Name ______________________ Date ______________________

CHAPTER 5 The Expanded Ledger: Revenue, Expenses, and Drawings

SECTION 5.1 REVIEW QUESTIONS (page 140)

1. *The new accounts in the equity section of the ledger are revenues, expenses, and drawings.*
2. *The main purpose of the new accounts in the ledger is to provide essential information about the progress of the business.*
3. *A ledger with only one equity account cannot answer the question, "How much profit or loss was made during a financial period?"*
4. *In the expanded ledger, the procedure for preparing a trial balance does not change. You still transfer the final balance of each account to the correct side of the trial balance and total each column.*
5. *Three things an income statement does is to show a business's revenue during a given time period, its expenses during a given time period, and its profit or loss during a given time period.*
6. *The two equity accounts that are not included on the income statement are Capital and Drawings.*
7. *The date on an income statement covers a period of time, such as a month or a year, while the date on a balance sheet is for one day.*
8. *The "bottom line" is the net income or loss shown at the bottom of the income statement.*
9. *Revenue is an increase in equity resulting from the sale of goods or services.*
10. *An expense is a decrease in equity resulting from the costs of operating the business.*
11. *The purpose of an expense is to produce revenue or to help with revenue-making activities.*
12. *Net income is the difference between total revenues and total expenses when revenues are more than expenses.*
13. *Owners are very interested in income statements because they use income statements to determine the company's profits, examine financial trends, set goals for the company, and make business decisions.*
14. *Bankers are interested in seeing the income statement of a business that has a loan with them to see whether the business is able to repay the loan.*
15. *Investors want to provide a business with cash because they can earn a profit on their money if the business is successful.*

Name ______________________ Date ______________________

SECTION 5.1 REVIEW QUESTIONS (continued)

16. *A business must provide an income statement to the government as part of their annual income tax return, which helps the government calculate the amount of income tax the business owes.*

17. *Drawings are not included on the income statement because they are not always directly related to earning revenue or to supporting revenue-making activities.*

18. *A chart of accounts is a list of the ledger accounts and their account numbers in ledger order.*

19. *This text uses a three-digit account numbering system. Assets are numbered in the 100s. Liabilities are numbered in the 200s. Capital and Drawings are numbered in the 300s. Revenues are numbered in the 400s. Expenses are numbered in the 500s.*

20. *An asset account normally has a debit balance. A liability account normally has a credit balance. A Revenue account normally has a credit balance. An Expense account normally has a debit balance. The Drawings account normally has a debit balance. The Capital account normally has a credit balance.*

21. *The Capital account will normally contain the beginning equity figure and new investments from the owner.*

SECTION 5.1 EXERCISES (page 141)

Exercise 1, p. 141

A.
- *The heading should use Mayfare Plumbing instead of the owner's name.*
- *Mayfare Plumbing should be the first line in the heading.*
- *Income Statement should be the second line of the heading.*
- *The third line of the heading should have Year Ended before the date, since it covers a period of time not a single date.*
- *The Capital account should not be listed on the income statement.*
- *There is only one revenue account, so the revenue total should be listed in the right column on the same line as Sales and Service.*
- *Add a blank line between Total Revenue and Operating Expense*
- *The Drawings account should not be included on the income statement.*
- *Gas and Oil should be written as Gas and Oil Expense.*
- *Utilities should be written as Utilities Expense.*
- *Total expenses should be $32 519.62.*
- *Net income should be $74 896.38.*
- *Change Net Profit to Net Income.*

Name ______________________ Date ______________________

SECTION 5.1 EXERCISES (continued)

Exercise 1, p. 141 (continued)

B.

MAYFARE PLUMBING

INCOME STATEMENT

YEAR ENDED DECEMBER 31, 20–

Revenue										
Sales and Service						$107	4	1	6	–
Operating Expenses										
Advertising Expense	$ 1	1	5	0	50					
Bank Charges	1	7	5	0	–					
Car Expense	4	2	9	6	–					
Gas and Oil	4	9	3	5	–					
Materials Used	15	9	0	6	–					
Miscellaneous Expense		2	5	7	–					
Telephone Expense		2	5	0	–					
Utilities	3	9	7	5	12					
Total Expenses						32	5	1	9	62
Net Income						$ 74	8	9	6	38

Exercise 2, p. 141

Express Air Service Chart of Accounts

Assets	No.	Equity	No.
Bank	*105*	*Karen Koy, Capital*	*305*
Accounts Receivable	*110*	*Karen Koy, Drawings*	*310*
Supplies	*115*		
Land	*120*	*Revenue—Freight*	*405*
Building	*125*	*Revenue—Passengers*	*410*
Equipment	*130*		
Automobiles	*135*	*Advertising Expense*	*505*
Airplanes	*140*	*Bank Charges Expense*	*510*
		Building Repairs Expense	*515*
		General Expense	*520*
		Insurance Expense	*525*
		Legal Expense	*530*
		Salaries Expense	*535*
Liabilities	**No.**	*Supplies Expense*	*540*
Accounts Payable	*205*	*Telephone Expense*	*545*
Mortgage Payable	*210*	*Wages Expense*	*550*

Name ______________________ Date ______________________

SECTION 5.1 EXERCISES (continued)

Exercise 3, p. 142

A.

