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# Chapter 2

## Financial Statements and the Accounting System

### 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. (d) Net assets refer to equity.
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; Deferred tax assets; Vendor non-trade receivables; Other current assets; Long-term marketable securities; Property, plant and equipment, net; Goodwill; Acquired intangible assets, net; Goodwill; Acquired intangible assets, net; Other assets.  
  
Credit balance accounts on the Apple balance sheet include: Accounts Payable; Accrued expenses; Deferred revenue; Commercial paper; Deferred revenue—non-current; Long-term debt; Other non-current liabilities; Common stock; Retained earnings; Accumulated other comprehensive income.
17. The asset accounts with *receivable* in its account title are: Accounts receivable, net; Receivable under reverse repurchase agreements; Income taxes receivable, net. The liabilities with *payable* in the account title are: Accounts payable; Securities lending payable; Income taxes payable, net; Income taxes payable, non-current.
18. Samsung's balance sheet lists the following current liabilities: Trade and other payables; Short-term borrowings; Other payables; Advances received; Withholdings; Accrued expenses; Income tax payable; Current portion of long-term borrowings and debentures; 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 ticket
- d. Telephone bill
- e. Invoice from supplier
- h. Bank statement

### 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     | 191 |
| e. | L  | Liability | 208 |
| 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 invests cash &amp; equipment for stock.</i> |     |       |        |

3) Post

| Cash  | 101 | Equipment | 167 | Common Stock | 307    |
|-------|-----|-----------|-----|--------------|--------|
| 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 |
| 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  |
|        | <i>Received cash for landscaping services.</i> |     |       |        |

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  |
|        | <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. Accounting under IFRS follows the same debit and credit system as under US GAAP.
- b. The same four basic financial statements are prepared under IFRS and US GAAP: income statement, balance sheet, statement of changes in equity, and statement of cash flows. Although some variations from these titles exist within both systems, the four basic statements are present.
- c. Accounting reports under both IFRS and US GAAP are likely different depending on the extent of accounting controls and enforcement. For example, the absence of controls and enforcement increase the possibility of fraudulent transactions and misleading financial statements. Without controls and enforcement, all accounting systems run the risk of abuse and manipulation.

### Quick Study 2-11 (10 minutes)

$$\text{Debt ratio} = \frac{\text{Total liabilities}}{\text{Total assets}} = \frac{\$30,624 \text{ mil}}{\$39,946 \text{ mil}} = \underline{76.7\%}$$

**Interpretation:** Its debt ratio of 76.7% 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” |
|----|---|---------|----|---|------------------|

## 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)

Of the items listed, the following effects should be included:

- a. \$28,000 increase in a liability account.
- b. \$10,000 increase in the Cash account.
- e. \$62,000 increase in a revenue account.

**Explanation:** This transaction created \$62,000 in revenue, which is the value of the service provided. Payment is received in the form of a \$10,000 increase in cash, an \$80,000 increase in computer equipment, and a \$28,000 increase in its liabilities. The net value received by the company is \$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 business 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)

| 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 |

| POSE-FOR-PICS<br>Trial Balance<br>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 .....                                | <u>\$43,331</u> | <u>\$43,331</u> |

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

|    |  |         |         |
|----|--|---------|---------|
| a. | Cash .....   | 100,750 |         |
|    | Common Stock .....                                 |         | 100,750 |
|    | <i>Owner invested in the business 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<br>Trial Balance<br>May 31, 2016 |                  |                  |  |
|--|------------------|------------------|--|
|  | 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 .....                                   | <u>\$118,950</u> | <u>\$118,950</u> |  |

## Exercise 2-11 (20 minutes)

### Transactions that created expenses:

|    |                                       |       |       |
|----|---------------------------------------|-------|-------|
| b. | Salaries Expense.....                 | 1,233 |       |
|    | Cash .....                            |       | 1,233 |
|    | <i>Paid salary of receptionist.</i>   |       |       |
| d. | Utilities Expense .....               | 870   |       |
|    | Cash .....                            |       | 870   |
|    | <i>Paid utilities for the office.</i> |       |       |

[Note: Expenses are outflows or using up of assets (or the creation of liabilities) that occur in the process of providing goods or services to customers.]

### Transactions a, c, and e are not expenses for the following reasons:

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

## Exercise 2-12 (20 minutes)

### Transactions that created revenues:

|    |                                     |       |       |
|----|-------------------------------------|-------|-------|
| b. | Accounts Receivable .....           | 2,300 |       |
|    | Services Revenue .....              |       | 2,300 |
|    | <i>Provided services on credit.</i> |       |       |
| c. | Cash .....                          | 875   |       |
|    | Services Revenue .....              |       | 875   |
|    | <i>Provided services for cash.</i>  |       |       |

[Note: Revenues are inflows of assets (or decreases in liabilities) received in exchange for goods or services provided to customers.]

### Transactions that did not create revenues along with the reasons are:

- a. This transaction brought in cash, but this is an owner investment.
- d. This transaction brought in cash, but it created a liability because the services have not yet been provided to the client.
- e. This transaction changed the form of the asset from accounts receivable to cash. Total assets were not increased (revenue was recognized when the receivable was originally recorded).
- f. This transaction brought in cash and increased assets, but it also increased a liability by the same amount (no goods or services were provided to generate revenue).

## Exercise 2-13 (25 minutes)

- a. Belle created a new business and invested \$6,000 cash, \$7,600 of equipment, and \$12,000 in automobiles in exchange for stock.
- b. Paid \$4,800 cash in advance for insurance coverage.
- c. Paid \$900 cash for office supplies.
- d. Purchased \$300 of office supplies and \$9,700 of equipment on credit.
- e. Received \$4,500 cash for delivery services provided.
- f. Paid \$1,600 cash towards accounts payable.
- g. Paid \$820 cash for gas and oil expenses.

## Exercise 2-14 (30 minutes)

|    |   |        |        |
|----|---|--------|--------|
| a. | Cash .....  | 6,000  |        |
|    | Equipment .....   | 7,600  |        |
|    | Automobiles .....   | 12,000 |        |
|    | Common Stock .....  |        | 25,600 |
|    | <i>Owner investment in company for stock.</i>             |        |        |
| b. | Prepaid Insurance .....                                   | 4,800  |        |
|    | Cash .....  |        | 4,800  |
|    | <i>Purchased insurance coverage.</i>                      |        |        |
| c. | Office Supplies .....                                     | 900    |        |
|    | Cash .....  |        | 900    |
|    | <i>Purchased supplies with cash.</i>                      |        |        |
| d. | Office Supplies .....                                     | 300    |        |
|    | Equipment .....   | 9,700  |        |
|    | Accounts Payable .....                                    |        | 10,000 |
|    | <i>Purchased supplies and equipment on credit.</i>        |        |        |
| e. | Cash .....  | 4,500  |        |
|    | Delivery Services Revenue .....                           |        | 4,500  |
|    | <i>Received cash from customer for services provided.</i> |        |        |
| f. | Accounts Payable .....                                    | 1,600  |        |
|    | Cash .....  |        | 1,600  |
|    | <i>Made payment on payables.</i>                          |        |        |
| g. | Gas and Oil Expense .....                                 | 820    |        |
|    | Cash .....  |        | 820    |
|    | <i>Paid for gas and oil.</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 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 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 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.....      |                 | <b>\$ 27,000</b>        |
| <b>Expenses</b>                  |                 |                         |
| Rent expense .....               | <b>\$ 9,550</b> |                         |
| Salaries expense .....           | <b>5,600</b>    |                         |
| Telephone expense .....          | <b>860</b>      |                         |
| Miscellaneous expenses .....     | <b>520</b>      |                         |
| Total expenses .....             |                 | <b><u>16,530</u></b>    |
| Net income .....                 |                 | <b><u>\$ 10,470</u></b> |

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

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

### Exercise 2-18 (15 minutes)

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

\* Amount from Exercise 2-17.

### Exercise 2-19 (15 minutes)

| <u>Answers</u>             | (a)               | (b)             | (c)             | (d)               |
|----------------------------|-------------------|-----------------|-----------------|-------------------|
|                            | <u>\$(28,000)</u> | <u>\$42,000</u> | <u>\$73,000</u> | <u>\$(45,000)</u> |
| <b>Computations:</b>       |                   |                 |                 |                   |
| Equity, Dec. 31, 2015..... | \$ 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, Dec. 31, 2016..... | <u>\$104,000</u>  | <u>\$85,000</u> | <u>\$73,000</u> | <u>\$110,000</u>  |

## Exercise 2-20 (20 minutes)

| Description  | (1)<br>Difference<br>between<br>Debit and<br>Credit<br>Columns | (2)<br>Column<br>with the<br>Larger<br>Total | (3)<br>Identify<br>account(s)<br>incorrectly<br>stated | (4)<br>Amount that account(s)<br>is overstated or<br>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<br>Dividends                              | Common Stock is understated by \$10,900<br>Dividends is understated by \$10,900           |
| d. \$2,050 debit to Prepaid Insurance is posted as a debit to Insurance Expense. | \$0  | —  | Prepaid Insurance<br>Insurance Expense                 | Prepaid Insurance is understated by \$2,050<br>Insurance Expense is overstated by \$2,050 |
| e. \$38,000 debit to Machinery is posted as a debit to Accounts Payable.         | \$0  | —  | Machinery<br>Accounts Payable                          | Machinery is understated by \$38,000<br>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)

- a. 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. The credit column is understated by \$37,900 because Accounts Payable was debited — it should have been credited.
- c. The Automobiles account balance is correctly stated.
- d. 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.
- e. The credit column is \$37,900 less than the debit column, or \$162,100 in total (\$200,000 - \$37,900).

### Exercise 2-22 (10 minutes)

| HEINEKEN N.V.<br>Balance Sheet (in Euro millions)<br>December 31, 2014 |                 |                                 |                 |
|--|-----------------|---------------------------------|-----------------|
| <b>Assets</b>  |                 | <b>Equity and liabilities</b>   |                 |
| Noncurrent assets .....  | € 28,744        | Total equity .....              | € 13,452        |
| Current assets .....   | 6,086           | Noncurrent liabilities .....    | 12,846          |
|  |                 | Current liabilities .....       | 8,532           |
| Total assets .....   | <u>€ 34,830</u> | Total equity and liabilities .. | <u>€ 34,830</u> |

### Exercise 2-23 (15 minutes)

a.

| Co. | Liabilities | / | Assets    | = | Debt Ratio | Net Income | / | Average Assets | = | ROA   |
|-----|-------------|---|-----------|---|------------|------------|---|----------------|---|-------|
| 1   | \$11,765    |   | \$ 90,500 |   | 0.13       | \$20,000   |   | \$100,000      |   | 0.200 |
| 2   | 46,720      |   | 64,000    |   | 0.73       | 3,800      |   | 40,000         |   | 0.095 |
| 3   | 26,650      |   | 32,500    |   | 0.82       | 650        |   | 50,000         |   | 0.013 |
| 4   | 55,860      |   | 147,000   |   | 0.38       | 21,000     |   | 200,000        |   | 0.105 |
| 5   | 31,280      |   | 92,000    |   | 0.34       | 7,520      |   | 40,000         |   | 0.188 |
| 6   | 52,250      |   | 104,500   |   | 0.50       | 12,000     |   | 80,000         |   | 0.150 |

- b. Company 3 relies most heavily on creditor (non-owner) financing with 82% of its assets financed by liabilities.
- c. Company 1 relies least on creditor (non-owner) financing at only 13%. This implies that 87% of the assets are financed by equity (owners).
- d. The companies with the highest debt ratios indicate the greatest risk. The two companies with the highest debt ratios are 2 and 3.
- e. Company 1 yields the highest return on assets at 20%; followed by Company 5 at 18.8%.
- f. As an investor, one prefers high returns at low risk. Company 1 is the preferred investment since it yields the lowest risk (debt ratio is 13%) and highest return on assets (20%).

