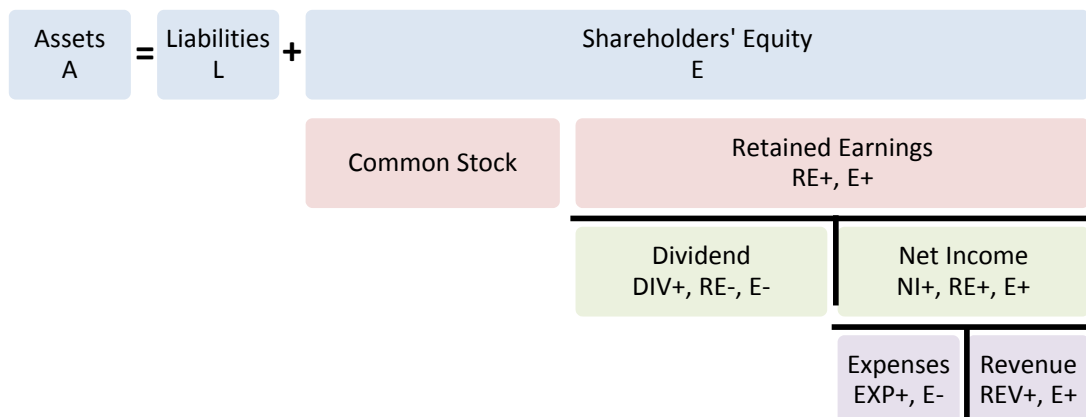


CHAPTER 3: OPERATING DECISIONS AND THE STATEMENT OF COMPREHENSIVE INCOME

The Accounting Equation

$$A = L + E$$



CHAPTER 3 - EXERCISE

The statement of financial position of Tabor Hill Designers Inc. as of January 31, 2014 is as follows.

**TABOR HILL DESIGNERS INC.
Statement of Financial Position
As of January 31, 2014**

Assets	
Current assets	
Cash	\$ 3,100
Supplies	<u>900</u>
Total current assets	4,000
Property, plant and equipment	<u>21,000</u>
Total assets	<u>\$ 25,000</u>
Liabilities & Stockholders' Equity	
Current liabilities	
Notes payable	\$ <u>15,000</u>
Total current liabilities	<u>15,000</u>
Stockholders' Equity	
Common Stock	10,000
Retained earnings	<u>-</u>
Total stockholders' equity	<u>10,000</u>
Total liabilities & stockholders' equity	<u>\$ 25,000</u>

During February 2014, Tabor Hill Designers Inc. entered into the following transactions. Analyze each of the following transactions and prepare the journal entry required to record the related transaction.

- a. On February 3, provide website design services for \$40,000 cash.
- b. On February 7, provide website design services to Acme Company, for \$20,000 on account. The company expects Acme to pay in the future.
- c. On February 14, collect \$18,000 cash from Acme Company for service provided on Feb 7.
- d. On February 16, sell a \$1,000 gift certificate for cash.
- e. On February 21, customer redeems (uses) a \$1,000 gift certificate for website design services.
- f. On February 25, paid employees \$16,000 cash for their wages earned.
- g. On February 28, paid \$3,000 cash for insurance covering 1 year from March 1, 2014 through February 28, 2014.
- h. On February 28, paid \$9,000 cash in advance for office rent for a six-month period starting March 1, 2014.
- i. On February 28, received \$250 telephone bill for previous month, to be paid next month.
- j. On February 28, received \$500 utility bill for this month and made cash payment immediately.

Step 1: Analyze the transactions to determine the accounts (at least two) that are affected.

Step 2: Journalize (record) the transactions.

The company uses the following general ledger accounts.

- | | | |
|-------------------------------|------------------|-------------------|
| Cash | Accounts payable | Common stock |
| Accounts receivable | Notes payable | Retained earnings |
| Supplies | Unearned revenue | Design revenue |
| Prepaid expenses | | Wage expense |
| Property, plant and equipment | | Utilities expense |
| | | Telephone expense |

- a. On February 3, provide website design services for \$40,000 cash.

GENERAL JOURNAL				
Date		Account Titles and Explanation	Debit	Credit
Feb	3	Cash (A+)	40,000	
		Design Revenue (REV+, E+)		40,000
		To record design service revenue earned.		

Ensure the equation still in balance and debits = credits

Assets		=	Liabilities	+	Stockholders' Equity	
Cash (A+)	+40,000				Retained Earnings	+40,000
					(Design Revenue) (REV+, E+)	

- b. On February 7, provide website design services to Acme Company, for \$20,000 on account. The company expects Acme to pay in the future.

