

Chapter 3

Measuring Business Income: The Adjusting Process

Decision Guidelines – Excel

Solution

1. New net income amount: \$7,025
2. New balance for Gay Gillen, Capital, April 20, 20X1: \$35,075
3. Other items that have changed:
 - a. Total Assets
 - b. Total Liabilities & Owner's Equity.

Note that each total changes by the same amount to keep the accounting equation in balance.

Note: Now that you have constructed the spreadsheet, you may want to encourage students to think about how other transactions might affect the statements. For example, what happens when Gay Gillen withdraws an additional \$1,000 of cash? (Cash must decrease and withdrawals increase by \$1,000.) What happens if depreciation expense increases by \$50? (Accumulated depreciation increases and net income and Gay Gillen, Capital decrease.)

T Questions

1. Under the *accrual basis* of accounting, the accountant recognizes the impact of a business transaction on an entity when the transaction occurs, whether or not cash is received or paid. Revenues are recognized when they are earned, and expenses are recognized when they are incurred—not necessarily when the cash changes hands.

The *cash basis* of accounting recognizes revenues only when cash is received and expenses only when cash is paid.
2. The basic accounting period is *one year*. A *fiscal year* is an accounting period that ends on some date other than December 31. An *interim period* is less than one year.
3. The revenue principle provides guidance on
 - (a) *when* to record revenue
 - (b) the *amount* of revenue to record.
4. The *matching principle* directs the accounting for expenses. Accountants identify all the expenses incurred during the period, measure those expenses, and match them against the revenue earned during the same period. Matching expenses against revenues means subtracting the expenses from the revenues to compute the net income or net loss for the period.
5. *Adjusting entries* are needed to measure properly the net income or net loss of the period and to bring asset and liability accounts to correct balances for preparation of the financial statements.
6. Adjusting entries are made at the end of the period because it is less time consuming to make a single entry than to make hourly, daily, or even weekly entries to record the use of supplies, the expiration of prepaid rent and insurance, and the accrual of salaries that occur moment by moment.

7. Five categories of adjusting entries, with examples, are:
 - a. Prepaid expenses—prepaid rent, prepaid insurance, and supplies
 - b. Depreciation of plant assets—depreciation of buildings, furniture, and equipment
 - c. Accrued expenses—accrued salary expense and accrued interest expense
 - d. Accrued revenues—accrued service revenue and accrued interest revenue
 - e. Unearned revenues—unearned service revenue and unearned subscription revenue
8. Yes, all adjusting entries affect net income or net loss. Adjusting entries assign revenues to the period in which they are earned and expenses to the period in which they are incurred, and revenues and expenses affect income or loss.
9. The balance of Supplies needs to be adjusted at the end of the period because the entity does not record the decrease in supplies as it uses that asset during the period. Instead, a single adjusting entry is made at the end of the period to record Supplies Expense and the decrease in Supplies.
10. At the end of this first year, the Prepaid Insurance account has an expense element of \$600 (1/3 of \$1,800) and an asset element of \$1,200 (2/3 of \$1,800).
11. Prepaid expense is *not* an expense. It is an asset.
12. A *contra account* has two distinguishing characteristics: (1) it has a companion account, and (2) its normal balance is opposite that of the companion account. The contra account introduced in this chapter is Accumulated Depreciation, which has a credit balance.

13. The *book value* of a plant asset is the cost of the asset less its accumulated depreciation. The asset's book value is \$135,000 and accumulated depreciation is \$65,000. The cost of the asset is the sum of the two amounts, \$200,000 ($\$135,000 + \$65,000$).
14. An *unearned revenue* is a liability because collection of revenue in advance obligates the entity to deliver inventory or to provide services. For example, a magazine company collects cash for subscriptions before earning the revenue by delivering magazines.
15. The *adjusted trial balance* lists all the accounts and their adjusted balances in one place. It is an aid in the preparation of the financial statements.
16. Net income or net loss is reported on the *income statement*. This amount affects owner's equity as reported on the *statement of owner's equity*. The ending capital balance on the *statement of owner's equity* is the final balancing element on the *balance sheet*.