# 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 invested cash and equipment 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<br>Trial Balance<br>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 .....                            |    | <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 invested cash and equipment 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<br>Trial Balance<br>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.....                           |    | 925              |                  |               |
| 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 invested cash and equipment 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 .....    | 500              |                  |
| Totals.....                | <u>\$187,920</u> | <u>\$187,920</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 invested cash and equipment 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 contributed automobile to business 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><br><b>Trial Balance</b><br><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<br>Balance Sheet<br>December 31, 2015 |                  |                                 |                  |
|---|------------------|---------------------------------|------------------|
| <i>Assets</i>   |                  | <i>Liabilities</i>              |                  |
| Cash.....   | \$ 64,300        | Accounts payable.....           | \$ 3,500         |
| Accounts receivable ....                                  | 26,240           |                                 |                  |
| Office supplies.....                                      | 3,160            |                                 |                  |
| Trucks.....   | 148,000          |                                 |                  |
| Office equipment .....                                    | <u>44,000</u>    | <i>Equity</i>                   |                  |
| Total assets.....   | <u>\$285,700</u> | Total equity .....              | <u>282,200</u>   |
|   |                  | Total liabilities and equity... | <u>\$285,700</u> |

| NETTLE DISTRIBUTION<br>Balance Sheet<br>December 31, 2016 |                  |                                   |                  |
|---|------------------|-----------------------------------|------------------|
| <i>Assets</i>   |                  | <i>Liabilities</i>                |                  |
| Cash.....   | \$ 15,640        | Accounts payable .....            | \$ 33,500        |
| Accounts receivable ....                                  | 19,390           | Note payable.....                 | <u>40,000</u>    |
| Office supplies.....                                      | 1,960            | Total liabilities .....           | <u>73,500</u>    |
| Trucks.....   | 157,000          |                                   |                  |
| Office equipment .....                                    | 44,000           |                                   |                  |
| Building .....  | 80,000           | <i>Equity</i>                     |                  |
| Land .....  | <u>60,000</u>    | Total equity .....                | <u>304,490</u>   |
| Total assets.....   | <u>\$377,990</u> | Total liabilities and equity .... | <u>\$377,990</u> |

**Part 2**

Computation of 2016 net income:

|                                       |                  |
|---------------------------------------|------------------|
| Equity, December 31, 2015 .....       | \$282,200        |
| Equity, December 31, 2016 .....       | <u>(304,490)</u> |
| Increase in equity during 2016.....   | <u>\$ 22,290</u> |
| Owner investment .....                | 35,000           |
| Add net income .....                  | ?                |
| Deduct dividends (\$3,000 x 12) ..... | <u>(36,000)</u>  |
| Increase in equity during 2016.....   | <u>\$ 22,290</u> |

Therefore, net income must equal  $(\$22,290 + \$36,000 - \$35,000) = \underline{\underline{\$ 23,290}}$

**Part 3**

Debt Ratio =  $\$73,500 / \$377,990 = \underline{\underline{19.4\%}}$

**Problem 2-6A (35 minutes)****Part 1**

| MIN ENGINEERING<br>Trial Balance<br>May 31 |                 |                 |
|--|-----------------|-----------------|
|  | Debit           | Credit          |
| Cash.....                                  | \$37,641        |                 |
| Office supplies.....                       | 890             |                 |
| Prepaid insurance .....                    | 4,600           |                 |
| Office equipment .....                     | 12,900          |                 |
| Accounts payable.....                      |                 | \$12,900        |
| Common stock .....                         |                 | 18,000          |
| Dividends .....                            | 3,329           |                 |
| Engineering fees earned.....               |                 | 36,000          |
| Rent expense .....                         | <u>7,540</u>    |                 |
| Totals.....                                | <u>\$66,900</u> | <u>\$66,900</u> |

**Part 2: Likely transactions (following order of trial balance).**

1. Purchased \$890 of office supplies for cash.
2. Paid \$4,600 insurance premium in advance.
3. Purchased \$12,900 of office equipment on credit (with account payable).
4. Yi Min invested \$18,000 cash in the business in exchange for stock.
5. Paid \$3,329 cash for dividends.
6. Earned \$36,000 cash for engineering services.
7. Paid \$7,540 cash for rent expense.

**Part 3**

| Report of Cash Received and Paid |               |                 |
|----------------------------------|---------------|-----------------|
| <b>Cash received</b>             |               |                 |
| Owner investment .....           | \$18,000      |                 |
| Engineering fees .....           | <u>36,000</u> |                 |
| Total cash received .....        |               | \$54,000        |
| <b>Cash paid</b>                 |               |                 |
| Office supplies .....            | 890           |                 |
| Insurance premium .....          | 4,600         |                 |
| Dividends .....                  | 3,329         |                 |
| Rent .....                       | <u>7,540</u>  |                 |
| Total cash paid .....            |               | <u>16,359</u>   |
| Ending balance .....             |               | <u>\$37,641</u> |

## 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 invested in the business 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 for 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**

| <b>HUMBLE MANAGEMENT SERVICES</b> |                 |                 |
|-----------------------------------|-----------------|-----------------|
| <b>Trial Balance</b>              |                 |                 |
| <b>September 30</b>               |                 |                 |
|                                   | <b>Debit</b>    | <b>Credit</b>   |
| 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 invested cash and equipment 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 for 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**

| <b>SOFTWORKS</b>             |                  |                  |
|------------------------------|------------------|------------------|
| <b>Trial Balance</b>         |                  |                  |
| <b>April 30</b>              |                  |                  |
|                              | <b>Debit</b>     | <b>Credit</b>    |
| 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 .....                 | <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 invested cash and equipment 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 for 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 .....    |  |  | 831             |                 |  |
| 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 invested cash and equipment 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 contributed automobile to business 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 Continued)**

|    |                                      |     |       |       |
|----|--------------------------------------|-----|-------|-------|
| 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 for 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**

| <b>NUNCIO CONSULTING</b>  |                 |                 |
|---------------------------|-----------------|-----------------|
| <b>Trial Balance</b>      |                 |                 |
| <b>June 30</b>            |                 |                 |
|                           | <b>Debit</b>    | <b>Credit</b>   |
| 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.<br>Balance Sheet<br>December 31, 2015 |                  |                                 |                  |
|--|------------------|---------------------------------|------------------|
| <i>Assets</i>                                  |                  | <i>Liabilities</i>              |                  |
| Cash .....                                     | \$ 20,000        | Accounts payable .....          | \$ 4,000         |
| Accounts receivable .....                      | 35,000           |                                 |                  |
| Office supplies .....                          | 8,000            |                                 |                  |
| Office equipment.....                          | 40,000           |                                 |                  |
| Machinery .....                                | 28,500           |                                 |                  |
| Total assets .....                             | <u>\$131,500</u> |                                 |                  |
|  |                  | <i>Equity</i>                   |                  |
|  |                  | Total equity.....               | 127,500          |
|  |                  | Total liabilities & equity..... | <u>\$131,500</u> |

| TAMA CO.<br>Balance Sheet<br>December 31, 2016 |                  |                                 |                  |
|--|------------------|---------------------------------|------------------|
| <i>Assets</i>                                  |                  | <i>Liabilities</i>              |                  |
| Cash .....                                     | \$ 5,000         | Accounts payable .....          | \$ 12,000        |
| Accounts receivable .....                      | 25,000           | Note payable.....               | <u>250,000</u>   |
| Office supplies .....                          | 13,500           | Total liabilities .....         | 262,000          |
| Office equipment.....                          | 40,000           |                                 |                  |
| Machinery .....                                | 28,500           |                                 |                  |
| Building.....                                  | 250,000          |                                 |                  |
| Land .....                                     | 50,000           |                                 |                  |
| Total assets .....                             | <u>\$412,000</u> |                                 |                  |
|  |                  | <i>Equity</i>                   |                  |
|  |                  | Total equity.....               | 150,000          |
|  |                  | Total liabilities & equity..... | <u>\$412,000</u> |

**Part 2**

Calculation of 2016 net income:

|   |                  |
|---|------------------|
| Equity, December 31, 2015 .....         | \$127,500        |
| Equity, December 31, 2016 .....         | <u>(150,000)</u> |
| Increase in equity during 2016 .....    | <u>\$ 22,500</u> |
| Owner investment during 2016 .....      | \$ 15,000        |
| 2016 Net income .....                   | ?                |
| Dividends during 2016 (\$250 x 12)..... | <u>(3,000)</u>   |
| Increase in equity during 2016 .....    | <u>\$ 22,500</u> |

Therefore, 2016 income must equal (\$22,500+ \$3,000- \$15,000) = \$ 10,500

**Part 3**

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

**Problem 2-6B (35 minutes)****Part 1**

| GOULD SOLUTIONS<br>Trial Balance<br>April 30 |                 |                 |
|--|-----------------|-----------------|
|  | Debit           | Credit          |
| Cash .....                                   | \$19,982        |                 |
| Office supplies .....                        | 760             |                 |
| Prepaid rent .....                           | 1,800           |                 |
| Office equipment .....                       | 12,250          |                 |
| Accounts payable.....                        |                 | \$12,250        |
| Common stock .....                           |                 | 15,000          |
| Dividends .....                              | 5,200           |                 |
| Consulting fees earned .....                 |                 | 20,400          |
| Operating expenses .....                     | <u>7,658</u>    |                 |
| Totals.....                                  | <u>\$47,650</u> | <u>\$47,650</u> |

**Part 2: Likely transactions (following order of trial balance).**

1. Purchased \$760 of office supplies for cash.
2. Paid \$1,800 cash for prepaid rent.
3. Purchased \$12,250 office equipment on credit.
4. Gould invested \$15,000 cash in the business in exchange for stock.
5. Paid \$5,200 cash for dividends.
6. Earned \$20,400 cash in consulting fees.
7. Paid \$7,658 cash for operating expenses.

**Part 3**

| Report of Cash Received and Paid |               |                 |
|----------------------------------|---------------|-----------------|
| <b>Cash received</b>             |               |                 |
| Owner investment .....           | \$15,000      |                 |
| Consulting fees .....            | <u>20,400</u> |                 |
| Total cash received .....        |               | \$35,400        |
| <b>Cash paid</b>                 |               |                 |
| Office supplies .....            | 760           |                 |
| Prepaid rent .....               | 1,800         |                 |
| Dividends .....                  | 5,200         |                 |
| Operating expenses .....         | <u>7,658</u>  |                 |
| Total cash paid .....            |               | <u>15,418</u>   |
| Ending balance.....              |               | <u>\$19,982</u> |

## Serial Problem — SP 2

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

2016

|        |  |     |        |        |
|--------|--|-----|--------|--------|
| Oct. 1 | Cash.....  | 101 | 45,000 |        |
|        | Office Equipment.....                              | 163 | 8,000  |        |
|        | Computer Equipment.....                            | 167 | 20,000 |        |
|        | Common Stock.....                                  | 307 |        | 73,000 |
|        | <i>Owner invests cash and equipment 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 for 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 donation. (Some companies use a Donations account.)</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 for dividends.</i>  |     |       |       |

# 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 (Continued)**

| 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 (*Concluded*)

### Part 3

| <b>BUSINESS SOLUTIONS</b>       |                 |                 |
|---------------------------------|-----------------|-----------------|
| <b>Trial Balance</b>            |                 |                 |
| <b>November 30</b>              |                 |                 |
|                                 | <b>Debit</b>    | <b>Credit</b>   |
| 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> |

## Reporting in Action — BTN 2-1

1. Apple reports (\$ millions):  
\$120,292 in liabilities at September 27, 2014.  
\$83,451 in liabilities at September 28, 2013.  
\$57,854 in liabilities at September 29, 2012.
2. Apple reports (\$ millions):  
\$231,839 in assets at September 27, 2014.  
\$207,000 in assets at September 28, 2013.  
\$176,064 in assets at September 29, 2012.
3. (\$ millions):  
As of September 27, 2014 Debt Ratio =  $\$120,292 / \$231,839$  = 51.9%  
As of September 28, 2013 Debt Ratio =  $\$83,451 / \$207,000$  = 40.3%  
As of September 29, 2012 Debt Ratio =  $\$57,854 / \$176,064$  = 32.9%
4. Apple employed more financial leverage as of September 27, 2014, when 51.9% of its assets were financed by debt, relative to September 28, 2013, when 40.3% of its assets were financed by debt. Consequently, its financing structure was more risky in its fiscal 2014 in comparison to its fiscal 2013.
5. Solution depends on the financial statements accessed.

