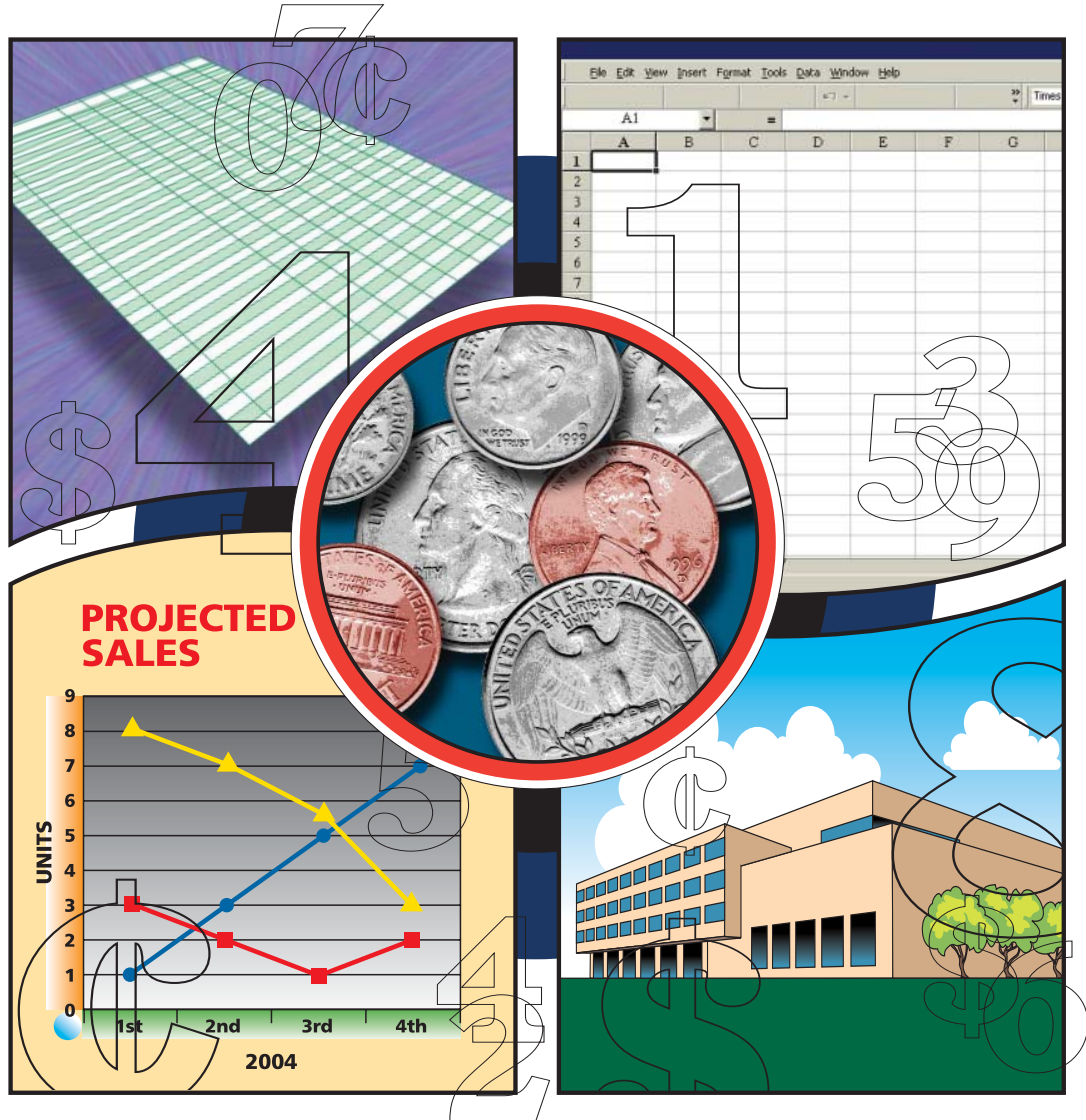


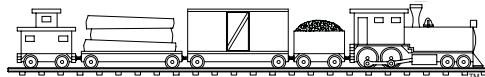
Errata sheets for:

