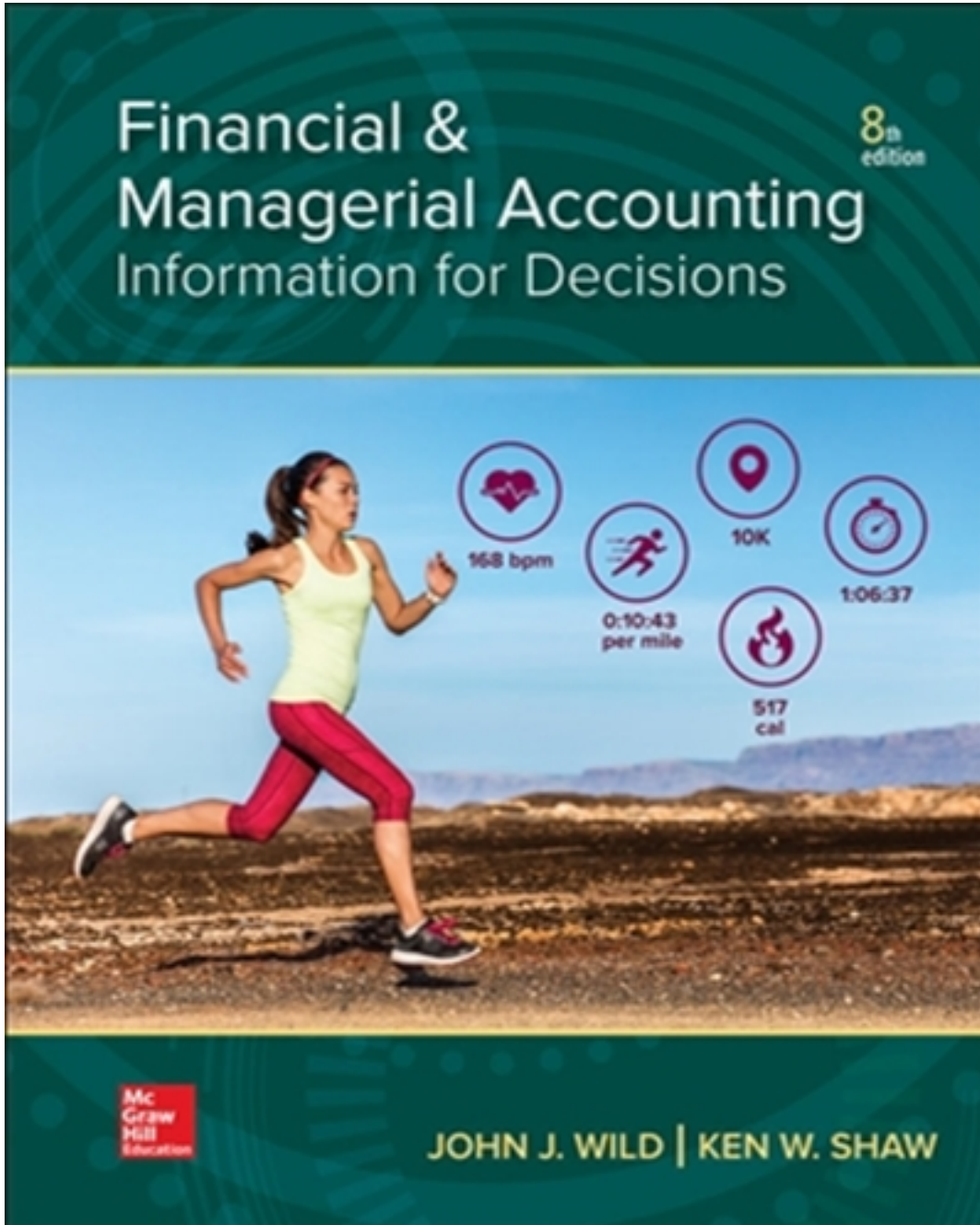


# Solutions for Financial and Managerial Accounting 8th Edition by Wild

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# Solutions

# Chapter 2

## Accounting for Business Transactions

### QUESTIONS

1.
  - a. Common asset accounts: cash, accounts receivable, notes receivable, prepaid expenses (rent, insurance, etc.), office supplies, store supplies, equipment, building, and land.
  - b. Common liability accounts: accounts payable, notes payable, and unearned revenue, wages payable, and taxes payable.
  - c. Common equity accounts: common stock and dividends.
2. A note payable is formal promise, usually denoted by signing a promissory note to pay a future amount. A note payable can be short-term or long-term, depending on when it is due. An account payable also references an amount owed to an entity. An account payable can be oral or implied, and often arises from the purchase of inventory, supplies, or services. An account payable is usually short-term.
3. There are several steps in processing transactions: (1) Identify and analyze the transaction or event, including the source document(s), (2) apply double-entry accounting, (3) record the transaction or event in a journal, and (4) post the journal entry to the ledger. These steps would be followed by preparation of a trial balance and then with the reporting of financial statements.
4. A general journal can be used to record any business transaction or event.
5. Debited accounts are commonly recorded first. The credited accounts are commonly indented.
6. A transaction is first recorded in a journal to create a complete record of the transaction in one place. (The journal is often referred to as the book of original entry.) This process reduces the likelihood of errors in ledger accounts.
7. Expense accounts have debit balances because they are decreases to equity (and equity has a credit balance).
8. The recordkeeper prepares a trial balance to summarize the contents of the ledger and to verify the equality of total debits and total credits. The trial balance also serves as a helpful internal document for preparing financial statements and other reports.
9. The error should be corrected with a separate (subsequent) correcting entry. The entry's explanation should describe why the correction is necessary.

10. The four financial statements are: income statement, balance sheet, statement of retained earnings, and statement of cash flows.
11. The balance sheet provides information that helps users understand a company's financial position at a point in time. Accordingly, it is often called the statement of financial position. The balance sheet lists the types and dollar amounts of assets, liabilities, and equity of the business.
12. The income statement lists the types and amounts of revenues and expenses, and reports whether the business earned a net income (also called profit or earnings) or a net loss.
13. An income statement user must know what time period is covered to judge whether the company's performance is satisfactory. For example, a statement user would not be able to assess whether the amounts of revenue and net income are satisfactory without knowing whether they were earned over a week, a month, a quarter, or a year.
14. (a) Assets are probable future economic benefits obtained or controlled by a specific entity as a result of past transactions or events. (b) Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. (c) Equity is the residual interest in the assets of an entity that remains after deducting its liabilities.
15. The balance sheet is sometimes referred to as the statement of financial position.
16. Debit balance accounts on the Apple balance sheet include: Cash and cash equivalents; Short-term marketable securities; Accounts receivable; Inventories; Vendor non-trade receivables; Other current assets; Long-term marketable securities; Property, plant and equipment, net; Goodwill; Acquired intangible assets, net; Other non-current assets.  
  
Credit balance accounts on the Apple balance sheet include: Accounts payable; Accrued expenses; Deferred revenue; Commercial paper; Current portion of long-term debt; Deferred revenue, non-current; Long-term debt; Other non-current liabilities; Common stock; Retained earnings; Accumulated other comprehensive income (current year abnormal debit balance).
17. The asset accounts with *receivable* in its account title are: Accounts receivable, net; Income taxes receivable, net. The liabilities with *payable* in the account title are: Accounts payable; Income taxes payable, net; Income taxes payable, non-current.
18. Samsung's balance sheet lists the following current liabilities: Trade payables; Short-term borrowings; Other payables; Advances received; Withholdings; Accrued expenses; Income tax payable; Current portion of long-term liabilities; Provisions; Other current liabilities; Liabilities held-for-sale.  
  
Samsung's balance sheet lists the following noncurrent liabilities: Debentures; Long-term borrowings; Long-term other payables; Net defined benefit liabilities; Deferred income tax liabilities; Provisions; Other non-current liabilities.

## QUICK STUDIES

### Quick Study 2-1 (10 minutes)

The likely source documents include:

- a. Sales receipt
- e. Invoice from supplier
- h. Bank statement
- i. Telephone bill

### Quick Study 2-2 (5 minutes)

- a. A Asset
- b. A Asset
- c. A Asset
- d. A Asset
- e. A Asset
- f. EQ Equity
- g. L Liability
- h. L Liability
- i. EQ Equity

### Quick Study 2-3 (5 minutes)

- |    |    |           |     |
|----|----|-----------|-----|
| a. | E  | Expense   | 655 |
| b. | R  | Revenue   | 406 |
| c. | A  | Asset     | 110 |
| d. | A  | Asset     | 169 |
| e. | L  | Liability | 201 |
| f. | A  | Asset     | 161 |
| g. | L  | Liability | 245 |
| h. | EQ | Equity    | 307 |
| i. | E  | Expense   | 690 |

### Quick Study 2-4 (10 minutes)

- |    |        |    |       |    |        |
|----|--------|----|-------|----|--------|
| a. | Credit | d. | Debit | g. | Credit |
| b. | Debit  | e. | Debit | h. | Debit  |
| c. | Debit  | f. | Debit | i. | Credit |

### Quick Study 2-5 (10 minutes)

- |    |        |    |        |    |        |
|----|--------|----|--------|----|--------|
| a. | Debit  | e. | Debit  | i. | Credit |
| b. | Debit  | f. | Credit | j. | Debit  |
| c. | Credit | g. | Credit | k. | Debit  |
| d. | Credit | h. | Debit  | l. | Credit |

### Quick Study 2-6 (15 minutes)

a.

1) Analyze:

Assets		=	Liabilities	+	Equity
Cash	Equipment				Common Stock
7,000	+ 3,000	=	0	+	10,000

2) Record:

Date	Account Titles and Explanation	PR	Debit	Credit
May 15	Cash.....	101	7,000	
	Equipment.....	167	3,000	
	Common Stock .....	307		10,000
	<i>Owner investment in exchange for stock.</i>			

3) Post

<b>Cash</b>	<b>101</b>	<b>Equipment</b>	<b>167</b>	<b>Common Stock</b>	<b>307</b>
7,000		3,000			10,000

### Quick Study 2-6 (Continued)

b.

1) Analyze:

Assets	=	Liabilities	+	Equity
Office Supplies		Accounts Payable		
500	=	500	+	0

2) Record:

Date	Account Titles and Explanation	PR	Debit	Credit
May 21	Office Supplies .....	124	500	
	Accounts Payable .....	201		500
	<i>Purchased office supplies on credit.</i>			

3) Post

Office Supplies	124	Accounts Payable	201
500			500

c.

1) Analyze:

Assets	=	Liabilities	+	Equity
Cash				Landscaping Revenue
4,000	=	0	+	4,000

2) Record:

Date	Account Titles and Explanation	PR	Debit	Credit
May 25	Cash .....	101	4,000	
	Landscaping Revenue .....	403		4,000
	<i>Received cash for landscaping services.</i>			

3) Post

Cash	101	Landscaping Revenue	403
4,000			4,000

### Quick Study 2-6 (Continued)

d.

1) Analyze:

Assets	=	Liabilities	+	Equity
Cash		Unearned Landscaping Revenue		
1,000	=	1,000	+	0

2) Record:

Date	Account Titles and Explanation	PR	Debit	Credit
May 30	Cash .....	101	1,000	
	Unearned Landscaping Revenue .....	236		1,000
	<i>Received cash in advance for landscaping services.</i>			

3) Post

Cash	101	Unearned Landscaping Revenue	236
1,000			1,000

### Quick Study 2-7 (10 minutes)

- |           |           |           |
|-----------|-----------|-----------|
| a. Debit  | e. Debit  | i. Credit |
| b. Credit | f. Credit | j. Debit  |
| c. Credit | g. Credit |           |
| d. Debit  | h. Credit |           |

### Quick Study 2-8 (10 minutes)

The correct answer is a.

**Explanation:** If a \$2,250 debit to Utilities Expense is incorrectly posted as a credit, the effect is to understate the Utilities Expense debit balance by \$4,500. This causes the Debit column total on the trial balance to be \$4,500 less than the Credit column total.

### Quick Study 2-9 (10 minutes)

- |    |   |    |   |    |   |
|----|---|----|---|----|---|
| a. | I | e. | B | i. | E |
| b. | B | f. | B | j. | B |
| c. | B | g. | B | k. | I |
| d. | I | h. | I | l. | I |

### Quick Study 2-10 (10 minutes)

a. Cash		b. Accounts Payable		c. Supplies	
100	50	2,000	8,000	10,000	3,800
300	60	2,700		1,100	
20					
Bal. 310			Bal. 3,300	Bal. 7,300	

d. Accounts Receivable		e. Wages Payable		f. Cash	
600	150		700	11,000	4,500
	150	700		800	6,000
	150			100	1,300
	100				
Bal. 50			Bal. 0	Bal. 100	



**Quick Study 2-11 (15 minutes)**

<b>May 1</b>	<b>Accounts Receivable.....</b>	<b>2,000</b>	
	<b>    Consulting Revenue.....</b>		<b>2,000</b>
	<i>Billed customer for services provided.</i>		
<b>3</b>	<b>Supplies.....</b>	<b>300</b>	
	<b>    Accounts Payable.....</b>		<b>300</b>
	<i>Purchased supplies on credit.</i>		
<b>9</b>	<b>Cash.....</b>	<b>500</b>	
	<b>    Accounts Receivable.....</b>		<b>500</b>
	<i>Received cash toward an account receivable.</i>		
<b>20</b>	<b>Accounts Payable.....</b>	<b>300</b>	
	<b>    Cash.....</b>		<b>300</b>
	<i>Made payment toward account payable.</i>		
<b>31</b>	<b>Utilities Expense.....</b>	<b>100</b>	
	<b>    Cash.....</b>		<b>100</b>
	<i>Paid for May utilities.</i>		

**Quick Study 2-12 (15 minutes)**

LAWSON CONSULTING Income Statement For Month Ended June 30			
<b>Revenues</b>			
	Service revenue.....		<b>\$ 12,000</b>
<b>Expenses</b>			
	Wages expense.....	<b>\$ 6,000</b>	
	Rent expense.....	<u><b>2,000</b></u>	
	Total expenses.....		<u><b>8,000</b></u>
	Net income.....		<u><u><b>\$ 4,000</b></u></u>

**Quick Study 2-13 (15 minutes)**

<b>LAWSON CONSULTING</b> <b>Statement of Retained Earnings</b> <b>For Month Ended June 30</b>	
Retained earnings, June 1 .....	\$ 0
Add: Net income (from QS 2-12).....	<u>4,000</u>
	4,000
Less: Cash dividends.....	<u>1,500</u>
Retained earnings, June 30.....	<u><u>\$ 2,500</u></u>

**Quick Study 2-14 (15 minutes)**

<b>LAWSON CONSULTING</b> <b>Balance Sheet</b> <b>June 30</b>			
<b>Assets</b>		<b>Liabilities</b>	
Cash.....	\$ 5,000	Accounts payable.....	\$ 3,000
Accounts receivable ....	4,500	<b>Equity</b>	
Equipment.....	6,500	Common stock .....	10,500
		Retained earnings* .....	<u>2,500</u>
		Total equity .....	<u>13,000</u>
Total assets.....	<u><u>\$16,000</u></u>	Total liabilities & equity .....	<u><u>\$16,000</u></u>

\* Amount from Quick Study 2-13.

