | | |
| Account Name | Dr. | Cr. |
| Cash | \$ 4,281 | |
| Accounts receivable | 7,227 | |
| Supplies | 425 | |
| Prepaid insurance | 800 | |
| Equipment | 10,500 | |
| Land | 35,780 | |
| Wages payable | | \$ 1,500 |
| Unearned revenue | | 1,250 |
| R. Wills, capital | | 54,555 |
| R. Wills, drawing | 1,000 | |
| Service revenue | | 8,400 |
| Interest earned | | 125 |
| Rent expense | 800 | |
| Utilities expense | 202 | |
| Wages expense | 3,500 | |
| Repairs expense | 1,315 | |
| Total | <u>\$65,830</u> | <u>\$65,830</u> |

LG 26-2. The major problem with this “balance sheet” is that the student is confused about the difference between a trial balance and a balance sheet. The entire format is incorrect.

Errors:

- Financial statements **NEVER** have debits and credits! Most people do not know what they are.
- This statement is prepared in the columnar format of a trial balance, showing the debit and credit totals. Debits and credits have nothing whatsoever to do with where numbers are written on a financial statement.
- Owner’s equity should just be one number, showing the final balance of Wayne Grey-Eagle, Capital. This statement has made the owner’s equity section into a miniature version of the statement of owner’s equity.
- The title of the statement does not show the date.

SOLUTIONS

Learning Goal 26, continued

LG 26-2, *continued*

All of these are serious mistakes. I would give this statement a score of about 4 out of 10. Although there are some minor variations in report format, here is one correct way the report form of the statement should look:

| Wayne Grey-Eagle Company | | |
|---------------------------------------|---------------|-----------------|
| Balance Sheet | | |
| January 31, 2008 | | |
| Assets | | |
| Cash | \$21,500 | |
| Accounts receivable | 7,150 | |
| Office supplies | 325 | |
| Prepaid rent | 2,800 | |
| Equipment | <u>15,900</u> | |
| Total assets | | <u>47,675</u> |
| Liabilities and Owner's Equity | | |
| <i>Liabilities:</i> | | |
| Wages payable | \$ 3,300 | |
| Accounts payable | 4,470 | |
| Notes payable | <u>22,500</u> | |
| Total liabilities | | 30,270 |
| <i>Owner's Equity:</i> | | |
| Wayne Grey-Eagle, capital | | <u>17,405</u> |
| Total liabilities and owner's equity | | <u>\$47,675</u> |

SOLUTIONS

Learning Goal 26, continued

LG 26-3.

| Pham Company Trial Balance June 30, 2008 | | |
|---|------------------|------------------|
| Account | Dr. | Cr. |
| Cash | \$ 85,690 | |
| Accounts receivable | 9,100 | |
| Office supplies | 950 | |
| Computer supplies | 1,800 | |
| Prepaid rent | 5,500 | |
| Office equipment | 10,000 | |
| Computer equipment | 17,800 | |
| Accounts payable | | \$ 785 |
| Unearned revenue | | 7,000 |
| Wages payable | | 4,100 |
| Notes payable | | 7,000 |
| Hoan Pham, capital | | 106,000 |
| Hoan Pham, withdrawals | 2,000 | |
| Service revenue | | 18,600 |
| Rent expense | 2,200 | |
| Wages expense | 4,100 | |
| Travel expense | 190 | |
| Insurance expense | 500 | |
| Supplies expense | 440 | |
| Internet expense | 3,215 | |
| Totals | <u>\$143,485</u> | <u>\$143,485</u> |

Note: Before you can prepare the trial balance, you first have to correctly calculate the account balances by applying the debit and credit rules for increases and decreases.

SOLUTIONS**Learning Goal 26, continued****LG 26-4.**

| Wade Engineering Balance Sheet December 31, 2008 | | | |
|---|------------------|--------------------------------------|-----------------|
| Assets | | Liabilities | |
| Cash | \$ 3,100 | Wages payable | \$ 4,900 |
| Accounts receivable | 17,100 | Accounts payable | <u>2,900</u> |
| Office supplies | 1,100 | Total liabilities | 7,800 |
| Design supplies | 1,200 | | |
| Prepaid rent | 650 | Owner's Equity | |
| Office equipment | 3,500 | Frank Wade, capital | <u>33,550</u> |
| Design equipment | <u>14,700</u> | | |
| Total assets | <u>\$ 41,350</u> | Total liabilities and owner's equity | <u>\$41,350</u> |

