SITUATION-TYPE PROBLEMS FOR USE IN
ELEMENTARY ACCOUNTING

APPROVED:

Horace Brock
Major Professor

D. N. Shelton
Minor Professor

O. C. Currie
Dean of the School of Business Administration

Robert B. Toulouse
Dean of the Graduate School
SITUATION-TYPE PROBLEMS FOR USE IN
ELEMENTARY ACCOUNTING

THESIS

Presented to the Graduate Council of the
North Texas State College in Partial
Fulfillment of the Requirements

For the Degree of

MASTER OF BUSINESS ADMINISTRATION

By

Porter Wyatt Henderson, Jr., B. B. A.

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CHAPTER I

INTRODUCTION

"Accounting is the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events, which are, in part at least, of a financial character, and interpreting the results thereof."¹

This definition of accounting brings into focus the all-inclusiveness of the field of accounting and the four main operations of recording, classifying, summarizing, and interpreting. Accounting, as defined, is an art and as such is not learned easily by all persons. The art of accounting is difficult to teach for it is an art and its usefulness is not always clearly seen by the person attempting to learn the art.

Statement of the Problem

The problem of this study is to develop a series of "situation-type" problems to be used in the teaching of the first course in elementary accounting at North Texas State College. The solutions for the problems were prepared contemporaneously with the problems to save the instructor's time when the problems are used.

¹American Institute of Accountants, Committee on Terminology, Accounting Terminology Bulletins Number 1 Review and Resume (New York, 1953), p. 9.
Purpose of the Study

The purpose of this study is to provide a series of "situation-type" problems to be used in the teaching of the first course in elementary accounting at North Texas State College. These problems are to include the phases of accounting of theory and principles in addition to the recording and classifying.

The need for this study arises from the fact that all persons seeking a degree in Business Administration at North Texas State College must complete the first course in elementary accounting. These persons have diverse interests, and many are definitely not interested in accounting as a major field or profession. The first course in elementary accounting does not have the interest of all the students, and many students are unable to see where this "... recording, classifying, summarizing... and interpreting..." is going to help them in their futures. This same idea has been expressed by leaders in the field of accounting education. Frederick E. Horn of Columbia University wrote:

Our foremost authorities in the field of accounting still have in many respects the bad habit of

\[\text{\textsuperscript{2}}\text{North Texas State College, Bulletin of North Texas State College, Number 273, 1956-1957, Denton, Texas, North Texas State College, 1956.}\]


\[\text{\textsuperscript{4}}\text{AIA, op. cit.}\]
thinking of accounting as primarily a bookkeeping device. As a result, we, the educators in accounting, have directed our energies toward teaching "the art of recording, classifying, and summarizing" and have forgotten the more important aspect of "interpreting the results thereof." Tradition, or call it heritage, and our own inertia have made us slaves of the "balance-sheet approach." Along the way we have lost the most important element—the managerial approach to accounting.

On the other hand, we have had the non-accounting major return and tell us that he wishes he could have taken more accounting theory and principles with less emphasis on bookkeeping techniques since he hardly ever sees or touches the records.\(^5\)

The inclusion of theory, principles, and management in elementary accounting problems is one of the facets of making problems more interesting and factual to the students. Bowers states "that the courses would develop basic ways of thought which can be used profitably in later learning, learning on the job, rather than drill in the use of certain highly particular techniques."\(^6\)

The desire expressed by Bowers is that the "thinking" be developed, and the drilling be lessened. This study has lessened the drilling and attempted to increase thought by the student.

A student is usually pressed for time and does not like repetitious work. It has a tendency to make him bored with a course. Bowers believes that the student should be presented with "various 'total problems,'" but situations which


\(^6\) Bowers, op. cit., p. 296.
are devoid of needless time consuming features, needless repetition, and yet which have the appeal of being recognizable as actual business situations."  

The problem material in this study attempts to bring principles into the solution instead of only routine bookkeeping techniques. According to accounting educators this is desirable.

The purpose of this study is to present problems which will aid in the learning and teaching of accounting. The need for this study can be seen by comparing three problems from current textbooks and a problem from this study.

**Problem from Textbook I**

2-3. On December 31 the assets and liabilities of Paul Marshall were as follows:

- Accounts Payable $2,060
- Accounts Receivable 4,620
- Buildings 10,000
- Cash 3,410
- Furniture and Fixtures 3,500
- Land 1,500
- Merchandise Inventory 10,540
- Mortgage Payable (due Feb. 1, 1961) 5,000
- Salaries Payable 600
- Supplies 1,130
- Supplies Payable 550

At the beginning of the year, Mr. Marshall's capital had been $22,090. On August 1 he invested an additional $2,100 cash in the business, and during the entire year he made weekly withdrawals of $100. As a result of operations for the year, the business earned a net profit of $7,500.

**Instructions:** (1) Prepare a classified balance sheet in account form as of December 31 of the current year.

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7 Ibid., p. 297.
8 Ibid., p. 296.
(2) Prepare a statement of proprietor's capital for the year ended December 31.9

Problem from Textbook II

5-3. Following is the trial balance of the Green Meadow Golf Club at the end of the year 19--:

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$21,000</td>
</tr>
<tr>
<td>Dues Receivable from Members</td>
<td>5,000</td>
</tr>
<tr>
<td>Caddy and Locker House</td>
<td>10,000</td>
</tr>
<tr>
<td>Main Building</td>
<td>30,000</td>
</tr>
<tr>
<td>Miscellaneous Equipment</td>
<td>12,000</td>
</tr>
<tr>
<td>Cost of Construction of Golf Course</td>
<td>45,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$1,000</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>10,000</td>
</tr>
<tr>
<td>John C. Miller, Capital</td>
<td>100,000</td>
</tr>
<tr>
<td>Income from Dues</td>
<td>50,000</td>
</tr>
<tr>
<td>Income from Green Fees, Locker Rents, etc.</td>
<td>15,000</td>
</tr>
<tr>
<td>Maintenance Expense</td>
<td>6,000</td>
</tr>
<tr>
<td>General Expense</td>
<td>20,000</td>
</tr>
<tr>
<td>Wages and Salaries</td>
<td>24,000</td>
</tr>
<tr>
<td>Property Taxes</td>
<td>2,000</td>
</tr>
<tr>
<td>Interest Expense</td>
<td>1,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$176,000</strong></td>
</tr>
</tbody>
</table>

Required
1. Statement of income for the year ended December 31, 19--.
2. Balance sheet, December 31, 19--.10

Problem from Textbook III

3-3. The following accounts and account balances were taken from the ledger of the Corner Grocery Store after all adjustments from December 31, 1955, were made.

---


(The accounts are arranged alphabetically only for the purpose of giving the student practice in classifying accounts.)

Accounts payable... $4,000 Notes receivable... $500
Accounts receivable... 3,500 Office equipment... 600
Building... 17,000 Office supplies... 35
Cash... 2,500 Prepaid insurance... 60
Delivery equipment... 1,500 Prepaid interest... 15
Interest payable... 50 Rent received in
James Tucker, capital 24,110 advance... 90
Land... 3,000 Store equipment... 2,900
Merchandise inventory 8,500 Store supplies... 80
Mortgage payable... 10,000 Taxes payable... 260
Notes payable... 1,000 Wages payable... 180

Required
1. Prepare a classified balance sheet for the Corner Grocery Store.\(^{11}\)

Problem from this study

Mr. Louis Jones operates a laundry in Denton, Texas. The laundry is the type that allows the customers to come in and use its machines to do their washing. His business was started in 1948, and the facilities consist of twenty machines and six driers. By rearranging the machines in the building, Mr. Jones can place ten more machines in his business. He thinks that putting in these machines is necessary for his business has increased very rapidly. Some of his customers are forced to wait over an hour for machines. Mr. Jones recently had illness in his family and is short of cash. He wants to borrow enough money to install the additional machines and calls on his banker. The banker asks for Mr. Jones' balance sheet so that he may determine the total amount of property that Mr. Jones has and how many debts he has. Mr. Jones' property on June 1, 1957, consists of:

Cash... $1,525.30
Accounts receivable... 3,447.25
Laundry supplies... 145.36
Office supplies... 17.21
Prepaid insurance... 130.60

\(^{11}\)William W. Pyle, Fundamental Accounting Principles, (Homewood, 1953), p. 47:
<table>
<thead>
<tr>
<th>Asset</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivery truck</td>
<td>2,748.60</td>
</tr>
<tr>
<td>Land</td>
<td>2,000.00</td>
</tr>
<tr>
<td>Building</td>
<td>21,047.29</td>
</tr>
<tr>
<td>Washing machines</td>
<td>7,000.00</td>
</tr>
<tr>
<td>Driers</td>
<td>1,807.24</td>
</tr>
<tr>
<td>Clothes baskets</td>
<td>327.94</td>
</tr>
<tr>
<td>Office machines</td>
<td>806.27</td>
</tr>
</tbody>
</table>

Mr. Jones' debts are:

- Notes payable: $5,043.87
- Accounts payable: $1,764.23
- Unearned income: $743.00

Mr. Jones' interest in the business or his rights to the property are to be called Louis Jones, Capital.

Prepare Mr. Jones' balance sheet in proper report form for him to take to his banker. His banker will use the balance sheet to determine whether or not a loan will be granted. Compute the working capital and current ratio for the banker's use in making his decision.

Would you, as the banker, extend credit to Mr. Jones for expansion of his business? (See p. 13 of this study.)

The situation-type problem calling for theory, principles, and thought is a very different approach from that used in current textbook problems.

Delimitations

This study is limited to the preparation of problems for the first course in elementary accounting at North Texas State College. Therefore, the problem material covers the material presented in chapters one through sixteen of Accounting Principles, sixth edition, by Howard S. Noble and C. Rollin Niswonger. 13

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12 See p. 13 of this study.
13 Howard S. Noble and C. Rollin Niswonger, op. cit., p. 32.
Definitions

A first course in elementary accounting is the first course in accounting that is taken by a student at North Texas State College. The course number for this course at North Texas State College is Business Administration 137.14

A "situation-type" problem is one which develops a background of an actual business in order to create interest in the problem and integrate theory, principles, management, and thought.

Method of Procedures

After the problem was selected for study, material in business fields other than accounting was read to obtain background information for the problems. Six textbooks for elementary accounting were reviewed for ideas on presentation.15, 16, 17, 18, 19, 20 Accounting Principles, sixth edition, by Howard S. Noble and C. Rollin Niswonger,21 the textbook used

14North Texas State College, op. cit., p. 187.
16Johnson, op. cit., p. 69.
18Noble, op. cit.
19Pyle, op. cit., p. 47.
20John Arch White and Marcus H. Bean, Elementary Accounting, fourth edition (Boston, 1955).
21Noble, op. cit.
at North Texas State College, was used as a pattern for the problems. This text was used so that the problems will coincide with the chapters as they are taught.

The tentative problems were written and submitted to H. R. Brock, C. L. Littlefield, Kenneth Cox, and Tom Rose for criticism. Revisions were made and questions were added to the problems to aid the student in his understanding.

Solutions were made for the problems and are presented in Appendix A.

Related Studies

No studies were found which were directly related to this study since the problems are of the "situation-type". Problems are furnished with textbooks; however, since textbooks are not usually classified as research, they are not included as studies related to this study.

Treatment of Data

Chapter I is an introduction to this study and shows the need for the study. The problems developed for use in the first course of elementary accounting are shown in Chapter II. Chapter III is the summary of the thesis.
CHAPTER II

"SITUATION-TYPE" PROBLEMS FOR THE FIRST COURSE
IN ELEMENTARY ACCOUNTING AT NORTH
TEXAS STATE COLLEGE

The "situation-type" problems developed in this study are presented in this chapter. The problems follow the sequence of the chapters in Accounting Principles, sixth edition, by Howard S. Noble and C. Rollin Niswonger.\footnote{1} The chapter number indicates the chapter in the textbook with which the problem is to be used. The problem number indicates the problem number within each chapter. The problem numbers in this study have no relationship to the problem numbers in the textbook used as a basis for this study.\footnote{2}

Chapter 1, Problem 1

Mr. Jack Jones owns a lot in downtown Denton, Texas. It is strategically located, and there is a shortage of parking spaces on the streets. Mr. Jones decides to turn this lot into a parking lot. The lot has a cost of $3,000, and Mr. Jones is also going to put $3,000 cash into the business. In recording the transactions for Mr. Jones, you are to illustrate the accounting equation by using the expanded

\footnote{1}{Ibid.} \footnote{2}{Ibid.}
accounting equation shown here. Record the transactions.

\[
\text{ASSETS} = \text{LIABILITIES} + \text{PROPRIETORSHIP}
\]
\[
\text{Cash} + \text{Lot} + \text{Equipment} = \frac{\text{Acme Print Shop}}{\text{Jack Jones}}
\]

The transactions which have taken place in January, 1957, are:

a. Invested cash of $3,000

b. Put lot into the business. Lot cost $3,000.

c. Purchased a time clock to record the length of time the cars park for $210 cash.

d. Purchased time tags from Acme Print Shop on account, $75.

e. Hired John Slack to operate the parking lot from 6 a.m. to 3 p.m. Hired Bill Johnson to operate the lot from 3 p.m. until midnight.

f. Paid salaries for one-half month, $150.

g. Revenues from the parking lot for one-half month received in cash, $680.

h. Paid property taxes for the month, $10.

i. Paid Acme Print Shop account in full.

j. Paid salaries for one-half month, $150.

k. Revenues from the parking lot for one-half month received in cash, $825.

l. Purchased handbills for advertising from Acme Print Shop for $75. Paid $50 in cash.

m. Withdrew $350 from the business for personal living expenses.

What was the increase in capital for the month of January? What was the profit for the month of January? Does Mr. Jones need written records to aid him in his business? Explain.
Chapter 1, Problem 2

Mrs. Lena Moore opens a flower shop in Bridgeport, Texas, on April 1, 1957. She rents a building for $100 per month and purchases a delivery truck and a stock of flowers. She also contributes cash to the business to operate on. She has had no experience in accounting and has called on you to help her understand the basic equation of accounting by using the transactions of her business for the first month. For illustrating the transactions listed, use the expanded accounting equation shown here.

\[
\text{ASSETS} \quad = \quad \text{LIABILITIES} \quad + \quad \text{PROPRIETORSHIP}
\]

\[
\text{Cash} + \text{Merchandise} + \text{Truck} \quad = \quad \text{Flower Supply Co.} \quad + \quad \text{Lena Moore}
\]

1957
April

1 Mrs. Moore deposited $5,250 in the bank for the use of the flower shop which is to be called Moore’s Flower Shop.

2 Mrs. Moore purchased flowers for $1,630 from Flower Supply Co., paying $410 cash.

4 Mrs. Moore purchased a second-hand delivery truck for $1,125 cash.

8 Total cash sales for the week ended April 7 were $1,260. The flowers sold had cost $1,008.

8 Paid delivery truck driver’s salary of $40.

10 Purchased flowers at a cost of $680 cash.

11 Paid telephone bill of $6.

15 Paid delivery truck driver for week, $40.

15 Paid rent for the month of April, 1957.

15 Sales for the week ended April 14 were $1,000. The merchandise had cost $800.
16 Mrs. Moore withdrew $200 for her personal use.

17 Mrs. Moore paid the balance owed to the Flower Supply Co.

20 Mrs. Moore purchased flowers on account from Flower Supply Co. at a total cost of $1,484.

22 Paid delivery truck driver's salary for week ended April 22, $40.

22 Sales for cash totaled $1,600. The merchandise had cost $1,280.

27 Paid balance to Flower Supply Co.

28 Purchased flowers for cash, $1,800.

29 Paid gasoline bill, $64.

30 Paid delivery truck driver for the week ended April 29, $40.

30 Sales for the week totaled $500. The flowers had cost $400.

30 Paid for truck repairs, $37.

What is the basic accounting equation? Describe the effect of sales and expenses on proprietorship.

Chapter 2, Problem 1

Mr. Louis Jones operates a laundry in Denton, Texas.

The laundry is the type that allows the customers to come in and use the machines to do their washing. His business was started in 1948, and the facilities consist of twenty machines and six driers. By rearranging the machines in the building, Mr. Jones can place ten more machines in his business. He thinks that putting in these machines is necessary for his business has increased very rapidly. Some of his customers
are forced to wait over an hour for machines. Mr. Jones recently had illness in his family and is short of cash. He wants to borrow enough money to install the additional machines and calls on his banker. The banker asks for Mr. Jones’ balance sheet so that he may determine the total amount of property that Mr. Jones has and how many debts he has. Mr. Jones’ property on June 1, 1957, consists of:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$6,525.30</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>3,447.25</td>
</tr>
<tr>
<td>Laundry supplies</td>
<td>145.36</td>
</tr>
<tr>
<td>Office supplies</td>
<td>47.21</td>
</tr>
<tr>
<td>Prepaid insurance</td>
<td>130.60</td>
</tr>
<tr>
<td>Delivery truck</td>
<td>2,748.60</td>
</tr>
<tr>
<td>Land</td>
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<tr>
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<td>327.94</td>
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<td>806.27</td>
</tr>
</tbody>
</table>

Mr. Jones’ debts are:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes payable</td>
<td>$5,043.87</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>1,764.23</td>
</tr>
<tr>
<td>Unearned income</td>
<td>74.30</td>
</tr>
</tbody>
</table>

Mr. Jones’ interest in the business or his rights to the property are to be called Louis Jones, Capital.

Prepare Mr. Jones’ balance sheet in proper report form for him to take to his banker. His banker will use the balance sheet to determine whether or not a loan will be granted. Compute the working capital and current ratio for the banker’s use in making his decision.

Would you, as the banker, extend credit to Mr. Jones for expansion of his business?
Chapter 2, Problem 2

Mr. Joe Williams is a financial planner. He has an agency contract with an insurance company. His job is to plan the financial futures of his clients. He calls on many different clients and some of the clients come to his office. He invested $3,000 in his business when he started it on January 1, 1957. He has made no financial statement during the year and has no record of income other than the information kept for the insurance company he represents. At the end of the year Mr. Williams realizes that he should know if he has increased or decreased his capital during this period of one year. Mr. Williams is interested in knowing if he made a profit or a loss in the year. Mr. Williams' capital on December 31, 1957, is $8,000. In the assumed situations below determine the profit or loss for the period. Show the computations in good form.

a. Additional investment of $4,000 on December 31, 1957.

b. Additional investment of $1,000 on January 31, 1957.

c. Additional investment of $3,000 on March 1, 1957, and withdrawals of $1,000 on July 30, 1957.

d. No additional investments or withdrawals.

e. Withdrawals of $7,000 on July 1, 1957.

f. Additional investment of $6,000 on August 1, 1957, and withdrawals of $500 on December 15, 1957.

What can be determined by analysis of the changes in proprietorship? Are these findings important to Mr. Williams? Why?
Chapter 3, Problem 1

Business men hope to operate their businesses in ways that will enable them to increase their proprietorships or rights of ownership in the business. At all times a business man wants to know how his operations are progressing, and the items affecting the progress. Mr. Jacob Reddin operates a dry cleaning business near North Texas State College called Reddin Cleaners. Mr. Reddin wants to know how his operations have increased or decreased his proprietorship. Mr. Reddin can tell by examining his balance sheet that his capital has changed, but only by using a profit and loss statement (income statement) can he ascertain how the operations have affected the proprietorship. On December 31, 1957, Mr. Reddin wants to know if it will be wise and profitable for him to remain in business. If he does remain in the dry cleaning business, he wants to know how he may increase his profits. Prepare a profit and loss statement for Reddin Cleaners for the year ended December 31, 1957.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cleaning fluid</td>
<td>$982</td>
</tr>
<tr>
<td>Coat hangers</td>
<td>120</td>
</tr>
<tr>
<td>Delivery expense</td>
<td>612</td>
</tr>
<tr>
<td>Office supplies</td>
<td>165</td>
</tr>
<tr>
<td>Rent</td>
<td>1,800</td>
</tr>
<tr>
<td>Salaries</td>
<td>5,724</td>
</tr>
<tr>
<td>Sales</td>
<td>18,741</td>
</tr>
<tr>
<td>Taxes</td>
<td>264</td>
</tr>
<tr>
<td>Telephone</td>
<td>72</td>
</tr>
<tr>
<td>Utilities</td>
<td>189</td>
</tr>
</tbody>
</table>

Is the net income shown by a profit and loss statement the only important figure shown by the profit and loss statement? Explain.
Chapter 3, Problem 2

The proprietor of a business is interested in knowing whether or not his business operations have yielded an increase in his proprietorship. The Statement of Income of a business shows the results of the operations in the past period and the items which made up the operations of the business. The business man can analyze the Income Statement and compare it with those of the past and those of other businesses of the same type. Mr. Lewis Glenn operates the Lewis Appliance Company which sells appliances such as television sets, radios, washers, driers, refrigerators and freezers. Mr. Glenn is very interested in knowing what the results of the operations of the year ended December 31, 1957, are so that he may plan his 1958 operations for a better profit. Competition has increased greatly in 1957, and Mr. Glenn is worried about profit shrinkage. Provide Mr. Glenn with a statement of income for the year ended December 31, 1957.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$214,289</td>
</tr>
<tr>
<td>Purchases</td>
<td>163,243</td>
</tr>
<tr>
<td>Freight in</td>
<td>2,432</td>
</tr>
<tr>
<td>Miscellaneous general expense</td>
<td>542</td>
</tr>
<tr>
<td>Sales commissions</td>
<td>5,689</td>
</tr>
<tr>
<td>Sales salaries</td>
<td>10,281</td>
</tr>
<tr>
<td>Office salaries</td>
<td>5,435</td>
</tr>
<tr>
<td>Insurance expense--general</td>
<td>254</td>
</tr>
<tr>
<td>Taxes expense</td>
<td>1,537</td>
</tr>
<tr>
<td>Office supplies expense</td>
<td>424</td>
</tr>
<tr>
<td>Miscellaneous selling expense</td>
<td>819</td>
</tr>
<tr>
<td>Advertising expense</td>
<td>2,843</td>
</tr>
<tr>
<td>Store supplies expense</td>
<td>168</td>
</tr>
<tr>
<td>Insurance expense--selling</td>
<td>1,542</td>
</tr>
<tr>
<td>Merchandise inventory</td>
<td></td>
</tr>
<tr>
<td>December 31, 1957</td>
<td>38,941</td>
</tr>
<tr>
<td>January 1, 1957</td>
<td>36,424</td>
</tr>
</tbody>
</table>
To what use can Mr. Glenn put his income statement?

