

P1-44B (L. OBJ. 9, 10) Preparing financial statements and evaluating business performance [20–30 min]

Accent Photography works weddings and prom-type parties. The balance of capital was \$20,000 at December 31, 2010. At December 31, 2011, the business's accounting records show these balances:

Insurance expense	\$ 8,000	Accounts receivable	\$ 10,000
Cash	31,000	Note payable	12,000
Accounts payable	6,000	Owner's equity	?
Advertising expense	1,000	Salary expense	27,000
Service revenue	81,000	Equipment	60,000
Owner withdrawals	15,000	Owner investment	33,000

Requirement

- Prepare the following financial statements for Accent Photography for the year ended December 31, 2011:
 - Income statement
 - Statement of owner's equity
 - Balance sheet

P1-45B (L. OBJ. 9, 10) Preparing financial statements and evaluating business performance [10–30 min]

The bookkeeper of Lone Star Landscaping prepared the company's balance sheet while the accountant was ill. The balance sheet contains numerous errors. In particular, the bookkeeper knew that the balance sheet should balance, so he plugged in the owner's equity amount needed to achieve this balance. The owner's equity is incorrect. All other amounts are right, but some are out of place.

LONE STAR LANDSCAPING			
Balance Sheet			
Month Ended May 31, 2007			
Assets		Liabilities	
Cash	\$ 5,500	Accounts receivable	\$ 2,500
Office supplies	900	Capital	12,000
Land	35,300	Service revenue	39,300
Salary expense	2,700	Property tax expense	1,600
Office furniture	6,200	Accounts payable	2,300
Note payable	2,800		
Rent expense	400		
		Owner's Equity	
		Walt Temple, Capital	16,100
Total assets	\$ 73,800	Total liabilities	\$ 73,800

Requirements

- Prepare a corrected balance sheet.
- Consider the original balance sheet as presented and the corrected balance sheet you prepared for requirement 1.
- Did total assets as presented in your corrected balance sheet increase, decrease, or stay the same from the original balance sheet? Why?

2. Post the transactions to the T-accounts, using transaction dates as posting references in the ledger accounts. Label the balance of each account *Bal*, as shown in the chapter.

P2-46B (L. OBJ. 2, 3, 4, 5) **Analyzing and journalizing transactions, posting, and preparing a trial balance [45–60 min]**

Warren Smith practices medicine under the business title Warren Smith, M.D. During April, the medical practice completed the following transactions:

- | | |
|-------|--|
| Apr 1 | Smith deposited \$78,000 cash in the business bank account. The business gave capital to Smith. |
| 5 | Paid monthly rent on medical equipment, \$780. |
| 9 | Paid \$18,000 cash to purchase land for an office site. |
| 10 | Purchased supplies on account, \$1,200. |
| 19 | Borrowed \$20,000 from the bank for business use. Smith signed a note payable to the bank in the name of the business. |
| 22 | Paid \$800 on account. |
| 30 | Revenues earned during the month included \$5,900 cash and \$4,900 on account. |
| 30 | Paid employees' salaries \$2,000, office rent \$1,800, and utilities \$420. Make a single compound entry. |
| 30 | Owner withdrew \$9,000. |

The business uses the following accounts: Cash; Accounts receivable; Supplies; Land; Accounts payable; Notes payable; Warren Smith, Capital; Warren Smith, Withdrawals; Service revenue; Salary expense; Rent expense; Utilities expense.

Requirements

1. Journalize each transaction, as shown for April 1. Explanations are not required.

Apr 1	Cash	78,000	
	Warren Smith, Capital		78,000

2. Post the transactions to the T-accounts, using transaction dates as posting references in the ledger accounts. Label the balance of each account *Bal*, as shown in the chapter.
3. Prepare the trial balance of Warren Smith, M.D., at April 30, 2010.