| Wade Engineering Income Statement For the Year Ending December 31, 2008 | | |
|--|------------|-----------------|
| Revenues | | |
| Design fees | \$27,800 | |
| Interest earned | <u>100</u> | |
| Total revenues | | \$27,900 |
| Expenses | | |
| Wages expense | 12,500 | |
| Rent expense | 1,400 | |
| Supplies expense (Design) | 530 | |
| Supplies expense (Office) | 140 | |
| Utilities expense | <u>380</u> | |
| Total expenses | | 14,950 |
| Net income | | <u>\$12,950</u> |

| Wade Engineering Statement of Owner's Equity For the Year Ending December 31, 2008 | | |
|---|---------------|-----------------|
| Frank Wade, capital, January 3 | | \$ -0- |
| Add: Owner investment | \$ 25,000 | |
| Net income | <u>12,950</u> | |
| | | 37,950 |
| Less: Withdrawals | | <u>4,400</u> |
| Frank Wade, capital, December 31 | | <u>\$33,550</u> |

SOLUTIONS

Learning Goal 26, continued

LG 26-4, continued

Question: How could you verify the amount of Frank Wade's investment? Use the formula for the statement of owner's equity: **Beginning capital + investment + net income – drawings = ending capital**. This was: $0 + X + 12,950 - 4,400 = 33,550$. $X = 25,000$.

- a. Business operations caused the total wealth of the company to increase by \$12,950.
- b. We can examine the statement of cash flows to learn what happened to cash during the current period of operations. The statement of cash flows shows us that the *operations* only provided \$700 of cash. *Investing activities* (equipment was purchased) used up \$18,200 of cash. Finally, the *financing activities* shows us that the main source of cash was Frank's investment, *less what he drew back out of the business*. This was a net of \$20,600. *To summarize:* A zero beginning cash balance + 700 – 18,200 + 20,600 = 3,100 ending cash balance.
- c. \$700 was generated from operations (see Operating Activities on statement of cash flows on page 515 in the text).
- d. The income statement shows design revenues of \$27,800, yet the statement of cash flows reveals that only \$10,700 was collected from the customers. Uncollected receivables must be building up. This is a serious problem. The business is making sales but is not able to collect cash from the customers. As the receivables build up, the business begins to experience cash flow difficulties. The cause? There could be several:
 - (1) Poor selection of customers; they do not have the ability to pay on time.
 - (2) Slow billing procedures and no reminders.
 - (3) Disputes arising from poor work.
 - (4) Fraud. Nonexistent sales are being reported.
- e. The biggest use of cash was the purchase of equipment—\$18,200. This is understandable because it is a new business that needs equipment to begin operations. This cash expenditure probably will not have to be repeated next year, so cash flow is likely to be more positive. However, small businesses are always in need of cash to expand operations.
- f. The balance sheet shows only \$3,100 of cash. There is \$4,900 of wages payable. Employees want to be paid on time. If the business cannot do this, the employees will leave. This is probably why Frank is hoping to hear from you quickly. Another source of cash is the accounts receivable, but the statement of cash flows warns us that receivables are building up, so this is a questionable source of cash. Moreover, there are other short-term payables of \$2,900 due in the near future. The business is having a cash-flow crisis.
- g. Assuming that there is no fraud and only poor cash-flow management, it appears that much effort has been devoted to finding customers and doing jobs. Very little effort has been devoted to getting payment from customers. Although operations have created \$12,950 of new wealth, much of this still remains in the form of accounts receivable.
- h. The two survival issues are *profitability* and *liquidity*. Profitability means operating the business in such a way that wealth is accumulated. Liquidity means having enough cash available to: (1) pay debts as they come due and (2) take advantage of opportunities and grow.
- i. Well, it's your money, but I wouldn't put in a nickel without finding out what is happening here. IF there is no fraud, the customers are good, and the quality of work is good, then I would be interested—with the provision that I would manage financial operations while Frank concentrated on doing the engineering work.

SOLUTIONS

Learning Goal 26, continued

LG 26-5.