T Daily Exercises

(5 min.) **DE 3-1**

Revenue to Report on the Income Statement

	(a) Cash Basis	(b) Accrual Basis
January	\$3,000	\$1,000
December	\$ -0-	\$2,000

(5 min.) **DE 3-2**

(a) Cash Basis	(b) Accrual Basis
Record expense of \$2,900	Record asset of \$2,900

The *accrual basis* is more realistic because the computer is an economic resource, an asset, that has future benefit for the business. To record the cost of the computer as an expense is unrealistic.

(5 min.) **DE 3-3**

Req. 1

Intel should record revenue only after Intel has sold the processors, not before the sale.

Req. 2

Revenue = \$750,000 (2,000 processors × \$375 sale price per processor)

(5 min.) **DE 3-4**

Matching
principle:

Record expense of \$280,000 (2,000 processor × \$140 cost per processor) after selling the processors. The expense is called Cost of Goods Sold.

(5-10 min.) **DE 3-5**

Req. 1

	<i>Millions</i>
Rental revenue.....	\$217
Total expenses.....	<u>162</u>
Net income.....	<u>\$ 55</u>

Req. 2

Unused information because these are cash-basis, not accrual-basis, items:

Collections from customers
Payments for expenses

(5-10 min.) **DE 3-6**

Req. 1

Income Statements (*Amounts in Millions*)

	1999	2000
Salary Expense	\$341	\$9 (\$350 ! \$341)

Req. 2

2000		<i>Millions</i>
Jan. 3	Salary Payable.....	341
	Salary Expense.....	9
	Cash.....	350
	To pay salaries.	

Req. 1

April 30	Rent Expense (\$3,000 × 1/12).....	250	
	Prepaid Rent.....		250
	To record rent expense.		

Prepaid Rent		Rent Expense	
Apr. 1	3,000	Apr. 30	250
Bal.	2,750	Bal.	250

Req. 2

April 30	Supplies Expense (\$700 ! \$200).....	500	
	Supplies.....		500
	To record supplies expense.		

Supplies		Supplies Expense	
Apr. 2	700	Apr. 30	500
Bal.	200	Bal.	500

Req. 1

a. May 1	Computer Equipment.....	36,000	
	Cash.....		36,000
	Purchased computer equipment.		
b. May 31	Depreciation Expense -		
	Computer Equipment (\$36,000 / 24)	1,500	
	Accumulated Depreciation-		
	Computer Equipment		1,500

Req. 2

<u>Computer Equipment</u>		<u>Accumulated Depreciation – Computer Equipment</u>		<u>Depreciation Expense – Computer Equipment</u>		
May 1	36,000		May 31	1,500	May 31	1,500
Bal.	36,000		Bal.	1,500	Bal.	1,500

Req. 3

Computer equipment.....	\$36,000
Less Accumulated depreciation	<u>(1,500)</u>
Book value.....	\$34,500

Req. 4

Income statement:

Depreciation expense-computer equipment.....	\$ 1,500
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Balance sheet:

Computer equipment.....	\$36,000
Less Accumulated depreciation.....	<u>(1,500)</u>
	\$34,500

Req. 1

Oct. 31	Interest Expense.....	100	
	Interest Payable.....		100
	To accrue interest expense for October.		
Nov. 30	Interest Expense.....	100	
	Interest Payable.....		100
	To accrue interest expense for November.		
Dec. 31	Interest Expense.....	100	
	Interest Payable.....		100
	To accrue interest expense for December.		

Req. 2

Interest Payable	
Oct. 31	100
Nov. 30	100
Dec. 31	100

Req. 3

<u>Balance sheet</u>	Oct. 31	Nov. 30
Liabilities:		
Interest payable.....	\$100	\$200

Req. 1

Oct. 31	Interest Receivable.....	100	
	Interest Revenue.....		100
	To accrue interest revenue for October.		
Nov. 30	Interest Receivable.....	100	
	Interest Revenue.....		100
	To accrue interest revenue for November.		
Dec. 31	Interest Receivable.....	100	
	Interest Revenue.....		100
	To accrue interest revenue for December.		

Req. 2

Interest Receivable	
Oct. 31	100
Nov. 30	100
Dec. 31	100

Req. 3

<u>Balance sheet</u>	<u>Oct. 31</u>	<u>Nov. 30</u>
Assets:		
Interest receivable.....	\$100	\$200

(5-10 min.) **DE 3-11**

Unearned revenues are *liabilities* because Southern Living Magazine has received cash from subscribers in advance of providing subscribers with magazines. Receiving the cash in advance creates an obligation (a liability) for Southern Living. As Southern Living mails magazines to subscribers, it earns the revenue, and the dollar amount of the unearned revenue goes into the *revenue account*.