EMILY STOKALUK

TRIAL BALANCE

MARCH 31, 20–

ACCOUNTS	DEBIT	CREDIT
Bank	10 100 –	
Accounts Receivable	8 300 –	
Supplies	950 –	
Land	235 000 –	
Building	210 000 –	
Equipment	22 000 –	
Automobiles	24 000 –	
Accounts Payable		2 800 –
Bank Loan		10 000 –
Mortgage Payable		175 000 –
E. Stokaluk, Capital		252 088 –
E. Stokaluk, Drawings	15 000 –	
Fees Earned		132 500 –
Interest Earned		1 000 –
Advertising Expense	1 200 –	
Bank Charges Expense	350 –	
Building Maintenance Expense	420 –	
Gas and Oil Expense	1 800 –	
Utilities Expense	1 640 –	
Miscellaneous Expense	128 –	
Car Repair Expense	850 –	
Wages Expense	41 650 –	
	573 388 –	573 388 –

Name ______________________ Date ______________________

SECTION 5.1 EXERCISES (continued)

Exercise 3, p. 142 (continued)

B.

E. Stokaluk Chart of Accounts

Assets	No.	Equity	No.
Bank	*105*	*E. Stokaluk, Capital*	*305*
Accounts Receivable	*110*	*E. Stokaluk, Drawings*	*310*
Supplies	*115*		
Land	*120*	*Fees Earned*	*405*
Building	*125*	*Interest Earned*	*410*
Equipment	*130*		
Automobiles	*135*	*Advertising Expense*	*505*
		Bank Charges Expense	*510*
		Building Maintenance Expense	*515*
		Gas and Oil Expense	*520*
Liabilities	**No.**	*Utilities Expense*	*525*
Accounts Payable	*205*	*Miscellaneous Expense*	*530*
Bank Loan	*210*	*Car Repair Expense*	*535*
Mortgage Payable	*215*	*Wages Expense*	*540*

C.

EMILY STOKALUK

INCOME STATEMENT

MONTH ENDED MARCH 31, 20–

Revenue		
Fees Earned	*$132 500 –*	
Interest Earned	*1 000 –*	
Total Revenue		*$133 500 –*
Expenses		
Advertising Expense	*$ 1 200 –*	
Bank Charges Expense	*350 –*	
Building Maintenance Expense	*420 –*	
Gas and Oil Expense	*1 800 –*	
Utilities Expense	*1 640 –*	
Miscellaneous Expense	*128 –*	
Car Repair Expense	*850 –*	
Wages Expense	*41 650 –*	
Total Expenses		*48 038 –*
Net Income		*$ 85 462 –*

Name ______________________ Date ______________________

SECTION 5.1 EXERCISES (continued)

Exercise 4, p. 142

A., B.

ASSETS

Bank

Debit	Credit
1 300.20	Jul. 31 balance

Tools and Equipment

Debit	Credit
5 156.40	Jul. 31 balance

Truck

Debit	Credit
6 100.00	Jul. 31 balance

LIABILITIES

A/P—Kitzul Tools

Debit	Credit
Jul. 31 balance	1 600.00

EQUITY

S. O'Neill, Capital

Debit	Credit
	9 455.60

S. O'Neill, Drawings

Debit	Credit
8 *2 250*	
13 *2 250*	
4 500	

Renovation Revenue

Debit	Credit
	8 000 *2*
	8 000 *6*
	5 000 *11*
	21 000

Gasoline Expense

Debit	Credit
4 *109.55*	
5 *110.71*	
9 *108.99*	
10 *112.66*	
441.91	

Repairs Expense

Debit	Credit
3 *312.09*	

Supplies Expense

Debit	Credit
1 *11 245*	

Wages Expense

Debit	Credit
7 *1 500*	
12 *1 500*	
3 000	

Name ______________________ Date ______________________

SECTION 5.1 EXERCISES (continued)
Exercise 4, p. 142 (continued)

C.

MEADOWLARK MAKEOVERS
TRIAL BALANCE
JULY 31, 20–

ACCOUNTS	DEBIT	CREDIT
Bank	*1 300.20*	
Tools and Equipment	*5 156.40*	
Truck	*6 100.–*	
A/P—Kitzul Tools		*1 600.–*
S. O'Neill, Capital		*9 455.60*
S. O'Neill, Drawings	*4 500.–*	
Renovation Revenue		*21 000.–*
Gasoline Expense	*441.91*	
Repairs Expense	*312.09*	
Supplies Expense	*11 245.–*	
Wages Expense	*3 000.–*	
	32 055.60	*32 055.60*

D.