Chapter 4, Problem 1

Mr. James Priddy opens a pest exterminating company called Ex-Pesto. He wants to have financial statements ready for his use at the end of an accounting period and wants to do the record keeping as the days go by.

Behind the financial statements of the business are many transactions which have taken place since the last financial statements were made. The job of gathering all of the data necessary for financial statements at one time would be extremely large. To gather the information, he can record the transactions in accounts which are records of individual items shown in the financial statements. At the end of one accounting period Mr. Priddy can prove the recording of his transactions by the use of a trial balance. Record Mr. Priddy's transactions for April, 1957, in accounts (T-Accounts) and provide a trial balance at April 30, 1957. Use the following titles for your T-Accounts.

Cash
Accounts Receivable
Office Supplies
Truck
Exterminating Equipment
Chemicals
Prepaid Insurance
Notes Payable
Accounts Payable

James Priddy, Capital
James Priddy, Drawings
Sales
Rent Expense
Salary Expense
Gasoline and Oil
Taxes
Miscellaneous Expense

Transactions:

a. Mr. James Priddy invested $20,000 cash.

b. Purchased truck for $1,875. Paid cash $1,075, and note payable due April 1, 1958 for $800.
c. Purchased chemical on account, $3,100

d. Paid rent for April, $80

e. Purchased exterminating equipment for $835 cash.


g. Paid salary for week ended April 7, $135.

h. Mr. Priddy withdrew $150 for personal use.

i. Paid taxes on truck, $31.

j. Purchased a one-year insurance policy on the truck for $63.

k. Purchased office supplies on account for $87.


m. Collected on accounts, $385.

n. Purchased gasoline and oil for two weeks, $89 cash.

o. Paid on account, $2,400.


r. Mr. Priddy withdrew $160 for personal use.

s. Paid salaries for week ending April 23, $240.

t. Paid on account, $474.

u. Received on account, $347.


w. Purchased gasoline and oil for $101 cash.

x. Paid $28 cash for miscellaneous items of expense.

y. Paid salaries April 24-30, $341.

z. Paid $420 on notes payable.

Why does Mr. Priddy use accounts in his record keeping?
Chapter 5, Problem 1

Mr. Jake Sheffield, who owns and operates a management consulting business, has transactions in his business each day which require more description than can be recorded in the accounts. Mr. Sheffield needs additional information for future use in billing his clients and for reference pertaining to the happenings in the transactions. To record this additional information, Mr. Sheffield uses an intermediate record between the actual transaction and the ledger account. This record is a journal. A two-column general journal is to be used to record transactions for Mr. Sheffield. After journalizing the transactions, the transactions are posted to the accounts to summarize the data which has been recorded. Journalize, post, and provide a trial balance on May 30, 1957.

Mr. Sheffield's trial balance on May 1, 1957, is below and is to be entered in T-Accounts.

Jake Sheffield
Trial Balance
May 1, 1957

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$4,800</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>3,900</td>
</tr>
<tr>
<td>Office supplies</td>
<td>205</td>
</tr>
<tr>
<td>Prepaid insurance</td>
<td>194</td>
</tr>
<tr>
<td>Automobile</td>
<td>2,495</td>
</tr>
<tr>
<td>Office equipment</td>
<td>850</td>
</tr>
<tr>
<td>Notes payable</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td></td>
</tr>
<tr>
<td>Jake Sheffield, capital</td>
<td>7,675</td>
</tr>
<tr>
<td>Jake Sheffield, drawing</td>
<td>1,500</td>
</tr>
<tr>
<td>Consulting fees</td>
<td></td>
</tr>
<tr>
<td>Salaries expense</td>
<td>5,400</td>
</tr>
<tr>
<td>Advertising expense</td>
<td>600</td>
</tr>
<tr>
<td>Rent expense</td>
<td>400</td>
</tr>
<tr>
<td>Miscellaneous expense</td>
<td>31</td>
</tr>
</tbody>
</table>

\[20,375\] \[20,375\]
1957
May

1 Paid rent, $100.
2 Paid note payable, $200.
4 Received on account, $1,850.
5 Purchased postage stamps, $25.
7 Paid cash for advertising in local paper, $110.
10 Purchased typewriter on account, $184.
15 Billed client for services rendered, $2,325.
18 Paid insurance for three years on office equipment, $360.
20 Received on account, $1,825.
21 Paid accounts payable, $1,184.
24 Withdrew $100 for personal use.
28 Mr. Sheffield invested $2,000 in the business to purchase another automobile.
29 Purchased new automobile for $3,000.
31 Paid salaries for May, $1,400.
31 Received $975 for consulting fees not billed to customers.

Why does Mr. Sheffield use a journal in his business?

Chapter 5, Problem 2

Mr. Eddie Gilmore operates Crow's Auto Rental Service which opened for business January 1, 1957. In an auto rental service, just as in any business, accurate records must be kept in order to determine the profitability of the business. Many of the transactions in Mr. Gilmore's business are cash
transactions. Since there are a great number of cash transactions in Mr. Gilmore's business, he uses a journal that will allow him to eliminate much of the posting that would be needed if only a two column general journal were used. He uses a four column general journal with special columns for cash debit and cash credit. The trial balance of Crow's Auto Rental Service on June 1, 1957, is below. Enter the balances in T-Accounts. Journalize the transactions for June and provide a trial balance on June 30, 1957.

**Crow's Auto Rental Service**

**Trial Balance**

**June 1, 1957**

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$4,740</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>720</td>
</tr>
<tr>
<td>Office supplies</td>
<td>165</td>
</tr>
<tr>
<td>Prepaid insurance</td>
<td>800</td>
</tr>
<tr>
<td>Automobiles</td>
<td>10,005</td>
</tr>
<tr>
<td>Office equipment</td>
<td>464</td>
</tr>
<tr>
<td>Shop equipment</td>
<td>1,224</td>
</tr>
<tr>
<td>Accounts payable</td>
<td></td>
</tr>
<tr>
<td>Notes payable</td>
<td>2,500</td>
</tr>
<tr>
<td>Eddie Gilmore, capital</td>
<td>13,317</td>
</tr>
<tr>
<td>Eddie Gilmore, drawings</td>
<td>1,000</td>
</tr>
<tr>
<td>Rental income</td>
<td>5,500</td>
</tr>
<tr>
<td>Salary expense</td>
<td>750</td>
</tr>
<tr>
<td>Gasoline and oil expense</td>
<td>1,219</td>
</tr>
<tr>
<td>Rent expense</td>
<td>250</td>
</tr>
<tr>
<td>Repairs expense</td>
<td>128</td>
</tr>
<tr>
<td>Advertising expense</td>
<td>249</td>
</tr>
<tr>
<td>Miscellaneous expense</td>
<td>97</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$21,811</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$21,811</strong></td>
</tr>
</tbody>
</table>

1957

**June**

1 Paid rent for June, $50.

3 Collected $400 on account.

3 Purchased office supplies on account, $21.

4 Paid for repairs on automobile, $35.
5 Paid $150 on note payable.

6 Purchased office equipment for cash, $112.

7 Rental income June 1-7. On account, $38. Cash, $416.

7 Paid salary for week, $50.

7 Paid for gasoline purchased during week, $21.

10 Paid local newspaper $80 for advertising.

11 Purchased miscellaneous items on account, $16.

13 Received $110 on account.

14 Purchased repairs for $10 cash.

15 Paid $51 on account.

15 Rental income for June 8-15. On account, $55. Cash, $381.

15 Paid salary for week, $50.

15 Paid for gasoline purchased during week, $37.

16 Received $47 on account.

18 Paid Acme Insurance Company for an insurance policy, $120.

19 Purchased office supplies on account, $11.

20 Miscellaneous expenses paid in cash, $9.


22 Paid salary for week, $50.

23 Paid for gasoline and oil purchased during the week, $16.

23 Received $46 on account.

26 Paid $20 to local newspaper for advertising.


30 Paid salary for week, $50.

30 Paid for gasoline and oil for week, $31.
30 Paid repair bill of $4.
30 Received $70 on account.
30 Mr. Gilmore withdrew $200 for his personal use.

What kind of journal would you recommend for a business whose accounts did not have equal activity? Explain. What did Mr. Gilmore do in his business? Why?

Chapter 6, Problem 1

Miss Jean Dickson is an excellent secretary and operates J-D Secretarial Service. Her firm provides secretarial services for several firms in Dallas, Texas. The clients know that when a secretary is needed that they can rely on J-D Secretarial Service to provide a well-trained and efficient secretary. At the end of January, 1957, Miss Dickson wants to know if she has made a profit or loss and if there are ways to improve the financial operations of her business. She has kept a general journal and general ledger. The trial balance from Miss Dickson's ledger on January 31, 1957, is below.

J-D Secretarial Service
Trial Balance
January 31, 1957

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$2,124</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>811</td>
</tr>
<tr>
<td>Office supplies</td>
<td>384</td>
</tr>
<tr>
<td>Prepaid insurance</td>
<td>120</td>
</tr>
<tr>
<td>Prepaid rent</td>
<td>400</td>
</tr>
<tr>
<td>Office equipment</td>
<td>1,273</td>
</tr>
<tr>
<td>Accounts payable</td>
<td></td>
</tr>
<tr>
<td>Jean Dickson, capital</td>
<td></td>
</tr>
<tr>
<td>Jean Dickson, drawings</td>
<td></td>
</tr>
<tr>
<td>Fees</td>
<td></td>
</tr>
<tr>
<td>Salary expense</td>
<td></td>
</tr>
</tbody>
</table>
Utilities expense . . . . . . 18
Miscellaneous expense . . . . 31
\[ \text{\$5,751} \quad \text{\$5,751} \]

On January 31, 1957, Miss Dickson prepared the following information: office supplies remaining on hand at the end of the month, $160. The prepaid insurance which has expired during the month is $10. The prepaid rent is for a five-month period. It was paid on January 1, 1957. The salaries which have been earned but not paid are $40. These items are very important to Miss Dickson for they are items which are paid in periods other than the period in which they help to earn revenue. Miss Dickson wants to have all the costs of earning revenue earned in January and only the costs of earning the revenue in January included in the income statement. For this reason adjustments are necessary to make the trial balance have the proper amounts in the income and expense accounts and in the asset and liability accounts.

Prepare a ten-column work sheet to aid you in the preparation of the balance sheet and income statement. After preparing the financial statements, record the adjusting and closing entries in the general journal. Close, rule and balance the accounts. Prepare a post closing trial balance.

Why are adjusting entries necessary for Miss Dickson? Would Miss Dickson’s financial statements be comparable to others not making adjusting entries? Explain.
Chapter 6, Problem 2

Mr. Tony Williams is a sales agent who employs salesmen to sell the goods of manufacturers to retailers. He receives commissions on each sale and pays his salesmen in salaries and commissions. He is a very important person in the marketing of goods even though he does not take title to or handle the merchandise.

Mr. Williams' fiscal year ends on December 31, 1957, and his records have provided the trial balance shown. At the end of the year Mr. Williams is interested in the statements showing the results of his operations. He knows that some of the expenses shown in the trial balance are applicable to next year. Some of the assets have been used up and are expenses for the period. There are also some expenses which have been incurred but are not included in the trial balance.

In order to facilitate the preparation of his financial statements in the correct manner, Mr. Williams prepares a work sheet or "working papers." You are to record the trial balance in ledger accounts and complete the accounting cycle for Mr. Williams from the information given to you.

Tony Williams
Trial Balance
December 31, 1957

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$8,498</td>
</tr>
<tr>
<td>Commissions receivable</td>
<td>5,421</td>
</tr>
<tr>
<td>Prepaid insurance</td>
<td>360</td>
</tr>
<tr>
<td>Office supplies</td>
<td>425</td>
</tr>
<tr>
<td>Advertising supplies</td>
<td>327</td>
</tr>
<tr>
<td>Automobiles</td>
<td>4,300</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>---------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>Office equipment</td>
<td>947</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>1,218</td>
</tr>
<tr>
<td>Notes payable</td>
<td>2,300</td>
</tr>
<tr>
<td>Tony Williams, capital</td>
<td>10,454</td>
</tr>
<tr>
<td>Tony Williams, drawings</td>
<td>6,000</td>
</tr>
<tr>
<td>Commissions income</td>
<td>28,342</td>
</tr>
<tr>
<td>Salaries expense</td>
<td>7,200</td>
</tr>
<tr>
<td>Commissions expense</td>
<td>4,600</td>
</tr>
<tr>
<td>Rent expense</td>
<td>1,375</td>
</tr>
<tr>
<td>Automobile expenses</td>
<td>2,400</td>
</tr>
<tr>
<td>Utilities expense</td>
<td>235</td>
</tr>
<tr>
<td>Miscellaneous expense</td>
<td>26</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$42,314</strong></td>
</tr>
</tbody>
</table>

The rent expense of $125 for December had not been paid and is to be recorded. The balance in the prepaid insurance account is for a thirty-six month policy purchased on April 1, 1957. Therefore, nine months of the policy has expired, and the remainder is applicable to future months. Office supplies on hand at the end of the year amounted to $125. Advertising supplies used during the year totaled $203. Salaries earned but not paid to the employees at the end of the year were $113.

Explain why Mr. Williams uses adjusting entries and a work sheet.

Chapter 7, Problem 1

Mr. John Saleh operates Ace Boat Company which distributes Red Streak Boats and accessories. Mr. Saleh is interested in keeping a detailed record of his sales and the persons who owe him money. This interest arises from the desire of Mr. Saleh to discover the phases of his business which might be improved. The revenue of his business is very vital, and proper
accounting demands that the revenue be recorded in the period in which it is earned. In order to keep good records of his sales, Mr. Saleh uses a sales journal in which to record the sales that he makes on account.

It is important to Mr. Saleh to have a record of sales returns and allowances for these items are very closely related to the sales of the business and have a definite effect on the income of the business. In order to keep good records of his sales returns and allowances, Mr. Saleh uses a special sales returns and allowances journal.

The sales and sales returns and allowances transactions are listed below for May, 1957. All terms are net 30 unless otherwise indicated.

1957
May

2 Sold merchandise on account to Tatum Sporting Goods, Lubbock, Texas, invoice 8475, $524.

3 Sold merchandise on account to Jackson Hardware, Denton, Texas, invoice 8476, $1,496.

4 Sold merchandise on account to Beck Sporting Goods, Lake Dallas, Texas, invoice 8477, $1,984.

4 Sold merchandise on account to Tatum Sporting Goods, Lubbock, Texas, invoice 8478, list price $2,000, trade discount 25%.

8 Sold merchandise for cash to Acme Hardware Co., Sanger, Texas, sales slip 1520, $25.

8 Merchandise on invoice 8475 sold to Tatum Sporting Goods was returned. Issued credit memorandum 412 for this damaged merchandise which had been sold for $110.

10 Sold merchandise on account to Garrett Sporting Goods, Denton, Texas, invoice 8479, $2,498.
13 Sold merchandise on account to Hagan Hardware, Denison, Texas, invoice 8480, list price $3,100, trade discount 30%.

16 Issued credit memorandum 413 for $294 to Hagan Hardware for merchandise returned.

18 Sold merchandise on account to Williams Hardware, San Angelo, Texas, invoice 8481, $912.

20 Sold merchandise on account to Beck Sporting Goods, Lake Dallas, Texas, invoice 8482, $2,100.

21 Sold merchandise on account to Garrett Sporting Goods, Denton, Texas, invoice 8483, $914.

22 Issued credit memorandum 414 for $14 to Garrett Sporting Goods, Denton, Texas, for returned goods.

24 Sold merchandise on account to Tatum Sporting Goods, Lubbock, Texas, invoice 8484, $718.

27 Sold merchandise on account to Beck Sporting Goods, Lake Dallas, Texas, invoice 8485, list price $1,800, trade discount 30%.

27 Sold merchandise on account to Hagan Hardware, Denison, Texas, invoice 8486, $318.

28 Sold merchandise on account to Jackson Hardware, Denton, Texas, invoice 8487, $110.

29 Sold merchandise on account to Williams Hardware, San Angelo, Texas, invoice 8488, $1,215.

30 Issued credit memorandum 415 to Williams Hardware for $15 for merchandise returned.

30 Sold merchandise on account to Tatum Sporting Goods, Lubbock, Texas, invoice 8489, $775.

30 Paid Tatum Sporting Goods $10 cash for merchandise returned.

The accounts of Ace Boat Company's general ledger that are needed are below with balances of May 1, 1957.

Sales . . . . . . . . . . . . . . . . . . . . . . . . . . $24,294
Sales returns and allowances 816
Accounts receivable . . . . . . . 9,890
Cash . . . . . . . . . . . . . . . . . . . . . . . . . . 3,000
The accounts receivable subsidiary ledger contains the accounts listed with the balances of May 1, 1957, given.

<table>
<thead>
<tr>
<th>Account</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beck Sporting Goods</td>
<td>$1,298</td>
</tr>
<tr>
<td>Garrett Sporting Goods</td>
<td>94</td>
</tr>
<tr>
<td>Hagan Hardware</td>
<td>-</td>
</tr>
<tr>
<td>Jackson Hardware</td>
<td>1,000</td>
</tr>
<tr>
<td>Tatum Sporting Goods</td>
<td>3,219</td>
</tr>
<tr>
<td>Williams Hardware</td>
<td>110</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$5,721</strong></td>
</tr>
</tbody>
</table>

Open general ledger and subsidiary ledger accounts for Ace Boat Company as of May 1, 1957. Record the transactions in the proper journals. (A general journal may be used if needed.) Post the transactions to the proper accounts. (Posting to the subsidiary ledger accounts would be done daily in actual practice, but may be done at the end of the month in this problem due to the small number of transactions.) List the balances in the accounts receivable subsidiary ledger and compare the total with the accounts receivable in the general ledger on May 30, 1957.

What benefit does Mr. Saleh get from the use of a special sales journal?

Chapter 7, Problem 2

Mr. C. Q. Davis operates Davis Hardware Company which sells to retailers. Mr. Davis extends credit terms to his customers, and it is necessary for him to maintain accurate records of the sales and the amounts owed him by his customers. Mr. Davis has three persons in his accounting department, one of whom handles all credit sales transactions. In the past
Mr. Davis has used a separate special sales journal for recording the sales on account. The cash sales are recorded separately. In this manner Mr. Davis has been able to have his sales records and accounts receivable subsidiary ledger up to date. Since Mr. Davis has extended his sales territory, the recording of all credit sales in a sales journal has become a job too large for one person. Therefore, Mr. Davis decides to use the sales invoices as the sales journal by binding the sales invoices together in numerical order. The invoices contain all the necessary information and none needs to be added. The bookkeeper will now post directly from the sales invoices to the accounts receivable subsidiary ledger. The sales for the month are to be recorded in the general journal from the total of the sales tickets for the month. Sales returns and allowances are to be handled in a similar manner.

The sales invoices for the month of June, 1957, in numerical order are listed. All terms are 2/10, n/30.

1957
June

<table>
<thead>
<tr>
<th>Item</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5746 Jones Hardware Company</td>
<td>$1,524</td>
</tr>
<tr>
<td>1</td>
<td>5747 Home Hardware</td>
<td>786</td>
</tr>
<tr>
<td>2</td>
<td>5748 Duncan and Dillard</td>
<td>421</td>
</tr>
<tr>
<td>3</td>
<td>5749 Smith Hardware</td>
<td>2,412</td>
</tr>
<tr>
<td>4</td>
<td>5750 Jones Hardware</td>
<td>36</td>
</tr>
<tr>
<td>8</td>
<td>5751 Hayden Implement Company</td>
<td>928</td>
</tr>
</tbody>
</table>
10 5752 Mansell Hardware Company . . . 1,516
11 5753 Wilson Lumber Company . . . 915
11 5754 Duncan and Dillard . . . . . 63
13 5755 Wallace Hardware . . . . . 764
13 5756 Smith Hardware . . . . . . 88
16 5757 Mansell Hardware . . . . . 209
16 5758 Wilson Lumber Company . . . 15
17 5759 Jones Hardware . . . . . . 393
18 5760 Home Hardware . . . . . . 76
21 5761 Wallace Hardware . . . . . 4,620
21 5762 Jones Hardware . . . . . . 346
22 5763 Hayden Implement Company . . 364
23 5764 Mansell Hardware . . . . . 474
26 5765 Home Hardware . . . . . . 291
29 5766 Wilson Lumber Company . . . 9
30 5767 Hayden Implement Company . . 401

The credit memorandums for June, 1957, are listed below in numerical order as they are bound to make the sales returns and allowances journal.

