M3 - CHAPTER 7 NOTES

What are the three characteristics of an Accounting Event?

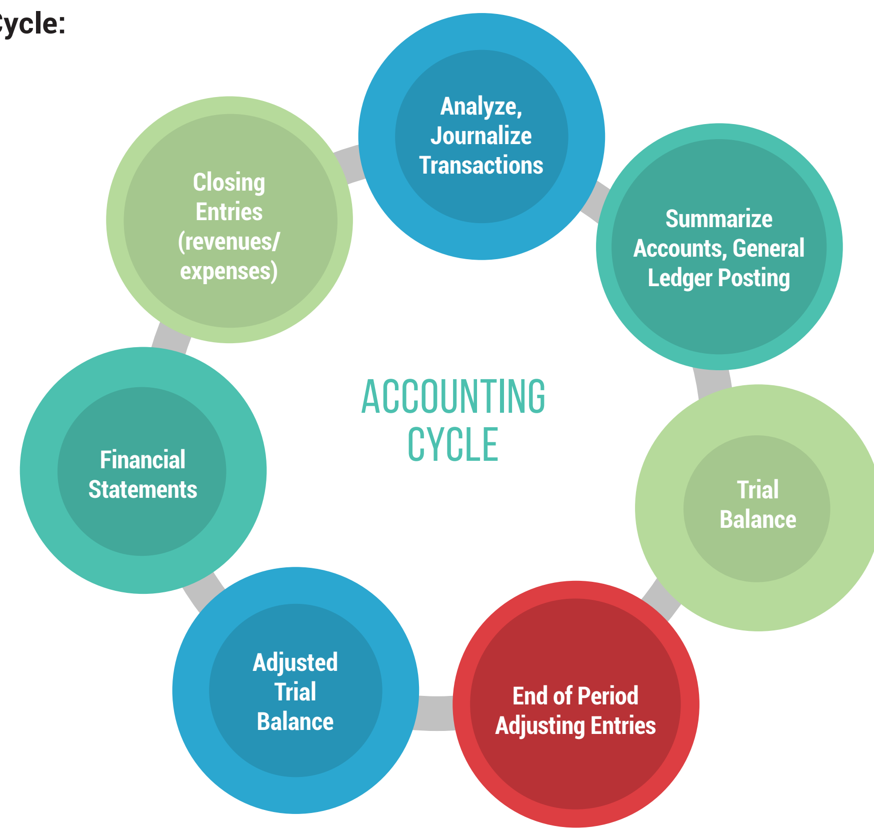
1. *Specific to business*
2. *Measureable in monetary terms*
3. *Impacts assets, liabilities, and/or owner's equity*

Accounting Equation:

Notes:

- ✓ Every Accounting Event has two effects, one *sacrifice* and one *benefit*.
- ✓ Assets are *economic resources.*
- ✓ Both liabilities and owner' equity are *equities*.
- ✓ Liabilities are the *creditor's* claims.
- ✓ Owner's equity is the *owner's* claims.
- ✓ A balance sheet communicates the *accounting equation* in report form.

Accounting Cycle:



From www.mhhe.com/ainsworth7e - Chapter 7 Additional Problems

P7.1 Kendall Corporation began operations on March 1, 2003 and completed the following transactions during its first month of operations.

A. Issued common stock for $100,000.

B. Paid $18,000 for a one-year lease on office space.

C. Purchased office equipment costing $35,000 by paying $5,000 cash and signing a five-year note for the balance.

D. Purchased office supplies on account, $750.

E. Sent a bill for $4,500 to a customer for services performed.

F. Received $1,000 from a customer for services to be performed next month.

G. Paid employees for hours worked, $1,025.

H. Paid half of the amount owed for office supplies in transaction (D), $375.

I. Received, but did not pay, the monthly telephone bill, $275.

J. Paid a dividend to owners, $2,000.

Required:

1. Determine the effect of each of the preceding events on the accounting equation.
2. Prepare the general journal entries to record each of these events. Use T-accounts (see next page) to keep track of balances. Do not prepare the adjusting entries.
3. Prepare the income statement for the period.
4. Prepare the statement of cash flows for the period.
5. Prepare the statement of retained earnings for the period.
6. Prepare the balance sheet at the end of the period.
7. Prepare the closing entries—use T-accounts.

