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How to Do Accounting I with student working papers and solutions

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How to Do *Accounting I*

James E. Foote

How to do Accounting I

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Chapter 1

Accounting has a long history and includes many areas of the career ladder. The individuals working in basic Accounting can include entry level accounting clerk, payroll clerk, record keepers and bookkeepers. Entry level positions have on the job training, technology school, or an associate degree. This position enters business transactions in the books of the business following a prescribed Accounting system.

Day to day accounting decisions are made by the comptrollers, business managers or similar job title. These positions usually have an accounting degree and some experience. The Certified Public Account (CPA) is the top of the career ladder in Accounting. A college degree, accounting experience and passing an extensive State Board qualifies the individual as a CPA. The CPA keeps current on local, state, and federal regulations regarding wages, taxes, and other financial matters which will influence the profits of the business.

Reviewing the accurate records of the business enable the comptrollers and CPA to maximize profit and minimize expenses of the business.

ACCOUNTING EQUATION

The accounting equation is usually expressed as: $A = L + C$
However it can also be expressed as $C = A - L$ or $L = A - C$.

The A stands for ASSETS (owns): The assets of the business are items the business owns or is able to use doing business. These include: Cash, Accounts Receivable, Office Supplies, Prepaid Insurance, Auto, Land, Building and other supplies and equipment.

The L for LIABILITIES (owe): The liabilities are companies the business owes money to. These include: Accounts Payable, Salaries Payable, FICA Payable, Charge Cards, or long term Mortgage. Money Payable at a later date.

CAPITAL: (Owners Equity, Proprietorship or Net Worth). This account is updated monthly, quarterly or as determined by the owner. To show the day to day transactions of the business use temporary income and expense accounts.

TEMPORARY ACCOUNTS: Accounts set up for the fiscal year (accounting year) to keep track of daily transactions. These include: **Drawing, Income, and Expenses** of the business.

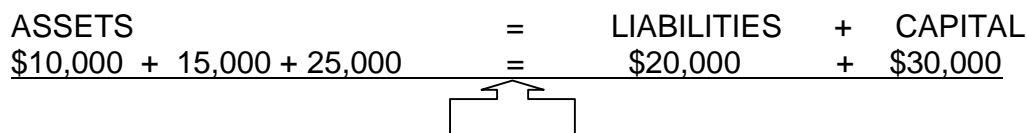
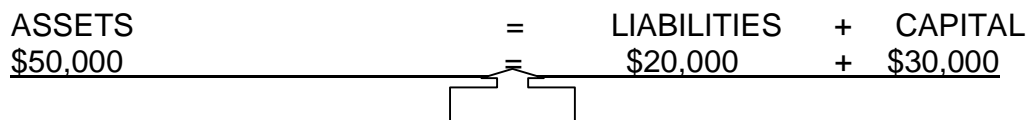
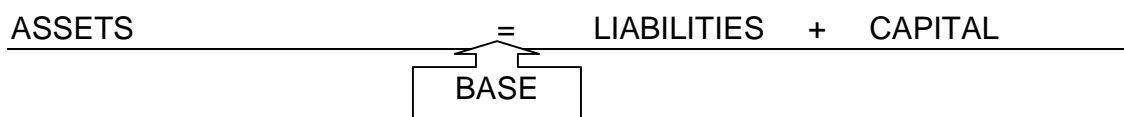
DRAWING: A Temporary account to keep track of the amount of money the Owner withdraws for personal use. IRS will not allow personal withdrawal as business expenses.

INCOME (Revenue): of the business may come from Sales, Fees, Fares, Payment received for services or Commissions.

EXPENSES: Cost of doing business. Expenses include: Rent, Utilities, Purchase of Merchandise for resale, and similar expenses.

The record keeping system used in accounting is called double entry bookkeeping and can be compared to the playground see/saw (teeter/totter).

The accounting equation states that Assets equal (=) Liabilities plus (+) Capital



Any combination of Assets must = any combination of Liabilities + Capital

As with the see/saw (teeter/totter)

- a) The Asset can be exchanged for an Equal Asset.
- b) The Asset can be exchanged for an Equal amount of Liability.
- c) The Asset can be exchanged for Capital (Owners Equity) or an income or expense.