Journal Page 1

| Date | Account | Post. Ref. | Dr. | Cr. |
|-------|-----------------------|------------|--------|---------|
| 2008 | | | | |
| May 1 | Cash | 102 | 90,000 | |
| | Equipment: Office | 180 | 12,000 | |
| | M. Antonelli, Capital | 302 | | 102,000 |
| | | | | |
| 2 | Prepaid Rent | 150 | 6,000 | |
| | Cash | 102 | | 6,000 |
| | | | | |
| 3 | Insurance Expense | 520 | 150 | |
| | Accounts Payable | 202 | | 150 |
| | | | | |
| 4 | Office Supplies | 125 | 250 | |
| | Cash | 102 | | 250 |
| | | | | |
| 5 | Gardening Supplies | 135 | 1,100 | |
| | Accounts Payable | 202 | | 1,100 |
| | | | | |
| 5 | Accounts Receivable | 115 | 5,500 | |
| | Design Revenue | 405 | | 5,500 |
| | | | | |
| 8 | Equipment: Automotive | 185 | 35,000 | |
| | Notes Payable | 250 | | 20,000 |
| | Cash | 102 | | 15,000 |
| | | | | |
| 11 | Advertising Expense | 525 | 1,000 | |
| | Cash | 102 | | 1,000 |
| | | | | |
| 14 | Cash | 102 | 12,000 | |
| | Unearned Revenue | 230 | | 12,000 |
| | | | | |
| 15 | Gardening Supplies | 135 | 2,800 | |
| | Equipment: Gardening | 190 | 5,000 | |
| | Notes Payable | 250 | | 7,800 |
| | | | | |
| 15 | Cash | 102 | 7,500 | |
| | Design Revenue | 405 | | 7,500 |
| | | | | |

SOLUTIONS

Learning Goal 26, continued

LG 26-5, continued

Journal Page 2

| Date | Account | Post. Ref. | Dr. | Cr. |
|--------|----------------------------|------------|-------|-------|
| May 18 | Accounts Payable | 202 | 950 | |
| | Cash | 102 | | 950 |
| 19 | Auto and Gas Expense | 515 | 280 | |
| | Accounts Payable | 202 | | 280 |
| 21 | Accounts Receivable | 115 | 250 | |
| | Maintenance Revenue | 410 | | 250 |
| 25 | Utilities Expense | 530 | 170 | |
| | Accounts Payable | 202 | | 170 |
| 26 | Interest Expense | 570 | 1,400 | |
| | Notes Payable | 250 | 400 | |
| | Cash | 102 | | 1,800 |
| 27 | M. Antonelli, Withdrawals | 305 | 2,000 | |
| | Cash | 102 | | 2,000 |
| 28 | Cash | 102 | 3,000 | |
| | Accounts Receivable | 115 | | 3,000 |
| 30 | Rent Expense | 505 | 1,500 | |
| | Prepaid Rent | 150 | | 1,500 |
| 30 | Office Supplies Expense | 535 | 100 | |
| | Gardening Supplies Expense | 540 | 840 | |
| | Office Supplies | 125 | | 100 |
| | Gardening Supplies | 135 | | 840 |
| 30 | Unearned Revenue | 230 | 1,000 | |
| | Maintenance Revenue | 410 | | 1,000 |
| 31 | Wages Expense | 510 | 8,500 | |
| | Cash | 102 | | 8,500 |
| 31 | Advertising Expense | 525 | 950 | |
| | Accounts Payable | 202 | | 950 |

Reminder: Remember that an account number is not written into the “Post. Ref.” column until after the transaction amount is *actually posted into the ledger account*.

SOLUTIONS**Learning Goal 26, continued****LG 26-5, continued****Ledger**

| Date | Explanation | Post. Ref. | Account: Cash | | No. <u>102</u> |
|-------|-------------|---------------|---------------|--------|----------------|
| | | | Debit | Credit | |
| 2008 | | | | | |
| May 1 | | J1 | 90,000 | | 90,000 |
| 2 | | J1 | | 6,000 | 84,000 |
| 4 | | J1 | | 250 | 83,750 |
| 8 | | J1 | | 15,000 | 68,750 |
| 11 | | J1 | | 1,000 | 67,750 |
| 14 | | J1 | 12,000 | | 79,750 |
| 15 | | J1 | 7,500 | | 87,250 |
| 18 | | J2 | | 950 | 86,300 |
| 26 | | J2 | | 1,800 | 84,500 |
| 27 | | J2 | | 2,000 | 82,500 |
| 28 | | J2 | 3,000 | | 85,500 |
| 31 | | J2 | | 8,500 | 77,000 |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Accounts Receivable | | No. <u>115</u> |
|-------|-------------|---------------|------------------------------|--------|----------------|
| | | | Debit | Credit | |
| 2008 | | | | | |
| May 5 | | J1 | 5,500 | | 5,500 |
| 21 | | J2 | 250 | | 5,750 |
| 28 | | J2 | | 3,000 | 2,750 |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Office Supplies | | No. <u>125</u> |
|-------|-------------|---------------|--------------------------|--------|----------------|
| | | | Debit | Credit | |
| 2008 | | | | | |
| May 4 | | J1 | 250 | | 250 |
| 30 | | J2 | | 100 | 150 |
| | | | | | |
| | | | | | |
| | | | | | |