MEADOWLARK MAKEOVERS
INCOME STATEMENT
MONTH ENDED JULY 31, 20–

Revenue		
Renovation Revenue		*$21 000.–*
Operating Expenses		
Gasoline Expense	*$ 1 441.91*	
Repairs Expense	*312.09*	
Supplies Expense	*11 245.–*	
Wages Expense	*3 000.–*	
Total Expenses		*14 999.–*
Net Income		*$ 6 001.–*

E. *Sean should be encouraged by the income statement for July. It shows a net income of $6001. That is 28.6% of revenue (6001 ÷ 21 000). With this healthy profit, Sean was able to withdraw $4500 for personal living expenses (drawings), leaving $1501 of assets left over to help grow the business.*

Name ______________________ Date ______________________

SECTION 5.2 REVIEW QUESTIONS (page 149)

1. *From their normal account balances, two conclusions you can make about equity transactions are that revenues are normally credited and expenses and drawings are normally debited.*
2. *You can be reasonably certain that revenue accounts will have a credit balance at the end of the year because debits to a revenue account are rare. Once a sale amount is recorded in the account, it usually remains there until year-end.*
3. *You might want to debit a revenue account when recording a sales return.*
4. *The revenue recognition principle requires a transaction to be recorded in the accounts of a business at the time the transaction is completed.*
5. *Before sending an invoice to a customer, the seller must fulfill its obligations to provide the promised goods or services.*
6. *The IFRS allow a seller to record a sale without having delivered the goods so long as it is probable that delivery will be made; the item is on hand, identified, and ready for delivery; the buyer is aware of delayed delivery; and the usual payment terms apply.*
7. *When purchasing advertising on credit, equity decreases from the debit to the Advertising Expense account even though no assets have left the business. This is due to the creditor having an increased claim on the business's assets. The owner's claim on those assets has less priority than the creditors', so the owner's claim must decrease.*
8. *Fiscal period is the period of time over which earnings are measured.*
9. *The student's statement is accurate in the sense that expenses are expired costs—they have no future value or role. They have "given up their lives." Additionally, the mission of these expired costs was to produce revenue or support revenue-making activities. When they are subtracted from, or matched against, the revenues they produced or supported, net income or loss is revealed.*

SECTION 5.2 EXERCISES (page 150)

Exercise 1, p. 150

ASSETS = LIABILITIES + EQUITY

1.

Supplies Dr	Supplies Cr	Bank Dr	Bank Cr	Dr	Cr	Dr	Cr
400			400				

2.

Dr	Cr	Bank Dr	Bank Cr	Bank Loan Dr	Bank Loan Cr	Dr	Cr
			1 000	1 000			

Name ____________________ Date ____________________

SECTION 5.2 EXERCISES (continued)

Exercise 1, p. 150 (continued)

	ASSETS						= LIABILITIES			+ EQUITY		
	Account	Dr	Cr	Account	Dr	Cr	Account	Dr	Cr	Account	Dr	Cr
3.	*Bank*	*800*		*A/R—J. Cheung*		*800*						
4.	*Bank*	*900*								*Fees Earned*		*900*
5.	*A/R—B. Hull*	*1 500*								*Fees Earned*		*1 500*
6.				*Bank*		*125*				*Utilities Expense*	*125*	
7.				*Bank*		*750*				*M. Hartman, Drawings*	*750*	
8.				*Bank*		*600*				*Wages Expense*	*600*	
9.	*Truck*	*20 000*		*Bank*		*20 000*						
10.				*Supplies*		*250*				*M. Hartman, Drawings*	*250*	
11.							*A/P—Advance News*		*2 000*	*Advertising Expense*	*2 000*	

Name ______________________ Date ______________________

SECTION 5.2 EXERCISES (continued)
Exercise 2, p. 150

	Debits	Dr	Cr	**Credits**	Dr	Cr
1.	*Chemical Supplies*	*125*		*A/P—Pesticide Products*		*125*
2.	*Equipment*	*150*		*A/P—Pro Hardware*		*150*
3.	*Wages Expense*	*100*		*Bank*		*100*
4.	*Bank*	*50*		*Landscaping Revenue*		*50*
5.	*A/R—G. Yung*	*100*		*Landscaping Revenue*		*100*
6.	*Advertising Expense*	*50*		*A/P—Banner News*		*50*
7.	*E. Inahaba, Drawings*	*175*		*Bank*		*175*
8.	*Interest Expense*	*90*		*Bank*		*90*
9.	*E. Inahaba, Drawings*	*100*		*Landscaping Revenue*		*100*

Name ______________________ Date ______________________

SECTION 5.2 EXERCISES (continued)

Exercise 3, p. 151

A., B.