1957
June

11 174 Wallace Hardware Company, invoice 5640 . . 4
18 175 Jones Hardware Company, invoice 5759 . . . 93
21 176 Mansell Hardware Co., invoice 5757 . . . . 19
29 177 Wilson Lumber Co., invoice 5753 . . . . . 5

Open the following general ledger accounts with balances of May 31, 1957.
Sales ....... $110,485
Accounts receivable .... 8,090
Sales returns and allowances .. 984

Open the following accounts in the subsidiary ledger for accounts receivable and balances of May 31, 1957.
Duncan and Dillard, 840 Grant, Eden, Texas, $2,000
Hayden Implement Company, 910 Oak, Menard, Texas, $4,890
Home Hardware, 2310 Jefferson, San Angelo, Texas, $1,000
Jones Hardware, Eldorado, Texas, $1,727
Mansell Hardware Co., Ballinger, Texas, $169
Morris Implement Co., Bronte, Texas, $100
Smith Hardware, Mertzon, Texas, no balance
Wallace Hardware, Box 321, San Angelo, Texas, $4.

What benefit does Mr. Davis get from using the invoices as sales records as compared with using a special sales journal?

Chapter 8, Problem 1

Mr. Gilbert Balch operates the Balch Feed and Supply Company in Miles, Texas. His operations consist of supplying the Runnells County farmers and ranchers with livestock feed and other farm supplies. Mr. Balch has a policy of stocking the goods needed by his customers so that they will be on hand when the need arises for them. In order to do this Mr. Balch must purchase goods prior to receiving orders for the goods. The purchases of Mr. Balch are just as important to him as the
sales that he makes because the cost of the merchandise is
the largest single cost of earning the revenue created by
the sales. It is imperative that an accurate record of pur-
chases be kept by Mr. Balch. The purchases returns and al-
lowances are very important for the same reason, and accurate
records must be kept of these items also. Sales, the revenue
of the business, and purchases, the largest single element of
cost, are used in determining the profit or loss of a business.
Therefore, Mr. Balch uses a multicolumn purchases journal
with amount columns for accounts payable credit, purchases
debit, office supplies debit, store supplies debit, and gen-
eral debit. There are account name columns for the accounts
payable debit and general debit columns. Use a four-column
general journal with special columns for accounts payable
debit and purchases returns and allowances credit.

Mr. Balch's accounts payable subsidiary ledger accounts
are given as of January 1, 1957.

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acme Motors</td>
<td>$94</td>
</tr>
<tr>
<td>Anchor Serum Co.</td>
<td>68</td>
</tr>
<tr>
<td>Blue Chain Feed Co.</td>
<td>910</td>
</tr>
<tr>
<td>Findlater Hardware Co.</td>
<td>143</td>
</tr>
<tr>
<td>Holt Hardware</td>
<td>74</td>
</tr>
<tr>
<td>Morris Feed Co.</td>
<td>1,500</td>
</tr>
<tr>
<td>Taylor Brokerage</td>
<td>416</td>
</tr>
<tr>
<td>Vaughan Brothers</td>
<td>1,004</td>
</tr>
<tr>
<td>Wagner Office Supply</td>
<td></td>
</tr>
</tbody>
</table>
The general ledger account balances on January 1, 1957, were:

Purchases .................. $ -
Purchases returns and allowances .... -
Office supplies ............... 86
Store supplies ............... 110
Office equipment ............ 1,500
Truck ........................ -
Accounts payable ............ 4,209
Cash ........................ 4,194

You are to record the transactions for January, 1957, and post to the general and subsidiary ledgers on January 31, 1957. Compare the total of the accounts in the accounts payable ledger with the balance of the controlling account on January 31, 1957.

The transactions were:

1957
January

2. Purchased livestock feed on account from Taylor Brokerage, invoice 4645, December 31, 1956, $421.

4 Purchased livestock medicine on account from Anchor Serum Company, invoice 6847, January 3, 1957, $46.

5 Purchased chicken mash on account from Morris Feed Co., invoice 21,464, January 2, 1957, $1,500.


8 Purchased wheat seed on account from Vaughan Brothers, invoice 78,432, January 5, 1957, $312.

10 Purchased feed buckets on account from Findlater Hardware Co., invoice 32,464, January 8, 1957, $64.
11 Purchased feed from Morris Feed Company for $810 cash.

12 Purchased store supplies on account from Holt Hardware, invoice 49,444, January 7, 1957, $39.

13 Purchased feed on account from Taylor Brokerage, invoice 5968, January 11, 1957, $412.

15 Returned merchandise to Morris Feed Company and received credit memorandum 416, January 12, 1957, $164.

18 Purchased new truck on account from Acme Motors, invoice 14316, January 15, 1957, $2,400.

19 Purchased sheep feed on account from Blue Chain Feed Co., invoice 6116, January 11, 1957, $814.

20 Purchased barbed wire for resale on account from Findlater Hardware Co., invoice 33768, January 18, 1957, $194.

22 Purchased office supplies on account from Wagner Office Supply, invoice X810, January 20, 1957, $64.


25 Purchased store supplies on account from Holt Hardware, invoice 50684, January 22, 1957, $68.


29 Purchased concentrated protein on account from Taylor Brokerage, invoice 9043, January 27, 1957, $691.

30 Returned merchandise to Morris Feed Co., January 25, and received a check for $44.

31 Purchased chicken waterers on account from Holt Hardware, invoice 56391, January 21, 1957, $69.

Why is it essential for Mr. Balch to have an accurate record of his purchases?

Chapter 8, Problem 2

Mr. James Starr operates a men's clothing store called the Starr Shop near a college campus. Mr. Starr does not have
a full time bookkeeper, but he is very concerned with his accounting records. He knows that his financial records keep him informed on the progress of his business. One very important aspect of the business is the purchasing. Mr. Starr keeps records of his purchases and the debts that he creates in making the purchases. Since he does not have a full-time bookkeeper, he wants to have no unnecessary detail work. For this reason, Mr. Starr uses his purchases invoices for his purchases journal by binding the invoices together in the order of the date received. Credit memorandums received are used as the purchases returns and allowances journal and are bound together to form a permanent record.

The balances in Mr. Starr's accounts payable subsidiary ledger on August 31, 1957, were:

Craig Outerwear ................ $ 21
Cunningham Supply ............. 186
Hannah Clothing Co. ............ 410
Martin Wholesale ............... 369
Moorehead Sales Co. ............ 36
Typewriter Supply Co. .......... 10
Woolen Mills Co. ............... 194

Account balances in Mr. Starr's general ledger on August 31, 1957, were:

Accounts payable ................ $ 1,226
Purchases ........................ 32,001
Purchases returns and allowances .............. 364
Cash .................. 6,403
Office supplies ........ 116
Store equipment ....... 3,610

Open the ledger accounts needed. Post to the subsidiary ledger. Provide journal entries in a general journal where needed to record the transactions of the month. Post to the general ledger accounts.

The purchases invoices were:

1957
September


3 Cunningham Supply, invoice 2161, August 29, 1957, $180, merchandise.

4 Moorehead Sales Co., invoice 19911, September 1, 1957, merchandise, $401.

6 Martin Wholesale, invoice 3160, September 2, 1957, merchandise, $18.

10 Hannah Clothing Co., invoice 6430, September 6, 1957, merchandise, $453.

11 Craig Outerwear, invoice 1112, September 7, 1957, merchandise, $185.

13 Martin Wholesale, invoice 3613, September 8, 1957, store equipment, $160.


16 Woolen Mills Co., invoice 2412, September 14, 1957, merchandise, $641.

17 Cunningham Supply, invoice 4194, September 16, 1957, merchandise $312, office supplies $18.

20 Moorehead Sales Co., merchandise for cash, $184.
21 Martin Wholesale Co., invoice 4718, September 18, 1957, merchandise, $44.

23 Hannah Clothing Co., invoice 9123, September 22, 1957, merchandise, $84.


28 Woolen Mills Co., invoice 3601, September 27, 1957, merchandise, $91.

29 Hannah Clothing Co., invoice 10106, September 27, 1957, merchandise, $161.

30 Craig Outerwear, invoice 2816, September 28, 1957, merchandise, $94.

The credit memorandums and other data were:

1957
September

10 Hannah Clothing Co., credit memorandum 104, September 9, 1957, merchandise, $43.

16 Received cash of $16 from Moorehead Sales Co. for merchandise returned to them.

17 Typewriter Supply Co., credit memorandum 610, September 16, 1957, merchandise, $8.

20 Craig Outerwear, credit memorandum 119, September 19, 1957, merchandise, $52.


What benefits can Mr. Starr obtain from the use of his purchases invoices as a purchases journal?

Chapter 9, Problem 1

Mr. Robert Martin operates a wholesale drug store under the name of R-M Supply. In operating R-M Supply Mr. Martin
allows sales on account. He uses the sales tickets for his sales journal. Since all of Mr. Martin's sales, credit or cash, are ultimately increases in his cash, he is extremely interested in keeping an accurate record of his cash. Cash is the most liquid of all assets in a business, and the receipt of cash demands an accurate accounting. It is also necessary to have accurate accounting records so that the cash may be controlled. Cash is very susceptible to misappropriation, and internal control of cash should be in effect in every business. By keeping accurate records, dividing responsibilities, and reconciling the bank account periodically, Mr. Martin maintains control over the cash transactions of his business.

Open the following accounts in R-M Supply’s accounts receivable subsidiary ledger on May 1, 1957:

<table>
<thead>
<tr>
<th>Drug</th>
<th>Date of Sale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brooks Drug</td>
<td>$ 1,900</td>
</tr>
<tr>
<td>Dyches Drug</td>
<td>800</td>
</tr>
<tr>
<td>Flow Drug</td>
<td>1,100</td>
</tr>
<tr>
<td>Holmes Drug</td>
<td>600</td>
</tr>
<tr>
<td>Lawrence Drug</td>
<td>2,700</td>
</tr>
<tr>
<td>Pullman Drug</td>
<td>3,600</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10,700</strong></td>
</tr>
</tbody>
</table>

In order to speed the collection of his accounts, Mr. Martin allows a 2% discount if the account is paid within 10 days of the date of the invoice.
Enter Mr. Martin's transactions for May, 1957, in the proper journals and post to the general ledger accounts. Mr. Martin's fiscal year begins on May 1, 1957. The ledger accounts are cash $15,000, accounts receivable $10,700, office supplies $78, sales, sales returns and allowances, purchases returns and allowances, notes receivable $800.

Mr. Martin's cash receipts journal has the following amount columns: general credit, sales credit, accounts receivable credit, sales discount debit, and cash debit. He also has a general journal but uses the sales tickets for the sales journal.

1957
May

1 Received $1,862 on account from Brooks Drug for balance due.
1 Received $600 on account from Holmes Drug for balance due.

2 Sales tickets on account were:
   1520 Brooks Drug . . . $ 200
   1521 Dyches Drug . . . 1,100
   1522 Pullman Drug . . . 450

3 Received $46 for merchandise returned to seller, Acme Manufacturing.
3 Collected $800 note from Pullman.
3 Collected $3,600 account of Pullman Drug, less discount.
7 Collected $792 from Dyches Drug on account.
7 Cash sales for week ended May 7, 1957, $1,681.
7 Mr. Martin invests $4,000 more in his business.
8 Sales tickets on account were:
   1523 Flow Drug . . . $850
1524 Holmes Drug . . . $100
1525 Lawrence Drug . . 600

8 Collected $2,646 from Lawrence Drug on account, net due.

11 Received $1,911 on account from Flow Drug for balance due on May 1, 1957, and sales ticket 1523.

13 Sales on account were:

1526 Brooks Drug . . . $1,400
1527 Dyches Drug . . . 1,600
1528 Flow Drug . . . 1,200
1529 Lawrence Drug . . 1,000

14 Cash sales for week ended May 14, $1,418.

16 Collected sales ticket 1520 from Brooks Drug.

17 Collected sales ticket 1521 from Dyches Drug.

18 Collected sales ticket 1524 from Holmes Drug, less discount.

19 Collected sales ticket 1525 from Lawrence Drug, less discount.

20 Received $22 from Flow Drug for discount taken but not allowed.

21 Cash sales for week ended May 21, $264.

22 Received $10 for office supplies sold as an accommodation.

22 Collected sales ticket 1526 from Brooks Drug, less discount.

22 Collected sales ticket 1527 from Dyches Drug, less discount.

24 Collected sales ticket 1529 from Lawrence Drug, less discount.

28 Cash sales for week ended May 28, $910.

28 Sales on account were:

1530 Brooks Drug . . . $1,000
1531 Holmes Drug . . . 800
1532 Pullman Drug . . . 1,500
30 Collected sales ticket 1530 from Brooks Drug, less discount.

30 Make entry to record the sales on account for the period.

Why does Mr. Martin need to keep accurate records of his cash receipts?

Chapter 9, Problem 2

Mr. Robert Martin operates R-M Supply and the transactions involving the cash receipts of Mr. Martin are shown in the preceding problem. Mr. Martin purchases his merchandise on account and for cash. He records his merchandise purchases in a single column purchases journal. All of the cash payments are recorded in the cash payments journal. By recording the cash payments and cash receipts in different journals, the work is split among the employees to make a better system of internal control for cash. A general journal is used for the transactions for which no special journal is provided.

The following accounts payable subsidiary ledger accounts were on Mr. Martin's books as of May 1, 1957:

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Black Supply</td>
<td>$1,200</td>
<td>4-29-57</td>
</tr>
<tr>
<td>Criddle Wholesale</td>
<td>1,500</td>
<td>4-29-57</td>
</tr>
<tr>
<td>Ellis Drug Supply</td>
<td>1,050</td>
<td>4-28-57</td>
</tr>
<tr>
<td>Jacob Supply</td>
<td>650</td>
<td>4-28-57</td>
</tr>
<tr>
<td>Johnson and Johnson</td>
<td>1,000</td>
<td>4-28-57</td>
</tr>
<tr>
<td>Jones Drug Supply</td>
<td>100</td>
<td>4-15-57</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$5,500</strong></td>
<td></td>
</tr>
</tbody>
</table>
The general ledger accounts had these balances on
May 1, 1957:

Cash ........ $15,000
Accounts payable .... 5,500

Any accounts needed may be opened to record the transactions in the best manner. Columns are provided in the cash payments journal for general debit, accounts payable debit, purchases discount credit, and cash credit.

The transactions for May, 1957, were:

1957
May

1 Paid account due Black Supply, invoice dated 4-29-57, terms 2/10, n/30.

2 Purchased merchandise on account from Jones Drug Supply for $850, invoice 8143, May 2, 1957, terms 2/10, n/30.

3 Purchased three-year insurance policy for $360 cash.

5 Paid Criddle Wholesale invoice of 4-29-57, less discount of 3%.

7 Paid Jones Drug account of April 15, 1957.

7 Purchased office supplies from Wagner Supply Company for $15 cash.

8 Paid rent for May, 1957, $110. (Rent is paid monthly.)

8 Paid $16 for merchandise returned to us by Brooks Drug.

8 Paid account of Ellis Drug of April 28, 1957, terms 2/10, n/30.

8 Paid account of Johnson and Johnson of April 28, 1957, terms net 30.

9 Purchased merchandise on account from Johnson and Johnson, $250, invoice 6005, May 9, 1957, terms 2/10, n/30.

12 Paid invoice 8043 of Jones Drug Supply, less discount.

14 Paid salaries for two-week period ending May 14, 1957, $512.

16 Withdrew $160 for personal use.

17 Purchased merchandise on account from Criddle Wholesale, $550, invoice 10006, May 17, 1957, terms 2/10, n/30.

18 Paid utilities bill of $21.

19 Purchased merchandise on account from Jacob Supply, $950, invoice 14142, terms 2/10, n/30.

19 Paid Johnson and Johnson invoice 6004, less discount.

21 Purchased typewriter for $270 cash.

23 Purchased office supplies on account from Criddle Wholesale, $20, invoice 12004, net 30.

24 Paid Criddle Wholesale account in full, invoice 10006 and 12004, discounts taken when applicable.

27 Purchased merchandise on account from Johnson and Johnson, $490, invoice 7105, terms net 30, date of invoice May 27, 1957.

29 Paid salaries of $512 for two weeks ending May 28, 1957.

29 Merchandise returned to Johnson and Johnson which was purchased on invoice 7105, $40. Credit memo 840 received.

29 Paid Jacob Supply invoice 14142, less discount.

30 Mr. Martin withdrew $150 for his personal use.

30 Purchased merchandise for $212 cash.

Record the transactions, post the ledger accounts, and then compare the accounts payable control account with the total of the subsidiary ledger account balances.

Does Mr. Martin obtain control over his cash disbursements and purchases by using the method he now employs? Explain.
Chapter 9, Problem 3

Mr. Robert Jackson operates Pyle Variety Store. Mr. Jackson purchases his merchandise on account and for cash. His sales are strictly cash, and he uses cash registers to help control the cash that is taken in. With this protection on the sales floor the possibility of misappropriation of funds is lessened. However, since Mr. Jackson does not keep the books himself and the bookkeeper makes the entries and deposits the cash, there is a weak link in the internal control. In order to overcome this weakness Mr. Jackson has appointed one sales clerk to collect and count the cash each day. The count is turned over to Mr. Jackson. At the end of the month Mr. Jackson compares the cash receipts with the deposits entered on the bank statement. He reconciles the bank account to the book balance and scrutinizes the cancelled checks for misappropriations since he does not countersign the checks. In this way Mr. Jackson achieves control over the cash. Due to the great number of cash transactions, errors are sometimes made in making change. General journal entries are made to record shortages or overages.

The balance of cash shown by the bank statement of June 30, 1957, is $16,471.14. The balance of cash shown by the general ledger cash account on June 30, 1957, is $13,610.01. Obtain a corrected balance for cash on June 30, 1957, from the information given.

A check of Bill Pyle charged to Pyle Variety Store, $160
A draft for the payment on a loan was $106.03. The loan is from Aetna Life Company and is payable monthly.

Deposit of Robert Jackson credited to Pyle Variety Store, $2,000. A deposit in transit was $410.04.

The bank had charged a collection fee of $1.50.

The checks which were outstanding at the end of the month were:

- 4910 . . . . $190.00
- 4976 . . . . 245.11
- 4977 . . . . 100.00
- 4978 . . . . 216.04

The bank charged a service charge of $1.75.

A note for $789.30 was collected from Ace Hardware Co. by the bank. Interest on the note was included and amounted to $9.30.

Make the necessary journal entries in a general journal.

Explain why you think it is necessary for Mr. Jackson to reconcile his bank balance. Do you reconcile your own bank balance?

Chapter 10, Problem 1

Mr. Edward Greer operates The Greer Company, which is a retail men's clothing store in Dallas, Texas. Mr. Greer has operated his business in the same location for twenty-five years and has had a very successful career. Mr. Greer maintains a double-entry set of books on the accrual basis, and one of his main objectives is to match the costs and the revenues of his business. That is, he wants to have the
revenues included in the period earned, and the costs which helped to earn those revenues included as expenses in the period in which the revenues were earned. One of the largest factors in the matching of costs and revenues is the cost of the goods sold. It is important for it is the cost of the merchandise delivered to the customers. The cost of goods sold is determined by finding the total cost of the goods available for sale during the period and deducting the goods remaining on hand at the end of the period. This is just one illustration of the items going into the proper determination of income by following the accounting principle, match costs and revenues. Mr. Greer makes financial statements at the end of each month but closes his books only at the end of his fiscal year, which is June 30. In order to make the financial statements easier to prepare and to assure proper analysis of the accounts in the trial balance, Mr. Greer uses an eight column work sheet.

Provide T-Accounts for Mr. Greer on June 30, 1957, using the trial balance below.

<table>
<thead>
<tr>
<th>The Greer Company</th>
<th>Trial Balance</th>
<th>June 30, 1957</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$15,410</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>11,360</td>
<td></td>
</tr>
<tr>
<td>Merchandise inventory</td>
<td>16,465</td>
<td></td>
</tr>
<tr>
<td>Prepaid insurance</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>Office supplies</td>
<td>401</td>
<td></td>
</tr>
<tr>
<td>Store supplies</td>
<td>233</td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>5,000</td>
<td></td>
</tr>
<tr>
<td>Building</td>
<td>31,000</td>
<td></td>
</tr>
<tr>
<td>Store equipment</td>
<td>1,500</td>
<td></td>
</tr>
</tbody>
</table>
Office equipment ........ 2,000
Accounts payable ........ $4,221
Note payable ............. 1,000
Edward Greer, capital .......
Edward Greer, drawing .... 6,500
Sales .................. 94,206
Sales returns and allowances 1,210
Purchases ............... 55,416
Purchase returns and
  allowances ............. 2,412
Freight in on merchandise : 811
Sales salaries expense .... 7,000
Advertising expense ....... 1,213
Delivery expense .......... 910
Miscellaneous selling
  expense ............... 64
Office salaries ........... 3,612
Taxes expense ............ 519
Miscellaneous general
  expense ............... 49
Purchase discounts ........ 816
Sales discounts ........... 88

Many of the accounts in Mr. Greer's trial balance have
elements of asset and expense in them. There are some accounts
which do not have enough expense recorded in them, and the
liabilities in some cases are understated as a result. These
are the accounts that need to be adjusted to arrive at a
proper matching of costs and revenues.

The merchandise inventory on June 30, 1957, is $17,341,
meaning that $17,341 worth of the merchandise which was avail-
able for sale is still on hand. The prepaid insurance account
contains the charge for a five-year policy that was purchased
on July 1, 1956. All of the policy is not expense at this
time for it will help earn revenues in the future. One-fourth
of the insurance expense is general insurance expense and the
remainder is selling insurance expense. The office supplies
used during the year amounted to $200. The store supplies remaining in the store room on June 30, 1957, totaled $106. Salaries had been earned by the employees at the end of the fiscal year but had not been paid. They amounted to $150 for the salesmen and $51 for the office employees. A statement of taxes owed but not paid on June 30, 1957, had been received, and the amount is $313.

Complete the accounting cycle for Mr. Greer taking into consideration all of the factors which will make his revenues and costs properly matched. Be sure that the books are ready for next year's transactions.

What is one accounting principle used by Mr. Greer in making his adjustments at the end of the year? Do you think that making a work sheet is a waste of time? Explain.

