

## Chapter 2 Analyzing Transactions: The Accounting Equation

True / False

1. A business entity is an individual, association, or organization with control over economic resources and which engages in economic activities.

- a. True
- b. False

ANSWER: True

2. Liabilities represent an "inside" interest in a business.

- a. True
- b. False

ANSWER: False

3. The accounting equation shows the relationship among the three basic accounting elements—assets, expenses, and owner's equity.

- a. True
- b. False

ANSWER: False

4. If owner's equity and liabilities increased during the period, then assets must also have increased.

- a. True
- b. False

ANSWER: True

5. An accounts payable is an unwritten promise to pay a supplier for assets purchased or services rendered.

- a. True
- b. False

ANSWER: True

6. If the revenue of a period exceeds the expenses, the excess represents a net loss.

- a. True
- b. False

ANSWER: False

7. Liabilities are listed on the balance sheet from least current to most current.

- a. True
- b. False

- a. True
- b. False

ANSWER: False

8. Revenues received during an accounting period increase owner's equity.

- a. True
- b. False

ANSWER: True

## Chapter 2 Analyzing Transactions: The Accounting Equation

9. Because supplies last for several months, they are recorded as assets.

a. True

b. False

a. True

b. False

ANSWER: True

10. Because insurance lasts for several months, it is recorded as owner's equity.

a. True

b. False

a. True

b. False

ANSWER: False

11. The income statement provides information about events over a period of a month, year, or other period of time.

a. True

b. False

ANSWER: True

12. The terms "profit and loss statement" or "operating statement" are sometimes used as synonyms for the balance sheet.

a. True

b. False

ANSWER: False

13. Other terms used for owner's equity include net worth and capital.

a. True

b. False

ANSWER: True

14. Any item a business owns that will provide future benefits is called owner's equity.

a. True

b. False

ANSWER: False

15. It is not necessary to measure a business transaction in dollars.

a. True

b. False

ANSWER: False

16. The accounting equation may be expressed as assets – liabilities = owner's equity.

a. True

b. False

ANSWER: True

## Chapter 2 Analyzing Transactions: The Accounting Equation

17. According to the business entity concept, a proprietor may include nonbusiness assets and liabilities in the business entity's accounting records.

- a. True
- b. False

ANSWER: False

18. Recognizing the effects of transactions on assets, liabilities, owner's equity, revenue, and expenses of a business is the processing function.

- a. True
- b. False

ANSWER: True

19. Expenses represent a decrease in liabilities.

- a. True
- b. False

ANSWER: False

20. Expenses that are incurred in operating the enterprise increase owner's equity.

- a. True
- b. False

ANSWER: False

21. Withdrawing cash from a business entity will result in an increase in owner's equity.

- a. True
- b. False

ANSWER: False

22. An increase in a revenue account may also result in an increase in the accounts receivable account.

- a. True
- b. False

ANSWER: True

23. Financial statements commonly prepared by businesses include an income statement, a statement of owner's equity, and a balance sheet.

- a. True
- b. False

ANSWER: True

24. The statement of owner's equity shows the state of the business on a specific date.

- a. True
- b. False

ANSWER: False

25. The balance sheet reports assets, liabilities, and owner's equity on a specific date.

- a. True

## Chapter 2 Analyzing Transactions: The Accounting Equation

b. False

ANSWER: True

26. The income statement and statement of owner's equity provide information covering a period of time.

a. True

b. False

ANSWER: True

### Multiple Choice

27. The accounting equation may be expressed as

a. owner's equity = assets – liabilities.

b. revenue – expenses = net income.

c. revenue = net income – expenses.

d. liabilities – owner's equity = assets.

ANSWER: a

28. Jason purchased office equipment for \$4,800 in cash. This transaction would

a. increase assets and increase owner's equity.

b. increase assets and increase liabilities.

c. increase one asset and decrease another asset.

d. decrease assets and decrease liabilities.

