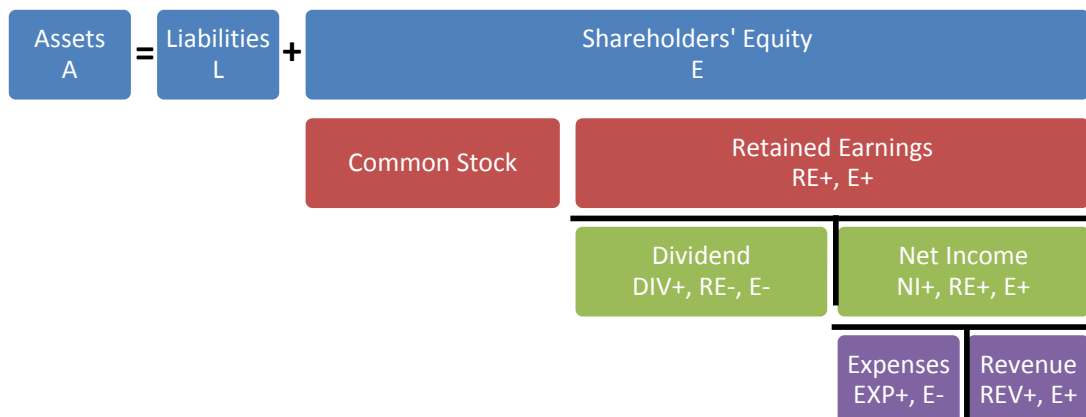


## CHAPTER 3: OPERATING DECISIONS AND THE STATEMENT OF COMPREHENSIVE INCOME

### 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**

<b>Assets</b>	
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>
<b>Liabilities &amp; Stockholders' Equity</b>	
Current liabilities	
Notes payable	\$ <u>15,000</u>
Total current liabilities	15,000
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.

- 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

Ensure the equation still in balance and debits = credits

Assets	=	Liabilities	+	Stockholders' Equity

- 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

Ensure the equation still in balance and debits = credits

Assets	=	Liabilities	+	Stockholders' Equity

- d. On February 16, sell a \$1,000 gift certificate for cash.

GENERAL JOURNAL				
Date	Account Titles and Explanation		Debit	Credit

Ensure the equation still in balance and debits = credits

Assets	=	Liabilities	+	Stockholders' Equity

- e. On February 21, customer redeems (uses) a \$1,000 gift certificate for website design services.

GENERAL JOURNAL				
Date	Account Titles and Explanation		Debit	Credit

Ensure the equation still in balance and debits = credits

Assets	=	Liabilities	+	Stockholders' Equity

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

GENERAL JOURNAL				
Date	Account Titles and Explanation		Debit	Credit

Ensure the equation still in balance and debits = credits

Assets	=	Liabilities	+	Stockholders' Equity

- 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

Ensure the equation still in balance and debits = credits

Assets	=	Liabilities	+	Stockholders' Equity

- 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

Ensure the equation still in balance and debits = credits

Assets	=	Liabilities	+	Stockholders' Equity

- 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

Ensure the equation still in balance and debits = credits

Assets	=	Liabilities	+	Stockholders' Equity

- 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

Ensure the equation still in balance and debits = credits

Assets	=	Liabilities	+	Stockholders' Equity

**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					0	BegBal			10,000	BegBal		
EndBal							EndBal					EndBal	
+ Accounts Receivable -				- Notes Payable +				- Retained Earnings +					
BegBal	0					15,000	BegBal			0	BegBal		
EndBal							EndBal						EndBal
+ Supplies -				- Unearned Revenue +				- Design Revenue +					
BegBal	900					0	BegBal			0	BegBal		
EndBal							EndBal						EndBal
+ Prepaid Expenses -				+ Wage Expense -				+ Utilities Expense -					
BegBal	0						BegBal	0					
EndBal							EndBal						EndBal
+ Property, Plant & Equipment -				+ Telephone Expense -				+ Telephone Expense -					
BegBal	21,000						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	_____