

## Problems

**PROBLEM 3.1**  
Recording Transactions  
in a Journal  
LO 3, 4, 5, 12

Louis Dixon, a dentist, resigned from his position with a large dental group in order to begin his own pediatric dental practice. The practice was organized as a sole proprietorship, called Louis Dixon Pediatric Dentistry. The business transactions during September while the new venture was being organized are listed below.

- Sept. 1** Dixon opened a bank account in the name of the business by depositing \$50,000 cash, which he had saved over a number of years.
- Sept. 10** Purchased a small office building located on a large lot for a total price of \$182,400, of which \$106,000 was applicable to the land and \$76,400 to the building. A cash payment of \$36,500 was made and a note payable was issued for the balance of the purchase price.

### Problems

- Sept. 15** Purchased a microcomputer system from Computer Stores, Inc., for \$4,680 cash.
- Sept. 19** Purchased office furnishings, including dental equipment, from Turnkey Operations, Inc., at a cost of \$5,760. A cash down payment of \$960 was made, the balance to be paid in three equal installments due September 28, October 28, and November 28. The purchase was on open account and did not require signing of a promissory note.
- Sept. 26** A \$140 monitor in the microcomputer system purchased on September 15 stopped working. The monitor was returned to Computer Stores, Inc., which promised to refund the \$140 within five days.
- Sept. 28** Paid Turnkey Operations, Inc., \$1600 cash as the first installment due on the account payable for office furnishings.
- Sept. 30** Received \$140 cash from Computer Stores, Inc., in full settlement of the account receivable created on September 26.

### Instructions

- a. Prepare journal entries to record the above transactions. Select the appropriate account titles from the following chart of accounts:

Cash	Office Furnishings
Accounts Receivable	Notes Payable
Land	Accounts Payable
Building	Louis Dixon, Capital
Computer System	

- b. What impact did the Sept. 10 transaction have on the financial position of the company? (Indicate direction and dollar effect of this transaction on the proprietorship's assets, liabilities, and owner's equity.)

Lars Retton is the founder and owner of North Coast Gymnastics, a youth gymnastics training facility. A few of the company's business transactions occurring during July are described below:

1. On July 2, collected cash of \$700 from accounts receivable.
2. On July 7, purchased gymnastics equipment for \$2,175, paying \$500 in cash and charging the remainder on the company's 30-day account at Weider Fitness Co.
3. On July 9, returned to Weider Fitness Co. \$200 of gymnastics equipment that was not needed. The return of this equipment reduced by \$200 the amount owed to Weider Fitness Co.
4. On July 25, Retton made an additional investment in North Coast Gymnastics by depositing \$5,000 cash in the company bank account.
5. On July 31, paid the remaining \$1,475 owed to Weider Fitness Co.

**PROBLEM 3.2**

Analyzing Transactions and  
Preparing Journal Entries

LO 3, 4, 5

**Instructions**

- a. Prepare an analysis of each of the above transactions. The form of analysis to be used is as follows, using transaction 1 as an example.
  - (a) The asset Cash was increased. Increases in assets are recorded by debits. Debit Cash, \$700.
  - (b) The asset Accounts Receivable was decreased. Decreases in assets are recorded by credits. Credit Accounts Receivable, \$700.
- b. Prepare journal entries, including explanations, for the above transactions.

City Flights provides transportation by helicopter between a major airport and various business centers of a large city. Among the ledger accounts used by the company are the following:

Cash	Passenger Fare Revenue
Accounts Payable	Advertising Expense
Aircraft	Fuel Expense
Accounts Receivable	Rent Expense
O. Wright Capital	Repair & Maintenance Expense
O. Wright Drawing	Salaries Expense

**PROBLEM 3.3**

Journal Entries

LO 3, 4, 5, 6, 7, 8, 12

Some of the January transactions of City Flights are listed below.

- Jan. 3 Paid \$3,520 rent for hangar space during January.
- Jan. 4 Placed advertising in local newspapers for publication during January. The agreed price of \$860 was payable within 10 days after the end of the month.
- Jan. 15 Cash receipts from passengers for the first half of January amounted to \$23,160.
- Jan. 15 O. Wright, the owner, withdrew \$7,500 cash for personal use.
- Jan. 16 Paid salaries to employees for services rendered in first half of January, \$13,200.
- Jan. 25 Provided transportation for executives of the Hurley Corporation, a long-time credit customer. Sent bill for \$470, due within 30 days.
- Jan. 29 Received a bill from Western Oil Co. for fuel used in January, amounting to \$4,340 and payable by February 10.
- Jan. 31 Paid \$3,372 to Stevens Motors for repair and maintenance work during January.

**Instructions**

- a. Prepare a journal entry (including an explanation) for each of the above transactions.
- b. Describe the effect of the January 29 transaction involving fuel used in January on each of the following: assets, liabilities, owner's equity, and net income. For each of the four items, indicate whether the transaction caused an increase, decrease, or no effect.

Problem No. 3.4

ions and  
Entries  
8, 12

Garwood Marine is a boat repair yard. During August its transactions included the following:

1. On August 1, paid rent for the month of August, \$4,400.
2. On August 3, at request of Kiwi Insurance, Inc., made repairs on boat of Michael Fay. Sent bill for \$5,620 for services rendered to Kiwi Insurance, Inc. (Credit Repair Service Revenue.)
3. On August 9, made repairs to boat of Dennis Conner and collected in full the charge of \$2,830.
4. On August 14, placed advertisement in *Yachting World* to be published in issue of August 20 at cost of \$165, payment to be made within 30 days.
5. On August 25, received a check for \$5,620 from Kiwi Insurance, Inc., representing collection of the receivable of August 3.
6. On August 26, made repairs on the vessel *Independent* totaling \$1,890. Collected \$400 cash; balance due within 30 days.
7. On August 30, sent check to *Yachting World* in payment of the liability incurred on August 14.
8. On August 31, Barbara Garwood, owner of Garwood Marine, withdrew \$7,600 for personal use.

**Instructions**

- a. Write an analysis of each transaction. An example of the type of analysis desired is as follows:
  - i. a. Rent is an operating expense. Expenses are recorded by debits. Debit Rent Expense, \$4,400.
  - b. The asset Cash was decreased. Decreases in assets are recorded by credits. Credit Cash, \$4,400.
- b. Prepare a journal entry (including explanation) for each of the above transactions.
- c. Transactions 1, 7, and 8 all involve cash payments, yet only one of these transactions is recorded as an expense. Describe three situations in which a cash payment would *not* involve recognition of an expense.