Thammasat University
Faculty of Economics
Bachelor of Economics (International Program)

AC201
Fundamental Accounting

Semester 2/2012

Course Materials

Topic:

Chapter 3 Operating Decisions and the Statement of Comprehensive Income

Session:

Sessions #4

Instructor:

Ajarn Santana Singhasaneh

Introduction to Financial Statements

FINANCIAL STATEMENTS	ASSETS	LIABILITIES	EQUITY

✓ • Statement of Financial Position
✓ • Statement of Comprehensive Income
✓ • Statement of Changes in Equity
✓ • Statement of Cash Flows
	• Cash
	• Investments in debt and equity securities
	• Accounts receivable
	• Notes receivable
	• Inventory
	• Prepaid expenses
	• Property, plant, and equipment
	• Intangible assets
	• Natural resources
		• Accounts payable
		• Accrued liabilities
		• Unearned revenues
		• Notes payable
		• Bonds payable
			• Share capital
			  • Preferred share
			  • Ordinary share
			• Retained earnings
			  • Appropriated R/E
			  • Unappropriated R/E
			• Treasury share

Accounting Cycle

Financial Statement Items

We are here

Transaction Analysis and Recording – Operating Activities

FINANCIAL STATEMENT ANALYSIS

CHAPTER 3: OPERATING DECISIONS AND THE STATEMENT OF COMPREHENSIVE INCOME

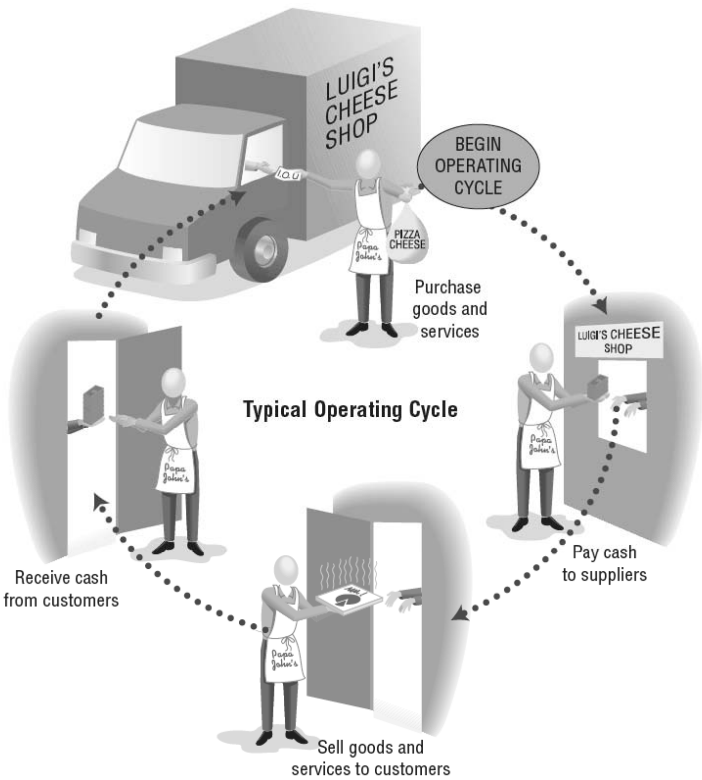
Ajarn Santana Singhasaneh
Department of Accounting
Thammasat Business School
Thammasat University

How do Business Activities Affect the Statement of Comprehensive Income ?

The Operating Cycle

Operating (Cash-to Cash) Cycle:
is the time it takes to receives goods or services from suppliers, to pay cash to suppliers, to sell them to customers, and to collect cash from customers.

Time Period Assumption:
To measure and report financial information periodically,
we assume that the long life of a company
can be cut into shorter period.

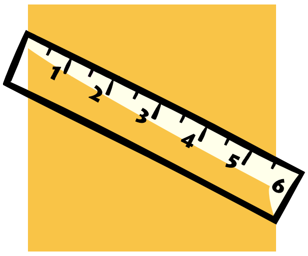


The Operating Cycle

Issues arise in reporting periodic income to users:

1. ***Recognition Issues***:
   When should the effects of operating activities be recognized (recorded)?

2. ***Measurement Issues***:
   What amounts should be recognized ?



Elements on the Statement of Comprehensive Income

Revenues
Increases in assets or settlement of liabilities from ongoing operations.

Expenses
Decreases in assets or increases in liabilities from ongoing operations.

Gains
Increases in assets or settlement of liabilities from peripheral transactions.

Losses
Decreases in assets or increases in liabilities from peripheral transactions.

