# Chapter 2 Alternate Demonstration Problem

**Record the following transactions of Speedy Computer Service, owned by Bill Smith, for the month of March 2021.**

**Mar 1. Bill Smith invested $3,000 cash in exchange for common stock to start
 the business.**

 **15. Bill provided services and received cash amounting to $5,400 from customers.**

 **16. Purchased supplies on account, $100.**

 **17. Paid for gas and oil, $800.**

 **18. Paid salaries, $5,000.**

 **21. Provided service on credit, $600.**

 **28. Bill provided services and received cash amounting to $6,000.**

 **29. Paid for truck and equipment rental, $2,500.**

 **30. Speedy Computer Service paid $2,000 cash dividends to the sole
 shareholder.**

**Required:**

1. **Record the above transactions in general journal form.**
2. **Prepare a trial balance after posting the entries to T-accounts (you can make your own T-accounts).**
3. **Prepare an income statement from trial balance.**
4. **Prepare a statement of owner’s equity from the trial balance and income statement.**
5. **Prepare a balance sheet using the trial balance totals and the statement of retained earnings.**

## Explain why the company’s cash balance does not agree with net income. Chapter 2 Solution: Alternate Demonstration Problem

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| **GENERAL JOURNAL** |
|  |
| **DATE** | **ACCOUNT TITLES AND EXPLANATION** | **PR** | **DEBIT** | **CREDIT** |
| **March 1** | **Cash** |  |  | **3** | **0** | **0** | **0** | **00** |  |  |  |  |  |  |
|  |  **Common Stock** |  |  |  |  |  |  |  |  | **3** |  | **0 0 0** |  | **00** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **15** | **Cash** |  |  | **5** | **4** | **0** | **0** | **00** |  |  |  |  |  |  |
|  |  **Service Fees Earned** |  |  |  |  |  |  |  |  | **5** |  | **4 0 0** |  | **00** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **16** | **Supplies** |  |  |  | **1** | **0** | **0** | **00** |  |  |  |  |  |  |
|  |  **Accounts Payable** |  |  |  |  |  |  |  |  |  |  | **1 0 0** |  | **00** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **17** | **Gas and Oil Expense** |  |  |  | **8** | **0** | **0** | **00** |  |  |  |  |  |  |
|  |  **Cash** |  |  |  |  |  |  |  |  |  |  | **8 0 0** |  | **00** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **18** | **Salaries Expense** |  |  | **5** | **0** | **0** | **0** | **00** |  |  |  |  |  |  |
|  |  **Cash** |  |  |  |  |  |  |  |  | **5** |  | **0 0 0** |  | **00** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **21** | **Accounts Receivable** |  |  |  | **6** | **0** | **0** | **00** |  |  |  |  |  |  |
|  |  **Service Fees Earned** |  |  |  |  |  |  |  |  |  |  | **6 0 0** |  | **00** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **28** | **Cash** |  |  | **6** | **0** | **0** | **0** | **00** |  |  |  |  |  |  |
|  |  **Service Fees Earned** |  |  |  |  |  |  |  |  |  **6** |  | **0 0 0** |  | **00** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **29** | **Equipment Rental Expense** |  |  | **2** | **5** | **0** | **0** | **00** |  |  |  |  |  |  |
|  |  **Cash** |  |  |  |  |  |  |  |  | **2** |  | **5 0 0** |  | **00** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **30** | **Dividends** |  |  | **2** | **0** | **0** | **0** | **00** |  |  |  |  |  |  |
|  |  **Cash** |  |  |  |  |  |  |  |  | **2** |  | **0 0 0** |  | **00** |

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| **Speedy Computer Service** |
| **Trial Balance** |
| **March 31, 2022** |
|  | **Cash** |  | **4** | **1** | **0** | **0** | **00** |  |  |  |  |  |  |
|  | **Accounts Receivable** |  |  | **6** | **0** | **0** | **00** |  |  |  |  |  |  |
|  | **Supplies** |  |  | **1** | **0** | **0** | **00** |  |  |  |  |  |  |
|  | **Accounts Payable** |  |  |  |  |  |  |  |  | **1** | **0** | **0** | **00** |
|  | **Common Stock** |  |  |  |  |  |  |  | **3** | **0** | **0** | **0** | **00** |
|  | **Dividends** |  | **2** | **0** | **0** | **0** | **00** |  |  |  |  |  |  |
|  | **Service Fees Earned** |  |  |  |  |  |  | **1** | **2** | **0** | **0** | **0** | **00** |
|  | **Gas & Oil Expense** |  |  | **8** | **0** | **0** | **00** |  |  |  |  |  |  |
|  | **Equipment Rental Expense** |  | **2** | **5** | **0** | **0** | **00** |  |  |  |  |  |  |
|  | **Salaries Expense** |  | **5** | **0** | **0** | **0** | **00** |  |  |  |  |  |  |
|  | **Totals** | **1** | **5** | **1** | **0** | **0** | **00** | **1** | **5** | **1** | **0** | **0** | **00** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| 3. | Speedy Computer Service |
|  | Income Statement |
|  | For the month ended March 31, 2022 |
|  |  |
| **Fees Earned**  |  | **$12,000** |
|  |  |  |
| **Expenses:** |  |  |
|  **Equipment Rental Expense**  | **$2,500** |  |
|  **Gas & Oil Expense**  | **800** |  |
|  **Salary Expense**  | **5,000** |  |
|  **Total expenses**  |  |  **8,300** |
| **Net income**  |  | **$ 3,700** |
|  |  |  |

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| 4. | Speedy Computer Service  |
| Statement of Retained Earnings |
| For the month ended March 31, 2022 |
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|  |  |  |
| --- | --- | --- |
| **Retained Earnings, March 1** |  | **$0** |
|  **Net Income** |  | **3,700** |
| **Total** |  | **3,700** |
| **Less: Dividends** |  | **2,000** |
| **Retained Earnings, March 31** |  | **$1,700** |

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| 5. | Speedy Computer Service  |
| Balance Sheet |
| March 31, 2022 |
|  |
| **Assets** |  | **Liabilities and Owner’s Equity** |
|  |  |  |  |  |
| **Cash**  | **$4,100** |  | **Accounts payable**  | **$ 100** |
| **Accts Receivable**  |  **600** |  |  |  |
|  |  |  | **Common Stock** | **3,000** |
| **Supplies**  | **100** |  | **Retained Earnings, 3/31..**  | **1,700** |
|  |  |  | **Total Equity** | **4,700** |
| **Total Assets**  | **$4,800** |  | **Total liabilities and  equity**  | **$4,800** |

**6. First, note that Common Stock of $3,000 and Dividends of $2,000 affect the cash balance but do not affect the amount of net income earned during the period. Also, revenues in the amount of $600 on March 21 are reflected in net income but have not yet been collected. As such, these revenues did not impact the cash balance.**