## Comparative Analysis — BTN 2-2

### 1. Apple (\$ millions)

Current year debt ratio:  $\$120,292/\$231,839$  = 51.9%

One-year Prior debt ratio:  $\$83,451/\$207,000$  = 40.3%

Two-year Prior debt ratio:  $\$57,854/\$176,064$  = 32.9%

### 2. Google (\$ millions)

Current year debt ratio:  $\$26,633/\$131,133$  = 20.3%

One-year Prior debt ratio:  $\$23,611/\$110,920$  = 21.3%

Two-year Prior debt ratio:  $\$22,083/\$93,798$  = 23.5%

3. Apple has the higher degree of financial leverage. Apple's debt ratio is markedly higher for the current year than that of Google (51.9% vs. 20.3%). 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.

## **Ethics Challenge — BTN 2-3**

**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.**

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.
- ***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.
- ***Balance sheet*** describes a company's financial position (assets, liabilities, and equity) at a point in time.

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 2-5

1. The prior three years' net income or (loss) for Amazon are (\$ millions):  
     2014 = \$ (241)                      2013 = \$ 274                      2012 = \$ (39)
2. The three years net cash *provided* by operations follows (\$ millions):  
     2014 = \$6,842                      2013 = \$5,475                      2012 = \$4,180
3. In 2014, Amazon had net loss of \$(241) million and operating cash flows of \$6,842 million; and, in that same year, total net cash increased by only \$5,899 million (see its statement of cash flows).

The reason its cash balance only increased by \$5,899 million in 2014 was because of cash outflows of \$5,065 million for its investing activities (and further reduced by \$310 million related to foreign currency effects). Those uses of cash absorbed much of the cash generated by its operating activities. A large part of those cash outflows was tied to its investments in securities and its other purchases and acquisitions.

## Teamwork in Action — BTN 2-6

*<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 business 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 2-7**

There are several issues that this entrepreneurial owner should consider. Those considerations include the following three issues (among others):

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

## Entrepreneurial Decision — BTN 2-8

1.

| MARTIN MUSIC SERVICES<br>Balance Sheet<br>December 31, 2016 |                 |                                   |                 |
|---|-----------------|-----------------------------------|-----------------|
| <i>Assets</i>   |                 | <i>Liabilities</i>                |                 |
| 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           | <i>Equity</i>                     |                 |
| Equipment .....   | <u>50,000</u>   | Total equity .....                | <u>62,900</u>   |
| Total assets.....   | <u>\$80,700</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.

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 2-9

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.

## Global Decision — BTN 2-10

1. An analysis of return on assets suggests that Apple (18.0%) yields the greatest return on assets, followed by Google (11.9%) and then Samsung (10.5%), which yields the lowest return.
2. An analysis of the debt ratio suggests that Apple (at 51.9%) presents the greatest risk, followed by Samsung (27.1%) and then Google (20.3%) with the least risk. That is, Apple carries the most debt and debt must be repaid with interest and principal. The lower debt levels of Google and Samsung result in less risk in that their contractually required payments are less as a percent of their respective asset bases.
3. In this case, there is no clear answer based on these two ratios alone. Apple has a relatively higher return on assets but also the highest debt ratio. Google has the middle-level return (slightly higher return on assets compared to Samsung and substantially lower than that for Apple), but it has the lowest debt ratio. Samsung has the lowest return and the middle-level debt ratio. Overall, based on return on assets, Apple would warrant additional consideration for expanded investment; however, based on the debt ratio, Google would warrant additional consideration. Therefore, in this analysis of these three companies, we get a mixed inference from these two ratios (and further analysis is warranted, which we will illustrate over the next several chapters).

## CHAPTER 2

# FINANCIAL STATEMENTS AND THE ACCOUNTING SYSTEM

| <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>Beyond the Numbers</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  | 2-3, 2-4, 2-6, 2-9                |
| C2. Describe an account and its use in recording transactions.                     | 1, 2, 14                       | 2-2                   | 2-2   | 2-5  | 2-4, 2-6                          |
| 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                                    |                                   |
| 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  | 2-6                               |
| <b>Analytical objectives:</b>  |                                |                       |   |  |                                   |
| A1. Analyze the impact of transactions on accounts and financial statements.       |                                | 2-7                   | 2-5, 2-6, 2-9, 2-11, 2-12, 2-13, 2-15, 2-20, 2-21 | 2-1, 2-2, 2-3, 2-4, 2-5, 2-6, SP 2, GL 2-1, GL 2-2, GL 2-3, GL 2-4 | 2-1, 2-2, 2-4, 2-5, 2-6, 2-7, 2-8 |
| A2. Compute the debt ratio and describe its use in analyzing financial condition.  |                                | 2-11                  | 2-23  | 2-5  | 2-1, 2-2, 2-7, 2-8, 2-10          |
| <b>Procedural objectives:</b>  |                                |                       |   |  |                                   |
| P1. Record transactions in a journal and post entries to a ledger.                 | 3, 4, 5                        | 2-6                   | 2-7, 2-11, 2-12, 2-14 2-19                        | 2-1, 2-2, 2-3, 2-4, SP 2, GL 2-1, GL 2-3, GL 2-4                   |                                   |
| 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 2, GL 2-1, GL 2-4                      |                                   |
| P3. Prepare financial statements from business transactions.                       | 10, 11, 12, 13, 15, 16, 17, 18 | 2-9                   | 2-16, 2-17, 2-18, 2-19, 2-22                      | 2-5, GL 2-1  | 2-4, 2-7, 2-8                     |

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

*\*\* SP refers to the Serial Problem*

*\*\*\*GL refers to the General Ledger problems*

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

### **Connect**

Available on the instructor's course-specific website) repeats all numerical Quick Studies, all Exercises and Problems Set A. **Connect** also provides algorithmic versions for Quick Study, Exercises and Problems. It allows instructors to monitor, promote, and assess student learning. It can be used in practice, homework, or exam mode.

### **Connect Insight**

The first and only analytics tool of its kind, Connect Insight is a series of visual data displays that are each framed by an intuitive question and provide at-a-glance information regarding how an instructor's class is performing. Connect Insight is available through Connect titles.

**The Serial Problem** for *Success Systems* continues in this chapter.

### **General Ledger**

Assignable within Connect, General Ledger (GL) problems offer students the ability to see how transactions post from the general journal all the way through the financial statements. Critical thinking and analysis components are added to each GL problem to ensure understanding of the entire process. GL problems are auto-graded and provide instant feedback to the student.

### **Excel Simulations**

Assignable within Connect, Excel Simulations allow students to practice their Excel skills—such as basic formulas and formatting—within the context of accounting. These questions feature animated, narrated Help and Show Me tutorials (when enabled). Excel Simulations are auto-graded and provide instant feedback to the student.

## **Synopsis of Chapter Revisions**

- NEW opener—Twitter
- Simplified discussion on analyzing and recording process.
- Streamlined discussion of classified vs unclassified balance sheet.
- Updated the **SPANX** insight box.
- Enhanced Exhibit 2.3 on expanded accounting equation.
- Changed selected numbers for FastForward transactions.
- Enhanced Exhibit 2.15 on financial links across time.
- New layout for Exhibit 2.16 showing financial statements drawn from trial balance.
- Updated **Piaggio's** (IFRS) balance sheet.
- Updated 'Data Quality' box with new fraud information from KPMG.
- New sustainability section for Twitter's environmental efforts.
- Updated **Skechers's** ratio analyses.

## Chapter Outline

## Notes

### **I. Using Financial Statements**

- A. Analyzing Financial Statements. Used by internal and external users. Evaluate company performance and financial condition.
- B. Assessing Company Results. Use standards including intracompany (across two or more periods), intercompany (competitors), industry and guidelines or rules of thumb.
- C. Using Ratios to Analyze Financial Statements. Widely used tools which express a mathematical relation between two quantities.
- D. Building Blocks of Analysis include:
  - 1. Liquidity and efficiency – availability of resources to meet short-term cash requirements. Includes current ratio.
  - 2. Solvency – company's long-run financial viability and its ability to over long-term obligations. Includes debt ratio.
  - 3. Profitability – company's ability to use its assets to produce profits. Includes profit margin.
  - 4. Market prospects – useful for analyzing companies with publicly traded stock. Includes price-to-earnings ratio.

### **II. Basis of Financial Statements**

- A. Identify transaction from source document which identifies and describes transactions and events entering the accounting process.
- B. Analyze transaction using the accounting equation.
- C. Record relevant transactions and events in a journal.
- D. Post journal information to ledger accounts.
- E. Prepare and analyze trial balance and financial statements.
- F. An *account* is a record of increases and decreases in a specific asset, liability, equity, revenue, or expense item.
- G. Accounts are arranged into three basic categories based on the accounting equation. Categories are:
  - 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.
  - 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—verbal or implied promise to pay later usually arising from purchase of inventory or other assets.
    - b. Notes Payable—formal promise to pay usually denoted by signing a 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.

## Chapter Outline

## Notes

3. *Equity*—owner's claim on company's assets is called *equity* or *owner's equity*. Examples include Owner's Capital, Owner's Withdrawals (decreases in equity). Revenues (results from providing goods or services; i.e. Sales, Fees Earned) increases equity. Expenses (results from assets or services used in operation; i.e. Supplies Expense) decreases equity.

### III. Analyzing and Processing Transactions

- A. The *general ledger* or *ledger* (referred to as the *books*) is a record containing all the accounts a company uses.
- B. The *chart of accounts* is a list of all accounts in the ledger with their identification numbers.
- C. A *T-account* represents a ledger account and is a tool used to understand the effects of one or more transactions. Has shape like the letter T with account title on top.

### IV. Debits and Credits

- A. The *left* side of an account is called the *debit* side. A debit is an entry on the left side of an account.
- B. The *right* side of an account is called the *credit* side. A credit is an entry on the right side of an account.
- C. Accounts are *assigned balance sides* based on their classification or type.
- D. 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*.
- E. 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 two sides are equal the account has a zero balance.

### V. Double-Entry Accounting—requires that each transaction affect, and be recorded in, at least two accounts. The total debits must equal total credits for each transaction.

- A. The assignment of balance sides (debit or credit) follows the accounting equation.
  1. *Assets* are on the *left side* of the equation; therefore, the left, or *debit*, side is the normal balance for assets.
  2. *Liabilities and equities* are on the *right side*; therefore, the right, or credit, side is the normal balance for liabilities and equity.
  3. *Withdrawals, 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.

## **Chapter Outline**

## **Notes**

- B. Three important rules for recording transactions in a double-entry accounting system are:
  1. Increases to assets are debits to the asset accounts. Decreases to assets are credits to the asset accounts.
  2. Increases to liabilities are credits to the liability accounts. Decreases to liabilities are debits to the liability accounts.
  3. Increases to equity are credits to the equity accounts. Decreases to equity are debits to the equity accounts.

### **VI. Journalizing and Posting Transactions**

- A. Four steps in processing transactions are as follows:

*Journalizing*--The process of recording each transaction in a journal.

1. Identify transaction and source documents.
2. Analyze 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. Posting Journal entries—transfer (or *post*) each entry from journal to 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:** To see an illustration of analyzing, journalizing and posting of 16 basic transactions refer to pages 64-70 of the textbook.

### **VII. Trial Balance**

- A. A *trial balance* is a list of accounts and their balances 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. Three steps to prepare a trial balance are as follows:
  1. List each account and its amount (from the ledger).
  2. Compute the total debit balances and the total credit balances.
  3. Verify (prove) total debit balances equal total credit balances.



## **Chapter Outline**

## **Notes**

D. When a trial balance does not balance (the columns are not equal), an error has occurred in one of the following steps:

1. Preparing the journal entries.
2. Posting the journal entries to the ledger.
3. Calculating account balances.
4. Copying account balances to the trial balance.
5. Totaling the trial balance columns.

(**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)

E. Searching for and Correcting Errors

1. Approach to correcting errors depends on the kind of error and when it is discovered.
2. Correcting entries may be necessary.

F. Using a Trial Balance to Prepare Financial Statements

1. Income statement reports revenues earned less expenses incurred over a period of time.
2. Statement of retained earnings conveys how retained earnings change over the reporting period. Net income (or net loss) is added (subtracted) from the beginning balance of retained earnings and dividends are subtracted.
3. Balance sheet shows the financial position at a point in time and includes assets, liabilities and ending retained earnings balance.

