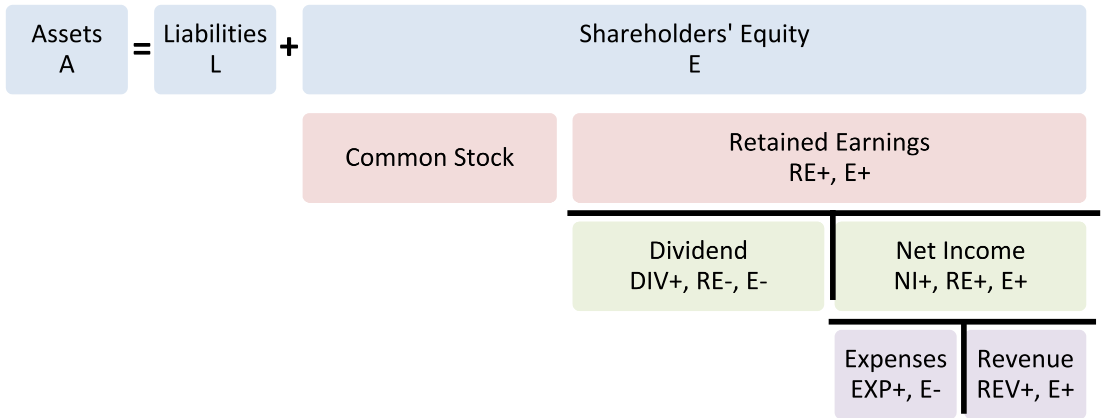
CHAPTER 3: OPERATING DECISIONS AND THE STATEMENT OF COMPREHENSIVE INCOME

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	900
Total current assets	4,000
Property, plant and equipment	21,000
Total assets	$ 25,000
Liabilities & Stockholders' Equity	
Current liabilities	
Notes payable	$ 15,000
Total current liabilities	15,000
Stockholders' Equity	
Common Stock	10,000
Retained earnings	-
Total stockholders' equity	10,000
Total liabilities & stockholders' equity	$ 25,000

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 (Design Revenue) (REV+, E+)	+40,000

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

\+ Cash –

BegBal	3,100		
EndBal			

\+ Accounts Receivable –

BegBal	0		
EndBal			

\+ Supplies –

BegBal	900		
EndBal			

\+ Prepaid Expenses –

BegBal	0		
EndBal			

\+ Property, Plant & Equipment –

BegBal	21,000		
EndBal			

Liabilities

\- Accounts Payable +

		BegBal	0
		EndBal	

\- Notes Payable +

		BegBal	15,000
		EndBal	

\- Unearned Revenue +

		BegBal	0
		EndBal	

Stockholders' Equity

\- Common Stock +

		BegBal	10,000
		EndBal	

\- Retained Earnings +

		BegBal	0
		EndBal	

\- Design Revenue +

		BegBal	0
		EndBal	

\+ Wage Expense –

BegBal	0		
EndBal			

\+ Utilities Expense –

BegBal	0		
EndBal			

\+ Telephone Expense –

BegBal	0		
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	