ASSETS

Bank	
1 6 000	1 500 2
3 4 000	160 6
5 1 200	1 800 8
	1 400 9
11 200	4 860
6 340	

A/R—S. McNeil	
7 2 500	

Supplies	
4 800	

LIABILITIES

Bank Loan	
	6 000 1

A/P—Northern Utilities	
	400 10

A/P—Percy's Office Outfitters	
	800 4

EQUITY

A. Dodds, Capital	
	4 000 3

A. Dodds, Drawings	
9 1 400	

Fees Earned	
	1 200 5
	2 500 7
	3 700

Rent Expense	
2 1 500	

Telephone Expense	
6 160	

Utilities Expense	
10 400	

Wages Expense	
8 1 800	

Name ______________________ Date ______________________

SECTION 5.2 EXERCISES (continued)

Exercise 3, p. 151 (continued)

C. *SPALDING CONSULTANTS*

TRIAL BALANCE

NOVEMBER 30, 20–

ACCOUNTS	DEBIT	CREDIT
Bank	6 340 –	
A/R—Sarah McNeil	2 500 –	
Supplies	800 –	
Bank Loan		6 000 –
A/P—Percy's Office Outfitters		800 –
A/P—Northern Utilities		400 –
A. Dodds, Capital		4 000 –
A. Dodds, Drawings	1 400 –	
Fees Earned		3 700 –
Rent Expense	1 500 –	
Telephone Expense	160 –	
Utilities Expense	400 –	
Wages Expense	1 800 –	
	14 900 –	14 900 –

Exercise 4, p. 152

A. The Bank account normally has a *debit* balance.

B. A revenue account normally has a *credit* balance.

C. An expense account normally has a *debit* balance.

D. Paying a creditor involves a *debit* entry to the creditor's account.

E. The Drawings account receives a *debit* entry when the owner withdraws money for personal use.

F. A lawyer gives a cash refund to a customer. The Bank account will receive a *credit* entry and the Revenue account will receive a *debit* entry.

G. Supplies are bought on credit. The Supplies account will receive a *debit* entry and the supplier's account payable will receive a *credit* entry.

H. The Drawings account will not normally receive *credit* entries.

I. An increase in equity can be thought of as a *credit* to the Capital account.

J. Net income can be thought of as a *credit* to the Capital account.

K. Net loss can be thought of as a *debit* to the Capital account.

L. The owner takes a computer from the business for his personal (permanent) use. The Drawings account will receive a *debit* entry.

Name ____________________ Date ____________________

SECTION 5.2 EXERCISES (continued)

Exercise 5, p. 152

	ASSET		LIABILITY		EQUITY		
					Revenue	Expense	Drawings
No.	Increase	Decrease	Decrease	Increase	Increase	Decrease	Decrease
1.	✔				✔		
2.	✔				✔		
3.	✔	✔					
4.	✔	✔				✔	
5.	✔			✔			
6.		✔				✔	
7.		✔					✔
8.		✔				✔	
9.		✔					✔
10.		✔	✔				

SECTION 5.3 REVIEW QUESTIONS (page 156)

1. *The two major financial statements learned so far are the balance sheet and the income statement.*

2. *The equity equation for a profit situation is Beginning Capital + Net Income – Drawings = Ending Capital.*

3. *The equity equation for a loss situation is Beginning Capital – Net Loss – Drawings = Ending Capital.*

4. *You will find the beginning equity figure in the Capital account.*

5. *Changes to equity are recorded in the Revenue, Expense, and Drawings accounts. Occasionally, changes will be entered directly in the Capital account, such as an additional investment by the owner (debit Bank, credit Capital).*

Name ______________________ Date ______________________

SECTION 5.3 REVIEW QUESTIONS (continued)

6. *Drawings do not affect the calculation of net income. Drawings affect the calculation of the ending capital on the balance sheet.*

7. *If Drawings are greater than net income, there will be an overall decrease in equity.*

8. *The statement is most often true. A net loss represents a decrease in equity from normal business operations. Therefore, in most cases, equity would decrease with a net loss, even if drawings are zero.*

9. *Equity could increase if there was a net loss if the owner invested additional funds in the business.*

SECTION 5.3 EXERCISES (page 157)

Exercise 1, p. 157

Items	Opening Capital	Net Income or Net Loss (+)	Drawings	Ending Capital
A.	$ 30 000	$ 15 000	$ 10 000	*$ 35 000*
B.	50 000	−2 000	7 000	*41 000*
C.	70 000	32 000	*26 500*	75 500
D.	*36 700*	16 000	19 500	33 200
E.	56 000	*14 000*	30 000	40 000
F.	45 000	*−5 000*	25 000	15 000
G.	22 000	*16 000*	10 000	28 000
H.	*35 000*	25 000	18 000	42 000
I.	120 000	42 000	*50 000*	112 000

Name ______________________ Date ______________________

SECTION 5.3 EXERCISES (continued)

Exercise 2, p. 157

Financial Information	Company 1	Company 2	Company 3	Company 4	Company 5
Beginning capital	$ 6 000	$ 6 000	$ 15 000	*$ 5 000*	$ 62 000
Total revenues	10 000	*25 000*	29 000	*50 000*	*30 000*
Total expenses	8 000	11 000	*18 000*	30 000	35 000
Net income or loss (−)	*2 000*	14 000	11 000	20 000	−5 000
Drawings	3 000	12 000	*17 000*	15 000	*5 000*
Increase or decrease (−) in equity	*−1 000*	*2 000*	−6 000	*5 000*	−10 000
Ending capital	*5 000*	*8 000*	*9 000*	10 000	*52 000*

Exercise 3, p. 158
G. Benvie

G. Benvie, Capital			
Balance January 1		*$27 042 62*	
Net Income	*$39 171 04*		
Less: Drawings	*(35 000 –)*		
Increase in Capital		*4 171 04*	
Balance December 31			*$31 213 66*