PAPA JOHN'S INTERNATIONAL, INC.
Consolidated Statement of Income
For the Year Ended December 31, 2008
(dollars in thousands)

Operating Revenues		
Restaurant sales revenue	$ 996,000	
Franchise fee revenue	136,000	
Total revenues	1,132,000	
Operating Expenses		
Cost of sales	483,000	
Salaries expense	193,000	*Operating activities* (central focus of the business)
Rent expense	35,000	
Advertising expense	49,000	
General and administrative expenses	100,000	*Includes insurance, repairs, utilities, and fuel expenses*
Depreciation expense	33,000	
Other operating expenses	172,000	
Total expenses	1,065,000	
Operating Income	67,000	*Subtotal of operating revenues minus operating expenses*
Other Items		
Investment income	1,000	
Interest expense	(8,000)	*Peripheral activities* (not the main focus of the business)
Loss on restaurants sold	(3,000)	
Income before Income Taxes	57,000	*Subtotal of all revenues minus all expenses except taxes*
Income tax expense	20,000	
Net Income	**$ 37,000**	
Earnings per Share	**$ 1.32**	*= $37,000,000 Net Income ÷ 28,100,000 Average Number of Shares Outstanding (from Papa John's annual report)*

Papa John's
Primary Operating Expenses

Cost of sales
(used inventory)

Salaries
and benefits to
employees

Other costs
(like advertising,
insurance, and
depreciation)

PAPA JOHN'S INTERNATIONAL, INC.
Consolidated Statement of Income
For the Year Ended December 31, 2008
(dollars in thousands)

Operating Revenues	
Restaurant sales revenue	$ 996,000
Franchise fee revenue	136,000
Total revenues	1,132,000
Operating Expenses	
Cost of sales	483,000
Salaries expense	193,000
Rent expense	35,000
Advertising expense	49,000
General and administrative expenses	100,000
Depreciation expense	33,000
Other operating expenses	172,000
Total expenses	1,065,000
Operating Income	67,000
Other Items	
Investment income	1,000
Interest expense	(8,000)
Loss on restaurants sold	(3,000)
Income before Income Taxes	57,000
Income tax expense	20,000
Net Income	**$ 37,000**
Earnings per Share	**$ 1.32**

International Perspective

From Page 143

As indicated in Chapter 2, under IFRS, the income statement is usually titled the Statement of Operations. There is also a difference in how expenses may be reported:

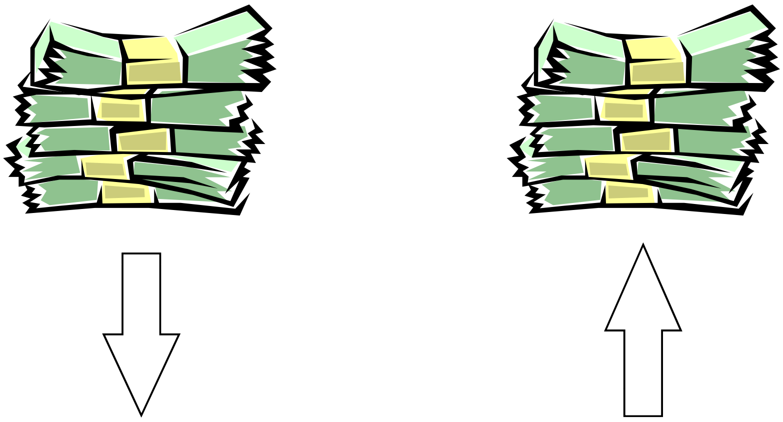
	GAAP	IFRS
Presentation of Expenses • Similar expenses are reported, but may be grouped in different ways	Public companies categorize expenses by business **function** (e.g., production, research, marketing, general operations).	Companies can categorize expenses by either **function or nature** (e.g., salaries, rent, supplies, electricity).

In addition, foreign companies often use account titles that differ from U.S. companies. For example, GlaxoSmithKline (a U.K. pharmaceutical company), Parmalat (an Italian food producer of milk, dairy products, and fruit-based beverages), and Unilever (a U.K. and Netherlands-based company supplying food, home, and personal care products such as Hellman's mayonnaise, Dove soap, and Popsicle treats) use the term *turnover* to refer to sales revenue, *finance income* for income from investments, and *finance cost* for interest expense. BMW Group, on the other hand, reports *revenues* and uses *financial result* for the difference between income from investments and interest expense. All four companies follow IFRS.

How are Operating Activities Recognized and Measured ?

How Are Operating Activities Recognized and Measured?

Cash Basis



Revenues are recorded when cash is received.

Expenses are recorded when cash is paid.

How Are Operating Activities Recognized and Measured?