SOLUTIONS

Learning Goal 26, continued

LG 26-5, continued

| Date | Explanation | Post. Ref. | Account: Gardening Supplies | | No. <u>135</u> |
|-------|-------------|------------|-----------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| May 5 | | J1 | 1,100 | | 1,100 |
| 15 | | J1 | 2,800 | | 3,900 |
| 30 | | J2 | | 840 | 3,060 |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Prepaid Rent | | No. <u>150</u> |
|-------|-------------|------------|-----------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| May 2 | | J1 | 6,000 | | 6,000 |
| 30 | | J2 | | 1,500 | 4,500 |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Equipment: Office | | No. <u>180</u> |
|-------|-------------|------------|----------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| May 1 | | J1 | 12,000 | | 12,000 |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Equipment: Automotive | | No. <u>185</u> |
|-------|-------------|------------|--------------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| May 8 | | J1 | 35,000 | | 35,000 |
| | | | | | |
| | | | | | |
| | | | | | |

SOLUTIONS**Learning Goal 26, continued****LG 26-5, continued**

| Date | Explanation | Post. Ref. | Account: Equipment: Gardening | | No. <u>190</u> |
|--------|-------------|---------------|-------------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| May 15 | | J1 | 5,000 | | 5,000 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Accounts Payable | | No. <u>202</u> |
|-------|-------------|---------------|---------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| May 3 | | J1 | | 150 | 150 |
| 5 | | J1 | | 1,100 | 1,250 |
| 18 | | J2 | 950 | | 300 |
| 19 | | J2 | | 280 | 580 |
| 25 | | J2 | | 170 | 750 |
| 31 | | J2 | | 950 | 1,700 |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Unearned Revenue | | No. <u>230</u> |
|--------|-------------|---------------|---------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| May 14 | | J1 | | 12,000 | 12,000 |
| 30 | | J2 | 1,000 | | 11,000 |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Notes Payable | | No. <u>250</u> |
|-------|-------------|---------------|------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| May 8 | | J1 | | 20,000 | 20,000 |
| 15 | | J1 | | 7,800 | 27,800 |
| 26 | | J2 | 400 | | 27,400 |
| | | | | | |
| | | | | | |
| | | | | | |

SOLUTIONS

Learning Goal 26, continued

LG 26-5, continued

| Date | Explanation | Post. Ref. | Account: M. Antonelli, Capital | | No. <u>302</u> |
|-------|-------------|---------------|--------------------------------|---------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| May 1 | | J1 | | 102,000 | 102,000 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: M. Antonelli, Withdrawals | | No. <u>305</u> |
|--------|-------------|---------------|------------------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| May 27 | | J2 | 2,000 | | 2,000 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Design Revenue | | No. <u>405</u> |
|-------|-------------|---------------|-------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| May 5 | | J1 | | 5,500 | 5,500 |
| 15 | | J1 | | 7,500 | 13,000 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Maintenance Revenue | | No. <u>410</u> |
|--------|-------------|---------------|------------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| May 21 | | J2 | | 250 | 250 |
| 30 | | J2 | | 1,000 | 1,250 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

SOLUTIONS**Learning Goal 26, continued****LG 26-5, continued**

| Date | Explanation | Post. Ref. | Account: Rent Expense | | No. <u>505</u> |
|--------|-------------|---------------|-----------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| May 30 | | J2 | 1,500 | | 1,500 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Wages Expense | | No. <u>510</u> |
|--------|-------------|---------------|------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| May 31 | | J2 | 8,500 | | 8,500 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Auto & Gas Expense | | No. <u>515</u> |
|--------|-------------|---------------|-----------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| May 19 | | J2 | 280 | | 280 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Insurance Expense | | No. <u>520</u> |
|-------|-------------|---------------|----------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| May 3 | | J1 | 150 | | 150 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

SOLUTIONS

Learning Goal 26, continued

LG 26-5, continued

| Date | Explanation | Post. Ref. | Account: Advertising Expense | | No. <u>525</u> |
|--------|-------------|------------|------------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| May 11 | | J1 | 1,000 | | 1,000 |
| 31 | | J2 | 950 | | 1,950 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Utilities Expense | | No. <u>530</u> |
|--------|-------------|------------|----------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| May 25 | | J2 | 170 | | 170 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Office Supplies Expense | | No. <u>535</u> |
|--------|-------------|------------|----------------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| May 30 | | J2 | 100 | | 100 |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Garden Supplies Expense | | No. <u>540</u> |
|--------|-------------|------------|----------------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| May 30 | | J2 | 840 | | 840 |
| | | | | | |
| | | | | | |
| | | | | | |

