

Basic Accounting Principles Case Studies

Practice Pharmacy

Directions:

Listed below are transactions for Practice Pharmacy. A) As a group, analyze each transaction and post it to the ledger. B) Then prepare an unadjusted trial balance (Your db and cr balances should equal \$45,400.)

Transactions:

- a. 1/1 Owner invests \$20,000 in the business.
- b. 1/1 Borrowed \$10,000 from local bank. (Hint: Set up a liability account titled Bank Note Payable.)
- c. 1/1 Purchased \$5,000 of equipment on credit from National Equipment Corp.
- d. 1/6 Earned \$4,000 in sales revenue, collected cash
- e. 2/8 Incurred \$3,000 in heating/air repair expenses on credit with "Peachtree repair service." (Hint: Use "Peachtree account payable" and "repair expenses")
- f. 2/12 Earned \$2,000 in sales revenue, collected $\frac{3}{4}$ in cash, balance on credit
- g. 3/10 Collected cash for remainder of transaction f (above)
- h. 3/10 Paid cash for $\frac{1}{2}$ of repair expenses already incurred, left remainder on account
- i. 3/10 Paid \$500 on bank note and another \$50 of interest expense. (Hint: Set up an expense account titled "interest expense".)
- j. 4/14 Paid some employee salaries totaling \$1,500
- k. 4/14 Purchased \$1,800 of computer equipment. Paid $\frac{1}{2}$ in cash and placed the rest on account with National Equipment Corp.
- l. 4/15 Purchased 2 used trucks at \$7,000 each. Paid cash for one. For the other, paid $\frac{1}{2}$ down and signed a 1-year note with "Ford Credit" for the balance
- m. 5/1 Paid \$1,000 on the truck note with Ford Credit

Basic Accounting Principles Case Studies

Stone Drug Company

Directions:

1. Post transactions "a-t" to the ledger
2. Prepare an adjusted trial balance. Answer: db and cr should equal \$152,250

Transactions:

- a. 1/1 The company is organized by Marge Stone and receives \$120,000 cash from her
 - b. 1/1 Purchase with cash a small building for \$100,000
 - c. 1/2 Prepays in cash \$1,000 of insurance for the year
 - d. 1/5 Purchase inventory for cash at a cost of \$13,000
 - e. 1/7 Record cash sales of goods amounting to \$7,500
 - f. 1/11 Sell goods on account totaling \$6,000 and will receive payment from third parties at a later date
 - g. 1/12 Of the goods recorded on Jan 11th, \$350 is returned (and credited to accounts receivable)
 - h. 1/22 Pay the sales employees salaries of \$2,000
 - i. 1/17 Collect accounts receivable carried at \$5,000
 - j. 1/19 Purchase of inventory for \$7,000 and placed on account with wholesaler
 - k. 1/21 Purchase of inventory for cash at a cost of \$1,800
 - l. 1/23 Cost of advertising for the month amounting to \$400 paid in cash
 - m. 1/27 Pay \$4,000 cash to reduce debt with wholesaler
 - n. 1/28 Collect accounts receivable carried at \$1,000
 - o. 1/29 Bill third parties \$2,600 for cognitive services
 - p. 1/30 Transportation expense of \$600 is paid for the inventory purchased during the month
 - q. 1/31 Phone expense for the month amounting to \$75 paid in cash
 - r. 1/31 Record cash sales of goods totaling \$7,500
 - s. 1/31 Bill third parties for cognitive services totaling \$6,000
 - t. 1/31 Collect accounts receivable carried at \$3,000
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When you review slides (101-123) of the Accounting Module, the following additional transactions will be explained and recorded. They are known as adjusting entries.

Dr. Stone decides to make financial statements for the ONE MONTH accounting period of Jan 1st – 31st. Before she can do this, she must make the following adjusting entries:

- u. 1/3 Inventory in stock amounts to \$5,800
- v. 1/3 Owe \$800 of salary to an employee
- w. 1/3 Used up 1/12th of the prepaid insurance, which amounts to \$83
- x. 1/3 Of the yearly depreciation on the building, 1/12th must be recorded which amounts to \$83

After adjusting entries are recorded, an "adjusted trial balance" can be made. The adjusted trial balance for Stone Drug Co. appears in the supplemental materials and is explained in Slides (124-152) of the Accounting Module.

**Basic Accounting Principles
Case Studies
Accounting Review**

1. What is the fundamental accounting equation? What are the rules for recording transactions?
2. What is the accrual system of accounting, and why is it used?
3. What does the term “debit” mean? Credit?
4. Throughout the accounting period, the business records the following transactions. Mentally analyze and post each.
 - a. Owner contributes \$100,000 to the business.
 - b. Business purchases a building for \$250,000, signs a note payable with Fleece Mortgage for the entire amount.
 - c. Business takes out a loan with Bank South for \$10,000.
 - d. Business purchases \$5,000 in inventory on credit from wholesaler.
 - e. Business bills third party payors for sales totaling \$2,000.
 - f. Business purchases \$2,000 in inventory, pays $\frac{1}{2}$ in cash, and places $\frac{1}{2}$ on charge account with wholesaler.
 - g. Business earns sales revenue of \$50,000 from cash paying customers.
 - h. Business pays off \$1000 of its loan with Bank South.
 - i. Business pays (in cash) light bill - \$500; gas bill - \$200; phone bill - \$100.
 - j. Business receives \$1,000 of amount owed by third party payors (letter e).
 - k. Business prepays a two year insurance premium for \$1,000.
 - l. Business purchases \$500 in inventory with cash.

On the last day of the accounting period, the business must record ADJUSTING ENTRIES.

5. What is the purpose of an adjusting entry?
6. Post the following adjusting entries:
 - m. The last day of the accounting period falls in the middle of a pay period. Record the fact that the business owes \$1,000 in salary to its employee.
 - n. The business must record \$3,000 in depreciation expense on the building.

- o. Business conducts a physical inventory and determines the cost of goods on hand to be \$500. The balance in the inventory account is \$7,500. Record the COGS as an expense.
- p. The business has used up one year's worth of prepaid insurance which amounts to \$500.

On the last day of the accounting period, after making adjusting entries, the business can measure income and record CLOSING ENTRIES.

- 7. What income did the business earn during the accounting period? Balance in revenue account is \$52,000. The sum of the balances in the expense accounts is \$12,300.
- 8. What is the purpose of making CLOSING ENTRIES?
- 9. Mentally analyze, journalize and post closing entries for the following accounts.
 - m. Balance in sales revenue is a cr of \$52,000.
 - n. Balance in light expense is a db of \$500
 - o. Balance in gas expense is a db of \$200
 - p. Balance in phone expense is a db of \$100.
 - q. Balance in insurance expense is a db of \$500.
 - r. Balance in depreciation expense is a db of \$3,000
 - s. Balance in inventory expense (COGS) is a db of \$7,000.
 - t. Balance in salary expense is a db of \$1,000.
- 10. What amount is transferred to RETAINED EARNINGS?