

1-1

APPLICATION PROBLEM

Completing the accounting equation

Instructions:

For each line, fill in the missing amount to complete the accounting equation, using your *Working Papers*.

Assets	=	Liabilities	+	Owner's Equity
90,000		49,000		?
?		68,000		30,000
3,000		?		2,000
108,000		60,000		?
19,000		?		11,000
?		4,000		12,000
25,000		13,000		?
?		113,000		49,000
4,000		?		2,000
86,000		48,000		?
12,000		?		7,000
?		5,000		14,000
47,000		24,000		?
?		29,000		13,000
38,000		?		21,000
125,000		69,000		?
11,000		?		6,000
?		1,000		3,000

1-2

APPLICATION PROBLEM

Determining how transactions change an accounting equation

Frank Mori is starting Mori Repair Shop, a small service business. Mori Repair Shop uses the accounts shown in the following accounting equation. Use the form in your *Working Papers* to complete this problem.

Trans. No.	Assets			=	Liabilities		+	Owner's Equity
	Cash	+ Supplies	+ Prepaid Insurance	=	Accts. Pay.— Swan's Supply Company	+ Accts. Pay.— York Company	+	Frank Mori, Capital
Beg. Bal.	0	0	0		0	0		0
1.	+2,000	0	0					+2,000
New Bal.	2,000	0	0		0	0		2,000
2.								

Transactions:

- Received cash from owner as an investment, \$2,000.00.
- Paid cash for insurance, \$600.00.
- Bought supplies on account from Swan's Supply Company, \$100.00.
- Bought supplies on account from York Company, \$500.00.
- Paid cash on account to Swan's Supply Company, \$100.00.

6. Paid cash on account to York Company, \$300.00.
7. Paid cash for supplies, \$500.00.
8. Received cash from owner as an investment, \$500.00.

Instructions:

For each transaction, complete the following. Transaction 1 is given as an example.

- a. Analyze the transaction to determine which accounts in the accounting equation are affected.
- b. Write the amount in the appropriate columns using a plus (+) if the account increases or a minus (–) if the account decreases.
- c. Calculate the new balance for each account in the accounting equation.
- d. Before going on to the next transaction, determine that the accounting equation is still in balance.

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APPLICATION PROBLEM

Determining how transactions change an accounting equation

Ellie VonSprecken is starting Ellie's Computer Repair, a small service business. Ellie's Computer Repair uses the accounts shown in the following accounting equation. Use the form in your *Working Papers* to complete this problem.

Trans. No.	Assets			=	Liabilities		+ Owner's Equity
	Cash	+ Supplies	+ Prepaid Insurance	=	Accts. Pay.— Seiler Supply	+ Accts. Pay.— Miles Company	+ Ellie Von Sprecken, Capital
Beg. Bal. 1.	0 +3,000	0	0		0	0	0 +3,000
New Bal. 2.	3,000	0	0		0	0	3,000

Transactions:

1. The owner invested \$3,000.00 cash in the business.
2. Paid \$1,200.00 for insurance for the next year.
3. Purchased supplies from Seiler Supply for \$800.00 on account.
4. Purchased \$500.00 of supplies from Miles Company. Agreed to pay Miles next month for these supplies.
5. Paid \$400.00 to Seiler Supply on account.
6. Ellie VonSprecken invested an additional \$1,000.00 in the business.

Instructions:

For each transaction, complete the following. Transaction 1 is given as an example.

- a. Analyze the transaction to determine which accounts in the accounting equation are affected.
- b. Write the amount in the appropriate columns using a plus (+) if the account increases or a minus (–) if the account decreases.
- c. Calculate the new balance for each account in the accounting equation.
- d. Before going on to the next transaction, determine that the accounting equation is still in balance.

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APPLICATION PROBLEM**Determining where items are listed on a balance sheet**

Use the form in your *Working Papers* to complete this problem.

1	2	3
Items	Balance Sheet	
	Left Side	Right Side
1. Cash	Asset	

Instructions:

Classify each item as an asset, liability, or owner's equity. Write the classification in Column 2 or 3 to show where each item is listed on a balance sheet. Item 1 is given as an example.

- Cash
- Michelle Sullivan, Capital
- Supplies
- Prepaid Insurance
- Accounts Payable—Action Laundry
- Anything owned
- Any amount owed
- Owner's capital account

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APPLICATION PROBLEM**Preparing a balance sheet from information in an accounting equation**

On September 30 the Steffens Company's accounting equation indicated the following account balances.

Trans. No.	Assets			=	Liabilities	+	Owner's Equity		
	Cash	+	Supplies	+	Prepaid Insurance	=	Accts. Pay.— Morton Company	+	Steven Steffens, Capital
New Bal. (Sept. 30)	1,200		150		300		250		1,400

Instructions:

Using the September 30 balance in the accounting equation, prepare a balance sheet for the Steffens Company. A form is given in the *Working Papers*.