G. Presentations Issues

1. Dollar signs are not used in journals and ledgers but are used in financial statements and trial balance.
2. Usual practice on statements is to put dollar signs before the first and last number in each column.
3. Commas are optional except for financial reports where they are always used.
4. Companies commonly round to the nearest dollar, or even higher levels.
5. Double rule the final total(s) on the financial statements.

## **VIII. Global View—Compares U.S.GAAP to IFRS**

- A. Analyzing and recording transactions—all transactions in this chapter are accounted for identically under both systems.
- B. Financial Statements—both systems require the same 4 basic statement but there are some differences in the presentation sequence with a given statement.
- C. Accounting controls and assurance—SOX strengthened U.S. control procedures that insure proper principle application; global standards for control and enforcement are diverse. This can yield different outcomes.

## **Chapter Outline**

## **Notes**

### **IX. 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 (non-owners), or liability financing. The higher this ratio, the more risk a company faces, because liabilities must be repaid and often require regular interest payments.

**VISUAL #2-1**

**THREE PARTS OF AN ACCOUNT**

| (1) ACCOUNT TITLE                |                                    |
|----------------------------------|------------------------------------|
| Left Side<br>called<br>(2) DEBIT | Right Side<br>called<br>(3) CREDIT |

**Rules for using accounts**

Accounts are assigned balance sides (Debit or Credit).

To increase any account, use the balance side.

To decrease any account, use the side opposite the balance.

**Finding account balances**

If total debits = total credits, the account balance is zero.

If total debits are greater than total credits, the account has a debit balance equal to the difference of the two totals.

If total credits are greater than total debits, the account has a credit balance equal to the difference of the two totals.

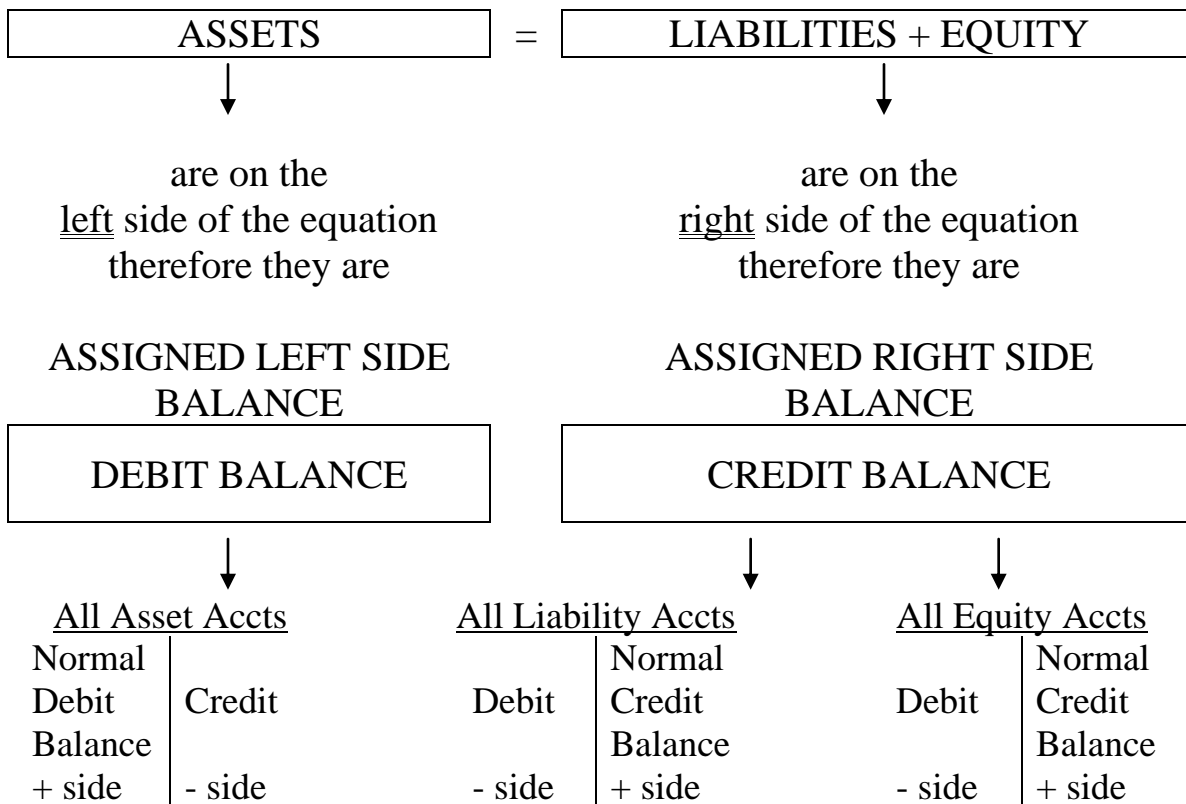


**VISUAL #2-2**

**REAL ACCOUNTS**

ALL ACCOUNTS ARE ASSIGNED BALANCE SIDES

BALANCE SIDES FOR ASSETS, LIABILITIES, AND  
EQUITY ACCOUNTS ARE ASSIGNED BASED ON  
SIDE OF EQUATION THEY ARE ON.



\*In a sole proprietorship, there is only one equity account, which is called capital. For that reason, the terms equity and capital are often used interchangeably. (When corporations are discussed in detail, you will learn many stockholders' equity accounts.) Equity is an account classification like assets. Owner's Name, Capital, is the account title.



**VISUAL #2-3****TEMPORARY ACCOUNTS**

Temporary accounts are established to facilitate efficient accumulation of data for statements. Temporary accounts are established for withdrawals, each revenue, and each expense. *Temporary accounts are assigned balances based on how they affect equity.*

(Equity Account)

| Owner's Name, Capital |                                 |
|-----------------------|---------------------------------|
| Debit<br>- side       | Credit <u>Balance</u><br>+ side |

Temporary Accounts  
Owner, Withdrawals\*  
Revenues  
Expenses

Effect on equity? ↑E or ↓E  
↓ E = Dr  
↑ E = Cr  
↓ E = Dr

All Withdrawal Accts

|         |        |
|---------|--------|
| Normal  |        |
| Debit   | Credit |
| Balance |        |
| + side  | - side |

All Revenue Accts

|         |        |
|---------|--------|
| Normal  |        |
| Debit   | Credit |
| Balance |        |
| + side  | - side |

All Expense Accts

|         |        |
|---------|--------|
| Normal  |        |
| Debit   | Credit |
| Balance |        |
| + side  | - side |

Note:

Transactions during the period always increase the balances of these temporary accounts since the transaction represent additional withdrawals, revenues, and expenses. We will later learn how to move these amounts back to the real account they affect → CAPITAL. At the end of the accounting period, transferring withdrawals, revenues, and expenses back to capital is the main use for the decrease side of the temporary accounts.

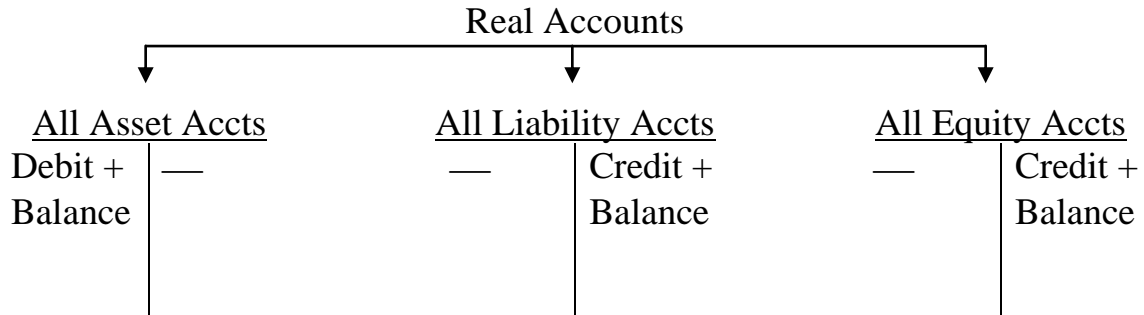
\*The "Owner's Name, Withdrawals" is the account title and the classification of account is a contra-equity.





**VISUAL #2-4**

**USING ACCOUNTS - SUMMARY**



**RULE REVIEW**

Transaction analysis rules

- Each transaction affects at least 2 accounts.
- Each transaction must have equal debits and credits.

General account use rules

- To increase any account, use balance side.
- To decrease any account, use side opposite the balance

Temporary Accounts

All Withdrawal  
Accounts

|                    |   |
|--------------------|---|
| Debit +<br>Balance | — |
|--------------------|---|

All Revenue Accounts

|   |                     |
|---|---------------------|
| — | Credit +<br>Balance |
|---|---------------------|

All Expense Accounts

|                    |   |
|--------------------|---|
| Debit +<br>Balance | — |
|--------------------|---|

**Alternate Demonstration Problem**  
**Chapter Two**

**Record the following transactions of Speedy Computer Service for the month of March 2017.**

**March 1. Speedy Computer Service received \$3,000 cash from Bill Smith in exchange for common stock.**

- 15. 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. Provided services and received cash amounting to \$6,000.**
- 29. Paid for truck and equipment rental, \$2,500.**
- 30. Paid \$2,000 cash dividends.**

**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.**

**Explain why the company's cash balance does not agree with net income.**

## Solution: Alternate Demonstration Problem

**Chapter Two**  
**GENERAL JOURNAL**

| DATE    | ACCOUNT TITLES AND EXPLANATION | P.R. | 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 0 00 |            |
|         | Accounts Payable               |      |            | 1 0 0 0 00 |
| 17      | Gas and Oil Expense            |      | 8 0 0 0 00 |            |
|         | Cash                           |      |            | 8 0 0 0 00 |
| 18      | Salaries Expense               |      | 5 0 0 0 00 |            |
|         | Cash                           |      |            | 5 0 0 0 00 |
| 21      | Accounts Receivable            |      | 6 0 0 0 00 |            |
|         | Service Fees Earned            |      |            | 6 0 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, 2017**

|                          |          |          |          |          |           |          |          |                 |
|--------------------------|----------|----------|----------|----------|-----------|----------|----------|-----------------|
| 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 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        |          |          |                 |
| <b>Totals</b>            | <b>1</b> | <b>5</b> | <b>1</b> | <b>0</b> | <b>00</b> | <b>1</b> | <b>5</b> | <b>1 0 0 00</b> |
|                          |          |          |          |          |           |          |          |                 |
|                          |          |          |          |          |           |          |          |                 |
|                          |          |          |          |          |           |          |          |                 |
|                          |          |          |          |          |           |          |          |                 |

**3. Speedy Computer Service  
Income Statement  
For the month ended March 31, 2017**

|                                       |                     |                        |
|---------------------------------------|---------------------|------------------------|
| <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, 2017**

|                                 |              |                |
|---------------------------------|--------------|----------------|
| Retained Earnings, Mar 1, 2017  |              | \$0            |
| Plus: Net Income                | <u>3,700</u> | <u>3,700</u>   |
|                                 |              | 3,700          |
| Less: Dividends                 |              | <u>2,000</u>   |
| Retained earnings, Mar 31, 2017 |              | <u>\$1,700</u> |

---

5. **Speedy Computer Service**  
**Balance Sheet**  
**March 31, 2017**

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

6. First, note that the cash investment (\$2,000) and cash 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 the net income figure, but have not yet been collected. As such, these revenues did not impact the cash balance.

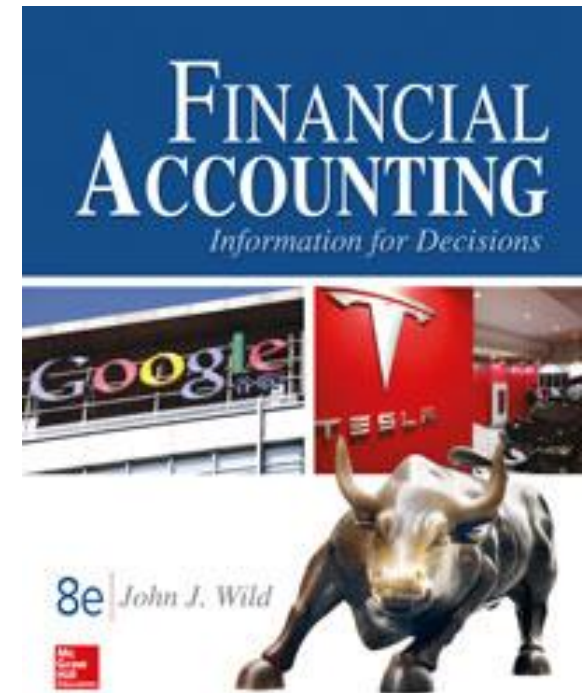
# Financial Statements and the Accounting System

## Chapter 2

**John J. Wild**

**Financial Accounting: Information for Decisions**

**8th Edition**



# Chapter 2 Learning Objectives

---

## CONCEPTUAL

- C1** Explain the steps in processing transactions and the role of source documents.
- C2** Describe an account and its use in recording transactions.
- C3** Describe a ledger and a chart of accounts.
- C4** Define *debits* and *credits* and explain double-entry accounting.