S. Robb

S. Robb, Capital			
Balance January 1		*$19 641 25*	
Net Income	*$22 462 67*		
Less: Drawings	*(25 575 –)*		
Decrease in Capital		*(3 112 33)*	
Balance March 31			*$16 528 92*

J. Bedford

J. Bedford, Capital			
Balance May 1		*$20 196 74*	
Net Loss	*($ 3 750 20)*		
Less: Drawings	*(10 047 17)*		
Decrease in Capital		*(13 797 37)*	
Balance May 31			*$6 399 37*

Name ______________________ Date ______________________

SECTION 5.4 EXERCISES (page 163)

Exercise 1, p. 163

This is a spreadsheet exercise.

ANNACh5answers.xls

	A	B	C	D	E
1		Antonelli's Accounting Services			
2		Balance Sheet			
3		October 31, 20—			
4					
5		**ASSETS**			
6		***Current Assets***			
7		Bank		$ 2 033	
8		A/R—Jones Travel		600	
9		A/R—F. Leonel		850	
10		Supplies		875	
11		*Total Current Assets*			$ 4 358
12		***Long-Term Assets***			
13		Equipment			1 300
14		**Total Assets**			$ 5 658
15					
16		**LIABILITIES**			
17		A/P—Best Offices			$ 198
18		A/P—Eastside News			360
19		Bank Loan			2 275
20		**Total Liabilities**			$ 2 833
21					
22		**OWNER'S EQUITY**			
23		***A. Antonelli, Capital***			
24		Balance October 1		$ 1 850	
25		Net Income	$ 1 575		
26		Less: Drawings	(600)		
27		Increase in Capital		975	
28		*Balance October 31*			2 825
29		**Total Liabilities and Owner's Equity**			$ 5 658

Trial Balance | Income Statement | Balance Sheet

Exercise 2, p. 163

At first glance, it appears that the business is not meeting Anna's objective of a $2000 monthly profit. Her claim on assets increased by $975 during the month after drawings of $600 and a net income of $1575. The net income, however, was reduced by a loss on equipment of $750. If this one-time, non-cash expense is ignored then the actual net income in October was $2375, a figure that is slightly more than Anna's goal.

Name ______________________ Date ______________________

CHAPTER 5 REVIEW EXERCISES (page 164)

Using Your Knowledge

Exercise 1, p. 164

		Dr	Cr
A. Asset debit		**Dr**	**Cr**
B. Asset credit	**1.** Purchase a new car on account.	1. A	D
C. Liability debit	**2.** Receive payment on account from a customer.	2. *A*	*B*
D. Liability credit	**3.** Owner withdraws cash for personal use.	3. *G*	*B*
E. Capital debit	**4.** Owner starts a new business by investing cash.	4. *A*	*F*
F. Capital credit	**5.** The car is repaired and paid for in cash immediately.	5. *K*	*B*
G. Drawings debit	**6.** Perform a service for a customer for cash.	6. *A*	*J*
H. Drawings credit	**7.** Perform a service for a customer on account.	7. *A*	*J*
I. Revenue debit	**8.** Purchase supplies for cash.	8. *A*	*B*
J. Revenue credit	**9.** Receive a bill for gas and oil for the car.	9. *K*	*D*
K. Expense debit	**10.** Pay a creditor on account.	10. *C*	*B*
L. Expense credit	**11.** Throw out some ruined supplies.	11. *K*	*B*

Exercise 2, p. 165

BIANCO COMPANY

INCOME STATEMENT

YEAR ENDED DECEMBER 31, 20–

Revenue		
Fees Earned		*$47 416 –*
Operating Expenses		
Car Expense	*$ 2 482 –*	
Rent Expense	*3 500 –*	
Utilities Expense	*1 075 –*	
Wages Expense	*18 072 –*	
Total Expenses		*25 129 –*
Net Income		*$22 287 –*

Name ______________________ Date ______________________

CHAPTER 5 REVIEW EXERCISES (continued)

Exercise 3, p. 165

A.

	Debits		Credits	
	Account(s)	**Amount**	**Account(s)**	**Amount**
1.	*P. Garside, Capital*	*150*	*Revenue*	*150*
2.	*P. Garside, Drawings*	*500*	*Wages Expense*	*500*
3.	*Car Expense*	*400*	*Automobiles*	*400*
4.	*Equipment*	*110*	*Car Expense*	*110*

Bank

1 745	

A/R— P. Alder

50	

A/R— A. Jackson

70	

Supplies

610	

Equipment

5 000	
4 *110*	

Automobiles

7 900	*400* 3

A/P— B & B Stone

	110

A/P— Century Finance

	5 500

P. Garside, Capital

1 *150*	5625

P. Garside, Drawings

200	
2 *500*	

Revenue

	11 920
	150 1

Car Expense

500	*110* 4
3 *400*	

Utilities Expense

280	

Rent Expense

300	

Wages Expense

6 500	*500* 2

B. The corrected net income will be *$4700*.

Name ______________________ Date ______________________

CHAPTER 5 REVIEW EXERCISES (continued)

Exercise 4, p. 166

A.