ANSWER: c

29. Stephen purchased office supplies for \$800 on account. This transaction would

a. increase assets and increase owner's equity.

b. increase one asset and decrease another asset.

c. increase assets and increase liabilities.

d. decrease assets and decrease liabilities.

ANSWER: c

30. Meghan started her business by investing \$30,000 in cash. This transaction would

a. increase assets and increase owner's equity.

b. increase assets and increase liabilities.

c. increase one asset and decrease another asset.

d. decrease assets and decrease liabilities.

ANSWER: a

31. Any accounting period of twelve months' duration is usually referred to as a(n)

a. fiscal year.

b. calendar year.

c. physical year.

d. operational year.

ANSWER: a

## Chapter 2 Analyzing Transactions: The Accounting Equation

32. Increases to owner's equity may be from
- expenses that are incurred.
  - expenses exceeding revenue for the period.
  - withdrawals of cash from the business by the owner.
  - revenue that is derived from sales of goods or services.

ANSWER: d

33. Tyler paid \$3,700 on account to the company from which equipment was purchased on credit. This transaction would
- decrease assets and decrease liabilities.
  - increase assets and increase owner's equity.
  - increase assets and increase liabilities.
  - increase one asset and decrease another asset.

ANSWER: a

34. An example of an expense is
- investments.
  - supplies consumed.
  - prepaid insurance.
  - withdrawals by the owner.

ANSWER: b

35. A decrease in owner's equity may result from a(n)
- purchase of office supplies for cash.
  - withdrawal of cash from the business by the owner.
  - revenue that is derived from sales of goods or services.
  - investment of cash in the business by the owner.

ANSWER: b

36. Identifying accounts and classifying accounts is part of which phase in the accounting process?
- input
  - processing
  - output
  - summarizing

ANSWER: b

37. Business transactions are part of which phase in the accounting process?
- processing
  - output
  - summarizing
  - input

ANSWER: d

38. Falana received \$7,000 in cash from a client for professional services rendered. This transaction would

## Chapter 2 Analyzing Transactions: The Accounting Equation

- a. increase assets and increase owner's equity.
- b. decrease assets and increase owner's equity.
- c. increase liabilities and decrease owner's equity.
- d. decrease assets and decrease owner's equity.

ANSWER: a

39. The financial statement that shows the state of the firm's assets, liabilities, and owner's equity on a specific date is called a(n)

- a. balance sheet.
- b. statement of operations.
- c. statement of owner's equity.
- d. income statement.

ANSWER: a

40. Sue Lee paid \$1,200 for her employees' salaries. This transaction would

- a. increase assets and decrease owner's equity.
- b. increase assets and increase liabilities.
- c. decrease assets and decrease liabilities.
- d. decrease assets and decrease owner's equity.

ANSWER: d

### Completion

41. Most businesses recognize \_\_\_\_\_ when earned, even if cash has not yet been received.

ANSWER: revenue

42. \_\_\_\_\_ represent the decrease in assets (or increase in liabilities) as a result of efforts made to produce revenues.

ANSWER: Expenses

43. The \_\_\_\_\_, sometimes called the profit and loss statement, reports the profitability of business operations for a specific period of time.

ANSWER: income statement

44. \_\_\_\_\_ represent the amount a business charges customers for products sold or services performed.

ANSWER: Revenues

45. The relationship between the three basic accounting elements: \_\_\_\_\_, \_\_\_\_\_, and \_\_\_\_\_, can be expressed in the form of a simple equation known as the accounting equation.

ANSWER: assets, liabilities, owner's equity  
assets, owner's equity, liabilities  
liabilities, assets, owner's equity  
liabilities, owner's equity, assets  
owner's equity, assets, liabilities  
owner's equity, liabilities, assets

## Chapter 2 Analyzing Transactions: The Accounting Equation

46. \_\_\_\_\_ represent probable future benefits.