Accrual Basis

Revenues and ***Expenses*** should be ***recognized*** (recorded) when the transaction that causes them occurs, ***NOT*** *necessarily when cash is paid or received.*

Basic accounting principles that determine ***when*** *revenues and expenses are recorded*:

1. *Revenue principle*
2. *Matching principle*

Revenue Principle

ALL 4 criteria must be met for ***Revenue*** to be ***recognized***:

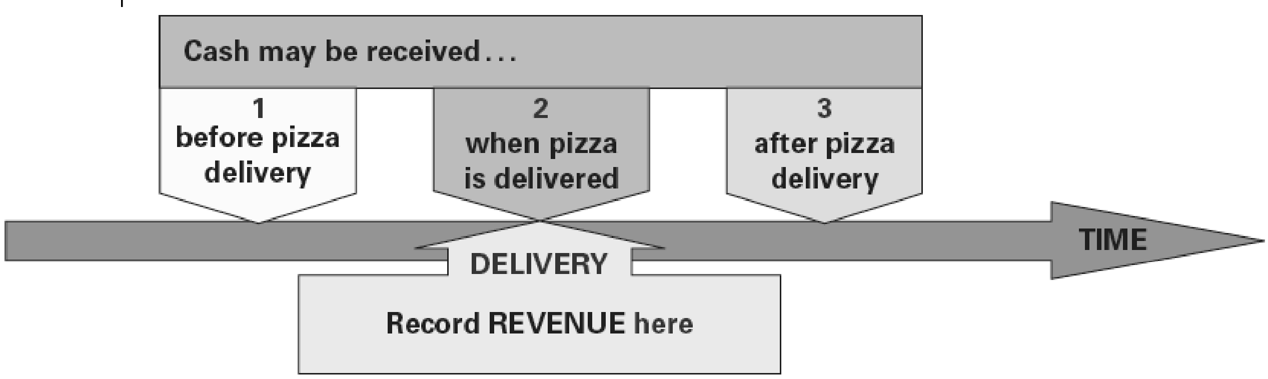
1. Delivery has occurred or services have been rendered;
2. There is persuasive evidence of an arrangement for customer payment;
3. The price is fixed or determinable; and
4. Collection is reasonably assured.

regardless of when cash is paid.

AC201 Fundamental Accounting

Revenue Principle

Recording revenues v/s cash receipts



Revenue Principle

If cash is received
before the company delivers goods or services,
the liability account ***UNEARNED REVENUE*** is recorded.

Cash received **before** revenue is earned -

Cash Received — **Company Delivers**

Cash (A+)	xxx	
Unearned revenue (L+)		xxx

Unearned revenue:
A liability representing a company's obligation to provide goods or services to customers in the future.

Revenue Principle

When the company delivers the goods or services
UNEARNED REVENUE is reduced
and ***REVENUE*** is recorded.

Cash received **before** revenue is earned -

Cash Received — **Company Delivers**

Cash (A+)	xxx	
Unearned revenue (L+)		xxx

Revenue will be recorded when earned.

Unearned revenue (L-)	xxx	
Service revenue (REV+)		xxx

Revenue Principle

When cash is received on the date the ***Revenue*** is earned,
the following entry is made:

Company Delivers
***AND* Cash Received**

Cash (A+)	xxx	
Revenue (REV+)		xxx

Revenue Principle

If cash is received
after the company delivers goods or services,
an asset ***ACCOUNTS RECEIVABLE*** is recorded.

Cash received **after** revenue is earned -

Company Delivers

Cash Received

Accounts receivable (A+)	xxx	
Revenue (REV+)		xxx

Revenue Principle

When the cash is received
the ***ACCOUNTS RECEIVABLE*** is reduced.

Cash received **after** revenue is earned -

Company Delivers

Cash Received

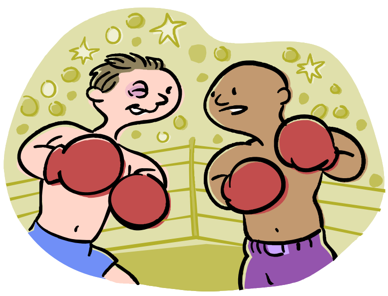
Accounts receivable (A+)	xxx	
Revenue (REV+)		xxx

Cash will be collected.