SOLUTIONS

Learning Goal 26, continued

LG 26-5, continued

| Date | Explanation | Post. Ref. | Account: Interest Expense | | No. 570 |
|--------|-------------|------------|---------------------------|--------|---------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| May 26 | | J2 | 1,400 | | 1,400 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

| Antonelli Landscape Services | | | |
|--------------------------------------|------------------|------------------|--|
| Trial Balance | | | |
| May 31, 2008 | | | |
| Account | Dr. | Cr. | |
| Cash | \$ 77,000 | | |
| Accounts receivable | 2,750 | | |
| Office supplies | 150 | | |
| Gardening supplies | 3,060 | | |
| Prepaid Rent | 4,500 | | |
| Equipment: office | 12,000 | | |
| Equipment: automotive | 35,000 | | |
| Equipment: gardening | 5,000 | | |
| Accounts payable | | \$ 1,700 | |
| Unearned revenue | | 11,000 | |
| Notes payable | | 27,400 | |
| M. Antonelli, capital | | 102,000 | |
| M. Antonelli, withdrawals | 2,000 | | |
| Design revenue | | 13,000 | |
| Maintenance revenue | | 1,250 | |
| Rent expense | 1,500 | | |
| Wages expense | 8,500 | | |
| Auto & gas expense | 280 | | |
| Insurance expense | 150 | | |
| Advertising expense | 1,950 | | |
| Utilities expense | 170 | | |
| Office supplies expense | 100 | | |
| Gardening supplies expense | 840 | | |
| Interest expense | 1,400 | | |
| Totals | <u>\$156,350</u> | <u>\$156,350</u> | |

SOLUTIONS**Learning Goal 26, continued****LG 26-5, continued**

| Antonelli Landscape Services | | |
|---|--------------|-----------------------|
| Income Statement | | |
| For the Month Ended May 31, 2008 | | |
| <i>Revenues:</i> | | |
| Design revenue | \$13,000 | |
| Maintenance revenue | <u>1,250</u> | |
| Total revenues | | \$14,250 |
| <i>Expenses:</i> | | |
| Wages expense | 8,500 | |
| Advertising expense | 1,950 | |
| Rent expense | 1,500 | |
| Gardening supplies expense | 840 | |
| Auto and gas expense | 280 | |
| Utilities expense | 170 | |
| Insurance expense | 150 | |
| Office Supplies expense | 100 | |
| Interest expense | <u>1,400</u> | |
| Total expenses | | <u>14,890</u> |
| Net (loss) | | <u><u>(\$640)</u></u> |

Note: Because interest expense is not an operating expense, it is often shown below other expenses.

| Antonelli Landscape Services | |
|---|-------------------------|
| Statement of Owner's Equity | |
| For the Month Ended May 31, 2008 | |
| M. Antonelli, capital May 1 | \$ -0- |
| Add: Investments | <u>102,000</u> |
| | 102,000 |
| Less: | |
| Withdrawals | 2,000 |
| Net loss | 640 |
| M. Antonelli, capital May 31 | <u><u>\$ 99,360</u></u> |

SOLUTIONS

Learning Goal 26, continued

LG 26-5, *continued*

| Antonelli Landscape Services | | | |
|-------------------------------------|-------------------------|---|-------------------------|
| Balance Sheet | | | |
| May 31, 2008 | | | |
| Assets | | Liabilities | |
| Cash | \$ 77,000 | Accounts payable | \$ 1,700 |
| Accounts receivable | 2,750 | Unearned revenue | 11,000 |
| Office supplies | 150 | Notes payable | <u>27,400</u> |
| Gardening supplies | 3,060 | Total liabilities | 40,100 |
| Prepaid rent | 4,500 | | |
| Equipment: office | 12,000 | Owner's equity | |
| Equipment: automotive | 35,000 | M. Antonelli, capital | 99,360 |
| Equipment: gardening | 5,000 | Total liabilities and owner's equity | <u><u>\$139,460</u></u> |
| Total assets | <u><u>\$139,460</u></u> | | |

Note: Remember to check the owner's equity balance as follows: **total assets – total liabilities equals owner's equity**. So $\$139,460 - \$40,100 = \$99,360$. This should be exactly the same amount as the ending balance on the statement of owner's equity.

SOLUTIONS**Learning Goal 26, continued**

LG 26-6.