ANSWER: Assets

47. A(n) \_\_\_\_\_ is an unwritten promise to pay a supplier for assets purchased or services received.

ANSWER: accounts payable

48. The report which shows a firm's assets, liabilities, and owner's equity as of a specific date is called the \_\_\_\_\_.

ANSWER: balance sheet

49. The \_\_\_\_\_ reports the investments and withdrawals by the owner, the profits and losses generated through operations, and how they have affected the capital account.

ANSWER: statement of owner's equity

50. A(n) \_\_\_\_\_ is a reduction in owner's equity as a result of the owner taking cash or other assets out of the business for personal use.

ANSWER: withdrawal

51. \_\_\_\_\_ is the amount by which business assets exceed the business liabilities.

ANSWER: Owner's equity

52. Amounts owed to the business by its customers are called \_\_\_\_\_.

ANSWER: accounts receivable

53. A(n) \_\_\_\_\_ is an economic event that has a direct impact on the business.

ANSWER: business transaction

54. A(n) \_\_\_\_\_ is a separate record used to summarize changes in assets, liabilities, and owner's equity of a business.

ANSWER: account

55. According to the \_\_\_\_\_, nonbusiness assets and liabilities are not included in the business entity's accounting records.

ANSWER: business entity concept

56. In the accounting process, the financial statements are the \_\_\_\_\_.

ANSWER: output

### Matching

*Match the terms with the definitions.*

- a. account
- b. accounts payable
- c. accounts receivable
- d. accounting equation
- e. assets
- f. balance sheet

## Chapter 2 Analyzing Transactions: The Accounting Equation

- g. business entity
- h. business entity concept
- i. business transaction
- j. drawing
- k. expenses
- l. income statement
- m. liability
- n. net income
- o. net loss
- p. notes payable
- q. owner's equity
- r. revenues
- s. statement of owner's equity

57. The amount by which the business assets exceed the business liabilities.

ANSWER: q

58. Reports assets, liabilities, and owner's equity on a specific date.

ANSWER: f

59. Withdrawals that reduce owner's equity as a result of the owner taking cash or other assets out of the business for personal use.

ANSWER: j

60. The decrease in assets (or increase in liabilities) as a result of efforts to produce revenues.

ANSWER: k

61. A formal written promise to pay a supplier or lender a specified sum of money at a definite future time.

ANSWER: p

62. The excess of total revenues over total expenses for the period.

ANSWER: n

63. Reports the profitability of business operations for a specific period of time.

ANSWER: l

64. Reports beginning capital, plus net income, less withdrawals to compute ending capital.

ANSWER: s

65. An economic event that has a direct impact on the business.

ANSWER: i

66. The concept that nonbusiness assets and liabilities are not included in the business' accounting records.

ANSWER: h

67. Consists of the three basic accounting elements:  $\text{assets} = \text{liabilities} + \text{owner's equity}$ .



## Chapter 2 Analyzing Transactions: The Accounting Equation

ANSWER: d

68. Items a business owns that will provide future benefits.

ANSWER: e

69. An unwritten promise to pay a supplier for assets purchased or services rendered.

ANSWER: b

70. A separate record used to summarize changes in each asset, liability, and owner's equity of a business.

ANSWER: a

71. An amount owed to a business by its customers as a result of the sale of goods or services.

ANSWER: c

72. An individual, association, or organization that engages in economic activities and controls specific economic resources.

ANSWER: g

### Subjective Short Answer

73. Match the letter corresponding to one of the basic elements of accounting to each of the accounts below.

A = Asset

L = Liability

OE = Owner's Equity

R = Revenue

E = Expense

- |                        |       |
|------------------------|-------|
| 1. Utility Expense     | _____ |
| 2. Accounts Payable    | _____ |
| 3. Prepaid Rent        | _____ |
| 4. Supplies            | _____ |
| 5. P. Coyote, Drawing  | _____ |
| 6. Wages Expense       | _____ |
| 7. P. Coyote, Capital  | _____ |
| 8. Cash                | _____ |
| 9. Advertising Expense | _____ |
| 10. Fees Earned        | _____ |

ANSWER: 1. E  
2. L  
3. A  
4. A  
5. OE  
6. E  
7. OE  
8. A  
9. E  
10. R

## Chapter 2 Analyzing Transactions: The Accounting Equation

74. Show the effect of each transaction on the three basic accounting elements by indicating the dollar amount of the increase or decrease under the proper element heading. Compute the resulting accounting equation.