Cash (A+)	xxx	
Accounts receivable (A-)		xxx

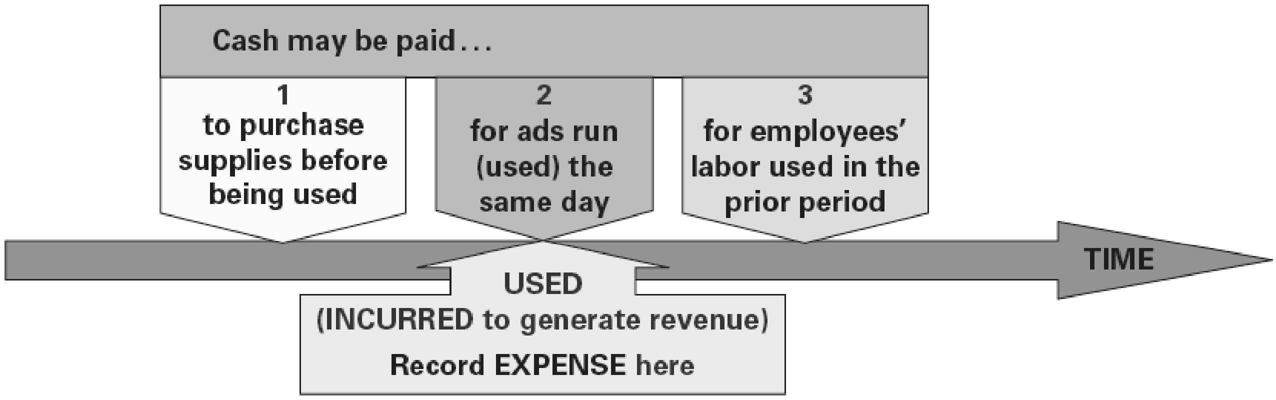
Matching Principle

Expenses are ***recognized***
when they are incurred in generating revenue,
regardless of when cash is paid.



Matching Principle

Recording expenses v/s cash payments



Matching Principle

If cash is paid
before the company receives goods or services,
an asset account, ***PREPAID EXPENSE*** is recorded.

Cash is paid **before** expense is incurred -

Cash Paid

Expense Incurred

Prepaid expense (A+)	xxx	
Cash (A-)		xxx

Prepaid expenses: A general account name used to describe payments made in advance of receiving future services; typically includes prepaid rent, prepaid insurance, and other specific types of prepayments.

Matching Principle

When the expense is incurred
PREPAID EXPENSE is reduced
and an ***EXPENSE*** is recorded.

Cash is paid **before** expense is incurred -

Cash Paid

Expense Incurred

Prepaid expense (A+)	xxx	
Cash (A-)		xxx

Expense will be recorded when incurred.

Expense (EXP+)	xxx	
Prepaid expense (A-)		xxx

Matching Principle

When cash is paid on the date the ***Expense*** is incurred,
the following entry is made:

Expense Incurred
***AND* Cash Paid**

Expense (EXP+)	xxx	
Cash (A-)		xxx

Matching Principle

If cash is paid
after the company receives goods or services,
a liability ***PAYABLE*** is recorded.

Cash paid **after** expense is incurred -

Expense Incurred **Cash Paid**

Expense (EXP+)	xxx	
Payable (L+)		xxx

Matching Principle

When cash is paid
the ***PAYABLE*** is reduced.

Cash paid **after** expense is incurred -

Expense Incurred **Cash Paid**

Expense (EXP+)	xxx	
Payable (L+)		xxx

Cash will be paid.

Payable (L-)	xxx	
Cash (A-)		xxx

Matching Principle

Typical assets
and their related expense accounts include. . .

CASH PAID FOR	as used over time becomes	EXPENSE
Supplies inventory	→	Supplies expense
Prepaid insurance	→	Insurance expense
Buildings and equipment	→	Depreciation expense

AC201 Fundamental Accounting

A Question of Ethics

Management's Incentives to Violate Accounting Rules

Investors in the stock market base their decisions on their expectations of a company's future earnings. When companies announce quarterly and annual earnings information, investors evaluate how well the companies have met expectations and adjust their investing decisions accordingly. Companies that fail to meet expectations often experience a decline in stock price. Thus, managers are motivated to produce earnings results that meet or exceed investors' expectations to bolster stock prices. Greed may lead some managers to make unethical accounting and reporting decisions, often involving falsifying revenues and expenses. While this sometimes fools people for a short time, it rarely works in the long run and often leads to very bad consequences.

Fraud is a criminal offense for which managers may be sentenced to jail. Samples of fraud cases, a few involving faulty revenue and expense accounting, are shown below. Just imagine what it must have been like to be 65-year-old Bernie Ebbers or 21-year-old Barry Minkow, both sentenced to 25 years in prison for accounting fraud.

