# 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** | |
|  |  |  | |

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