STEPS TO SOLVING AN ACCOUNTING PROBLEM

1. **READ – READ – READ**
2. Determine the accounts effected (Cash, Accounts Payable, Sales, etc)
3. Classify the accounts (A, L, C, D, E, I) (Alice D)
4. Has the account **increased**?
Or decreased? (Do you have more? or less?)
5. Record in the Journal
6. **REVIEW!**

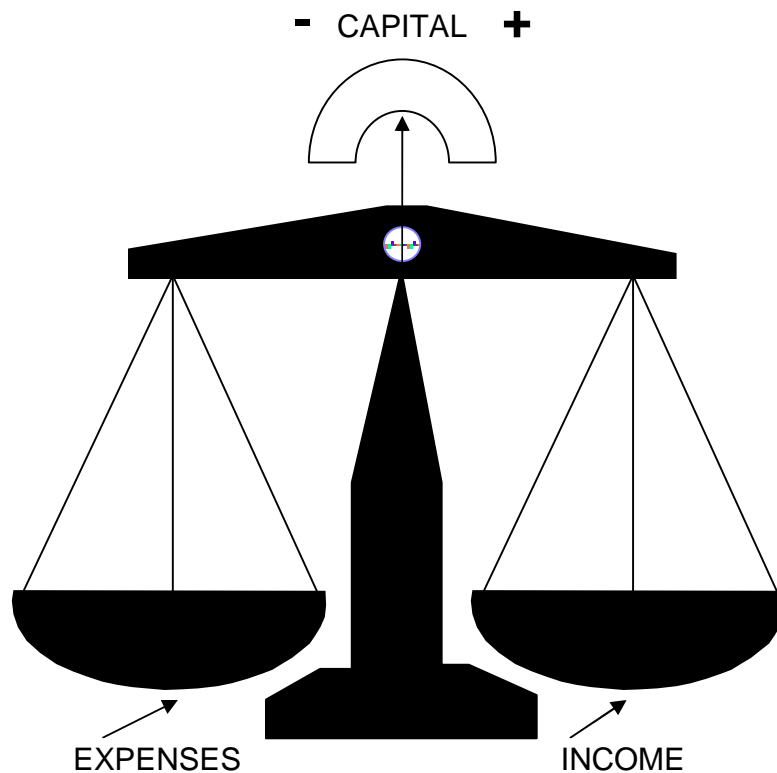
To develop our pattern to remember to do these steps in order, we will use the problem analyzer sheet (PAS).

Problem Analyzer Sheet

D / C	Name of the Account	Classify A,L,C,D,E,I	Account + or -	Amount \$
	Cash	A	+	5,000
	Joe's, Capital	C	+	

The Capital section similar to your checkbook is a real balancing act. Begin the month with a balance. The more income we receive, the larger our balance will be in the checkbook. The more expenses we have, the less balance we will have in our checkbook at the end of the month. Look at the scales below :

+ to expenses will result in **—** to Capital. **+** to Income will result in **+** to Capital



RECORDED AS PRE-PAID ASSETS.

In accrual accounting, Office supplies, postage stamps, Prepaid insurance and similar items are not considered an expense at the time of their purchase. These are considered pre-paid assets because they may be returned to the vendor for a refund of all or most of the purchase price. Therefore, these items will be recorded as an Asset at the time of their purchase.

To assist us to keep on track we will use the Problem Analyzer Sheet below:

D / C	Name of the Account	Classify A,L,C,D,E,I	Account + or -	Amount \$
#1	Cash	A	+	5,000
	Joe's, Capital	C	+	
#2	Rent Expense	E	+	
	Cash	A	-	

Note: Transactions are Joe's Jalopy Wash

Analyze the following business transactions using the Problem Analyzer Sheet PAS above or similar divisions on your note paper.

Drill 1.1 Exchange Asset for Asset on same side of

1. Purchased cleaning supplies for cash, \$50
2. Purchased insurance for cash, \$100
3. Paid \$85 for office supplies
4. Purchased office equipment for \$120.
5. Paid \$ 245 to Water Falls Office for drink machine.
6. Found damage to \$15 of office supplies (#3) and returned for cash.
7. \$28 paid for cleaning supplies.
8. Returned 1 bottle for \$9 cash of cleaning supplies (#7) wrong solution.
9. Purchased 1 roll of stamps \$34

Drill 1.2

1. Paid \$57 for office supplies.
2. Charged \$200 for office equipment at Liam's Budget Barn
3. Purchased from Jim's Insurance \$300 for 3 months liability.
4. Picked up 3 cases on sale "Diet Drink" at \$2 each.
5. Purchased \$300 additional office equipment from Liam's on account.
6. Paid \$55 for postage stamps and supplies.
7. Returned office Chair \$120 (#2) and received credit.
8. Made a deal with Cliff's for used truck \$1,000 down & \$4,000 due in 60 days.
9. Paid Liam's Budget Barn balance of invoice (#2)

Drill 1.3

1. Invested \$10,000 in the business Wishy Washy
2. Paid \$85 for store supplies.
3. Paid rent \$300.
4. Purchased new \$500 washer on account from ACE Equipment.
5. Collected \$1,000 for coin boxes.
6. Paid Water bill \$120.
7. Placed an ad in paper \$50.
8. Withdrew \$100 for groceries.
9. Paid ACE Equipment \$200.