Adjusting entry:	Unearned Subscription Revenue...	20,000	
	Subscription Revenue.....		20,000
	To record subscription revenue that was collected in advance.		

Note: Student explanations will vary.

*Unadjusted amount
of Prepaid Rent:* \$3,000

*Adjusted amount
of Prepaid Rent:* \$2,000

*Amount of Prepaid
Rent to report on the
balance sheet at
April 30:* \$2,000

Why: Because at April 30 the business still has prepaid rent of \$2,000

*Balance sheet
category for
Prepaid Rent:* Assets

Req. 1

e.	Apr. 30	Accounts Receivable.....	250	
		Service Revenue.....		250
		To accrue service revenue.		
f.	Apr. 30	Unearned Service Revenue.....	150	
		Service Revenue.....		150
		To record service revenue that was collected in advance.		

Req. 2

Income Statement

Revenues

 Service revenue..... \$7,400

Balance Sheet

Assets

 Accounts receivable..... \$2,500

Liabilities

 Unearned service revenue..... \$ 300

DATE: _____

TO: Supervisor

FROM: _____

SUBJECT: Difference between the *unadjusted* and the *adjusted* amounts on an adjusted trial balance.

The unadjusted amounts of some accounts on an adjusted trial balance are not up-to-date at the end of the accounting period. These accounts must be adjusted to update their balances in order to prepare the financial statements at the end of the period. For example, Accounts Receivable's unadjusted balance of \$2,250 does not include a \$250 receivable that Gay Gillen eTravel has earned. After the adjusting entry, Accounts Receivable's balance is updated to \$2,500, which is the correct amount for Gay Gillen eTravel to report on its balance sheet at April 30.

Note: Student responses will vary.

Req. 1

Unadjusted total revenues	\$7,000
Unadjusted total expenses (\$950 + \$400).....	<u>1,350</u>
Unadjusted net income	<u>\$5,650</u>

Req. 2

Total revenues	\$7,400
Total expenses (\$1,000 + \$1,900 + \$300 + \$275 + \$400).....	<u>3,875</u>
Net income	<u>\$3,525</u>

Yes, these are the same amounts shown in Exhibit 3-12.

Req. 3

Adjusting entries are needed to update the accounts for preparation of the financial statements.

T Exercises

(10 min.) **E 3-1**

Amount of Revenue (Expense) for January

<i>Date</i>	Revenue (or Expense)	Accrual-Basis Amount
Jan. 1	Expense	\$ 0
5	Expense	(400)
9	Revenue	1,400
14	Expense	0
23	Revenue	1,600
31	Expense (\$2,700) 3)	(900)
31	Expense	(900)

(5-10 min.) **E 3-2**

- Time-period concept
- Matching principle
- Accrual-basis accounting; matching principle
- Revenue principle; no revenue to record because no transaction occurred

DATE: _____

TO: Supervisor

FROM: (Student Name)

SUBJECT: Need for adjusting entries at the end of the period

Companies present their financial statements at the end of each accounting period. They must update the accounts in order to report correct amounts for each account. The adjusting entries update the accounts, including Prepaid Insurance and Supplies.

Note: Student answers may vary. They can identify Service Revenue, Depreciation Expense, Unearned Revenue, Salary Expense, Salary Payable, and other accounts that need to be adjusted.

Missing amounts in <i>italics</i> .				
	A	B	C	D
Beginning Prepaid Insurance	\$ 450	\$ 500	\$ 900	\$ 600
Payments for Prepaid				
Insurance during the year	<u>1,400</u>	<u>800</u>	<u>1,100</u>	<u>900</u>
Total amount to account for	<i>1,850</i>	<i>1,300</i>	2,000	1,500
Ending Prepaid Insurance	<u>250</u>	<u>400</u>	<u>800</u>	<u>700</u>
Insurance Expense	<u><i>\$1,600</i></u>	<u><i>\$ 900</i></u>	<u><i>\$1,200</i></u>	<u><i>\$ 800</i></u>