ATLAS ASSOCIATES

INCOME STATEMENT

MONTH ENDED NOVEMBER 30, 20–

Revenue		
Fees Earned		$31 700 –
Expenses		
Salaries Expense	$13 400 –	
Rent Expense	6 000 –	
General Expense	1 200 –	
Advertising Expense	600 –	
Car Expenses	3 700 –	
Utilities Expense	3 500 –	
Total Expenses		28 400 –
Net Income		$ 3 300 –

B. The clerk violated the matching principle (GAAP and ASPE) or the framework of reliability under IFRS. The wage advance should be accounted for in the month it is earned so it can be matched with the revenue it helped generate.

C. $31 700 – ($28 400 – $1400) = $4700

The November net income should be $4700.

D. The net income in December would be higher if the matching principle was not followed.

Exercise 5, p. 166

	Assets	=	Liabilities	+	Beginning Capital	+	Revenues	–	Expenses	–	Drawings
End of Year 1	100	=	20	+	70	+	60	–	45	–	5
End of Year 2	120	=	30	+	80	+	90	–	60	–	20
End of Year 3	130	=	35	+	90	+	105	–	80	–	20
End of Year 4	130	=	30	+	95	+	110	–	95	–	10

Exercise 6, p. 167

	Assets	Liabilities	Equity
End of 20–1	$44 700	$ 27 400	$17 300
End of 20–2	$39 700	$20 400	$ 19 300

CHAPTER 5 REVIEW EXERCISES (continued)

Comprehensive Exercise

Exercise 7, p. 167

A., B.

Bank

	5 000	300	1
5	175	50	2
7	300	100	6
17	5 000	500	8
		120	9
		750	11
		120	12
		50	13
		70	15
		1 500	16
	10 475	3 560	
	6 915		

A/R—Jenkins and Co.

4	900	300	7
14	600		
	1 500		
	1 200		

Office Supplies

1	300		
12	120		
	420		

Office Equipment

3	1 100		

Automobile

	18 000		

Bank Loan

		5 000	17

A/P—Office Equippers

8	500	1 100	3
		600	

N.A. James, Capital

		23 000	

N.A. James, Drawings

10	200		
16	1 500		
	1 700		

Fees Earned

		900	4
		175	5
		200	10
		600	14
		1 875	

Advertising Expense

2	50		
13	50		
	100		

Car Expense

9	120		

Donations Expense

6	100		

Miscellaneous Expense

15	70		

Rent Expense

11	750		

Name ______________________ Date ______________________

CHAPTER 5 REVIEW EXERCISES (continued)

Exercise 7, p. 167 (continued)

C.

N.A. JAMES

TRIAL BALANCE

OCTOBER 31, 20–

ACCOUNTS	DEBIT	CREDIT
Bank	*6 915 –*	
A/R—Jenkins and Co.	*1 200 –*	
Office Supplies	*420 –*	
Office Equipment	*1 100 –*	
Automobile	*18 000 –*	
A/P—Office Equippers		*600 –*
Bank Loan		*5 000 –*
N.A. James, Capital		*23 000 –*
N.A. James, Drawings	*1 700 –*	
Fees Earned		*1 875 –*
Advertising Expense	*100 –*	
Car Expense	*120 –*	
Donations Expense	*100 –*	
Miscellaneous Expense	*70 –*	
Rent Expense	*750 –*	
	30 475 –	*30 475 –*

D.

N.A. JAMES

INCOME STATEMENT

MONTH ENDED OCTOBER 31, 20–

Revenue		
Fees Earned		*$1 875 –*
Expenses		
Advertising Expense	*$ 100 –*	
Car Expense	*120 –*	
Donations Expense	*100 –*	
Miscellaneous Expense	*70 –*	
Rent Expense	*750 –*	
Total Expenses		*1 140 –*
Net Income		*$ 735 –*

Name ______________________ Date ______________________

CHAPTER 5 REVIEW EXERCISES (continued)

Exercise 7, p. 167 (continued)

E.

N.A. JAMES
BALANCE SHEET
OCTOBER 31, 20–

ASSETS			
Current Assets			
Bank		$ 6 915 –	
A/R—Jenkins and Co.		1 200 –	
Office Supplies		420 –	
Total Current Assets			$ 8 535 –
Long-Term Assets			
Office Equipment		$ 1 100 –	
Automobile		18 000 –	
Total Long-Term Assets			19 100 –
Total Assets			$27 635 –
LIABILITIES			
Current Liabilities			
A/P—Office Equippers		$ 600 –	
Bank Loan		5 000 –	
Total Current Liabilities			$ 5 600 –
OWNER'S EQUITY			
N.A. James, Capital			
Balance October 1		$23 000 –	
Net Income	$ 735 –		
Less: Drawings	(1 700 –)		
Decrease in Capital		(965 –)	
Balance October 31			22 035 –
Total Liabilities and Owner's Equity			$27 635 –

Name ______________________ Date ______________________

CHAPTER 5 REVIEW EXERCISES (continued)

