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Subject : principles of accounting

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Submitted to : Ms. Marium Saleem

Summers final term 2020

QUESTION: 1

The business transactions of ABC Ltd. during September are given below: (15 marks)

Sept. 1 Mark 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.

Sept. 15 Purchased a microcomputer system from XYZ Stores for \$5000 cash.

Sept. 19 Purchased office furnishings including equipment from Michael Operations 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 in XYZ Stores which promised to refund the \$140 within five days.

Sept. 28 Paid Michael Operations \$1600 cash as the first installment due on the account payable for office furnishings.

ANSWER:

Account	Debit	Credit
Sep 1 Business cash	\$50000	\$50000

Sep 10		
Land building	\$106000	
	\$ 76400	
Cash note		
Payable		\$36500
		\$145900
Sep 15		
Micro computer	\$5000	
Cash		\$5000
Sep 19		
Equipment	\$5760.	
Cash		\$960
Accounts		
Payable		
Sep 28		\$1600
Oct 28		\$1600
Nov 28		\$1600
Sep 26		
Account	\$140	
receivable		\$140
Monitor		
Sep 28		
Account	\$1600	
payable		\$ 1600
Cash		

QUESTION:2

Edward Pine capital, December 31, 2005 \$27,200

Edward Pine, Drawing		18,000	Depreciation expense:
Painting equipment	1200		
Painting fees earned		163,300	Insurance expense
12,000			
Paint & Supplies expense		27,500	Painting equipment
7,200			
Accumulated depreciation:			
Painting equipment		3,000	
Salaries expense		66,800	
Rent expense		9,600	
Advertising expense		3,200	

From the above account balances, prepare first an income statement and then a statement of owner's equity for Pine Painting Contractors for the year ended December 31, 2005.

ANSWER:

Pine painting contractors  
Income statement  
For the month ended December 31,2005

Revenue.	\$163,300
-operating expenses	
Paint and supplies expense.	(27500)
Salaries expense.	(66800)
Rent expense.	(9600)
Advertising expense.	(3200)
Depreciation expense	
Painting equipment.	(1200)
Insurance expense.	(12000)
Net profit.	= 43,000

Part (II)

Pine painting contractors  
Statement of owners equity  
For the month ended December 31,2005

Edward pine capital.	\$27,200
Retained earnings.	\$43,000

Total.	\$70200
Drawings.	(18,000)
Owners equity.	\$52200

QUESTION: 3

Prepare the year-end closing entries for Pine Painting Contractors, using the data given above in Q2.

ANSWER:

Pine painting contractors  
Closing entries  
For the month ended December 31,2005

Closing entry of revenue

	Debit.	Credit
Painting revenue.	\$16,300.	
Income salary.		\$16,300

Closing entry of expense account

	Debit.	Credit
Income summary.	120300	
Painting and supplies exp.		27,500
Salaries expense.		66800
Rent expense.	.	9600
Advertising expense.		. 3200
Depreciation expense.		
Painting equipment.		1200
Insurance expense.		. 12,000

Closing entry of income summary acc

	Debit.	Credit
Income summary.	\$43,000	
Owners equity.		\$43,000

## Closing entry of draing expense

	Debit.	Credit
Owners equity.	\$18,000	
Drawing		\$18,000

### QUESTION: 4

Briefly explain the matching principle and the realization principle in relation to the recording of revenue and expenses .

### ANSWER:

#### Matching Principle

The matching principle requires that expenses incurred to produce revenue must be deducted from revenue earned in an accounting period to derive net income. In this way, business expenses are matched with revenue. The matching principle also requires that estimates be made, based on experience and economic conditions, for the purpose of providing for doubtful accounts. This provision leads to a reduction of gross revenue to net realizable revenue to prevent the overstatement of revenues.

#### Realization Principle

The realization principle answers the question, "When is business revenue realized?" The principle states that revenue can be recorded when the earning process is complete and objective evidence exists regarding the amount of revenue earned. For example, revenue is earned when services are provided or products are shipped to the customer and accepted by the customer. In the case of the realization principle, performance, and not promises, determines when revenue should be booked.

#### Benefits of matching principle.....

The primary reason why businesses adhere to the matching principle is to ensure consistency in financial statements, such as the income statement, balance sheet etc.

Recognizing the expenses at the wrong time may distort the financial statements greatly and provide an inaccurate financial position of the business. The matching principle helps businesses avoid misstating profits for a period.