Journal entries:

Situation A:	Insurance Expense	1,600	
	Prepaid Insurance		1,600
B:	Prepaid Insurance	800	
	Cash		800

(5-10 min.) **E 3-5**

Journal					
DATE		DESCRIPTION	POST. REF.	DEBIT	CREDIT
	a.	Salary Expense (\$15,000 × 2/5)		6,000	
		Salary Payable			6,000
	b.	Unearned Service Revenue		800	
		Service Revenue			800
	c.	Depreciation Expense		3,200	
		Accumulated Depreciation			3,200
	d.	Insurance Expense		300	
		Prepaid Insurance			300
	e.	Interest Receivable		4,400	
		Interest Revenue			4,400

(10 min.) **E 3-6**

Net income:

<i>Overstated</i> by omission of:			
Salary expense		\$6,000	
Depreciation expense		3,200	
Insurance expense		<u>300</u>	
Total overstatement			\$9,500
<i>Understated</i> by omission of:			
Service revenue		\$ 800	
Interest revenue		<u>4,400</u>	
Total understatement			<u>5,200</u>
Overall effect—net income overstated by			<u><u>\$4,300</u></u>

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	a. Unearned Rent Revenue ($\$10,000 \times 6/12$)		5,000	
	Rent Revenue			5,000
	b. Interest Expense		400	
	Interest Payable			400
	c. Interest Receivable		700	
	Interest Revenue			700
	d. Salary Expense ($\$1,500 \times 3$)		4,500	
	Salary Payable			4,500
	e. Supplies Expense		1,900	
	Supplies ($\$3,100 - \$1,200$)			1,900
	f. Depreciation Expense ($\$10,000 / 4$)		2,500	
	Accumulated Depreciation			2,500
	g. Insurance Expense		200	
	Prepaid Insurance ($\$1,200 / 2 \times 4/12$)			200

(10-20 min.) **E 3-8**

Accounts Receivable	
	1,000
(a)	650
Bal.	1,650

Supplies		
	600	(c) 500
Bal.	100	

Salary Payable	
	(d) 600
Bal.	600

Unearned Service Revenue	
(b)	200 400
Bal.	200

Service Revenue	
	4,700
(a)	650
(b)	200
Bal.	5,550

Salary Expense	
	1,200
(d)	600
Bal.	1,800

Supplies Expense	
(c)	500
Bal.	500

(10-15 min.) **E 3-9**

Signet Repair Company						
Preparation of Adjusted Trial Balance						
May 31, 20X2						
ACCOUNT TITLE	TRIAL BALANCE		ADJUSTMENTS		ADJUSTED TRIAL BALANCE	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	3,000				3,000	
Accounts receivable	4,500		(a) 2,900		7,400	
Supplies	1,040			(b) 240	800	
Office furniture	32,300				32,300	
Accumulated depreciation		14,040		(c) 360		14,400
Salary payable				(d) 900		900
Unearned service revenue		900	(e) 210			690
Capital		26,360				26,360
Owner's withdrawals	6,000				6,000	
Service revenue		9,630		(a) 2,900		12,740
				(e) 210		
Salary expense	2,690		(d) 900		3,590	
Rent expense	1,400				1,400	
Depreciation expense			(c) 360		360	
Supplies expense			(b) 240		240	
	<u>50,930</u>	<u>50,930</u>	<u>4,610</u>	<u>4,610</u>	<u>55,090</u>	<u>55,090</u>

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
a.	May 31	Accounts Receivable			
		(\$7,400 ! \$4,500)		2,900	
		Service revenue			2,900
		To accrue service revenue.			
b.	31	Supplies Expense (\$240 ! \$0)		240	
		Supplies (\$1,040 ! \$800)			240
		To record supplies expense.			
c.	31	Depreciation Expense (\$360 ! \$0)		360	
		Accumulated Depreciation			
		(\$14,400 ! \$14,040)			360
		To record depreciation expense.			
d.	31	Salary Expense (\$3,590 ! \$2,690)		900	
		Salary Payable (\$900 ! \$0)			900
		To accrue salary expense.			
e.	31	Unearned Service Revenue			
		(\$900 ! \$690)		210	
		Service Revenue			210
		To record service revenue that was collected in advance.			

