Vol. 1, Chapter 1 - Introduction to Accounting

Problem 1

1. I
2. A
3. H
4. F
5. G

Problem 2

1. cost
2. business entity
3. going concern
4. objective evidence
5. full disclosure
6. consistency
7. matching
8. materiality

Problem 3

1. tax accounting
2. auditing
3. cost accounting
4. accounting systems
5. managerial accounting
6. financial accounting

Problem 4

Blair's Catering
Balance Sheet
[date]

ASSETS

Cash	$ 1,000
Accounts Receivable	4,000
Food Supplies	2,000
Prepaid Rent	3,000
Equipment	10,000
Total Assets	$ 20,000

LIABILITIES AND OWNER'S EQUITY

Liabilities	
Accounts Payable	$ 5,000
Owner's Equity	
Blair Douglas, Capital	15,000
Total Liabilities and Owner's Equity	$ 20,000

Problem 5

		A	=	L	+	OE
1.	Increase in assets, increase in liabilities	+$10,000 Furniture		+$10,000 Loan		
2.	Increase in assets, increase in owners' equity	+$5,000 Cash				+$5,000 Capital
3.	Decrease in assets, decrease in liabilities	–$1,000 Cash		–$1,000 Loan		
4.	Increase in assets, increase in liabilities	+$50 Supplies		+$50 Accounts Payable		
5.	Increase in assets, decrease in assets	+$1,500 Computer –$1,500 Cash				

Problem 6

Cody's Place
Income Statement
[date]

Revenues:				
Sales			$45,000	(1)
Expenses:				
Cost of food	$13,500	(2)		
Other expenses	8,000			
Total expenses before taxes			21,500	
Total income before taxes			23,500	
Income tax expense			6,580	(3)
Net Income			$16,920	

(1) 3,000 × $15 = $45,000
(2) $45,000 × .3 = $13,500
(3) $23,500 × .28 = $6,580

Problem 7

Cody's Place
Statement of Cash Flows
[date]

Cash inflows:			
Invested by owner		$ 20,000	
Loan borrowed for equipment		80,000	(1)
Cash sales		40,500	(2)
Total cash inflows		140,500	
Cash outflows:			
Purchased equipment	$100,000		
Payment to suppliers	5,000		
Payment of other expenses	8,000		
Total cash outflows		113,000	
Increase in cash		$ 27,500	

(1) $100,000 – $20,000 = $80,000
(2) $45,000 × .9 = $40,500

Problem 8

	ASSETS					=	LIABILITIES	+	OWNER'S EQUITY
	Cash	+	Guest Supplies	+	Prepaid Rent	=	Accounts Payable	+	D. Kent, Capital
(a)	$ 50,000		–		–	=	–		$ 50,000
(b)	(2,000)		–		2,000		–		–
	48,000	+	–	+	2,000	=	–	+	50,000
(c)	750		–		–		–		750
	48,750	+	–	+	2,000	=	–	+	50,750
(d)	–		300		–		300		–
	48,750	+	300	+	2,000	=	300	+	50,750
(e)	(500)				–		–		(500)
	$ 48,250	+	$ 300	+	$ 2,000	=	$ 300	+	$50,250
					$50,550	=	$50,550		

Problem 9

	ASSETS											=	LIABILITIES	+	OWNER'S EQUITY		
	Cash	+	Operating Supplies	+	Prepaid Insurance	+	Prepaid Rent	+	Equipment	+	Van		Accounts Payable	+	Bank Loan	+	Natalie Ray, Capital
(1)	$50,000	+	$ –	+	$ –	+	$ –	+	$ –	+	$ –	=	$ –		$ –		$ 50,000
(2)	–5,000		–		–		–		–		25,000		–		20,000		–
	45,000	+		+		+		+		+	25,000	=		+	20,000	+	50,000
(3)	–1,000		1,000		–		–		–		–		–		–		–
	44,000	+	1,000	+		+		+		+	25,000	=		+	20,000	+	50,000
(4)	–2,000		–		–		2,000		–		–		–		–		–
	42,000	+	1,000	+		+	2,000	+		+	25,000	=		+	20,000	+	50,000
(5)	–2,000		–		2,000		–		–		–		–		–		–
	40,000	+	1,000	+	2,000	+	2,000	+		+	25,000	=		+	20,000	+	50,000
(6)	–		5,000		–		–		–		–		5,000		–		–
	40,000	+	6,000	+	2,000	+	2,000	+		+	25,000	=	5,000	+	20,000	+	50,000
(7)	–30,000		–		–		–		30,000		–		–		–		–
	$ 10,000	+	$ 6,000	+	$ 2,000	+	$ 2,000	+	$ 30,000	+	$ 25,000	=	$ 5,000	+	$20,000	+	$ 50,000