## ANALYTICAL

- A1** Analyze the impact of transactions on accounts and financial statements.
- A2** Compute the debt ratio and describe its use in analyzing financial condition.

## PROCEDURAL

- P1** Record transactions in a journal and post entries to a ledger.
- P2** Prepare and explain the use of a trial balance.
- P3** Prepare financial statements from business transactions.

# Learning Objective

---

**02-C1:**

**Explain the steps in processing transactions and the role of source documents.**

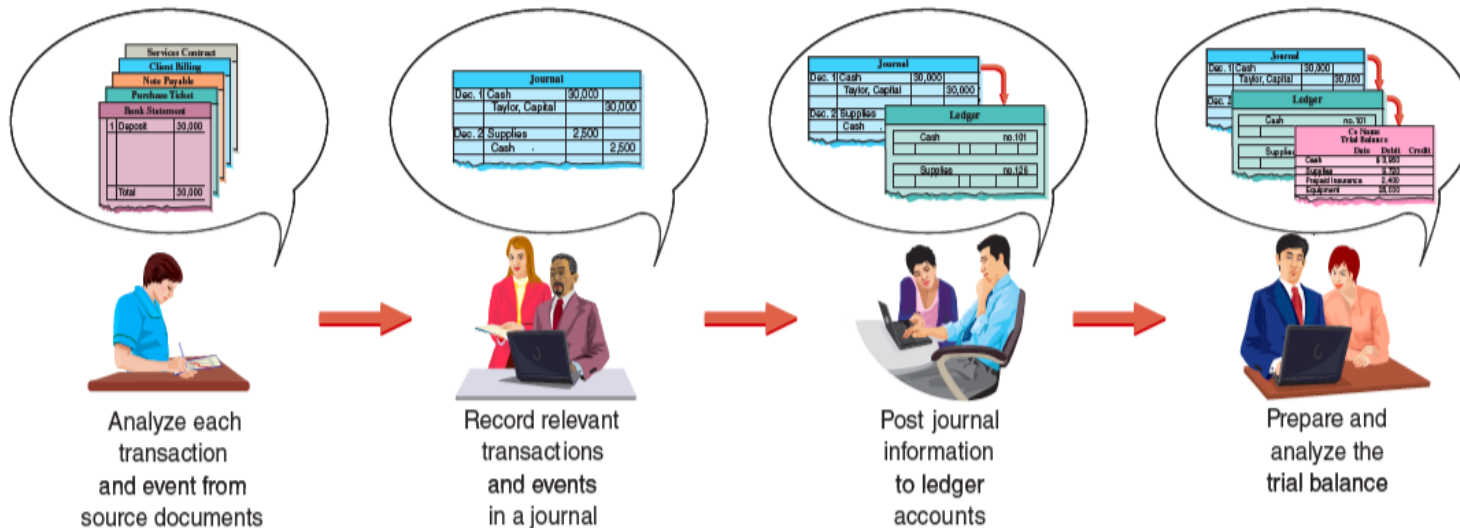
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# Basis of Financial Statements

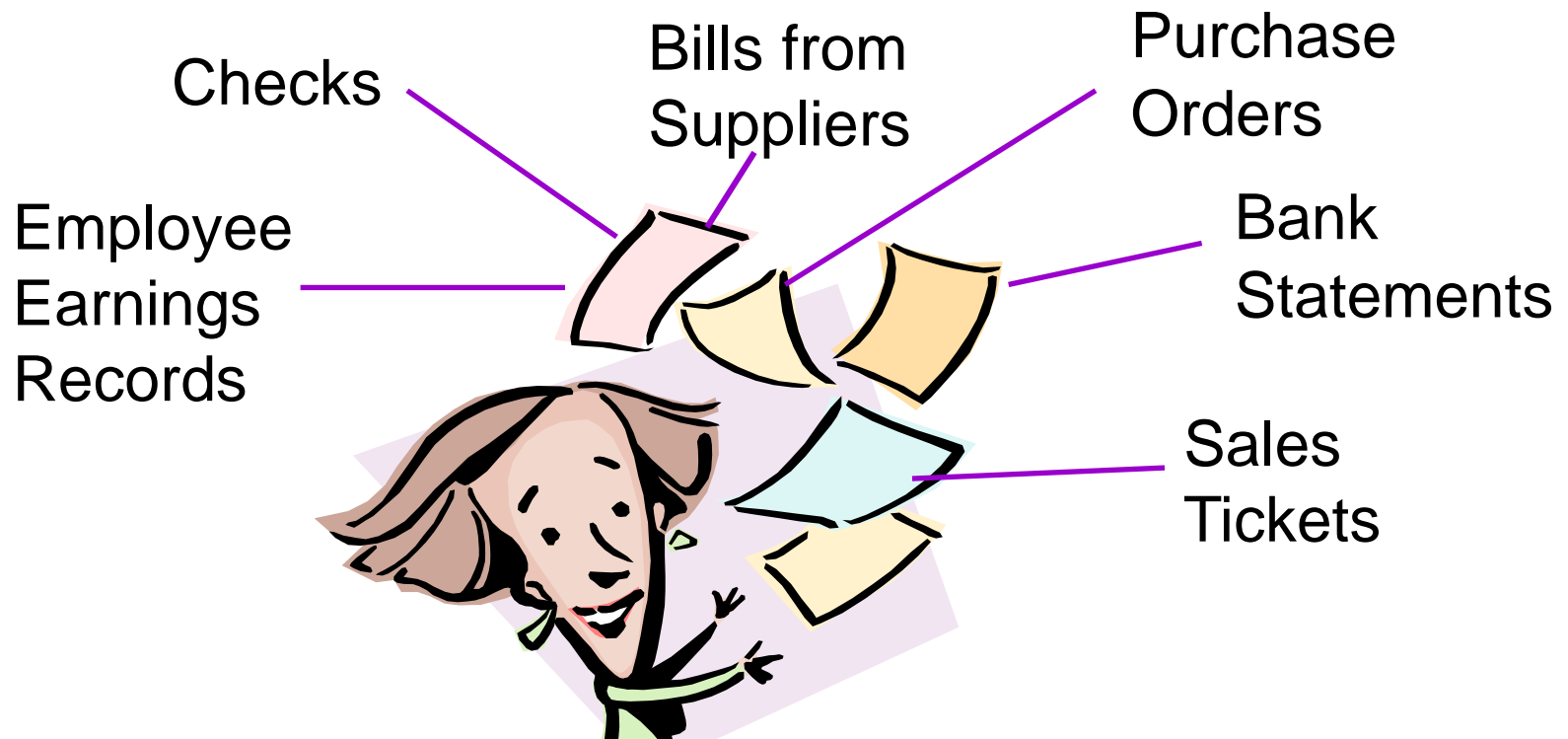
The accounting process:

- Identifies business transactions and events
- Analyzes transactions using the accounting equation
- Records transactions and events in a journal
- Posts journal information to ledger accounts
- Prepares and analyzes the trial balance and financial statements



# Source Documents

- Identify and describe transactions and events in the accounting process
- May be in hard copy or electronic form
- Examples include:



# **Learning Objective**

---

**02-C2:**

**Describe an account and its use in recording transactions.**

---

# The Account and Its Analysis

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

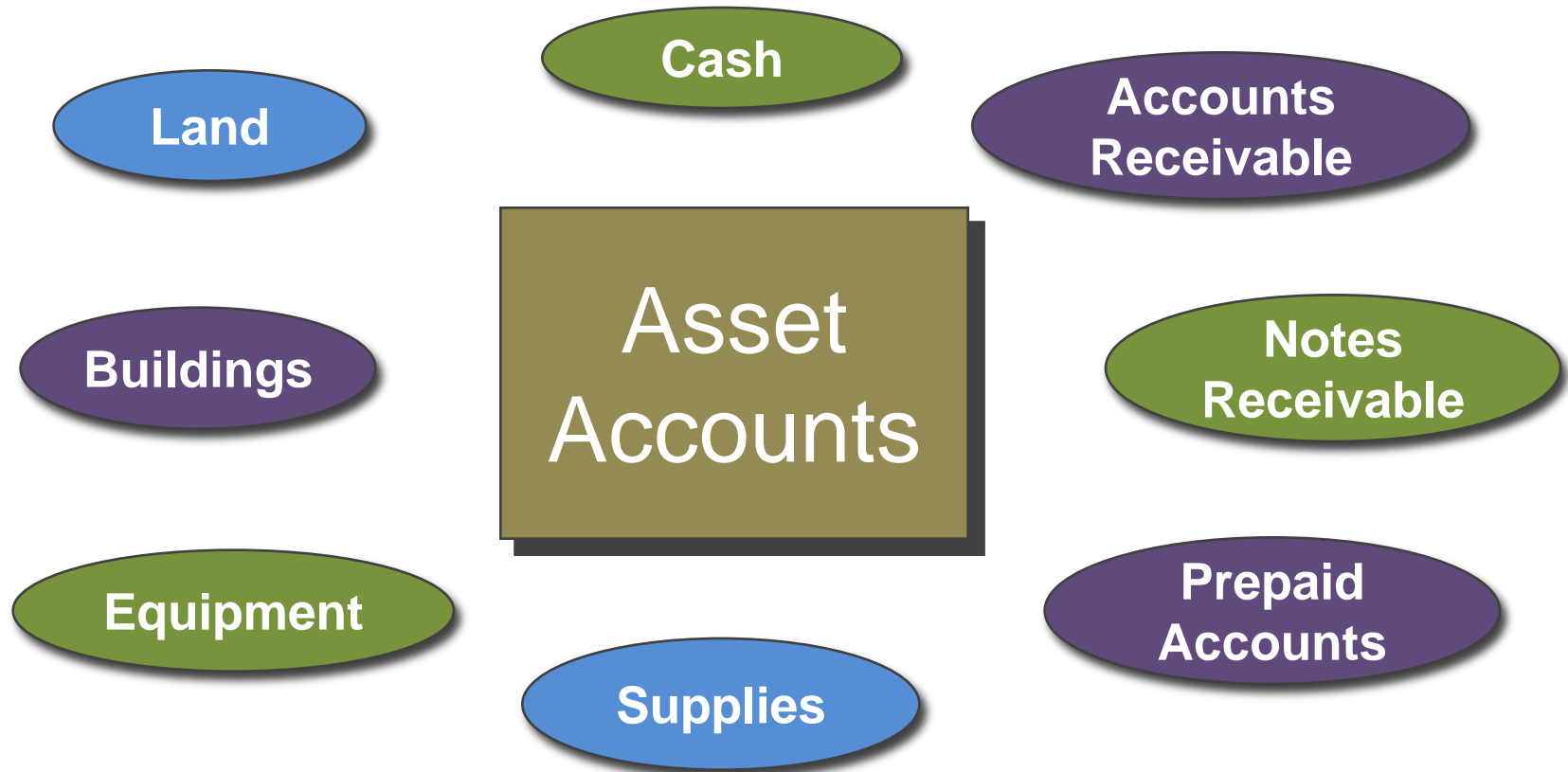
The **general ledger** is a record containing all accounts used by the company.

