

Accounting 8 5 Challenge Problem Answers

Accounting 8 5 Challenge Problem Answers Accounting 85 Challenge Problem Answers Demystifying the Financial Statements The accounting 85 challenge problem often found in introductory accounting textbooks presents a complex scenario designed to test students understanding of various accounting principles and their application to realworld situations This article aims to provide a comprehensive breakdown of the typical 85 challenge problem outlining the key steps involved in solving it and offering detailed explanations of the underlying concepts Understanding the Challenge The 85 challenge problem usually revolves around a fictional business often a merchandising company and provides a series of transactions over a specific period These transactions can include purchases sales returns payments and other relevant activities The problem then asks students to Prepare the necessary journal entries This involves recording the transactions in the general journal ensuring proper debit and credit balances Post the journal entries to the Taccounts This step organizes the information from the journal entries into individual accounts allowing for a clearer picture of each accounts balance Prepare a trial balance This summarizes all the account balances at a specific point in time ensuring that the total debits and credits are equal Prepare the financial statements This includes the income statement statement of retained earnings and balance sheet These statements provide a comprehensive overview of the companys financial performance and position Key Concepts To tackle the 85 challenge problem effectively students need to understand the following fundamental accounting concepts Doubleentry bookkeeping This fundamental accounting principle states that every transaction affects at least two accounts It ensures that the accounting equation Assets Liabilities Equity remains balanced Debit and Credit Debits represent increases in asset expense and dividend accounts and 2 decreases in liability equity and revenue accounts Credits represent increases in liability equity and revenue accounts and decreases in asset expense and dividend accounts Journal entries These

are chronological records of each transaction including the date accounts affected debit and credit amounts and a brief description Taccounts These are visual representations of individual accounts with debits on the left side and credits on the right side Trial balance This is a list of all accounts and their balances at a specific point in time ensuring that total debits equal total credits Financial statements These documents provide a summary of a companys financial performance and position StepbyStep Solution Heres a stepbystep guide to solving the 85 challenge problem 1 Analyze the Transactions Carefully review each transaction and identify the accounts affected Determine whether each account is increased or decreased and whether it should be debited or credited 2 Prepare the Journal Entries For each transaction record the appropriate debit and credit amounts in the general journal Include the date a brief description and the accounts affected 3 Post the Journal Entries to Taccounts For each transaction post the debit and credit amounts to their respective Taccounts This will help you track the balance of each individual account 4 Prepare the Trial Balance List all the accounts and their balances from the Taccounts Ensure that the total debits equal total credits If they dont carefully review your journal entries and postings for errors 5 Prepare the Financial Statements Income Statement This statement summarizes the companys revenues and expenses for the period resulting in a net income or net loss Statement of Retained Earnings This statement tracks changes in retained earnings throughout the period including net income or loss dividends and other adjustments Balance Sheet This statement presents a snapshot of the companys assets liabilities and equity at a specific point in time 3 Example Problem and Solution Lets consider a simplified example of a 85 challenge problem Scenario A merchandising company ABC Company started its operations on January 1st The following transactions occurred during the month Jan 1 Invested 10000 cash in the business Jan 5 Purchased 5000 of inventory on credit Jan 10 Sold 3000 of inventory for 6000 cash Jan 15 Paid 2000 for operating expenses Jan 20 Received 1000 from a customer for a previous sale Solution 1 Journal Entries Date Account Title Debit Credit Description Jan 1 Cash 10000 Investment in the business 10000 Jan 5 Inventory 5000 Purchase of inventory on credit Accounts Payable 5000 Jan 10 Cash 6000 Sale of inventory for cash Sales Revenue 6000 Jan 10 Cost of Goods Sold 3000 Inventory 3000 Jan 15 Operating Expenses 2000 Payment for

operating expenses Cash 2000 Jan 20 Cash 1000 Accounts Receivable 1000 Collection of receivables 2 Taccounts 4 Cash Debit 10000 Jan 1 6000 Jan 10 1000 Jan 20 Credit 2000 Jan 15 Balance 15000 Inventory Debit 5000 Jan 5 Credit 3000 Jan 10 Balance 2000 Accounts Payable Debit 0 Credit 5000 Jan 5 Balance 5000 Sales Revenue Debit 0 Credit 6000 Jan 10 Balance 6000 Cost of Goods Sold Debit 3000 Jan 10 Credit 0 Balance 3000 Operating Expenses Debit 2000 Jan 15 Credit 0 Balance 2000 Accounts Receivable Debit 0 Credit 1000 Jan 20 Balance 1000 Owners Equity Debit 0 Credit 10000 Jan 1 Balance 10000 3 Trial Balance Account Title Debit Credit 5 Cash 15000 Inventory 2000 Accounts Payable 5000 Sales Revenue 6000 Cost of Goods Sold 3000 Operating Expenses 2000 Accounts Receivable 1000 Owners Equity 10000 Total 22000 22000 4 Financial Statements Income Statement Sales Revenue 6000 Less Cost of Goods Sold 3000 Gross Profit 3000 Less Operating Expenses 2000 Net Income 1000 Statement of Retained Earnings Beginning Retained Earnings 0 Add Net Income 1000 Less Dividends 0 Ending Retained Earnings 1000 Balance Sheet Assets Cash 15000 Inventory 2000 Accounts Receivable 1000 Total Assets 18000 Liabilities Accounts Payable 5000 Total Liabilities 5000 Equity Owners Equity 10000 Retained Earnings 1000 Total Equity 11000 Total Liabilities and Equity 16000 6 Conclusion Solving the 85 challenge problem requires a strong understanding of accounting principles and their application in practice By following the steps outlined in this article students can systematically analyze transactions prepare journal entries post to Taccounts create a trial balance and ultimately generate comprehensive financial statements This process will not only solidify their understanding of fundamental accounting concepts but also equip them with the necessary skills to analyze realworld financial information

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