

## Problem 1 Practice

Lakewood Personal Finance Company, which provides financial advisory services, engaged in the following transactions during May 2012:

**Problem 1-1**  
Prepare summary  
of transactions  
(L.O. 4, 5)

- May
- 1 Received \$300,000 cash for shares of capital stock issued when company was organized.
  - 2 The company borrowed \$40,000 from the bank on a note.
  - 7 The company bought \$182,400 of computer equipment for cash.
  - 11 Cash received for services performed to date was \$15,200.
  - 14 Services performed for a customer who agreed to pay within a month were \$10,000.
  - 15 Employee wages were paid, \$13,200.
  - 19 The company paid \$14,000 on the note to the bank.
  - 31 Interest paid to the bank for May was \$140. (Interest is an expense, which reduces retained earnings.)
  - 31 The customer of May 14 paid \$3,200 of the amount owed to the company.
  - 31 An order was received from a customer for services to be rendered next week, which will be billed at \$12,000.

Prepare a summary of transactions (see Part A of Illustration 1.3). Use money columns headed **Cash, Accounts Receivable, Equipment, Notes Payable, Capital Stock, and Retained Earnings.**

Determine balances after each transaction to show that the accounting equation balances.



Answers below:

**SOLUTIONS TO PROBLEMS**

**Problem 1-1  
(30 min.)**

**LAKEWOOD PERSONAL FINANCE COMPANY  
Summary of Transactions  
Month of May 2012**

		<i>Assets</i>			=	<i>Liabilities</i>	+	<i>Stockholders' Equity</i>	
<i>Date</i>	<i>Explanation</i>	<i>Cash</i>	<i>Accounts Receivable</i>	<i>Equipment</i>	=	<i>Notes Payable</i>		<i>Capital Stock</i>	<i>Retained Earnings</i>
May 1	Cash for capital stock.....	\$300,000			=			\$300,000	
	2 Bank loan .....	+40,000			=	+40,000			
		<u>\$340,000</u>			=	<u>\$40,000</u>	+	<u>\$300,000</u>	
	7 Equipment for cash .....	-182,400		+182,400					
		<u>\$157,600</u>		<u>\$182,400</u>	=	<u>\$40,000</u>	+	<u>\$300,000</u>	
	11 Cash revenue .....	+15,200			=				+15,200
		<u>\$172,800</u>		<u>\$182,400</u>	=	<u>\$40,000</u>	+	<u>\$300,000</u>	<u>\$15,200</u>
	14 Receivable revenue.....		+10,000		=				+10,000
		<u>\$172,800</u>	<u>\$10,000</u>	<u>\$182,400</u>	=	<u>\$40,000</u>	+	<u>\$300,000</u>	<u>\$25,200</u>
	15 Expenses paid.....	-13,200			=				-13,200
		<u>\$159,600</u>	<u>\$10,000</u>	<u>\$182,400</u>	=	<u>\$40,000</u>	+	<u>\$300,000</u>	<u>\$12,000</u>
	19 Note payment.....	-14,000			=	-14,000			
		<u>\$145,600</u>	<u>\$10,000</u>	<u>\$182,400</u>	=	<u>\$26,000</u>	+	<u>\$300,000</u>	<u>\$12,000</u>
	31 Interest paid.....	-140			=				-140
		<u>\$145,460</u>	<u>\$10,000</u>	<u>\$182,400</u>	=	<u>\$26,000</u>	+	<u>\$300,000</u>	<u>\$11,860</u>
	31 Collected on account .....	+3,200	-3,200						
		<u>\$148,660</u>	<u>\$ 6,800</u>	<u>\$182,400</u>	=	<u>\$26,000</u>	+	<u>\$300,000</u>	<u>\$11,860</u>

31. Order placed: Although the order from a customer is valuable, nothing can be recorded at this time for two reasons: (1) the order could be withdrawn before being filled, and (2) there is no objective measure of its value.

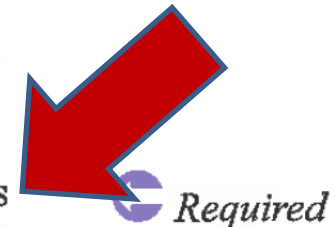
## Problem 2 Practice

Reliable Lawn Care Service, Inc., a company that takes care of lawns and shrubbery of personal residences, engaged in the following transactions in April 2012:

**Problem 1-2**  
Prepare summary  
of transactions and  
balance sheet  
(L.O. 4-6)

- Apr. 1 The company was organized and received \$400,000 cash from the owners in exchange for capital stock issued.
- 4 The company bought equipment for cash, \$101,760.
- 9 The company bought additional mowing equipment that cost \$9,120 and agreed to pay for it in 30 days.
- 15 Cash received for services performed to date was \$3,840.
- 16 Amount due from a customer for services performed totaled \$5,280.
- 30 Of the receivable (see April 16), \$3,072 was collected in cash.
- 30 Miscellaneous operating expenses of \$6,240 were paid during the month.
- 30 An order was placed for miscellaneous equipment costing \$28,800.

- a. Prepare a summary of transactions (see Part A of Illustration 1.3). Use money columns headed Cash, Accounts Receivable, Equipment, Accounts Payable, Capital Stock, and Retained Earnings. Determine balances after each transaction to show that the basic accounting equation balances.
- b. Prepare a balance sheet as of April 30.



Answers below:

**Problem 1-2**  
**(30 min.)**  
**a.**

RELIABLE LAWN CARE SERVICE, INC.  
 Summary of Transactions  
 Month of April 2012

		<i>Assets</i>			=	<i>Liabilities</i>	+	<i>Stockholders' Equity</i>	
<i>Date</i>	<i>Explanation</i>	<i>Cash</i>	<i>Accounts Receivable</i>	<i>Equipment</i>	=	<i>Accounts Payable</i>	+	<i>Capital Stock</i>	<i>Retained Earnings</i>
April 1	Cash for capital stock .....	\$400,000			=			\$400,000	
4	Equipment for cash .....	-101,760		+\$101,760					
		<u>\$298,240</u>		<u>\$101,760</u>				<u>\$400,000</u>	
9	Equipment on account ....			+9,120	=	+\$9,120			
		<u>\$298,240</u>		<u>\$110,880</u>	=	<u>\$9,120</u>		<u>\$400,000</u>	
15	Cash revenue .....	+3,840							+\$3,840
		<u>\$302,080</u>		<u>\$110,880</u>	=	<u>\$9,120</u>		<u>\$400,000</u>	<u>\$3,840</u>
16	Revenue receivable.....		+\$5,280		=				+5,280
		<u>\$302,080</u>	<u>\$5,280</u>	<u>\$110,880</u>	=	<u>\$9,120</u>	+	<u>\$400,000</u>	<u>\$9,120</u>
30	Collected on account .....	+3,072	-3,072		=				
		<u>\$305,152</u>	<u>\$2,208</u>	<u>\$110,880</u>	=	<u>\$9,120</u>	+	<u>\$400,000</u>	<u>\$9,120</u>
30	Expenses paid .....	-6,240			=				-6,240
		<u>\$298,912</u>	<u>\$2,208</u>	<u>\$110,880</u>	=	<u>\$9,120</u>	+	<u>\$400,000</u>	<u>\$2,880</u>

The order is not a recordable transaction. Nothing of substance has been received or given up. The order could be rejected by the supplier.