# PRACTICAL ACCOUNTING FUNDAMENTALS™

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Melvin G. Peterman



INSIGHT™ TECHNICAL EDUCATION

WRITTEN BY LORI PETERMAN

Errata sheets for:

**Practical Accounting Fundamentals**

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# Exercises – 20

## Questions:

1. What is a sole proprietorship?
2. What equity accounts are used in a sole proprietorship?
3. What is a partnership?
4. What equity accounts are used in a partnership?
5. What is a limited liability company?
6. How does an LLC differ from a partnership?

## Problem:

A. Given the following account information, prepare a balance sheet, statement of owner's equity, income statement, and cash flow statement for the sole proprietorship of Ralph Smart for the year 2001.

	12/31/2000	12/31/2001
Sales		\$95,000
Sales discounts		750
Cost of goods sold		55,000
Rent expense		6,000
Office expense		4,000
Miscellaneous expense		1,500
Depreciation expense		1,000
Owner's equity	\$1,000	
R. Smart, drawing		6,000
Cash	11,000	17,000
Accounts receivable	10,000	12,000
Inventory	12,000	16,000
Delivery truck	7,000	7,000
Accumulated depreciation	2,000	3,000
Accounts payable	27,000	21,000
Note payable (short-term)	10,000	7,250

B. Given the following account information, prepare a balance sheet, statement of members' capitals, income statement, and cash flow statement for Yankee Doodle, LLC for 2003. The members share profits equally.

	12/31/2002	12/31/2003
Sales		\$174,000
Sales returns & allowances		4,000
Cost of goods sold		110,000
Salaries expense		17,000
Salaries payable		2,500
Office expense		5,000
Miscellaneous expense		3,000
Depreciation expense		2,000
G. Washington, capital 1/1/03	\$18,000	
G. Washington, drawing		2,500
P. Revere, capital 1/1/03	17,500	
P. Revere, drawing		3,000
T. Jefferson, capital 1/1/03	17,500	
T. Jefferson, drawing		2,000
Cash	54,500	32,000
Accounts receivable	28,000	25,000
Inventory	15,500	14,500
Land	5,500	5,500
Building	0	60,000
Accumulated depreciation	0	2,000
Accounts payable	48,000	50,000
Advances from customers	0	4,000

## Chapter 20 Exercises

Questions:

1. A sole proprietorship is a business entity in which an individual is the owner and operator of the business.
2. The equity accounts in a sole proprietorship are owner's capital and owner's drawing.
3. A partnership is a business owned by two or more people or entities.
4. There is a capital and a drawing account for each partner.
5. A limited liability company is a partnership with limited liability to the partners.
6. The main difference between an LLC and a partnership is in the amount of liability for which the partners are responsible. In a partnership, the partners are fully accountable while in an LLC, the partners have limited liability.

Problems:

A.

Ralph Smart

Balance Sheet

December 31, 2001

### Assets

Current assets:

Cash	\$17,000	
Accounts receivable	12,000	
Inventory	16,000	\$45,000
Long term assets		
Delivery truck	\$7,000	
Accumulated depreciation	3,000	4,000
Total assets		<u>\$49,000</u>

Equities

Liabilities:

Accounts payable	\$21,000	
Note payable	7,250	\$28,250
Owner's equity		20,750
Total equities		<u>\$49,000</u>

Ralph Smart

Statement of Owner's Equity

For the year ended December 31, 2001

Owner's equity, January 1, 2001	\$1,000	
Add:		
Net income	25,750	
Total	\$26,750	
Deduct:		
Owner's draw	6,000	
Owner's equity, December 31, 2001	<u>\$20,750</u>	