# The Account and Its Analysis

Exhibit  
2.1



# Asset Accounts



# Liability Accounts

**Accounts  
Payable**

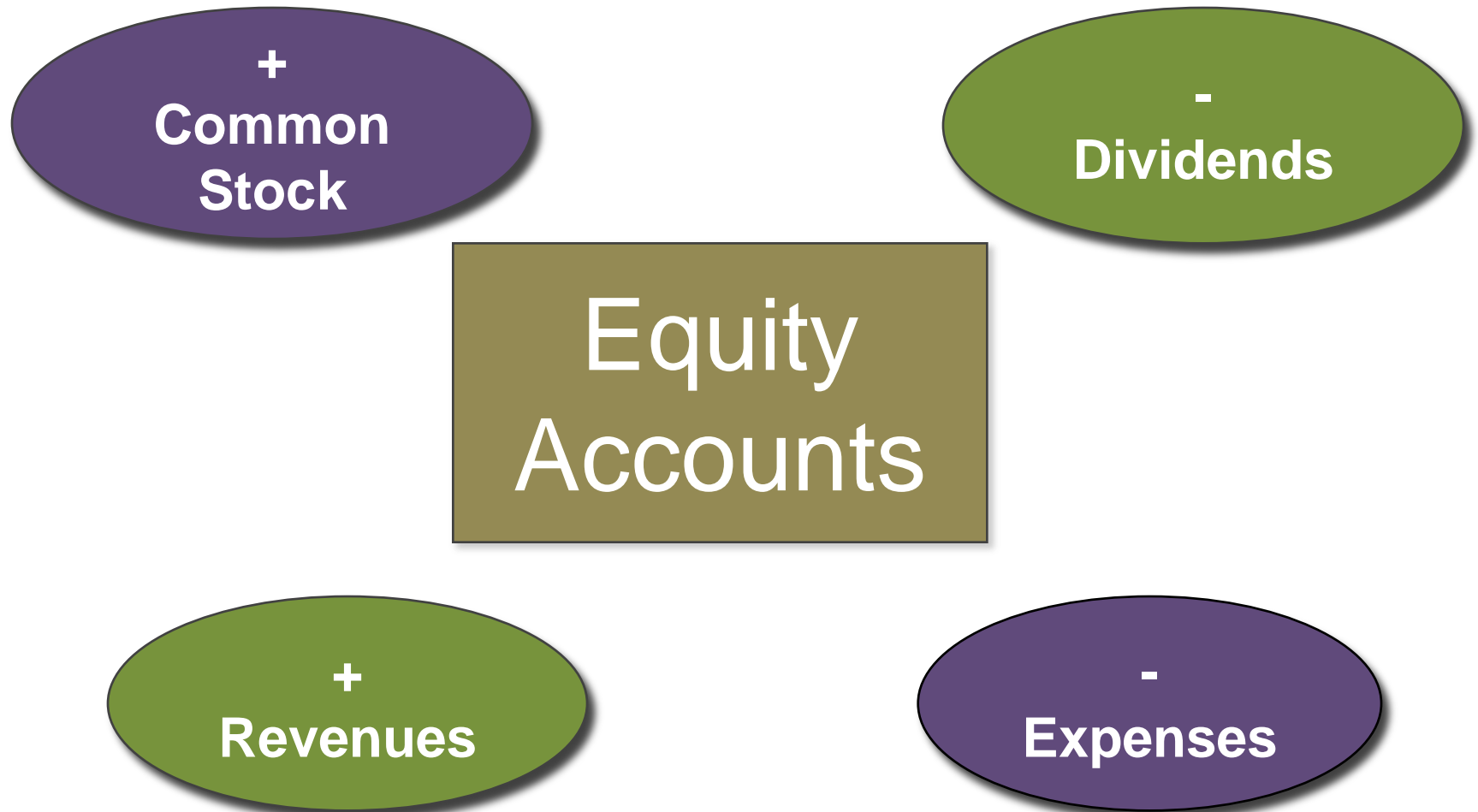
**Notes  
Payable**

**Liability  
Accounts**

**Accrued  
Liabilities**

**Unearned  
Revenue**

# Equity Accounts

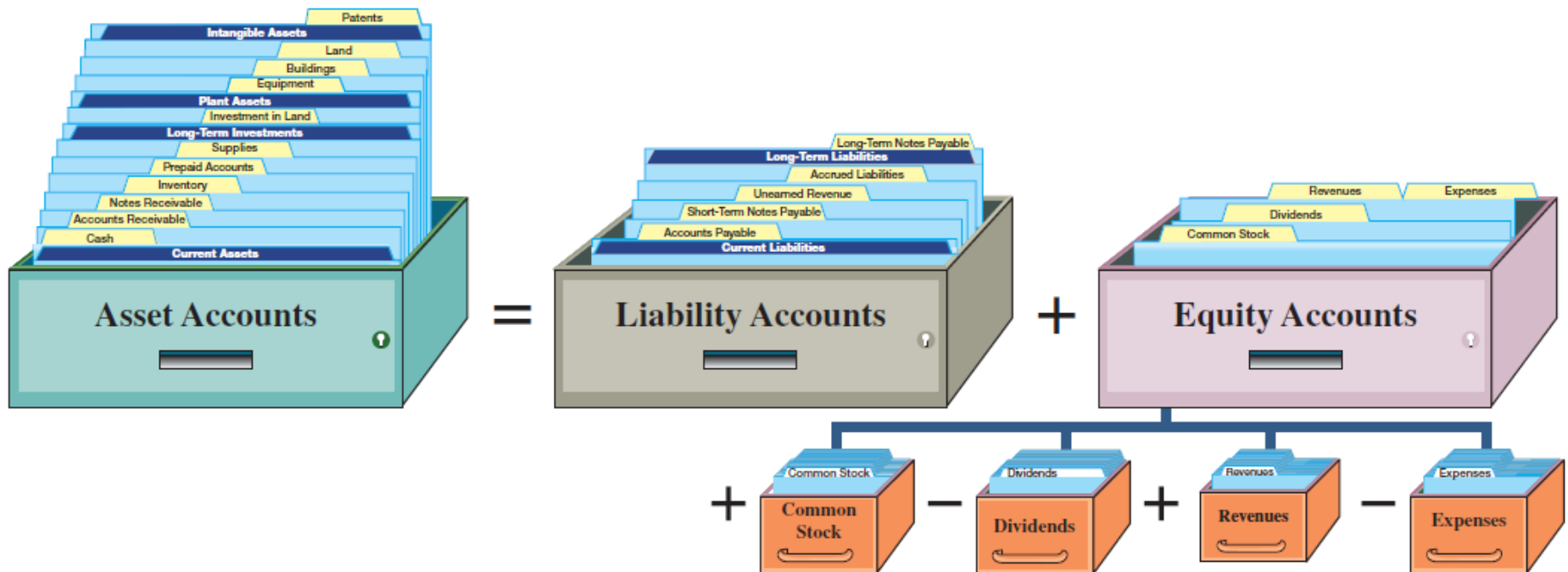




# The Account and Its Analysis

Exhibit  
2.2

Revenues and Common Stock increase equity.  
Expenses and Dividends decrease equity.



# NEED-TO-KNOW 2-1

Classify each of the following as assets (A), liabilities (L), or equity (EQ).

- |                               |                     |
|-------------------------------|---------------------|
| 1) <u>    (A) Asset    </u>   | Prepaid Rent        |
| 2) <u>    (EQ) Equity  </u>   | Common Stock        |
| 3) <u>    (A) Asset    </u>   | Note Receivable     |
| 4) <u>    (L) Liability </u>  | Accounts Payable    |
| 5) <u>    (A) Asset    </u>   | Accounts Receivable |
| 6) <u>    (A) Asset    </u>   | Equipment           |
| 7) <u>    (L) Liability </u>  | Interest Payable    |
| 8) <u>    (L) Liability </u>  | Unearned Revenue    |
| 9) <u>    (A) Asset    </u>   | Land                |
| 10) <u>   (A) Asset   </u>    | Prepaid Insurance   |
| 11) <u>    (L) Liability </u> | Wages Payable       |
| 12) <u>    (L) Liability </u> | Taxes Payable       |

**Assets – Things of value owned by the company.**

**Liabilities – Amounts owed to creditors.**

**Equity – The residual interest (Assets – Liabilities)**

**Key words to look for in account titles:**

|            |                    |
|------------|--------------------|
| Prepaid    | Always an asset    |
| Receivable | Always an asset    |
| Payable    | Always a liability |
| Unearned   | Always a liability |

# Learning Objective

---

**02-C3:**

**Describe a ledger and chart of accounts**

---

# Ledger and Chart of Accounts

A ledger is a collection of all accounts for a company. Company's size and diversity of operations affect the number of accounts needed.

The chart of accounts is a list of all accounts and includes an identifying number for each account.

| Chart of Accounts |                     |           |                             |           |                   |
|-------------------|---------------------|-----------|-----------------------------|-----------|-------------------|
| Acct. No.         | Account Name        | Acct. No. | Account Name                | Acct. No. | Account Name      |
| 101               | Cash                | 236       | Unearned consulting revenue | 406       | Rental revenue    |
| 106               | Accounts receivable | 307       | Common stock                | 622       | Salaries expense  |
| 126               | Supplies            | 318       | Retained earnings           | 637       | Insurance expense |
| 128               | Prepaid insurance   | 319       | Dividends                   | 640       | Rent expense      |
| 167               | Equipment           | 403       | Consulting revenue          | 652       | Supplies expense  |
| 201               | Accounts payable    |           |                             | 690       | Utilities expense |

**Exhibit  
2.4**

# Learning Objective

---

**02-C4:  
Define debits and credits and  
explain double-entry  
accounting.**

---

# Debits and Credits

A T-account represents a ledger account and is a tool used to understand the effects of one or more transactions.

| Account Title               |                               |
|-----------------------------|-------------------------------|
| (Left side)<br><i>Debit</i> | (Right side)<br><i>Credit</i> |

Exhibit  
2.5

# Double-Entry Accounting

$$\boxed{\text{Assets}} = \boxed{\text{Liabilities}} + \boxed{\text{Equity}}$$

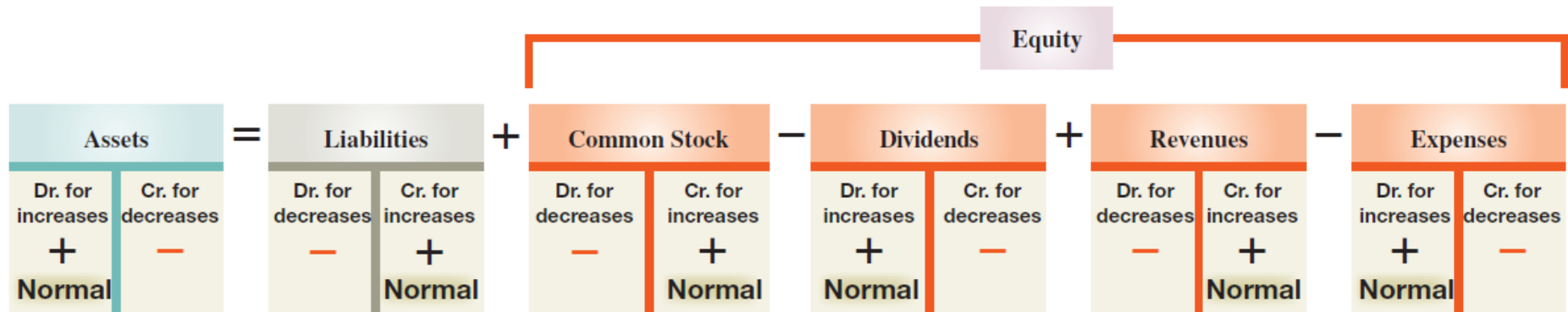
Exhibit  
2.6

| Assets              |                      | = | Liabilities         |                      | + | Equity              |                      |
|---------------------|----------------------|---|---------------------|----------------------|---|---------------------|----------------------|
| Debit for increases | Credit for decreases |   | Debit for decreases | Credit for increases |   | Debit for decreases | Credit for increases |
| +                   | —                    |   | —                   | +                    |   | —                   | +                    |
| Normal              |                      |   |                     | Normal               |   |                     | Normal               |

# Double-Entry Accounting

Here is the expanded accounting equation showing the equity section.

Exhibit  
2.7

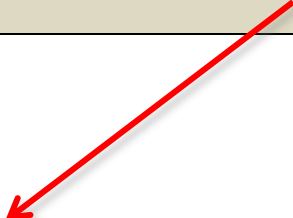




# Computing Balance in T-Account

An account balance is the difference between the increases and decreases in an account. Notice the Cash T-Account.