GENERAL JOURNAL			
Date	Account Titles and Explanation	Debit	Credit

- c. On February 14, collect \$18,000 cash from Acme Company for service provided on Feb 7.

GENERAL JOURNAL			
Date	Account Titles and Explanation	Debit	Credit

- d. On February 16, sell a \$1,000 gift certificate for cash.
 [Gift certificate is a voucher given as a present that is exchangeable for a specified cash value of goods or services from a particular place of business.]

GENERAL JOURNAL			
Date	Account Titles and Explanation	Debit	Credit

- e. On February 21, customer redeems (uses) a \$1,000 gift certificate for website design services.
 [Redeem = to exchange for goods.]

GENERAL JOURNAL			
Date	Account Titles and Explanation	Debit	Credit

- f. On February 25, paid employees \$16,000 cash for their wages earned.

GENERAL JOURNAL			
Date	Account Titles and Explanation	Debit	Credit

- g. On February 28, paid \$3,000 cash for insurance covering 1 year from March 1, 2014 through February 28, 2014.

GENERAL JOURNAL			
Date	Account Titles and Explanation	Debit	Credit

- h. On February 28, paid \$9,000 cash in advance for office rent for a six-month period starting March 1, 2014.

GENERAL JOURNAL			
Date	Account Titles and Explanation	Debit	Credit

- i. On February 28, received \$250 telephone bill for previous month, to be paid next month.

GENERAL JOURNAL			
Date	Account Titles and Explanation	Debit	Credit

- j. On February 28, received \$500 utility bill for this month and made cash payment immediately.

GENERAL JOURNAL			
Date	Account Titles and Explanation	Debit	Credit

Step 3: Post the transactions to T-accounts to determine the ending balances of each of the accounts.

The following T-accounts set forth the ending balances of the accounts of Tabor Hill Designers as of January 31, 2014. Post each of the February 2014 journal entries to the T-accounts.

Assets				Liabilities				Stockholders' Equity					
+ Cash -				- Accounts Payable +				- Common Stock +					
BegBal	3,100					BegBal	0			BegBal	10,000		
EndBal						EndBal				EndBal			
+ Accounts Receivable -				- Notes Payable +				- Retained Earnings +					
BegBal	0					BegBal	15,000			BegBal	0		
EndBal						EndBal				EndBal			
+ Supplies -				- Unearned Revenue +				- Design Revenue +					
BegBal	900					BegBal	0			BegBal	0		
EndBal						EndBal				EndBal			
+ Prepaid Expenses -				+ Wage Expense -				+ Utilities Expense -					
BegBal	0					BegBal	0			BegBal	0		
EndBal						EndBal				EndBal			
+ Property, Plant & Equipment -				+ Telephone Expense -				+ Telephone Expense -					
BegBal	21,000					BegBal	0			BegBal	0		
EndBal						EndBal				EndBal			

Step 4: Prepare the Statement of Income, Statement of Stockholders' Equity, and Statement of Financial Position for Tabor Hill as of and for the month ended February 28, 2014.

Use the ending balances from the T-accounts on previous exercise to prepare (1) Statement of Comprehensive Income; (2) Statement of Stockholders' Equity; and (3) Statement of Financial Position for Tabor Hill as of and for the month ended February 28, 2014. (*Ignore income tax expense.)

TABOR HILL DESIGNERS INC.
Statement of Income
For the month ended February 28, 2014

Revenues:		
Design revenues		
Expenses:		
Wages expenses		
Utilities expenses		
Telephone expenses		
Total expenses		
Pretax income		
Less: Income tax expense*		-
Net income		

TABOR HILL DESIGNERS INC.
Statement of Stockholders' Equity
For the month ended February 28, 2014

	Common Stock	Retained Earnings	Total Stockholders' Equity
Balance, January 31, 2014			
Net income			
Dividend			
Balance, February 28, 2014			

TABOR HILL DESIGNERS INC.
Statement of Financial Position
As of February 28, 2014

Assets	
Current assets	
Cash	
Accounts receivable	
Supplies	
Prepaid expenses	
Total current assets	
Property, plant and equipment	
Total assets	
Liabilities & Stockholders' Equity	
Current liabilities	
Accounts payable	
Notes payable	
Unearned revenue	
Total current liabilities	
Stockholders' Equity	
Common stock	
Retained earnings	
Total stockholders' equity	
Total liabilities & stockholders' equity	