Chapter 10, Problem 2

A very important field of accounting is that of auditing. Auditing is either internal auditing or external auditing. Internal audits are made by employees, called internal auditors. An external audit is made by independent accountants who have no connection with the business other than the audit and management services. Auditing subjects the books of account and other records of a business to a critical analysis in order to determine their accuracy, truth, and authenticity. In recent years other services such as management services have been rendered by the auditors of a firm. In making an audit errors are sometimes found, and it is necessary to make journal
entries to correct these errors so that an opinion may be
given on the financial statements.

Mr. Ed Schuch operates a plumbing supply company called
Schuch Supply. In making an audit of Mr. Schuch's records
you find errors in the accounts. Some of these errors have
affected the net income in prior years, and other are errors
affecting the net income for the current year ending Decem-
ber 31, 1957. Other errors on the books were made but did not
affect the net income at any time. In talking with Mr. Schuch
the errors are pointed out to him. You are to provide the
entries in general journal form that are needed to correct
the books of Mr. Schuch. The books have not been closed for
1957.

On June 1, 1956, the office equipment account was debited
with $75 which was for minor repairs on four office machines.
The general office expense account should have been debited.
On December 15, 1956, drawings of $100 were made by Mr. Schuch
and were charged to salaries expense. The merchandise inventory
on January 1, 1955, was overstated by $1,210. The merchandise
inventory on December 31, 1957, was understated by $6,413.
Purchase returns and allowances of $115 were credited to
sales on January 1, 1956, An additional investment of $5,000
by Mr. Schuch on December 12, 1956, was credited to buildings.
On January 1, 1957, the entry recording accrued salaries of
$112 was not reversed. A charge for merchandise sold was made
to Acme Wholesale instead of to the purchaser, Ace Supply
Company. The amount of the sale was $1,500 on December 30, 1957. Taxes accrued on December 31, 1957, of $412 were not recorded. The prepaid insurance on December 31, 1956, was overstated by $132 and on December 31, 1957, was understated by $41. On July 1, 1957, a payment on account to Jones Corporation of $194 was incorrectly debited to Jacob Wholesale. A purchase of a desk for $189 was debited to office expense on September 30, 1957.

Explain why Mr. Schuch wants the errors in his accounting records corrected.

Chapter 11, Problem 1

Mr. Earl Brashears operates Tool Supply Company, which sells large machine tools, motors, and accessories to manufacturers. Mr. Brashears has two outside salesmen. His office and showroom are located in Dallas, Texas. His inventory is kept on hand at the showroom. The machines sold by Tool Supply Company are used by manufacturers to make products for other markets. Many of the manufacturers do not like to tie up their working capital by purchasing fixed assets, and they prefer to give notes for the machines purchased. The notes are usually short term in order to enable the manufacturers to make better long term financing arrangements. By taking the notes of its customers, Tool Supply Company accommodates its customers and has negotiable instruments on hand to discount at the bank if cash is needed. Also Tool Supply Company gives notes to the companies from whom it purchases
merchandise enabling the suppliers to discount the notes at the bank. These transactions give rise to interest income and interest expense and are a very important phase of Tool Supply Company's business.

Tool Supply Company uses a sales journal, purchases journal (single column), general journal, cash receipts journal, and cash payments journal in recording its transactions.

You are to record the partial list of transactions for the four-month period beginning on January 1, 1957.

1957
January

2 Sold merchandise on account to Talc Mines Incorporated, $1,500, sales ticket 1574, terms net 30.

3 Sold merchandise on account to Diamond Machinery for $2,400, sales ticket 1575, terms 2/10, n/30.

4 Discounted our $4,000 note payable at the Republic National Bank, date due April 4, 1957, discount rate 3%.

5 Purchased merchandise on account from Atlas Manufacturing Company, $8,400, terms 2/10, n/30.

7 Received a $1,000 ninety day 8% note dated January 6, 1957, from Rockwall Milling Company on account.

9 Issued our $500 sixty day 4% note to Jay Supply on account.

10 Purchased for cash merchandise costing $210.

15 Loaned Talc Mines Incorporated $1,000 for 30 days at 6%; date of note is January 15, 1957.

18 Sold merchandise on account to Hyder Company, $14,000, sales ticket 1576, terms net 10.

19 Received credit memorandum 142 from Atlas Manufacturing Company for merchandise returned of $100.

28 Received a 60 day 9% note from Hyder Company for $14,000 on account, note dated January 28, 1957.
February

3 Sold merchandise on account to Reed Roller Corporation for $4,300, sales ticket 1577, terms net 10.


5 Purchased merchandise on account from Carter Company for $600, terms 2/10, n/30.

13 Received cash of $1,300 and 120-day, 6% note for $3,000 from Reed Roller Corporation. Date of note is February 13, 1957.

15 Talc Mines Incorporated dishonored their $1,000 30-day 6% note due February 14, 1957.

15 Paid account of Carter Company of $600, less discount.

17 Discounted note receivable of Hyder Company at the Republic National Bank at a discount rate of 6%. Note is $14,000, 60 day, 9%, dated January 28, 1957.

20 Purchased merchandise for $1,650 cash.

21 Purchased store supplies for $160 cash.

23 Sales for cash totaled $2,460.

28 Sold merchandise on account to Security Engineering Company, $5,100, sales ticket 1578, terms net 10.

March

10 Paid our note of January 9, 1957, and the interest due to Jay Supply.

11 Received 120 day 6% note from Security Engineering for their account of February 28, 1957.

12 Purchased merchandise on account from Jay Supply Company for $2,310, terms net 10.

22 Issued 90 day 6% note for $2,310 to Jay Supply Company for purchase of March 12. Date of note March 22, 1957.

29 Bank notified Mr. Brashears of the collection of the Hyder Company note which we discounted on February 17, 1957.
April

4 Paid our $4,000 note due at the Republic National Bank, note dated January 4, 1957.

7 Received payment of principal and interest from Rockwall Milling on their interest bearing note dated January 6, 1957.

15 Collected Talc Mines Incorporated note, which was dishonored, with interest since February 14, 1957, at 6%.

18 Sold merchandise to Diamond Machinery for $1,600 on account.

19 Received 7%, 90 day note from Diamond Machinery for $1,600 for the purchase of April 18. The note is dated April 18, 1957.

21 Purchased merchandise on account from Carter Company for $1,500.

22 Sent non-interest bearing 60 day note to Carter Company for the purchase of April 21, 1957. Date of the note is April 21, 1957.

28 Discounted the note of Diamond Machinery at the Republic National Bank at a rate of 8%.

Does Mr. Brashears aid his business, his customers, or both by extending credit on notes? Explain.

Chapter 12, Problem 1

Mr. Mike Vardeman operates a retail lumber company called Builders Supply. He sells lumber, building supplies, and tools to individuals, contractors and others on the retail level. In the past some buildings have been acquired by Builders Supply. Since these buildings are not needed in the operation of the business, they are rented to bring in additional revenues.

The sales of materials to contractors and builders are usually made on account, and some notes are received on account.
Notes are sometimes given to suppliers of Mr. Vardeman when he finds he is short of cash.

Mr. Vardeman is a very aggressive operator, and his complex transactions often bring about situations calling for special attention at the end of the accounting period. The financial statements of Builders Supply must show what the financial position is on the balance sheet date and the results of the operations for the year ended on that date. In order to properly show the desired information, the income principle must be followed. It states that the revenues and the costs incurred in earning those revenues shall be matched in computing the net income of a business. When the costs and revenues are properly matched, the balance sheet will show the correct financial position on the last day of the period.

In Mr. Vardeman's business the transactions affect more than one accounting period because some of the income collected has not been earned, some of the income earned has not been collected, some of the expenses paid will help earn future revenues, and some of the expenses of earning the current revenues have not been recorded. The problem is one of getting the revenues and costs into the periods in which they are properly earned or used to earn.

On June 30, 1957, Mr. Vardeman's fiscal year ends. His trial balance on that date is below.
# Builders Supply
## Trial Balance
### June 30, 1957

<table>
<thead>
<tr>
<th>Account</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$12,013</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>21,142</td>
</tr>
<tr>
<td>Notes receivable</td>
<td>6,000</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>-</td>
</tr>
<tr>
<td>Merchandise inventory</td>
<td>18,486</td>
</tr>
<tr>
<td>Store supplies</td>
<td>381</td>
</tr>
<tr>
<td>Office supplies</td>
<td>-</td>
</tr>
<tr>
<td>Prepaid insurance</td>
<td>721</td>
</tr>
<tr>
<td>Prepaid advertising</td>
<td>-</td>
</tr>
<tr>
<td>Prepaid rent</td>
<td>-</td>
</tr>
<tr>
<td>Prepaid interest</td>
<td>-</td>
</tr>
<tr>
<td>Land</td>
<td>4,033</td>
</tr>
<tr>
<td>Buildings</td>
<td>94,212</td>
</tr>
<tr>
<td>Notes payable</td>
<td>$7,400</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>9,219</td>
</tr>
<tr>
<td>Interest collected in advance</td>
<td>-</td>
</tr>
<tr>
<td>Unearned rent</td>
<td>-</td>
</tr>
<tr>
<td>Salaries payable</td>
<td>-</td>
</tr>
<tr>
<td>Taxes payable</td>
<td>-</td>
</tr>
<tr>
<td>Mike Vardeman, capital</td>
<td>74,463</td>
</tr>
<tr>
<td>Mike Vardeman, drawings</td>
<td>7,200</td>
</tr>
<tr>
<td>Sales</td>
<td>287,491</td>
</tr>
<tr>
<td>Interest income</td>
<td>116</td>
</tr>
<tr>
<td>Rental income</td>
<td>4,400</td>
</tr>
<tr>
<td>Sales returns and allowances</td>
<td>394</td>
</tr>
<tr>
<td>Purchases</td>
<td>203,979</td>
</tr>
<tr>
<td>Purchases returns and allow.</td>
<td>901</td>
</tr>
<tr>
<td>Freight in</td>
<td>1,151</td>
</tr>
<tr>
<td>Sales salaries</td>
<td>8,412</td>
</tr>
<tr>
<td>Advertising expense</td>
<td>1,510</td>
</tr>
<tr>
<td>Store supplies expense</td>
<td>-</td>
</tr>
<tr>
<td>Insurance expense-selling</td>
<td>-</td>
</tr>
<tr>
<td>Miscellaneous selling expenses</td>
<td>416</td>
</tr>
<tr>
<td>Rent expense</td>
<td>720</td>
</tr>
<tr>
<td>Office salaries</td>
<td>3,601</td>
</tr>
<tr>
<td>Taxes expense</td>
<td>805</td>
</tr>
<tr>
<td>Office supplies expense</td>
<td>543</td>
</tr>
<tr>
<td>Insurance expense-general</td>
<td>-</td>
</tr>
<tr>
<td>Miscellaneous general expense</td>
<td>73</td>
</tr>
<tr>
<td>Interest expense</td>
<td>78</td>
</tr>
<tr>
<td>Purchases discounts</td>
<td>3,124</td>
</tr>
<tr>
<td>Sales discounts</td>
<td>1,244</td>
</tr>
</tbody>
</table>

The trial balance of Builders Supply does not include all items affecting the income and expense of the period, and the
trial balance must be adjusted. You are to complete an eight-column work sheet, make adjusting entries, closing entries, and reversing entries in general journal form. Make any suggestions you think would help Mr. Vardeman in his accounting. Data given are for making the financial statements accurate.

The merchandise inventory on June 30, 1957, was $21,397.

The store supplies remaining on hand on June 30, 1957, had a cost of $143.

The office supplies expense for the year was $421.

The prepaid insurance on June 30, 1957, was $120. One-fourth of the insurance was for selling and the remainder was for general purposes.

The advertising expense account included a payment of $150 which is to pay for advertising in July, 1957.

The rent expense account contained rent paid on a warehouse for twelve months. The rent was paid on January 1, 1957.

The notes payable account included a note of Builders Supply for $7,000 which was discounted at the Security Trust Bank on May 31, 1957. It is a 90-day note and discount rate is 6 per cent.

The rental income account included rent of $2,400 on a building for a two-year period beginning on April 1, 1957.

The notes receivable account included a note of James Smith which we discounted for him on January 1, 1957. The maturity date is December 31, 1957, and the discount rate is 5 per cent. The face of the note is $1,000. In the notes
receivable the following notes are also included:

<table>
<thead>
<tr>
<th>Maker</th>
<th>Amount</th>
<th>Date of Note</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bill Jones</td>
<td>$1,500</td>
<td>January 15, 1957</td>
<td>5 per cent</td>
</tr>
<tr>
<td>Jack Kellam</td>
<td>1,500</td>
<td>December 31, 1956</td>
<td>4 per cent</td>
</tr>
<tr>
<td>James Cooper</td>
<td>2,000</td>
<td>October 1, 1956</td>
<td>6 per cent</td>
</tr>
</tbody>
</table>

In the notes payable account is a note to Acme Lumber Company for $400. The date of the note is May 1, 1957, and the interest rate is 9 per cent.

The taxes expense for the year ended June 30, 1957, was $1,005, but only a part of this has been recorded.

Sales salaries of $112 and office salaries of $101 had been earned by the employees since the last pay day.

After completing the reversing entries, you will have the books of Builders Supply ready to record the transactions of the period beginning on July 1, 1957.

Why does Mr. Vardeman make adjusting entries at the end of the fiscal year? Use interest income and interest expense for illustrative purposes.

Chapter 13, Problem 1

Mr. Jack Kellam operates a retail clothing store called The Flair. He is a successful manager and relies on accounting to present to him a graphic picture of his operations. When Mr. Kellam makes a sale, he uses his judgement and available facts to decide whether or not credit is to be extended to a customer. Experience enables him to be correct in most instances, but occasionally an error is made in extending credit to customers. Mr. Kellam has relied on his experience for
many years and knows that he is not correct at all times. Realizing the dangers inherent in extending credit, he makes provision for this possible error in making his financial statements. He has an account called "allowances for bad debts" in which the amount estimated to be uncollectible is recorded. This account is used on Mr. Kellam's balance sheet as an account for the valuation of accounts receivable.

From past experience it is known that approximately .9 of 1 per cent of the net sales on account will be uncollectible. He believes that these estimated uncollectibles should be charged to bad debts expense in the year that the sales are made so that the costs of earning revenues will be matched against the revenues.

For this reason Mr. Kellam charges .9 of 1 per cent of his net sales on account to bad debts expense each year and credits the valuation account, allowance for bad debts.

Mr. Kellam estimates his bad debts expense at the end of each year, and during each year some accounts become definitely uncollectible and are written off. Other accounts written off in the past are unexpectedly collected.

Mr. Kellam records the estimate of his bad debts expense and estimates the value of his accounts receivable in order to present the proper picture in the financial statements. Since he will use the financial statements to guide his operations and to obtain credit from banks, it is necessary for Mr. Kellam to have the accounts receivable and the bad debts expense properly presented.
Open the following general ledger accounts for The Flair on January 1, 1956:

Accounts receivable .... $3,946
Allowance for bad debts .... 403
Bad debts expense ....
Profit and loss summary ....

The accounts in the accounts receivable subsidiary ledger were:

Joe Abbott .... $ 37
James Banks .... 141
Joyce Calfee .... 210
Earl Dorn .... 411
Harvey Foster .... 318
R. J. Gabriel .... 810
Wayne Hall .... 101
M. J. Jenkins .... 612
Allen Lamb .... 101
Susan Martin .... 816
H. J. Nelson .... 109
J. E. Parks .... 10
James Short .... 38
J. G. Terry .... 143
Bob Wall .... 89

The transactions for two years relating to the accounts receivable, bad debts expense, and allowance for bad debts are given below. Journalize and post these transactions.

1956

January

28 Received notice that J. E. Parks, whose account was fourteen months past due, was unable to pay his account.

May

15 Received $56 from Allen Lamb in settlement of his account. He was unable to pay any more.

June

18 Received $16 from Charles Jones for the account balance written off in 1955.
July

14 Received 10 per cent of the balance of Joyce Calfee and charged off the remainder.

December

18 Charged off the account of Joe Abbott as uncollectible since it was eighteen months past due.

31 Ascertained that the net charge sales for 1956 were $104,000. Made the entry to record the bad debts expense and the increase in the valuation account.

31 Provide the closing entries pertinent to bad debts for the year.

1957
January

16 Wrote off the account of M. J. Jenkins after a lawsuit failed to achieve collection.

March

11 Received $8 from James Short and wrote off the balance of the account as uncollectible.

June

30 Received $10 from J. E. Parks on account. This account was written off in 1956.

July

19 Wrote off the account of Bob Wall after collecting $16 from his wife. Mr. Wall has left town and is not expected to return.

September

24 Collected the account of James Short written off in March, 1957.

December

31 Wrote off the account of J. G. Terry whose account was twenty-four months past due.

31 Ascertained the net charge sales for 1957 were $134,000. Provide the entry for the recording of the provision for bad debts.
Provide the closing entries pertinent to bad debts for the year.

Should every business extending credit to its customers make allowance for the estimated bad debts expense? Why does Mr. Kellam estimate his bad debts expense?

Chapter 13, Problem 2

Mr. James Franks operates Franks Furniture Company in Gainesville, Texas. Mr. Franks has sold furniture to the people of Gainesville for eighteen years. To fill the needs of his customers Mr. Franks carries a large stock of furniture from which his customers may select the pieces suiting their needs and budget.

The inventory of goods carried by Mr. Franks is a very substantial part of the total assets shown on his balance sheet. The inventory plays a large part in determining the cost of the goods sold by Mr. Franks during the year. Since the inventory can have an extremely good or bad effect on the financial statements of Mr. Franks, he wants to have the inventory valued at an amount which is nearest the exact value of the inventory. The exact value of the inventory would be best, but it is not available unless the goods are sold. Since the exact value cannot be determined, Mr. Franks has called you as accountant to aid him in estimating the value of the inventory of furniture and other goods held for sale.

Mr. Franks is impressed with the importance of the inventory, and by its effect on the balance sheet and the profit
and loss statement. Mr. Franks is aware of income taxes and sees that the valuation of the inventory can affect his taxes. He wants a low valuation on the inventory to reduce his income and income taxes. Mr. Franks uses his balance sheet to obtain loans from the bank to buy more merchandise and to operate on and realizes that a low valuation of the inventory will show fewer current assets in turn making a poor showing for credit purposes.

The accountant explains to Mr. Franks that a proper and fair valuation must be made to present the balance sheet and the income statement in equal fairness and clarity.

The prices of the merchandise in Mr. Franks' inventory fluctuates with the changing market and there is a problem of determining the price at which to value the inventory.

Compute the inventory on December 31, 1956, for Mr. Franks from the data below. Find the inventory using both last-in, first-out, and first-in, first-out methods of determining cost. Show your computations.

<table>
<thead>
<tr>
<th>Chairs</th>
<th>Inventory 1-1-56</th>
<th>1956 Purchases</th>
<th>Inventory 12-31-56</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Per Unit</td>
<td>Date</td>
</tr>
<tr>
<td>A</td>
<td>10</td>
<td>$38</td>
<td>1-30</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4-20</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>8-16</td>
</tr>
<tr>
<td>B</td>
<td>3</td>
<td>$94</td>
<td>2-28</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4-19</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>10-16</td>
</tr>
<tr>
<td>C</td>
<td>0</td>
<td>0</td>
<td>3-10</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4-16</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4-17</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>11-14</td>
</tr>
<tr>
<td>Tables</td>
<td>Inventory 1-1-56</td>
<td>1956 Purchases</td>
<td>Inventory 12-31-56</td>
</tr>
<tr>
<td>--------</td>
<td>-----------------</td>
<td>----------------</td>
<td>-------------------</td>
</tr>
<tr>
<td></td>
<td>Number</td>
<td>Per Unit</td>
<td>Date</td>
</tr>
<tr>
<td>A</td>
<td>2</td>
<td>$156</td>
<td>3-18</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>11-15</td>
</tr>
<tr>
<td>B</td>
<td>0</td>
<td>0</td>
<td>6-4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>9-10</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>12-14</td>
</tr>
<tr>
<td></td>
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<td></td>
<td>12-16</td>
</tr>
<tr>
<td>C</td>
<td>4</td>
<td>$201</td>
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<td></td>
<td>3-15</td>
</tr>
<tr>
<td>Sofas</td>
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<td>2</td>
<td>$149</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>$111</td>
<td>1-16</td>
</tr>
<tr>
<td></td>
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<tr>
<td>C</td>
<td>3</td>
<td>$129</td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bedroom Sets</td>
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<td>$316</td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>2</td>
<td>$412</td>
<td>1-16</td>
</tr>
<tr>
<td>C</td>
<td>3</td>
<td>$214</td>
<td>1-1</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2-14</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3-16</td>
</tr>
<tr>
<td>Misc. Items</td>
<td>A</td>
<td>2</td>
<td>$18</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2-16</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3-10</td>
</tr>
<tr>
<td>B</td>
<td>3</td>
<td>$4</td>
<td>1-14</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>2-16</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3-12</td>
</tr>
<tr>
<td>Misc. Items</td>
<td>Inventory 1-1-56</td>
<td>1956 Purchases</td>
<td>Inventory 12-31-56</td>
</tr>
<tr>
<td>------------</td>
<td>-----------------</td>
<td>----------------</td>
<td>-------------------</td>
</tr>
<tr>
<td></td>
<td>Number</td>
<td>Per Unit</td>
<td>Date</td>
</tr>
<tr>
<td>C</td>
<td>2</td>
<td>$8</td>
<td>1-12</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2-16</td>
</tr>
<tr>
<td>D</td>
<td>11</td>
<td>$14</td>
<td>1-14</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2-16</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3-30</td>
</tr>
</tbody>
</table>

What is the effect of an overstated inventory? An understated inventory?

