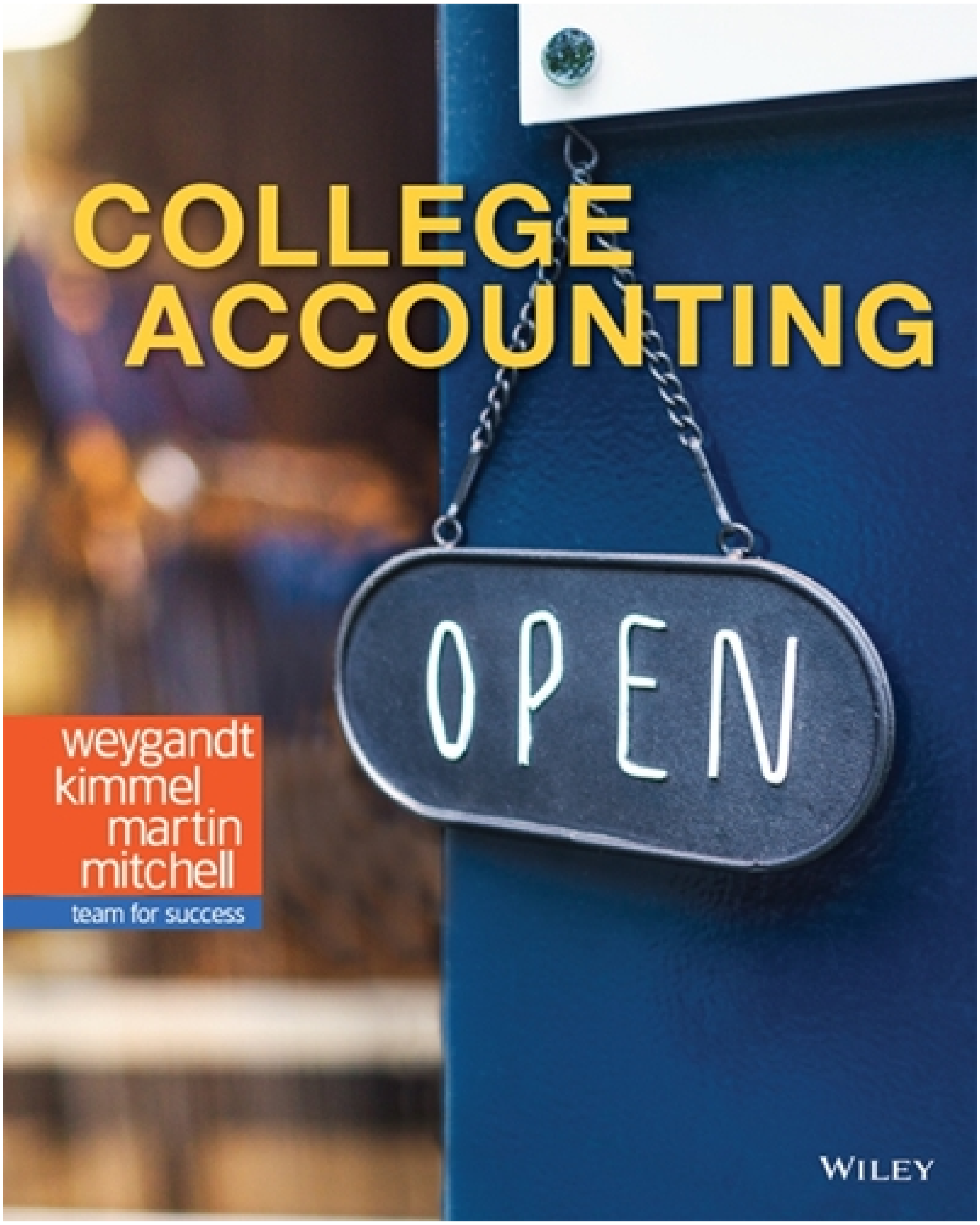
Solutions for College Accounting 1st Edition by Weygandt

CLICK HERE TO ACCESS COMPLETE Solutions



Solutions

CHAPTER 2

The Accounting Equation and Transaction Analysis

ANSWERS TO QUESTIONS

1. The basic accounting equation is Assets = Liabilities + Owner's Equity.

LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

2. Assets are resources owned by a business. Liabilities are creditor claims against total assets. Put more simply, liabilities are existing debts and obligations. Owner's equity is the owner's claim against total assets.

LO1 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting

3. Owner's equity is affected by owner's investments, drawings, revenues, and expenses.

LO1,3 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting

4. The liabilities are: (b) Accounts Payable and (g) Salaries and Wages Payable.

LO1 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Reporting

5. Yes, a business can enter into a transaction in which only the left side of the accounting equation is affected. An example would be a transaction where an increase in one asset is offset by a decrease in another asset. An increase in the Equipment account which is offset by a decrease in the Cash account is a specific example.

LO2 BT: C Difficulty: Medium TOT: 3 min. AACSB: None AICPA FC: Reporting

6. Business transactions are the economic events of the enterprise recorded by accountants because they affect the basic accounting equation.

(a) The death of the owner of the company is not a business transaction as it does not affect the basic accounting equation.
(b) Supplies purchased on account is a business transaction as it affects the basic accounting equation.
(c) An employee being fired is not a business transaction as it does not affect the basic accounting equation.
(d) A withdrawal of cash from the business is a business transaction as it affects the basic accounting equation.