The CEO	The Fraud	Conviction/Plea	The Outcome
Bernard Madoff, 71 Madoff Investment Securities	Scammed $50 billion from investors in a Ponzi scheme in which investors receive "returns" from money paid by subsequent investors.	Confessed, December 2008	Sentenced to 150 years
Bernie Ebbers, 65 Worldcom	Recorded $11 billion in operating expenses as if they were assets.	Convicted, July 2005	Sentenced to 25 years
Sanjay Kumar, 44 Computer Associates	Recorded sales in the wrong accounting period.	Pleaded guilty, April 2006	Sentenced to 12 years
Martin Grass, 49 Rite Aid Corporation	Recorded rebates from drug companies before they were earned.	Pleaded guilty, June 2003	Sentenced to 8 years
Barry Minkow, 21 ZZZZ Best	Made up customers and sales to show profits when, in reality, the company was a sham.	Convicted, December 1988	Sentenced to 25 years

Many others are affected by fraud. Shareholders lose stock value, employees may lose their jobs (and pension funds, as in the case of Enron), and customers and suppliers may become wary of dealing with a company operating under the cloud of fraud. As a manager, you may face an ethical dilemma in the workplace. The ethical decision is the one you will be proud of 20 years later.

From
Page 149

The Expanded Transaction Analysis Model

A = L + SE

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

Contributed Capital	
Debit (-)	Credit (+) Investments by owners

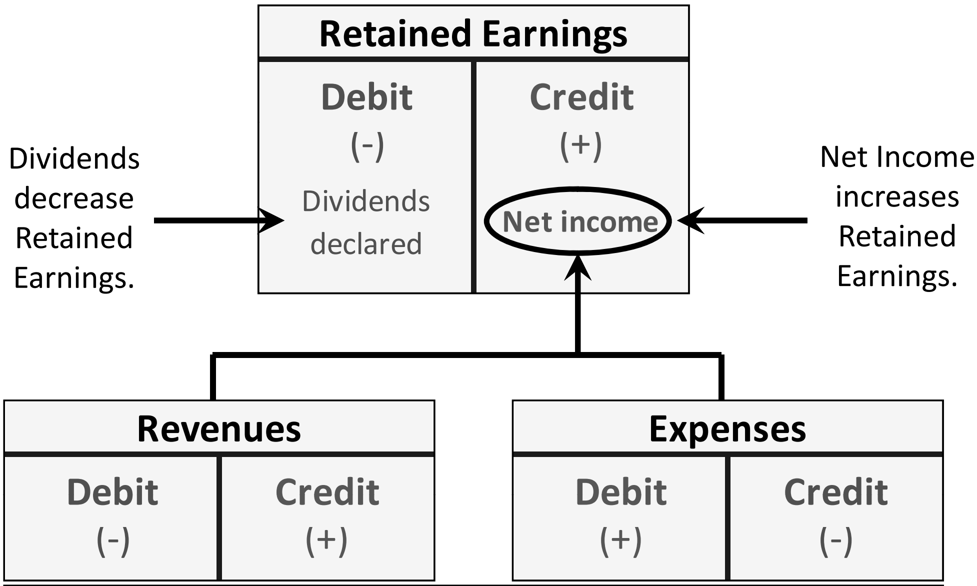
Retained Earnings	
Debit (-) Dividends declared	Credit (+) Net income

Revenues	
Debit (-)	Credit (+)

Expenses	
Debit (+)	Credit (-)

This is how Revenues and Expenses affect Retained Earnings.

Expanded Transaction Analysis Model



This is how Revenues and Expenses affect Retained Earnings.

Analyzing Some of Papa John's Transactions

(a) Papa John's restaurants sold pizza to customers for $36,000 cash and sold $30,000 in supplies to franchised restaurants, receiving $21,000 cash with the rest due on account.

		Debit	Credit
(a)	Cash (+A) [$36,000 + $21,000].	57,000	
	Accounts Receivable (+A)	9,000	
	Restaurant Sales Revenue (+R, +SE)		66,000

Assets		=	Liabilities	+	Stockholders' Equity	
Cash	+57,000				Restaurant Sales Revenue (+R)	+66,000
Accounts Receivable	+ 9,000					

Equality checks:

1. Debits $66,000 equal Credits $66,000,
2. The accounting equation is in balance.

Analyzing Some of Papa John's Transactions

(b) The cost of the dough, sauce, cheese, and other supplies for the restaurant sales in (a) on the previous screen was $30,000.

		Debit	Credit
(b)	Cost of Sales (+E, −SE)	30,000	
	Supplies (−A)		30,000

Assets		=	Liabilities	+	Stockholders' Equity	
Supplies	−30,000				Cost of Sales (+E)	−30,000

Equality checks:
1. Debits $30,000 equal Credits $30,000,
2. The accounting equation is in balance.

Analyzing Some of Papa John's Transactions

(c) Papa John's sold new franchises for $400 cash, earning $100 immediately by performing services for franchisees; the rest will be earned over the next several months.

for services performed

		Debit	Credit
(c)	Cash (+A)	400	
	Franchise Fee Revenue (+R, +SE)		100
	Unearned Franchise Fees (+L)		300

Assets		=	Liabilities	+	Stockholders' Equity	
Cash	+400		Unearned Franchise Fees +300		Franchise Fee Revenue (+R)	+100

for services NOT yet performed

Equality checks:
1. Debits $400 equal Credits $400,
2. The accounting equation is in balance.

