This practice set covers the business transactions and analysis of Nothin' But Net, a Web site design firm service business organized as a sole proprietorship. The business is owned by Trish Cunningham. Trish has asked you to help her get her books in order since you have already studied accounting. The business begins operation on March 1, 20XX.

Demonstrate your knowledge of the mechanics involved in accounting for a service business organized as a sole proprietorship. You will take charge of the accounting functions necessary for one complete accounting cycle.

About the Business

Trish Cunningham is a talented graphic designer and Web master. She began her career while in college, taking on internships for local businesses and designing sites for different university organizations to make extra money for expenses. After graduation, she decided to start a full-time Web design business called Nothin' But Net that caters to businesses that conduct their business via their Web site. Trish is renting her parents' renovated garage to run the business so she can keep the expenses separate from her personal expenses.

**Analyze this**

What accounting principle is Trish trying to follow?

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Keeping the books is not her strong point. That's where you come in. Trish has the following to bring into the business:

- $12,000.00 to open an account in the name of the business.
- A computer and peripherals worth $3,200.00 that are approximately four years old.

**Watch for this icon:**

You will be challenged to analyze financial data in order to gain a better understanding of the results. Make note of your answers, as you will need them later!
What you should know

- Nothing But Net uses a 1 month fiscal period. This simulation covers the first month of operation as a sole proprietorship during the period March 1 – March 31 of 20XX.
- The unit of measure for this business is the US $.
- Source documents for Nothing But Net are as follows:

<table>
<thead>
<tr>
<th>Source Document</th>
<th>Abbreviation</th>
<th>Description Of Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checks</td>
<td>C</td>
<td>Cash payment by check</td>
</tr>
<tr>
<td>Sales invoice</td>
<td>S</td>
<td>Sale on account</td>
</tr>
<tr>
<td>Register or calculator tape</td>
<td>T</td>
<td>Cash received from tabulated sales</td>
</tr>
<tr>
<td>Receipt</td>
<td>R</td>
<td>Cash received</td>
</tr>
<tr>
<td>Memo</td>
<td>M</td>
<td>Transactions that are not covered by a specific document above</td>
</tr>
</tbody>
</table>

- You helped Trish set up the chart of accounts (a copy of which is provided in the accompanying working papers).

100 ASSETS
110 Cash
115 Petty Cash
120 Accounts Receivable - Dooley Real Estate
121 Accounts Receivable - Peach Pit
122 Accounts Receivable - VMS Records
130 Supplies
140 Prepaid Insurance
150 Equipment

200 LIABILITIES
210 Accounts Payable - Office Warehouse
211 Accounts Payable - Gas-n-Go
212 Accounts Payable - James Riley, Esq.

300 OWNER'S EQUITY
310 Trish Cunningham, Capital
320 Trish Cunningham, Drawing
330 Income Summary

400 REVENUE
410 Web Site Design Revenue
420 Maintenance Revenue

500 EXPENSES
510 Advertising Expense
520 Insurance Expense
530 Internet Fees Expense
540 Legal Expense
550 Miscellaneous Expense
560 Rent Expense
570 Supplies Expense
580 Travel Expense
590 Utilities Expense

Analyze this

Why would Trish have two different revenue accounts?

Why does the journal have a special column for each of the revenue accounts?
Let's get started!

In addition to this booklet, be sure that you have the following materials to complete this simulation:

- Journal
- General Ledger
- Additional Working Papers

Instructions & Transactions

1. The following transactions are for the month of March, 20XX. Begin with page 1 of the Journal.

March 1

#1 Trish opened a checking account in the name of the business, depositing $12,000.00, R1.
#2 Owner made the $3,200.00 computer an asset of the business, R2.

March 2

#3 Paid Office Warehouse cash for supplies, $800.00, C1.
#4 Paid cash for 12-month insurance policy, $1,200.00, C2.

**Analyze this** What types of insurance coverage might a business like this require?

March 3

#5 Bought supplies from Office Warehouse on account, $650.00, M1.

**Analyze this** Why aren't supplies expensed immediately when purchased?

When supplies be expensed at time of purchase?

March 4

#6 Completed design work for VMS Records, $8,500.00 check to be mailed, S1.
#7 Charged gas at Gas-n-Go, (Travel Expense) $52.00, M2.

March 5

#8 Paid cash for travel expenses, $350.00, C3.
#9 Received cash from various clients for maintenance work performed, $1,000.00, T5.

March 6

#10 Paid $400.00 for March's rent (office space in garage), C4.
#11 Paid $450.00 to James Riley, Esq., for legal fees, C5.
What kind of legal services might Trish need?

#12 Trish withdrew $1,000.00 out of the business for personal use, C6.
#13 Trish paid $110.00 to a local print shop for business cards (Miscellaneous Expense), C7.
#14 Paid Office Warehouse $600.00 on account, C8.
#15 Received $1,900.00 for design work completed, R3.

March 12

#16 Received payment from VMS Records, $8,500.00, R4.
#17 Established a $300.00 petty cash fund, C9.
#18 Trish withdrew $800.00 out of the business for personal use, C10.
#19 Billed Dooley Real Estate for Web site design work completed, $1,200.00, S2.
#20 Paid Office Warehouse the balance owed, C11.

How much is owed to Office Warehouse?

2. Total page 1 of the Journal.
3. Using the appropriate form provided in your working papers, prove and rule page 1 of the Journal. Carry the totals forward to page 2.
4. Post the appropriate individual items from page 1 of the Journal.
5. Continue to journalize the transactions for the period using page 2 of the Journal.