2. & 7. T-Accounts

Assets

Cash

Accounts Rec.

Office Supplies

Prepaid Rent

Office Equipment

Liabilities

Acct. Payable

Notes Payable

Unearned Fees

Stockholder's Equity

Common Stock

Retained Earnings

Dividends

Income Summary

Fees earned

Wages Expense

Telephone Expense

3.

KENDALL CORPORATION
Income Statement
For the month ended March 31, 2003

Revenue		
Fees earned		
Expenses		
Telephone expense		
Wages expense		
Total expenses		
Net Income		

4.

KENDALL CORPORATION
Statement of Cash Flows
For the month ended March 31, 2003

Cash flows from operating activities		
Cash received from customers		
Cash paid for rent		
Cash paid to suppliers		
Cash paid to employees		
Net cash flows		
Cash flows from investing activities		
Cash paid for office equipment		
Net cash flows		
Cash flows from financing activities		
Cash received from issuing stock		
Cash paid for dividends		
Net cash flows		
Increase (decrease) in cash flows		
Cash, March 1, 2003		0
Cash, March 31, 2003		

5.

KENDALL CORPORATION
Statement of Retained Earnings
For the month ended March 31, 2003

Beginning balance	$ 0
Add net income	______
Less dividends	______
Ending balance	______

6.

KENDALL CORPORATION
Balance Sheet
March 31, 2003

Assets		
Cash	______	
Accounts receivable	______	
Prepaid rent	______	
Office supplies	______	
Office equipment	______	
Total assets		______
Liabilities		
Accounts payable	______	
Unearned fees	______	
Notes payable	______	
Total liabilities		______
Owners' equity		
Common stock	______	
Retained earnings	______	
Total owners' equity		______
Total liabilities and owners' equity		______

7. Record the closing entries on the t-accounts.

KEY

P7.1

1. A. Assets increase, owners' equity increase
   B. Assets increase, assets decrease
   C. Assets increase, assets decrease, liabilities increase
   D. Assets increase, liabilities increase
   E. Assets increase, owners' equity increase
   F. Assets increase, liabilities increase
   G. Assets decrease, owners' equity decrease
   H. Assets decrease, liabilities decrease
   I. Liabilities increase, owners' equity decrease
   J. Assets decrease, owners' equity decrease

2.

A. Cash	100,000	
Common Stock		100,000
B. Prepaid Rent	18,000	
Cash		18,000
C. Office equipment	35,000	
Cash		5,000
Note payable		30,000
D. Office supplies	750	
Accounts payable		750
E. Accounts receivable	4,500	
Fees earned		4,500
F. Cash	1,000	
Unearned fees		1,000
G. Wages expense	1,025	
Cash		1,025
H. Accounts payable	375	
Cash		375
I. Telephone expense	275	
Accounts payable		275
J. Retained earnings	2,000	
Cash		2,000

7.

Closings→

March 31	Fees earned	4,500	
	Retained earnings		4,500
March 31	Retained earnings	1,300	
	Telephone expense		275
	Wages expense		1,025

KENDALL CORPORATION
Income Statement
For the month ended March 31, 2003

Revenue		
Fees earned		4,500
Expenses		
Telephone expense	$275	
Wages expense	1,025	
Total expenses		1,300
Net Income		$3,200

4.