- Owner invested \$16,500 cash in the business.
- Paid premium for two-year insurance policy, \$1,500.
- Purchased a van valued at \$35,000 with \$5,000 down payment; the balance to be paid over three years.
- Paid the rent for the month, \$900.
- Purchased \$470 of supplies for cash.
- Cash sales for the month, \$8,750.
- Billed credit customers \$14,200 for monthly services.
- Paid monthly utility bill, \$210.
- Owner withdrew \$2,200 for personal use.
- Received payments of \$3,300 from credit customers.

	ASSETS					=	>				
	Cash	+	Accounts Rec.	+	Supplies	+	Prepaid Ins.	+	Van	=	>
a.	_____		_____		_____		_____		_____		>
b.	_____		_____		_____		_____		_____		>
c.	_____		_____		_____		_____		_____		>
d.	_____		_____		_____		_____		_____		>
e.	_____		_____		_____		_____		_____		>
f.	_____		_____		_____		_____		_____		>
g.	_____		_____		_____		_____		_____		>
h.	_____		_____		_____		_____		_____		>
i.	_____		_____		_____		_____		_____		>
j.	_____		_____		_____		_____		_____		>
	_____		_____		_____		_____		_____		>

	<	LIAB.	+	OWNER'S EQUITY						
	<	Accounts Payable	+	Capital	-	Drawing	+	Revenues	-	Expenses
a.	<	_____		_____		_____		_____		_____
b.	<	_____		_____		_____		_____		_____
c.	<	_____		_____		_____		_____		_____
d.	<	_____		_____		_____		_____		_____
e.	<	_____		_____		_____		_____		_____
f.	<	_____		_____		_____		_____		_____
g.	<	_____		_____		_____		_____		_____
h.	<	_____		_____		_____		_____		_____
i.	<	_____		_____		_____		_____		_____
j.	<	_____		_____		_____		_____		_____
	<	_____		_____		_____		_____		_____

### PROOF

Cash	_____	Notes Payable	_____
Accounts Receivable	_____	Capital	_____
Supplies	_____	Drawing	_____
Prepaid Insurance	_____	Revenues	_____
Van	_____	Expenses	_____

Chapter 2 Analyzing Transactions: The Accounting Equation

ANSWER:

		ASSETS					=	>		
Cash	+	Accounts Rec.	+	Supplies	+	Prepaid Ins.	+	Van	=	>
a. 16,500										>
b. (1,500)						1,500				>
c. (5,000)								35,000		>
d. (900)										>
e. (470)				470						>
f. 8,750										>
g.		14,200								>
h. (210)										>
i. (2,200)										>
j. <u>3,300</u>		<u>(3,300)</u>								>
		<u>18,270</u>		<u>470</u>		<u>1,500</u>		<u>35,000</u>		>

		LIAB.	+	OWNER'S EQUITY				
Accounts Payable	+	Capital	-	Drawing	+	Revenues	-	Expenses
				16,500				
		30,000						
							900	
						8,750		
						14,200		
								210
					2,200			
		<u>30,000</u>		<u>16,500</u>		<u>22,950</u>		<u>1,110</u>

**PROOF**

Cash	\$18,270	Notes Payable	\$30,000
Accounts Receivable	10,900	Capital	16,500
Supplies	470	Drawing	(2,200)
Prepaid Insurance	1,500	Revenues	22,950
Van	<u>35,000</u>	Expenses	<u>(1,110)</u>
Total Assets	<u>\$66,140</u>	Total Liabilities and Owner's Equity	<u>\$66,140</u>

75. Show the effects of each transaction on the accounting equation by indicating under the proper heading the dollar amount of increase or decrease for each transaction listed below. Compute the resulting accounting equation.