**Quick Study 2-15 (10 minutes)**

**Debt ratio = Total liabilities / Total assets = \$38,633 mil / \$42,966 mil = 89.9%**

**Interpretation:** Its debt ratio of 89.9% exceeds the 60% of its competitors. Home Depot's financial leverage, and accordingly its riskiness, can be judged as above average based on the debt ratio.

## EXERCISES

### Exercise 2-1 (10 minutes)

- 4 a. Prepare and analyze the trial balance.
- 1 b. Analyze each transaction from source documents.
- 2 c. Record relevant transactions in a journal.
- 3 d. Post journal information to ledger accounts.

### Exercise 2-2 (10 minutes)

- |                  |                |
|------------------|----------------|
| a. 5 “Three”     | d. 1 “Asset”   |
| b. 2 “Equity”    | e. 3 “Account” |
| c. 4 “Liability” |                |

### Exercise 2-3 (5 minutes)

- a. 1 “Chart”
- b. 2 “General ledger”
- c. 5 “Source document”
- d. 4 “Account”
- e. 3 “Journal”

### Exercise 2-4 (15 minutes)

Account	Type of Account	Normal Balance	Increase (Dr. or Cr.)
a. Land .....	asset	debit	debit
b. Cash .....	asset	debit	debit
c. Legal Expense.....	expense	debit	debit
d. Prepaid Insurance.....	asset	debit	debit
e. Accounts Receivable.....	asset	debit	debit
f. Dividends.....	equity	debit	debit
g. License Fee Revenue .....	revenue	credit	credit
h. Unearned Revenue .....	liability	credit	credit
i. Fees Earned.....	revenue	credit	credit
j. Equipment .....	asset	debit	debit
k. Notes Payable .....	liability	credit	credit
l. Common Stock.....	equity	credit	credit

### Exercise 2-5 (15 minutes)

#### a. Analyze:

Assets	=	Liabilities	+	Equity
Cash      Equipment		Note Payable		Revenue
10,000 + 80,000	=	28,000	+	62,000

#### b. Record:

Account Titles and Explanation	PR	Debit	Credit
Cash.....	101	10,000	
Equipment.....	167	80,000	
Note Payable.....	245		28,000
Revenue .....	404		62,000
<i>Services given in return for assets and a liability.</i>			

#### c. Post

<b>Cash</b> <b>101</b>
10,000

<b>Note Payable</b> <b>245</b>
28,000

<b>Equipment</b> <b>167</b>
80,000

<b>Revenue</b> <b>404</b>
62,000

**Exercise 2-6 (15 minutes)**

a.	Beginning accounts payable (credit) .....	\$152,000
	Purchases on account in October (credits) .....	281,000
	Payments on accounts in October (debits) .....	( _____ )
	Ending accounts payable (credit) .....	\$132,500
	 Payments on accounts in October (debits) .....	 <u>\$300,500</u>
b.	Beginning accounts receivable (debit) .....	\$102,500
	Sales on account in October (debits) .....	?
	Collections on account in October (credits) .....	<u>(102,890)</u>
	Ending accounts receivable (debit) .....	\$ 89,000
	 Sales on account in October (debits) .....	 <u>\$ 89,390</u>
c.	Beginning cash balance (debit) .....	\$ ?
	Cash received in October (debits) .....	102,500
	Cash disbursed in October (credits) .....	<u>(103,150)</u>
	Ending cash balance (debit) .....	\$ 18,600
	 Beginning cash balance (debit) .....	 <u>\$ 19,250</u>

**Exercise 2-7 (25 minutes)**

Aug. 1	Cash .....	6,500	
	Photography Equipment .....	33,500	
	Common Stock .....		40,000
	<i>Owner investment in exchange for stock.</i>		
2	Prepaid Insurance .....	2,100	
	Cash .....		2,100
	<i>Acquired 2 years of insurance coverage.</i>		
5	Office Supplies .....	880	
	Cash .....		880
	<i>Purchased office supplies.</i>		
20	Cash .....	3,331	
	Photography Fees Earned .....		3,331
	<i>Collected photography fees.</i>		
31	Utilities Expense .....	675	
	Cash .....		675
	<i>Paid for August utilities.</i>		

## Exercise 2-8 (30 minutes)

### Part 1

Cash			
Aug. 1	6,500	Aug. 2	2,100
20	3,331	5	880
		31	675
Balance	6,176		

Office Supplies	
Aug. 5	880

Prepaid Insurance	
Aug. 2	2,100

Photography Equipment	
Aug. 1	33,500

Common Stock	
	Aug. 1 40,000

Photography Fees Earned	
	Aug. 20 3,331

Utilities Expense	
Aug. 31	675

### Part 2

POSE-FOR-PICS Trial Balance August 31		
	<i>Debit</i>	<i>Credit</i>
Cash .....	\$ 6,176	
Office supplies .....	880	
Prepaid insurance .....	2,100	
Photography equipment .....	33,500	
Common stock .....		\$40,000
Photography fees earned .....		3,331
Utilities expense .....	<u>675</u>	
Totals .....	<u>\$43,331</u>	<u>\$43,331</u>

**Exercise 2-9 (30 minutes)**

a.	Cash .....	100,750	
	Common Stock .....		100,750
	<i>Owner investment in exchange for stock.</i>		
b.	Office Supplies.....	1,250	
	Cash.....		1,250
	<i>Purchased supplies with cash.</i>		
c.	Office Equipment .....	10,050	
	Accounts Payable .....		10,050
	<i>Purchased office equipment on credit.</i>		
d.	Cash .....	15,500	
	Fees Earned .....		15,500
	<i>Received cash from customer for services.</i>		
e.	Accounts Payable .....	10,050	
	Cash.....		10,050
	<i>Made payment toward account payable.</i>		
f.	Accounts Receivable.....	2,700	
	Fees Earned .....		2,700
	<i>Billed customer for services provided.</i>		
g.	Rent Expense .....	1,225	
	Cash.....		1,225
	<i>Paid for this period's rental charge.</i>		
h.	Cash .....	1,125	
	Accounts Receivable .....		1,125
	<i>Received cash toward an account receivable.</i>		
i.	Dividends.....	10,000	
	Cash.....		10,000
	<i>Paid cash dividends.</i>		

### Exercise 2-9 (concluded)

Cash			
(a)	100,750	(b)	1,250
(d)	15,500	(e)	10,050
(h)	1,125	(g)	1,225
		(i)	10,000
Balance	94,850		

Accounts Payable			
(e)	10,050	(c)	10,050
		Balance	0

Common Stock			
		(a)	100,750
		Balance	100,750

Accounts Receivable			
(f)	2,700	(h)	1,125
Balance	1,575		

Dividends			
(i)	10,000		
Balance	10,000		

Office Supplies			
(b)	1,250		
Balance	1,250		

Fees Earned			
		(d)	15,500
		(f)	2,700
		Balance	18,200

Office Equipment			
(c)	10,050		
Balance	10,050		

Rent Expense			
(g)	1,225		
Balance	1,225		

### Exercise 2-10 (15 minutes)

SPADE COMPANY Trial Balance May 31			
	<i>Debit</i>	<i>Credit</i>	
Cash .....	\$ 94,850		
Accounts receivable .....	1,575		
Office supplies.....	1,250		
Office equipment.....	10,050		
Accounts payable.....		\$ 0	
Common stock .....		100,750	
Dividends .....	10,000		
Fees earned .....		18,200	
Rent expense .....	1,225		
Totals.....	<u>\$118,950</u>	<u>\$118,950</u>	



## Exercise 2-11 (20 minutes)

1.

a.	Account Payable .....	2,000	
	Cash .....		2,000
	<i>Paid amount owed.</i>		
b.	Salaries Expense.....	1,200	
	Cash .....		1,200
	<i>Paid salary of receptionist.</i>		
c.	Equipment.....	39,000	
	Cash .....		39,000
	<i>Paid for equipment purchase.</i>		
d.	Utilities Expense .....	800	
	Cash .....		800
	<i>Paid utilities for the office.</i>		
e.	Dividends .....	4,500	
	Cash .....		4,500
	<i>Paid cash dividends.</i>		

2. Transactions a, c, and e did not yield an expense for the following reasons:

- e This transaction is a distribution of cash to the owner (shareholder). Even though equity decreased, that decrease did not occur in the process of providing goods or services to customers.
- a This transaction decreased cash in settlement of a previously existing liability (equity did not change). Supplies expense is recorded when assets are used, not necessarily when cash is paid.
- c This transaction involves the purchase of an asset. The form of the company's assets changed, but total assets did not (and equity did not change).

### Exercise 2-12 (20 minutes)

1.

a.	Cash .....	20,000	
	Common Stock.....		20,000
	<i>Owner investment in exchange for stock.</i>		
b.	Cash .....	900	
	Services Revenue .....		900
	<i>Provided services for cash.</i>		
c.	Cash .....	10,000	
	Unearned Services Revenue .....		10,000
	<i>Cash received for future services.</i>		
d.	Cash .....	3,500	
	Accounts Receivable.....		3,500
	<i>Cash received toward accounts receivable.</i>		
e.	Cash .....	5,000	
	Note Payable .....		5,000
	<i>Cash received for note payable to bank.</i>		

2. Transactions a, c, d, and e did not yield revenue for the following reasons:

- d This transaction changed the form of an asset from receivable to cash. Total assets were not increased (revenue was recognized when the services were originally provided).
- e This transaction brought in cash (increased assets), and it also increased a liability by the same amount (represented by the signing of a note to repay the amount).
- a This transaction brought in cash, but this is an owner investment in exchange for stock.
- c This transaction brought in cash, but it created a liability to provide services to the client in the next year.

**Exercise 2-13 (25 minutes)**

<b>Cash</b>		<b>Supplies</b>		<b>Prepaid Insurance</b>	
(1) 6,000	(2) 4,800	(3) 900		(2) 4,800	
(5) 4,500	(4) 800				
	(6) 900				
	(7) 3,400				

<b>Equipment</b>		<b>Web Servers</b>		<b>Accounts Payable</b>	
(1) 7,600		(1) 12,000		(6) 900	(3) 900
(7) 3,400					

<b>Common Stock</b>		<b>Services Revenue</b>		<b>Selling Expenses</b>	
	(1) 25,600		(5) 4,500	(4) 800	

**Exercise 2-14 (30 minutes)**

1.	Cash .....	6,000	
	Equipment .....	7,600	
	Web Servers .....	12,000	
	Common Stock .....		25,600
	<i>Owner investment in exchange for stock.</i>		
2.	Prepaid Insurance .....	4,800	
	Cash .....		4,800
	<i>Purchased insurance coverage.</i>		
3.	Supplies .....	900	
	Accounts Payable .....		900
	<i>Purchased supplies on credit.</i>		
4.	Selling Expenses .....	800	
	Cash .....		800
	<i>Paid cash for selling expenses.</i>		
5.	Cash .....	4,500	
	Services Revenue .....		4,500
	<i>Received cash for services provided.</i>		
6.	Accounts Payable .....	900	
	Cash .....		900
	<i>Made payment on accounts payable.</i>		
7.	Equipment .....	3,400	
	Cash .....		3,400
	<i>Paid cash for equipment.</i>		

## Exercise 2-15 (20 minutes)

### Calculation of change in equity for part a through part d

	Assets	-	Liabilities	=	Equity
Beginning of the year .....	\$ 60,000	-	\$20,000	=	\$40,000
End of the year .....	105,000	-	36,000	=	<u>69,000</u>
Net increase in equity .....					<u>\$29,000</u>

a.	Net income .....	\$	?
	Plus owner investments .....		0
	Less dividends .....		<u>(0)</u>
	Change in equity .....		<u>\$29,000</u>

**Net Income = \$29,000**

Since there were no additional owner investments or dividends, the net income for the year equals the net increase in equity.

b.	Net income .....	\$	?
	Plus owner investments .....		0
	Less dividends (\$1,250/mo. x 12 mo.) .....		<u>(15,000)</u>
	Change in equity .....		<u>\$29,000</u>

**Net Income = \$44,000**

The dividends were added back because they reduced equity without reducing net income.

c.	Net income .....	\$	?
	Plus owner investment .....		55,000
	Less dividends .....		<u>(0)</u>
	Change in equity .....		<u>\$29,000</u>

**Net Loss = \$26,000**

The owner investment was deducted because it increased equity without creating net income.

d.	Net income .....	\$	?
	Plus owner investment .....		35,000
	Less dividends (\$1,250/mo. X 12 mo.) .....		<u>(15,000)</u>
	Change in equity .....		<u>\$29,000</u>

**Net Income = \$9,000**

The dividends were added back because they reduced equity without reducing net income and the owner investments were deducted because they increased equity without creating net income.

**Exercise 2-16 (15 minutes)**

<b>HELP TODAY</b> <b>Income Statement</b> <b>For Month Ended August 31</b>		
<b>Revenues</b>		
Consulting fees earned.....		\$ 27,000
<b>Expenses</b>		
Rent expense .....	\$ 9,550	
Salaries expense .....	5,600	
Telephone expense .....	860	
Miscellaneous expenses .....	<u>520</u>	
Total expenses .....		<u>16,530</u>
Net income .....		<u><u>\$ 10,470</u></u>

**Exercise 2-17 (15 minutes)**

<b>HELP TODAY</b> <b>Statement of Retained Earnings</b> <b>For Month Ended August 31</b>		
Retained earnings, August 1 .....		\$ 0
Add: Net income (from Exercise 2-16) .....		<u>10,470</u>
		10,470
Less: Dividends .....		<u>6,000</u>
Retained earnings, August 31 .....		<u><u>\$ 4,470</u></u>

### Exercise 2-18 (15 minutes)

HELP TODAY Balance Sheet August 31			
Assets		Liabilities	
Cash.....	\$ 25,360	Accounts payable.....	\$ 10,500
Accounts receivable ....	22,360	Equity	
Office supplies.....	5,250	Common stock .....	102,000
Office equipment .....	20,000	Retained earnings* .....	<u>4,470</u>
Land .....	<u>44,000</u>	Total equity .....	<u>106,470</u>
Total assets.....	<u>\$116,970</u>	Total liabilities & equity .....	<u>\$116,970</u>

\* Amount from Exercise 2-17.