LO2 BT: C Difficulty: Medium TOT: 4 min. AACSB: None AICPA FC: Reporting

7. (a) Decrease assets and decrease owner's equity.
(b) Increase assets and decrease assets.
(c) Increase assets and increase owner's equity.
(d) Decrease assets and decrease liabilities.

LO2 BT: C Difficulty: Medium TOT: 3 min. AACSB: None AICPA FC: Reporting

8. No, this treatment is not proper. While the transaction does involve a receipt of cash, it does not represent revenues. Revenues increase owner's equity as a result of business activities entered into for the purpose of earning income. This transaction is simply an additional investment made by the owner in the business.

LO3 BT: C Difficulty: Medium TOT: 3 min. AACSB: None AICPA FC: Reporting

9. (a) Revenue.
(b) Asset.
(c) Expense.
(d) Asset.
(e) Owner's equity.
(f) Liability.

LO4 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting

10. (a) Ending Owner's Equity = Beginning Owner's Equity + Owner's Capital – Owner's Drawings + Revenues – Expenses
With Revenues indicated by X:
\$198,000 = \$168,000 + \$0 – \$0 + X - \$20,000
Solving for X: \$198,000 - \$168,000 + \$20,000 = \$50,000
Revenues = \$50,000

(b) Ending Owner's Equity = Beginning Owner's Equity + Owner's Capital – Owner's Drawings + Revenues – Expenses
With Revenues indicated by X:
\$198,000 = \$168,000 + \$13,000 – \$0 + X - \$20,000
Solving for X: \$198,000 - \$168,000 - \$13,000 + \$20,000 = \$37,000
Revenues = \$37,000

LO4 BT: AP Difficulty: Medium TOT: 4 min. AACSB: Analytic AICPA FC: Measurement

11. (a) Total revenues (\$20,000 + \$70,000) \$90,000
(\$20,000 + \$70,000)
(Cash rev. + Rev. on acct.)

(b) Total expenses (\$26,000 + \$40,000)........ \$66,000
(\$26,000 + \$40,000)
(Cash exp. + Exp. on acct.)

(c)	Total revenues	\$90,000
	Total expenses	66,000
	Net income	\$24,000

(\$90,000 - \$66,000)
(Tot. rev. – Tot. exp.)
LO4 BT: AN Difficulty: Medium TOT: 4 min. AACSB: Analytic AICPA FC: Measurement

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 2.1

(a) $90,000 – $50,000 = $40,000 (Owner's equity).

($90,000 - $50,000 = $40,000)

(Assets – Liabl. = Owner's equity)

(b) $44,000 + $70,000 = $114,000 (Assets).

($44,000 + $70,000 = $114,000)

(Liabl. + Owner's equity = Assets)

(c) $94,000 – $53,000 = $41,000 (Liabilities).

($94,000 - $53,000 = $41,000)
(Assets – Owner's equity = Liabl.)
LO1 BT: AP Difficulty: Easy TOT: 3 min. AACSB: Analytic AICPA FC: Measurement

BRIEF EXERCISE 2.2

(a) $120,000 + $232,000 = $352,000 (Total assets).

($120,000 + $232,000 = $352,000)

(Liabl. + Owner's equity = Assets)

(b) $190,000 – $91,000 = $99,000 (Total liabilities).

($190,000 - $91,000 = $99,000)

(Assets – Owner's equity = Liabl.)

(c) $800,000 – 0.5($800,000) = $400,000 (Owner's equity).

[$800,000 – ($800,000 x .5) = $400.000]
[Assets – (Assets x .5) = Owner's equity]
LO1 BT: AP Difficulty: Easy TOT: 3 min. AACSB: Analytic AICPA FC: Measurement

BRIEF EXERCISE 2.3

(a) ($800,000 + $150,000) – ($300,000 – $60,000) = $710,000 (Owner's equity).

[($800,000 + $150,000) – ($300,000 - $60,000) = $710,000]
[(Beg. assets + Incr. in assets) – (Beg. liabl. – Decr. in liabl) = End. owner's equity]

(b) ($300,000 + $100,000) + ($800,000 – $300,000 – $70,000) = $830,000 (Assets).

[($300,000 + $100,000) + ($800,000 - $300,000 - $70,000) = $830,000
[(Beg. liabl. + Incr. in liabl.) + (Beg. assets – Beg. liabl. – Decr. in owner's equity) = End. assets]

(c) ($800,000 – $80,000) – ($800,000 – $300,000 + $120,000) = $100,000 (Liabilities).

[($800,000 - $80,000) – ($800,000 - $300,000 + $120,000) = $100,000]
[(Beg. assets – Decr. in assets) – (Beg. assets – Beg. liabl. + Incr. in owner's equity) = End. liabl.]
LO1 BT: AP Difficulty: Medium TOT: 4 min. AACSB: Analytic AICPA FC: Measurement

BRIEF EXERCISE 2.4

A	(a)	Accounts Receivable	A	(d)	Supplies
L	(b)	Salaries and Wages Payable	OE	(e)	Owner's Capital
A	(c)	Equipment	L	(f)	Notes Payable

LO2 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting

BRIEF EXERCISE 2.5

(a) Purchase cleaning supplies on account. Yes, purchasing cleaning supplies increases assets for the supplies, and increases liabilities for the amount paid on account.
(b) Visit customer's house to provide an estimate. No, providing an estimate to a customer does affect assets, liabilities, or owner's equity. This may lead to a transaction in the future when service is performed for the customer.
(c) Pay for phone bill. Yes, paying a phone bill decreases assets for cash paid and may decrease liabilities for the bill that is paid.
(d) Hire a new employee. No, hiring an employee does not affect assets, liabilities, or owner's equity. This will lead to a transaction in the future once the employee has worked and is paid cash.

