Financial Accounting Fundamentals 7th edition Wild Solutions Manual

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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
	Owner investment in exchange for stock.			

3) Post

Cash	101
7,000	

Equipment	167
3,000	

Common Stock	307
	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
	Purchased office supplies on credit.			

3) Post

Office Supplies 124	
500	

Accounts Payable 201	
	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
	Received cash for landscaping services.			

3) Post

Cash 101	
4,000	

Landscaping Revenue 403	
	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
	Received cash in advance for landscaping services.			

3) Post

Cash 101	
1,000	

Unearned Landscaping Revenue 236	
	1,000

Quick Study 2-7 (10 minutes)

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

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	
100	50
300	60
20	
Bal. 310	

b.

Accounts Payable	
2,000	8,000
2,700	
	Bal. 3,300

c.

Supplies	
10,000	3,800
1,100	
Bal. 7,300	

d.

Accounts Receivable	
600	150
	150
	150
	100
Bal. 50	

e.

Wages Payable	
	700
700	
	Bal. 0

f.

Cash	
11,000	4,500
800	6,000
100	1,300
Bal. 100	

Quick Study 2-11 (15 minutes)

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

Quick Study 2-12 (15 minutes)

LAWSON CONSULTING
Income Statement
For Month Ended June 30

Revenues		
Service revenue		$ 12,000
Expenses		
Wages expense	$ 6,000	
Rent expense	2,000	
Total expenses		8,000
Net income		$ 4,000

Quick Study 2-13 (15 minutes)

LAWSON CONSULTING
Statement of Retained Earnings
For Month Ended June 30

Retained earnings, June 1	$ 0
Add: Net income (from QS 2-12)	4,000
	4,000
Less: Cash dividends	1,500
Retained earnings, June 30	$ 2,500

Quick Study 2-14 (15 minutes)

LAWSON CONSULTING
Balance Sheet
June 30

Assets		**Liabilities**	
Cash	$ 5,000	Accounts payable	$ 3,000
Accounts receivable	4,500	**Equity**	
Equipment	6,500	Common stock	10,500
		Retained earnings*	2,500
		Total equity	13,000
Total assets	$16,000	Total liabilities & equity	$16,000

* 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"
b. 2 "Equity"
c. 4 "Liability"
d. 1 "Asset"
e. 3 "Account"

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
Services given in return for assets and a liability.			

c. Post

Cash 101	
10,000	

Note Payable 245	
	28,000

Equipment 167	
80,000	

Revenue 404	
	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)	$300,500
b.	Beginning accounts receivable (debit)	$102,500
	Sales on account in October (debits)	?
	Collections on account in October (credits)	(102,890)
	Ending accounts receivable (debit)	$ 89,000
	Sales on account in October (debits)	$ 89,390
c.	Beginning cash balance (debit)	$?
	Cash received in October (debits)	102,500
	Cash disbursed in October (credits)	(103,150)
	Ending cash balance (debit)	$ 18,600
	Beginning cash balance (debit)	$ 19,250

Exercise 2-7 (25 minutes)

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

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		

Photography Equipment

Aug. 1	33,500		

Common Stock

		Aug. 1	40,000

Office Supplies

Aug. 5	880		

Photography Fees Earned

		Aug. 20	3,331

Prepaid Insurance

Aug. 2	2,100		

Utilities Expense

Aug. 31	675		

Part 2

POSE-FOR-PICS
Trial Balance
August 31

	Debit	*Credit*
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	675	
Totals	$43,331	$43,331

Exercise 2-9 (30 minutes)

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

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

	Debit	*Credit*
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	$118,950	$118,950

Exercise 2-11 (20 minutes)

1.

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

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

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)

Cash

(1)	6,000	**(2)**	4,800
(5)	4,500	**(4)**	800
		(6)	900
		(7)	3,400

Supplies

(3)	900		

Prepaid Insurance

(2)	4,800		

Equipment

(1)	7,600		
(7)	3,400		

Web Servers

(1)	12,000		

Accounts Payable

(6)	900	**(3)**	900

Common Stock

		(1)	25,600

Services Revenue

		(5)	4,500

Selling Expenses

(4)	800		

Exercise 2-14 (30 minutes)

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

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	=	69,000
Net increase in equity					$29,000

a.