### Exercise 2-19 (15 minutes)

	CBS	ABC	CNN	NBC
<b>Answers</b>	<b>\$(28,000)</b>	<b>\$42,000</b>	<b>\$73,000</b>	<b>\$(45,000)</b>
<b>Computations:</b>				
Equity, beginning of year .....	\$ 0	\$ 0	\$ 0	\$ 0
Owner's investments .....	110,000	42,000	87,000	210,000
Dividends.....	(28,000)	(47,000)	(10,000)	(55,000)
Net income (loss) .....	<u>22,000</u>	<u>90,000</u>	<u>(4,000)</u>	<u>(45,000)</u>
Equity, end of year.....	<u>\$104,000</u>	<u>\$85,000</u>	<u>\$73,000</u>	<u>\$110,000</u>

### Exercise 2-20 (20 minutes)

	(1) Difference between Debit and Credit Columns	(2) Column with the Larger Total	(3) Identify account(s) incorrectly stated	(4) Amount that account(s) is overstated or understated
<b>a.</b> \$3,600 debit to Rent Expense is posted as a \$1,340 debit.	\$2,260	Credit	Rent Expense	Rent Expense is understated by \$2,260
<b>b.</b> \$6,500 credit to Cash is posted twice as two credits to Cash.	\$6,500	Credit	Cash	Cash is understated by \$6,500
<b>c.</b> \$10,900 debit to the Dividends account is debited to Common Stock.	\$0	—	Common Stock Dividends	Common Stock is understated by \$10,900 Dividends is understated by \$10,900
<b>d.</b> \$2,050 debit to Prepaid Insurance is posted as a debit to Insurance Expense.	\$0	—	Prepaid Insurance Insurance Expense	Prepaid Insurance is understated by \$2,050 Insurance Expense is overstated by \$2,050
<b>e.</b> \$38,000 debit to Machinery is posted as a debit to Accounts Payable.	\$0	—	Machinery Accounts Payable	Machinery is understated by \$38,000 Accounts Payable is understated by \$38,000
<b>f.</b> \$5,850 credit to Services Revenue is posted as a \$585 credit.	\$5,265	Debit	Services Revenue	Services Revenue is understated by \$5,265
<b>g.</b> \$1,390 debit to Store Supplies is not posted.	\$1,390	Credit	Store Supplies	Store Supplies is understated by \$1,390



**Exercise 2-21 (15 minutes)**

	<b>Overstated, Understated, or Correctly-Stated</b>	<b>Amount</b>
a.	<b><u>Correctly-stated.</u></b> The debit column is correctly stated because the erroneous debit (to Accounts Payable) is deducted from an account with a (larger assumed) credit balance.	<b>\$0</b>
b.	<b><u>Understated.</u></b> The credit column is understated by \$37,900 because Accounts Payable was debited — it should have been credited.	<b>\$37,900</b>
c.	<b><u>Correctly-stated.</u></b> The Automobiles account balance is correctly stated.	<b>\$0</b>
d.	<b><u>Understated.</u></b> The Accounts Payable account balance is understated by \$37,900. It should have been increased (credited) by \$18,950 but the posting error decreased (debited) it by \$18,950.	<b>\$37,900</b>
e.	The credit column is \$37,900 less than the debit column, or \$162,100 in total (\$200,000 - \$37,900).	

**Exercise 2-22 (15 minutes)**

a.

<b>Company</b>	<b>Liabilities</b>	<b>/</b>	<b>Assets</b>	<b>= Debt Ratio</b>
<b>Dreamworks</b>	<b>\$ 30,000</b>		<b>\$ 40,000</b>	<b>0.75</b>
<b>Pixar</b>	<b>147,000</b>		<b>150,000</b>	<b>0.98</b>
<b>Universal</b>	<b>17,000</b>		<b>68,000</b>	<b>0.25</b>

b. Pixar has the largest financial leverage because it has the larger debt ratio in comparison to both Dreamworks and Universal.

**Exercise 2-23 (25 minutes)**

<b>June 1</b>	<b>Cash .....</b>	<b>11,000</b>	
	<b>Common Stock .....</b>		<b>11,000</b>
	<i>Owner investment in exchange for stock.</i>		
<b>2</b>	<b>Furniture .....</b>	<b>4,000</b>	
	<b>Accounts Payable.....</b>		<b>4,000</b>
	<i>Purchased furniture on credit.</i>		
<b>3</b>	<b>Prepaid Insurance.....</b>	<b>600</b>	
	<b>Cash .....</b>		<b>600</b>
	<i>Paid premium in advance for insurance.</i>		
<b>4</b>	<b>Accounts Receivable.....</b>	<b>3,000</b>	
	<b>Fees Earned .....</b>		<b>3,000</b>
	<i>Billed customer for services provided.</i>		
<b>12</b>	<b>Accounts Payable .....</b>	<b>4,000</b>	
	<b>Cash .....</b>		<b>4,000</b>
	<i>Made payment toward account payable.</i>		
<b>20</b>	<b>Cash .....</b>	<b>3,000</b>	
	<b>Accounts Receivable .....</b>		<b>3,000</b>
	<i>Received cash toward account receivable.</i>		
<b>21</b>	<b>Cash .....</b>	<b>10,000</b>	
	<b>Common Stock .....</b>		<b>10,000</b>
	<i>Owner investment in exchange for stock.</i>		
<b>30</b>	<b>Cash .....</b>	<b>5,000</b>	
	<b>Unearned Revenue .....</b>		<b>5,000</b>
	<i>Cash received in advance for future services.</i>		

## PROBLEM SET A

### Problem 2-1A (90 minutes)

#### Part 1

April 1	Cash.....101	80,000	
	Office Equipment.....163	26,000	
	Common Stock .....307		106,000
	<i>Owner investment in exchange for stock.</i>		
2	Prepaid Rent .....131	9,000	
	Cash.....101		9,000
	<i>Prepaid twelve months' rent.</i>		
3	Office Equipment.....163	8,000	
	Office Supplies .....124	3,600	
	Accounts Payable.....201		11,600
	<i>Purchased equip. &amp; supplies on credit.</i>		
6	Cash.....101	4,000	
	Services Revenue.....403		4,000
	<i>Received cash for services.</i>		
9	Accounts Receivable .....106	6,000	
	Services Revenue.....403		6,000
	<i>Billed client for completed work.</i>		
13	Accounts Payable .....201	11,600	
	Cash.....101		11,600
	<i>Paid balance due on account.</i>		
19	Prepaid Insurance .....128	2,400	
	Cash.....101		2,400
	<i>Paid premium for insurance.</i>		
22	Cash.....101	4,400	
	Accounts Receivable .....106		4,400
	<i>Collected part of amount owed by client.</i>		
25	Accounts Receivable .....106	2,890	
	Services Revenue.....403		2,890
	<i>Billed client for completed work.</i>		
28	Dividends .....319	5,500	
	Cash.....101		5,500
	<i>Paid cash dividends.</i>		
29	Office Supplies .....124	600	
	Accounts Payable.....201		600
	<i>Purchased supplies on account.</i>		
30	Utilities Expense.....690	435	
	Cash.....101		435
	<i>Paid monthly utility bill.</i>		

**Problem 2-1A (Continued)**

**Part 2**

Cash				Acct. No. 101	
Date	Explanation	PR	Debit	Credit	Balance
April 1		G1	80,000		80,000
2		G1		9,000	71,000
6		G1	4,000		75,000
13		G1		11,600	63,400
19		G1		2,400	61,000
22		G1	4,400		65,400
28		G1		5,500	59,900
30		G1		435	59,465

Accounts Receivable				Acct. No. 106	
Date	Explanation	PR	Debit	Credit	Balance
April 9		G1	6,000		6,000
22		G1		4,400	1,600
25		G1	2,890		4,490

Office Supplies				Acct. No. 124	
Date	Explanation	PR	Debit	Credit	Balance
April 3		G1	3,600		3,600
29		G1	600		4,200

Prepaid Insurance				Acct. No. 128	
Date	Explanation	PR	Debit	Credit	Balance
April 19		G1	2,400		2,400

Prepaid Rent				Acct. No. 131	
Date	Explanation	PR	Debit	Credit	Balance
April 2		G1	9,000		9,000

Office Equipment				Acct. No. 163	
Date	Explanation	PR	Debit	Credit	Balance
April 1		G1	26,000		26,000
3		G1	8,000		34,000

**Problem 2-1A (Continued)**

Accounts Payable				Acct. No. 201	
Date	Explanation	PR	Debit	Credit	Balance
April 3		G1		11,600	11,600
13		G1	11,600		0
29		G1		600	600

Common Stock				Acct. No. 307	
Date	Explanation	PR	Debit	Credit	Balance
April 1		G1		106,000	106,000

Dividends				Acct. No. 319	
Date	Explanation	PR	Debit	Credit	Balance
April 28		G1	5,500		5,500

Services Revenue				Acct. No. 403	
Date	Explanation	PR	Debit	Credit	Balance
April 6		G1		4,000	4,000
9		G1		6,000	10,000
25		G1		2,890	12,890

Utilities Expense				Acct. No. 690	
Date	Explanation	PR	Debit	Credit	Balance
April 30		G1	435		435

**Problem 2-1A (Continued)**  
**Part 3**

LINKWORKS Trial Balance April 30		
	Debit	Credit
Cash.....	\$ 59,465	
Accounts receivable .....	4,490	
Office supplies.....	4,200	
Prepaid insurance .....	2,400	
Prepaid rent .....	9,000	
Office equipment .....	34,000	
Accounts payable.....		\$ 600
Common stock .....		106,000
Dividends .....	5,500	
Services revenue.....		12,890
Utilities expense .....	<u>435</u>	<u>          </u>
Total .....	<u>\$119,490</u>	<u>\$119,490</u>

**Problem 2-2A (90 minutes)**

**Part 1**

a.	Cash.....	101	100,000	
	Office Equipment.....	163	5,000	
	Drafting Equipment.....	164	60,000	
	Common Stock .....	307		165,000
	<i>Owner investment in exchange for stock.</i>			
b.	Land.....	172	49,000	
	Cash.....	101		6,300
	Notes Payable .....	250		42,700
	<i>Purchased land with cash and note payable.</i>			
c.	Building.....	170	55,000	
	Cash.....	101		55,000
	<i>Purchased building.</i>			
d.	Prepaid Insurance .....	108	3,000	
	Cash.....	101		3,000
	<i>Purchased 18-month insurance policy.</i>			
e.	Cash.....	101	6,200	
	Engineering Fees Earned .....	402		6,200
	<i>Collected cash for completed work.</i>			
f.	Drafting Equipment.....	164	20,000	
	Cash.....	101		9,500
	Notes Payable .....	250		10,500
	<i>Purchased equipment with cash and note payable.</i>			
g.	Accounts Receivable .....	106	14,000	
	Engineering Fees Earned .....	402		14,000
	<i>Completed services for client.</i>			
h.	Office Equipment.....	163	1,150	
	Accounts Payable.....	201		1,150
	<i>Purchased equipment on credit.</i>			

**Problem 2-2A (Part 1 Continued)**

i.	Accounts Receivable .....106	22,000	
	Engineering Fees Earned .....402		22,000
	<i>Billed client for completed work.</i>		
j.	Equipment Rental Expense .....602	1,333	
	Accounts Payable.....201		1,333
	<i>Incurred equipment rental expense.</i>		
k.	Cash.....101	7,000	
	Accounts Receivable .....106		7,000
	<i>Collected cash on account.</i>		
l.	Wages Expense .....601	1,200	
	Cash.....101		1,200
	<i>Paid assistant's wages.</i>		
m.	Accounts Payable .....201	1,150	
	Cash .....101		1,150
	<i>Paid amount due on account.</i>		
n.	Repairs Expense .....604	925	
	Cash .....101		925
	<i>Paid for repair of equipment.</i>		
o.	Dividends .....319	9,480	
	Cash.....101		9,480
	<i>Paid cash dividends.</i>		
p.	Wages Expense .....601	1,200	
	Cash.....101		1,200
	<i>Paid assistant's wages.</i>		
q.	Advertising Expense.....603	2,500	
	Cash.....101		2,500
	<i>Paid for advertising expense.</i>		



### Problem 2-2A (Continued)

#### Part 2

Cash No. 101				
Date	PR	Debit	Credit	Balance
(a)		100,000		100,000
(b)			6,300	93,700
(c)			55,000	38,700
(d)			3,000	35,700
(e)		6,200		41,900
(f)			9,500	32,400
(k)		7,000		39,400
(l)			1,200	38,200
(m)			1,150	37,050
(n)			925	36,125
(o)			9,480	26,645
(p)			1,200	25,445
(q)			2,500	22,945

Accounts Receivable No. 106				
Date	PR	Debit	Credit	Balance
(g)		14,000		14,000
(i)		22,000		36,000
(k)			7,000	29,000

Prepaid Insurance No. 108				
Date	PR	Debit	Credit	Balance
(d)		3,000		3,000

Office Equipment No. 163				
Date	PR	Debit	Credit	Balance
(a)		5,000		5,000
(h)		1,150		6,150

Drafting Equipment No. 164				
Date	PR	Debit	Credit	Balance
(a)		60,000		60,000
(f)		20,000		80,000

Building No. 170				
Date	PR	Debit	Credit	Balance
(c)		55,000		55,000

Land No. 172				
Date	PR	Debit	Credit	Balance
(b)		49,000		49,000

Accounts Payable No. 201				
Date	PR	Debit	Credit	Balance
(h)			1,150	1,150
(j)			1,333	2,483
(m)		1,150		1,333

Notes Payable No. 250				
Date	PR	Debit	Credit	Balance
(b)			42,700	42,700
(f)			10,500	53,200

Common Stock No. 307				
Date	PR	Debit	Credit	Balance
(a)			165,000	165,000

Dividends No. 319				
Date	PR	Debit	Credit	Balance
(o)		9,480		9,480

Engineering Fees Earned No. 402				
Date	PR	Debit	Credit	Balance
(e)			6,200	6,200
(g)			14,000	20,200
(i)			22,000	42,200