LO2 BT: C Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Reporting

BRIEF EXERCISE 2.6

1. Increase in assets and increase in owner's equity.
2. Increase in assets and decrease in assets.
3. Increase in assets and increase in liabilities.

LO2 BT: AN Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Reporting

BRIEF EXERCISE 2.7

E	(a)	Advertising Expense	D	(e)	Owner's Drawings
R	(b)	Service Revenue	R	(f)	Rent Revenue
E	(c)	Insurance Expense	E	(g)	Utilities Expense
E	(d)	Salaries and Wages Expense			

LO3 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Reporting

BRIEF EXERCISE 2.8

L	(a)	Notes Payable	A	(d)	Cash
E	(b)	Advertising Expense	R	(e)	Service Revenue
OE	(c)	Owner's Capital			

LO3 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Reporting

BRIEF EXERCISE 2.9

R	(a)	Received cash for services performed.
NOE	(b)	Paid cash to purchase equipment.
E	(c)	Paid employee salaries.

LO3 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Reporting

BRIEF EXERCISE 2.10

					Owner's Equity							
	Assets	=	Liabilities	+	Owner's Capital	–	Owner's Drawings	+	Revenues	–	Expenses
(a)	X	=	$90,000	+	$150,000	–	$40,000	+	$450,000	–	$320,000
	X	=	$90,000	+	$240,000						
	X	=	<u>$330,000</u>								

(Assets = $90,000 + $150,000 - $40,000 + $450,000 - $320,000)

(Assets = Liabl. + Owner's Cap. – Owner's Draw. + Rev. – Exp.)

(b)	$57,000	=	X	+	$25,000	–	$7,000	+	$52,000	–	$35,000
	$57,000	=	X	+	$35,000						
	X	=	<u>$22,000</u> ($57,000 – $35,000)								

($57,000 = Liabl. + $25,000 - $7,000 + $52,000 - $35,000)

(Assets = Liabl. + Owner's Cap. – Owner's Draw. + Rev. – Exp.)

(c)	$600,000	=	($600,000 x 2/3)	+	X (Owner's equity)
	$600,000	=	$400,000	+	X
	X	=	<u>$200,000</u>		

[$600,000 = ($600,000 x 2/3) + Owner's equity]

[Assets = (Assets x 2/3) + Owner's equity]

LO4 BT: AN Difficulty: **Medium** TOT: 8 min. AACSB: Analytic AICPA FC: Measurement

BRIEF EXERCISE 2.11

	Assets	Liabilities	Owner's Equity
(a)	+	+	NE
(b)	+	NE	+
(c)	–	NE	–

LO4 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement

BRIEF EXERCISE 2.12

	Assets	Liabilities	Owner's Equity
(a)	+	NE	+
(b)	–	NE	–
(c)	NE*	NE	NE

***One asset increase (Cash) and another asset decrease (Accounts Receivable)**

LO4 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Measurement

SOLUTIONS FOR DO IT! EXERCISES

DO IT! 2.1

(a) $800,000 – $300,000 = $500,000 (Owner's equity).
[$800,000 – $300,000 = $500.000]
[Assets – Liabl = Owner's equity]

(b) $220,000 + $680,000 = $900,000 (Total assets).

($220,000 + $680,000 = $900,000)

(Liabl. + Owner's equity = Assets)

(c) $200,000 – $60,000 = $140,000 (Total liabilities).

($200,000 - $60,000 = $140,000)

(Assets – Owner's equity = Liabl.)

(d) (a)$700,000 – 0.5($700,000) = $350,000 (Owner's equity).
[$700,000 – ($700,000 x .5) = $350.000]
[Assets – (Assets x .5) = Owner's equity]

LO1 BT: AP Difficulty: Easy TOT: 3 min. AACSB: Analytic AICPA FC: Measurement

DO IT! 2.2

	Assets					=	Liabilities			+	Owner's Equity
Trans-action	Cash	+	Supplies	+	Equipment	=	Accounts Payable	+	Notes Payable	+	Owner's Capital
(1)	+ $50,000	+		+							+ $50,000
(2)					+ $9,000		+ $9,000				
(3)	+ 10,000								+ $10,000		
(4)	□□□□□□□ □		□□□□□□ □□								
	$58,000	+	$2,000	+	$9,000	=	$9,000	+	$10,000	+	$50,000

LO2 BT: AP Difficulty: Easy TOT: 6 min. ACSB: None AICPA FC: Measurement

DO IT! 2.3

a. **Drawings is owner's drawings (D); it decreases owner's equity.**
b. **Rent Revenue is revenue (R); it increases owner's equity.**
c. **Advertising Expense is an expense (E); it decreases owner's equity.**
d. **When the owner puts personal assets into the business, it is investment by owner (I); it increases owner's equity.**
e. **Service Revenue is revenue (R); it increases owner's equity.**
f. **Rent Expense is an expense (E); it decreases owner's equity.**

LO3 BT: C Difficulty: Easy TOT: 8 min. AACSB: Analytic AICPA FC: Measurement

DO IT! 2.4

	Assets		=	Liabilities	+	Owner's Equity						
	Cash	+	Accounts Receivable	=	Accounts Payable	+	Owner's Capital	–	Owner's Drawings	+	Revenues	–	Expenses