- a. Owner deposited \$20,000 in his new business checking account.
- b. Supplies were purchased for \$300 on account.
- c. Paid a \$1,200 premium for six months of liability insurance.
- d. Purchased supplies for \$200 cash.
- e. Purchased equipment for \$4,000 by paying \$1,000; the rest to be paid in six months.

## Chapter 2 Analyzing Transactions: The Accounting Equation

- f. Paid the \$300 bill outstanding (from transaction b).
- g. Owner withdrew \$700 from the business for personal use.

ASSETS				=	LIAB.	+	OWNER'S EQUITY						
Cash	+	Supp.	+	Prep. Insur.	+	Equip	=	Accts. Pay.	+	Capital	-	Drawing	
a.	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	
b.	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	
c.	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	
d.	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	
e.	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	
f.	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	
g.	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	
_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	_____	
<b>ANSWER:</b>					<b>ASSETS</b>				<b>=</b>	<b>LIAB. + OWNER'S EQUITY</b>			
	<b>Cash</b>	<b>+</b>	<b>Supp.</b>	<b>+</b>	<b>Prep. Insur.</b>	<b>+</b>	<b>Equip</b>	<b>=</b>	<b>Accts. Pay.</b>	<b>+</b>	<b>Capital</b>	<b>-</b>	<b>Drawing</b>
a.	20,000										20,000		
b.			300						300				
c.	(1,200)				1,200								
d.	(200)		200										
e.	(1,000)						4,000		3,000				
f.	(300)								(300)				
g.	(700)												700
	<u>16,600</u>		<u>500</u>		<u>1,200</u>		<u>4,000</u>		<u>3,000</u>		<u>20,000</u>		<u>700</u>

**PROOF**

Cash	16,600	Accounts Payable	3,000
Supplies	500	Capital	20,000
Prepaid Insurance	1,200	Drawing	(700)
Equipment	<u>4,000</u>		
	<u>22,300</u>		<u>22,300</u>

76. Madame Shira began a fortune telling business on May 1. The following transactions occurred:

1. Owner Madame Shira invested \$5,000 cash in the business.
2. Purchased \$2,000 of furniture with a down payment of \$500; the rest by issuing an account payable to be paid in three monthly installments.
3. Paid \$700 rent.
4. Purchased a crystal ball for \$300.
5. Paid \$1,700 for a 12-month insurance policy.
6. During the first month received \$2,500 from cash customers.
7. Sent billings of \$2,000 for services rendered to credit customers.
8. Paid assistant \$1,500 wages for the month.
9. Received \$600 in payments from credit customers.
10. Borrowed \$3,200 by signing a note.
11. Made a \$500 payment on the furniture bill (from transaction 2).
12. Owner withdrew \$300 cash for personal use.
13. Paid bills for advertising \$60, utilities \$39, and repairs \$52.

**Required:**

### Chapter 2 Analyzing Transactions: The Accounting Equation

1. Enter the above transactions in an accounting equation work sheet.
2. Prepare an income statement for Madame Shira for the month of May.
3. Prepare a statement of owner's equity for the month of May.

Assets										
Item	Cash	+	Furniture	+	Crystal Ball	+	Accounts Receivable	+	Prepaid Insurance	=
1.										
2.										
3.										
4.										
5.										
6.										
7.										
8.										
9.										
10.										
11.										
12.										
13.										

Liabilities + Owner's Equity												
Item	Accounts Payable	+	Notes Payable	+	Shira, Capital	-	Shira, Drawing	+	Revenues	-	Expenses	Descripti
1.												
2.												
3.												
4.												
5.												
6.												
7.												
8.												
9.												
10.												
11.												
12.												
13.												