KENDALL CORPORATION
Statement of Cash Flows
For the month ended March 31, 2003

Cash flows from operating activities		
Cash received from customers	$1,000	
Cash paid for rent	(18,000)	
Cash paid to suppliers	(375)	
Cash paid to employees	(1,025)	
Net cash flows		(18,400)
Cash flows from investing activities		
Cash paid for office equipment	(5,000)	
Net cash flows		(5,000)
Cash flows from financing activities		
Cash received from issuing stock	100,000	
Cash paid for dividends	(2,000)	
Net cash flows		98,000
Increase (decrease) in cash flows		$74,600
Cash, March 1, 2003		0
Cash, March 31, 2003		$74,600

5.

Statement of Retained Earnings
For the month ended March 31, 2003

Beginning balance	$0
Add net income	3,200
Less dividends	(2,000)
Ending balance	$1,200

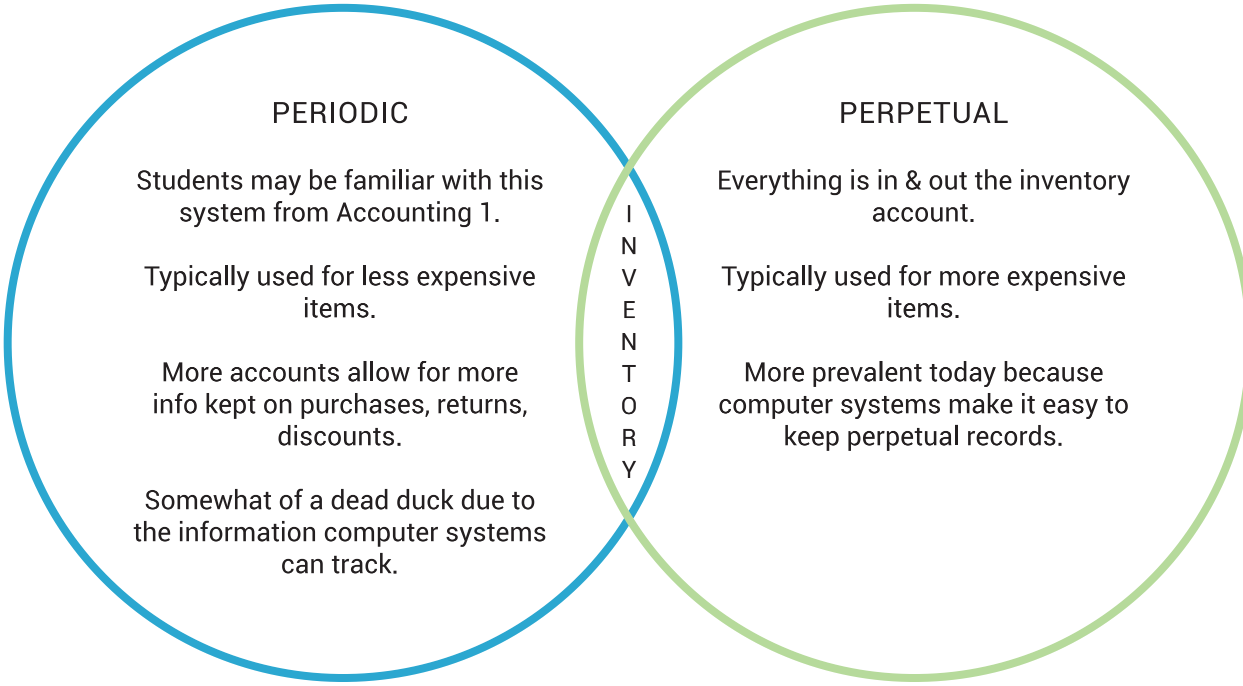
6.