PERSONALIZE IT (page 168)

A. *Answers will vary. Students should describe five new transactions that involve their equity accounts and repeat the 12 transactions from Chapter 4.*

B. *Answers will vary. Students should expand their equity section from Chapter 4 to include a drawings account, at least one revenue account, and several expense accounts.*

Name ______________________________ Date ______________________________

CHAPTER 5 REVIEW EXERCISES (continued)
PERSONALIZE IT (continued)

C., D. Ledger Accounts *Answers will vary.*

Name ______________________ Date ______________________

CHAPTER 5 REVIEW EXERCISES (continued)
PERSONALIZE IT (continued)

E. Trial Balance *Answers will vary.*

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ACCOUNTS	DEBIT	CREDIT

Name ________________________________ Date ________________________________

CHAPTER 5 REVIEW EXERCISES (continued)
PERSONALIZE IT (continued)

E. (continued)

Income Statement *Answers will vary.*

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Name ______________________ Date ______________________

CHAPTER 5 REVIEW EXERCISES (continued)
PERSONALIZE IT (continued)

E. (continued)

Balance Sheet *Answers will vary.*

Name ______________________ Date ______________________

CHAPTER 5 REVIEW EXERCISES (continued)
PERSONALIZE IT (continued)

F. (Optional) *Answers will vary.*

Chart of Accounts

Assets	No.	Equity	No.
Liabilities	**No.**		

Name ______________________ Date ______________________

CHAPTER 5 REVIEW EXERCISES (continued)

SHARE IT (page 169)

Ledger Accounts *Answers will vary.*

Name ______________________ Date ______________________

CHAPTER 5 REVIEW EXERCISES (continued)

SHARE IT (continued)

Trial Balance *Answers will vary.*

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ACCOUNTS	DEBIT	CREDIT

Name ______________________________ Date ______________________________

CHAPTER 5 REVIEW EXERCISES (continued)
SHARE IT (continued)

Income Statement *Answers will vary.*

Name ______________________ Date ______________________

CHAPTER 5 REVIEW EXERCISES (continued)

SHARE IT (continued)

Balance Sheet *Answers will vary.*

Name ______________________ Date ______________________

CHAPTER 5 REVIEW EXERCISES (continued)

Questions for Further Thought, p. 170

1. *The owner would calculate the net income by carefully inspecting the Capital account and adding all the revenues earned less all the expenses incurred. Calculating the change in equity from one year to another would only give a rough indication of net income because other equity items like drawings and additional investments would affect the result.*
2. *Equity represents the owner's claim on assets. Since equity is on the right side of the accounting equation, it increases on the credit side and decreases on the debit. By nature, expense accounts decrease equity and therefore are recorded with debits. When expenses go up, equity goes down so an increase in an expense must be recorded as a debit.*
3. *There are usually only one or two revenue accounts because, in most cases, a business's revenue comes from only one or two sources. There are many expense accounts because there are many different types of costs incurred when running a business.*
4. *A banker would be interested in the net income or loss on the income statement, which would show the profitability of the business. A banker would also be interested in the assets and liabilities on the balance sheet, which shows how much debt is owned by the business compared to the value of its assets. These things will show the banker if the business can honour its debts to the bank.*
5. *A company has to produce an annual statement because the government requires all businesses to file income tax statements every year.*
6. *To determine the equity amount from the ledger, you could subtract the total of the liability accounts from the total of the asset account (Assets − Liabilities = Equity). Or you could add the capital and revenue accounts and then subtract the drawings and expense accounts (Capital + Revenues – Drawings – Expenses = Equity).*
7. A. *A medical office would have a revenue account called Fees Earned.*
   B. *A loan company would have a revenue account called Interest Revenue.*
   C. *A photography company could have a revenue account called Photo Shoots Revenue or Photo Enhancements Revenue.*
   D. *A real estate company would have a revenue account called Commissions Earned.*
   E. *A hair salon could have a revenue account called Hair Cut Fees, or Colouring Fees, or Permanents.*
   F. *A dry cleaning company would have a revenue account called Cleaning Revenue.*

Name ______________________ Date ______________________

CHAPTER 5 REVIEW EXERCISES (continued)

Questions for Further Thought, p. 170 (continued)

8. *A business could be quite profitable and yet have a cash shortage because the owner takes out more money than the company earns in revenue. Or, the business could spend much of its profits on new equipment or other assets.*

9. *The Bank account could have a credit balance if a company withdraws more than the actual bank balance. This is allowed if the company has overdraft protection. A credit balance in a Bank account is an exceptional balance.*

10. *Businesses prefer to purchase on credit because it leaves them with cash for other expenses, they can inspect the goods before paying, and they can withhold payment if the goods are unsatisfactory or damaged.*

11. *It is as important to control the expenses of a business as it is to increase the revenues because expenses decrease the net income of a business. A business can earn a large revenue and still not make a profit if its expenses are too high.*

12. *No, you cannot be sure who has the better earnings because you do not know how long each person took to earn the money. If John took longer to earn the money or it was the same time period, then Gary clearly earned more. But if Gary took longer to earn the money, John might have earned more.*