Journal Page 1

| Date | Account | Post. Ref. | Dr. | Cr. |
|-------------|----------------------|-----------------------|------------|------------|
| 2008 | | | | |
| July 2 | Automotive Equipment | 160 | 85,000 | |
| | Cash | 101 | | 30,000 |
| | Notes Payable | 230 | | 55,000 |
| | | | | |
| 3 | Prepaid Insurance | 130 | 2,400 | |
| | Cash | 101 | | 2,400 |
| | | | | |
| 5 | Supplies | 125 | 800 | |
| | Accounts Payable | 205 | | 800 |
| | | | | |
| 6 | Advertising Expense | 535 | 4,500 | |
| | Accounts Payable | 205 | | 4,500 |
| | | | | |
| 6 | Land | 180 | 40,000 | |
| | Building | 170 | 110,000 | |
| | Cash | 101 | | 150,000 |
| | | | | |
| 7 | Cash | 101 | 1,500 | |
| | Tour Revenue | 410 | | 1,500 |
| | | | | |
| 9 | Cash | 101 | 8,000 | |
| | Unearned Revenue | 220 | | 8,000 |
| | | | | |
| 12 | Accounts Receivable | 115 | 2,700 | |
| | Tour Revenue | 410 | | 2,700 |
| | | | | |
| 13 | Cash | 101 | 4,200 | |
| | Tour Revenue | 410 | | 4,200 |
| | | | | |
| 15 | Wages Expense | 510 | 3,800 | |
| | Cash | 101 | | 3,800 |
| | | | | |
| 16 | Accounts Payable | 205 | 800 | |
| | Cash | 101 | | 800 |
| | | | | |
| 18 | Accounts Payable | 205 | 2,000 | |
| | Cash | 101 | | 2,000 |

SOLUTIONS

Learning Goal 26, continued

LG 26-6, continued

Journal Page 2

| Date | Account | Post. Ref. | Dr. | Cr. |
|---------|-------------------------|---------------|-------|-------|
| 2008 | | | | |
| July 19 | Accounts Receivable | 115 | 3,700 | |
| | Tour Revenue | 410 | | 3,700 |
| 24 | Gasoline Expense | 520 | 500 | |
| | Maintenance Expense | 525 | 1,200 | |
| | Insurance Expense | 530 | 100 | |
| | Accounts Payable | 205 | | 1,800 |
| 27 | Utilities Expense | 540 | 210 | |
| | Accounts Payable | 205 | | 210 |
| 28 | Notes Payable | 230 | 600 | |
| | Interest Expense | 590 | 1,900 | |
| | Cash | 101 | | 2,500 |
| 29 | Unearned Revenue | 220 | 8,000 | |
| | Tour Revenue | 410 | | 8,000 |
| 30 | Wages Expense | 510 | 5,500 | |
| | Cash | 101 | | 5,500 |
| 30 | Cash | 101 | 2,700 | |
| | Accounts Receivable | 115 | | 2,700 |
| 31 | Insurance Expense | 530 | 400 | |
| | Prepaid Insurance | 130 | | 400 |
| 31 | Supplies Expense | 550 | 300 | |
| | Supplies | 125 | | 300 |
| 31 | J. Dunston, Withdrawals | 305 | 1,500 | |
| | Cash | 101 | | 1,500 |
| 31 | Cash | 101 | 700 | |
| | Snack Revenue | 420 | | 700 |

Reminder: Remember that an account number is not written into the “Post. Ref.” column until after the transaction amount is *actually posted into the ledger account*.

SOLUTIONS**Learning Goal 26, continued****LG 26-6, continued****Ledger**

| Date | Explanation | Post. Ref. | Account: Cash | | No. <u>101</u> |
|---------|-------------|---------------|---------------|---------|----------------|
| | | | Debit | Credit | |
| 2008 | | | | | |
| June 30 | Bal. | | | | 280,000 |
| July 2 | | J1 | | 30,000 | 250,000 |
| 3 | | J1 | | 2,400 | 247,600 |
| 6 | | J1 | | 150,000 | 97,600 |
| 7 | | J1 | 1,500 | | 99,100 |
| 9 | | J1 | 8,000 | | 107,100 |
| 13 | | J1 | 4,200 | | 111,300 |
| 15 | | J1 | | 3,800 | 107,500 |
| 16 | | J1 | | 800 | 106,700 |
| 18 | | J1 | | 2,000 | 104,700 |
| 28 | | J2 | | 2,500 | 102,200 |
| 30 | | J2 | | 5,500 | 96,700 |
| 30 | | J2 | 2,700 | | 99,400 |
| 31 | | J2 | | 1,500 | 97,900 |
| 31 | | J2 | 700 | | 98,600 |

| Date | Explanation | Post. Ref. | Account: Accounts Receivable | | No. <u>115</u> |
|---------|-------------|---------------|------------------------------|--------|----------------|
| | | | Debit | Credit | |
| 2008 | | | | | |
| July 12 | | J1 | 2,700 | | 2,700 |
| 19 | | J2 | 3,700 | | 6,400 |
| 30 | | J2 | | 2,700 | 3,700 |
| | | | | | |
| | | | | | |
| | | | | | |