Chapter 13, Problem 3

Mr. David Scott operates a book store in Dallas, Texas, called Scott Book Store. It has been Mr. Scott's policy to take inventory only one time each year. He has been taking the inventory on December 31 and the last time an inventory was taken was December 31, 1956.

On June 16, 1957, fire swept through Scott Book Store destroying much of Mr. Scott's inventory. His records were not destroyed, but he did not know what the inventory was at the time of the fire. The insurance company had to have an estimate of the inventory on the date of the fire to determine the amount to be paid Mr. Scott to settle the claim.

The insurance adjuster suggested using the "gross profit" method of determining the inventory on June 16, 1957.

From the past records a gross profit rate of 24 per cent was determined. The other data found in the ledger accounts were:

Merchandise inventory, $16,000
Purchases from 1-1-57 through 6-16-57, $73,600
Purchase returns and allowances 1-1-57 through 6-16-57, $400
Sales 1-1-57 through 5-31-57, $79,300
Sales 6-1-57 through 6-16-57, $4,640
Sales returns and allowances 1-1-57 through 6-1-57, $140

Compute the inventory on June 16, 1957, by the "gross profit" method so that Mr. Scott and the insurance company can have a basis on which to settle the claim for the loss.

Why does Mr. Scott use the "gross profit" method of inventory calculation instead of taking an actual physical inventory?

Chapter 13, Problem 4

Mr. Robert Brewer operates the Brewer Grocery in Ranger, Texas. Mr. Brewer makes financial statements each month so he can have a clear picture of the loss or profit in his business. He has up-to-date statements available for use in obtaining credit and loans from banks. Mr. Brewer has a moving picture of his business and can make better management decisions.

Since Mr. Brewer must have an inventory valuation each month when he makes his financial statements, he needs a method by which he may estimate his inventory. It would be best to have an actual physical inventory at the end of each month, but this would be impractical. A physical inventory is taken at the end of each fiscal year which is December 31. The retail method of estimating the inventory is used each month by Mr. Brewer to estimate the inventory valuation used in the monthly statements.
Compute the inventory for Mr. Brewer on March 31, 1957, from the data given.

<table>
<thead>
<tr>
<th>Merchandise inventory, 1-1-57</th>
<th>Cost</th>
<th>Selling Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases from 1-1-57 to 3-31-57</td>
<td>14,000</td>
<td>19,300</td>
</tr>
<tr>
<td>Purchase returns and allowances from 1-1-57 to 3-31-57</td>
<td>40,100</td>
<td>50,125</td>
</tr>
<tr>
<td>Sales from 1-1-57 to 3-31-57</td>
<td>100</td>
<td>125</td>
</tr>
<tr>
<td>54,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Why does Mr. Brewer use the retail method of inventory computation?

Chapter 14, Problem 1

Mr. Sam Harting operates the Parcel Delivery Service in Fort Worth, Texas. Mr. Harting has contracts with several drug stores and specialty shops to deliver parcels for them. He also picks up and delivers articles for individuals even though not under contract.

Mr. Harting has five panel trucks, three motorcycles and one large truck to fulfill the needs of his customers. These vehicles constitute the largest assets of Mr. Harting. They earn revenues for him over their useful life.

Mr. Harting realizes that the usefulness of the vehicles extends over several years, and he does not charge the cost of the vehicles to expense accounts when they are purchased. It is necessary for Mr. Harting to allocate the cost of the vehicles to the periods in which they help to earn revenues. He follows the income principle of accounting by allocating, through depreciation, the cost of the asset over its life which is the period in which it helps to earn revenues.
Therefore, the costs of earning revenues are matched against the revenues earned to ascertain the proper income.

The valuation of fixed assets on the balance sheet of Parcel Delivery Service is also very important. If no depreciation were taken on the fixed assets and they remained on the statement at cost, an overstatement of the fixed assets would occur to mislead lenders and prospective investors.

Since Mr. Harting can so easily see that his vehicles earn revenues and that the costs should be allocated over the life of the asset, he makes adjusting entries at the end of each year to record the depreciation.

The delivery equipment account on January 1, 1957, had a balance of $18,895. It was made up of the following vehicles:

<table>
<thead>
<tr>
<th>Vehicle</th>
<th>Cost</th>
<th>Useful Life</th>
<th>Date Purchased</th>
<th>Scrap Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Panel Truck A</td>
<td>$2,000</td>
<td>3 years</td>
<td>1-1-54</td>
<td>$200</td>
</tr>
<tr>
<td>Panel Truck B</td>
<td>2,100</td>
<td>3 years</td>
<td>7-1-55</td>
<td>300</td>
</tr>
<tr>
<td>Panel Truck C</td>
<td>2,330</td>
<td>3 years</td>
<td>12-1-55</td>
<td>530</td>
</tr>
<tr>
<td>Panel Truck D</td>
<td>2,200</td>
<td>3 years</td>
<td>7-1-56</td>
<td>100</td>
</tr>
<tr>
<td>Panel Truck E</td>
<td>2,850</td>
<td>3 years</td>
<td>1-14-57</td>
<td>450</td>
</tr>
<tr>
<td>Motorcycle A</td>
<td>840</td>
<td>4 years</td>
<td>1-1-54</td>
<td>40</td>
</tr>
<tr>
<td>Motorcycle B</td>
<td>910</td>
<td>4 years</td>
<td>1-1-56</td>
<td>110</td>
</tr>
<tr>
<td>Motorcycle C</td>
<td>1,015</td>
<td>4 years</td>
<td>1-1-57</td>
<td>115</td>
</tr>
<tr>
<td>Truck A</td>
<td>4,650</td>
<td>5 years</td>
<td>10-1-56</td>
<td>650</td>
</tr>
</tbody>
</table>

The balance in the valuation account, allowance for depreciation—equipment, on January 1, 1957, was $4,700.

Open T-Accounts for delivery equipment, allowance for depreciation—delivery equipment, depreciation—delivery equipment, gain or loss on disposal of fixed assets, repairs, and profit and loss summary. Record the transactions
pertaining to fixed assets in general journal form and post to the proper accounts.

1957
February

1 Sold panel truck B to Bill's Motor Company for $1,400 cash.

July

14 Purchased new panel truck from Jones Motor Company for $2,600 on account. Scrap value estimated to be $200. Expected useful life estimated to be four years.

October

1 Sold motorcycle A for $10 after it had been in an accident.

December

31 Record the depreciation expense for 1957. Close the nominal accounts.

1958
March

30 Purchased a used truck from Acme Supply Company for $3,100 cash. Before the truck was used $500 was spent on major repairs and painting. Identification truck B, scrap value estimated to be $400. Estimated useful life four years.

April

16 Sold panel truck A to Honest John Cars for $164 cash.

May

14 Purchased new headlight for truck B for $2.

June

30 Purchased new panel truck for $2,600 cash. Identification, panel truck G, scrap value estimated to be $500. Useful life estimated to be three years.
December

31 Record the depreciation expense for 1958. Close the nominal accounts.

Why does Mr. Harting record depreciation on his books? Is this a sound practice?

Chapter 14, Problem 2

Mr. Gerald Wallis operates a retail hardware store in Garland, Texas, called Wallis Hardware. Mr. Wallis owns his building, office equipment and delivery truck. Mr. Wallis has a thriving business and all of the fixed assets contribute to the earning of the revenues of the business. Each sale that is made, is made with the help of the fixed assets of the business.

Mr. Wallis spreads the cost of his fixed assets over the periods in which the assets will help earn revenues. This procedure gives Mr. Wallis a correct picture of the expense of his business. When the usefulness of the assets has declined to a very low point or the asset is completely useless, Mr. Wallis usually sells the asset or exchanges it for a new one. If Mr. Wallis sells the asset, he will usually buy another to replace it at a later date. The cost of the new asset is also spread over its useful life to determine the net income for the periods in which it helps to earn revenue.

Depreciation is a very important part of Mr. Wallis' business because the expense called depreciation expense is allowed for federal income tax purposes. Another important
part of this relationship to the federal income tax is that the internal revenue code has specified the manner in which exchanges of fixed assets shall be handled for federal income tax purposes.

Mr. Wallis had the following balances in his accounts on January 1, 1957.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$5,000</td>
</tr>
<tr>
<td>Building</td>
<td>28,000</td>
</tr>
<tr>
<td>Office equipment</td>
<td>446</td>
</tr>
<tr>
<td>Delivery equipment</td>
<td>2,106</td>
</tr>
<tr>
<td>Allowance for depreciation--building</td>
<td>14,100</td>
</tr>
<tr>
<td>Allowance for depreciation--office equipment</td>
<td>248</td>
</tr>
<tr>
<td>Allowance for depreciation--delivery equip.</td>
<td>625</td>
</tr>
</tbody>
</table>

Mr. Wallis' transactions pertaining to fixed assets in 1957 are given. Record these transactions in general journal form.

1957
March

13 Exchanged typewriter which had cost $242 on May 10, 1953. The estimated life on that date was six years, and the scrap value was estimated to be $62. Mr. Wallis received a new typewriter with a sales price of $310 for his old machine and $195 cash. (Record this transaction using both the accounting method and the income tax method.) The scrap value of the new typewriter is estimated to be $10 and the useful life is expected to be ten years.

June

20 Exchanged the pickup truck for a new one with a sales price of $2,400. Received as trade-in allowance of $1,500 on the old truck. The old truck was purchased for $2,106 on March 24, 1955. The life of the truck was estimated to be four years and to have a scrap value at that time of $106. The new truck is expected to have a life of four years and a scrap value of $200. (Show entries for both the accounting and the income tax method.)
August

11 Sold adding machine for $50 which was purchased on January 1, 1950 for $204. The estimated life at that time was expected to be eight years and the estimated scrap value was $12.

12 Purchased new adding machine for $240 cash. The estimated useful life was ten years. Scrap value estimated to be $20.

December

31 Record the depreciation on the new assets for the year using the accounting method transactions. (It is not necessary to record the depreciation on the assets held on January 1, 1957.) Then record the depreciation on the new assets for the year using the income tax method transactions.

Chapter 15, Problem 1

In a business using a good system of accounting there will be control over the cash of the business by using complete records. These complete records consist of special journals and the use of checks for the disbursement of cash. The cash is just one segment of the assets of the business, and Mr. D. E. Gibson has control over the cash as well as the other assets of his business.

When Mr. Gibson first put his accounting system into operation, all disbursements, regardless of size, had to be made by check. No currency or coins were kept on the premises. This procedure was poor for it required checks for small items which could be paid better in currency or coin.

To remedy this situation Mr. Gibson had his bookkeeper set up a petty cash fund from which small amounts could be disbursed on proper authorization by a voucher. A petty cash
book is kept, and all vouchers are entered in this book for a permanent record. The petty cash book in use is similar to the one illustrated in your textbook.

Record the transactions for June, 1957, of Mr. Gibson in the petty cash book and provide the general journal entry on June 30, 1957, to replenish the petty cash fund. The fund was replenished on May 31, 1957, and had a balance on June 1, 1957, of $50.

1957
June

1 Paid parcel post fee of $1. Voucher 301.


3 Paid $6 for merchandise purchased, sent collect on delivery. Voucher 303.

5 Paid $12.10 freight on merchandise purchased. Voucher 304.

8 Purchased miscellaneous expense items for $1.65. Voucher 305. (selling)

12 Paid $6.16 freight on merchandise purchased. Voucher 306.

15 Paid $10.12 for typewriter repairs. Voucher 307. (Miscellaneous general expense)

17 Paid $2.16 to salesman for transportation. Voucher 308.

19 Mr. Gibson withdrew $4.18 to pay for a personal purchase delivered to the office. Voucher 309.

26 Paid miscellaneous selling expenses of 36 cents. Voucher 310.

30 Purchased typewriter ribbon for $1.84. Voucher 311. (office supplies)
Do you recommend that Mr. Gibson continue to use the petty cash fund in his business? What benefit do you as management derive from the use of a petty cash fund?

Chapter 15, Problem 2

Mr. Al Martin is the owner of the Jones Company which sells small machine tools to industry. The Jones Company is small but has an excellent accounting system to control its cash, merchandise, and receivables. In order to maintain double control over the cash of the business, Mr. Martin uses a combined cash journal and makes almost all of the disbursements by check. There are few transactions in this company; therefore, a combined cash journal may be used. To secure the double control over cash, all receipts of cash are deposited directly into the bank. Jones Company uses a fund called petty cash to pay small expenses which are more conveniently paid by cash than by check. The control over the assets of the business is very important to Mr. Martin, and the double record of cash is one way to have effective control.

Mr. Martin's combined cash journal has the following columns:

<table>
<thead>
<tr>
<th>Cash debit</th>
<th>Accounts receivable credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash credit</td>
<td>Accounts receivable debit</td>
</tr>
<tr>
<td>Check number</td>
<td>Miscellaneous general expense</td>
</tr>
<tr>
<td>Date</td>
<td>Accounts payable debit</td>
</tr>
<tr>
<td>Description</td>
<td>Accounts payable credit</td>
</tr>
<tr>
<td>Posting reference</td>
<td>Sales discount debit</td>
</tr>
<tr>
<td>General debit</td>
<td>Purchases discount credit</td>
</tr>
<tr>
<td>General credit</td>
<td>Sales credit</td>
</tr>
<tr>
<td>Purchases debit</td>
<td></td>
</tr>
</tbody>
</table>
The items below are selected from Mr. Martin's transactions for January, 1957. You are to record these transactions in the combined cash journal. Indicate by writing "post" in the posting reference column of each line the items to be posted individually to the general ledger.

1957
January

1 Paid $1,200 rent for 1957. Check number 312.

2 Sold merchandise on account to Morton Russell for $610.

4 Purchased merchandise on account from Belknap Hardware for $1,600, terms 2/10, n/30.

7 Paid freight on merchandise purchases, $12. Check number 313.

8 Received $200 on account of John Jones less 2 per cent cash discount.

8 Cash sales for January 1-7 were $1,710.

9 Purchased office supplies on account from Wagner Office Supply for $15, terms net/30.

10 Purchased a 5-year insurance policy on the store building for $1,500. Check number 314.

11 Paid Belknap Hardware account of $1,600 less 2 per cent discount. Check number 315.

12 Gave our 90-day non-interest bearing note to Jackson Steel Supply for $2,710 on account.

14 Sold merchandise on account to Acme Manufacturers for $6,490, terms net/60.

15 Cash sales for January 8-15 were $194.

17 Received 60-day 6 per cent note from Lloyd Fitters Company on account, $1,000.

19 Collected 90-day 4 per cent note of $400 and interest from Fisher Machines.
21 Received $1,600 on account of Fuller Company less 3 per cent cash discount.

22 Cash sales for January 15-22 were $410.

24 Purchased merchandise for $120 cash.

26 Paid $16 for miscellaneous general expenses.

28 Paid salaries for January of $600.

29 Withdrew $300 for personal use.

31 Issued check number 320 to reimburse petty cash for these expenses: postage $2; freight in $10; office supplies $12; miscellaneous general expenses $16.

How does Mr. Martin secure control over his cash by using the combined cash journal? How many other journals are used in conjunction with the combined cash journal? Explain the benefits of the combined cash journal.

Chapter 16, Problem 1

Mr. Robert Neal is the owner of Anderson Furniture Company in Dallas, Texas. Sales of Anderson Furniture Company in 1956 were $370,312.10, and the profit was $31,194.13. Assets on December 31, 1956, totaled $98,419.33. These figures are an indication of the size of operation conducted by Mr. Neal.

The retail sales department showroom is located in downtown Dallas, but due to the high rent it is necessary to maintain a warehouse in an industrial district near rail facilities. Three men operate the warehouse and deliver the merchandise which is sold.

Merchandise is purchased by Mr. Neal and two sales persons who accompany him to market in Chicago each year. All
merchandise purchase orders are made after a purchase requisition has been issued by a sales person or other employee. When goods are received, the warehousemen issue receiving slips to indicate the quantity and quality of the goods received.

Invoices are received from suppliers for the goods purchased from them. The invoices of the suppliers are compared with the receiving slips prepared by the warehousemen. The invoice is then compared with the purchase order to determine if the quantity, quality, price, and terms are the same as specified on the purchase order.

All of the papers—purchase order, receiving slip, and invoice—are very important to the proper control over purchases and payments to creditors. After the invoices have been checked for all possible errors and approved by the general manager, a voucher is prepared by the voucher clerk. The voucher is entered in the voucher register in numerical order, and the information on the voucher is placed in the voucher register. The invoice is attached to the voucher, and the voucher is filed in the unpaid vouchers file by date to determine the amount payable at any time.

On the date of payment the voucher is sent to the person who writes the checks and it is paid. Notation of the payment is made on the voucher and it is filed in the paid voucher file with the invoice attached.

Mr. Neal uses a check register to record all of the checks written. When checks have been entered in the check register,
postings are made from the check register to the voucher register to indicate the vouchers which are paid, and those which are outstanding.

The use of the voucher system by Mr. Neal has given him control over his purchases, cash disbursements, and the liabilities at any time. He has also eliminated the necessity of maintaining an accounts payable subsidiary ledger and the expensive postings to this ledger. The vouchers and voucher register now provide an accurate and complete record of the current liabilities.

The following vouchers, totaling $3,900, were outstanding on May 1, 1957, and should be entered in the voucher register. Rule after entering them.

1957
April

28 Acme Supply, purchases $1,100. Voucher 1946.

30 Kroehler Furniture, purchases $2,800. Voucher 1948.

Enter in T-Accounts the balances of selected accounts on May 1, 1957.

<table>
<thead>
<tr>
<th>Account</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$3,900</td>
</tr>
<tr>
<td>Purchases</td>
<td>49,680</td>
</tr>
<tr>
<td>Purchase returns and allowances</td>
<td>769</td>
</tr>
<tr>
<td>Store supplies</td>
<td>214</td>
</tr>
<tr>
<td>Advertising expense</td>
<td>1,410</td>
</tr>
<tr>
<td>Rent expense</td>
<td>1,000</td>
</tr>
<tr>
<td>Notes payable</td>
<td>1,200</td>
</tr>
<tr>
<td>Interest expense</td>
<td>10</td>
</tr>
</tbody>
</table>

A partial list of transactions of Anderson Furniture Company for May, 1957, is shown. Record these transactions by using a voucher register, check register, and general
journal. Use a voucher register similar to the one shown in your textbook. The vouchers begin with number 1949. The checks begin with number 4901. Post to the accounts which are available.

1957
May

2 Purchased merchandise from Simmons Manufacturing, $400, 4906, May 2, 1957, terms 2/10, n/30.


5 Issued voucher for rent on building and warehouse to Williams Realty, $250. Rent is due the seventh day of each month.

7 Paid voucher number 1951.

8 Paid voucher number 1946, less 2 per cent discount.

10 Issued voucher for payment of a note payable and interest due May 11, 1957. The note was a 60-day 6 per cent note for $1,200 given to the Security State Bank.

10 Purchased merchandise from Kroehler Furniture Company, $1,000. Invoice 10110, May 10, 1957, terms 2/10, n/30.

12 Paid voucher 1949 less discount.

14 Received credit memorandum 961 for $200 from Kroehler Furniture Company for merchandise which was covered by voucher number 1948. This voucher had been in dispute.

16 Paid voucher 1954.

18 Purchased merchandise from Sealy Mattress Company, $400. Invoice 94031, May 18, 1957, terms 2/10, n/30.

20 Paid voucher number 1953 less discount.

23 Issued voucher for miscellaneous general expense to Ace Floor Cleaner Company, $24. Invoice 4194, 2/10, n/30.

25 Received credit memorandum from Marine Lamp Company for $100. Merchandise was returned which was on voucher 1956.

27 Purchased store supplies from Jones Supply, $110. Invoice 10464, terms 2/10, n/30.

31 Replenished petty cash. Made check payable to petty cash. The distribution shown on the voucher was: advertising expense $3.08; miscellaneous selling expense $1.24; office supplies $4.16; store supplies $5.52.

What benefit does Mr. Neal obtain by using the voucher system? What is the amount of the liabilities on May 31 as shown by the voucher register and the accounts payable account?
CHAPTER III

SUMMARY

Accounting is an all-inclusive field containing the recording, classifying, summarizing, and interpreting of the events of a financial nature. Since accounting is an art with so many facets, it is not learned easily by all persons.

The problem of this study was to develop a series of "situation-type" problems to be used in the teaching of the first course in elementary accounting at North Texas State College. The purpose of this study was to provide a series of "situation-type" problems to be used in the teaching of the first course in elementary accounting at North Texas State College. This study was needed to aid the students in learning and to aid the instructors in teaching elementary accounting. The problems included in this study were developed with the intention of including accounting principles, accounting theory, and management in a business situation requiring the student to think. A comparison of problems from currently used textbooks and a problem from this study showed vividly the contrast between the traditional problems and the "situation-type" problem of this research.

Questions were added to the problems of this study to help the student relate the accounting work to the business situation.
The solutions were made to aid the instructors who will use the problems in teaching the first course in elementary accounting at North Texas State College.
## APPENDIX

### Chapter 1, Problem 1

<table>
<thead>
<tr>
<th></th>
<th>Assets</th>
<th>Liabilities</th>
<th>Proprietorship</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cash + Lot + Equip. =</td>
<td>Acme Print Shop + Jack Jones</td>
<td></td>
</tr>
<tr>
<td>(a)</td>
<td></td>
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<tr>
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<tr>
<td>$3,510</td>
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<td>$25</td>
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</tbody>
</table>

84
The increase in capital for the month of January was $6,695.

The profit for the month of January was $1,045.