13. *To make a larger profit, the revenue must be greater or the expenses must be lower, or both. Bonanza Burger could sell cheaper burgers than Giant Burger and make a larger profit because they sell more burgers per week, resulting in greater revenue. Or Bonanza Burger could have a better deal with their suppliers so they pay less for their ingredients, resulting in a lower per burger cost, which means they earn more profit on each burger sold. Another possibility is that Bonanza Burger pays less rent or lower wages, resulting in lower overall expenses.*

CASE STUDIES (page 171)

Case 1 *Timing Is Everything* (p. 171)

1. *The company should choose a time period of one year for its income statements to accurately show the company's profitability. This includes the busy and the slow season and shows a full business cycle in this industry.*

Name ______________________ Date ______________________

CASE STUDIES (continued)

Case 1 *Timing Is Everything* (continued)

2. *The period from October to March was very profitable because people purchased snowmobiles in the winter. High sales revenues resulted in large profits.*
3. *$520 000 + (–$100 000) = $420 000*
   The true profit for last year's operations was $420 000.
4. *Yes, the firm's accountant has an ethical obligation to reveal both income statements to the group of investors. Financial statements must be accurate and representative of the company's performance. An annual statement is the most relevant, reliable, and comparable because it will contain the seasonal fluctuations from year to year.*

Case 2: Challenge *Revenue Roulette* (p. 171)

1. *If Tom recognized the full $10 000 as revenue on the August income statement, revenue for June and July would be severely understated. Net income would also be understated, especially if Tom's income statement recognized June's and July's expenses.*
2. *Tom could record the revenue when the installments are paid. This is better than waiting until the end of August to record the full $10 000, but it is not ideal. For instance, by the end of July, Tom will have completed 90% of the work but will have only recorded 60% of the revenue ($6000 ÷ $10 000). A better method is to tie the revenue recognition to the percentage of work completed. For example, instead of recording $3000 in June, Tom would record $4000 (40% × $10 000).*
3. *If Tom uses installment payments, he should recognize $3000 of the revenue in July. If he uses percentage of work completed, he should recognize 50% of the revenue or $5000 in July. Student preferences will vary. It could depend on when income or sales taxes are due. If either are due in June or July, waiting until the end of August to record revenue might provide a temporary benefit.*

Case 3: Challenge *Something Fishy?* (p. 172)

1. *Students' opinions will vary. Students should conclude that while zapping technology makes cheating electronic cash registers possible, the technology does not cause the problem. Before advances in electronic technology, an unethical practice called cash register skimming was still a worry. Skimming is the removal of cash before it has been recorded in an organization's books. Even with simplistic, non-electronic methods of receiving cash, it can still be removed before the receipt is recorded.*

Name ______________________ Date ______________________

CASE STUDIES (continued)

Case 3: Challenge *Something Fishy?* (continued)

2. *Sales-zapping technology does not work well on debit or credit card transactions because these transactions involve a third party, the bank, which keeps its own records that cannot be erased by the merchant.*

3. *To say that reporting income for taxation is based on the honour system is true because the CRA trusts that you are accurately reporting your income. However, the statement is absolutely true because the CRA has the right to examine all your records and ask you to prove your income if it becomes suspicious of your claim. The CRA helps maintain the honour system by imposing heavy fines and penalties, as it did in the Sushi case.*

4. *If the restaurant staff are paid in unrecorded cash, they will not report the employment income they receive, so the government loses their personal income tax as well as income tax from the restaurant. Payroll plans, such as Employment Insurance and the Canada Pension Plan, also lose contributions. In addition, the restaurant will not pay the sales tax owed to the government on the unrecorded revenue.*

5. *To confirm that sales-zapping has occurred at the restaurant, you could check the ledger accounts for food and beverage purchases, and for wages. If the company is selling more meals than it records then there should be a discrepancy between the food purchased from suppliers and the food sales. If they are paying their staff in cash, the Wages Expense account should be much less than normal for that type of restaurant.*

6. *Answers will vary. Students should weigh the short-term benefits of the cash with the long-term consequences of cheating the government, especially if accounting is their chosen career. The best course of action would be to use your accounting knowledge to show your aunt and uncle how paying income tax is a benefit to them and your family (free healthcare, free or reduced daycare, free schooling, clean air and drinking water, good roads, and so on). Also suggest ways to increase the restaurant revenues and reduce expenses so that a good profit can be earned honestly.*

Name ______________________ Date ______________________

CAREER Matthew Hopkins/Banker (page 174)

Discussion (p. 174)

1. *Matthew prepared for his career in university by transferring from engineering to economics and taking courses in economics, accounting, and finance.*

2. *Matthew is social, outgoing, friendly, and compassionate.*

3. *Matthew spends most of his time talking to clients so these traits help him communicate with and understand his clients.*

Research (p. 174)

4. *Answers will vary. Students should identify the person they are interviewing, the person's title, institution the person works in, and provide a summary of their job description. A list of the traits the interviewee feels is relevant to their job should be included. A comparison between Matthew Hopkins' personality traits and the interviewee's should be made.*