SOLUTIONS

Learning Goal 26, continued

LG 26-6, *continued*

| Date | Explanation | Post. Ref. | Account: Automotive Equipment | | No. <u>160</u> |
|--------|-------------|------------|-------------------------------|--------|----------------|
| | | | Debit | Credit | |
| 2008 | | | | | |
| July 2 | | J1 | 85,000 | | 85,000 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Building | | No. <u>170</u> |
|--------|-------------|------------|-------------------|--------|----------------|
| | | | Debit | Credit | |
| 2008 | | | | | |
| July 6 | | J1 | 110,000 | | 110,000 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Land | | No. <u>180</u> |
|--------|-------------|------------|---------------|--------|----------------|
| | | | Debit | Credit | |
| 2008 | | | | | |
| July 6 | | J1 | 40,000 | | 40,000 |
| | | | | | |
| | | | | | |
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SOLUTIONS

Learning Goal 26, continued

LG 26-6, continued

| Date | Explanation | Post. Ref. | Account: Accounts Payable | | No. <u>205</u> |
|--------|-------------|---------------|---------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| July 5 | | J1 | | 800 | 800 |
| 6 | | J1 | | 4,500 | 5,300 |
| 18 | | J1 | 2,000 | | 3,300 |
| 16 | | J1 | 800 | | 2,500 |
| 24 | | J2 | | 1,800 | 4,300 |
| 27 | | J2 | | 210 | 4,510 |

| Date | Explanation | Post. Ref. | Account: Unearned Revenue | | No. <u>220</u> |
|--------|-------------|---------------|---------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| July 9 | | J1 | | 8,000 | 8,000 |
| 29 | | J2 | 8,000 | | -0- |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Notes Payable | | No. <u>230</u> |
|---------|-------------|---------------|------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| June 30 | Bal. | | | | 100,000 |
| July 2 | | J1 | | 55,000 | 155,000 |
| 28 | | J2 | 600 | | 154,400 |
| | | | | | |
| | | | | | |
| | | | | | |

SOLUTIONS**Learning Goal 26, continued****LG 26-6, continued**

| Date | Explanation | Post. Ref. | Account: J. Dunston, Capital | | No. <u>301</u> |
|---------|-------------|---------------|------------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| June 30 | Bal. | | | | 196,200 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: J. Dunston, Withdrawals | | No. <u>305</u> |
|---------|-------------|---------------|----------------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| July 31 | | J2 | 1,500 | | 1,500 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Tour Revenue | | No. <u>410</u> |
|--------|-------------|---------------|-----------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| July 7 | | J1 | | 1,500 | 1,500 |
| 12 | | J1 | | 2,700 | 4,200 |
| 13 | | J1 | | 4,200 | 8,400 |
| 19 | | J2 | | 3,700 | 12,100 |
| 29 | | J2 | | 8,000 | 20,100 |
| | | | | | |
| | | | | | |

SOLUTIONS

Learning Goal 26, continued

LG 26-6, continued

| Date | Explanation | Post. Ref. | Account: Snack Revenue | | No. <u>420</u> |
|---------|-------------|------------|------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| July 31 | | J2 | | 700 | 700 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Wages Expense | | No. <u>510</u> |
|---------|-------------|------------|------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| July 15 | | J1 | 3,800 | | 3,800 |
| 30 | | J2 | 5,500 | | 9,300 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Gasoline Expense | | No. <u>520</u> |
|---------|-------------|------------|---------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| July 24 | | J2 | 500 | | 500 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

SOLUTIONS

Learning Goal 26, continued

LG 26-6, continued

| Date | Explanation | Post. Ref. | Account: Maintenance Expense | | No. <u>525</u> |
|---------|-------------|---------------|------------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| July 24 | | J2 | 1,200 | | 1,200 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Insurance Expense | | No. <u>530</u> |
|---------|-------------|---------------|----------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| July 24 | | J2 | 100 | | 100 |
| 31 | | J2 | 400 | | 500 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Advertising Expense | | No. <u>535</u> |
|--------|-------------|---------------|------------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| July 6 | | J1 | 4,500 | | 4,500 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