Wages Expense No. 601				
Date	PR	Debit	Credit	Balance
(l)		1,200		1,200
(p)		1,200		2,400

Equipment Rental Expense No. 602				
Date	PR	Debit	Credit	Balance
(j)		1,333		1,333

Advertising Expense No. 603				
Date	PR	Debit	Credit	Balance
(q)		2,500		2,500

Repairs Expense No. 604				
Date	PR	Debit	Credit	Balance
(n)		925		925

**Problem 2-2A (Concluded)**  
**Part 3**

ARACEL ENGINEERING Trial Balance June 30		
	<i>Debit</i>	<i>Credit</i>
Cash.....	\$ 22,945	
Accounts receivable .....	29,000	
Prepaid insurance .....	3,000	
Office equipment .....	6,150	
Drafting equipment .....	80,000	
Building .....	55,000	
Land .....	49,000	
Accounts payable.....		\$ 1,333
Notes payable .....		53,200
Common stock .....		165,000
Dividends .....	9,480	
Engineering fees earned.....		42,200
Wages expense .....	2,400	
Equipment rental expense.....	1,333	
Advertising expense .....	2,500	
Repairs expense.....	<u>925</u>	
Totals.....	<u>\$261,733</u>	<u>\$261,733</u>

**Problem 2-3A (90 minutes)**

**Part 1**

Mar. 1	Cash.....101	150,000	
	Office Equipment.....163	22,000	
	Common Stock .....307		172,000
	<i>Owner investment in exchange for stock.</i>		
2	Prepaid Rent .....131	6,000	
	Cash.....101		6,000
	<i>Prepaid six months' rent.</i>		
3	Office Equipment.....163	3,000	
	Office Supplies .....124	1,200	
	Accounts Payable.....201		4,200
	<i>Purchased equipment and supplies on credit.</i>		
6	Cash.....101	4,000	
	Services Revenue.....403		4,000
	<i>Received cash for services.</i>		
9	Accounts Receivable .....106	7,500	
	Services Revenue.....403		7,500
	<i>Billed client for completed work.</i>		
12	Accounts Payable .....201	4,200	
	Cash.....101		4,200
	<i>Paid balance due on account.</i>		
19	Prepaid Insurance .....128	5,000	
	Cash.....101		5,000
	<i>Paid premium for insurance.</i>		
22	Cash.....101	3,500	
	Accounts Receivable .....106		3,500
	<i>Collected part of amount owed by client.</i>		
25	Accounts Receivable .....106	3,820	
	Services Revenue.....403		3,820
	<i>Billed client for completed work.</i>		
29	Dividends .....319	5,100	
	Cash.....101		5,100
	<i>Paid cash dividends.</i>		
30	Office Supplies .....124	600	
	Accounts Payable.....201		600
	<i>Purchased supplies on account.</i>		
31	Utilities Expense.....690	500	
	Cash.....101		500
	<i>Paid monthly utility bill.</i>		

**Problem 2-3A (Continued)**

**Part 2**

Cash				Acct. No. 101	
Date	Explanation	PR	Debit	Credit	Balance
Mar. 1		G1	150,000		150,000
2		G1		6,000	144,000
6		G1	4,000		148,000
12		G1		4,200	143,800
19		G1		5,000	138,800
22		G1	3,500		142,300
29		G1		5,100	137,200
31		G1		500	136,700

Accounts Receivable				Acct. No. 106	
Date	Explanation	PR	Debit	Credit	Balance
Mar. 9		G1	7,500		7,500
22		G1		3,500	4,000
25		G1	3,820		7,820

Office Supplies				Acct. No. 124	
Date	Explanation	PR	Debit	Credit	Balance
Mar. 3		G1	1,200		1,200
30		G1	600		1,800

Prepaid Insurance				Acct. No. 128	
Date	Explanation	PR	Debit	Credit	Balance
Mar. 19		G1	5,000		5,000

Prepaid Rent				Acct. No. 131	
Date	Explanation	PR	Debit	Credit	Balance
Mar. 2		G1	6,000		6,000

Office Equipment				Acct. No. 163	
Date	Explanation	PR	Debit	Credit	Balance
Mar. 1		G1	22,000		22,000
3		G1	3,000		25,000

**Problem 2-3A (Continued)**

**Part 2 (Continued)**

Accounts Payable				Acct. No. 201	
Date	Explanation	PR	Debit	Credit	Balance
Mar. 3		G1		4,200	4,200
12		G1	4,200		0
30		G1		600	600

Common Stock				Acct. No. 307	
Date	Explanation	PR	Debit	Credit	Balance
Mar. 1		G1		172,000	172,000

Dividends				Acct. No. 319	
Date	Explanation	PR	Debit	Credit	Balance
Mar. 29		G1	5,100		5,100

Services Revenue				Acct. No. 403	
Date	Explanation	PR	Debit	Credit	Balance
Mar. 6		G1		4,000	4,000
9		G1		7,500	11,500
25		G1		3,820	15,320

Utilities Expense				Acct. No. 690	
Date	Explanation	PR	Debit	Credit	Balance
Mar. 31		G1	500		500

**Problem 2-3A (Concluded)**

**Part 3**

<b>VENTURE CONSULTANTS</b>		
<b>Trial Balance</b>		
<b>March 31</b>		
	<b>Debit</b>	<b>Credit</b>
Cash .....	\$136,700	
Accounts receivable .....	7,820	
Office supplies.....	1,800	
Prepaid insurance .....	5,000	
Prepaid rent .....	6,000	
Office equipment .....	25,000	
Accounts payable.....		\$ 600
Common stock .....		172,000
Dividends .....	5,100	
Services revenue .....		15,320
Utilities expense .....	<u>500</u>	
Totals .....	<u><b>\$187,920</b></u>	<u><b>\$187,920</b></u>

**Problem 2-4A (90 minutes)**

**Part 1**

a.	Cash.....	101	60,000	
	Office Equipment.....	163	25,000	
	Common Stock .....	307		85,000
	<i>Owner investment in exchange for stock.</i>			
b.	Land .....	172	40,000	
	Building .....	170	160,000	
	Cash .....	101		30,000
	Notes Payable .....	250		170,000
	<i>Purchased land and building with cash and note payable.</i>			
c.	Office Supplies .....	108	2,000	
	Accounts Payable .....	201		2,000
	<i>Purchased office supplies on account.</i>			
d.	Automobiles.....	164	16,500	
	Common Stock.....	307		16,500
	<i>Owner investment in exchange for stock.</i>			
e.	Office Equipment.....	163	5,600	
	Accounts Payable .....	201		5,600
	<i>Purchased office equipment on account.</i>			
f.	Salaries Expense.....	601	1,800	
	Cash .....	101		1,800
	<i>Paid assistant's salary.</i>			
g.	Cash.....	101	8,000	
	Fees Earned.....	402		8,000
	<i>Provided services for cash.</i>			
h.	Utilities Expense.....	602	635	
	Cash .....	101		635
	<i>Paid cash for utilities.</i>			

**Problem 2-4A (Part 1 Continued)**

i.	Accounts Payable .....	201	2,000	
	Cash .....	101		2,000
	<i>Paid cash on account.</i>			
j.	Office Equipment.....	163	20,300	
	Cash .....	101		20,300
	<i>Purchased new equipment with cash.</i>			
k.	Accounts Receivable .....	106	6,250	
	Fees Earned.....	402		6,250
	<i>Provided services on account.</i>			
l.	Salaries Expense .....	601	1,800	
	Cash .....	101		1,800
	<i>Paid assistant's salary.</i>			
m.	Cash.....	101	4,000	
	Accounts Receivable.....	106		4,000
	<i>Received cash due on account.</i>			
n.	Dividends .....	319	2,800	
	Cash .....	101		2,800
	<i>Paid cash dividends.</i>			



**Problem 2-4A (Continued)**  
**Part 2**

Cash				No. 101
Date	PR	Debit	Credit	Balance
(a)		60,000		60,000
(b)			30,000	30,000
(f)			1,800	28,200
(g)		8,000		36,200
(h)			635	35,565
(i)			2,000	33,565
(j)			20,300	13,265
(l)			1,800	11,465
(m)		4,000		15,465
(n)			2,800	12,665

Accounts Receivable				No. 106
Date	PR	Debit	Credit	Balance
(k)		6,250		6,250
(m)			4,000	2,250

Office Supplies				No. 108
Date	PR	Debit	Credit	Balance
(c)		2,000		2,000

Office Equipment				No. 163
Date	PR	Debit	Credit	Balance
(a)		25,000		25,000
(e)		5,600		30,600
(j)		20,300		50,900

Automobiles				No. 164
Date	PR	Debit	Credit	Balance
(d)		16,500		16,500

Building				No. 170
Date	PR	Debit	Credit	Balance
(b)		160,000		160,000

Land				No. 172
Date	PR	Debit	Credit	Balance
(b)		40,000		40,000

Accounts Payable				No. 201
Date	PR	Debit	Credit	Balance
(c)			2,000	2,000
(e)			5,600	7,600
(i)		2,000		5,600

Notes Payable				No. 250
Date	PR	Debit	Credit	Balance
(b)			170,000	170,000

Common Stock				No. 307
Date	PR	Debit	Credit	Balance
(a)			85,000	85,000
(d)			16,500	101,500

Dividends				No. 319
Date	PR	Debit	Credit	Balance
(n)		2,800		2,800

Fees Earned				No. 402
Date	PR	Debit	Credit	Balance
(g)			8,000	8,000
(k)			6,250	14,250

Salaries Expense				No. 601
Date	PR	Debit	Credit	Balance
(f)		1,800		1,800
(l)		1,800		3,600

Utilities Expense				No. 602
Date	PR	Debit	Credit	Balance
(h)		635		635

**Problem 2-4A (Concluded)**  
**Part 3**

<b>HV CONSULTING</b> <b>Trial Balance</b> <b>September 30</b>		
	<b>Debit</b>	<b>Credit</b>
Cash .....	\$ 12,665	
Accounts receivable .....	2,250	
Office supplies.....	2,000	
Office equipment .....	50,900	
Automobiles.....	16,500	
Building .....	160,000	
Land .....	40,000	
Accounts payable.....		\$ 5,600
Notes payable .....		170,000
Common stock .....		101,500
Dividends .....	2,800	
Fees earned .....		14,250
Salaries expense .....	3,600	
Utilities expense .....	<u>635</u>	
<b>Total .....</b>	<b><u>\$291,350</u></b>	<b><u>\$291,350</u></b>

**Problem 2-5A (90 minutes)**

**Part 1**

NETTLE DISTRIBUTION Balance Sheet December 31, 2018			
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Assets		Liabilities	
Cash.....	\$ 64,300	Accounts payable.....	\$ 3,500
Accounts receivable ....	26,240		
Office supplies.....	3,160		
Trucks.....	148,000		
Office equipment .....	<u>44,000</u>	<b>Equity</b>	
Total assets.....	<u>\$285,700</u>	Total equity .....	<u>282,200</u>
		Total liabilities and equity...	<u>\$285,700</u>

NETTLE DISTRIBUTION Balance Sheet December 31, 2019			
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Assets		Liabilities	
Cash.....	\$ 15,640	Accounts payable .....	\$ 33,500
Accounts receivable ....	19,100	Note payable.....	<u>40,000</u>
Office supplies.....	1,960	Total liabilities .....	73,500
Trucks.....	157,000		
Office equipment .....	44,000		
Building .....	80,000	<b>Equity</b>	
Land .....	<u>60,000</u>	Total equity .....	<u>304,200</u>
Total assets.....	<u>\$377,700</u>	Total liabilities and equity ....	<u>\$377,700</u>

**Part 2**

Computation of 2019 net income:

Owner investment .....	35,000
Add net income .....	?
Deduct dividends .....	<u>(19,000)</u>
Increase in equity during the year .....	<u>\$ 22,000*</u>

Thus, net income = (\$22,000 + \$19,000 - \$35,000) = \$ 6,000

\* Computation of 2019 equity increase:

Equity, December 31, 2018 .....	\$282,200
Equity, December 31, 2019 .....	<u>(304,200)</u>
Increase in equity during 2019 .....	<u>\$ 22,000</u>

**Part 3**

Debt Ratio = \$73,500 / \$377,700 = 19.5%

**Problem 2-6A (35 minutes)**

**Part 1**

<b>MIN ENGINEERING</b>		
<b>Trial Balance</b>		
<b>May 31</b>		
	Debit	Credit
Cash.....	\$37,600	
Office supplies.....	890	
Prepaid insurance .....	4,600	
Office equipment .....	12,900	
Accounts payable.....		\$12,900
Common stock .....		18,000
Dividends .....	3,370	
Engineering fees earned.....		36,000
Rent expense .....	7,540	
Totals.....	<u>\$66,900</u>	<u>\$66,900</u>

**Part 2**

Cash			
(a)	18,000	(b)	7,540
(f)	36,000	(c)	4,600
		(d)	890
		(g)	3,370
Balance	37,600		

Transactions a through g coded in T-account:

- (a) Yi Min invested \$18,000 cash in the business in exchange for stock.
- (b) Paid \$7,540 cash for May's monthly rent expense.
- (c) Paid \$4,600 cash for this year's insurance premium beginning immediately.
- (d) Purchased office supplies for \$890 cash.
- (e) Purchased \$12,900 of office equipment on credit (with accounts payable).
- (f) Received \$36,000 cash for engineering services provided in May.
- (g) Paid \$3,370 cash in dividends.

**Problem 2-7A (40 minutes)**

**Part 1**

<b>METRIX</b> <b>Income Statement</b> <b>For Month Ended March 31</b>		
<b>Revenues</b>		
Consulting revenue .....	\$12,000	
Rental revenue .....	<u>500</u>	
Total revenues .....		\$12,500
<b>Expenses</b>		
Salaries expense .....	3,000	
Rent expense .....	2,000	
Advertising expense .....	400	
Utilities expense .....	<u>200</u>	
Total expenses .....		<u>5,600</u>
Net income .....		<u><u>\$ 6,900</u></u>

**Part 2**

<b>METRIX</b> <b>Statement of Retained Earnings</b> <b>For Month Ended March 31</b>		
Retained earnings, March 1 .....	\$	0
Add: Net income (from Income Statement) ..	<u>6,900</u>	
		6,900
Less: Dividends .....	<u>2,000</u>	
Retained earnings, March 31 .....	<u><u>\$</u></u>	<u><u>4,900</u></u>

## Problem 2-7A (Concluded)

### Part 3

METRIX Balance Sheet March 31			
Assets		Liabilities	
Cash.....	\$ 8,000	Accounts payable.....	\$ 1,300
Accounts receivable ....	3,500	Note payable .....	2,400
Prepaid insurance .....	1,000	Unearned revenue .....	<u>300</u>
Office supplies.....	1,500	Total liabilities .....	4,000
Equipment.....	4,000	Equity	
Note receivable.....	2,500	Common stock .....	11,600
		Retained earnings* .....	<u>4,900</u>
		Total equity .....	<u>16,500</u>
Total assets.....	<u>\$20,500</u>	Total liabilities & equity .....	<u>\$20,500</u>

\* Amount from part 2 statement.