	Cash	Accounts Receivable	Accounts Payable	Owner's Capital	Owner's Drawings	Revenues	Expenses
(1)		+$20,000				+$20,000	
(2)	+$20,000	–20,000					
(3)			+$2,300				–$2,300
(4)	–3,600				–$3,600		

LO4 BT: AP Difficulty: Medium TOT: 8 min. AACSB: Analytic AICPA FC: Measurement

SOLUTIONS TO EXERCISES

EXERCISE 2.1

Asset	Liability	Owner's Equity
Cash	Accounts Payable	Owner's Capital
Equipment	Utilities Payable	
Supplies	Notes Payable	
Accounts Receivable	Salaries and Wages Payable	
	Sales Taxes Payable	

LO1 BT: C Difficulty: Easy TOT: 4 min. AACSB: None AICPA FC: Reporting

EXERCISE 2.2

1. Increase in assets and increase in owner's equity.
2. Increase in assets and decrease in assets.
3. Increase in assets, decrease in assets, and increase in liabilities.
4. Increase in assets and increase in liabilities.

LO2 BT: AP Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Measurement

EXERCISE 2.3

1. Increase in assets and increase in owner's equity.
2. Decrease in assets and decrease in owner's equity.
3. Increase in assets and increase in liabilities.
4. Increase in assets and increase in owner's equity.
5. Decrease in assets and decrease in owner's equity.
6. Increase in assets and decrease in assets.
7. Increase in liabilities and decrease in owner's equity.
8. Increase in assets and decrease in assets.
9. Increase in assets and increase in owner's equity.

LO2,3 BT: AP Difficulty: Easy TOT: 7 min. AACSB: None AICPA FC: Measurement

EXERCISE 2.4

1.	**(c)**	**5.**	**(d)**
2.	**(d)**	**6.**	**(b)**
3.	**(a)**	**7.**	**(e)**
4.	**(b)**	**8.**	**(f)**

LO4 BT: AP Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Measurement

EXERCISE 2.5

(a) Ending Owner's Equity 12/31/2022 = Beginning Owner's Equity 1/1/2022 +
Owner's Capital – Owner's Drawings + Revenues – Expenses
With Revenues indicated by X:
(12/31/2022 Assets – Liabilities: $400,000 - $250,000) = $100,000 + 0 – $15,000
+ X - $5,000
Solving for X: $150,000 - $100,000 + $15,000 + $5,000 = $70,000
Revenues = $70,000

(b) Ending Owner's Equity 12/31/2023 = Beginning Owner's Equity 12/31/2022
+ Owner's Capital – Owner's Drawings + Revenues – Expenses
With Revenues indicated by X:
(12/31/2023 Assets – Liabilities: $460,000 - $300,000) = [12/31/2022 Ending
OE per part (a) $150,000] + $45,000 – 0 + X - $55,000
Solving for X: $160,000 - $150,000 - $45,000 + $55,000 = $20,000
Revenues = $20,000

(c) Ending Owner's Equity 12/31/2024 = Beginning Owner's Equity 12/31/2023
+ Owner's Capital – Owner's Drawings + Revenues – Expenses
With Revenues indicated by X:
(12/31/2024 Assets – Liabilities: $590,000 - $400,000) = [12/31/2023 Ending
OE per part (b) $160,000] + $15,000 – $25,000 + X - $15,000
Solving for X: $190,000 - $160,000 - $15,000 + $25,000 + $15,000 = $55,000
Revenues = $55,000

LO4 BT: AP Difficulty: **Medium** TOT: 18 min. AACSB: Analytic AICPA FC: Reporting

EXERCISE 2.6

(a)

Total assets (beginning of year)		**$110,000**
Less: Total liabilities (beginning of year)		**85,000**
Total owner's equity (beginning of year)		**$ 25,000**

($110,000 - $85,000 = $25,000)

(Beg. tot. assets – Beg. tot. liabl. = Beg. owner's equity)

(b)

Total owner's equity (end of year)		**$ 40,000**
Less: Total owner's equity (beginning of year)		**25,000**
Increase in owner's equity		**$ 15,000**
Total revenues		**$220,000**
Total expenses		**175,000**
Net income		**$ 45,000**

Increase in owner's equity		**$ 15,000**
Less: Net income	**$45,000**	
Add: Drawings	**37,000**	**(8,000)**
Additional investment		**$ 7,000**

($40,000 - $25,000 = $15,000); ($220,000 - $175,000 = $45,000); [$15,000 – ($45,000 - $37,000) = $7,000]

(End. tot. owner's equity – Beg. tot. owner's equity = Incr. in owner's equity); (Tot. rev. – Tot. exp. = Net inc.); [Incr. in owner's equity – (Net inc. – Owner's draw.) = Addl. Invest.]

(c)

Total assets (beginning of year)		**$129,000**
Less: Total owner's equity (beginning of year)		**80,000**
Total liabilities (beginning of year)		**$ 49,000**

($129,000 - $80,000 = $49,000)

(Beg. tot. assets – Beg. tot. owner's equity = Beg. tot. liabl.)

(d)

Total owner's equity (end of year)		**$130,000**
Less: Total owner's equity (beginning of year)		**80,000**
Increase in owner's equity		**$ 50,000**

Total revenues		**$100,000**
Total expenses		**60,000**
Net income		**$ 40,000**

Increase in owner's equity		**$ 50,000**
Less: Net income	**$(40,000)**	
Additional investment	**(25,000)**	**(65,000)**
Drawings		**$ 15,000**

($130,000 - $80,000 = $50,000); ($100,000 - $60,000 = $40,000); [$50,000 – ($40,000 + $25,000) = $15,000]

(End. owner's equity – Beg. owner's equity = Incr. in owner's equity); (Tot. rev. – Tot. exp. = Net inc.); (Incr. in owner's equity – (Net inc. + Addl. Invest.) = Owner's draw.]

