CHAPTER 2: INVESTING AND FINANCING DECISIONS AND THE STATEMENT OF FINANCIAL POSITION

On June 1, 2014, Peter Jackson and his friends started a business called World Wide Webster Inc. The following events occurred during its first month.

a. On June 1, Peter and his friends invest $10,000 into the business in exchange for 10,000 shares of $1 par value common stock.
b. On June 2, the company borrowed $15,000, using a note payable to the bank.
c. On June 3, the company acquired a $15,000 truck and $5,000 worth of equipment, all paid in cash.
d. On June 4, the company purchased $300 worth of supplies on credit. "On credit" (or "on account") means that you receive the supplies now, and pay cash for them later.
e. On June 5, the company signed contract for first website design for $10,000.
f. On June 15, the company paid off $300 accounts payable using cash.
g. On June 16, the company paid cash for and receives $600 worth of supplies.
h. On June 17, the company purchased $1,000 worth of equipment, paid in cash.
i. On June 18, the company ordered a $900 snow blower, to be delivered next month.

The company uses the following general ledger accounts.

Cash
Supplies
Equipment
Accounts payable
Notes payable
Common stock
Retained earnings

Step I - Analyzing Transactions

Analyze each of the following transactions of World Wide Webster by performing each of the following steps. Then, use the chart on page 4 to keep track of the amount in each account:

a. On June 1, Peter and his friends invest $10,000 into the business in exchange for 10,000 shares of $1 par value common stock.

1. Decide if a transaction took place.	Yes – received cash and gave stock.
2. Identify the accounts affected.	Cash, Common stock (from the above list)
3. Classify each account affected.	Cash is an Asset (A) Common stock is Stockholders' Equity (E)
4. Identify direction and amount.	Cash (A) + $10,000 = Stockholders' Equity (E) + $10,000.
5. Ensure the accounting equation is in balance.	Yes – see chart on page 4.

b. On June 2, the company borrowed $15,000, using a note payable to the bank.

1. Decide if a transaction took place.	
2. Identify the accounts affected.	
3. Classify each account affected.	
4. Identify direction and amount.	
5. Ensure the accounting equation is in balance.	

c. On June 3, the company acquired a $15,000 truck and $5,000 worth of equipment, all paid in cash.

1. Decide if a transaction took place.	
2. Identify the accounts affected.	
3. Classify each account affected.	
4. Identify direction and amount.	
5. Ensure the accounting equation is in balance.	

d. On June 4, the company purchased $300 worth of supplies on credit. "On credit" (or "on account") means that you receive the supplies now, and pay cash for them later.

1. Decide if a transaction took place.	
2. Identify the accounts affected.	
3. Classify each account affected.	
4. Identify direction and amount.	
5. Ensure the accounting equation is in balance.	

e. On June 5, the company signed contract for first website design for $10,000.

1. Decide if a transaction took place.	
2. Identify the accounts affected.	
3. Classify each account affected.	
4. Identify direction and amount.	
5. Ensure the accounting equation is in balance.	

f. On June 15, the company paid off $300 account payable using cash.

1. Decide if a transaction took place.	
2. Identify the accounts affected.	
3. Classify each account affected.	
4. Identify direction and amount.	
5. Ensure the accounting equation is in balance.	

g. On June 16, the company paid cash for and receives $600 worth of supplies.

1. Decide if a transaction took place.	
2. Identify the accounts affected.	
3. Classify each account affected.	
4. Identify direction and amount.	
5. Ensure the accounting equation is in balance.	

h. On June 17, the company purchased $1,000 worth of equipment, paid in cash.

1. Decide if a transaction took place.	
2. Identify the accounts affected.	
3. Classify each account affected.	
4. Identify direction and amount.	
5. Ensure the accounting equation is in balance.	

i. On June 18, the company ordered a $900 snow blower, to be delivered next month.

1. Decide if a transaction took place.	
2. Identify the accounts affected.	
3. Classify each account affected.	
4. Identify direction and amount.	
5. Ensure the accounting equation is in balance.	

Chart

	Assets					=	Liabilities			+	Equity
Ref.	Cash	+	Supplies	+	Equipment	=	Accounts Payable	+	Notes Payable	+	Common stock
(a)	+10,000										+10,000
(b)											
(c)											
(d)											
(e)											
(f)											
(g)											
(h)											
(i)											
Total											
						=				+	

The Debit/Credit Framework

The Accounting Equation

$$A = L + E$$

Assets		=	Liabilities		+	Stockholders' Equity	
Debit (+) Accounts have debit balances	Credit (-)		Debit (-)	Credit (+) Accounts have credit balances		Debit (-)	Credit (+) Accounts have credit balances

Normal Balance of an Account

The normal balance of an account is its usual balance and is the side (debit or credit) of the account for recording increases in the account. For example, since asset accounts are increased with debits, asset accounts normally have debit balances. Likewise, liability accounts normally have credit balances. –> Asset accounts have normal debit balances. Liability and equity accounts have normal credit balances.