Ralph Smart

Income Statement

For the year ended December 31, 2001

Sales		\$95,000
Sales discounts		750
Net sales		<u>\$94,250</u>
Cost of goods sold		55,000
Gross margin		<u>\$39,250</u>
Operating expenses:		
Rent expense	\$6,000	
Office expense	4,000	
Miscellaneous expense	2,500	
Depreciation expense	1,000	13,500
Net income		<u>\$25,750</u>

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Ralph Smart  
Statement of Cash Flow  
For the year ended December 31, 2001

Sources of financial resources:		
Cash provided from operations:		
Net Income		\$25,750
Adjustments to reconcile net income to net cash provided by operating activities:		
Increase in Accounts receivable	\$(2,000)	
Increase in Inventory	(4,000)	
Decrease in Accounts payable	(6,000)	
Decrease in Notes payable	(2,750)	
Increase in Depreciation	<u>1,000</u>	<u>(13,750)</u>
Total financial resources provided for period		\$12,000
Uses of financial resources:		
Cash applied		
Owner's draw	<u>\$6,000</u>	
Total financial resources used for period		<u>6,000</u>
Increase in cash for period		<u>\$6,000</u>
Summary:		
Cash balance at beginning of period		\$11,000
Increase in cash		<u>6,000</u>
Cash balance at end of period		<u>\$17,000</u>

B.  
Yankee Doodle, LLC  
Balance Sheet  
December 31, 2003

<u>Assets</u>		
Current assets:		
Cash	\$32,000	
Accounts receivable	25,000	
Inventory	<u>14,500</u>	\$71,500
Long term assets		
Land	\$5,500	
Building	60,000	
Accumulated depreciation	<u>(2,000)</u>	<u>63,500</u>
Total assets		<u>\$135,000</u>
Equities		
Liabilities:		
Accounts payable	\$50,000	
Advances from customers	4,000	
Salaries payable	<u>2,500</u>	\$56,500
Owner's equity:		
G. Washington	\$26,500	
P. Revere	25,500	
T. Jefferson	<u>26,500</u>	<u>78,500</u>
Total equities		<u>\$135,000</u>

Yankee Doodle, LLC  
Statement of Members' Equity  
For the Year Ended December 31, 2003

	G. Washington	P. Revere	T. Jefferson
Members' equity, January 1, 2003	\$18,000	\$17,500	\$17,500
Add:			
Net income	<u>11,000</u>	<u>11,000</u>	<u>11,000</u>
Total	\$29,000	\$28,500	\$28,500
Deduct:			
Members' draw	<u>2,500</u>	<u>3,000</u>	<u>2,000</u>
Owner's equity, December 31, 2003	<u>\$26,500</u>	<u>\$25,500</u>	<u>\$26,500</u>

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C.  
Mega Munch Corporation  
Bank Reconciliation  
December 31, 2004

Balance, per books			<b>\$5,651.92</b>
Deduct:			
Service charge		20.00	
Adjusted balance			<b>\$5,631.92</b>
Balance, per bank			<b>\$7,105.28</b>
Deduct outstanding checks:			
3245	\$125.00		
3247	35.00		
3248	375.00		
3249	338.36		
3250	120.00		
3251	120.00		
3252	120.00		
3253	120.00		
3254	<u>120.00</u>	1,473.36	
Adjusted balance			<b>\$5,631.92</b>

C & D Adjusting Entries

Journal		Page 4 (cont.)			
2004					
31	Bank fees	517	20.00		
	Cash	110		20.00	
	To record bank service charge				
31	Interest receivable	113	83.33		
	Interest revenue	555		83.33	
	To record accrued interest on bonds				
31	Unrealized loss on securities	558	100.00		
	Allowance for decline in market value	118		100.00	
	To record unrealized loss on securities				
31	Depreciation expense	518	1,500.00		
	Accumulated depreciation	131		1,500.00	
	To record depreciation on delivery van				
31	Advertising expense	516	100.00		
	Prepaid advertising	116		100.00	
	To expense first issue of magazine ad				
31	Office salaries expense	525	750.00		
	Salaries payable	219		750.00	
	To record wages earned but not paid				

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