Yes, Mr. Jones needs written records to aid him in his business because he must know the effect of his business transactions on his assets, liabilities, and proprietorship. From the written records the proprietor can get the information he needs in controlling his business.
### Chapter 1, Problem 2

<table>
<thead>
<tr>
<th>Date</th>
<th>Assets</th>
<th>Liabilities</th>
<th>Proprietary</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957 April</td>
<td>Cash + Mde. + Truck = Flower Sup. Co. + Proprietaryship Lena Moore</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>$5,250</td>
<td>$1,220</td>
<td>$5,250</td>
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<tr>
<td>2</td>
<td>4,840</td>
<td>1,630</td>
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<td>10</td>
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<td>1,302</td>
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<td>30</td>
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<td>-</td>
</tr>
</tbody>
</table>

**Total: $2,324 + $2,106 + $1,125 = $5,555**
The basic accounting equation is: \[ \text{Assets} = \text{Liabilities} + \text{Proprietorship} \]

The effect of sales on proprietorship is to increase the proprietorship by the amounts which the sales exceed the cost of the merchandise sold. The effect of expenses on proprietorship is to decrease proprietorship by the amounts of the expenses.
Chapter 2, Problem 1

Louis Jones  
Balance Sheet  
June 1, 1957

### Assets

<table>
<thead>
<tr>
<th>Current Assets:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$6,525.30</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>3,447.25</td>
</tr>
<tr>
<td>Laundry Supplies</td>
<td>145.36</td>
</tr>
<tr>
<td>Office Supplies</td>
<td>47.21</td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td>130.60</td>
</tr>
<tr>
<td>Total Current Assets</td>
<td>$10,295.72</td>
</tr>
</tbody>
</table>

### Fixed Assets:

| Land                      | $2,000.00  |
| Building                  | 21,047.29  |
| Washing Machines          | 7,000.00   |
| Driers                    | 1,807.24   |
| Clothes Baskets           | 327.94     |
| Delivery Truck            | 2,748.60   |
| Office Machines           | 806.27     |
| Total Fixed Assets        | $35,737.34 |

**Total Assets**  
$46,033.06

### Liabilities

<table>
<thead>
<tr>
<th>Current Liabilities:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes Payable</td>
<td>$5,043.87</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>1,764.23</td>
</tr>
<tr>
<td>Unearned Income</td>
<td>74.30</td>
</tr>
<tr>
<td>Total Current Liabilities</td>
<td>$6,882.40</td>
</tr>
</tbody>
</table>

### Proprietorship

Louis Jones, Capital .............. $39,150.66  
Total Liabilities and Proprietorship ...... $46,033.06

The working capital is $10,295.72 minus $6,882.40 or $3,413.32.

The working capital ratio is $10,295.72 or 1.5 to 1.  

As the banker I would extend credit to Mr. Jones for  
the expansion of his business.
Chapter 2, Problem 2

<table>
<thead>
<tr>
<th></th>
<th>Joe Williams, Capital, December 31, 1957</th>
<th></th>
<th>$8,000</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Joe Williams, Capital, January 1, 1957</td>
<td></td>
<td>3,000</td>
</tr>
<tr>
<td></td>
<td>Increase during 1957</td>
<td></td>
<td>5,000</td>
</tr>
<tr>
<td></td>
<td>Deduct additional investment</td>
<td></td>
<td>4,000</td>
</tr>
<tr>
<td></td>
<td>Profit for 1957</td>
<td></td>
<td>$1,000</td>
</tr>
</tbody>
</table>

|   | Joe Williams, Capital, December 31, 1957 |   | 8,000  |
|   | Joe Williams, Capital, January 1, 1957  |   | 3,000  |
|   | Increase during 1957                   |   | 5,000  |
|   | Deduct additional investment           |   | 1,000  |
|   | Profit for 1957                        |   | 4,000  |

|   | Joe Williams, Capital, December 31, 1957 |   | $8,000 |
|   | Joe Williams, Capital, January 1, 1957  |   | 3,000  |
|   | Increase during 1957 ($5,000)           |   |        |
|   | Add withdrawals ($1,000)                |   |        |
|   | Deduct additional investment 3,000      |   |        |
|   | Net deduction                           |   | 2,000  |
|   | Profit for 1957                         |   | 3,000  |

|   | Joe Williams, Capital, December 31, 1957 |   | $8,000 |
|   | Joe Williams, Capital, January 1, 1957  |   | 3,000  |
|   | Increase during 1957, Profit for 1957   |   | 5,000  |

|   | Joe Williams, Capital, December 31, 1957 |   | $8,000 |
|   | Joe Williams, Capital, January 1, 1957  |   | 3,000  |
|   | Increase during 1957                    |   | 5,000  |
|   | Add withdrawals                         |   | 7,000  |
|   | Profit for 1957                         |   | 12,000 |

|   | Joe Williams, Capital, December 31, 1957 |   | 8,000  |
|   | Joe Williams, Capital, January 1, 1957  |   | 3,000  |
|   | Increase during 1957 ($5,000)           |   |        |
|   | Add withdrawals ($500)                  |   |        |
|   | Deduct additional investment 6,000      |   |        |
|   | Net deduction                           |   | 5,500  |
|   | Loss for 1957                           |   | 500    |

The following may be determined from an analysis of changes in proprietorship:

1. Capital at the beginning of the year
2. Capital at the end of the year
3. Additional investments during the year
4. Withdrawals during the year

5. The change resulting from the profit or loss of the operations.

These findings are important to Mr. Williams because he can determine his profit and loss for the year and plan his operations in a better way. The amounts found are useful for comparisons with other years and other businesses of the same type.
## Chapter 3, Problem 1

Reddin Cleaners
Profit and Loss Statement for
Year Ended December 31, 1957

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$18,741</td>
</tr>
<tr>
<td>Operating Expenses:</td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td>$5,724</td>
</tr>
<tr>
<td>Rent</td>
<td>1,800</td>
</tr>
<tr>
<td>Cleaning Fluid</td>
<td>982</td>
</tr>
<tr>
<td>Delivery Expense</td>
<td>612</td>
</tr>
<tr>
<td>Taxes</td>
<td>264</td>
</tr>
<tr>
<td>Utilities</td>
<td>189</td>
</tr>
<tr>
<td>Office Supplies</td>
<td>165</td>
</tr>
<tr>
<td>Coat Hangers</td>
<td>120</td>
</tr>
<tr>
<td>Telephone</td>
<td>72</td>
</tr>
<tr>
<td><strong>Total Operating Expense</strong></td>
<td><strong>9,928</strong></td>
</tr>
<tr>
<td>Net Profit</td>
<td><strong>8,813</strong></td>
</tr>
</tbody>
</table>

The net income shown by a profit and loss statement is a very important figure on the statement, but the items of income and expense which make up the statement are also very important. The reason for their importance is their effect on the net income. Analyses of profit and loss statements contain comparisons and ratios using all of the information in the statements.
Chapter 3, Problem 2

Lewis Appliance Company
Profit and Loss Statement for
The Year Ended December 31, 1957

Sales ................................................. $214,289

Cost of Goods Sold:
Merchandise Inventory, January 1, 1957 $36,424
Purchases ............................................ $163,243
Freight In .......................................... 2,432
Delivered Cost of Purchases ......... 165,675
Merchandise Available for Sale ...... 202,099
Less Merchandise Inventory, December 31, 1957 .... 38,941
Cost of Goods Sold ............................. 163,158
Gross Profit on Sales ......................... 51,131

Operating Expenses:
Selling Expenses
Salaries ...................................... $10,281
Sale Commissions ...................... 5,689
Advertising Expense .... 2,843
Ins. Exp.--Selling ..................... 1,542
Store Supplies Exp. .............. 168
Misc. Selling Exp. ................. 819
Total Selling Expenses .......... 21,342

General Expenses:
Office Salaries ......................... 5,435
Taxes Expense ......................... 1,537
Office Supplies Exp. .............. 424
Ins. Expense--General ............. 254
Misc. Gen. Expense ................. 542
Total Gen. Expense ................. 8,192

Total Operating Expenses ........... 29,534
Net Profit from Operations ........ $21,597

Mr. Glenn can use his income statement to determine the causes of increases or decreases in profits. He can use the statements of several months or years to determine the past trend of each individual item on the statements. The over-all use of the statement is to help Mr. Glenn control his business and operate it in the most efficient manner.
### General Ledger

#### Cash

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a.</td>
<td>20,000</td>
<td>b.</td>
<td>1,075</td>
<td></td>
</tr>
<tr>
<td>f.</td>
<td>531</td>
<td>d.</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>l.</td>
<td>374</td>
<td>e.</td>
<td>835</td>
<td></td>
</tr>
<tr>
<td>m.</td>
<td>385</td>
<td>g.</td>
<td>135</td>
<td></td>
</tr>
<tr>
<td>p.</td>
<td>401</td>
<td>h.</td>
<td>150</td>
<td></td>
</tr>
<tr>
<td>u.</td>
<td>347</td>
<td>i.</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>v.</td>
<td>428</td>
<td>j.</td>
<td>63</td>
<td></td>
</tr>
<tr>
<td></td>
<td>22,466</td>
<td>n.</td>
<td>89</td>
<td></td>
</tr>
<tr>
<td>o.</td>
<td>2,400</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>q.</td>
<td>210</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>r.</td>
<td>160</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>s.</td>
<td>240</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>t.</td>
<td>474</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>w.</td>
<td>101</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>x.</td>
<td>28</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>y.</td>
<td>341</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>z.</td>
<td>420</td>
<td></td>
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<tr>
<td></td>
<td>6,932</td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Accounts Receivable

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>f.</td>
<td>480</td>
<td>m.</td>
</tr>
<tr>
<td>l.</td>
<td>700</td>
<td>u.</td>
</tr>
<tr>
<td>p.</td>
<td>635</td>
<td></td>
</tr>
<tr>
<td>v.</td>
<td>842</td>
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</tr>
<tr>
<td></td>
<td>2,657</td>
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</tr>
</tbody>
</table>

#### Office Supplies

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>k.</td>
<td>87</td>
</tr>
</tbody>
</table>

#### Truck

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>b.</td>
<td>1,875</td>
</tr>
</tbody>
</table>

#### Exterminating Equipment

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>e.</td>
<td>835</td>
</tr>
</tbody>
</table>

#### Chemicals

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>c.</td>
<td>3,100</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------------------</td>
<td>------</td>
</tr>
<tr>
<td><strong>Prepaid Insurance</strong></td>
<td></td>
</tr>
<tr>
<td>j.</td>
<td>63</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Notes Payable</strong></td>
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</tr>
<tr>
<td>z.</td>
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</tr>
<tr>
<td>b.</td>
<td>800</td>
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<tr>
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</tr>
<tr>
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</tr>
<tr>
<td><strong>Accounts Payable</strong></td>
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</tr>
<tr>
<td>o.</td>
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<tr>
<td>t.</td>
<td>474</td>
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<tr>
<td>k.</td>
<td>3,100</td>
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<td></td>
<td>a/87</td>
</tr>
<tr>
<td></td>
<td>a/98</td>
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<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>James Priddy, Capital</strong></td>
<td></td>
</tr>
<tr>
<td>a.</td>
<td>20,000</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>James Priddy, Drawings</strong></td>
<td></td>
</tr>
<tr>
<td>h.</td>
<td>150</td>
</tr>
<tr>
<td>r.</td>
<td>160</td>
</tr>
<tr>
<td>310</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sales</strong></td>
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</tr>
<tr>
<td>f.</td>
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</tr>
<tr>
<td>l.</td>
<td>1,074</td>
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<tr>
<td>m.</td>
<td>1,036</td>
</tr>
<tr>
<td>v.</td>
<td>1,270</td>
</tr>
<tr>
<td></td>
<td>a/39</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Rent Expense</strong></td>
<td></td>
</tr>
<tr>
<td>d.</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Salary Expense</strong></td>
<td></td>
</tr>
<tr>
<td>g.</td>
<td>135</td>
</tr>
<tr>
<td>q.</td>
<td>210</td>
</tr>
<tr>
<td>s.</td>
<td>240</td>
</tr>
<tr>
<td>y.</td>
<td>341</td>
</tr>
<tr>
<td></td>
<td>q26</td>
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</tbody>
</table>
Gasoline and Oil

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>n.</td>
<td>89</td>
</tr>
<tr>
<td>w.</td>
<td>101</td>
</tr>
</tbody>
</table>

Taxes Expense

| i. | 31 |

Miscellaneous Expense

| x. | 28 |

Ex-Pesto

Trial Balance
April 30, 1957

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$15,634</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>1,925</td>
</tr>
<tr>
<td>Office Supplies</td>
<td>87</td>
</tr>
<tr>
<td>Truck</td>
<td>1,875</td>
</tr>
<tr>
<td>Exterminating Equipment</td>
<td>835</td>
</tr>
<tr>
<td>Chemicals</td>
<td>3,100</td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td>63</td>
</tr>
<tr>
<td>Notes Payable</td>
<td>380</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>313</td>
</tr>
<tr>
<td>James Priddy, Capital</td>
<td>20,000</td>
</tr>
<tr>
<td>James Priddy, Drawings</td>
<td>310</td>
</tr>
<tr>
<td>Sales</td>
<td>4,391</td>
</tr>
<tr>
<td>Rent Expense</td>
<td>80</td>
</tr>
<tr>
<td>Salary Expense</td>
<td>926</td>
</tr>
<tr>
<td>Gasoline and Oil</td>
<td>190</td>
</tr>
<tr>
<td>Taxes</td>
<td>31</td>
</tr>
<tr>
<td>Miscellaneous Expense</td>
<td>28</td>
</tr>
</tbody>
</table>

$25,084  25,084

Mr. Priddy uses accounts in his record keeping so that he will have an individual record on which to summarize the transactions affecting each item which goes on the financial statements.
<table>
<thead>
<tr>
<th>Date</th>
<th>Account</th>
<th>Post. Ref.</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 1957</td>
<td>Rent expense</td>
<td>14</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>1</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Paid rent for May.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Notes payable</td>
<td>7</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>1</td>
<td></td>
<td>200</td>
</tr>
<tr>
<td></td>
<td>Paid on note.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Cash</td>
<td>1</td>
<td>1,850</td>
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</tr>
<tr>
<td></td>
<td>Accounts receivable</td>
<td>2</td>
<td></td>
<td>1,850</td>
</tr>
<tr>
<td></td>
<td>Received cash on account.</td>
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<td></td>
</tr>
<tr>
<td>5</td>
<td>Miscellaneous expense</td>
<td>15</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>1</td>
<td></td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>Purchased postage stamps.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Advertising expense</td>
<td>13</td>
<td>110</td>
<td>110</td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>1</td>
<td></td>
<td>110</td>
</tr>
<tr>
<td></td>
<td>Paid local paper for adver.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Office equipment</td>
<td>6</td>
<td>184</td>
<td>184</td>
</tr>
<tr>
<td></td>
<td>Accounts payable</td>
<td>8</td>
<td></td>
<td>184</td>
</tr>
<tr>
<td></td>
<td>Purchased typewriter on acc.</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Accounts receivable</td>
<td>2</td>
<td>2,325</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Consulting fees</td>
<td>10</td>
<td></td>
<td>2,325</td>
</tr>
<tr>
<td></td>
<td>Billed client for services rendered.</td>
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<td></td>
</tr>
<tr>
<td>18</td>
<td>Prepaid insurance</td>
<td>4</td>
<td>360</td>
<td>360</td>
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<tr>
<td></td>
<td>Cash</td>
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<td></td>
<td>360</td>
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<tr>
<td></td>
<td>Purchased three-year policy.</td>
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<td></td>
</tr>
<tr>
<td>20</td>
<td>Cash</td>
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<td>1,825</td>
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</tr>
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<td></td>
<td>Accounts receivable</td>
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<td></td>
<td>1,825</td>
</tr>
<tr>
<td></td>
<td>Received cash on account.</td>
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<td></td>
</tr>
<tr>
<td>21</td>
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<td>1,184</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>1</td>
<td></td>
<td>1,184</td>
</tr>
<tr>
<td></td>
<td>Paid on account.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>Jake Sheffield, drawing</td>
<td>10</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td>1</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Withdrew cash for personal use.</td>
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<td></td>
<td></td>
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</tbody>
</table>
## General Journal

<table>
<thead>
<tr>
<th>Date</th>
<th>Account</th>
<th>Post. Ref.</th>
<th>Debit</th>
<th>Credit</th>
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</thead>
<tbody>
<tr>
<td>1957</td>
<td>May 28 Cash</td>
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### Cash

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### Miscellaneous Expense

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Jake Sheffield

**Trial Balance**

May 31, 1957

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**Total**: 24,475 24,475
Mr. Sheffield uses a journal in his business as a preliminary record of the transactions before they are entered in the accounts. The journal is used to maintain a permanent record of the debits, credits, and descriptive data arising from transactions. This information is sometimes helpful in the future.
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2,054 1,146 1,402 2,310
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| June 5, 1957 | 150  
| June 1, 1957 | 2,500  
|  
| Eddie Gilmore, Capital |  
| June 1, 1957 | 13,317  
|  
| Eddie Gilmore, Drawing |  
| June 1, 1957 | 1,000  
| 30 | 1 | 200  
|  
| Rental Income |  
| June 1, 1957 | 5,500  
| 7 | 1 | 454  
| 15 | 1 | 436  
| 22 | 1 | 290  
| 29 | 1 | 404  
|  
| Salary Expense |  
| June 1, 1957 | 750  
| 7 | 1 | 50  
| 15 | 1 | 50  
| 23 | 1 | 50  
| 30 | 1 | 50  
|  
| Gasoline and Oil Expense |  
| June 1, 1957 | 1,219  
| 7 | 1 | 21  
| 15 | 1 | 37  
| 23 | 1 | 16  
| 30 | 1 | 31  
|  
| Rent Expense |  
| June 1, 1957 | 250  
| 1 | 1 | 50  
|  
| Repairs Expense |  
| June 1, 1957 | 128  
| 4 | 1 | 35  
| 14 | 1 | 10  
| 30 | 1 | 4  
|  

Advertising Expense

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 1, 1957</td>
<td>249</td>
</tr>
<tr>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>26</td>
<td>1</td>
</tr>
</tbody>
</table>

Miscellaneous Expense

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 1, 1957</td>
<td>97</td>
</tr>
<tr>
<td>11</td>
<td>1</td>
</tr>
<tr>
<td>20</td>
<td>1</td>
</tr>
</tbody>
</table>

Crow's Auto Rental Service

Trial Balance
June 30, 1957

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$5,648</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>255</td>
</tr>
<tr>
<td>Office supplies</td>
<td>197</td>
</tr>
<tr>
<td>Prepaid insurance</td>
<td>920</td>
</tr>
<tr>
<td>Automobiles</td>
<td>10,005</td>
</tr>
<tr>
<td>Office equipment</td>
<td>576</td>
</tr>
<tr>
<td>Shop equipment</td>
<td>1,224</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>491</td>
</tr>
<tr>
<td>Notes payable</td>
<td>2,350</td>
</tr>
<tr>
<td>Eddie Gilmore, capital</td>
<td>13,317</td>
</tr>
<tr>
<td>Eddie Gilmore, drawings</td>
<td>1,200</td>
</tr>
<tr>
<td>Rental income</td>
<td>7,089</td>
</tr>
<tr>
<td>Salary expense</td>
<td>950</td>
</tr>
<tr>
<td>Gasoline and oil expense</td>
<td>1,324</td>
</tr>
<tr>
<td>Rent expense</td>
<td>300</td>
</tr>
<tr>
<td>Repairs expense</td>
<td>177</td>
</tr>
<tr>
<td>Advertising expense</td>
<td>349</td>
</tr>
<tr>
<td>Miscellaneous expense</td>
<td>122</td>
</tr>
</tbody>
</table>

$23,247  23,247

I would recommend a four-column general journal with special columns for the accounts having the greatest number of transactions. An example of this is the use of special columns for cash. The reason for this would be to eliminate some posting and speed the entering of the transaction into
the journal. Mr. Gilmore began using a four-column journal with special columns for cash because his business had many cash transactions, and the use of this journal eliminated much posting to the cash account in the general ledger. This change saved money for Mr. Gilmore because it reduced the amount of time required to do the journalizing and posting.
## Chapter 6, Problem 1

**J-D Secretarial Service**

**Work Sheet**

For Month Ended January 31, 1957

<table>
<thead>
<tr>
<th>Account Title</th>
<th>Acct. No.</th>
<th>Trial Balance</th>
<th>Adjustments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>1</td>
<td>2,124</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>2</td>
<td>811</td>
<td></td>
</tr>
<tr>
<td>Office supplies</td>
<td>3</td>
<td>384</td>
<td>(a) 224</td>
</tr>
<tr>
<td>Prepaid insurance</td>
<td>4</td>
<td>120</td>
<td>(b) 10</td>
</tr>
<tr>
<td>Prepaid rent</td>
<td>5</td>
<td>400</td>
<td>(c) 80</td>
</tr>
<tr>
<td>Office equipment</td>
<td>6</td>
<td>1,273</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>7</td>
<td></td>
<td>1,150</td>
</tr>
<tr>
<td>Jean Dickson, capital</td>
<td>8</td>
<td>3,001</td>
<td></td>
</tr>
<tr>
<td>Jean Dickson, drawing</td>
<td>9</td>
<td>150</td>
<td></td>
</tr>
<tr>
<td>Fees</td>
<td>10</td>
<td></td>
<td>1,600</td>
</tr>
<tr>
<td>Salary expense</td>
<td>11</td>
<td>440</td>
<td>(d) 40</td>
</tr>
<tr>
<td>Utilities expense</td>
<td>12</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Misc. expense</td>
<td>13</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>5,751</strong></td>
<td><strong>5,751</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Account Title</th>
<th>Acct. No.</th>
<th>Trial Balance</th>
<th>Adjustments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office supplies exp.</td>
<td>14</td>
<td></td>
<td>(a) 224</td>
</tr>
<tr>
<td>Insurance expense</td>
<td>15</td>
<td></td>
<td>(b) 10</td>
</tr>
<tr>
<td>Rent expense</td>
<td>16</td>
<td></td>
<td>(c) 80</td>
</tr>
<tr>
<td>Salary payable</td>
<td>17</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net profit</strong></td>
<td></td>
<td></td>
<td><strong>354</strong></td>
</tr>
</tbody>
</table>