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MASTERY PROBLEM**Determining how transactions change an accounting equation and preparing a balance sheet**

Nancy Dirks is starting Dirks Company, a small service business. Dirks Company uses the accounts shown in the following accounting equation. Use the form in your *Working Papers* to complete this problem.

Trans. No.	Assets			=	Liabilities	+ Owner's Equity
	Cash	+ Supplies	+ Prepaid Insurance	=	Accts. Pay.— Helfrey Company	+ Nancy Dirks, Capital
New Bal. 1.	0 +350	0	0		0	0 +350
New Bal. 2.	350	0	0		0	350

Transactions:

1. Received cash from owner as an investment, \$350.00.
2. Bought supplies on account from Helfrey Company, \$100.00.
3. Paid cash for insurance, \$150.00.
4. Paid cash for supplies, \$50.00.
5. Received cash from owner as an investment, \$300.00.
6. Paid cash on account to Helfrey Company, \$75.00.

Instructions:

1. For each transaction, complete the following. Transaction 1 is given as an example.
 - a. Analyze the transaction to determine which accounts in the accounting equation are affected.
 - b. Write the amount in the appropriate columns, using a plus (+) if the account increases or a minus (–) if the account decreases.
 - c. Calculate the new balance for each account in the accounting equation.
 - d. Before going on to the next transaction, determine that the accounting equation is still in balance.
2. Using the final balances in the accounting equation, prepare a balance sheet for Dirks Company. Use July 31 of the current year as the date of the balance sheet.

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CHALLENGE PROBLEM

Applying accounting concepts to determine how transactions change the accounting equation

Morgan Delivery Service, a new business owned by Gregory Morgan, uses the accounts shown in the following accounting equation. Use the form in your *Working Papers* to complete this problem.

Trans. No.	Assets			=	Liabilities		+ Owner's Equity
	Cash	+ Supplies	+ Prepaid Insurance	=	Accts. Pay.— Mutual Savings Bank	+ Accts. Pay.— Nelson Supply Co.	+ Gregory Morgan, Capital
Beg. Bal. 1.	0 +1,500	0	0		0	0	0 +1,500
New Bal. 2.	1,500	0	0		0	0	1,500

Transactions:

1. Owner invested cash, \$1,500.00.
2. Bought supplies for cash, \$400.00.

3. Paid cash for insurance, \$240.00.
4. Supplies were bought on account from Nelson Supply Company, \$80.00.
5. The owner, Gregory Morgan, paid \$1,000.00 of his personal cash to Mutual Savings Bank for the car payment on his personal car.
6. Wrote a check for supplies. The supplies were bought from a Canadian company. The supplies cost \$120.00 in Canadian dollars, which is equivalent to \$100.00 in United States dollars.
7. The owner, Gregory Morgan, used \$300.00 of his personal cash to buy supplies for the business.

Instructions:

For each transaction, complete the following. Transaction 1 is given as an example.

- a. Analyze the transaction to determine which business accounts in the accounting equation, if any, are affected. You will need to apply the Business Entity and Unit of Measurement concepts in this problem.
- b. If business accounts are affected, determine the appropriate amount of the change. Write the amount in the appropriate columns, using a plus (+) if the account increases or a minus (−) if the account decreases.
- c. Calculate the new balance for each account in the accounting equation.
- d. Before going on to the next transaction, determine that the accounting equation is still in balance.



INTERNET ACTIVITY

Point your browser to

<http://accounting.swpco.com>

Choose **First-Year Course**, choose **Activities**, and complete the activity for Chapter 1.

Applied Communication

Since reports are valuable communication tools used to make decisions, they must be clearly written.

Instructions: The following paragraph is part of a report. Use a dictionary to check the spelling of any words you think may be misspelled. Use a thesaurus to replace the underlined words with better choices.

Because communication is such an important device in life today, ocasionally we need to sharpen our communication skills. To be most effective, reports need to make every word count and every sentence donate to the intention of the report.

Cases for Critical Thinking

Case 1 James Patton starts a new business. Mr. Patton uses his personal car in the business with the expectation that later the business can buy a car. All expenses for operating the car, including license plates, gasoline, oil, tune-ups, and new tires, are paid for out of business funds. Is this an acceptable procedure? Explain.

Case 2 At the end of the first day of business, Quick Clean Laundry has the assets and liabilities shown below:

The owner, Susan Whiteford, wants to know the amount of her equity in Quick Clean Laundry. Determine this amount and explain what this amount represents.

Assets		Liabilities	
Cash	\$3,500.00	A/P—Smith Office Supplies	\$ 750.00
Supplies	950.00	A/P—Super Supplies Company	1,500.00
Prepaid Insurance	1,200.00		