ANSWER: 1.

**ASSETS** **= LIABILITIES** >  
 Crysta Account      Prepai Account      Notes >

Chapter 2 Analyzing Transactions: The Accounting Equation

	Cash	+	Furniture	+	Land	+	Accounts	+	Equipment	=	Accounts	+	Payables	
							Receivable				Payable			
1.	5,000													>
2.	(500)		2,000								1,500			>
3.	(700)													>
4.	(300)				300									>
5.	(1,700)								1,700					>
6.	2,500													>
7.							2,000							>
8.	(1,500)													>
9.	600						(600)							>
10	3,200												3,200	>
.														>
11	(500)										(500)			>
.														>
12	(300)													>
.														>
13	(60)													>
.														>
	(39)													>
	<u>(52)</u>													>
	<u>5,649</u>		<u>2,000</u>		<u>300</u>		<u>1,400</u>		<u>1,700</u>		<u>1,000</u>		<u>3,200</u>	>

+ OWNER'S EQUITY					
	Shira, Capital	- Shira, Drawing	+ Revenues	- Expenses	Desc.
<	5,000				
<					
<				700	Rent
<					
<			2,500		
<			2,000		
<				1,500	Wages
<					
<		300			
<				60	Advertising
<				39	Utilities
<				<u>52</u>	Repairs
<	<u>5,000</u>	<u>300</u>	<u>4,500</u>	<u>2,351</u>	

2. **Madame Shira Fortune Telling  
Income Statement  
For Month Ended May 31, 20--**

Revenues:  
Fortune telling fees \$4,500

Chapter 2 Analyzing Transactions: The Accounting Equation

Expenses:		
Rent expense	\$ 700	
Wages expense	1,500	
Advertising expense	60	
Utilities expense	39	
Repairs expense	<u>52</u>	
Total expenses		<u>2,351</u>
Net income		<u>\$2,149</u>

3.

**Madame Shira Fortune Telling  
Statement of Owner's Equity  
For Month Ended May 31, 20--**

Madame Shira, capital May 1, 20--		\$ 0
Investment by owner		5,000
Net income for May	\$2,149	
Less withdrawals for May	<u>300</u>	
Increase in capital		<u>1,849</u>
Madame Shira, capital May 31, 20--		<u>\$6,849</u>

77. From the following list of accounts, prepare an income statement, statement of owner's equity, and balance sheet for the year ended or at December 31, 20--, for Milner's Star Express Cleaning Service.

Cash	\$ 2,026
Fees Earned	13,835
Accounts Payable	7,530
D. Milner, Capital January 1, 20--	6,000
D. Milner, Drawing	1,750
Utilities Expense	153
Prepaid Insurance	1,216
Rent Expense	1,200
Accounts Receivable	4,080
Equipment	15,290
Wages Expense	1,650

ANSWER:

**Milner's Star Express Cleaning Service  
Income Statement  
For the Year Ended December 31, 20--**

Revenues:		
Fees earned		\$13,835
Expenses:		
Utilities expense	\$ 153	
Rent expense	1,200	
Wages expense	<u>1,650</u>	
Total expenses		<u>3,003</u>
Net income		<u>\$10,832</u>

**Milner's Star Express Cleaning Service  
Statement of Owner's Equity  
For the Year Ended December 31, 20--**

D. Milner, capital January 1, 20--		\$ 6,000
Net income for the year	\$10,832	

Chapter 2 Analyzing Transactions: The Accounting Equation

Less withdrawals for the year	<u>1,750</u>	
Increase in capital		<u>9,082</u>
D. Milner, capital December 31, 20--		<u>\$15,082</u>

**Milner's Star Express Cleaning Service  
Balance Sheet  
December 31, 20--**

Assets		Liabilities	
Cash	\$ 2,026	Accounts payable	\$ 7,530
Accounts receivable	4,080		
Prepaid insurance	1,216	Owner's Equity	
Equipment	<u>15,290</u>	D. Milner, capital	<u>15,082</u>
Total assets	<u>\$22,612</u>	Total liab. & owner's equity	<u>\$22,612</u>

78. From the following list of accounts, prepare an income statement, statement of owner's equity, and balance sheet for the year ended or at December 31, 20--, for J. Carr's Delivery Service.

