

Name _____

Accounting

Extra Credit HW Assignment Due 8:00 AM Friday 9/10

1-7

CHALLENGE PROBLEM

Applying accounting concepts to determine how transactions change the accounting equation

Morgan Delivery Service, a new business owned by Gregory Morgan, uses the accounts shown in the following accounting equation. Use the form in your *Working Papers* to complete this problem.

Trans. No.	Assets			=	Liabilities		+ Owner's Equity
	Cash	+ Supplies	+ Prepaid Insurance	=	Accts. Pay.— Mutual Savings Bank	+ Accts. Pay.— Nelson Supply Co.	+ Gregory Morgan, Capital
Beg. Bal.	0	0	0	=	0	0	0
1.	+1,500			=			+1,500
New Bal.	1,500	0	0	=	0	0	1,500
2.				=			

Transactions:

1. Owner invested cash, \$1,500.00.
2. Bought supplies for cash, \$400.00.

3. Paid cash for insurance, \$240.00.
4. Supplies were bought on account from Nelson Supply Company, \$80.00.
5. The owner, Gregory Morgan, paid \$1,000.00 of his personal cash to Mutual Savings Bank for the car payment on his personal car.
6. Wrote a check for supplies. The supplies were bought from a Canadian company. The supplies cost \$120.00 in Canadian dollars, which is equivalent to \$100.00 in United States dollars.
7. The owner, Gregory Morgan, used \$300.00 of his personal cash to buy supplies for the business.

Instructions:

For each transaction, complete the following. Transaction 1 is given as an example.

- a. Analyze the transaction to determine which business accounts in the accounting equation, if any, are affected. You will need to apply the Business Entity and Unit of Measurement concepts in this problem.
- b. If business accounts are affected, determine the appropriate amount of the change. Write the amount in the appropriate columns, using a plus (+) if the account increases or a minus (–) if the account decreases.
- c. Calculate the new balance for each account in the accounting equation.
- d. Before going on to the next transaction, determine that the accounting equation is still in balance.

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Applying accounting concepts to determine how transactions change the accounting equation

Trans. No.	Assets			=	Liabilities		+	Owner's Equity
	Cash	+ Supplies	+ Prepaid Insurance	=	Accts. Pay.— Mutual Sav. Bank	+ Accts. Pay.— Nelson Supply Company	+	Gregory Morgan, Capital
Beg. Bal.	0	0	0	=	0	0	+	0
1.	+1,500			=			+	+1,500
New Bal.	1,500	0	0	=	0	0	+	1,500
2.								
New Bal.								
3.								
New Bal.								
4.								
New Bal.								
5.								
New Bal.								
6.								
New Bal.								
7.								
New Bal.								

Extra form 1-7 OPTIONAL HW P 20 Challenge Problem

Trans. No.	Assets			=	Liabilities		+	Owner's Equity
	Cash	+ Supplies	+ Prepaid Insurance	=		+	+	
Beg. Bal.	0	0	0	=	0		+	0
1.	+1,500	0	0	=	0		+	+1,500
New Bal.	1,500	0	0	=	0	0	+	1,500
2.								
New Bal.								
3.								
New Bal.								
4.								
New Bal.								
5.								
New Bal.								
6.								
New Bal.								
7.								
New Bal.								