LO 4 BT: AP Difficulty: **Medium** TOT: 8 min. AACSB: Analytic AICPA FC: Reporting

EXERCISE 2.7

(a)

Camping fee revenues	**$140,000**
General store revenues	**65,000**
Total revenue	**205,000**
Expenses	**150,000**
Net income	**$ 55,000**

[($140,000 + $65,000) - $150,000 = Net inc.]

[(Camp. fee rev. + Gen. store rev.) – Exp. = Net inc.]

(b)

Assets

Cash	**$ 23,000**
Accounts Receivable	**17,500**
Equipment	**105,500**
Total assets	**$146,000**

(c)

Liabilities

Notes Payable	**$ 60,000**
Accounts Payable	**11,000**
Total liabilities	**$ 71,000**

LO4 BT: AP Difficulty: Easy TOT: 10 min. AACSB: Analytic AICPA FC: Reporting

EXERCISE 2.8

Revenues		
Service Revenue		**$550,000**
Expenses		
Salaries and Wages Expense	**$185,000**	
Maintenance and Repairs Expense	**85,000**	
Advertising Expense	**10,000**	
Utilities Expense	**16,000**	
Total expenses		**296,000**
Net income		**$254,000**

[$550,000 – ($185,000 + $85,000 + $10,000 + $16,000) = $254,000]

[Service rev. – (Sal. & wages exp. + Maint. & repairs exp. + Advert. exp. + Util. exp.) = Net inc.]

LO4 BT: AP Difficulty: Easy TOT: 6 min. AACSB: Analytic AICPA FC: Reporting

EXERCISE 2.9

(a)	Assets, January 1, 2022	$102,000
	Less: Liabilities, January 1, 2022	85,000
	Owner's Equity, January 1, 2022	$ 17,000
	Assets, December 31, 2022	$168,000
	less: Liabilities, December 31, 2022	105,000
	Owner's Equity, December 31, 2022	$ 63,000

(b)

Owner's equity, January 1, 2022	$ 17,000
Add: Net income (Rev. $425,000 – Exp. $195,000)	230,000
	247,000
Less: Owner's Drawings	X
Owner's equity, December 31, 2022	$ 63,000

Solve for X: $247,000 - $63,000 = $184,000 Drawings

[($102,000 - $85,000) + ($425,000 - $195,000) - $184,000 = $63,000]

[(Beg. assets – Beg. liabl.) + (Serv. rev. – Tot. exp.) – Owner's draw. = End. owner's cap.]

LO 4 BT: AP Difficulty: Medium TOT: 8 min. AACSB: Analytic AICPA FC: Reporting

EXERCISE 2.10

	Assets		= Liabilities +	Owner's Equity			
	Cash	+ Accounts Receivable	= Accounts Payable	+ Owner's Capital	– Owner's Drawings	+ Revenues	– Expenses
(1)		+$35,000				+$35,000	
(2)	+$15,000	–15,000					
(3)			+$5,400				–$5,400
(4)	–2,200				–$2,200		

LO 4 BT: AP Difficulty: Medium TOT: 8 min. AACSB: Analytic AICPA FC: Measurement

PROBLEM 2.1

(a)

JUDI SALEM, ATTORNEY AT LAW

	Assets							=	Liabilities				Owner's Equity						
	Cash	+	Accounts Receivable	+	Supplies	+	Equipment	=	Notes Payable	+	Accounts Payable	+	Owner's Capital	–	Owner's Drawings	+	Revenues	–	Expenses
Bal.	$5,000	+	$1,500	+	$500	+	$6,000	=			$4,200	+	$8,800						
1.	+1,200		–1,200																
	6,200	+	300	+	500	+	6,000	=			4,200	+	8,800						
2.	–2,800										–2,800								
	3,400	+	300	+	500	+	6,000	=			1,400	+	8,800						
3.	+3,000		+4,500														+$7,500		
	6,400	+	4,800	+	500	+	6,000	=			1,400	+	8,800				7,500		
4.	–400						+2,000				+1,600								
	6,000	+	4,800	+	500	+	8,000	=			3,000	+	8,800			+	7,500		
5.	–3,800																		–$2,500
																			–900
																			–400
	2,200	+	4,800	+	500	+	8,000	=			3,000	+	8,800			+	7,500		–3,800
6.	–700														–$700				
	1,500	+	4,800	+	500	+	8,000	=			3,000	+	8,800		–700	+	7,500		–3,800
7.	+2,000								+$2,000										
	3,500	+	4,800	+	500	+	8,000	=	2,000	+	3,000	+	8,800		–700	+	7,500		–3,800
8.											+270								–270
	$3,500	+	$4,800	+	$500	+	$8,000	=	$2,000	+	$3,270	+	$8,800	–	$700	+	$7,500	–	$4,070

$16,800 $\qquad$ $\underbrace{\qquad\qquad\qquad}_{\$16,800}$

PROBLEM 2.1 (Continued)

(b) Revenues in August

Service Revenue		$7,500
Expenses in August		
Salaries and Wages Expense	$2,500	
Rent Expense	900	
Advertising Expense	400	
Utilities Expense	270	
Total expenses		$ 4,070

(c)

Assets at August 31

Cash	$ 3,500
Accounts Receivable	4,800
Supplies	500
Equipment	8,000
Total assets	$16,800