**Additional Notes:**

- (a) = Additional costs
- (b) = Decrease in cost
- (c) = Decrease in cost
- (d) = Decrease in cost
### Work Sheet—Continued

<table>
<thead>
<tr>
<th>Adjusted Trial Balance</th>
<th>Profit &amp; Loss Statement</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr.</td>
<td>Cr.</td>
<td>Dr.</td>
</tr>
<tr>
<td>2,124</td>
<td></td>
<td>2,124</td>
</tr>
<tr>
<td>811</td>
<td></td>
<td>811</td>
</tr>
<tr>
<td>160</td>
<td></td>
<td>160</td>
</tr>
<tr>
<td>110</td>
<td></td>
<td>110</td>
</tr>
<tr>
<td>320</td>
<td></td>
<td>320</td>
</tr>
<tr>
<td>1,273</td>
<td>1,150</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3,001</td>
<td></td>
</tr>
<tr>
<td>150</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,600</td>
<td></td>
</tr>
<tr>
<td>480</td>
<td></td>
<td>480</td>
</tr>
<tr>
<td>18</td>
<td></td>
<td>18</td>
</tr>
<tr>
<td>31</td>
<td></td>
<td>31</td>
</tr>
<tr>
<td>224</td>
<td></td>
<td>224</td>
</tr>
<tr>
<td>10</td>
<td></td>
<td>10</td>
</tr>
<tr>
<td>80</td>
<td></td>
<td>80</td>
</tr>
<tr>
<td></td>
<td></td>
<td>40</td>
</tr>
<tr>
<td>5,791</td>
<td>5,791</td>
<td>843</td>
</tr>
<tr>
<td></td>
<td></td>
<td>757</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,600</td>
</tr>
</tbody>
</table>
## General Journal

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Post. Ref.</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td>Adjusting Entries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan. 31</td>
<td>Office supplies expense</td>
<td>14</td>
<td>224</td>
<td>224</td>
</tr>
<tr>
<td></td>
<td>Office supplies</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Insurance expense</td>
<td>15</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>Prepaid insurance</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Rent expense</td>
<td>16</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td>Prepaid rent</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Salary expense</td>
<td>11</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td>Salary payable</td>
<td>17</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Closing Entries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Profit and loss summary</td>
<td>18</td>
<td>843</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Salary expense</td>
<td>11</td>
<td>480</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Utilities expense</td>
<td>12</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Miscellaneous expense</td>
<td>13</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Office supplies expense</td>
<td>14</td>
<td>224</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Insurance expense</td>
<td>15</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rent expense</td>
<td>16</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Fees</td>
<td>10</td>
<td>1,600</td>
<td>1,600</td>
</tr>
<tr>
<td></td>
<td>Profit and loss summary</td>
<td>18</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Jean Dickson, drawings</td>
<td>18</td>
<td>757</td>
<td>757</td>
</tr>
<tr>
<td></td>
<td>Jean Dickson, capital</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Jean Dickson, drawings</td>
<td>8</td>
<td>607</td>
<td>607</td>
</tr>
<tr>
<td></td>
<td>Jean Dickson, capital</td>
<td>9</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**J-D Secretarial Service**

**Balance Sheet**  
**January 31, 1957**

<table>
<thead>
<tr>
<th><strong>Assets</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets:</strong></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$2,124</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>811</td>
</tr>
<tr>
<td>Office supplies</td>
<td>160</td>
</tr>
<tr>
<td>Prepaid insurance</td>
<td>110</td>
</tr>
<tr>
<td>Prepaid rent</td>
<td>320</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>3,525</strong></td>
</tr>
</tbody>
</table>

| **Fixed Assets:** |     |
| Office equipment  | 1,273 |
| **Total assets**  | **4,798** |

| **Liabilities** |     |
| **Current Liabilities:** |     |
| Accounts payable   | 1,150 |
| Salary payable     | 40   |
| **Total current liabilities** | **1,190** |

**Proprietorship**  
Jean Dickson, capital, January 1, 1957  
3,001

Net profit for the month .. 757  
Less withdrawals .. 150  
Increase in capital .. 607  
Jean Dickson, capital, Jan. 31, 1957 .. 3,608  
Total liabilities and proprietorship .. **4,798**
### J-D Secretarial Service

**Profit and Loss Statement**  
**Month Ending January 31, 1957**

<table>
<thead>
<tr>
<th>Fees</th>
<th>$1,600</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Expenses:</strong></td>
<td></td>
</tr>
<tr>
<td>Salary expense</td>
<td>$480</td>
</tr>
<tr>
<td>Office supplies expense</td>
<td>224</td>
</tr>
<tr>
<td>Rent expense</td>
<td>80</td>
</tr>
<tr>
<td>Utilities expense</td>
<td>18</td>
</tr>
<tr>
<td>Insurance expense</td>
<td>10</td>
</tr>
<tr>
<td>Miscellaneous expense</td>
<td>31</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>843</td>
</tr>
<tr>
<td><strong>Net profit from operations</strong></td>
<td>757</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 31, 1957</td>
<td>2,124</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Accounts Receivable</th>
<th>2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 31, 1957</td>
<td>811</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Office Supplies</th>
<th>3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 31, 1957</td>
<td>384</td>
</tr>
<tr>
<td>Jan. 31, 1957 Balance</td>
<td>160</td>
</tr>
<tr>
<td>Feb. 1, 1957 Balance</td>
<td>160</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Prepaid Insurance</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 31, 1957</td>
<td>120</td>
</tr>
<tr>
<td>Jan. 31, 1957 Balance</td>
<td>110</td>
</tr>
<tr>
<td>Feb. 1, 1957 Balance</td>
<td>110</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Prepaid Rent</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 31, 1957</td>
<td>400</td>
</tr>
<tr>
<td>Jan. 31, 1957 Balance</td>
<td>320</td>
</tr>
<tr>
<td>Feb. 1, 1957 Balance</td>
<td>320</td>
</tr>
<tr>
<td>Account</td>
<td>Amount</td>
</tr>
<tr>
<td>-------------------------</td>
<td>----------</td>
</tr>
<tr>
<td>Office Equipment</td>
<td>1,273</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jan. 31, 1957 1,150</td>
</tr>
<tr>
<td>Jean Dickson, Capital</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jan. 31, 1957 3,001</td>
</tr>
<tr>
<td></td>
<td>31       1 607</td>
</tr>
<tr>
<td>Jean Dickson, Drawings</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jan. 31, 1957 757</td>
</tr>
<tr>
<td></td>
<td>31       1 607</td>
</tr>
<tr>
<td></td>
<td>757      757</td>
</tr>
<tr>
<td>Fees</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jan. 31, 1957 1,600</td>
</tr>
<tr>
<td></td>
<td>Jan. 31, 1957 1,600</td>
</tr>
<tr>
<td>Salary Expense</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jan. 31, 1957 480</td>
</tr>
<tr>
<td></td>
<td>Jan. 31, 1957 480</td>
</tr>
<tr>
<td>Utilities Expense</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jan. 31, 1957 18</td>
</tr>
<tr>
<td></td>
<td>Jan. 31, 1957 18</td>
</tr>
<tr>
<td>Miscellaneous Expense</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jan. 31, 1957 31</td>
</tr>
<tr>
<td></td>
<td>Jan. 31, 1957 31</td>
</tr>
<tr>
<td>Office Supplies Expense</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Jan. 31, 1957 224</td>
</tr>
<tr>
<td></td>
<td>Jan. 31, 1957 224</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>----------------------</td>
<td>------------------</td>
</tr>
<tr>
<td><strong>Insurance Expense</strong></td>
<td></td>
</tr>
<tr>
<td>Jan. 31, 1957</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Salary Payable</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Profit and Loss Summary</strong></td>
<td></td>
</tr>
<tr>
<td>Jan. 31, 1957</td>
<td>1</td>
</tr>
<tr>
<td>31</td>
<td>843</td>
</tr>
<tr>
<td></td>
<td>757</td>
</tr>
<tr>
<td></td>
<td>1,500</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
J-D Secretarial Service

Post-Closing Trial Balance
January 31, 1957

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$2,124</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>811</td>
</tr>
<tr>
<td>Office supplies</td>
<td>160</td>
</tr>
<tr>
<td>Prepaid insurance</td>
<td>110</td>
</tr>
<tr>
<td>Prepaid rent</td>
<td>320</td>
</tr>
<tr>
<td>Office equipment</td>
<td>1,273</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$1,150</td>
</tr>
<tr>
<td>Jean Dickson, capital</td>
<td>3,608</td>
</tr>
<tr>
<td>Salary payable</td>
<td>40</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,798</strong></td>
</tr>
</tbody>
</table>

Adjusting entries are necessary for Miss Dickson because she needs to have the revenues earned in 1957 included in income during that year and the costs of earning those revenues included as expenses during 1957. By following this principle, the income principle, Miss Dickson will have financial statements which will be very useful to her in the management of her business.

Miss Dickson's financial statements would not be comparable with others not making adjusting entries because the others might not have matched costs and revenues properly in every fiscal period.
Work Sheet--Continued

<table>
<thead>
<tr>
<th>Adjustments</th>
<th>Profit and Loss Statement</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dr.</td>
<td>Cr.</td>
</tr>
<tr>
<td>(b) 90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) 300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) 203</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

|             | Dr.          | Cr.          | 947  |
|-------------|--------------|--------------|
| (e) 113     |              | 7,313        |
| (a) 125     | 4,800        | 1,500        |
|             | 2,400        | 235          |

|             |              | 26           |

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Tony Williams

Balance Sheet
December 31, 1957

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<tr>
<td>Commissions receivable</td>
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<td></td>
</tr>
<tr>
<td>Prepaid insurance</td>
<td>270</td>
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<tr>
<td>Office supplies</td>
<td>125</td>
<td></td>
</tr>
<tr>
<td>Advertising supplies</td>
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<td></td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td></td>
<td><strong>$14,438</strong></td>
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| Fixed Assets: |          |          |
| Automobiles | 4,300    |          |
| Office equipment | 947      |          |
| **Total fixed assets** |          | **5,247** |
| **Total assets** |          | **$19,685** |

| Liabilities |          |          |
| Current Liabilities: |          |          |
| Accounts payable | $1,218 |          |
| Notes payable | 2,300   |          |
| Rent payable | 125     |          |
| Salaries payable | 113     |          |
| **Total current liabilities** |          | **$3,756** |

| Proprietorship |          |          |
| Tony Williams, capital | 15,929 |          |
| **Total liabilities and proprietorship** |          | **$19,685** |
Tony Williams

Statement of Proprietor's Capital
For Year Ended December 31, 1957

Tony Williams, capital, January 1, 1957 $10,454
Net profit for the year ........ $11,475
Less withdrawals ............... 6,000
Increase in capital ............. 5,475
Tony Williams, capital, December 31, 1957 15,929

Tony Williams

Profit and Loss Statement
For Year Ended December 31, 1957

Commissions income ........... $28,342

Operating expenses:
Salaries expense ............... 7,313
Commissions expense ........... 4,800
Rent expense ................ 1,500
Automobile expense ............ 2,400
Office supplies expense ........ 300
Advertising supplies expense .... 203
Utilities expense .............. 235
Insurance expense ............. 90
Miscellaneous expense ......... 26
Total operating expenses ...... 16,867
Net profit from operations .... 11,475
## General Journal

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### Tony Williams, Drawing

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**Total:** 19,685  
**Total:** 19,685

Mr. Williams uses adjusting entries to get all of the revenues earned recorded in the period earned and to get all of the costs incurred in earning those revenues recorded in the period in which the costs helped to earn revenues. This is in line with the income principle of accounting. Mr. Williams uses a work sheet to aid him in making his adjusting entries and the financial statements.
# Chapter 7, Problem 1

Sales Journal

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### Sales Returns and Allowances Journal

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### General Ledger

#### Sales

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#### Sales Returns and Allowances

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<tr>
<td>May 1, 1957</td>
<td>816</td>
</tr>
<tr>
<td>30</td>
<td>J1</td>
</tr>
<tr>
<td>31</td>
<td>SR1</td>
</tr>
</tbody>
</table>

#### Accounts Receivable

<table>
<thead>
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</thead>
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<tr>
<td>31</td>
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<tr>
<td>May 31, 1957</td>
<td>SR1</td>
</tr>
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</table>

#### Cash

<table>
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<th>Amount</th>
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</thead>
<tbody>
<tr>
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<tr>
<td>8</td>
<td>J1</td>
</tr>
<tr>
<td>May 30, 1957</td>
<td>J1</td>
</tr>
</tbody>
</table>
### Accounts Receivable Subsidiary Ledger

#### Beck Sporting Goods

<table>
<thead>
<tr>
<th>Date</th>
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</thead>
<tbody>
<tr>
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#### Garrett Sporting Goods

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<tr>
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<th>Credit Bal.</th>
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<tbody>
<tr>
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<tr>
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<tr>
<td>22</td>
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#### Hagan Sporting Goods

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<td>318</td>
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#### Jackson Hardware

<table>
<thead>
<tr>
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</table>

#### Tatum Sporting Goods

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<tr>
<td>4</td>
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#### Williams Hardware

<table>
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<td>18</td>
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<td>1,022</td>
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<td>1,022</td>
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<td>2,377</td>
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<tr>
<td></td>
<td></td>
<td>SR1</td>
<td>15</td>
<td>2,222</td>
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Schedule of Accounts Receivable

Beck Sporting Goods ........... $6,642
Garrett Sporting Goods .......... 3,492
Hagan Sporting Goods ........... 2,194
Jackson Hardware .............. 2,606
Tatum Sporting Goods .......... 6,626
Williams Hardware ............. 2,222

23,782

Balance of accounts receivable account in general ledger $23,782
Balance of accounts receivable subsidiary ledger accounts 23,782

By using a special sales journal Mr. Saleh is able to separate the duties in his bookkeeping department and have the employees specialize in one or two phases of the operations. He may have a more efficient bookkeeping department in this way and thereby maintain the best possible records of his sales, and sales returns and allowances.
Chapter 7, Problem 2
General Journal

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Post. Ref.</th>
<th>Debit</th>
<th>Credit</th>
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<tbody>
<tr>
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<td>Accounts receivable Sales</td>
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<td>16,651</td>
<td>16,651</td>
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<td>31 Sales returns and allowances Accounts receivable</td>
<td>3</td>
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<td>121</td>
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</table>

General Ledger

<table>
<thead>
<tr>
<th>Accounts Receivable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
</tr>
<tr>
<td>May 31, 1957</td>
</tr>
<tr>
<td>June 30, 1957</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sales Returns and Allowances</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 31, 1957</td>
</tr>
<tr>
<td>June 30, 1957</td>
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</tbody>
</table>
### Accounts Receivable Subsidiary Ledger

#### Duncan and Dillard

<table>
<thead>
<tr>
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<th>Debit</th>
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<th>Debit Bal.</th>
<th>Credit Bal.</th>
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<tr>
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<tr>
<td>June 2, 1957</td>
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<td>June 11</td>
<td>5754</td>
<td>63</td>
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#### Hayden Implement Company

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<td>928</td>
<td>5,818</td>
<td>6,182</td>
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<td>June 22</td>
<td>5763</td>
<td>364</td>
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<td>6,583</td>
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<tr>
<td>June 30</td>
<td>5767</td>
<td>401</td>
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<td></td>
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</table>

#### Home Hardware

<table>
<thead>
<tr>
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<th>Credit</th>
<th>Debit Bal.</th>
<th>Credit Bal.</th>
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<tr>
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<td>June 18</td>
<td></td>
<td>291</td>
<td></td>
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<td>June 26</td>
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</table>

#### Jones Hardware

<table>
<thead>
<tr>
<th>Date</th>
<th>Debit</th>
<th>Credit</th>
<th>Debit Bal.</th>
<th>Credit Bal.</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 31, 1957</td>
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</tr>
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<td>June 1, 1957</td>
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<td>36</td>
<td></td>
<td>3,287</td>
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<tr>
<td>June 17</td>
<td>5759</td>
<td>393</td>
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<td>3,587</td>
</tr>
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<td>June 18</td>
<td>6175</td>
<td>93</td>
<td>3,933</td>
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<tr>
<td>June 21</td>
<td>5762</td>
<td>346</td>
<td></td>
<td></td>
</tr>
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</table>

#### Mansell Hardware Company

<table>
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<tr>
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<th>Debit Bal.</th>
<th>Credit Bal.</th>
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<tbody>
<tr>
<td>May 31, 1957</td>
<td></td>
<td></td>
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<tr>
<td>June 10, 1957</td>
<td>5752</td>
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<tr>
<td>June 23</td>
<td>5764</td>
<td>474</td>
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<td></td>
</tr>
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</table>
Mr. Davis gets all of the benefits that he would from a special sales journal, and he eliminates the writing of all the sales in the sales journal. This allows more time for the bookkeeper to do other jobs. In large organizations, it allows a greater specialization of duties by the persons handling the accounts receivable.
### Chapter 8, Problem 1

**Purchases Journal**

<table>
<thead>
<tr>
<th>Date Entry</th>
<th>Date Inv.</th>
<th>Account Credited</th>
<th>Post. Ref.</th>
<th>Accounts Payable</th>
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<tbody>
<tr>
<td>1957 Jan.</td>
<td>2 Dec. 31</td>
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<td>✓</td>
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<tr>
<td></td>
<td>4 Jan. 3</td>
<td>Anchor Serum Co.</td>
<td>✓</td>
<td>46</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>Morris Feed Co.</td>
<td>✓</td>
<td>1,500</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>Wagner Office Supply</td>
<td>✓</td>
<td>215</td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>Vaughan Brothers</td>
<td>✓</td>
<td>312</td>
</tr>
<tr>
<td></td>
<td>10</td>
<td>Findlater Hardware Co.</td>
<td>✓</td>
<td>64</td>
</tr>
<tr>
<td></td>
<td>12</td>
<td>Holt Hardware</td>
<td>✓</td>
<td>39</td>
</tr>
<tr>
<td></td>
<td>13</td>
<td>Taylor Brokerage</td>
<td>✓</td>
<td>412</td>
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<td>19</td>
<td>Blue Chain Feed Co.</td>
<td>✓</td>
<td>814</td>
</tr>
<tr>
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<td>20</td>
<td>Findlater Hardware Co.</td>
<td>✓</td>
<td>194</td>
</tr>
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<td>68</td>
</tr>
<tr>
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<td>29</td>
<td>Taylor Brokerage</td>
<td>✓</td>
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</tr>
<tr>
<td></td>
<td>31</td>
<td>Holt Hardware</td>
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**Total:** 7,309 | (7)
### Purchases Journal—Continued

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<th>Office Supplies</th>
<th>Store Supplies</th>
<th>General Debit</th>
<th>Post.</th>
<th>Ref.</th>
<th>Amount</th>
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<tr>
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<tr>
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</tr>
<tr>
<td>814</td>
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<td>(3)</td>
<td>(4)</td>
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### General Journal

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<th>Dr.</th>
<th>Dr. Date</th>
<th>Description</th>
<th>Post. Ref.</th>
<th>Cr.</th>
<th>Allow. Cr.</th>
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<tr>
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<td>810</td>
<td>Jan. 11</td>
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<td>810</td>
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<td>164</td>
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<td>Morris Feed Co.</td>
<td></td>
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<td>164</td>
</tr>
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<td></td>
<td>14</td>
<td></td>
<td>Wagner Of. Sup.</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>401</td>
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<td>Office Sup.</td>
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<td>44</td>
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<td>Morris Feed Co.</td>
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<td></td>
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<td></td>
<td>854</td>
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<td></td>
<td>824</td>
<td>609</td>
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</tbody>
</table>

| (7)        |      | ( )      |                      | ( )        | (2) |           |

### General Ledger

**Purchases**

| Jan. 11, 1957 | 810 | 4,523 |

**Purchases Returns and Allowances**

| Jan. 31, 1957 | J1   | 609   |

**Office Supplies**

| Jan. 1, 1957 | 86   | Jan. 23, 1957 | J1   | 14 |
| 31           | Pl   | 64             |

**Store Supplies**

<p>| Jan. 1, 1957 | 110  |
| 31           | Pl   | 107            |</p>
<table>
<thead>
<tr>
<th>Description</th>
<th>Date</th>
<th>Voucher</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
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<td>1,500</td>
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<tr>
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<tr>
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<td>Accounts Payable</td>
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<td>579</td>
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<td></td>
<td>Jan. 1, 1957</td>
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<td>4,209</td>
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<tr>
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<td>Jan. 11, 1957</td>
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### Accounts Payable Subsidiary Ledger

#### Acme Motors

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#### Anchor Serum Company

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#### Findlater Hardware Company

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<tr>
<td>Jan. 6, 1957</td>
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It is essential for Mr. Balch to have an accurate record of his purchases because they are one of the largest parts of the cost of doing business. The cost of his merchandise must be known and the debts incurred by purchasing must also be known. These facts are essential to Mr. Balch in the planning and controlling of his business.
**Chapter 8, Problem 2**

**General Journal**

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<tr>
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<td>16</td>
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## Accounts Payable Subsidiary Ledger

### Craig Outerwear

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### Cunningham Supply

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### Moorehead Sales Company

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## Typography Supply Company

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When Mr. Starr uses his purchases invoices as his purchases journal, he gets all of the benefits of a multicolumn purchases journal and the benefits of the time saved due to the elimination of the writing needed in a multicolumn purchases journal. In a small business like Mr. Starr's, this saving of time can mean a great increase in the profitability of the business.
Chapter 9, Problem 1