Signet Repair Company		
Income Statement		
Month Ended May 31, 20X2		
Revenues:		
Service revenue		\$12,740
Expenses:		
Salary expense	\$3,590	
Rent expense	1,400	
Depreciation expense	360	
Supplies expense	<u>240</u>	
Total expenses		<u>5,590</u>
Net income		<u>\$ 7,150</u>

Signet Repair Company	
Statement of Owner's Equity	
Month Ended May 31, 20X2	
Capital, May 1, 20X2*	\$26,360
Add: Net income	<u>7,150</u>
	33,510
Less: Withdrawals	<u>(6,000)</u>
Capital, May 31, 20X2	<u>\$27,510</u>

*Alternate date, April 30, 20X2

Signet Repair Company			
Balance Sheet			
May 31, 20X2			
ASSETS		LIABILITIES	
Cash	\$ 3,000	Salary payable	\$ 900
Accounts receivable	7,400	Unearned service revenue	<u>690</u>
Supplies	800	Total liabilities	1,590
Office furniture	\$32,300	OWNER'S EQUITY	
Less: Accum.		Capital	27,510
Deprec.	<u>(14,400)</u>	Total liabilities and	
Total assets	<u>\$29,100</u>	owner's equity	<u>\$29,100</u>

Note: The Working Paper allows students to create a second dollar-amount column for assets if needed.

Req. 1

Kay Fuston, Publisher		
Income Statement		
Year Ended December 31, 20X2		
Revenues:		
Service revenue (\$105,000 + \$7,000)		\$112,000
Expenses:		
Salary expense (\$28,000 + \$1,500)	\$29,500	
Depreciation expense - building	5,000	
Depreciation expense - equipment	2,000	
Supplies expense	<u>1,000</u>	
Total expenses		<u>37,500</u>
Net income		<u><u>\$ 74,500</u></u>

Req. 2

Operations were *successful*, as shown by the \$74,500 of *net income* the business earned during the year.

Req. 1

Quikwash Laundromat		
Statement of Owner's Equity		
Year Ended December 31, 20X5		
Kent Carmichael, capital, December 31, 20X4		\$155,000
Add: Investments by owner (\$12,000 + \$70,000)		<u>82,000</u>
		237,000
Less: Net loss	\$28,000	
Withdrawals ($\$1,500 \times 12$)	<u>18,000</u>	<u>(46,000)</u>
Kent Carmichael, capital, December 31, 20X5		<u>\$191,000</u>

Req. 2

Owner's equity *increased* from \$155,000 to \$191,000. The owner's additional investments caused the increase.

Reqs. 1, 3, and 6

Cash			
Dec. 2	14,000	Dec. 2	500
18	800	3	2,000
21	900	12	200
28	600	26	300
		30	1,600
Bal.	11,700		

Accounts Receivable			
Dec. 9	1,700	Dec. 28	600
Bal.	1,100		
Adj.	400		
Bal.	1,500		

Supplies			
Dec. 5	300	Adj.	200
Bal.	100		

Equipment			
Dec. 3	2,000		

Accumulated Depreciation - Equipment			
		Adj.	50

Furniture			
Dec. 4	3,600		

Accumulated Depreciation - Furniture			
		Adj.	60

Accounts Payable			
Dec. 26	300	Dec. 4	3,600
		5	300
		Bal.	3,600

Reqs. 1, 3, and 6

Salary Payable	
Adj.	500

Unearned Service Revenue			
Adj.	300	Dec. 21	900
		Bal.	600

Amos Faraday, Capital	
Dec. 2	14,000

Amos Faraday, Withdrawals	
Dec. 30	1,600

Service Revenue	
Dec. 9	1,700
18	800
Bal.	2,500
Adj.	400
Adj.	300
Bal.	3,200

Rent Expense	
Dec. 2	500

Utilities Expense	
Dec. 12	200

Salary Expense	
Adj.	500

Depreciation Expense - Equipment	
Adj.	50

Depreciation Expense - Furniture	
Adj.	60

Supplies Expense	
Adj.	200

Req. 2

December 2 through 18 entries are repeated from the Solution to Exercise 2-15.