Liabilities at August 31

Notes Payable	$ 2,000
Accounts Payable	3,270
Total liabilities	$ 5,270

Owner's equity, August 1	$ 8,800
Add: Net income (Revenues $7,500 – Expenses $4,070)	3,430
	12,230
Less: Owner's Drawings	700
Owner's equity, August 31	$11,530

LO 1, 2, 3, 4 BT: AP Difficulty: Medium TOT: 55 min. AACSB: Analytic AICPA FC: Measurement, Reporting

PROBLEM 2.2

(a)

TAYLOR ROOFING

	Assets				=	Liabilities	+	Owner's Equity			
Trans. #	**Cash**	**+ Accounts Receivable**	**+ Prepaid Insurance**	**+ Equipment**	**=**	**Accounts Payable**	**+**	**Owner's Capital**	**– Owner's Drawings**	**+ Revenues**	**– Expenses**
Bal.	$9,000	$2,000		$8,000		$4,000		$15,000			
1	+1,000	–1,000									
2	–1,200		+$1,200								
3	–3,200					–3,200					
4	+4,000									+$4,000	
5	–500			+5,000		+4,500					
6	–200										–$200
7						+500					–500
8	–800								–$800		
	$8,100	+ $1,000	+ $1,200	+ $13,000	=	$5,800	+	$15,000	- $800	+ $4,000	- $700

$\underbrace{\$8{,}100 + \$1{,}000 + \$1{,}200 + \$13{,}000}_{\$23{,}300} = \underbrace{\$5{,}800 + \$15{,}000 - \$800 + \$4{,}000 - \$700}_{\$23{,}300}$

PROBLEM 2.2 (Continued)

(b) Revenues in April

Service Revenue		$4,000
Expenses in April		
Advertising Expense	$200	
Utilities Expense	500	
Total expenses		$ 700

(c)

Assets at April 30

Cash	$ 8,100
Accounts Receivable	1,000
Prepaid Insurance	1,200
Equipment	13,000
Total assets	$23,300

Liabilities at April 30

Accounts Payable	5,800
Total liabilities	$ 5,800

Owner's equity, April 1	$ 15,000
Add: Net income (Revenues $4,000 – Expenses $700)	3,300
	18,300
Less: Owner's Drawings	800
Owner's equity, April 30	$17,500

LO 1, 2, 3, 4 BT: AP Difficulty: Medium TOT: 55 min. AACSB: Analytic AICPA FC: Measurement, Reporting

PROBLEM 2.3

(a)

MATRIX CONSULTING

	Assets				= Liabilities		+ Owner's Equity			
Date	**Cash**	**+ Accounts Receivable**	**+ Supplies**	**+ Equipment**	**= Notes Payable**	**+ Accounts Payable**	**+ Owner's Capital**	**− Owner's Drawings**	**+ Revenues**	**− Expenses**
May 1	+$7,000						+$7,000			
2	–900									–$900
3			+$600			+$600				
5	–125									–125
9	+4,000								+$4,000	
12	–1,000							–$1,000		
15		+$5,400							+5,400	
17	–2,500									–2,500
20	–600					–600				
23	+4,000	–4,000								
26	+5,000				+$5,000					
29				+$4,200		+4,200				
30	–275									–275
	$14,600	+ $1,400	+ $600	+ $4,200	= $5,000	+ $4,200	+ $7,000	– $1,000	+ $9,400	– $3,800

$\underbrace{\$14,600 + \$1,400 + \$600 + \$4,200}_{\$20,800} = \underbrace{\$5,000 + \$4,200 + \$7,000 - \$1,000 + \$9,400 - \$3,800}_{\$20,800}$

PROBLEM 2.3 (Continued)

(b)

Revenues for May		
Service Revenue ($4,000 + $5,400)		**$9,400**
Expenses for May		
Salaries and Wages Expense	**$2,500**	
Rent Expense	**900**	
Utilities Expense	**275**	
Advertising Expense	**125**	
Total expenses		**$ 3,800**

(c)

Assets at May 31	
Cash	**$14,600**
Accounts Receivable	**1,400**
Supplies	**600**
Equipment	**4,200**
Total assets	**$20,800**
Liabilities at May 31	
Notes Payable	**$ 5,000**
Accounts Payable	**4,200**
Total liabilities	**$ 9,200**
Owner's equity, May 1	**$ 0**
Add: Net income (Revenues $9,400 – Expenses $3,800)	**5,600**
Owner Investment	**7,000**
	12,600
Less: Owner's Drawings	**1,000**
Owner's Capital, May 31	**$11,600**

LO 1, 2, 3, 4 BT: AP Difficulty: Medium TOT: 45 min. AACSB: Analytic AICPA FC: Reporting

PROBLEM 2.4

COACH JULIA

Date	Assets									=	Liabilities	+	Owner's Equity						
	Cash	+	Accounts Receivable	+	Supplies	+	Prepaid Insurance	+	Equipment	=	Accounts Payable	+	Owner's Capital	–	Owner's Drawings	+	Revenues	–	Expenses
Sep. 1	+$4,000												+$4,000						
2	–400								+$400										
3					+$150						+$150								
4	–600						+$600												
6	–100																		–$100
10	+200																+$200		
15	–300														–$300				
17			+500														+500		
21	–150										–150								
22	+125		–125																
30	–375																		–375
	$2,400	+	$375	+	$150	+	$600	+	$400	=	0	+	$4,000	-	$300	+	$700	-	$475

$$\underbrace{\$2{,}400 + \$375 + \$150 + \$600 + \$400}_{\$3{,}925} = \underbrace{0 + \$4{,}000 - \$300 + \$700 - \$475}_{\$3{,}925}$$