Double-Entry System

The double-entry system is based on the principle of duality, which means that every economic event has two aspects-effort and reward, sacrifice and benefit, source and use-that offset, or balance, each other. In the double-entry system, each transaction must be recorded with at least one debit and one credit, and the total amount of the debits must equal the total amount of the credits.

Step II – Journalizing the Transactions

Required: Analyze each of the following transactions of World Wide Webster and prepare the journal entry required to record the related transaction.

a. On June 1, Peter and his friends invest $10,000 into the business in exchange for 10,000 shares of $1 par value common stock.

GENERAL JOURNAL				
Date		Account Titles and Explanation	Debit	Credit

b. On June 2, the company borrowed $15,000, using a note payable to the bank.

GENERAL JOURNAL				
Date		Account Titles and Explanation	Debit	Credit

c. On June 3, the company acquired a $15,000 truck and $5,000 worth of equipment, all paid in cash.

GENERAL JOURNAL				
Date		Account Titles and Explanation	Debit	Credit

d. On June 4, the company purchased $300 worth of supplies on credit.
"On credit" (or "on account") means that you receive the supplies now, and pay cash for them later.

GENERAL JOURNAL				
Date		Account Titles and Explanation	Debit	Credit

e. On June 5, the company signed contract for first website design for $10,000.

GENERAL JOURNAL				
Date		Account Titles and Explanation	Debit	Credit

f. On June 15, the company paid off $300 accounts payable using cash.

GENERAL JOURNAL				
Date		Account Titles and Explanation	Debit	Credit

g. On June 16, the company paid cash for and receives $600 worth of supplies.

GENERAL JOURNAL				
Date		Account Titles and Explanation	Debit	Credit

h. On June 17, the company purchased $1,000 worth of equipment, paid in cash.

GENERAL JOURNAL				
Date		Account Titles and Explanation	Debit	Credit

i. On June 18, the company ordered a $900 snow blower, to be delivered next month.

GENERAL JOURNAL				
Date		Account Titles and Explanation	Debit	Credit

Step III - Posting To T-Accounts

The T Account

The T account is a good place to begin the study of the double-entry system. Such an account has three parts: a title, which identifies the asset, liability, or owner's equity account; a left side, which is called the **debit** side; and a right side, which is called the **credit** side. The T-account, so called because it resembles the letter T, is used to analyze transactions and is **not** part of the accounting records.

Any entry made on the left side of the account is a debit, and any entry made on the right side is a credit. The terms debit and credit are simply the accountant's words for "left" and "right" (not for "increase" or "decrease").

<u>**Required:**</u> Post the journal entries in Step II into the following T-accounts. Then determine the ending balances of each of the T-accounts. Note that all "beginning balances" (BegBal) have zero balance. This is because June is the first month of its operations.

Assets

+ Cash –

BegBal	0		
Jun 1	10,000		

+ Supplies –

BegBal	0		

+ Equipment –

BegBal	0		

Liabilities

- Accounts Payable +

		0	BegBal

- Notes Payable +

		0	BegBal

Stockholders' Equity

- Common Stock +

		0	BegBal
		10,000	Jun 1

- Retained Earnings +

		0	BegBal

Step IV - Preparing a Trial Balance

Required: Use the ending balances from the T-accounts in Step III to prepare a trial balance for World Wide Webster as of June 30, 2014.

WORLD WIDE WEBSTER INC.
Trial Balance
As of June 30, 2014

Account Title	Debit	Credit
Cash		
Supplies		
Equipment		
Notes Payable		
Common Stock		
Totals		

Trial balance is prepared before preparing the financial statements. It is usually prepared in financial statement order, i.e. assets, liabilities, equity, revenue, and expenses.

Step V - Preparing a Statement of Financial Position

Required: Use the balances from the trial balance in Step IV to prepare a classified Statement of Financial Position for World Wide Webster as of June 30, 2014.

WORLD WIDE WEBSTER INC.
Statement of Financial Position
As of June 30, 2014

Assets

Current assets	
Cash	________
Supplies	________
Total current assets	________
Non-current assets	
Property, plant & equipment	________
Total assets	________

Liabilities & Stockholders' Equity

Current liabilities	
Notes payable	________
Total liabilities	________
Stockholders' Equity	
Common stock	________
Retained earnings	________
Total stockholders' equity	________
Total liabilities & stockholders' equity	________