Cash	\$11,450
Accounts Payable	4,450
Fees Earned	41,500
J. Carr, Capital January 1, 20--	14,500
J. Carr, Drawing	7,000
Office Supplies	250
Rent Expense	10,000
Accounts Receivable	7,000
Equipment	6,000
Wages Expense	14,000
Repairs Expense	250
Furniture	4,500

ANSWER:

**J. Carr's Delivery Service  
Income Statement  
For the Year Ended December 31, 20--**

Revenues:		
Fees earned		\$41,500
Expenses:		
Rent expense	\$10,000	
Wages expense	14,000	
Repairs expense	<u>250</u>	
Total expenses		<u>24,250</u>
Net income		<u>\$17,250</u>

**J. Carr's Delivery Service  
Statement of Owner's Equity  
For the Year Ended December 31, 20--**

J. Carr, capital January 1, 20--		\$14,500
Net income for the year	\$17,250	
Less withdrawals for the year	<u>7,000</u>	
Increase in capital		<u>10,250</u>
J. Carr, capital December 31, 20--		<u>\$24,750</u>

**J. Carr's Delivery Service**



Chapter 2 Analyzing Transactions: The Accounting Equation

		<b>Balance Sheet</b>	
		<b>December 31, 20--</b>	
<b>Assets</b>		<b>Liabilities</b>	
Cash	\$11,450	Accounts Payable	\$ 4,450
Accounts receivable	7,000		
Office supplies	250		
Equipment	6,000	<b>Owner's Equity</b>	
Furniture	<u>4,500</u>	J. Carr, capital	<u>24,750</u>
Total assets	<u>\$29,200</u>	Total liab. & owner's equity	<u>\$29,200</u>

79. Dr. Etana Jenson is a podiatrist. As of December 31, Jenson owned the following assets related to the professional practice:

Cash	\$6,600	X-ray Equipment	\$9,000
Office Equipment	3,500	Laboratory Equipment	3,000

As of that date, Jenson owed business suppliers as follows:

Top Flight Office Equipment Co.	\$3,000
Dunhill Medical Supplies Company	1,000
Island Gas Company	2,200

**Required:**

- a. Compute the amount of assets, liabilities, and owners' equity as of December 31.

Assets = Liabilities + Owner's Equity

- b. \_\_\_\_\_ Assuming that during January there is an increase of \$4,600 in Dr. Jenson's business assets and an increase of \$2,500 in the business liabilities, compute the resulting equation as of January 31.

- c. \_\_\_\_\_ Assuming that during February there is a decrease of \$1,500 in assets and a decrease of \$1,200 in liabilities, compute the resulting accounting equation as of February 28.

<b>ANSWER:</b>	<b>Assets</b>	=	<b>Liabilities</b>	+	<b>Owner's Equity</b>
a.	\$22,100	=	\$6,200	+	\$15,900
b.	\$26,700	=	\$8,700	+	\$18,000
c.	\$25,200	=	\$7,500	+	\$17,700

80. Kristin Holden started her own consulting business in July, 20--. During the first month, the following transactions occurred:

- a. Owner invested \$12,000 cash in the business.
- b. Purchased office equipment for \$7,500 cash.

### Chapter 2 Analyzing Transactions: The Accounting Equation

- c. Purchased computer equipment costing \$11,500 on account.
- d. Paid \$1,100 office rent for the month.
- e. Received \$1,700 cash from a client for services rendered.
- f. Paid water bill for the month, \$170.
- g. Paid \$2,400 on account for computer equipment purchased in transaction (c).
- h. Paid the electric bill for the month, \$200.