PROBLEM 2.4 (Continued)
(b)

Revenues for September		
Service Revenue ($200+$500)		**$700**
Expenses for September		
Advertising Expense	**$100**	
Utilities Expense..	**375**	
Total expenses......................................		**$ 475**

(c)

Assets at September 30	
Cash	**$2,400**
Accounts Receivable	**375**
Supplies..	**150**
Prepaid Insurance..	**600**
Equipment	**400**
Total assets	**$3,925**
Liabilities at September 30	
Accounts Payable..	**0**
Total liabilities	**$ 0**
Owner's equity, September 1	**$ 0**
Add: Owner Investment	**4,000**
Add: Net income (Revenues $700– Expenses $475).........	**225**
	4,225
Less: Owner's Drawings	**300**
Owner's Capital, September 30..	**$3,925**

LO 1, 2, 3, 4 BT: AP Difficulty: Medium TOT: 45 min. AACSB: Analytic AICPA FC: Reporting

PROBLEM 2.5

(a)	Alpha Company		Beta Company		Psi Company		Omega Company	
	(a)	$ 39,000	(d)	$50,000	(g)	$129,000	(j)	$ 60,000
	(b)	110,000	(e)	40,000	(h)	88,000	(k)	251,000
	(c)	9,000	(f)	33,000	(i)	385,000	(l)	444,000

(a) ($80,000 - $41,000 = $39,000); (1/1/22 Assets – 1/1/22 Liabl. = 1/1/22 Owner's equity)

(b) ($60,000 + $50,000 = $110,000); (12/31/22 Liabl. + 12/31/22 Owner's equity = 12/31/22 Assets)

(c) [$50,000 – ($39,000 + ($350,000 - $333,000) - $15,000) = $9,000]; [End. owner's equity – (Beg. owner's equity + (Rev. – Exp.) – Owner's Draw. = Add'l. invest.]

(d) ($90,000 - $40,000 = $50,000); (1/1/22 Assets – 1/1/22 Owner's equity = 1/1/22 Liabl.)

(e) ($112,000 - $72,000 = $40,000); (12/31/22 Assets – 12/31/22 Liabl. = 12/31/22 Owner's equity)

(f) [$40,000 – ($40,000 + ($410,000 - $385,000) + $8,000) = $33,000]; [12/31/22 Owner's equity – (Beg. owner's equity + (Rev. – Exp.) + Invest.) = Owner's Draw.]

(g) ($80,000 + $49,000 = $129,000); (1/1/22 Liabl. + 1/1/22 Owner's equity = 1/1/22 Assets)

(h) ($170,000 - $82,000 = $88,000); (12/31/22 Assets – 12/31/22 Owner's equity = 12/31/22 Liabl.)

(i) [($82,000 - $49,000) + $350,000 - $10,000 + $12,000 = $385,000]; [(12/31/22 Owner's equity – 1/1/22 Owner's equity) + Exp. – Add'l. invest. + Owner's Draw. = Rev.]

(j) ($150,000 - $90,000 = $60,000); (1/1/22 Assets – 1/1/22 Owner's equity = 1/1/22 Liabl.)

(k) ($100,000 + $151,000 = $251,000); (12/31/22 Liabl. + 12/31/22 Owner's equity = 12/31/22 Assets)

(l) ($90,000 - $151,000 + $15,000 - $10,000 + $500,000 = $444,000); (1/1/22 Owner's equity – 12/31/22 Owner's equity + Add'l. invest. – Owner's Draw. + Rev. = Exp.)

(b) The accounting equation must always be in balance. On the left side of the equation are assets. On the right side of the equation are liabilities and owner's equity. Owner's equity is increased by owner's capital investments and revenues, and it is decreased by owner's drawings and expenses. The expanded accounting equation is stated as follows:

Assets = Liabilities + Owner's Capital – Owner's Drawings + Revenues – Expenses.

Owner's equity is computed by starting with the balance of owner's capital at the beginning of the year. Add to that the owner's capital investments and net income, and subtract owner's drawings. The result is owner's capital at the end of the year.

PROBLEM 2.5 (Continued)

(c) Computation of owner's capital at December 31 for Alpha Company:

Owner's capital, January 1		**$39,000**
Add:	**Investment**	**9,000**
	Net income ($350,000 - $333,000)	**17,000**
		65,000
Less:	**Owner's Drawings**	**15,000**
Owner's capital, December 31		**$50,000**

[$39,000 + ($9,000 + $17,000) - $15,000 = $50,000]

[Beg. owner's cap. + (Invest. + Net inc.) – Owner's Draw. = End. owner's cap.]

LO 1, 2, 3, 4 BT: AN Difficulty: Medium TOT: 35 min. AACSB: Analytic AICPA FC: Reporting AICPA PC: Communication

CT 2.1 DECISION MAKING ACROSS THE ORGANIZATION

(a) The estimate of the $6,100 loss was based on the difference between the $25,000 invested in the driving range and the bank balance of $18,900 at March 31. This is not a valid basis for determining income because it only shows the change in cash between two points in time.

(b) The assets, liabilities, owner's equity at March 31 are as follows:

Assets	
Cash	**$18,900**
Buildings	**8,000**
Equipment	**800**
Total assets	**$27,700**
Liabilities	
Accounts Payable ($100 + $120)	**$ 220**
Owner's equity	
Owner's Capital ($27,700 – $220)	**$ 27,480**

[($18,900 + $8,000 + $800) = ($100 + $120) + ($27,700 - $220)]

[(Cash + Bldgs. + Equip.) = Accts. pay. + Owner's cap.]