Exhibit  
2.8



| Cash                                  |        |                            |        |
|---------------------------------------|--------|----------------------------|--------|
| Receive investment by owner for stock | 30,000 | Purchase of supplies       | 2,500  |
| Consulting services revenue earned    | 4,200  | Purchase of equipment      | 26,000 |
| Collection of account receivable      | 1,900  | Payment of rent            | 1,000  |
|                                       |        | Payment of salary          | 700    |
|                                       |        | Payment of account payable | 900    |
|                                       |        | Payment of cash dividend   | 200    |
| Balance                               | 4,800  |                            |        |

# NEED-TO-KNOW 2-2

Identify the normal balance (debit [Dr] or credit [Cr]) for each of the following accounts.

- |                      |                     |
|----------------------|---------------------|
| 1) <u>Dr. Debit</u>  | Prepaid Rent        |
| 2) <u>Cr. Credit</u> | Common Stock        |
| 3) <u>Dr. Debit</u>  | Note Receivable     |
| 4) <u>Cr. Credit</u> | Accounts Payable    |
| 5) <u>Dr. Debit</u>  | Accounts Receivable |
| 6) <u>Dr. Debit</u>  | Equipment           |
| 7) <u>Cr. Credit</u> | Interest Payable    |
| 8) <u>Cr. Credit</u> | Unearned Revenue    |
| 9) <u>Dr. Debit</u>  | Land                |
| 10) <u>Dr. Debit</u> | Prepaid Insurance   |
| 11) <u>Dr. Debit</u> | Dividends           |

| Assets          |                  | = |  | Liabilities     |                  | + |  | Equity             |                       |
|-----------------|------------------|---|--|-----------------|------------------|---|--|--------------------|-----------------------|
| Increase Debits | Decrease Credits |   |  | Decrease Debits | Increase Credits |   |  | Decrease Debits    | Increase Credits      |
| <b>Normal</b>   |                  |   |  |                 | <b>Normal</b>    |   |  | Dividends Expenses | Common Stock Revenues |

| Dividends     | Common Stock  |
|---------------|---------------|
| ↓ Equity      | ↑ Equity      |
| Dividends     | Common Stock  |
| <b>Normal</b> | <b>Normal</b> |

| Expenses      | Revenues      |
|---------------|---------------|
| ↓ Equity      | ↑ Equity      |
| Expenses      | Revenues      |
| <b>Normal</b> | <b>Normal</b> |

# Learning Objective

---

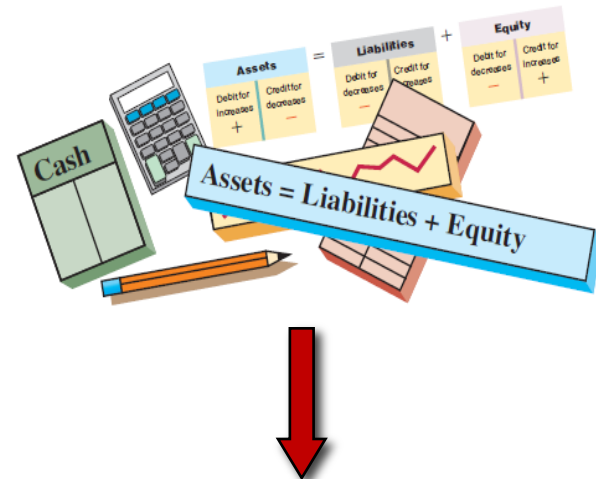
**02-P1:**

**Record transactions in a journal and post entries to a ledger.**

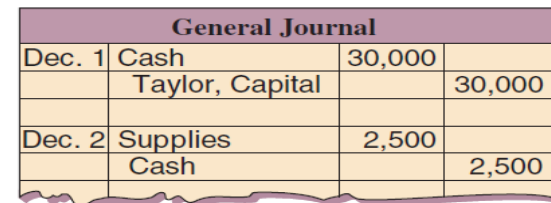
---

## Exhibit 2.9

**Step 2:** Analyze transactions using the accounting equation.



**Step 3: Record journal entry.**



# Journalizing Transactions

Exhibit  
2.10

a. Transaction Date

b. Titles of Affected Accounts

| Date               | Account Titles and Explanation   | PR | Debit  | Credit     |
|--------------------|----------------------------------|----|--------|------------|
| 2016 (a)<br>Dec. 1 | (b) Cash                         |    | 30,000 |            |
|                    | Common Stock                     |    |        | (c) 30,000 |
|                    | Receive investment by owner. (d) |    |        |            |
| Dec. 2             | Supplies                         |    | 2,500  |            |
|                    | Cash                             |    |        | 2,500      |
|                    | Purchase supplies for cash.      |    |        |            |

d. Transaction  
explanation

c. Dollar amount of  
debits and credits

# Balance Account Column

Exhibit  
2.11

T-accounts are useful illustrations, but **balance column ledger accounts** are used in practice.

| General Ledger |             |    |        |                 |         |
|----------------|-------------|----|--------|-----------------|---------|
| Cash           |             |    |        | Account No. 101 |         |
| Date           | Explanation | PR | Debit  | Credit          | Balance |
| 2016           |             |    |        |                 |         |
| Dec. 1         |             | G1 | 30,000 |                 | 30,000  |
| Dec. 2         |             | G1 |        | 2,500           | 27,500  |
| Dec. 3         |             | G1 |        | 26,000          | 1,500   |
| Dec. 10        |             | G1 | 4,200  |                 | 5,700   |

# Posting Journal Entries

Exhibit  
2.12

**General Journal Entry**

Date: Dec 1, 2016 Reference: [ ] Record Transaction

| Date        | Account Titles and Explanation | PR  | Debit  | Credit |
|-------------|--------------------------------|-----|--------|--------|
| 2016 Dec. 1 | Cash                           | 101 | 30,000 |        |
|             | Common Stock                   | 307 |        | 30,000 |
|             | Receive investment by owner.   |     |        |        |
|             |                                |     |        |        |

**General Ledger**

**Cash Account no. 101**

| Date        | Explanation | PR | Debit  | Credit | Balance |
|-------------|-------------|----|--------|--------|---------|
| 2016 Dec. 1 |             | G1 | 30,000 |        | 30,000  |

**Common Stock Account no. 307**

| Date        | Explanation | PR | Debit | Credit | Balance |
|-------------|-------------|----|-------|--------|---------|
| 2016 Dec. 1 |             | G1 |       | 30,000 | 30,000  |

Diagram annotations: Red arrows show the flow of data. Arrow 1 points from the 'General Journal Entry' window to the 'General Ledger' window. Arrow 2 points from the 'Cash' entry in the journal to the 'Cash' ledger account. Arrow 3 points from the 'Common Stock' entry in the journal to the 'Common Stock' ledger account. Arrow 4 points from the 'Credit' column of the 'Common Stock' journal entry to the 'Credit' column of the 'Common Stock' ledger account.

# **Learning Objective**

---

**02-A1:**

**Analyze the impact of  
transactions on accounts and  
financial statements**

---



# Analyzing Transactions

Double-entry accounting is useful in analyzing and processing transactions. Analysis of each transaction follows these four steps.

- Step 1** Identify the transaction and any source documents.
- Step 2** Analyze the transaction using the accounting equation.
- Step 3** Record the transaction in journal entry form applying double-entry accounting.
- Step 4** Post the entry (for simplicity, we use T-accounts to represent ledger accounts).

# Analyzing Transactions

## 1. Receive Investment by Owner

**1 IDENTIFY** FastForward receives \$30,000 cash from Chas Taylor in exchange for common stock.

**2 ANALYZE**

| Assets      | = | Liabilities | + | Equity              |
|-------------|---|-------------|---|---------------------|
| <b>Cash</b> |   |             |   | <b>Common Stock</b> |
| +30,000     | = | 0           |   | +30,000             |

**3 RECORD**

| Date | Account Titles and Explanation | PR  | Debit  | Credit |
|------|--------------------------------|-----|--------|--------|
| (1)  | Cash                           | 101 | 30,000 |        |
|      | Common Stock                   | 307 |        | 30,000 |

**4 POST**

| Cash |        | 101 |
|------|--------|-----|
| (1)  | 30,000 |     |

| Common Stock |     | 307    |
|--------------|-----|--------|
|              | (1) | 30,000 |

# Analyzing Transactions

## 2. Purchase Supplies for Cash

**1 IDENTIFY** FastForward pays \$2,500 cash for supplies.

**2 ANALYZE**

| Assets      |                 | = | Liabilities | + | Equity |
|-------------|-----------------|---|-------------|---|--------|
| <b>Cash</b> | <b>Supplies</b> |   |             |   |        |
| -2,500      | +2,500          | = | 0           | + | 0      |

Changes the composition of assets but not the total.

**3 RECORD**

| Date | Account Titles and Explanation | PR  | Debit | Credit |
|------|--------------------------------|-----|-------|--------|
| (2)  | Supplies                       | 126 | 2,500 |        |
|      | Cash                           | 101 |       | 2,500  |

**4 POST**

| Supplies |       | 126 |
|----------|-------|-----|
| (2)      | 2,500 |     |

| Cash |        | 101       |
|------|--------|-----------|
| (1)  | 30,000 | (2) 2,500 |

# Analyzing Transactions

## 3. Purchase Equipment for Cash

**1 IDENTIFY** FastForward pays \$26,000 cash for equipment.

**2 ANALYZE**

| Assets  |           | = | Liabilities | + | Equity |
|---------|-----------|---|-------------|---|--------|
| Cash    | Equipment |   |             |   |        |
| -26,000 | +26,000   | = | 0           | + | 0      |

Changes the composition of assets but not the total.

**3 RECORD**

| Date | Account Titles and Explanation | PR  | Debit  | Credit |
|------|--------------------------------|-----|--------|--------|
| (3)  | Equipment                      | 167 | 26,000 |        |
|      | Cash                           | 101 |        | 26,000 |

**4 POST**

| Equipment |        | 167 |
|-----------|--------|-----|
| (3)       | 26,000 |     |

| Cash |        | 101        |
|------|--------|------------|
| (1)  | 30,000 | (2) 2,500  |
|      |        | (3) 26,000 |

# Analyzing Transactions

## 4. Purchase Supplies on Credit

**1 IDENTIFY** FastForward purchases \$7,100 of supplies on credit from a supplier.

**2 ANALYZE**

| Assets          | = | Liabilities             | + | Equity   |
|-----------------|---|-------------------------|---|----------|
| <b>Supplies</b> |   | <b>Accounts Payable</b> |   |          |
| <b>+7,100</b>   | = | <b>+7,100</b>           | + | <b>0</b> |

**3 RECORD**

| Date | Account Titles and Explanation | PR  | Debit | Credit |
|------|--------------------------------|-----|-------|--------|
| (4)  | Supplies                       | 126 | 7,100 |        |
|      | Accounts Payable               | 201 |       | 7,100  |

**4 POST**

| Supplies |              | 126 |
|----------|--------------|-----|
| (2)      | 2,500        |     |
| (4)      | <b>7,100</b> |     |

| Accounts Payable |     | 201          |
|------------------|-----|--------------|
|                  | (4) | <b>7,100</b> |

# Analyzing Transactions

## 5. Provide Services for Cash

**1 IDENTIFY** FastForward provides consulting services and immediately collects \$4,200 cash.

**2 ANALYZE**

|             |   |             |   |                           |
|-------------|---|-------------|---|---------------------------|
| Assets      | = | Liabilities | + | Equity                    |
| <b>Cash</b> |   |             |   | <b>Consulting Revenue</b> |
| +4,200      | = | 0           |   | +4,200                    |

**3 RECORD**

| Date | Account Titles and Explanation | PR  | Debit | Credit |
|------|--------------------------------|-----|-------|--------|
| (5)  | Cash                           | 101 | 4,200 |        |
|      | Consulting Revenue             | 403 |       | 4,200  |

**4 POST**

| Cash |              | 101        |
|------|--------------|------------|
| (1)  | 30,000       | (2) 2,500  |
| (5)  | <b>4,200</b> | (3) 26,000 |

| Consulting Revenue |     | 403          |
|--------------------|-----|--------------|
|                    | (5) | <b>4,200</b> |

# Analyzing Transactions

## 6. Payment of Expense in Cash

**1 IDENTIFY** FastForward pays \$1,000 cash for December rent.

**2 ANALYZE**

| Assets      | = | Liabilities | + | Equity              |
|-------------|---|-------------|---|---------------------|
| <b>Cash</b> |   |             |   | <b>Rent Expense</b> |
| -1,000      | = | 0           |   | -1,000              |

