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Asset, Liability, Owner's Equity, Revenue, and Expense Accounts

DEMONSTRATION PROBLEM

During November of this year, James Kirk opened an accounting practice called James Kirk, CPA. The following transactions were completed during the first month:

- a. Deposited \$13,500 in a bank account in the name of James Kirk, CPA.
- b. Paid rent for the month, \$1,600 (Rent Expense).
- c. Bought office equipment, including a computer and a printer, for \$9,500 from Bingham Company. Paid \$6,700 in cash, with the balance due in thirty days.
- d. Purchased office supplies and announcements for \$970 from City Stationers. Payment is due in thirty days.
- e. Billed clients \$5,500 for services rendered (Client Fees).
- f. Paid \$1,450 salary to secretary/assistant for the month.
- g. Paid telephone bill of \$210 (Telephone Expense).
- h. Received cash from clients previously billed on account, \$2,450.
- i. Paid Bingham Company \$970 to apply on account.
- j. Paid \$275 for continuing education course (Miscellaneous Expense).
- k. Kirk withdrew \$2,200 for personal use.

Instructions

1. Record the transactions and the balance after each transaction, using the following headings:

$$\begin{array}{r} \text{Assets} \\ \hline \text{Cash} + \text{Accts. Rec.} + \text{Equip.} \end{array} = \begin{array}{r} \text{Liabilities} \\ \hline \text{Accounts} \\ \text{Payable} \end{array} + \begin{array}{r} \text{Owner's Equity} \\ \hline \text{J. Kirk,} + \text{Revenue} - \text{Expenses} \\ \text{Capital} \end{array}$$

2. Demonstrate that the total of one side of the equation equals the total of the other side of the equation.

SOLUTION

		Assets			=	Liabilities	+	Owner's Equity		
		Cash	+ Accts. Rec.	+ Equip.		Accounts Payable	+	J. Kirk, Capital	+ Revenue	- Expenses
(a)	+ 13,500				=		+	13,500		
(b)	- 1,600									+ 1,600 (Rent Expense)
Bal.	11,900	+			=		+	13,500	+	- 1,600
(c)	- 6,700			+ 9,500		+ 2,800				
Bal.	5,200	+		+ 9,500	=	2,800	+	13,500	+	- 1,600
(d)						+ 970				+ 970 (Supplies Expense)
Bal.	5,200	+		+ 9,500	=	3,770	+	13,500	-	2,570
(e)		+	5,500					+	5,500	-
									+	2,570 (Client Fees)
Bal.	5,200	+	5,500	+ 9,500	=	3,770	+	13,500	+	5,500
(f)	- 1,450									- 1,450 (Salary Expense)
Bal.	3,750	+	5,500	+ 9,500	=	3,770	+	13,500	+	5,500
(g)	- 210									- 210 (Telephone Expense)
Bal.	3,540	+	5,500	+ 9,500	=	3,770	+	13,500	+	5,500
(h)	+ 2,450	-	2,450							- 4,230
Bal.	5,990	+	3,050	+ 9,500	=	3,770	+	13,500	+	5,500
(i)	- 970					- 970				- 4,230
Bal.	5,020	+	3,050	+ 9,500	=	2,800	+	13,500	+	5,500
(j)	- 275									+ 275 (Misc. Expense)
Bal.	4,745	+	3,050	+ 9,500	=	2,800	+	13,500	+	5,500
(k)	- 2,200							-	2,200	-
									-	4,505 (Drawing)
Bal.	<u>2,545</u>	+	<u>3,050</u>	<u>+ 9,500</u>	=	<u>2,800</u>	+	<u>11,300</u>	+	<u>5,500</u>
									-	<u>4,505</u>

Left Side of Equals Sign

Cash	\$ 2,545
Accts. Rec.	3,050
Equip.	<u>9,500</u>
	<u>\$15,095</u>

Right Side of Equals Sign

Accts. Payable	\$ 2,800
J. Kirk, Capital	11,300
Revenue	<u>5,500</u>
	\$19,600
Expenses	- <u>4,505</u>
	<u>\$15,095</u>