March 15

#21 Paid GraphArt $300.00 for art design work (Miscellaneous Expense), C12.
#22 Paid $150.00 for an ad in a trade journal, C13.
#23 Received $400.00 for maintenance work performed for various clients, T15.
#24 Bought computer supplies for cash, $18.00, C14.

March 16

#25 Paid $436.00 for travel expenses, C15.
#26 Received $1,200.00 for preliminary design work completed for new client; balance due when final work is completed, R5.
#27 Paid cash for postage (Miscellaneous Expense), $112.00, C16.

March 17

#28 Earned $750.00 cash from maintenance work, R6.
#29 Charged gas at Gas-n-Go (Travel Expense) $48.00, M3.
#30 Trish withdrew $1,200.00 out of the business for personal use, C17.
March 18

#31 Trish charged a $98.00 repair at Gas-n-Go (Miscellaneous Expense), M4.
#32 Submitted design work to VMS Records and billed them $400.00, S3.
#33 Paid cash for a case of printer toner at Office Warehouse, $334.00, C18.

March 19

#34 Paid the cell phone bill for the business (Utilities Expense), $132.00, C19.
#35 Paid for special phone messaging services (Utilities Expense), $77.00, C20.

March 22

#36 Received payment from VMS Records, $400.00, R7.
#37 Paid $192.00 to Insurance Associates, Inc. for monthly equipment coverage.
(Note: This is monthly, not prepaid.), C21.
#38 Paid $220.00 for an ad in a local entertainment periodical, C22.
#39 Paid Gas-n-Go $146.00 on account, C23.
#40 Paid $825.00 to rent special equipment, C24.


7. Using the appropriate form provided in your working papers, prove and rule page 2 of the Journal. Carry the totals forward to page 3.

8. Post the appropriate individual items from page 2 of the Journal.

9. Continue to journalize the transactions for the period using page 3 of the Journal.

March 23

#41 Bought computer supplies at Office Warehouse on account $435.00, M3.
#42 James Riley, Esq. billed Trish for legal expenses, $250.00, M6.
#43 Received $5,500.00 from Runway Magazine for Web site design work, R8.
#44 Paid $1,225.00 for travel expenses, C25.

March 24

#45 Submitted design work to VMS Records and billed them $1,100.00, S4.
#46 Paid $120.00 for printing services (Miscellaneous Expense), C26.
#47 Received $500.00 from various clients for maintenance work, T24.

March 29

#48 Received $1,100.00 from various clients for maintenance work, T29.
#49 Traveled to San Francisco for a conference and paid $3,200.00 for expenses, C27.
#50 Paid Office Warehouse $300.00 on account, C28.
#51 Paid $250.00 owed to James Riley, Esq., C29.
#52 Paid monthly health insurance expense premium, $650.00, C30.
March 30

#53  Received payment from Dooley Real Estate, $1,200.00, R9.

10. Trish received the bank statement dated March 26. Using the appropriate bank reconciliation form provided in your packet, reconcile the account referring to the following information:
   - Checks still outstanding #24, #27, #28, #29, #30.
   - Deposit of $1,100.00 on March 29 did not appear on the bank statement.
   - Checkbook register shows a balance of $18,403.00.
   - Bank statement balance of $22,513.00.
   - Service charge of $10.00.
   - ATM fees of $5.00.

11. Continue to journalize the rest of the transactions on page 3 of the Journal.

#54  After completing the reconciliation of the bank account, recognize the $15.00 service charges and fees (Miscellaneous Expense), M7.

#55  Provided an estimate for Big Apple Enterprises for Web site design.

**Describe how you handled this transaction and why.**

#56  Replenished the petty cash fund, $276.00 (Postage (Misc.), $96.00, Supplies, $180.00), C31.

March 31

#57  Paid $145.00 for the office electric bill for the month, C32.
#58  Paid $1,250.00 for internet fees expense, C33.
#59  Trish withdrew $3,500.00 out of the business for personal use, C34.
#60  Trish billed the Peach Pit for design work completed, $1,500.00, S5.

12. Total page 3 of the Journal.

13. Using the appropriate form provided in your working papers, prove and rule page 3 of the Journal.

14. Post the appropriate individual items from page 3 of the Journal.

15. Post the appropriate column totals of the Journal.

16. Using the appropriate form provided in your working papers, prove cash.
   Checkbook balance equals $73,217.00.

17. Prepare a trial balance on the worksheet. End-of-period date is March 31, 20xx. The following end-of-period information applies to adjustments:
   - The unexpired insurance value is $1,100.00.
   - The supplies inventory end-of-period value is $618.00.

18. Complete the worksheet.

19. Once you have completed the worksheet and have calculated the net income, prepare the following using the forms provided in your packet:
   - Income Statement (calculate component percentages for revenue, expenses, and net income rounding calculations to the nearest .1%).
   - Balance Sheet.

21. Complete the closing process for the period:
   - Journalize and post closing entries.

22. Prepare a post-closing trial balance.

   What percent of sales were the operating expenses for the business?

   What was the profit margin for the business?

   How are these percent measurements useful for evaluating the performance of the business?

**Finishing the Job**

Once you finish, make sure to hand in the following completed materials:

- General Ledger
- Journal
- Additional Working Papers:
  - Journal Proofs
  - Cash Proof
  - Bank Reconciliation
  - Worksheet
  - Income Statement
  - Balance Sheet
  - Post-closing Trial Balance