Problem 10

	ASSETS					=	LIABILITIES		+ OWNER'S EQUITY
	Cash +	Food Inven. +	Bev. Inven. +	Office Supplies +	Delivery Truck	=	Accounts Payable +	Notes Payable, First Auto +	Melvin Dwight, Capital
Beginning	$ 2,500 +	$ 500 +	$ 2,500 +	$ 200 +	$ 2,000	=	$ 500 +	$ 1,500 +	$ 5,700
(A)	500								500
	3,000 +	500 +	2,500 +	200 +	2,000	=	500 +	1,500 +	6,200
(B)		250					250		
	3,000 +	750 +	2,500 +	200 +	2,000	=	750 +	1,500 +	6,200
(C)	110								110
	3,110 +	750 +	2,500 +	200 +	2,000	=	750 +	1,500 +	6,310
(C)		(40)	(15)						(55)
	3,110 +	710 +	2,485 +	200 +	2,000	=	750 +	1,500 +	6,255
(D)	(20)								(20)
	3,090 +	710 +	2,485 +	200 +	2,000	=	750 +	1,500 +	6,235
(E)	(15)								(15)
	3,075 +	710 +	2,485 +	200 +	2,000	=	750 +	1,500 +	6,220
(F)	(450)							(450)	
	2,625 +	710 +	2,485 +	200 +	2,000	=	750 +	1,050 +	6,220
(G)	(300)								(300)
	$ 2,325 +	$ 710 +	$ 2,485 +	$ 200 +	$ 2,000	=	$ 750 +	$ 1,050 +	$ 5,920
					$ 7,720	=	$ 7,720		

Problem 11

Cash	+	Food Inv.	+	Bev. Inv.	+	Office Sup.	+	Del. Truck	=	Accounts Payable, Lawrence	+	Notes Payable First Auto	+	Melvin Dwight, Capital
$2,325		$710		$2,485		$200		$2,000		$750		$1,050		$5,920

M.D.'s Catering
Balance Sheet
December 31, 20X2

ASSETS	
Cash	$ 2,325
Food Inventory	710
Beverage Inventory	2,485
Delivery Truck	200
Office Supplies	2,000
Total Assets	$ 7,720
LIABILITIES AND OWNER'S EQUITY	
Liabilities:	
Notes Payable, First Auto Bank	$ 1,050
Accounts Payable, Lawrence Supply Company	750
Total Liabilities	1,800
Owner's Equity:	
Melvin Dwight, Capital	5,920
Total Liabilities and Owner's Equity	$ 7,720

Problem 12

Spring Valley Motel
Balance Sheet
December 31, 20X5

ASSETS	
Cash	$ 250
Accounts Receivable	300
Inventory	50
Prepaid Insurance	50
Building	5,000
Total Assets	$ 5,650
LIABILITIES AND OWNER'S EQUITY	
Liabilities:	
Accounts Payable	$ 200
Wages Payable	150
Notes Payable	2,500
Total Liabilities	2,850
Owner's Equity:	
Charlie Reps, Capital	2,800
Total Liabilities and Owner's Equity	$ 5,650

Problem 13

Mel's Diner
Income Statement
For the year ended December 31, 20X7

Revenues:		
Food and Beverage Sales		$ 575,000
Expenses:		
Cost of Food	$ 165,000	
Labor	190,000	
General Maintenance	20,000	
Other Operating Expenses	90,000	
Total Expenses		465,000
Net Income		$ 110,000

Problem 14

Nathan Catering
Balance Sheet
January 31, 20X5

ASSETS		
Cash	$ 995	(1)
Accounts Receivable	1,508	(2)
Inventory	2,000	
Total Assets	$ 4,503	
LIABILITIES AND OWNER'S EQUITY		
Liabilities:		
Accounts payable	$ 1,630	(3)
Total Liabilities	1,630	
Owner's Equity:		
Nathan Thom, Capital	2,873	(4)
Total Liabilities and Owner's Equity	$ 4,503	

(1) $1,200 – $120 – $85 = $995
(2) $350 + $200 + $420 + $148 + $390 = $1,508
(3) $950 + $480 + $200 = $1,630
(4) $4,503 – $1,630 = $2,873

Problem 15

1.

The Carlos Inn
Statement of Cash Flows
For the year ended December 31, 20X3

Cash Inflows		
Cash Sales		$ 155,000
Proceeds from Loan		25,000
Total Cash Inflows		180,000
Cash Outflows		
Payment of Wages	$ 60,000	
Purchase of Van	30,000	
Purchase of Supplies	2,000	
Payment of Operating Expenses	45,000	
Payment of Fees	5,000	
Withdrawal of Capital	10,000	
Total Cash Outflows		152,000
Increase in Cash		$ 28,000

2. Students' answers may vary, but the point is to put the money to work for the owners by investing it in some way. For the most part, it will be idle if it sits in the checking account. The Carloses could withdraw more money for themselves. They could invest it in new or upgraded equipment. If they wanted ready access to it and had a low risk tolerance, they could invest in short-term certificates of deposit; on the other hand, if they had a higher risk tolerance, they could invest the surplus in stocks. This option should be exercised with caution, as there are no guarantees that their investment will pay off.