E1-6 Selected transactions for Green Valley Lawn Care Company are listed below.

Analyze the effect of transactions.

(LO 4)

1. Made cash investment to start business.
2. Paid monthly rent.
3. Purchased equipment on account.
4. Billed customers for services performed.
5. Withdrew cash for owner's personal use.
6. Received cash from customers billed in (4).
7. Incurred advertising expense on account.
8. Purchased additional equipment for cash.
9. Received cash from customers when service was performed.

Instructions

List the numbers of the above transactions and describe the effect of each transaction on assets, liabilities, and owner's equity. For example, the first answer is: (1) Increase in assets and increase in owner's equity.

E1-7 Falske Computer Timeshare Company entered into the following transactions during May 2017.

Analyze the effect of transactions on assets, liabilities, and owner's equity.

(LO 4)

1. Purchased computers for $20,000 from Digital Equipment on account.
2. Paid $4,000 cash for May rent on storage space.
3. Received $17,000 cash from customers for contracts billed in April.
4. Performed computer services for Viking Construction Company for $4,000 cash.
5. Paid Tri-State Power Co. $11,000 cash for energy usage in May.
6. Falske invested an additional $29,000 in the business.
7. Paid Digital Equipment for the computers purchased in (1) above.
8. Incurred advertising expense for May of $1,200 on account.

Instructions

Indicate with the appropriate letter whether each of the transactions above results in:

(a) An increase in assets and a decrease in assets.
(b) An increase in assets and an increase in owner's equity.
(c) An increase in assets and an increase in liabilities.

(d) A decrease in assets and a decrease in owner's equity.
(e) A decrease in assets and a decrease in liabilities.
(f) An increase in liabilities and a decrease in owner's equity.
(g) An increase in owner's equity and a decrease in liabilities.

Analyze transactions and compute net income.

(LO 4)

E1-8 An analysis of the transactions made by Arthur Cooper & Co., a certified public accounting firm, for the month of August is shown below. The expenses were $650 for rent, $4,800 for salaries and wages, and $400 for utilities.

	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	= Accounts Payable	+ Owner's Capital	− Owner's Drawings	+ Revenues	− Expenses
1.	+$15,000					+$15,000			
2.	−2,000			+$5,000	+$3,000				
3.	−750		+$750						
4.	+4,600	+$3,900						+$8,500	
5.	−1,500				−1,500				
6.	−2,000						−$2,000		
7.	−650								−$650
8.	+450	−450							
9.	−4,800								−4,800
10.					+400				−400

Instructions

(a) Describe each transaction that occurred for the month.
(b) Determine how much owner's equity increased for the month.
(c) Compute the amount of net income for the month.

PROBLEMS

Analyze transactions and compute net income.

(LO 3, 4)

XLS

P1-1A On April 1, Julie Spengel established Spengel's Travel Agency. The following transactions were completed during the month:

1. Invested $15,000 cash to start the agency.
2. Paid $600 cash for April office rent.
3. Purchased equipment for $3,000 cash.
4. Incurred $700 of advertising costs in the *Chicago Tribune*, on account.
5. Paid $900 cash for office supplies.
6. Performed services worth $10,000: $3,000 cash is received from customers, and the balance of $7,000 is billed to customers on account.
7. Withdrew $600 cash for personal use.
8. Paid *Chicago Tribune* $500 of the amount due in transaction (4).
9. Paid employees' salaries $2,500.
10. Received $4,000 in cash from customers who have previously been billed in transaction (6).

Instructions

(a) Prepare a tabular analysis of the transactions using the following column headings: Cash, Accounts Receivable, Supplies, Equipment, Accounts Payable, Owner's Capital, Owner's Drawings, Revenues, and Expenses.
(b) From an analysis of the owner's equity columns, compute the net income or net loss for April.

***Check figures** provide a key number to let you know you are on the right track.*

(a) Total assets $20,800

(b) Net income $6,200

Determine financial statement amounts and prepare owner's equity statement.

(LO 4, 5)

P1-5A Financial statement information about four different companies is as follows:

	Alpha Company	Beta Company	Psi Company	Omega Company
January 1, 2017				
Assets	$ 80,000	$ 90,000	(g)	$150,000
Liabilities	41,000	(d)	80,000	(j)
Owner's equity	(a)	40,000	49,000	90,000
December 31, 2017				
Assets	(b)	112,000	170,000	(k)
Liabilities	60,000	72,000	(h)	100,000
Owner's equity	50,000	(e)	82,000	151,000
Owner's equity changes in year				
Additional investment	(c)	8,000	10,000	15,000
Drawings	15,000	(f)	12,000	10,000
Total revenues	350,000	410,000	(i)	500,000
Total expenses	333,000	385,000	350,000	(l)

Instructions

(a) Determine the missing amounts. (*Hint:* For example, to solve for (a), Assets − Liabilities = Owner's equity = $39,000.)

