

KEY FOR TOPIC 1 PROBLEMS

P 4-1a

J. Emery Real Estate.

P 4-1b

Pat Rogers.

P 4-1c

J. Emery Real Estate would have prepared the invoice.

P 4-1d

The information shown by the "TERMS." In this illustration, the seller gives the buyer 30 days from the invoice date to pay the bill.

P 4-1e

J. Emery Real Estate "sold" real estate services by selling a building belonging to Pat Rogers.

P 4-1f

All source documents should have numbers in sequence. The number is used to identify the source document so that it can be accounted for.

P 4-1g

J. Emery Real Estate charged 5% on \$120 000 (the price at which the building was sold for Pat Rogers).

P 4-1h

Pat Rogers must pay the amount owing within 30 days of the invoice date. Thirty days from October 31 would be November 30.

P 4-1i

Interest at the rate of 2% per month will be charged if Pat Rogers fails to pay the amount owing within the 30 days stated on the invoice.

P 4-1j

Source Documents:

- ① The Opening Balance Sheet
- ② Invoice
- ③ Cheque Record
- ④ Remittance Slip
- ⑤ Bank Deposit Slip / Bank Statement

days stated on the invoice.

P 4-1j

J. Emery Real Estate earned \$6000 commission for selling a building for Pat Rogers; terms, net 30 days from October 31.

P 4-1k

Accts. Rec./Pat Rogers		Commissions Earned	
19--		19--	
Oct. 31	6000	Oct. 31	6000

P 4-1l

Received a bill, dated October 31, for \$6000 commission charged by J. Emery Real Estate for selling the building located at 40 Main Street West; terms, net 30 days.

P 4-1m

Commissions Expense		Accts. Pay./J. Emery Real Estate	
19--		19--	
Oct. 31	6000	Oct. 31	6000

P 4-2

DATE	TRANSACTIONS	SOURCE DOCUMENT(S)
May 1	Jennifer Pong deposited \$10 000 of personal funds in a bank account in the name of the new business.	Beginning balance sheet. Copy of bank deposit slip.
May 2	Bought two used IBM XT® personal computers for the office at a total cost of \$2400 from IBM Co. Terms were 30 days' credit.	Purchase invoice from IBM Co.
May 3	Bought one desktop electronic calculator from Monroe Co. for a cost of \$600. Issued a cheque in payment.	Purchase invoice, marked Paid from Monroe Co. Cheque stub.
May 4	She decided that only one of the personal computers was need for the office. Instead of returning one, she agreed to sell it at cost to a friend. The friend, R. Stevens, agreed to pay J. Pong, C.A., \$1200 within 30 days.	A special bill of sale showing the sale of one IBM XT® personal computer, at cost, to R. Stevens with terms of net 30 days.
May 5	Purchased one IBM MODEL 30® personal computer for \$4000. The terms were one-half cash, the balance owing to IBM Co. on 30 days' credit.	Purchase invoice. Cheque stub showing payment of \$2000.
May 8	Bought three more calculators for the office from Monroe Co. at a total cost of \$1800. The terms allowed for 30 days' credit.	Purchase invoice.

May 9	She returned one of the calculators bought on credit on May 8 from Monroe Co. because it was the wrong model. It had cost \$600.	Copy of note (letter) explaining the return calculator to Monroe. A note (letter) received from Monroe acknowledging the return.
May 10	She borrowed \$12 000 cash from the bank signing a demand note. This amount was deposited immediately into the business's bank account.	Copy of demand note (or a copy of the loan application showing a demand note). Copy of bank deposit slip.
May 11	She bought a car from Westown Motors for business use. The cost was \$14 000. The terms were 20% in cash and the rest on 30 days' credit.	Purchase invoice. Cheque stub for \$2800.
May 15	She purchased desks, chairs, and tables from Office Specialty Ltd. The total cost was \$6500. Terms given were 30 days' credit.	Purchase invoice.

P 4-2 (continued)

DATE	TRANSACTIONS	SOURCE DOCUMENT(S)
May 17	One of the desks purchased on May 15 proved to be defective. The owner returned it to Office Specialty Ltd. for a full credit of \$500—the price shown on the bill made out to J. Pong, C.A.	Copy of note (letter) sent with the returned office desk. Note (letter) received from Office Specialty Ltd. acknowledging the return.
May 30	She issued a cheque to IBM Co. for \$2400 in full payment for the PCs bought on May 2.	Cheque stub showing \$2400. Purchase invoice marked "PAID."
May 30	She issued a cheque to Monroe Co. for \$1200 in full settlement of the balance owing to this creditor.	Cheque stub showing \$1200. Purchase invoice marked "PAID."
May 31	R. Stevens paid \$600 cash in part payment of the debt owing to J. Pong, C.A.	Copy of remittance slip. Deposit slip showing \$600 being deposited in the firm's bank account.
May 31	Jennifer purchased accounting and tax books to be used as a professional library in the business. She issued a cheque for \$4000 to C.C.H. Canadian Limited for the total cost of the books.	Cheque stub for \$4000. Purchase invoice marked "PAID."