## PROBLEM SET B

### Problem 2-1B (90 minutes)

#### Part 1

Sept. 1	Cash.....	101	38,000	
	Office Equipment.....	163	15,000	
	Common Stock.....	307		53,000
	<i>Owner investment in exchange for stock.</i>			
2	Prepaid Rent .....	131	9,000	
	Cash .....	101		9,000
	<i>Prepaid twelve months' rent.</i>			
4	Office Equipment.....	163	8,000	
	Office Supplies .....	124	2,400	
	Accounts Payable .....	201		10,400
	<i>Purchased equipment and supplies on credit.</i>			
8	Cash.....	101	3,280	
	Services Revenue .....	401		3,280
	<i>Received cash for services.</i>			
12	Accounts Receivable .....	106	15,400	
	Services Revenue .....	401		15,400
	<i>Billed client for completed work.</i>			
13	Accounts Payable .....	201	10,400	
	Cash .....	101		10,400
	<i>Paid balance due on account.</i>			
19	Prepaid Insurance .....	128	1,900	
	Cash .....	101		1,900
	<i>Paid premium for insurance.</i>			
22	Cash.....	101	7,700	
	Accounts Receivable.....	106		7,700
	<i>Collected part of amount owed by client.</i>			
24	Accounts Receivable.....	106	2,100	
	Services Revenue .....	401		2,100
	<i>Billed client for completed work.</i>			
28	Dividends .....	319	5,300	
	Cash .....	101		5,300
	<i>Paid cash dividends.</i>			
29	Office Supplies .....	124	550	
	Accounts Payable .....	201		550
	<i>Purchased supplies on account.</i>			
30	Utilities Expense.....	690	860	
	Cash .....	101		860
	<i>Paid monthly utility bill.</i>			

**Problem 2-1B (Continued)**

**Part 2**

Cash			Acct. No. 101		
Date	Explanation	PR	Debit	Credit	Balance
Sept. 1		G1	38,000		38,000
2		G1		9,000	29,000
8		G1	3,280		32,280
13		G1		10,400	21,880
19		G1		1,900	19,980
22		G1	7,700		27,680
28		G1		5,300	22,380
30		G1		860	21,520

Accounts Receivable			Acct. No. 106		
Date	Explanation	PR	Debit	Credit	Balance
Sept. 12		G1	15,400		15,400
22		G1		7,700	7,700
24		G1	2,100		9,800

Office Supplies			Acct. No. 124		
Date	Explanation	PR	Debit	Credit	Balance
Sept. 4		G1	2,400		2,400
29		G1	550		2,950

Prepaid Insurance			Acct. No. 128		
Date	Explanation	PR	Debit	Credit	Balance
Sept. 19		G1	1,900		1,900

Prepaid Rent			Acct. No. 131		
Date	Explanation	PR	Debit	Credit	Balance
Sept. 2		G1	9,000		9,000

Office Equipment			Acct. No. 163		
Date	Explanation	PR	Debit	Credit	Balance
Sept. 1		G1	15,000		15,000
4		G1	8,000		23,000



**Problem 2-1B (Continued)**

Accounts Payable				Acct. No. 201	
Date	Explanation	PR	Debit	Credit	Balance
Sept. 4		G1		10,400	10,400
13		G1	10,400		0
29		G1		550	550

Common Stock				Acct. No. 307	
Date	Explanation	PR	Debit	Credit	Balance
Sept. 1		G1		53,000	53,000

Dividends				Acct. No. 319	
Date	Explanation	PR	Debit	Credit	Balance
Sept. 28		G1	5,300		5,300

Services Revenue				Acct. No. 401	
Date	Explanation	PR	Debit	Credit	Balance
Sept. 8		G1		3,280	3,280
12		G1		15,400	18,680
24		G1		2,100	20,780

Utilities Expense				Acct. No. 690	
Date	Explanation	PR	Debit	Credit	Balance
Sept. 30		G1	860		860

## Problem 2-1B (Concluded)

### Part 3

HUMBLE MANAGEMENT SERVICES Trial Balance September 30		
	Debit	Credit
Cash.....	\$21,520	
Accounts receivable .....	9,800	
Office supplies.....	2,950	
Prepaid insurance .....	1,900	
Prepaid rent .....	9,000	
Office equipment .....	23,000	
Accounts payable.....		\$ 550
Common stock .....		53,000
Dividends .....	5,300	
Services revenue .....		20,780
Utilities expense .....	<u>860</u>	<u>          </u>
Totals .....	<u>\$74,330</u>	<u>\$74,330</u>

**Problem 2-2B (90 minutes)**

**Part 1**

a.	Cash.....	101	65,000	
	Office Equipment.....	163	5,750	
	Computer Equipment.....	164	30,000	
	Common Stock .....	307		100,750
	<i>Owner investment in exchange for stock.</i>			
b.	Land.....	172	22,000	
	Cash.....	101		5,000
	Notes Payable .....	250		17,000
	<i>Purchased land with cash and note payable.</i>			
c.	Building.....	170	34,500	
	Cash.....	101		34,500
	<i>Purchased building.</i>			
d.	Prepaid Insurance .....	108	5,000	
	Cash.....	101		5,000
	<i>Purchased 24-month insurance policy.</i>			
e.	Cash.....	101	4,600	
	Fees Earned .....	402		4,600
	<i>Collected cash for completed work.</i>			
f.	Computer Equipment.....	164	4,500	
	Cash.....	101		800
	Notes Payable .....	250		3,700
	<i>Purchased equipment with cash and note payable.</i>			
g.	Accounts Receivable .....	106	4,250	
	Fees Earned .....	402		4,250
	<i>Completed services for client.</i>			
h.	Office Equipment.....	163	950	
	Accounts Payable.....	201		950
	<i>Purchased equipment on credit.</i>			

**Problem 2-2B (Part 1 Continued)**

i.	Accounts Receivable .....	106	10,200	
	Fees Earned .....	402		10,200
	<i>Billed client for completed work.</i>			
j.	Computer Rental Expense.....	602	580	
	Accounts Payable.....	201		580
	<i>Incurred computer rental expense.</i>			
k.	Cash.....	101	5,100	
	Accounts Receivable .....	106		5,100
	<i>Collected cash on account.</i>			
l.	Wages Expense .....	601	1,800	
	Cash.....	101		1,800
	<i>Paid assistant's wages.</i>			
m.	Accounts Payable .....	201	950	
	Cash.....	101		950
	<i>Paid amount due on account.</i>			
n.	Repairs Expense .....	604	608	
	Cash.....	101		608
	<i>Paid for repair of equipment.</i>			
o.	Dividends .....	319	6,230	
	Cash.....	101		6,230
	<i>Paid cash dividends.</i>			
p.	Wages Expense .....	601	1,800	
	Cash.....	101		1,800
	<i>Paid assistant's wages.</i>			
q.	Advertising Expense.....	603	750	
	Cash.....	101		750
	<i>Paid for advertising expense.</i>			

**Problem 2-2B (Continued)**  
**Part 2**

Cash				No. 101
Date	PR	Debit	Credit	Balance
(a)		65,000		65,000
(b)			5,000	60,000
(c)			34,500	25,500
(d)			5,000	20,500
(e)		4,600		25,100
(f)			800	24,300
(k)		5,100		29,400
(l)			1,800	27,600
(m)			950	26,650
(n)			608	26,042
(o)			6,230	19,812
(p)			1,800	18,012
(q)			750	17,262

Accounts Receivable				No. 106
Date	PR	Debit	Credit	Balance
(g)		4,250		4,250
(i)		10,200		14,450
(k)			5,100	9,350

Prepaid Insurance				No. 108
Date	PR	Debit	Credit	Balance
(d)		5,000		5,000

Office Equipment				No. 163
Date	PR	Debit	Credit	Balance
(a)		5,750		5,750
(h)		950		6,700

Computer Equipment				No. 164
Date	PR	Debit	Credit	Balance
(a)		30,000		30,000
(f)		4,500		34,500

Building				No. 170
Date	PR	Debit	Credit	Balance
(c)		34,500		34,500

Land				No. 172
Date	PR	Debit	Credit	Balance
(b)		22,000		22,000

Accounts Payable				No. 201
Date	PR	Debit	Credit	Balance
(h)			950	950
(j)			580	1,530
(m)		950		580

Notes Payable				No. 250
Date	PR	Debit	Credit	Balance
(b)			17,000	17,000
(f)			3,700	20,700

Common Stock				No. 307
Date	PR	Debit	Credit	Balance
(a)			100,750	100,750

Dividends				No. 319
Date	PR	Debit	Credit	Balance
(o)		6,230		6,230

Fees Earned				No. 402
Date	PR	Debit	Credit	Balance
(e)			4,600	4,600
(g)			4,250	8,850
(i)			10,200	19,050

Wages Expense				No. 601
Date	PR	Debit	Credit	Balance
(l)		1,800		1,800
(p)		1,800		3,600

Computer Rental Expense				No. 602
Date	PR	Debit	Credit	Balance
(j)		580		580

Advertising Expense				No. 603
Date	PR	Debit	Credit	Balance
(q)		750		750

Repairs Expense				No. 604
Date	PR	Debit	Credit	Balance
(n)		608		608

## Problem 2-2B (Concluded)

### Part 3

SOFTWORKS Trial Balance April 30		
	Debit	Credit
Cash .....	\$ 17,262	
Accounts receivable .....	9,350	
Prepaid insurance .....	5,000	
Office equipment .....	6,700	
Computer equipment .....	34,500	
Building .....	34,500	
Land .....	22,000	
Accounts payable .....		\$ 580
Notes payable .....		20,700
Common stock .....		100,750
Dividends .....	6,230	
Fees earned .....		19,050
Wages expense .....	3,600	
Computer rental expense .....	580	
Advertising expense .....	750	
Repairs expense .....	<u>608</u>	
Totals .....	<u>\$141,080</u>	<u>\$141,080</u>

### Problem 2-3B (90 minutes)

#### Part 1

Nov. 1	Cash.....101	30,000	
	Office Equipment.....163	15,000	
	Common Stock .....307		45,000
	<i>Owner investment in exchange for stock.</i>		
2	Prepaid Rent .....131	4,500	
	Cash.....101		4,500
	<i>Prepaid six months' rent.</i>		
4	Office Equipment.....163	2,500	
	Office Supplies .....124	600	
	Accounts Payable.....201		3,100
	<i>Purchased equipment and supplies on credit.</i>		
8	Cash.....101	3,400	
	Services Revenue.....403		3,400
	<i>Received cash for services.</i>		
12	Accounts Receivable .....106	10,200	
	Services Revenue.....403		10,200
	<i>Billed client for completed work.</i>		
13	Accounts Payable .....201	3,100	
	Cash.....101		3,100
	<i>Paid balance due on account.</i>		
19	Prepaid Insurance .....128	1,800	
	Cash.....101		1,800
	<i>Paid premium for 24 months of insurance.</i>		
22	Cash.....101	5,200	
	Accounts Receivable .....106		5,200
	<i>Collected part of amount owed by client.</i>		
24	Accounts Receivable .....106	1,750	
	Services Revenue.....403		1,750
	<i>Billed client for completed work.</i>		
28	Dividends .....319	5,300	
	Cash.....101		5,300
	<i>Paid cash dividends.</i>		
29	Office Supplies .....124	249	
	Accounts Payable.....201		249
	<i>Purchased supplies on account.</i>		
30	Utilities Expense.....690	831	
	Cash.....101		831
	<i>Paid monthly utility bill.</i>		

**Problem 2-3B (Continued)**

**Part 2**

Cash				Acct. No. 101	
Date	Explanation	PR	Debit	Credit	Balance
Nov. 1		G1	30,000		30,000
2		G1		4,500	25,500
8		G1	3,400		28,900
13		G1		3,100	25,800
19		G1		1,800	24,000
22		G1	5,200		29,200
28		G1		5,300	23,900
30		G1		831	23,069

Accounts Receivable				Acct. No. 106	
Date	Explanation	PR	Debit	Credit	Balance
Nov. 12		G1	10,200		10,200
22		G1		5,200	5,000
24		G1	1,750		6,750

Office Supplies				Acct. No. 124	
Date	Explanation	PR	Debit	Credit	Balance
Nov. 4		G1	600		600
29		G1	249		849

Prepaid Insurance				Acct. No. 128	
Date	Explanation	PR	Debit	Credit	Balance
Nov. 19		G1	1,800		1,800

Prepaid Rent				Acct. No. 131	
Date	Explanation	PR	Debit	Credit	Balance
Nov. 2		G1	4,500		4,500

Office Equipment				Acct. No. 163	
Date	Explanation	PR	Debit	Credit	Balance
Nov. 1		G1	15,000		15,000
4		G1	2,500		17,500

Accounts Payable				Acct. No. 201	
Date	Explanation	PR	Debit	Credit	Balance
Nov. 4		G1		3,100	3,100
13		G1	3,100		0
29		G1		249	249



**Problem 2-3B (Continued)**

Common Stock				Acct. No. 307	
Date	Explanation	PR	Debit	Credit	Balance
Nov. 1		G1		45,000	45,000

Dividends				Acct. No. 319	
Date	Explanation	PR	Debit	Credit	Balance
Nov. 28		G1	5,300		5,300

Services Revenue				Acct. No. 403	
Date	Explanation	PR	Debit	Credit	Balance
Nov. 8		G1		3,400	3,400
12		G1		10,200	13,600
24		G1		1,750	15,350

Utilities Expense				Acct. No. 690	
Date	Explanation	PR	Debit	Credit	Balance
Nov. 30		G1	831		831

**Part 3**

ZUCKER MANAGEMENT SERVICES		
Trial Balance		
November 30		
	Debit	Credit
Cash.....	\$23,069	
Accounts receivable .....	6,750	
Office supplies.....	849	
Prepaid insurance .....	1,800	
Prepaid rent .....	4,500	
Office equipment .....	17,500	
Accounts payable.....		\$ 249
Common stock .....		45,000
Dividends .....	5,300	
Services revenue .....		15,350
Utilities expense .....	<u>831</u>	
Totals .....	<u>\$60,599</u>	<u>\$60,599</u>