As shown, the owner's capital at March 31 is $27,480. The estimate of $2,480 of net income is the difference between the initial investment of $25,000 and $27,480. This was not a valid basis for determining net income because changes in owner's equity between two points in time may have been caused by factors unrelated to net income. For example, there may be drawings and/or additional capital investments by the owner(s).

CT 2.1 (Continued)

(c) Actual net income for March can be determined by adding owner's drawings to the change in owner's capital during the month as shown below:

Owner's Capital, March 31, per balance sheet	**$27,480**
Less: Owner's Capital, March 1	**25,000**
Increase in Owner's Capital	**2,480**
Add: Owner's Drawings	**1,000**
Net income	**$ 3,480**

($27,480 - $25,000 + $1,000 = $3,480)

(End. Owner's Cap. – Beg. Owner's Cap. + Owner's Draw. = Net inc.)

Alternatively, net income can be found by determining the revenues earned (described below) and subtracting expenses.

Revenues earned can be determined by adding expenses incurred during the month to net income. March expenses were Rent, $1,000; Wages, $500; Advertising, $750; and Utilities, $120 for a total of $2,370. Revenues earned, therefore, were $5,850 ($2,370 + $3,480). Alternatively, since all revenues are received in cash, revenues earned can be computed from an analysis of the changes in cash as follows:

Beginning cash balance		**$25,000**
Less: Cash payments		
Caddy shack	**$8,000**	
Golf balls and clubs	**800**	
Rent	**1,000**	
Advertising	**650**	
Wages	**500**	
Drawings	**1,000**	**11,950**
Cash balance before revenues		**13,050**
Cash balance, March 31		**18,900**
Revenues earned		**$ 5,850**

[$25,000 – ($8,000 + $800 + $1,000 + $650 + $500 + $1,000) = $13,050]; ($18,900 - $13,050 = $5,850)

[Beg. Cash bal. – (Caddy shack + Golf balls & clubs + Rent + Advert. + Wages + Drawings) = Cash bal. before rev.]; (End. Cash bal. – Cash bal. before rev. = Rev. earned)

LO4 BT: AN Difficulty: Medium TOT: 20 min. AACSB: Analytic, Communication AICPA FC: Reporting AICPA PC: Communication

CT 2.2 COMMUNICATION ACTIVITY

To: **Sandi Alcon**
From: **Student**

I have received the computations of assets, liabilities and owner's equity of New York Company. A number of items are not properly reported. They are:

1. **Accounts Receivable should be shown as an asset, not a liability.**

2. **Accounts Payable should be shown as a liability, not an asset.**

3. **The Owner's Drawings account is not reported as its own line item but is subtracted from Owner's Capital to arrive at owner's equity at the end of the period.**

LO1 BT: AN Difficulty: Medium TOT: 10 min. AACSB: Reporting, Communication AICPA FC: Reporting AICPA PC: Communication

CT 2.3 ETHICS CASE

(a) Answers to the following will vary depending on students' opinions.

(1) This does not represent the hiding of assets, but rather a choice as to the order of use of assets. This would seem to be ethical.

(2) This does not represent the hiding of assets, but rather is a change in the nature of assets. Since the expenditure was necessary, although perhaps accelerated, it would seem to be ethical.

(3) This represents an intentional attempt to deceive the financial aid office. It would therefore appear to be both unethical and potentially illegal.

(4) This is a difficult issue. By taking the leave, actual net income would be reduced. The form asks the applicant to report actual net income. However, it is potentially deceptive since you do not intend on taking unpaid absences in the future, thus future income would be higher than reported income.

(b) Companies might want to overstate net income in order to potentially increase the stock price by improving investors' perceptions of the company. Also, a higher net income would make it easier to receive debt financing. Finally, managers would want a higher net income to increase the size of their bonuses.

(c) Sometimes companies want to report a lower income if they are negotiating with employees. For example, professional sports teams frequently argue that they can not increase salaries because they aren't making enough money. This also occurs in negotiations with unions. For tax accounting (as opposed to the financial accounting in this course) companies frequently try to minimize the amount of reported taxable income.

(d) Unfortunately many times people who are otherwise very ethical will make unethical decisions regarding financial reporting. They might be driven to do this because of greed. Frequently it is because their superiors have put pressure on them to take an unethical action, and they are afraid to not follow directions because they might lose their job. Also, in some instances top managers will tell subordinates that they should be a team player, and do the action because it would help the company, and therefore would help fellow employees.

LO 4 BT: E Difficulty: Medium TOT: 20 min. AACSB: Ethics AICPA FC: Reporting AICPA PC: Reporting, Professional Demeanor

CT 2.4	ALL ABOUT YOU

Responses will vary by student. Sample responses are provided.

(a) I took my car to the car wash, and I observed that that the car wash was performing a service for me.

(b) I paid cash for this service. For the car wash, Cash (asset) increased, and Service Revenue (equity) increased.

(c) Yes, accounting transactions are all around us every day. Every transaction has to affect at least two accounts in order for the basic accounting equation to stay in balance.

(d) I noticed that companies must use accounting to stay organized and to keep track of the many transactions with which they are involved each day.

LO N/A BT: E Difficulty: Easy TOT: 10 min. AACSB: Communication AICPA FC: Reporting AICPA PC: Communication