

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 $\text{Assets} = \text{Liabilities} + \text{Equity}$ 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
Jan 5	Inventory	5000		Purchase of inventory on credit
Jan 5	Accounts Payable		5000	
Jan 10	Cash	6000		Sale of inventory for cash
Jan 10	Sales Revenue		6000	
Jan 10	Cost of Goods Sold	3000		
Jan 10	Inventory		3000	
Jan 15	Operating Expenses	2000		Payment for operating expenses
Jan 15	Cash		2000	
Jan 20	Cash	1000		Collection of receivables
Jan 20	Accounts Receivable		1000	

2 Taccounts

Account	Debit	Credit
Cash	10000 Jan 1 6000 Jan 10 2000 Jan 15 1000 Jan 20	
Balance	15000	
Inventory	5000 Jan 5	3000 Jan 10
Balance	2000	
Accounts Payable		5000 Jan 5
Balance		5000
Sales Revenue		6000 Jan 10
Balance		6000
Cost of Goods Sold	3000 Jan 10	
Balance	3000	
Operating Expenses	2000 Jan 15	
Balance	2000	
Accounts Receivable		1000 Jan 20
Balance		1000
Owners Equity		10000 Jan 1
Balance		10000

3 Trial Balance

Account Title	Debit	Credit
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	Liabilities	Equity
Cash 15000		
Inventory 2000		

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