**Required:**

Record the effects of these transactions in an accounting equation worksheet.

		<b>ASSETS</b>					<b>= LIABILITIES</b>		
	<b>Cash</b>	+	<b>Office Equip.</b>	+	<b>Computer Equip.</b>	=	<b>Accounts Payable</b>	+	<b>K. Holden, Capital</b>
a.	_____		_____		_____		_____		_____
Bal.	_____		_____		_____		_____		_____
b.	_____		_____		_____		_____		_____
Bal.	_____		_____		_____		_____		_____
c.	_____		_____		_____		_____		_____
Bal.	_____		_____		_____		_____		_____
d.	_____		_____		_____		_____		_____
Bal.	_____		_____		_____		_____		_____
e.	_____		_____		_____		_____		_____
Bal.	_____		_____		_____		_____		_____
f.	_____		_____		_____		_____		_____
Bal.	_____		_____		_____		_____		_____
g.	_____		_____		_____		_____		_____
Bal.	_____		_____		_____		_____		_____
h.	_____		_____		_____		_____		_____
Bal.	_____		_____		_____		_____		_____
< +									
<b>OWNER'S EQUITY</b>									
<		+	<b>Client Fees</b>		-	<b>Rent Expense</b>		-	<b>Utilities Expense</b>
<	a.		_____			_____			_____
<	Bal.		_____			_____			_____
<	b.		_____			_____			_____
<	Bal.		_____			_____			_____
<	c.		_____			_____			_____
<	Bal.		_____			_____			_____
<	d.		_____			_____			_____
<	Bal.		_____			_____			_____
<	e.		_____			_____			_____
<	Bal.		_____			_____			_____
<	f.		_____			_____			_____
<	Bal.		_____			_____			_____
<	g.		_____			_____			_____
<	Bal.		_____			_____			_____
<	h.		_____			_____			_____
<	Bal.		_____			_____			_____
<b>ANSWER:</b>									
					<b>ASSETS</b>				<b>= LIABILITIES</b>

Chapter 2 Analyzing Transactions: The Accounting Equation

	<b>Cash</b>	+	<b>Office Equip.</b>	+	<b>Computer Equip.</b>	=	<b>Accounts Payable</b>	+	<b>K. Holden, Capital</b>	>
a.	<u>12,000</u>								<u>12,000</u>	>
Bal.	12,000								12,000	>
b.	<u>(7,500)</u>		<u>7,500</u>							>
Bal.	4,500		7,500						12,000	>
c.					<u>11,500</u>		<u>11,500</u>			>
Bal.	4,500		7,500		11,500		11,500		12,000	>
d.	<u>(1,100)</u>									>
Bal.	3,400		7,500		11,500		11,500		12,000	>
e.	<u>1,700</u>									>
Bal.	5,100		7,500		11,500		11,500		12,000	>
f.	<u>(170)</u>									>
Bal.	4,930		7,500		11,500		11,500		12,000	>
g.	<u>(2,400)</u>						<u>(2,400)</u>			>
Bal.	2,530		7,500		11,500		9,100		12,000	>
h.	<u>(200)</u>									>
Bal.	<u>2,330</u>		<u>7,500</u>		<u>11,500</u>		<u>9,100</u>		<u>12,000</u>	>

		+	<b>OWNER'S EQUITY</b>				
		+	<b>Client Fees</b>	-	<b>Rent Expense</b>	-	<b>Utilities Expense</b>
<	a.						
<	Bal.				<u>1,100</u>		
<	b.						
<	Bal.				1,100		
<	c.						
<	Bal.						
<	d.						
<	Bal.						
<	e.		<u>1,700</u>				
<	Bal.		1,700		1,100		
<	f.						<u>170</u>
<	Bal.		1,700		1,100		170
<	g.						
<	Bal.		1,700		1,100		170
<	h.						<u>200</u>
<	Bal.		<u>1,700</u>		<u>1,100</u>		<u>370</u>