

Chapter 1

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Shannon cook is the owner and operator of Galaxy LLC, a motivation consulting business. At the end of its accounting period, December 31, 2011, Galaxy has assets of \$800.000 and liabilities of \$450.000. Using the accounting equation, determine the following amounts:
A. Owner's equity as of December 31,2011.

a. **Assets = Liabilities + Owners equity**
 $\$800,000 = \$450,000 + \text{Owners equity}$
Owners equity = \$350,000

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Determine the missing amount for each of the following:

a. **Assets = Liabilities + Owners equity**
 $? = \$150,000 + \$450,000$
Assets = \$150,000 + \$450,000
Assets = \$600,000

b. **Assets = Liabilities + Owners equity**
 $\$275.000 = ? + \50.000
Liabilities = \$275,000 – \$50,000
Liabilities = \$225,000

C. **Assets = Liabilities + Owners equity**
 $\$615.000 = \$190.000 + ?$
Owners equity= \$615,000 – \$190,000
Owners equity= \$425,000

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Indicate whether each the following is identified with (1) an asset , (2) a liability , or (3) owner's equity :

- a. cash
 - b. wages expense
 - c. accounts payable
 - d. fees earned
 - e. supplies
 - f. land
- a. (1) asset
 - b. (3) owner's equity
 - c. (2) liability
 - d. (3) owner's equity
 - e. (1) asset
 - f. (1) asset

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Describe how the following business transaction affect the three elements of the accounting equation.

- a. Invested cash in business.
 - b. purchased supplies for cash .
 - c. purchased supplies on account .
 - d. Received cash for services performed.
 - e . paid for utilities used in the business.
- a. **Increases assets and increases owner's equity.**
 - b. **Increases assets and decreases assets.**
 - c. **Increases assets and increases liabilities.**
 - d. **Increases assets and increases owner's equity.**
 - e. **Decreases assets and decreases owner's equity.**

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Jean Howard established an insurance agency on July 1 of the current year and completed the following transactions during July:

- a. Opened a business bank account with a deposit of \$50,000 from personal funds.
- b. Purchased supplies on account, \$1,600.
- c. Paid creditors on account, \$500.
- d. Received cash from fees earned on insurance commission, \$9,250.
- e. Paid rent on office and equipment for the month, \$2,500.
- f. Paid automobile expenses for month, \$900, and miscellaneous expenses, \$300.
- g. Paid office salaries, \$1,900.
- h. Determined that the cost of supplies on hand was \$550, therefore, the cost of supplies used was \$1,050.
- i. Billed insurance companies for sales commissions earned, \$11,150.
- j. Withdrew cash for personal use, \$2,700.

Solution:

	Assets					Liabilities + Owner's equity – Expenses + Revenues							
	cash	Accts. Rec.	Supp	=	Accts. Pay.	capital	Drawing	Fees earned	Rent Exp.	Sal. Exp.	Auto Exp.	Supp Exp.	Misc. Exp.
A	50.000			=		50.000							
B			1.600	=	1.600								
C	500			=	500								
D	9.250			=				9.250					
E	2.500			=					2.500				
F	1.200			=							900		300
G	1.900			=						1.900			
H			1.050	=								1.050	
I		11.150		=				11.150					
J	2.700			=			2.700						
Bal 31/7	50.450	11.150	550	=	1.100	50.000	2.700	20.400	2.500	1.900	900	1.050	300
	62.150					62.150							

* **Black (+)**

* **Red (-)**