P 4-3

DATE	TRANSACTIONS	SOURCE DOCUMENT(S)
Sept. 1	Elina Li began the Triple M Real Estate	Beginning balance sheet

P 4-3

DATE	TRANSACTIONS	SOURCE DOCUMENT(S)
Sept. 1	Elina Li began the Triple M Real Estate Co. with the following assets and liabilities: Cash, \$10 000; Office Supplies, \$800; Furniture, \$6000; Office Equipment, \$2500; Bank Loan Payable (on demand), \$7000; Accts. Pay./Global Office Supplies, \$1500.	Beginning balance sheet. Bank deposit slip showing the \$10 000 cash being deposited in the firm's bank account. Copy of the loan application (on demand) from the bank. Purchase invoice from Global Office Supplies.
Sept. 2	Elina Li made an additional investment of \$8000 in the business.	Copy of bank deposit slip showing \$8000 being deposited in the firm's bank account.
Sept. 2	She bought a car from Willard Motors Ltd. She paid \$500 down, and balance of \$9500 is to be paid in 90 days.	Purchase invoice for \$9500. Cheque stub for \$500.
Sept. 3	She bought a new computer for the office from C. & C. Computers for \$2400 on 60 days' credit.	Purchase invoice for \$2400.

P 4-3 (continued)

DATE	TRANSACTIONS	SOURCE DOCUMENT(S)
Sept. 30	She paid the monthly salaries of the business's three employees. Each employee received \$1200. The employees were paid by cheque.	Three cheque stubs for \$1200 each. Total of \$3600.
Sept. 30	She bought warehouse space for Samson Hardware Ltd. Payment of the commission of \$1670 was made in full.	Cash sales slip or invoice for \$1670.
Sept. 30	E. Li paid herself a salary of \$1700. (Note that this transaction will be treated as a drawing and not a salary expense.)	Cheque stub showing \$1700 made out to the owner, E. Li.
Sept. 30	She bought a condominium for Mrs. Richards, who paid the business immediately with a cheque for \$6900.	Cash sales slip or invoice for \$6900.
Sept. 30	She received \$1000 rental revenue from Fernando Leone. Fernando sublets the top floor of the building that Triple M Real Estate Co. rents.	Receipt for \$1000 to Fernando Leone for rent revenue earned.

MC 4-1a

These documents are typically referred to as SOURCE DOCUMENTS.

MC 4-1b

The GAAP is called the objectivity principle. Accounting theory requires physical or objective evidence that a transaction has taken place. The invoices and remittance slip provide physical evidence that transactions have occurred. Furthermore, these source documents provide a way for a third party (like auditors and lawyers) to trace the transactions from their starting point through to the end of the transactions.

MC 4-1c

Source documents commonly found in business use include:

- (i) cheques and/or cheque stubs
- (ii) purchase and sales invoices
- (iii) remittance slips
- (iv) bank statements
- (v) opening balance sheet
- (vi) bank memoranda (memos)

Other source documents will be introduced as more advanced accounting is taken.

MC 4-2a

The following information should be included on the invoice:

- (i) name and address of your business
- (ii) a location for the name and address of the customer
- (iii) a sequentially printed invoice number
- (iv) a location for the date
- (v) the terms should be stated
- (vi) a location to describe the services rendered to the customer
- (vii) a location opposite the description to list the amount charged for the service.
- (viii) a marked location for the total amount to be submitted.
- (ix) a short descriptive statement outlining the penalty and procedure for late payment when credit terms have been offered

MC 4-2b

See next page.

MC 4-2c

This source document, the sales invoice, supports the GAAP called the objectivity principle. Objectivity requires that physical or objective evidence be provided to support each transaction that takes place in every business.

MC 4-2b

BEAUTY BAKING CO. 387 Baker Street Somewhere, Canada L7A 4Z2		INVOICE NO. 0001
SOLD TO: (Name of customer) (complete address)	DATE: (date sold) TERMS: Net 30 days	
SERVICES RENDERED (Describe the services completed.)	AMOUNT (List of prices charged.)	
PLEASE PAY THIS TOTAL →		_____ _____
Interest will be charged at 2% per month on overdue accounts. (after 30 days from the invoice date)		

MC 4-3a, b (continued)

- (iv) Sales Invoice. If a business sold a good or provided a service, then a sales invoice will be issued. This bill of sale will describe the good or service that the business has sold or provided.

been offered

MC 4-2b

See next page.

MC 4-2c

This source document, the sales invoice, supports the GAAP called the objectivity principle. Objectivity requires that physical or objective evidence be provided to support each transaction that takes place in every business.

MC 4-3a, b

The source documents involved in this type of event may vary from business to business. In general, however, the following types of documents could be expected to be involved:

- (i) Purchase Order. A document sent to the company that will supply (provide) the good or service to our business.
- (ii) Purchase Invoice. A bill sent to our business from the supplier stating the cost of the good or service that our business has ordered.
- (iii) Cheque Copy and Stub. A cheque will be issued to pay the invoice after the item(s) has been received and checked or the service performed.

MC 4-3a, b (continued)

- (iv) **Sales Invoice.** If a business sold a good or provided a service, then a sales invoice will be issued. This bill of sale will describe the good or service that the business has sold or provided and the terms of the sale.
 - (v) **Remittance Slip.** This source document is prepared by our business when the customer pays his or her bill. (Sometimes called a receipt in some applications.)
 - (vi) **Deposit Slip.** A bank form indicating how much our business has deposited into the bank.
 - (vii) **Bank Statement.** A bank form listing all the transactions—deposits, withdrawals—that our business has made and the charges made by the bank over the past month.
- As a business increases its volume of transactions, additional and more complicated source documents may be required in order to provide the necessary objective evidence that such transactions have occurred.

MC 4-3c

The GAAP is the objectivity principle. Accounting theory requires physical or objective evidence that a transaction has occurred. A source document such as a recognized piece of paper usually provides this kind of physical evidence.