Problems for Chapter 1

1.1 Joe's Jalopy Wash had the following transactions in September.

The accounts in the business are: Cash, Washing supplies, Washing equipment, Super Mart Payable, Rent Expense, Utilities Expense, Joe's Capital, Joe's Drawing, and Cleaning Service Revenue. Record on a PAS the following:

1. Invested cash in the business \$5,000.
2. Paid Rent to Myers Land Management \$500.
3. Purchased washing supplies for cash \$200.
4. Purchased washing equipment on credit from Super Mart \$600.
5. Collected cash for services \$850.
6. Sold washing equipment for cash to customer \$100.
7. Paid Super Mart \$200.
8. Paid Utility bill \$400.
9. Collected cash for services \$500.
10. Withdrew cash from the business for personal use \$250.

1.2 Bill Miller of **Dollars and Cents** has the following accounts in the business: Cash, Supplies, Prepaid Insurance, AB&T Supply Payable, Jonesborough Office Supply Payable, Bill Miller, Capital, Bill Miller, Drawing, Sales, Advertising Expense, Miscellaneous Expense, Rent Expense, Repair Expense, Telephone Expense and Utilities Expense. Analyze the following on your **PAS** sheet.

1. Invested \$10,000 in business
2. Purchased supplies on account from Jonesborough Office Supply \$250.
3. Paid Cash for Rent \$500.
4. Received Cash from Sales \$450.
7. Paid cash on account to Jonesborough Office Supply \$100
8. Paid cash for Repairs \$75.
9. Received Cash from Sales \$575.
11. Paid Cash for Supplies \$455.
12. Paid Cash for Insurance \$700.
15. Bought supplies on account from AB&T Supply \$50.
16. Received Cash from Sales \$865.
19. Paid Cash for Supplies \$375
20. Paid Cash for Telephone bill \$75.
21. Paid Cash for Ad in News Weekly \$135.
22. Paid Cash for Miscellaneous Expense \$15.
25. Bill withdrew Cash for personal use \$300.
27. Received Cash from Sales \$790.

Analyze the following on your PAS sheet. **Keep sheet for Chapter 2**

1.3 Karen Jantzen snow-clearing business completed the following transactions in November.

1. Jantzen invested in the business \$5,600 cash and clearing equipment worth \$4,200.
2. Purchased supplies from Silver Suppliers on account \$167.
3. Purchased shovels and other equipment for cash, \$800
10. Received cash for services, \$550.
11. Purchased used panel truck from Minnesota Motors for \$6,600. \$2,000 down and the balance on account to be paid later.
12. Paid ad in the newspaper \$150.
13. Paid for gas and oil for the truck \$26.
13. Received cash for services \$225.
14. Paid Silver Suppliers on account \$80.
15. Paid miscellaneous expense, \$45.
18. Paid salary to employee \$300.
19. Received cash for services \$315.
20. Jantzen withdrew cash for personal use \$200.
21. Paid utilities expense \$135.
25. Paid Minnesota Motors on account \$500.

1.4 Keep sheet for Chapter 2

Transactions for Dugger Dolittle cemetery services. Analyze the following on your PAS sheet.

- 1 Invested in the Business \$3,000.
- 2 Paid Cash for Supplies \$84.
- 3 Paid Rent \$375.
- 4 Received Cash for Services \$325.
- 8 Truck repairs at Mike's \$500. Paid \$200 cash, charged the Balance.
- 9 Purchased Insurance \$220.
- 13 Invested an additional \$2,000 in business.
- 14 Received cash from services \$175
- 15 Purchased Office Supplies \$85, and Office Equipment \$770 on account from ABC.
- 16 Paid Gas bill to J C Utilities \$82.
- 20 Sent bill to Dead Beat Dan for Services \$95.
- 21 Paid Mike's \$100 on account
- 22 Received cash from services \$245.
- 23 Withdrew \$400 for personal use.
- 24 Paid ABC \$300.
- 27 Received cash from services \$390.
- 28 Paid cash for miscellaneous expenses \$8
- 29 Received \$10 from D. B. Dan.
- 30 Paid \$100 for an ad in Seniors Day

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