Journal					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Dec.	2	Cash		14,000	
		Amos Faraday, Capital			14,000
	2	Rent Expense		500	
		Cash			500
	3	Equipment		2,000	
		Cash			2,000
	4	Furniture		3,600	
		Accounts Payable			3,600
	5	Supplies		300	
		Accounts Payable			300
	9	Accounts Receivable		1,700	
		Service Revenue			1,700
	12	Utilities Expense		200	
		Cash			200
	18	Cash		800	
		Service Revenue			800

Req. 2

Dec.	21	Cash		900	
		Unearned Service Revenue			900
	21	No entry; no transaction yet			
	26	Accounts Payable		300	
		Cash			300
	28	Cash		600	
		Accounts Receivable			600
	30	Amos Faraday, Withdrawals		1,600	
		Cash			1,600

(continued) **E 3-14***Reqs. 4 and 5*

Amos Faraday, Consultant						
Preparation of Adjusted Trial Balance						
December 31, 20XX						
ACCOUNT TITLE	TRIAL BALANCE		ADJUSTMENTS		ADJUSTED TRIAL BALANCE	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT
Cash	11,700				11,700	
Accounts receivable	1,100		(a) 400		1,500	
Supplies	300			(c) 200	100	
Equipment	2,000				2,000	
Accumulated depr.- equipment		—		(d1) 50		50
Furniture	3,600				3,600	
Accumulated depr.- furniture		—		(d2) 60		60
Accounts payable		3,600				3,600
Salary payable		—		(e) 500		500
Unearned service revenue		900	(b) 300			600
Amos Faraday, capital		14,000				14,000
Amos Faraday, withdrawals	1,600				1,600	
Service revenue		2,500		(a) 400 (b) 300		3,200
Rent expense	500				500	
Utilities expense	200				200	
Salary expense		—	(e) 500		500	
Depreciation expense - equipment		—	(d1) 50		50	
Depreciation expense - furniture		—	(d2) 60		60	
Supplies expense		—	(c) 200		200	
	<u>21,000</u>	<u>21,000</u>	<u>1,510</u>	<u>1,510</u>	<u>22,010</u>	<u>22,010</u>

Req. 6

Journal						
<i>Adjusting Entries</i>						
DATE			ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
(a)	Dec.	31	Accounts Receivable		400	
			Service Revenue			400
(b)		31	Unearned Service Revenue		300	
			Service Revenue ($\$900 \times 10/30$)			300
(c)		31	Supplies Expense ($\$300 - \100)		200	
			Supplies			200
(d1)		31	Depreciation Expense – Equipment		50	
			Accumulated Depreciation – Equipment			50
(d2)		31	Depreciation Expense – Furniture		60	
			Accumulated Depreciation – Furniture			60
(e)		31	Salary Expense ($\$1,500 \times 10/30$)		500	
			Salary Payable			500

Req. 7

Amos Faraday, Consultant		
Income Statement		
Month Ended December 31, 20XX		
Revenues:		
Service revenue		\$3,200
Expenses:		
Rent expense	\$500	
Salary expense	500	
Utilities expense	200	
Supplies expense	200	
Depreciation expense – furniture	60	
Depreciation expense – equipment	<u>50</u>	
Total expenses		<u>1,510</u>
Net income		<u><u>\$1,690</u></u>

Amos Faraday, Consultant		
Statement of Owner's Equity		
Month Ended December 31, 20XX		
Amos Faraday, capital, December 1, 20XX		\$ 0
Add: Investment by owner	\$14,000	
Net income	<u>1,690</u>	<u>15,690</u>
		15,690
Less: Withdrawals		<u>(1,600)</u>
Amos Faraday, capital, December 31, 20XX		<u><u>\$14,090</u></u>

Req. 7

Amos Faraday, Consultant			
Balance Sheet			
December 31, 20XX			
ASSETS		LIABILITIES	
Cash	\$11,700	Accounts payable	\$ 3,600
Accounts receivable	1,500	Salary payable	500
Supplies	100	Unearned service revenue	<u>600</u>
Equipment \$2,000		Total liabilities	4,700
Less: Accum. depr. (50)	1,950		
Furniture \$3,600		OWNER'S EQUITY	
Less: Accum. depr. (60)	3,540	Amos Faraday, capital	14,090
		Total liabilities and	
Total assets	<u>\$18,790</u>	owner's equity	<u>\$18,790</u>