### Problem 2-4B (90 minutes)

#### Part 1

a.	Cash.....	101	35,000	
	Office Equipment.....	163	11,000	
	Common Stock.....	307		46,000
	<i>Owner investment in exchange for stock.</i>			
b.	Land.....	172	7,500	
	Building.....	170	40,000	
	Cash.....	101		15,000
	Notes Payable.....	250		32,500
	<i>Purchased land and building with cash and note payable.</i>			
c.	Office Supplies.....	108	500	
	Accounts Payable.....	201		500
	<i>Purchased office supplies on account.</i>			
d.	Automobiles.....	164	8,000	
	Common Stock.....	307		8,000
	<i>Owner investment in exchange for stock.</i>			
e.	Office Equipment.....	163	1,200	
	Accounts Payable.....	201		1,200
	<i>Purchased office equipment on account.</i>			
f.	Salaries Expense.....	601	1,000	
	Cash.....	101		1,000
	<i>Paid assistant's salary.</i>			
g.	Cash.....	101	3,200	
	Fees Earned.....	402		3,200
	<i>Provided services for cash.</i>			
h.	Utilities Expense.....	602	540	
	Cash.....	101		540
	<i>Paid cash for utilities.</i>			

## Problem 2-4B

### Part 1—Concluded

i.	Accounts Payable .....	201	500	
	Cash .....	101		500
	<i>Paid cash on account.</i>			
j.	Office Equipment.....	163	3,400	
	Cash .....	101		3,400
	<i>Purchased equipment for cash.</i>			
k.	Accounts Receivable .....	106	4,200	
	Fees Earned.....	402		4,200
	<i>Provided services on account.</i>			
l.	Salaries Expense.....	601	1,000	
	Cash .....	101		1,000
	<i>Paid assistant's salary.</i>			
m.	Cash.....	101	2,200	
	Accounts Receivable.....	106		2,200
	<i>Received cash due on account.</i>			
n.	Dividends .....	319	1,100	
	Cash .....	101		1,100
	<i>Paid cash dividends.</i>			

### Problem 2-4B (Continued) Part 2

Cash No. 101				
Date	PR	Debit	Credit	Balance
(a)		35,000		35,000
(b)			15,000	20,000
(f)			1,000	19,000
(g)		3,200		22,200
(h)			540	21,660
(i)			500	21,160
(j)			3,400	17,760
(l)			1,000	16,760
(m)		2,200		18,960
(n)			1,100	17,860

Accounts Receivable No. 106				
Date	PR	Debit	Credit	Balance
(k)		4,200		4,200
(m)			2,200	2,000

Office Supplies No. 108				
Date	PR	Debit	Credit	Balance
(c)		500		500

Office Equipment No. 163				
Date	PR	Debit	Credit	Balance
(a)		11,000		11,000
(e)		1,200		12,200
(j)		3,400		15,600

Automobiles No. 164				
Date	PR	Debit	Credit	Balance
(d)		8,000		8,000

Building No. 170				
Date	PR	Debit	Credit	Balance
(b)		40,000		40,000

Land No. 172				
Date	PR	Debit	Credit	Balance
(b)		7,500		7,500

Accounts Payable No. 201				
Date	PR	Debit	Credit	Balance
(c)			500	500
(e)			1,200	1,700
(i)		500		1,200

Notes Payable No. 250				
Date	PR	Debit	Credit	Balance
(b)			32,500	32,500

Common Stock No. 307				
Date	PR	Debit	Credit	Balance
(a)			46,000	46,000
(d)			8,000	54,000

Dividends No. 319				
Date	PR	Debit	Credit	Balance
(n)		1,100		1,100

Fees Earned No. 402				
Date	PR	Debit	Credit	Balance
(g)			3,200	3,200
(k)			4,200	7,400

Salaries Expense No. 601				
Date	PR	Debit	Credit	Balance
(f)		1,000		1,000
(l)		1,000		2,000

Utilities Expense No. 602				
Date	PR	Debit	Credit	Balance
(h)		540		540

## Problem 2-4B (Concluded)

### Part 3

NUNCIO CONSULTING Trial Balance June 30		
	Debit	Credit
Cash .....	\$17,860	
Accounts receivable .....	2,000	
Office supplies.....	500	
Office equipment .....	15,600	
Automobiles.....	8,000	
Building .....	40,000	
Land .....	7,500	
Accounts payable.....		\$ 1,200
Notes payable .....		32,500
Common stock .....		54,000
Dividends .....	1,100	
Fees earned .....		7,400
Salaries expense .....	2,000	
Utilities expense .....	<u>540</u>	
Total .....	<u>\$95,100</u>	<u>\$95,100</u>

**Problem 2-5B (60 minutes)**

**Part 1**

TAMA CO. Balance Sheet December 31, 2018			
Assets		Liabilities	
Cash .....	\$ 30,000	Accounts payable .....	\$ 4,000
Accounts receivable .....	35,000		
Office supplies .....	8,000		
Office equipment.....	40,000		
Machinery .....	<u>28,000</u>	<b>Equity</b>	
Total assets .....	<u>\$141,000</u>	Total equity.....	<u>137,000</u>
		Total liabilities & equity ....	<u>\$141,000</u>

TAMA CO. Balance Sheet December 31, 2019			
Assets		Liabilities	
Cash .....	\$ 5,000	Accounts payable .....	\$ 12,000
Accounts receivable .....	25,000	Note payable.....	<u>250,000</u>
Office supplies .....	13,500	Total liabilities .....	<u>262,000</u>
Office equipment.....	40,000		
Machinery .....	28,500		
Building.....	250,000	<b>Equity</b>	
Land .....	<u>50,000</u>	Total equity.....	<u>150,000</u>
Total assets .....	<u>\$412,000</u>	Total liabilities & equity ....	<u>\$412,000</u>

**Part 2**

Computation of 2019 net income:

Owner investment .....	5,000
Add net income .....	?
Deduct dividends .....	<u>(3,000)</u>
Increase in equity during the year .....	<u>\$ 13,000*</u>

Thus, net income = (\$13,000 + \$3,000 - \$5,000) = \$ 11,000

\* Computation of 2019 equity increase:

Equity, December 31, 2018 .....	\$137,000
Equity, December 31, 2019 .....	<u>(150,000)</u>
Increase in equity during 2019 .....	<u>\$ 13,000</u>

**Part 3**

Debt ratio = \$262,000 / \$412,000 = 63.6%

## Problem 2-6B (35 minutes)

### Part 1

GOULD SOLUTIONS Trial Balance April 30		
	Debit	Credit
Cash.....	\$20,000	
Office supplies.....	750	
Prepaid rent .....	1,800	
Office equipment .....	12,250	
Accounts payable.....		\$12,250
Common stock .....		15,000
Dividends .....	5,200	
Consulting fees earned.....		20,400
Miscellaneous expenses .....	<u>7,650</u>	
Totals.....	<u>\$47,650</u>	<u>\$47,650</u>

### Part 2

Cash			
(a)	15,000	(b)	1,800
(f)	20,400	(c)	7,650
		(d)	750
		(g)	5,200
Balance	20,000		

Transactions a through g coded in T-account:

- (a) R.Gould, the owner, invested \$15,000 cash in the business in exchange for stock.
- (b) Paid \$1,800 cash in advance for next month's rent expense.
- (c) Paid \$7,650 cash for miscellaneous expenses.
- (d) Purchased office supplies for \$750 cash.
- (e) Purchased \$12,250 of office equipment on credit (with accounts payable).
- (f) Received \$20,400 cash for consulting services provided in April.
- (g) Paid \$5,200 cash in dividends.

**Problem 2-7B (40 minutes)**

**Part 1**

PRISEK Income Statement For Month Ended July 31		
<b>Revenues</b>		
Consulting revenue .....	\$36,000	
Rental revenue .....	<u>1,500</u>	
Total revenues .....		\$37,500
<b>Expenses</b>		
Salaries expense .....	9,000	
Rent expense .....	6,000	
Advertising expense .....	1,200	
Utilities expense .....	<u>600</u>	
Total expenses .....		<u>16,800</u>
Net income .....		<u>\$20,700</u>

**Part 2**

PRISEK Statement of Retained Earnings For Month Ended July 31	
Retained earnings, July 1 .....	\$ 0
Add: Net income (from Income Statement) ..	<u>20,700</u>
	20,700
Less: Dividends .....	<u>6,000</u>
Retained earnings, July 31 .....	<u>\$14,700</u>



## Problem 2-7B (Concluded)

### Part 3

PRISEK Balance Sheet July 31			
Assets		Liabilities	
Cash.....	\$24,000	Accounts payable.....	\$ 3,900
Accounts receivable ....	10,500	Note payable .....	7,200
Prepaid insurance .....	3,000	Unearned revenue .....	<u>900</u>
Office supplies.....	4,500	Total liabilities .....	12,000
Equipment.....	12,000	Equity	
Note receivable.....	7,500	Common stock .....	34,800
		Retained earnings* .....	<u>14,700</u>
		Total equity .....	<u>49,500</u>
Total assets.....	<u>\$61,500</u>	Total liabilities & equity .....	<u>\$61,500</u>

\* Amount from part 2 statement.

## Serial Problem — SP 2

### Part 1 (120 minutes) Serial Problem, Business Solutions

2019

Oct. 1	Cash.....	101	45,000	
	Office Equipment.....	163	8,000	
	Computer Equipment.....	167	20,000	
	Common Stock.....	307		73,000
	<i>Owner investment in exchange for stock.</i>			
2	Prepaid Rent .....	131	3,300	
	Cash .....	101		3,300
	<i>Paid four months' rent in advance.</i>			
3	Computer Supplies .....	126	1,420	
	Accounts Payable .....	201		1,420
	<i>Purchased supplies on credit.</i>			
5	Prepaid Insurance .....	128	2,220	
	Cash .....	101		2,220
	<i>Paid 12 months' premium in advance.</i>			
6	Accounts Receivable .....	106	4,800	
	Computer Services Revenue .....	403		4,800
	<i>Billed customer for services.</i>			
8	Accounts Payable .....	201	1,420	
	Cash .....	101		1,420
	<i>Paid balance due on account payable.</i>			
10	<i>No entry necessary in the journal.</i>			
12	Accounts Receivable .....	106	1,400	
	Computer Services Revenue .....	403		1,400
	<i>Billed customer for services.</i>			
15	Cash.....	101	4,800	
	Accounts Receivable .....	106		4,800
	<i>Collected accounts receivable.</i>			
17	Repairs Expense—Computer.....	684	805	
	Cash .....	101		805
	<i>Paid for computer repairs.</i>			
20	Advertising Expense.....	655	1,728	
	Cash .....	101		1,728
	<i>Purchased ads in local newspaper.</i>			
22	Cash.....	101	1,400	
	Accounts Receivable .....	106		1,400
	<i>Collected accounts receivable.</i>			

**Serial Problem, Business Solutions (Continued)**

28	Accounts Receivable .....	106	5,208	
	Computer Services Revenue .....	403		5,208
	<i>Billed customer for services.</i>			
31	Wages Expense .....	623	875	
	Cash .....	101		875
	<i>Paid employee for part-time work.</i>			
31	Dividends .....	319	3,600	
	Cash .....	101		3,600
	<i>Paid cash dividends.</i>			
Nov. 1	Mileage Expense .....	676	320	
	Cash .....	101		320
	<i>Reimbursed Rey for mileage.</i>			
2	Cash.....	101	4,633	
	Computer Services Revenue .....	403		4,633
	<i>Collected cash revenue from client.</i>			
5	Computer Supplies .....	126	1,125	
	Cash .....	101		1,125
	<i>Purchased computer supplies for cash.</i>			
8	Accounts Receivable .....	106	5,668	
	Computer Services Revenue .....	403		5,668
	<i>Billed customer for services.</i>			
13	<i>No entry necessary. (No revenue recognized until work performed.)</i>			
18	Cash.....	101	2,208	
	Accounts Receivable.....	106		2,208
	<i>Collected accounts receivable.</i>			
22	Miscellaneous Expenses .....	677	250	
	Cash .....	101		250
	<i>Record miscellaneous expenses.</i>			
24	Accounts Receivable .....	106	3,950	
	Computer Services Revenue .....	403		3,950
	<i>Billed customer for services.</i>			
25	<i>No entry necessary.</i>			
28	Mileage Expense .....	676	384	
	Cash .....	101		384
	<i>Reimbursed Rey for mileage.</i>			
30	Wages Expense .....	623	1,750	
	Cash .....	101		1,750
	<i>Paid employee for part-time work.</i>			
30	Dividends .....	319	2,000	
	Cash .....	101		2,000
	<i>Paid cash dividends.</i>			

## Serial Problem, Business Solutions (Continued)

### Part 2

General Ledger accounts					
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Cash				Acct. No. 101	
Date	Explanation	PR	Debit	Credit	Balance
Oct. 1			45,000		45,000
2				3,300	41,700
5				2,220	39,480
8				1,420	38,060
15			4,800		42,860
17				805	42,055
20				1,728	40,327
22			1,400		41,727
31				875	40,852
31				3,600	37,252
Nov. 1				320	36,932
2			4,633		41,565
5				1,125	40,440
18			2,208		42,648
22				250	42,398
28				384	42,014
30				1,750	40,264
30				2,000	38,264

Accounts Receivable				Acct. No.106	
Date	Explanation	PR	Debit	Credit	Balance
Oct. 6			4,800		4,800
12			1,400		6,200
15				4,800	1,400
22				1,400	0
28			5,208		5,208
Nov. 8			5,668		10,876
18				2,208	8,668
24			3,950		12,618

Computer Supplies				Acct. No. 126	
Date	Explanation	PR	Debit	Credit	Balance
Oct. 3			1,420		1,420
Nov. 5			1,125		2,545

### Serial Problem, Business Solutions (*Continued*)

Prepaid Insurance				Acct. No. 128	
Date	Explanation	PR	Debit	Credit	Balance
Oct. 5			2,220		2,220

Prepaid Rent				Acct. No. 131	
Date	Explanation	PR	Debit	Credit	Balance
Oct. 2			3,300		3,300

Office Equipment				Acct. No. 163	
Date	Explanation	PR	Debit	Credit	Balance
Oct. 1			8,000		8,000

Computer Equipment				Acct. No. 167	
Date	Explanation	PR	Debit	Credit	Balance
Oct. 1			20,000		20,000