Net income	$?
Plus owner investments	0
Less dividends	(0)
Change in equity	$29,000

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.)	(15,000)
Change in equity	$29,000

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	(0)
Change in equity	$29,000

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.)..............	(15,000)
Change in equity	$29,000

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)

HELP TODAY
Income Statement
For Month Ended August 31

Revenues		
Consulting fees earned		$ 27,000
Expenses		
Rent expense	$ 9,550	
Salaries expense	5,600	
Telephone expense	860	
Miscellaneous expenses	520	
Total expenses		16,530
Net income		$ 10,470

Exercise 2-17 (15 minutes)

HELP TODAY
Statement of Retained Earnings
For Month Ended August 31

Retained earnings, August 1	$ 0
Add: Net income (from Exercise 2-16)	10,470
	10,470
Less: Dividends	6,000
Retained earnings, August 31	$ 4,470

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*	4,470
Land	44,000	Total equity	106,470
Total assets	$116,970	Total liabilities & equity	$116,970

* Amount from Exercise 2-17.

Exercise 2-19 (15 minutes)

	CBS	ABC	CNN	NBC
Answers	$(28,000)	$42,000	$73,000	$(45,000)
Computations:				
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)	22,000	90,000	(4,000)	(45,000)
Equity, end of year	$104,000	$85,000	$73,000	$110,000

Exercise 2-20 (20 minutes)

	Description	(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
a.	$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.	$6,500 credit to Cash is posted twice as two credits to Cash.	$6,500	Credit	Cash	Cash is understated by $6,500
c.	$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
d.	$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
e.	$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
f.	$5,850 credit to Services Revenue is posted as a $585 credit.	$5,265	Debit	Services Revenue	Services Revenue is understated by $5,265
g.	$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)

	Overstated, Understated, or Correctly-Stated	Amount
a.	Correctly-stated. The debit column is correctly stated because the erroneous debit (to Accounts Payable) is deducted from an account with a (larger assumed) credit balance.	$0
b.	Understated. The credit column is understated by $37,900 because Accounts Payable was debited — it should have been credited.	$37,900
c.	Correctly-stated. The Automobiles account balance is correctly stated.	$0
d.	Understated. 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.	$37,900
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.

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

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)

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

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

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	435	
Total	$119,490	$119,490

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

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

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

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

	Debit	*Credit*
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	925	
Totals	$261,733	$261,733

Problem 2-3A (90 minutes)

Part 1

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

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

VENTURE CONSULTANTS
Trial Balance
March 31

	Debit	Credit
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	500	
Totals	$187,920	$187,920

Problem 2-4A (90 minutes)

Part 1

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

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

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

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

HV CONSULTING
Trial Balance
September 30

	Debit	Credit
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	635	
Total	$291,350	$291,350

Problem 2-5A (90 minutes)

Part 1

NETTLE DISTRIBUTION
Balance Sheet
December 31, 2018

Assets		**Liabilities**	
Cash	$ 64,300	Accounts payable	$ 3,500
Accounts receivable	26,240		
Office supplies	3,160		
Trucks	148,000	**Equity**	
Office equipment	44,000	Total equity	282,200
Total assets	$285,700	Total liabilities and equity	$285,700

NETTLE DISTRIBUTION
Balance Sheet
December 31, 2019

Assets		**Liabilities**	
Cash	$ 15,640	Accounts payable	$ 33,500
Accounts receivable	19,100	Note payable	40,000
Office supplies	1,960	Total liabilities	73,500
Trucks	157,000		
Office equipment	44,000		
Building	80,000	**Equity**	
Land	60,000	Total equity	304,200
Total assets	$377,700	Total liabilities and equity	$377,700

Part 2

Computation of 2019 net income:

Owner investment	35,000
Add net income	?
Deduct dividends	(19,000)
Increase in equity during the year	$ 22,000*

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	(304,200)
Increase in equity during 2019	$ 22,000

Part 3

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

Problem 2-6A (35 minutes)

Part 1

MIN ENGINEERING
Trial Balance
May 31

	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	$66,900	$66,900

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

METRIX
Income Statement
For Month Ended March 31

Revenues		
Consulting revenue	$12,000	
Rental revenue	500	
Total revenues		$12,500
Expenses		
Salaries expense	3,000	
Rent expense	2,000	
Advertising expense	400	
Utilities expense	200	
Total expenses		5,600
Net income		$ 6,900

Part 2

METRIX
Statement of Retained Earnings
For Month Ended March 31

Retained earnings, March 1	$ 0
Add: Net income (from Income Statement)	6,900
	6,900
Less: Dividends	2,000
Retained earnings, March 31	$ 4,900

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	300
Office supplies	1,500	Total liabilities	4,000
Equipment	4,000	**Equity**	
Note receivable	2,500	Common stock	11,600
		Retained earnings*	4,900
		Total equity	16,500
Total assets	$20,500	Total liabilities & equity	$20,500

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

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	860	
Totals	$74,330	$74,330

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

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

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

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	608	
Totals	$141,080	$141,080

Problem 2-3B (90 minutes)

Part 1

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

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	831	
Totals	$60,599	$60,599