Analyzing Some of Papa John's Transactions

(d) In January, Papa John's paid $7,000 for utilities, repairs, and fuel for delivery vehicles, all considered general and administrative expenses incurred during the month.

		Debit	Credit
(d)	General and Administrative Expenses (+E, −SE)	7,000	
	Cash (−A)		7,000

Assets		=	Liabilities	+	Stockholders' Equity	
Cash	−7,000				General and Administrative Expenses (+E)	−7,000

Equality checks:
1. Debits $7,000 equal Credits $7,000,
2. The accounting equation is in balance.

Papa John's Balance Sheet Accounts

+ Cash (A) −

Bal.	13,000		
(a)	57,000	7,000	*(d)*
(c)	400	9,000	*(e)*
(h)	4,000	14,000	*(f)*
(i)	15,500	9,000	*(g)*
(k)	1,000	10,000	*(j)*
Bal.	41,900		

+ Accounts Receivable (A) −

Bal.	24,000		
(a)	9,000	12,800	*(i)*
Bal.	20,200		

+ Supplies (A) −

Bal.	17,000		
(e)	29,000	30,000	*(b)*
Bal.	16,000		

+ Prepaid Expenses (A) −

Bal.	10,000		
(g)	9,000		
Bal.	19,000		

+ Property and Equipment (A) −

Bal.	200,000		
		1,000	*(h)*
Bal.	199,000		

− Accounts Payable (L) +

		29,000	Bal.
(j)	10,000	20,000	*(e)*
		39,000	Bal.

− Unearned Franchise Fees (L) +

		6,000	Bal.
		300	*(c)*
		6,300	Bal.

Papa John's Income Statement Accounts

Beginning balances start at zero.

– Restaurant Sales Revenue (R) +			
		0	Bal.
		66,000	(a)
		66,000	Bal.

– Franchise Fee Revenue (R) +			
		0	Bal.
		100	(c)
		2,700	(i)
		2,800	Bal.

– Gain on Sale of Land (R) +			
		0	Bal.
		3,000	(h)
		3,000	Bal.

– Investment Income (R) +			
		0	Bal.
		1,000	(k)
		1,000	Bal.

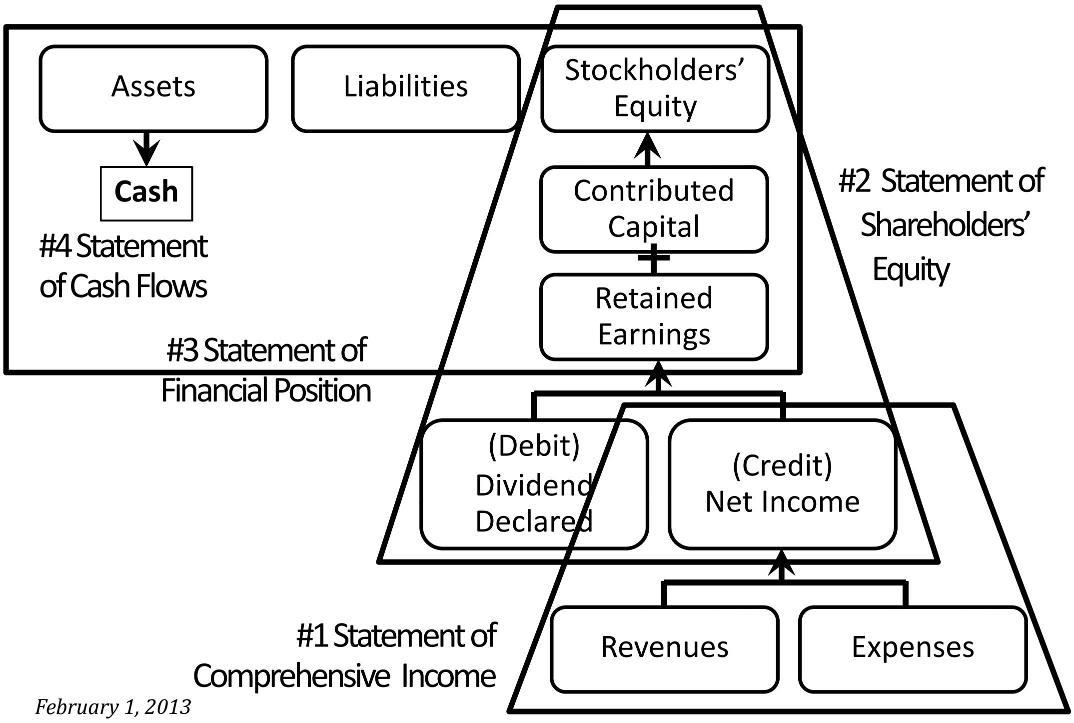
+ Cost of Sales (E) –			
Bal.	0		
(b)	30,000		
Bal.	30,000		

+ Salaries Expense (E) –			
Bal.	0		
(f)	14,000		
Bal.	14,000		

+ General and Administrative Expenses (E) –			
Bal.	0		
(d)	7,000		
Bal.	7,000		

How are Financial Statements Prepared and Analyzed ?