Accounts Payable				Acct. No. 201	
Date	Explanation	PR	Debit	Credit	Balance
Oct. 3				1,420	1,420
8			1,420		0

Common Stock				Acct. No. 307	
Date	Explanation	PR	Debit	Credit	Balance
Oct. 1				73,000	73,000

Dividends				Acct. No. 319	
Date	Explanation	PR	Debit	Credit	Balance
Oct. 31			3,600		3,600
Nov. 30			2,000		5,600

### Serial Problem, Business Solutions (*Concluded*)

Computer Services Revenue				Acct. No. 403	
Date	Explanation	PR	Debit	Credit	Balance
Oct. 6				4,800	4,800
12				1,400	6,200
28				5,208	11,408
Nov. 2				4,633	16,041
8				5,668	21,709
24				3,950	25,659

Wages Expense				Acct. No. 623	
Date	Explanation	PR	Debit	Credit	Balance
Oct. 31			875		875
Nov. 30			1,750		2,625

Advertising Expense				Acct. No. 655	
Date	Explanation	PR	Debit	Credit	Balance
Oct. 20			1,728		1,728

Mileage Expense				Acct. No. 676	
Date	Explanation	PR	Debit	Credit	Balance
Nov. 1			320		320
28			384		704

Miscellaneous Expenses				Acct. No. 677	
Date	Explanation	PR	Debit	Credit	Balance
Nov. 22			250		250

Repairs Expense—Computer				Acct. No. 684	
Date	Explanation	PR	Debit	Credit	Balance
Oct. 17			805		805

## Serial Problem, Business Solutions (*Continued*)

### Part 3

BUSINESS SOLUTIONS Trial Balance November 30		
	Debit	Credit
Cash.....	\$38,264	
Accounts receivable .....	12,618	
Computer supplies.....	2,545	
Prepaid insurance .....	2,220	
Prepaid rent .....	3,300	
Office equipment .....	8,000	
Computer equipment .....	20,000	
Accounts payable.....		\$ 0
Common stock .....		73,000
Dividends .....	5,600	
Computer services revenue .....		25,659
Wages expense .....	2,625	
Advertising expense .....	1,728	
Mileage expense.....	704	
Miscellaneous expense .....	250	
Repairs expense—Computer .....	805	
Totals.....	<u>\$98,659</u>	<u>\$98,659</u>

## Company Analysis — AA 2-1 (20 minutes)

\$ millions

1. (a) \$241,272  
(b) \$193,437

2. (a) \$375,319  
(b) \$321,686

3. (a)  $\$241,272 / \$375,319 = \underline{64.3\%}$   
(b)  $\$193,437 / \$321,686 = \underline{60.1\%}$

4. 2017

**Explanation:** Apple has greater financial leverage when a greater proportion of its assets are financed by liabilities. Additionally, Apple's financing structure is more risky when it utilizes more leverage.

## Comparative Analysis — AA 2-2 (25 minutes)

\$ millions

1. **Apple**

Current year debt ratio:  $\$241,272 / \$375,319 = \underline{64.3\%}$

Prior year debt ratio:  $\$193,437 / \$321,686 = \underline{60.1\%}$

2. **Google**

Current year debt ratio:  $\$44,793 / \$197,295 = \underline{22.7\%}$

Prior year debt ratio:  $\$28,461 / \$167,497 = \underline{17.0\%}$

3. Apple

**Explanation:** Apple has the higher degree of financial leverage. Apple's debt ratio is markedly higher for the current year than that of Google. This indicates that Apple carries more debt financing than Google. This also implies that Apple is attempting to use nonowner financing to make more money for its owners. This is fine provided Apple's return does not decline below that of what it pays nonowners for use of that money—this is the main source of financing risk.



## Global Analysis — AA 2-3 (20 minutes)

₩ and \$ in millions

### 1. Samsung

Current year debt ratio:  $\frac{\text{₩}87,260,662}{\text{₩}301,752,090} = \underline{28.9\%}$

Prior year debt ratio:  $\frac{\text{₩}69,211,291}{\text{₩}262,174,324} = \underline{26.4\%}$

### 2. Increased financial leverage

3. (a) Less Risky *Explanation:* Samsung's debt ratio of 28.9% is lower than Apple's debt ratio of 64.3% (\$241,272/\$375,319).

(b) More Risky *Explanation:* Samsung's debt ratio of 28.9% is higher than Google's debt ratio of 22.7% (\$44,793/\$197,295).

## **Ethics Challenge — BTN 2-1**

**This case involves a conflict between the need for efficiency and the need for control. While it makes sense to take and process lunch orders quickly, this efficiency is being accomplished by a shortcut that greatly weakens control over cash receipts. Cash could be received and lost or stolen because there would be no initial record of how much was received.**

**The assistant manager's explanation about the head manager not arriving until 3 o'clock suggests that the head manager doesn't know about the proposed shortcut. Thus, the new employee is faced with the dilemma of deciding whether to accept the assistant manager's instructions, suggest to the assistant manager that the shortcut seems wrong, or to ask the head manager to confirm the instructions. Each of these alternatives involves personal risk.**

**It is possible that the assistant manager does not understand the potential for fraud and abuse if this shortcut is used. If the relationship between you and the assistant manager is such that you feel you can do so, you should explain your understanding of how the shortcut could lead to the problems of inaccurate records for tax purposes, gathering inaccurate marketing information, and abuse by other employees who might not be as honest as you and the assistant manager.**

**If the assistant manager insists, you may want to work as instructed to get an idea of whether the shortcut is being abused by the assistant manager and perhaps to find out discreetly whether the head manager knows about it. (Although, this behavior does involve personal risk of perceived collusion with the assistant manager.) If you conclude that the assistant manager is committing fraud, you should report the situation to the head manager as quickly as possible.**

## Communicating in Practice — BTN 2-2

### MEMORANDUM

To: Lila Corentine  
From: \_\_\_\_\_  
Subject: Financial statements explanation  
Date: \_\_\_\_\_

The four major financial statements and their purposes are:

- ***Income statement*** describes a company's revenues and expenses along with the resulting net income or loss over a period of time. It helps explain how equity changes during a period due to earnings activities.
- ***Statement of retained earnings*** explains changes in retained earnings due to net income (or net loss) and any dividends over a period of time.
- ***Balance sheet*** describes a company's financial position (assets, liabilities, and equity) at a point in time.
- ***Statement of cash flows*** identifies cash inflows (receipts) and outflows (payments) over a period of time. It also explains how the cash balance on the balance sheet changed from the beginning to the end of a period.

These financial statements are linked to each other across time.

Specifically, a balance sheet reports an organization's financial position at a *point in time*. The income statement, statement of retained earnings, and statement of cash flows report on performance over a *period of time*. These three statements link balance sheets from the beginning to the end of a reporting period. That is, they explain how the financial position of an organization changes from one point to another.

### Taking It to the Net — BTN 2-3

1. The prior three years' net income or (loss) for Amazon are (\$ millions):  
2016 = \$2,371                      2015 = \$596                      2014 = \$(241)
2. The three years net cash *provided* by operations follows (\$ millions):  
2016 = \$16,443                      2015 = \$11,920                      2014 = \$6,842
3. The reason its cash balance only increased by \$3,444 million in 2016 was because of net cash outflows of \$9,876 million for its investing activities and \$2,911 million for its financing activities (and further reduced by \$212 million related to foreign currency effects). Those uses of cash absorbed much of the cash generated by its operating activities.

### Teamwork in Action — BTN 2-4

*<Instructor note: There is no specific solution to this activity.>*

The following sample solution gives a summary outline of what a minimum report needs to include. Assume a team member selects assets:

**Category: Assets**

- a. Increases (decreases) in assets are debits (credits) to asset accounts. Debit means left side, credit means right side. The normal side of an account refers to the side where increases are recorded. For assets, this is the debit, or left, side.
- b. Owner investment of \$10,000 cash in exchange for stock.
- c.     Assets = Liabilities + Common Stock – Dividends + Revenues – Expenses  
     + \$10,000 =     \$0     +     \$10,000     –     \$0     +     \$0     –     \$0  
     Owner investments have no effect on the income statement, but they do increase the cash flows from financing by \$10,000 on the statement of cash flows (this increases its net cash flow).
- d. Paid rent expense with \$2,000 cash.
- e.     Assets = Liabilities + Common Stock – Dividends + Revenues – Expenses  
     - \$2,000 =     \$0     +     \$0     –     \$0     +     \$0     –     \$2,000  
     An expense paid in cash will decrease net income on the income statement and decrease operating cash flows on the statement of cash flows.

## Entrepreneurial Decision — BTN 2-5

There are several issues that ownership should consider. Those considerations include the following three issues (among others).

- If ownership chooses to contribute personal funds for the expansion, ownership money will be at risk (not business loans); in this case, the business will not have the expense of interest payments, nor will the business have the risk of the inability to repay a loan.
- If ownership chooses to have the business borrow the money, the business will have interest and loan payments to make, and the business will have more risk (as reflected in the company's debt ratio).
- If the business can pay the interest and loan payments, it can be to the business's advantage to borrow, as long as the return on assets is high enough (that is, higher than the rate of interest on the borrowing).

## Entrepreneurial Decision — BTN 2-6

1.

### MARTIN MUSIC SERVICES Balance Sheet December 31

<b>Assets</b>		<b>Liabilities</b>	
Cash.....	\$ 3,600	Accounts payable.....	\$ 2,200
Accounts receivable .....	9,600	Unearned lesson fees .....	<u>15,600</u>
Prepaid insurance .....	1,500	Total liabilities .....	17,800
Prepaid rent .....	9,400		
Store supplies.....	6,600		
Equipment .....	<u>50,000</u>		
Total assets.....	<u>\$80,700</u>		
		<b>Equity</b>	
		Total equity .....	<u>62,900</u>
		Total liabilities and equity ....	<u>\$80,700</u>

2.

Debt ratio = Total liabilities / Total assets = \$17,800 / \$80,700 = 22.1%

Return on assets = Net income/Average assets = \$40,000/\$80,700\* = 49.6%

\*Ending balance is used per instructions ("assume average assets equal its ending balance").

3. The prospects of a bank loan are likely to be good. (i) The debt ratio indicates that 78% of the company's funding is from equity. Also, there are no debt obligations requiring periodic payments. This implies low risk. (ii) The level of return on assets is very high. This implies good return.

Overall, given the information and the assumption that current performance will continue into the future, the prospects of a bank loan are good.

Note: The loan does carry some risk—fueling this risk are (i) poor recordkeeping, (ii) lack of information on growth potential, and (iii) a much higher pro forma debt ratio—that is, if the loan is granted, the debt ratio will jump to 43%, computed as:

$$(\$17,800 + \$30,000) / (\$80,700 + \$30,000).$$

## Hitting the Road — BTN 2-7

Findings will vary. It is advisable that the instructor obtain a few classified sections from newspapers that were published over the period of the assignment. If student reports lack responses for question 2, it is informative and motivating to bring these (accounting-related job opportunities) sections to class when discussing or returning student reports as many students are not accounting majors.

## CHAPTER 2 ACCOUNTING FOR BUSINESS TRANSACTIONS

<b><u>Related Assignment Materials</u></b>					
<i>Student Learning Objectives</i>	<i>Questions</i>	<i>Quick Studies*</i>	<i>Exercises*</i>	<i>Problems*</i>	<i>AA and BTN</i>
<b>Conceptual objectives:</b>					
C1. Explain the steps in processing transactions and the role of source documents.	3, 6, 9	2-1	2-1	2-6	BTN 2-1, BTN 2-2, BTN 2-4, BTN 2-7
C2. Describe an account and its use in recording transactions.	1, 2, 14	2-2	2-2	2-5	BTN 2-2, BTN 2-4
C3. Describe a ledger and a chart of accounts.		2-3	2-3, 2-16	2-1, 2-2, 2-3, 2-4, 2-6, GL: 2-4, 2-5, 2-6, 2-7	
C4. Define <i>debits</i> and <i>credits</i> and explain double-entry accounting.	7	2-4, 2-5, 2-10	2-4	2-1, 2-2, 2-3, GL: 2-4, 2-5, 2-6	BTN 2-4
<b>Analytical objectives:</b>					
A1. Analyze the impact of transactions on accounts and financial statements.		2-7	2-5, 2-6, 2-9, 2-13, 2-15, 2-20	2-1, 2-2, 2-3, 2-4, 2-5, 2-6, SP, GL: 2-2, 2-4, 2-5, 2-6, 2-7, 2-8	AA 2-1, AA 2-2, BTN 2-2, BTN 2-3, BTN 2-4, BTN 2-5, BTN 2-6
A2. Compute the debt ratio and describe its use in analyzing financial condition.		2-15	2-22	2-5	AA 2-1, AA 2-2, AA 2-3, BTN: 2-5, BTN 2-6
<b>Procedural objectives:</b>					
P1. Record transactions in a journal and post entries to a ledger.	4, 5	2-6, 2-11	2-7, 2-11, 2-12, 2-14, 2-19, 2-21, 2-23	2-1, 2-2, 2-3, 2-4, SP, GL: 2-1, 2-3, 2-4, 2-5, 2-6, 2-7, 2-8	
P2. Prepare and explain the use of a trial balance.	8	2-8	2-8, 2-10, 2-20, 2-21	2-1, 2-2, 2-3, 2-4, 2-6, SP, GL: 2-4, 2-5, 2-6, 2-7, 2-8	
P3. Prepare financial statements from business transactions.	10, 11, 12, 13, 15, 16, 17, 18	2-9, 2-12, 2-13, 2-14	2-16, 2-17, 2-18, 2-19	2-7, ES-1, ES-2	BTN 2-2, BTN 2-5, BTM 2-6

*\*See additional information on next page that pertains to these quick studies, exercises, and problems.*

*SP refers to the Serial Problem*

*AA refers to Accounting Analysis*



*BTN refers to Beyond the Numbers*

*GL refers to General Ledger Problems*

*Questions with Guided Example videos*

### **Additional Information on Related Assignment Material**

*See Chapter 1 of the Instructor's Resource Manual for more information on materials for this text available in Connect.*

### **Connect**

Available on the instructor's course-specific website, Connect:

- All numerical Quick Studies, all Exercises and Problems Set A.
  - Connect also provides algorithmic versions for Quick Study, Exercises, and Problems.
- General Ledger Problems
- Excel Simulations
- LearnSmart/SmartBook

### **Hints/Guided Examples**

Please note that the Guided Examples are labeled as “Hints” in Connect assignments. The animated PowerPoints without the video and audio functions for the Guided Examples are also available in the Connect Instructor Library and Exercise Presentations. **These are indicated in the Related Assignment Materials grid on page 1 in blue bold font.**

### **Need-to-Know Videos**

LO	Need-to-Know	Title	Time
C1, C2, C3	2-1	Classifying Accounts	1:34
C4	2-2	Normal Account Balance	2:54
P1, A1	2-3	Recording Transactions	1:54
P2	2-4	Preparing Trial Balance	2:01

### **Concept Overview Videos**

Each video is paired with a Knowledge Check question.