Problem 2-4B (90 minutes)

Part 1

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

Problem 2-4B

Part 1—Concluded

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

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	540	
Total	$95,100	$95,100

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		**Equity**	
Machinery	28,000		Total equity	137,000
Total assets	$141,000		Total liabilities & equity	$141,000

TAMA CO.
Balance Sheet
December 31, 2019

Assets			**Liabilities**	
Cash	$ 5,000	=	Accounts payable	$ 12,000
Accounts receivable	25,000		Note payable	250,000
Office supplies	13,500		Total liabilities	262,000
Office equipment	40,000			
Machinery	28,500			
Building	250,000		**Equity**	
Land	50,000		Total equity	150,000
Total assets	$412,000		Total liabilities & equity	$412,000

Part 2

Computation of 2019 net income:

Owner investment	5,000
Add net income	?
Deduct dividends	(3,000)
Increase in equity during the year	$ 13,000*

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	(150,000)
Increase in equity during 2019	$ 13,000

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	7,650	
Totals	$47,650	$47,650

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

Revenues		
Consulting revenue	$36,000	
Rental revenue	1,500	
Total revenues		$37,500
Expenses		
Salaries expense	9,000	
Rent expense	6,000	
Advertising expense	1,200	
Utilities expense	600	
Total expenses		16,800
Net income		$20,700

Part 2

PRISEK
Statement of Retained Earnings
For Month Ended July 31

Retained earnings, July 1	$ 0
Add: Net income (from Income Statement)	20,700
	20,700
Less: Dividends	6,000
Retained earnings, July 31	$14,700

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	900
Office supplies	4,500	Total liabilities	12,000
Equipment	12,000	**Equity**	
Note receivable	7,500	Common stock	34,800
		Retained earnings*	14,700
		Total equity	49,500
Total assets	$61,500	Total liabilities & equity	$61,500

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

Serial Problem, Business Solutions *(Continued)*

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

Serial Problem, Business Solutions *(Continued)*

Part 2

General Ledger accounts

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	$98,659	$98,659

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 = 64.3%
   (b) $193,437 / $321,686 = 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 = 64.3%

   Prior year debt ratio: $193,437/$321,686 = 60.1%

2. Google

   Current year debt ratio: $44,793/$197,295 = 22.7%

   Prior year debt ratio: $28,461/$167,497 = 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: ₩87,260,662 / ₩301,752,090 = 28.9%

   Prior year debt ratio: ₩69,211,291 / ₩262,174,324 = 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 <u>sample solution</u> 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 <u>and</u> 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

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

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

Related Assignment Materials

Student Learning Objectives	*Questions*	*Quick Studies**	*Exercises**	*Problems**	*AA and BTN*
Conceptual objectives:					
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 *debits* and *credits* 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
Analytical objectives:					
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
Procedural objectives:					
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 *debits* and *credits* and explain double-entry accounting.	
	T-accounts	0:54

	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.

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 0 0	00			
	Common Stock					3	0 0 0	00
15	Cash		5	4 0 0	00			
	Service Fees Earned					5	4 0 0	00
16	Supplies			1 0 0	00			
	Accounts Payable						1 0 0	00
17	Gas and Oil Expense			8 0 0	00			
	Cash						8 0 0	00
18	Salaries Expense		5	0 0 0	00			
	Cash					5	0 0 0	00
21	Accounts Receivable			6 0 0	00			
	Service Fees Earned						6 0 0	00
28	Cash		6	0 0 0	00			
	Service Fees Earned					6	0 0 0	00
29	Equipment Rental Expense		2	5 0 0	00			
	Cash					2	5 0 0	00
30	Dividends		2	0 0 0	00			
	Cash					2	0 0 0	00

Speedy Computer Service
Trial Balance
March 31, 2019

	Cash	4	1 0 0	00			
	Accounts Receivable		6 0 0	00			
	Supplies		1 0 0	00			
	Accounts Payable					1 0 0	00
	Common Stock				3	0 0 0	00
	Dividends	2	0 0 0	00			
	Service Fees Earned				1 2	0 0 0	00
	Gas & Oil Expense		8 0 0	00			
	Equipment Rental Expense	2	5 0 0	00			
	Salaries Expense	5	0 0 0	00			
	Totals	1 5	1 0 0	00	1 5	1 0 0	00

3.

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

Fees Earned		**$12,000**
Expenses:		
Equipment Rental Expense	**$2,500**	
Gas & Oil Expense	**800**	
Salary Expense	**5,000**	
Total expenses		**8,300**
Net income		**$ 3,700**

4.

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

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

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	3,000
		Ending Retained Earnings	1,700
Supplies	100	Total liabilities and equity	$4,800
Total Assets	$4,800		

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.