Balance Sheet
March 31, 2003

Assets		
Cash	$74,600	
Accounts receivable	4,500	
Prepaid rent	18,000	
Office supplies	750	
Office equipment	35,000	
Total assets		$132,850
Liabilities		
Accounts payable	$650	
Unearned fees	1,000	
Notes payable	30,000	
Total liabilities		$31,650
Owners' equity		
Common stock	$100,000	
Retained earnings	1,200	
Total owners' equity		101,200
Total liabilities and owners' equity		132,850

Comparison between periodic and perpetual inventory systems:

PERIODIC VS. PERPETUAL INVENTORY SYSTEMS



Chapter 8 - Perpetual vs Periodic; Gross vs Net

Complete the analysis of the following transactions in all four methods: Perpetual, Gross; Periodic, Gross; Perpetual, Net; and Periodic, Net

A. Purchase $1,000 of inventory with terms 2/10, n/30
B. Returned $200 of inventory
C. Paid for inventory within discount period
D. Paid for inventory after discount period

	Perpetual, Gross	Periodic, Gross	Perpetual, Net	Periodic, Net
A.				
B.				
C.				
D.				

Financial statements and the expenditure process

The following information was taken from the accounting records of Trego Farms in 2008. For each of the following determine the amount of cash Trego Farms paid for the item given the data presented below.

A.	Beginning balance Prepaid Insurance	$1,000			
	Ending balance Prepaid Insurance	$1,400			
	Insurance Expense for 2008	$2,000			
B.	Beginning Balance Salaries Payable	$20,000			
	Ending Balance Salaries Payable	$15,000			
	Salaries Expense for 2008	$150,000			
C.	Beginning Balance Supplies	$4,000			
	Ending Balance Supplies	$5,000			
	Supplies Expense for 2008	$2,800			
	Answer:				
A.				Prepaid Insurance	
				beg 1000	
				exp 2,000	cash pd?
				end 1,400	
	Cash paid for insurance by Trego Farms =				
B.				Salaries Payable	
					beg 20,000
				cash pd?	exp150,000
					end 15,000
	Cash paid for salaries by Trego Farms =				
C.				Supplies	
				beg 4,000	
				cash pd?	exp 2,800
				end 5,000	
	Cash paid for supplies by Trego Farms =				

KEY

Chapter 8 - Perpetual vs Periodic; Gross vs Net

Complete the analysis of the following transactions in all four methods: Perpetual, Gross; Periodic, Gross; Perpetual, Net; and Periodic, Net.

A. Purchase $1,000 of inventory with terms 2/10, n/30
B. Returned $200 of inventory
C. Paid for inventory within discount period
D. Paid for inventory after discount period

	Perpetual, Gross	Periodic, Gross	Perpetual, Net	Periodic, Net
A.	Inventory $1,000	Purchases $1,000	Inventory $980	Purchases $980
	A/P $1,000	A/P $1,000	A/P $980	A/P $980
B.	A/P $200	A/P $200	A/P $196	A/P $196
	Inventory $200	Pur. R & A $200	Inventory $196	Purchase R & A $196
C.	A/P $800	A/P $800	A/P $784	A/P $784
	Cash $784	Cash $784	Cash $784	Cash $784
	Inventory $16	Purchase Disc $16		
D.	A/P $800	A/P $800	A/P $784	A/P $784
	Cash $800	Cash $800	Pur Disc. Lost $16	Pur Disc. Lost $16
			Cash $800	Cash $800

Financial statements and the expenditure process

Answer:

A.	Beginning Balance Prepaid Insurance	$1,000
	Add: Cash Paid for Insurance	?
	Total Possible Expense	$?
	Less: Insurance Expense Incurred	2,000
	Ending Balance of Prepaid Insurance	$1,400

Cash paid for insurance by TF $2,000 + $1,400 - $1,000 = **$2,400**

B.	Beginning Balance Salaries Payable	$ 20,000
	Add: Salary Expense Incurred	150,000
	Total Possible Liability	$170,000
	Less: Cash Paid	$?
	Ending Balance of Salaries Payable	$15,000

Cash paid for salaries by TF $20,000 + $150,000 - $15,000 = **$155,000**

C.	Beginning Balance Supplies	$ 4,000
	Add: Cash Paid for Supplies	$?
	Total Possible Expense	$?
	Less: Supplies Expense Incurred	2,800
	Ending Balance of Supplies	$5,000

Cash paid for supplies by TF $5,000 + $2,800 - $4,000 = **$3,800**