SOLUTIONS

Learning Goal 26, continued

LG 26-6, *continued*

| Date | Explanation | Post. Ref. | Account: Utilities Expense | | No. <u>540</u> |
|---------|-------------|------------|----------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| July 27 | | J2 | 210 | | 210 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Supplies Expense | | No. <u>550</u> |
|---------|-------------|------------|---------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| July 31 | | J2 | 300 | | 300 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

| Date | Explanation | Post. Ref. | Account: Interest Expense | | No. <u>590</u> |
|---------|-------------|------------|---------------------------|--------|----------------|
| | | | Debit | Credit | Balance |
| 2008 | | | | | |
| July 28 | | J2 | 1,900 | | 1,900 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

SOLUTIONS**Learning Goal 26, continued****LG 26-6, continued**

| Consolidated Eco-Tour Company | | | |
|--------------------------------------|------------------|------------------|--|
| Trial Balance | | | |
| July 31, 2008 | | | |
| Account | Dr. | Cr. | |
| Cash | \$ 98,600 | | |
| Accounts receivable | 3,700 | | |
| Supplies | 1,700 | | |
| Prepaid insurance | 2,000 | | |
| Office equipment | 15,000 | | |
| Automotive equipment | 85,000 | | |
| Building | 110,000 | | |
| Land | 40,000 | | |
| Accounts payable | | \$ 4,510 | |
| Notes payable | | 154,400 | |
| J. Dunston, capital | | 196,200 | |
| J. Dunston, withdrawals | 1,500 | | |
| Tour revenue | | 20,100 | |
| Snack revenue | | 700 | |
| Wages expense | 9,300 | | |
| Gasoline expense | 500 | | |
| Maintenance expense | 1,200 | | |
| Insurance expense | 500 | | |
| Advertising expense | 4,500 | | |
| Utilities expense | 210 | | |
| Supplies expense | 300 | | |
| Interest expense | 1,900 | | |
| Totals | <u>\$375,910</u> | <u>\$375,910</u> | |

SOLUTIONS**Learning Goal 26, continued****LG 26-6, continued**

| Consolidated Eco-Tour Service Company | | |
|--|--------------|------------------------|
| Income Statement | | |
| For the Month Ended July 31, 2008 | | |
| <i>Revenues:</i> | | |
| Tour revenue | \$20,100 | |
| Snack revenue | <u>700</u> | |
| Total revenues | | \$20,800 |
| <i>Expenses:</i> | | |
| Wages expense | 9,300 | |
| Advertising expense | 4,500 | |
| Maintenance expense | 1,200 | |
| Gasoline expense | 500 | |
| Insurance expense | 500 | |
| Supplies expense | 300 | |
| Utilities expense | 210 | |
| Interest expense | <u>1,900</u> | |
| Total expenses | | <u>18,410</u> |
| Net income | | <u><u>\$ 2,390</u></u> |

Note: Because interest expense is not an operating expense it is often shown below other expenses.

| Consolidated Eco-Tour Service Company | |
|--|-------------------------|
| Statement of Owner's Equity | |
| For the Month Ended July 31, 2008 | |
| J. Dunston, capital July 1 | \$196,200 |
| Add: Net income | <u>2,390</u> |
| | 198,590 |
| Less: Withdrawals | <u>1,500</u> |
| J. Dunston, capital July 31 | <u><u>\$197,090</u></u> |

Note: The owner did not make any investments in the business during the month of July.

SOLUTIONS

Learning Goal 26, continued

LG 26-6, continued

| Consolidated Eco-Tour Service Company | | |
|--|----------------|------------------|
| Balance Sheet | | |
| July 31, 2008 | | |
| Assets | | |
| Cash | \$ 98,600 | |
| Accounts receivable | 3,700 | |
| Supplies | 1,700 | |
| Prepaid insurance | 2,000 | |
| Office equipment | 15,000 | |
| Automotive equipment | 85,000 | |
| Building | 110,000 | |
| Land | <u>40,000</u> | |
| Total assets | | <u>\$356,000</u> |
| Liabilities and Owner's Equity | | |
| <i>Liabilities:</i> | | |
| Accounts payable | \$ 4,510 | |
| Notes payable | <u>154,400</u> | |
| Total liabilities | | \$158,910 |
| <i>Owner's equity:</i> | | |
| J. Dunston, Capital | | <u>197,090</u> |
| Total liabilities and owner's equity | | <u>\$356,000</u> |

Note: Remember to check the owner's equity balance as follows: **total assets – total liabilities equals owner's equity**. So $\$356,000 - \$158,910 = \$197,090$. This should be exactly the same amount as the ending balance on the statement of owner's equity.