How Are Financial Statements Prepared and Analyzed ?



How Are Financial Statements Prepared and Analyzed ?

Statement	Formula
#1 Income Statement	Revenues − Expenses = Net Income
#2 Statement of Stockholders' Equity	Beginning Retained Earnings + Net Income − Dividends Declared = Ending Retained Earnings Beginning Contributed Capital + Stock Issuances − Stock Repurchases = Ending Contributed Capital Ending Stockholders' Equity
#3 Balance Sheet	Assets = Liabilities + Stockholders' Equity (includes Cash)
#4 Statement of Cash Flows	Cash provided by (or used in) Operating Activities +/− Cash provided by (or used in) Investing Activities +/− Cash provided by (or used in) Financing Activities Change in Cash + Beginning Cash Ending Cash

1. Statement of Comprehensive Income

PAPA JOHN'S INTERNATIONAL, INC.
Consolidated Statement of Income (before adjustments)
For the Month Ended January 31, 2009
(dollars in thousands)

Operating Revenues	
Restaurant sales revenue	$66,000
Franchise fee revenue	2,800
Total revenues	68,800
Operating Expenses	
Cost of sales	30,000
Salaries expense	14,000
General and administrative expenses	7,000
Supplies expense	0
Rent expense	0
Insurance expense	0
Utilities expense	0
Depreciation expense	0
Other operating expenses	0
Total expenses	51,000
Operating Income	17,800
Other Items	
Investment income	1,000
Interest expense	(0)
Gain on sale of land	3,000
Income before Income Taxes	21,800
Income tax expense	0
Net Income	**$21,800**
Earnings per Share (for the month)	$ 0.78

Note:
Normally, accounts with zero balances are not included on formal statements. However, we include them here to indicate that there are numerous expenses and revenues to be determined and recorded in the adjustment process described in Chapter 4.

$21,800,000 unadjusted net income divided by approximately 28,100,000 shares (from Papa John's annual report)

2. Statement of Shareholders' Equity

PAPA JOHN'S INTERNATIONAL, INC.
Consolidated Statement of Stockholders' Equity (before adjustments)
Month Ended January 31, 2009
(dollars in thousands)

	Contributed Capital	Retained Earnings	Total Stockholders' Equity
Beginning balance, December 31, 2008	$7,000	$123,000	$130,000
Additional stock issuances	2,000		2,000
Net income (prior to adjustments)		21,800	21,800
Dividends declared		(3,000)	(3,000)
Ending balance, January 31, 2009	$9,000	$141,800	$150,800

The net income ($21,800) comes from
Statement of Comprehensive Income we just prepared.

3. Statement of Financial Position

PAPA JOHN'S INTERNATIONAL, INC.
Consolidated Balance Sheet (before adjustments)
January 31, 2009
(dollars in thousands)

ASSETS	
Current Assets	
Cash	$ 41,900
Accounts receivable	20,200
Supplies	16,000
Prepaid expenses	19,000
Other current assets	13,000
Total current assets	110,100
Investments	2,000
Property and equipment (net)	199,000
Notes receivable	11,000
Intangibles	77,000
Other assets	36,000
Total Assets	**$435,100**
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities	
Accounts payable	$ 39,000
Dividends payable	3,000
Accrued expenses payable	71,000
Total current liabilities	113,000
Unearned franchise fees	6,300
Notes payable	138,000
Other long-term liabilities	27,000
Total liabilities	284,300
Stockholders' Equity	
Contributed capital	9,000
Retained earnings	141,800
Total stockholders' equity	150,800
Total liabilities and stockholders' equity	**$435,100**

From the Statement of Stockholders' Equity

4. Statement of Cash Flows

		Effect on Cash Flows
Operating activities		
Cash received:	Customers	+
	Interest and dividends on investments	+
Cash paid:	Suppliers	-
	Employees	-
	Interest on debt obligations	-
	Income taxes	-
Cash Flows from Operating Activities		Total

4. Statement of Cash Flows

Direct approach to preparing operating cash flows.