Cash Receipts Journal

<table>
<thead>
<tr>
<th>Date</th>
<th>Post. Ref.</th>
<th>Gen. Cr.</th>
<th>Sales Cr.</th>
<th>Accts Rec. Cr.</th>
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<th>Cash Dr.</th>
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<td>600</td>
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<td>200</td>
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<td>910</td>
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### General Journal

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### General Ledger

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Mr. Martin needs to keep accurate records of his cash receipts because the sales of his business ultimately increase cash. Cash is very susceptible to misappropriation, and accurate records aid management in controlling this very vital asset.
Chapter 9, Problem 2

Cash Payments Journal

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</tr>
<tr>
<td>Salaries Expense</td>
<td>11</td>
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<td>CP1</td>
<td>512</td>
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<tr>
<td></td>
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<td>29</td>
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<tr>
<td>Robert Martin, Drawings</td>
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<td>May 16, 1957</td>
<td>CP1</td>
<td>160</td>
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<tr>
<td></td>
<td></td>
<td>30</td>
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<tr>
<td>Purchases Discount</td>
<td>13</td>
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### Accounts Payable Subsidiary Ledger

#### Black Supply

<table>
<thead>
<tr>
<th>Date</th>
<th>Account</th>
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<th>Credit</th>
<th>Debit Bal.</th>
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</thead>
<tbody>
<tr>
<td>May 1, 1957</td>
<td>CP1</td>
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#### Criddle Wholesale

<table>
<thead>
<tr>
<th>Date</th>
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<th>Debit</th>
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<td></td>
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<tr>
<td></td>
<td>P1</td>
<td>550</td>
<td></td>
<td>550</td>
<td></td>
</tr>
<tr>
<td></td>
<td>J1</td>
<td>20</td>
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<tr>
<td></td>
<td>P1</td>
<td>570</td>
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#### Ellis Drug Supply

<table>
<thead>
<tr>
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<tbody>
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#### Jacob Supply

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<thead>
<tr>
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<th>Debit</th>
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<tbody>
<tr>
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<td>650</td>
<td></td>
<td></td>
<td>650</td>
</tr>
<tr>
<td></td>
<td>P1</td>
<td>950</td>
<td></td>
<td>950</td>
<td>-0-</td>
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<tr>
<td></td>
<td>CP1</td>
<td>950</td>
<td></td>
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</table>

#### Johnson and Johnson

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</thead>
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<td>1,000</td>
</tr>
<tr>
<td></td>
<td>P1</td>
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<td>250</td>
<td>-0-</td>
</tr>
<tr>
<td></td>
<td>CP1</td>
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<td>490</td>
<td></td>
</tr>
<tr>
<td></td>
<td>P1</td>
<td>490</td>
<td></td>
<td>490</td>
<td></td>
</tr>
<tr>
<td></td>
<td>J1</td>
<td>40</td>
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<td>450</td>
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#### Jones Drug Supply

<table>
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<th>Credit Bal.</th>
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<td>P1</td>
<td>850</td>
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<td></td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>CP1</td>
<td>100</td>
<td></td>
<td>850</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CP1</td>
<td>850</td>
<td></td>
<td></td>
<td>-0-</td>
</tr>
</tbody>
</table>
Mr. Martin obtains control over his cash disbursements and purchases by the method he now uses. He has a complete record of all the purchases and all of his cash payments. The work is split among his employees for better efficiency and internal control. The separation of duties makes possible the control of cash in the business.
Chapter 9, Problem 3
Pyle Variety Store
Bank Reconciliation
June 30, 1957

Balance per Books $13,610.01
Add:
   Note collected by Bank 789.30
                         14,399.31

Deduct:
   Loan, payment by draft 106.03
   Collection fee 1.50
   Service charge 1.75
   Total deductions  109.28

Corrected balance $14,290.03
Balance per Bank $16,471.14

Add:

Check of Bill Pyle 160.00
Deposit in transit 410.04
Total additions 570.04

Deduct:

Deposit of Robert Jackson 2,000.00

Checks outstanding:

<table>
<thead>
<tr>
<th>Check</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>4910</td>
<td>190.00</td>
</tr>
<tr>
<td>4976</td>
<td>245.11</td>
</tr>
<tr>
<td>4977</td>
<td>100.00</td>
</tr>
<tr>
<td>4978</td>
<td>216.04</td>
</tr>
</tbody>
</table>

Total checks outstanding 751.15

Total deductions 2,751.15

Corrected balance $14,290.03
General Journal

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Post. Ref.</th>
<th>Debit</th>
<th>Credit</th>
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<tbody>
<tr>
<td>1957</td>
<td>Cash</td>
<td></td>
<td>789.30</td>
<td>780.00</td>
</tr>
<tr>
<td>June 30</td>
<td>Notes receivable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Interest income</td>
<td></td>
<td></td>
<td>9.30</td>
</tr>
<tr>
<td>30 Notes</td>
<td>Notes payable</td>
<td></td>
<td>106.03</td>
<td></td>
</tr>
<tr>
<td></td>
<td>payable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Miscellaneous expense</td>
<td></td>
<td>3.25</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash</td>
<td></td>
<td></td>
<td>109.28</td>
</tr>
</tbody>
</table>

It is necessary for Mr. Jackson to reconcile his bank balance so that any discrepancies between his books and the bank may be discovered and corrected. There are charges made by the bank which must be recorded and they are brought out in the reconciliation. A person should reconcile his own bank account.
### Chapter 10, Problem 1

#### The Greer Company

**Work Sheet**

**Year Ended June 30, 1957**

<table>
<thead>
<tr>
<th>Account</th>
<th>Acct. No.</th>
<th>Trial Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Debit</td>
</tr>
<tr>
<td>Cash</td>
<td>1</td>
<td>15,410</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>2</td>
<td>11,360</td>
</tr>
<tr>
<td>Merchandise inventory</td>
<td>3</td>
<td>16,465</td>
</tr>
<tr>
<td>Prepaid insurance</td>
<td>4</td>
<td>600</td>
</tr>
<tr>
<td>Office supplies</td>
<td>5</td>
<td>401</td>
</tr>
<tr>
<td>Store supplies</td>
<td>6</td>
<td>233</td>
</tr>
<tr>
<td>Land</td>
<td>7</td>
<td>5,000</td>
</tr>
<tr>
<td>Building</td>
<td>8</td>
<td>31,000</td>
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<tr>
<td>Store equipment</td>
<td>9</td>
<td>1,500</td>
</tr>
<tr>
<td>Office equipment</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Note payable</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Edward Greer, capital</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Edward Greer, drawings</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Sales returns and allowances</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>Purchases</td>
<td>17</td>
<td>55,416</td>
</tr>
<tr>
<td>Purchases returns and allowances</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Freight-in on merchandise</td>
<td>19</td>
<td>811</td>
</tr>
<tr>
<td>Sales salaries expense</td>
<td>20</td>
<td>7,000</td>
</tr>
<tr>
<td>Advertising expense</td>
<td>21</td>
<td>1,213</td>
</tr>
<tr>
<td>Delivery expense</td>
<td>22</td>
<td>910</td>
</tr>
<tr>
<td>Miscellaneous selling expense</td>
<td>23</td>
<td>64</td>
</tr>
<tr>
<td>Office salaries</td>
<td>24</td>
<td>3,612</td>
</tr>
<tr>
<td>Taxes expense</td>
<td>25</td>
<td>519</td>
</tr>
<tr>
<td>Miscellaneous general expense</td>
<td>26</td>
<td>49</td>
</tr>
<tr>
<td>Purchases discount</td>
<td>27</td>
<td></td>
</tr>
<tr>
<td>Sales discounts</td>
<td>28</td>
<td>88</td>
</tr>
</tbody>
</table>

**Profit and loss summary**

- Insurance expense--selling
- Insurance expense--general
- Office supplies expense
- Store supplies expense
- Salaries payable
- Taxes payable

**Net profit**

**Total:** 161,361

**Balance Sheet:** 161,361
<table>
<thead>
<tr>
<th>Adjustments</th>
<th>Adjustments</th>
<th>Profit &amp; Loss Sta.</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit</td>
<td>Credit</td>
<td>Debit</td>
<td>Credit</td>
</tr>
<tr>
<td>(a) 17,341</td>
<td>(b) 16,465</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) 120</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) 200</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(e) 127</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(f)</td>
<td>150</td>
<td>811</td>
<td>2,412</td>
</tr>
<tr>
<td>(g) 51</td>
<td>313</td>
<td>3,663</td>
<td>816</td>
</tr>
</tbody>
</table>

(b) 16,465  (a) 17,341  16,465  17,341
(c) 90       90
(c) 30       30
(d) 200      200
(e) 127      127
(f) 201      201
(g) 313      313

34,767  34,767  88,318  114,775  90,898  64,441
26,457  26,457
114,775 114,775 90,898 90,898
The Greer Company

Balance Sheet
June 30, 1957

**Assets**

Current Assets:
- Cash: $15,410
- Accounts receivable: $11,360
- Merchandise inventory: $17,341
- Prepaid insurance: $480
- Office supplies: $201
- Store supplies: $106
Total current assets: $44,898

Fixed Assets:
- Land: $5,000
- Building: $31,000
- Store equipment: $1,500
- Office equipment: $2,000
Total fixed assets: $39,500
Total assets: $84,398

**Liabilities**

Current Liabilities:
- Accounts payable: $4,221
- Note payable: $1,000
- Salaries payable: $201
- Taxes payable: $313
Total current liabilities: $5,735

**Proprietorship**

Edward Greer, capital, June 30, 1956: $58,706
Net profit for year: $26,457
Less withdrawals: $6,500
Increase in capital: $19,957
Edward Greer, capital, June 30, 1957: $78,663
Total liabilities and proprietorship: $84,398
The Greer Company

Profit and Loss Statement
For Year Ended June 30, 1957

<table>
<thead>
<tr>
<th>Income from Sales:</th>
<th></th>
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<tbody>
<tr>
<td>Sales</td>
<td>$94,206</td>
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<tr>
<td>Less sales returns and allowances</td>
<td>1,210</td>
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<tr>
<td>Net sales</td>
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<tr>
<td></td>
<td>$92,996</td>
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<table>
<thead>
<tr>
<th>Cost of Goods Sold:</th>
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<tbody>
<tr>
<td>Merchandise inventory, July 1, 1956</td>
<td>16,465</td>
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<tr>
<td>Purchases</td>
<td>$55,416</td>
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<tr>
<td>Freight-in on merchandise</td>
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<td>Delivered cost of purchases</td>
<td>56,227</td>
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<td>Purchase returns and allow.</td>
<td>2,412</td>
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<tr>
<td>Merchandise avail. for sale</td>
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<td>Merchandise inv., June 30,'57</td>
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<td>Cost of goods sold</td>
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<td>Gross profit on sales</td>
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<table>
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<td>Sales salaries expense</td>
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<td>Insurance exp.---selling</td>
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<td>Store sup. expense</td>
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<table>
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<td>Total operating expenses</td>
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<td>14,328</td>
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<td>Net profit from operations</td>
<td>25,729</td>
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<table>
<thead>
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<td>Purchase discounts</td>
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<table>
<thead>
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<th>Other Expense:</th>
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<tbody>
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<table>
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<td></td>
<td>728</td>
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<td>Net profit</td>
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</tr>
<tr>
<td>Date</td>
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<td>Profit and loss summary</td>
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<td>June 30</td>
<td>Merchandise inventory</td>
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<td>30 Merchandise inventory</td>
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<td>Profit and loss summary</td>
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<tr>
<td></td>
<td>30 Insurance expense--selling</td>
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<tr>
<td></td>
<td>Insurance expense--general</td>
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<tr>
<td></td>
<td>Prepaid insurance</td>
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<td>30 Office supplies expense</td>
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<td></td>
<td>30 Store supplies expense</td>
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<tr>
<td></td>
<td>Store supplies</td>
</tr>
<tr>
<td></td>
<td>30 Sales salaries expense</td>
</tr>
<tr>
<td></td>
<td>Office salaries expense</td>
</tr>
<tr>
<td></td>
<td>Salaries payable</td>
</tr>
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<td></td>
<td>30 Taxes expense</td>
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<td></td>
<td>Taxes payable</td>
</tr>
<tr>
<td></td>
<td>30 Sales</td>
</tr>
<tr>
<td></td>
<td>Purchase returns and allow.</td>
</tr>
<tr>
<td></td>
<td>Purchases discounts</td>
</tr>
<tr>
<td></td>
<td>Profit and loss summary</td>
</tr>
<tr>
<td></td>
<td>30 Profit and loss summary</td>
</tr>
<tr>
<td></td>
<td>Sales returns and allow.</td>
</tr>
<tr>
<td></td>
<td>Purchases</td>
</tr>
<tr>
<td></td>
<td>Freight-in on merchandise</td>
</tr>
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<td>Sales salaries expense</td>
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<td></td>
<td>Advertising expense</td>
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<tr>
<td></td>
<td>Delivery expense</td>
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<tr>
<td></td>
<td>Misc. selling expense</td>
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<tr>
<td></td>
<td>Office salaries</td>
</tr>
<tr>
<td></td>
<td>Taxes expense</td>
</tr>
<tr>
<td></td>
<td>Misc. general expense</td>
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<td></td>
<td>Sales discounts</td>
</tr>
<tr>
<td></td>
<td>Insurance expense--selling</td>
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<td></td>
<td>Insurance expense--general</td>
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<td></td>
<td>Office supplies expense</td>
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<td></td>
<td>Store supplies expense</td>
</tr>
<tr>
<td>Date</td>
<td>Description</td>
</tr>
<tr>
<td>--------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>1957</td>
<td>Profit and loss summary</td>
</tr>
<tr>
<td></td>
<td>Edward Greer, drawings</td>
</tr>
<tr>
<td>30</td>
<td>Edward Greer, drawings</td>
</tr>
<tr>
<td></td>
<td>Edward Greer, capital</td>
</tr>
<tr>
<td>1957</td>
<td>Salaries payable</td>
</tr>
<tr>
<td>1</td>
<td>Sales salaries expense</td>
</tr>
<tr>
<td></td>
<td>Office salaries expense</td>
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<td>Taxes payable</td>
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<td>Taxes expense</td>
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<td>1</td>
</tr>
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**Note:** The table above represents financial data as of June 30, 1957.
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<td></td>
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The income principle of accounting is used by Mr. Greer in making his adjustments. This principle is the matching of costs and revenues.

Making a work sheet is not a waste of time because it facilitates the making of adjustments and the preparation of financial statements.
Chapter 10, Problem 2

General Journal

<table>
<thead>
<tr>
<th>Date</th>
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<th>Debit</th>
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<tbody>
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<td>Office equipment</td>
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</tr>
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<td>Profit and loss summary</td>
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<td>31 Buildings</td>
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<td>5,000</td>
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<tr>
<td></td>
<td>Ed Schuch, capital</td>
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<td>Salaries payable</td>
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<td>Salaries expense</td>
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<td>1,500</td>
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<tr>
<td></td>
<td>Accounts receivable/Acme Wholesale</td>
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</table>

Mr. Schuch wants the errors in his accounting records corrected so that he will have an accurate picture of his business on the balance sheet date and a clear summary of the operations for the year ended at that time. He wants correct statements to aid him in his management decisions and for comparison of the present statements with prior years' statements.
<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Post. Ref.</th>
<th>Debit</th>
<th>Credit</th>
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</thead>
<tbody>
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<tr>
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<tr>
<td></td>
<td>Notes payable</td>
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<td>Rockwall Mill. Co.</td>
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<td>100.00</td>
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<tr>
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1957

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<td>Accounts receivable/</td>
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<tr>
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<td>Reed Roller Corp.</td>
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<tr>
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<td>Notes payable</td>
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<td>1957 Mar. 12</td>
<td>1957 Mar. 12</td>
<td>Jay Supply Company</td>
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<td>2,310</td>
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<td>1957 Apr. 21</td>
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<th>Accounts Rec. Cr.</th>
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<th>Cash Dr.</th>
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<td></td>
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<td>Reed Roller Corp.</td>
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**IT1**
# Cash Payments Journal

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Mr. Brashears aids his business and his customers by extending credit on notes. He helps his business by promoting sales through the extension of credit and by increasing his revenues with the interest earned on the notes. The notes are also negotiable, and Mr. Brashears can obtain cash by discounting the notes held by him. He helps his customers by allowing them more time to pay. This means they will not be forced to have as much cash available before purchases can be made.
## Chapter 12, Problem 1

**Builders' Supply**

**Work Sheet**
**Year Ending June 30, 1957**

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Profit and Loss Summary

Net Profit

(a) 18,486.00

44,127.38
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Mr. Vardeman makes adjusting entries at the end of each year in order to get revenue in the period earned and expenses in the period in which they helped earn revenue. Interest income, for example, has been earned on a note but has not been recorded. This is an example of income which has been earned and must be recorded in the period earned by an adjusting entry. Interest expense on a note may have been incurred, but no expense is shown for it in the trial balance. This calls for an adjusting entry.
## Chapter 13, Problem 1

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### General Ledger

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A business which extends credit should make allowance for estimated bad debt expense because there is always a possibility for loss when credit is extended. Mr. Kellam estimates his bad debt expense because he knows from past experience that some of his sales will not be collected. Since he does not know which accounts or what the total will be, he estimates his bad debt expense at the end of each year.
### Chapter 13, Problem 2

**Computation of Last-in, First-out**

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**Total inventory last-in, first-out** $5,110
Computation of First-in, First-out

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Total inventory first-in, first-out $5,092

The effect of an overstated inventory is to overstate the net income for the period and overstate the current assets of the business. An understated inventory results in understated net income for the period and understated current assets.
Chapter 13, Problem 3

Known Data

Merchandise inventory 1-1-57  
Purchases from 1-1-57 through 6-16-57  $73,600  
   Less purchase returns and allow.  400  
Net purchases  73,200  
Total goods available for sale  89,200

Sales 1-1-57 through 5-31-57  79,300  
Sales 6-1-57 through 6-16-57  4,640  
Total sales  83,940  
   Less sales returns and allow.  140  
Net sales  83,800

Estimated Data

Less gross profit (24% of net sales)  20,112  
Cost of goods sold  63,688  
Merchandise inventory 6-16-57  25,512

Mr. Scott is unable to take an actual count of the merchandise since some of it has been destroyed by fire. For this reason he uses the "gross profit" method of inventory estimation.
Chapter 13, Problem 4

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Percentage of cost to selling price of merchandise available for sale: \( \frac{54,000}{69,300} = 77.92\% \)

Merchandise inventory 3-31-57 at estimated cost: \( (77.92\% \times 15,300) \) $11,921.76

Mr. Brown uses the retail method of inventory computation so he can have an estimate of the inventory at the end of each month for financial statements to be made at that time.
### Chapter 14, Problem 1

**General Journal**

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## Gain or Loss on Disposal of Fixed Assets

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Depreciation—Delivery Equipment

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Mr. Harting records depreciation on his books in order to allocate the cost of the vehicles over the periods in which they help in earning revenues. By recording depreciation he also has a fairer valuation of the fixed assets in the balance sheet. Recording depreciation is a sound practice.
### Chapter 14, Problem 2

**General Journal**

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## Chapter 15, Problem 1

### Petty Cash Book

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<td>Purchases</td>
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<td>1.65</td>
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<td>2.16</td>
<td>D. E. Gibson, drawings</td>
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### General Journal

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<td>D. E. Gibson, drawings</td>
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<tr>
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<td>Cash</td>
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</table>

Yes, it is recommended that Mr. Gibson continue to use the petty cash fund in his business so that he can maintain only a small amount of cash on his premises and have a permanent record of its disposition. Management derives the benefits of control of cash and accurate accounting records when it uses a petty cash fund. Cash is kept on hand ready for use, and management has adequate control over the cash.
## Combined Cash Journal

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<th>Cash Dr.</th>
<th>Ck. Cr.</th>
<th>No. Date</th>
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<th>Cr.</th>
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| Total    | 4,470  | 5,356   | Total 4,651      | 3,114   |             |     |
Using a combined cash journal, Mr. Martin secures control over his cash because he is able to deposit all of his cash receipts and all of his disbursements are made by check. No other journals are used when a combined cash journal is used. The benefits of a combined cash journal are control of cash, necessity of using only one journal and simplicity in the use of it.
# Chapter 16, Problem 1

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<tr>
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<td>1959</td>
<td>Petty Cash</td>
<td>3-31</td>
<td>4906</td>
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<th>3.08</th>
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(4) (5) ( ) ( ) ( )
Check Register 1

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<th>Chk. No.</th>
<th>Vchr. No.</th>
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<th>Pur. Dr.</th>
<th>Cash Cr.</th>
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(1) ( ) ( )

General Journal

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<td>Purchases returns and allowances</td>
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### General Ledger

#### Accounts Payable

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<th>Account</th>
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<td>VR1</td>
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<td>May 1, 1957</td>
<td></td>
<td>3,900.00</td>
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<tr>
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<td>VR1</td>
<td>6,626.00</td>
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#### Purchases

<table>
<thead>
<tr>
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#### Purchase Returns and Allowances

<table>
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</tbody>
</table>

#### Store Supplies

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#### Advertising Expense

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#### Rent Expense

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<td>1,000.00</td>
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<tr>
<td>5</td>
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</table>
Mr. Neal has gained excellent control over his purchases, cash payments and current liabilities. He has eliminated the burdensome accounts payable subsidiary ledger and this reduces bookkeeping costs. The voucher register and the accounts payable account both show liabilities on May 31, 1957, of $2,262.00.
BIBLIOGRAPHY

Books


Articles


**Publications of Learned Organizations**


**Bulletins**