LO	Title	Time
C1	Explain the steps in processing transactions and the role of source documents.	
	Source Documents	0:58
C2	Describe an account and its use in recording transactions.	
	Types of Accounts	0:52
	Asset Accounts	3:48
	Liability Accounts	2:35
	Equity Accounts	1:29
	Decision Insights	0:14
C3	Describe a ledger and a chart of accounts.	
	Chart of Accounts	1:45
	Ledger	0:25
C4	Define <i>debits</i> and <i>credits</i> and explain double-entry accounting.	
	T-accounts	0:54

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	Double-Entry Accounting	0:47
	Normal Balance Rules	1:33
	Normal Balance - Equity	0:43
A1	Analyze the impact of transactions on accounts and financial statements.	
	Receive Investment by Owner	1:00
	Purchase Equipment for Cash	0:46
	Purchase Supplies for Cash	0:32
	Providing Services for Cash	0:32
	Payment of Expense on Credit	0:34
	Payment of Accounts Payable	0:43
A2	Compute the debt ratio and describe its use in analyzing financial condition.	
	Financial Statement Data	1:25
	Debt Ratio	1:13
P1	Record transactions in a journal and post entries to a ledger.	
	Accounting Process	0:20
	Journalizing Transactions	1:30
	Posting Journal Entries to Ledger Accounts: General Procedures	1:37
	Post Entries to Ledger Accounts: Four step Process	0:48
P2	Prepare and explain the use of a trial balance.	
	Trial Balance	1:33
	Trial Balance – Searching for Errors	1:04
P3	Prepare financial statements from business transactions.	
	Preparing Financial Statements	2:01
	How Financial Statements Link	1:10

### **Synopsis of Chapter Revisions**

NEW opener—Fitbit and entrepreneurial assignment.

New visual for process to get from transactions to financial statements.

New layout on four types of accounts that determine equity.

Improved presentation of “Double-Entry System” section.

Updated Apple data for NTK 2-4.

Updated debt ratio analysis using Costco and Walmart.

New Cheat Sheet reinforces chapter content.

Added four new Quick Studies.

Added three new Exercises.

Added new analysis assignments: Company Analysis, Comparative Analysis, and Global Analysis.

## **Chapter Outline**

**I. Basis of Financial Statements**—process to go from transactions and events to financial statements includes the following:

1. Identify each transaction and event from source documents, which identify and describe transactions and events entering the accounting process.
2. Analyze each transaction and event using the accounting equation.
3. Record relevant transactions and events in a journal.
4. Post journal information to ledger accounts.
5. Prepare and analyze the trial balance and financial statements.

A. Source Documents—identify and describe transactions and events entering the accounting system.

## **II. The “Account” Underlying Financial Statements**

An *account* is a record of increases and decreases in a specific asset, liability, equity, revenue, or expense. Account categories include:

1. *Assets*—resources owned or controlled by a company that have future economic benefit. Examples include Cash, Accounts Receivable, Note Receivable, Prepaid Expenses, Prepaid Insurance, Supplies, Store Supplies, Equipment, Buildings, and Land.
  - a. Accounts Receivable—promises of payment from customers.
  - b. Prepaid accounts—assets from prepayments of future expenses expected to be incurred in future accounting periods.
2. *Liabilities*—claims (by creditors) against assets, which means they are obligations to transfer assets or provide products or services to others. Examples include Accounts Payable, Note Payable, Unearned Revenues, and Accrued Liabilities.
  - a. Accounts Payable—promises to pay later, usually arising from purchase of inventory or other assets.
  - b. Notes Payable—written promissory note to pay a future amount.
  - c. Unearned revenue—revenue collected before it is earned/ before services or goods are provided.
  - d. Accrued liabilities—amounts owed that are not yet paid.
3. *Equity*—an owner’s claim on a company’s assets is called *equity* or *owner’s equity*. Examples include Common stock, Dividends (decreases equity), Revenues from providing goods or services; i.e., Sales, Fees Earned, (increases equity), and Expenses from assets or services used in operation; i.e., Supplies Expense, (decreases equity).

## **III. Ledger and Chart of Accounts**

1. The *general ledger* or *ledger* (referred to as the *books*) is a collection of all accounts and their balances for an accounting system.
2. The *chart of accounts* is a list of all accounts in the ledger with their identification numbers.

## **IV. Double-Entry Accounting**

Double-entry accounting demands the accounting equation remain in balance. This means that for each transaction (1) at least two accounts are involved with at least one debit and one credit and (2) total amount debited must equal the total amount credited.

A. Debits and Credit

1. A *T-account* represents a ledger account and is used to understand the effects of one or more transactions. It is shaped like the letter T with the account title on top.

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2. The *left* side of an account is called the *debit* side. A debit is an entry on the left side of an account.
  3. The *right* side of an account is called the *credit* side. A credit is an entry on the right side of an account.
  4. Accounts are *assigned balance sides* based on their classification or type.
  5. To *increase* an account, an amount is placed on the *balance side*, and to *decrease* an account, the amount is placed on the *side opposite its assigned balance side*.
  6. The *account balance* is the difference between the total debits and the total credits recorded in that account. When total debits exceed total credits, the account has a *debit balance*. When total credits exceed total debits, the account has a *credit balance*. When total debits equal total credits, the account has a *zero balance*.
- B. Double-Entry System**—requires that each transaction affect, and be recorded in, at least two accounts. The total debits must equal the total credits for each transaction.
1. The assignment of balance sides (debit or credit) follows the accounting equation.
    - a. *Assets* are on the *left side* of the equation; therefore, the left, or *debit*, side is the normal balance for assets.
    - b. *Liabilities and equities* are on the *right side*; therefore, the right, or *credit*, side is the normal balance for liabilities and equity.
    - c. *Dividends, revenues, and expenses* really are changes in equity, but it is necessary to set up temporary accounts for each of these items to accumulate data for statements. Withdrawals and expense accounts really represent decreases in equity; therefore, they are assigned debit balances. *Revenue* accounts really represent increases in equity; therefore, they are assigned credit balances.

**V. Analyzing and Processing Transactions**

**A. Journalizing and Posting Transactions**

Four steps in processing transactions are as follows:

1. Identify transactions and source documents.
2. Analyze transactions using the accounting equation. Apply double-entry accounting to determine account to be debited and credited.
3. Record journal entry—recorded chronologically. (A journal gives us a complete record of each transaction in one place.)
  - a. A *General Journal* is the most flexible type of journal because it can be used to record any type of transaction.
  - b. When a transaction is recorded in the General Journal, it is called a *journal entry*. A journal entry that affects more than two accounts is called a compound journal entry.
  - c. Each journal entry must contain equal debits and credits.
4. Post entry to ledger—process of transferring entries from the journal to the ledger.
  - a. Debits are posted as debit, and credits as credits to the accounts identified in the journal entry.
  - b. Actual accounting systems use *balance column accounts* rather than T-accounts in the ledger.
  - c. A *balance column account* has debit and credit columns for recording entries and a third column for showing the balance of the account after each entry is posted.

Note: Refer to the 16 basic transactions in the textbook for an illustration of analyzing, journalizing, and posting.

## VI. Trial Balance

- A. A *trial balance* is a list of all ledger accounts and their balances (either debit or credit) at a point in time. Account balances are reported in their appropriate debit or credit columns of the trial balance.
- B. The trial balance tests for the equality of the debit and credit account balances as required by double-entry accounting.
- C. Preparing a Trial Balance: three steps to prepare a trial balance are as follows:
  1. List each account and its amount (from the ledger).
  2. Compute the total of debit balances and the total of credit balances.
  3. Verify (prove) total debit balances equal total credit balances.
- D. Searching for Errors: when a trial balance does not balance, an error has occurred and must be corrected. Follow these steps:
  1. Verify that the trial balance columns are correctly added.
  2. Verify that account balances are accurately entered from the ledger.
  3. See whether a debit (or credit) balance is mistakenly listed in the trial balance as a credit (or debit).
  4. Recompute each account balance in the ledger.
  5. Verify that each journal entry is properly posted.
  6. Verify that the original journal entry has equal debits and credits.

**Note: Any errors must be located and corrected before preparing the financial statements. Financial statements prepared from the trial balance are actually *unadjusted* statements. The purpose, content and format for each statement was presented in Chapter 1. The next chapter will address adjustments.**

- D. Presentation Issues
  1. Dollar signs are not used in journals and ledgers, but do appear in financial statements and other reports such as trial balances.
  2. Usual practice on statements is to put dollar signs before only the first and last numbers in each column.
  3. Commas are optional except for financial reports, where they are always used.
  4. Companies commonly round amounts in reports to the nearest dollar, or even to a higher level.
  5. Double rule the final total(s) on the financial statements.

## VI. Decision Analysis—Debt Ratio

- A. Companies finance their assets with either liabilities or equity.
- B. A company that finances a relatively large portion of its assets with liabilities has a high degree of financial leverage (greater risk).
- C. The debt ratio describes the relationship between a company's liabilities and assets. It is calculated as total liabilities divided by total assets.
- D. The debt ratio tells us how much (what percentage) of the assets are financed by creditors (nonowners), or liability financing. The higher this ratio, the more risk a company faces, because liabilities must be repaid and often require regular interest payments.

## **Chapter 2 Alternate Demonstration Problem**

**Record the following transactions of Speedy Computer Service, owned by Bill Smith, for the month of March 2019.**

**Mar 1. Bill Smith invested \$3,000 cash in exchange for common stock to start the business.**

**15. Bill provided services and received cash amounting to \$5,400 from customers.**

**16. Purchased supplies on account, \$100.**

**17. Paid for gas and oil, \$800.**

**18. Paid salaries, \$5,000.**

**21. Provided service on credit, \$600.**

**28. Bill provided services and received cash amounting to \$6,000.**

**29. Paid for truck and equipment rental, \$2,500.**

**30. Speedy Computer Service paid cash dividends of \$2,000 to the owner.**

**Required:**

- 1. Record the above transactions in general journal form.**
- 2. Prepare a trial balance after posting the entries to T-accounts (you can make your own T-accounts).**
- 3. Prepare an income statement from trial balance.**
- 4. Prepare a statement of retained earnings from the trial balance and income statement.**
- 5. Prepare a balance sheet using the trial balance totals and the statement of retained earnings.**
- 6. Explain why the company's cash balance does not agree with net income.**

## Chapter 2 Solution: Alternate Demonstration Problem

### GENERAL JOURNAL

DATE	ACCOUNT TITLES AND EXPLANATION	PR	DEBIT			CREDIT		
March 1	Cash		3	0	00	00		
	Common Stock						3	000 00
15	Cash		5	4	00	00		
	Service Fees Earned						5	400 00
16	Supplies			1	00	00		
	Accounts Payable							100 00
17	Gas and Oil Expense			8	00	00		
	Cash							800 00
18	Salaries Expense		5	0	00	00		
	Cash						5	000 00
21	Accounts Receivable			6	00	00		
	Service Fees Earned							600 00
28	Cash		6	0	00	00		
	Service Fees Earned						6	000 00
29	Equipment Rental Expense		2	5	00	00		
	Cash						2	500 00
30	Dividends		2	0	00	00		
	Cash						2	000 00

<b>Speedy Computer Service</b>						
<b>Trial Balance</b>						
<b>March 31, 2019</b>						
	<b>Cash</b>	<b>4</b>	<b>1 0 0</b>	<b>00</b>		
	<b>Accounts Receivable</b>		<b>6 0 0</b>	<b>00</b>		
	<b>Supplies</b>		<b>1 0 0</b>	<b>00</b>		
	<b>Accounts Payable</b>				<b>1 0 0</b>	<b>00</b>
	<b>Common Stock</b>				<b>3 0 0 0</b>	<b>00</b>
	<b>Dividends</b>	<b>2</b>	<b>0 0 0</b>	<b>00</b>		
	<b>Service Fees Earned</b>				<b>1 2 0 0 0</b>	<b>00</b>
	<b>Gas &amp; Oil Expense</b>		<b>8 0 0</b>	<b>00</b>		
	<b>Equipment Rental Expense</b>	<b>2</b>	<b>5 0 0</b>	<b>00</b>		
	<b>Salaries Expense</b>	<b>5</b>	<b>0 0 0</b>	<b>00</b>		
	<b>Totals</b>	<b>1 5</b>	<b>1 0 0</b>	<b>00</b>	<b>1 5</b>	<b>1 0 0 00</b>

**3. Speedy Computer Service**  
**Income Statement**  
**For the month ended March 31, 2019**

<b>Fees Earned .....</b>	<b>\$12,000</b>
<b>Expenses:</b>	
<b>Equipment Rental Expense .....</b>	<b>\$2,500</b>
<b>Gas &amp; Oil Expense .....</b>	<b>800</b>
<b>Salary Expense .....</b>	<b><u>5,000</u></b>
<b>Total expenses .....</b>	<b><u>8,300</u></b>
<b>Net income .....</b>	<b><u>\$ 3,700</u></b>



4. **Speedy Computer Service**  
**Statement of Retained Earnings**  
**For the month ended March 31, 2019**

Beginning Owner's Equity	\$0
Add: Net Income	<u>3,700</u>
Total	3,700
Less: Dividends	<u>2,000</u>
Ending Owner's Equity	<u>\$1,700</u>

5. **Speedy Computer Service**  
**Balance Sheet**  
**March 31, 2019**

Assets		Liabilities and Owner's Equity	
Cash.....	\$4,100	Accounts payable .....	\$ 100
Accts Receivable.....	600	Common Stock.....	<u>3,000</u>
		Ending Retained Earnings..	<u>1,700</u>
Supplies .....	<u>100</u>	Total liabilities and	
		equity .....	<u>\$4,800</u>
Total Assets .....	<u>\$4,800</u>		

6. First, note that Common stock (\$3,000) and Dividends (\$2,000) affect the cash balance but do not affect the amount of net income earned during the period. Also, revenues in the amount of \$600 (March 21) are reflected in net income, but have not yet been collected. As such, these revenues did not impact the cash balance.