		Effect on Cash Flows
Operating activities		
Cash received:	Customers	+
	Interest and dividends on investments	+
Cash paid:	Suppliers	-
	Employees	-
	Interest on debt obligations	-
	Income taxes	-
Cash Flows from Operating Activities		Total
Investing Activities		
Purchase of property, plant or equipment		-
Purchase of other long-term assets		-
Sale of property, plant or equipment		+
Sale of other long-term assets		+
Cash Flows from Investing Activities		Total
Financing Activities		
Issuance of long-term debt		+
Issuance of contributed capital		+
Dividends paid		-
Repurchase of long-term debt		-
Repurchase of contributed capital		-
Cash Flows from Financing Activities		Total
Net increase or (decrease) in cash		
Beginning balance in cash account		
Ending balance in cash account		

Total Asset Turnover Ratio

$$\text{Total Asset Turnover Ratio} = \frac{\text{Sales (or Operating) Revenues}}{\text{Average Total Assets}}$$

(Beginning total assets + ending total assets) ÷ 2

Papa John's Total Asset Turnover Ratio for 2008 (dollars in thousands):

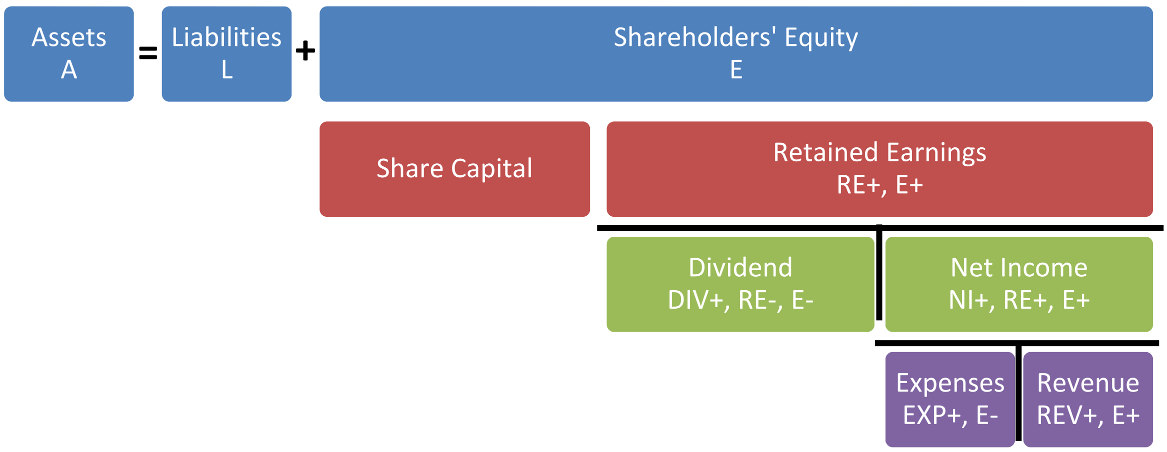
$$\frac{\$1{,}132{,}000}{(\$402{,}000 + \$386{,}000) \div 2} = 2.87$$

End of Chapter 3

CHAPTER 3: OPERATING DECISIONS AND THE STATEMENT OF COMPREHENSIVE INCOME

The Accounting Equation

$$A = L + E$$



<u>CHAPTER 3 - EXERCISE</u>

Tabor Hill Designers entered into the following transactions during February 2014. 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 for next year in advance.
h. On February 28, paid $9,000 cash for rent for next six months in advance.
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 leasttwo) 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 for next year in advance.

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 for rent for next six months in advance.

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

\+ 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 +

		0	BegBal
			EndBal

\- Notes Payable +

		15,000	BegBal
			EndBal

\- Unearned Revenue +

		0	BegBal
			EndBal

Stockholders' Equity

\- Contributed Capital +

		10,000	BegBal
			EndBal

\- Retained Earnings +

		0	BegBal
			EndBal

\- Design Revenue +

		0	BegBal
			EndBal

\+ Wage Expense –

BegBal	0		
EndBal			

\+ Utilities Expense –

BegBal	0		
EndBal			

\+ Telephone Expense –

BegBal	0		
EndBal			

Normal Balance of an Account

The normal balance of an account is its usual balance and is the side (debit or credit) that increases the account. If you have difficulty remembering the normal balances and the rules of debit and credit, try using the acronym AWE: Asset accounts, Withdrawals (dividends), and Expenses are always increased by debits (left side). All other normal accounts are increased by credits.

Step 4: Prepare the Statement of Comprehensive Income, Statement of Shareholders' 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 Shareholders' Equity; and (3) Statement of Financial Position for Tabor Hill as of and for the month ended February 28, 2014. (Ignore income tax expense.)