(b) Prepare the owner's equity statement for Alpha Company.

(c) Write a memorandum explaining the sequence for preparing financial statements and the interrelationship of the owner's equity statement to the income statement and balance sheet.

Solutions

EXERCISE 1-6

1. **Increase in assets and increase in owner's equity.**
2. **Decrease in assets and decrease in owner's equity.**
3. **Increase in assets and increase in liabilities.**
4. **Increase in assets and increase in owner's equity.**
5. **Decrease in assets and decrease in owner's equity.**
6. **Increase in assets and decrease in assets.**
7. **Increase in liabilities and decrease in owner's equity.**
8. **Increase in assets and decrease in assets.**
9. **Increase in assets and increase in owner's equity.**

EXERCISE 1-7

1.	(c)	5.	(d)
2.	(d)	6.	(b)
3.	(a)	7.	(e)
4.	(b)	8.	(f)

EXERCISE 1-8

(a)
1. Owner invested $15,000 cash in the business.
2. Purchased equipment for $5,000, paying $2,000 in cash and the balance of $3,000 on account.
3. Paid $750 cash for supplies.
4. Performed $8,500 of services, receiving $4,600 cash and $3,900 on account.
5. Paid $1,500 cash on accounts payable.
6. Owner withdrew $2,000 cash for personal use.
7. Paid $650 cash for rent.
8. Collected $450 cash from customers on account.
9. Paid salaries and wages of $4,800.
10. Incurred $400 of utilities expense on account.

(b)

Investment	$15,000
Service revenue	8,500
Drawings	(2,000)
Rent expense	(650)
Salaries and wages expense	(4,800)
Utilities expense	(400)
Increase in owner's equity	$15,650

(c)

Service revenue	$8,500
Rent expense	(650)
Salaries and wages expense	(4,800)
Utilities expense	(400)
Net income	$2,650

P1-1A

(a) **SPENGEL'S TRAVEL AGENCY**

	Cash		Accounts Receivable		Supplies		Equipment		Accounts Payable		Owner's Capital		Owner's Drawings		Revenues		Expenses
											Owner's Equity						
1.	+$15,000										+$15,000						
	15,000							=			15,000						
2.	−600																−$600
	14,400							=			15,000						−600
3.	−3,000						+$3,000										
	11,400					+	3,000	=			15,000						−600
4.									+$700								−700
	11,400					+	3,000	=	700	+	15,000						−1,300
5.	−900				+$900												
	10,500			+	900	+	3,000	=	700	+	15,000						−1,300
6.	+3,000		+$7,000												+$10,000		
	13,500	+	7,000	+	900	+	3,000	=	700	+	15,000				10,000		−1,300
7.	−600												−$600				
	12,900	+	7,000	+	900	+	3,000	=	700	+	15,000		−600		10,000		−1,300
8.	−500								−500								
	12,400	+	7,000	+	900	+	3,000	=	200		15,000		−600		10,000		−1,300
9.	−2,500																−2,500
	9,900	+	7,000	+	900	+	3,000	=	200		15,000		−600		10,000		−3,800
10.	+4,000		−4,000														
	$13,900	+	$3,000	+	$900	+	$3,000	=	$200	+	$15,000	−	$600	+	$10,000	−	$3,800

$$\underbrace{\$13{,}900 + \$3{,}000 + \$900 + \$3{,}000}_{\$20{,}800} = \underbrace{\$200 + \$15{,}000 - \$600 + \$10{,}000 - \$3{,}800}_{\$20{,}800}$$

PROBLEM 1-1A (Continued)

(b)

Service revenue		$10,000
Expenses		
Salaries and wages	$2,500	
Rent	600	
Advertising	700	3,800
Net income		$ 6,200

P1-5A

(a)

Alpha Company		Beta Company		Psi Company		Omega Company	
(a)	$ 39,000	(d)	$50,000	(g)	$129,000	(j)	$ 60,000
(b)	110,000	(e)	40,000	(h)	88,000	(k)	251,000
(c)	9,000	(f)	33,000	(i)	385,000	(l)	444,000

(b)

ALPHA COMPANY
Owner's Equity Statement
For the Year Ended December 31, 2017

Owner's capital, January 1		$39,000
Add: Investment	$ 9,000	
Net income	17,000	26,000
		65,000
Less: Drawings		15,000
Owner's capital, December 31		$50,000

(c) The sequence of preparing financial statements is income statement, owner's equity statement, and balance sheet. The interrelationship of the owner's equity statement to the other financial statements results from the fact that net income from the income statement is reported in the owner's equity statement and ending capital reported in the owner's equity statement is the amount reported for owner's equity on the balance sheet.