

**P1-35A 9 10 Preparing financial statements and evaluating business performance [20–30 min]**

Presented here are the accounts of Gate City Answering Service for the year ended December 31, 2012.

Land	\$ 8,000	Owner investment, 2012	\$ 28,000
Note payable	32,000	Accounts payable	11,000
Property tax expense	2,600	Accounts receivable	1,000
Wayne, drawing	30,000	Advertising expense	15,000
Rent expense	13,000	Building	145,200
Salary expense	65,000	Cash	3,000
Salary payable	1,300	Equipment	16,000
Service revenue	192,000	Insurance expense	2,500
Supplies	10,000	Interest expense	7,000
Wayne, capital, 12/31/2011	54,000		

**Requirements**

1. Prepare Gate City Answering Service's income statement.
2. Prepare the statement of owner's equity.
3. Prepare the balance sheet.
4. Answer these questions about the company:
  - a. Was the result of operations for the year a profit or a loss? How much?
  - b. How much in total economic resources does the company have as it moves into the new year?
  - c. How much does the company owe to creditors?
  - d. What is the dollar amount of the owner's equity in the business at the end of the year?

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Studio Photography works weddings and prom-type parties. The balance of Ansel, capital was \$16,000 at December 31, 2011. At December 31, 2012, the business's accounting records show these balances:

Insurance expense	\$ 8,000	Accounts receivable	\$ 8,000
Cash	37,000	Note payable	12,000
Accounts payable	7,000	Ansel, capital, Dec 31, 2012	?
Advertising expense	3,000	Salary expense	25,000
Service revenue	80,000	Equipment	50,000
Ansel, drawing	13,000	Owner investment, 2012	29,000

**Requirement**

1. Prepare the following financial statements for Studio Photography for the year ended December 31, 2012:
  - a. Income statement
  - b. Statement of owner's equity
  - c. Balance sheet

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The bookkeeper of Greener Landscaping prepared the company's balance sheet while the accountant was ill. The balance sheet contains numerous errors. In particular, the bookkeeper knew that the balance sheet should balance, so he plugged in the owner's equity amount needed to achieve this balance. The owner's equity is incorrect. All other amounts are right, but some are out of place.