**3 RECORD**

| Date | Account Titles and Explanation | PR  | Debit | Credit |
|------|--------------------------------|-----|-------|--------|
| (6)  | Rent Expense                   | 640 | 1,000 |        |
|      | Cash                           | 101 |       | 1,000  |

**4 POST**

|     | Rent Expense | 640 |
|-----|--------------|-----|
| (6) | 1,000        |     |

|     | Cash   | 101        |
|-----|--------|------------|
| (1) | 30,000 | (2) 2,500  |
| (5) | 4,200  | (3) 26,000 |
|     |        | (6) 1,000  |

# Analyzing Transactions

## 7. Payment of Expense in Cash

**1 IDENTIFY** FastForward pays \$700 cash for employee salary.

**2 ANALYZE**

| Assets      | = | Liabilities | + | Equity                  |
|-------------|---|-------------|---|-------------------------|
| <b>Cash</b> |   |             |   | <b>Salaries Expense</b> |
| -700        | = | 0           |   | -700                    |

**3 RECORD**

| Date | Account Titles and Explanation | PR  | Debit | Credit |
|------|--------------------------------|-----|-------|--------|
| (7)  | Salaries Expense               | 622 | 700   |        |
|      | Cash                           | 101 |       | 700    |

**4 POST**

| Salaries Expense |     | 622 |
|------------------|-----|-----|
| (7)              | 700 |     |

| Cash |        | 101        |
|------|--------|------------|
| (1)  | 30,000 | (2) 2,500  |
| (5)  | 4,200  | (3) 26,000 |
|      |        | (6) 1,000  |
|      |        | (7) 700    |



# Analyzing Transactions

## 8. Provide Consulting and Rental Services on Credit

**1 IDENTIFY** FastForward provides consulting services of \$1,600 and rents its test facilities for \$300. The customer is billed \$1,900 for these services.

**2 ANALYZE**

| Assets                     | = | Liabilities | + | Equity                                      |
|----------------------------|---|-------------|---|---|
| <b>Accounts Receivable</b> |   |             |   | <b>Consulting Revenue    Rental Revenue</b> |
| +1,900                     | = | 0           |   | +1,600    +300                              |

**3 RECORD**

| Date | Account Titles and Explanation | PR  | Debit | Credit |
|------|--------------------------------|-----|-------|--------|
| (8)  | Accounts Receivable            | 106 | 1,900 |        |
|      | Consulting Revenue             | 403 |       | 1,600  |
|      | Rental Revenue                 | 406 |       | 300    |

**4 POST**

| Accounts Receivable |       | 106 |
|---------------------|-------|-----|
| (8)                 | 1,900 |     |

| Consulting Revenue |           | 403 |
|--------------------|-----------|-----|
|                    | (5) 4,200 |     |
|                    | (8) 1,600 |     |

| Rental Revenue |         | 406 |
|----------------|---------|-----|
|                | (8) 300 |     |

# Analyzing Transactions

## 9. Receipt of Cash on Account

**1 IDENTIFY** FastForward receives \$1,900 cash from the client billed in transaction 8.

**2 ANALYZE**

| Assets |                     | = | Liabilities | + | Equity |
|--------|---------------------|---|-------------|---|--------|
| Cash   | Accounts Receivable |   |             |   |        |
| +1,900 | -1,900              | = | 0           | + | 0      |

**3 RECORD**

| Date | Account Titles and Explanation | PR  | Debit | Credit |
|------|--------------------------------|-----|-------|--------|
| (9)  | Cash                           | 101 | 1,900 |        |
|      | Accounts Receivable            | 106 |       | 1,900  |

**4 POST**

| Cash  |        | 101 |        |
|-------|--------|-----|--------|
| (1)   | 30,000 | (2) | 2,500  |
| (5)   | 4,200  | (3) | 26,000 |
| → (9) | 1,900  | (6) | 1,000  |
|       |        | (7) | 700    |

| Accounts Receivable |       | 106       |
|---------------------|-------|-----------|
| (8)                 | 1,900 | (9) 1,900 |

# Analyzing Transactions

## 10. Partial Payment of Accounts Payable

**1 IDENTIFY** FastForward pays CalTech Supply \$900 cash toward the payable of transaction 4.

**2 ANALYZE**

| Assets | = | Liabilities      | + | Equity |
|--------|---|------------------|---|--------|
| Cash   | = | Accounts Payable | + |        |
| -900   | = | -900             | + | 0      |

**3 RECORD**

| Date | Account Titles and Explanation | PR  | Debit | Credit |
|------|--------------------------------|-----|-------|--------|
| (10) | Accounts Payable               | 201 | 900   |        |
|      | Cash                           | 101 |       | 900    |

**4 POST**

| Accounts Payable |     | 201       |
|------------------|-----|-----------|
| (10)             | 900 | (4) 7,100 |

| Cash       |            | 101 |
|------------|------------|-----|
| (1) 30,000 | (2) 2,500  |     |
| (5) 4,200  | (3) 26,000 |     |
| (9) 1,900  | (6) 1,000  |     |
|            | (7) 700    |     |
|            | (10) 900   |     |

# Analyzing Transactions

## 11. Payment of Cash Dividend

**1 IDENTIFY** FastForward pays \$200 cash for dividends.

**2 ANALYZE**

| Assets      | = | Liabilities | + | Equity           |
|-------------|---|-------------|---|------------------|
| <b>Cash</b> |   |             |   | <b>Dividends</b> |
| -200        | = | 0           |   | -200             |

**3 RECORD**

| Date | Account Titles and Explanation | PR  | Debit | Credit |
|------|--------------------------------|-----|-------|--------|
| (11) | Dividends                      | 319 | 200   |        |
|      | Cash                           | 101 |       | 200    |

**4 POST**

| Dividends |     | 319 |
|-----------|-----|-----|
| (11)      | 200 |     |

| Cash |        | 101  |        |
|------|--------|------|--------|
| (1)  | 30,000 | (2)  | 2,500  |
| (5)  | 4,200  | (3)  | 26,000 |
| (9)  | 1,900  | (6)  | 1,000  |
|      |        | (7)  | 700    |
|      |        | (10) | 900    |
|      |        | (11) | 200    |

# Analyzing Transactions

## 12. Receipt of Cash for Future Services

**1 IDENTIFY** FastForward receives \$3,000 cash in advance of providing consulting services to a customer.

**2 ANALYZE**

| Assets                             | = | Liabilities | + | Equity |
|------------------------------------|---|-------------|---|--------|
| <b>Unearned Consulting Revenue</b> |   |             |   |        |
| <b>Cash</b>                        |   |             |   |        |
| +3,000                             | = | +3,000      | + | 0      |

Accepting \$3,000 cash obligates FastForward to perform future services and is a liability. No revenue is earned until services are provided.

**3 RECORD**

| Date | Account Titles and Explanation | PR  | Debit | Credit |
|------|--------------------------------|-----|-------|--------|
| (12) | Cash                           | 101 | 3,000 |        |
|      | Unearned Consulting Revenue    | 236 |       | 3,000  |

**4 POST**

| Cash   |        | 101  |        |
|--------|--------|------|--------|
| (1)    | 30,000 | (2)  | 2,500  |
| (5)    | 4,200  | (3)  | 26,000 |
| (9)    | 1,900  | (6)  | 1,000  |
| → (12) | 3,000  | (7)  | 700    |
|        |        | (10) | 900    |
|        |        | (11) | 200    |

| Unearned Consulting Revenue |      | 236   |
|-----------------------------|------|-------|
|                             | (12) | 3,000 |

# Analyzing Transactions

## 13. Pay Cash for Future Insurance Coverage

**1 IDENTIFY** FastForward pays \$2,400 cash (insurance premium) for a 24-month insurance policy. Coverage begins on December 1.

**2 ANALYZE**

| Assets |                   | = | Liabilities | + | Equity |
|--------|-------------------|---|-------------|---|--------|
| Cash   | Prepaid Insurance |   |             |   |        |
| -2,400 | +2,400            | = | 0           | + | 0      |

Changes the composition of assets from cash to prepaid insurance. Expense is incurred as insurance coverage expires.

**3 RECORD**

| Date | Account Titles and Explanation | PR  | Debit | Credit |
|------|--------------------------------|-----|-------|--------|
| (13) | Prepaid Insurance              | 128 | 2,400 |        |
|      | Cash                           | 101 |       | 2,400  |

**4 POST**

| Prepaid Insurance |       | 128 |
|-------------------|-------|-----|
| (13)              | 2,400 |     |

| Cash |        | 101        |
|------|--------|------------|
| (1)  | 30,000 | (2) 2,500  |
| (5)  | 4,200  | (3) 26,000 |
| (9)  | 1,900  | (6) 1,000  |
| (12) | 3,000  | (7) 700    |
|      |        | (10) 900   |
|      |        | (11) 200   |
|      |        | (13) 2,400 |

# Analyzing Transactions

## 14. Purchase Supplies for Cash

**1 IDENTIFY** FastForward pays \$120 cash for supplies.

**2 ANALYZE**

| Assets |          | = | Liabilities | + | Equity |
|--------|----------|---|-------------|---|--------|
| Cash   | Supplies |   |             |   |        |
| -120   | +120     | = | 0           | + | 0      |

**3 RECORD**

| Date | Account Titles and Explanation | PR  | Debit | Credit |
|------|--------------------------------|-----|-------|--------|
| (14) | Supplies                       | 126 | 120   |        |
|      | Cash                           | 101 |       | 120    |

**4 POST**

| Supplies |       | 126 |
|----------|-------|-----|
| (2)      | 2,500 |     |
| (4)      | 7,100 |     |
| (14)     | 120   |     |

| Cash |        | 101        |
|------|--------|------------|
| (1)  | 30,000 | (2) 2,500  |
| (5)  | 4,200  | (3) 26,000 |
| (9)  | 1,900  | (6) 1,000  |
| (12) | 3,000  | (7) 700    |
|      |        | (10) 900   |
|      |        | (11) 200   |
|      |        | (13) 2,400 |
|      |        | (14) 120   |



# Analyzing Transactions

## 15. Payment of Expense in Cash

**1 IDENTIFY** FastForward pays \$305 cash for December utilities expense.

**2 ANALYZE**

|        |   |             |   |                   |
|--------|---|-------------|---|-------------------|
| Assets | = | Liabilities | + | Equity            |
| Cash   |   |             |   | Utilities Expense |
| -305   | = | 0           |   | -305              |

**3 RECORD**

| Date | Account Titles and Explanation | PR  | Debit | Credit |
|------|--------------------------------|-----|-------|--------|
| (15) | Utilities Expense              | 690 | 305   |        |
|      | Cash                           | 101 |       | 305    |

4 POST

| Utilities Expense |     | 690 |
|-------------------|-----|-----|
| → (15)            | 305 |     |

| Cash |        | 101  |        |
|------|--------|------|--------|
| (1)  | 30,000 | (2)  | 2,500  |
| (5)  | 4,200  | (3)  | 26,000 |
| (9)  | 1,900  | (6)  | 1,000  |
| (12) | 3,000  | (7)  | 700    |
|      |        | (10) | 900    |
|      |        | (11) | 200    |
|      |        | (13) | 2,400  |
|      |        | (14) | 120    |
|      |        | (15) | 305    |



# Analyzing Transactions

## 16. Payment of Expense in Cash

**1 IDENTIFY** FastForward pays \$700 cash in employee salary for work performed in the latter part of December.

**2 ANALYZE**

| Assets      | = | Liabilities | + | Equity                  |
|-------------|---|-------------|---|-------------------------|
| <b>Cash</b> |   |             |   | <b>Salaries Expense</b> |
| -700        | = | 0           |   | -700                    |

**3 RECORD**

| Date | Account Titles and Explanation | PR  | Debit | Credit |
|------|--------------------------------|-----|-------|--------|
| (16) | Salaries Expense               | 622 | 700   |        |
|      | Cash                           | 101 |       | 700    |

**4 POST**

| Salaries Expense |     | 622 |
|------------------|-----|-----|
| (7)              | 700 |     |
| (16)             | 700 |     |

| Cash |        | 101  |        |
|------|--------|------|--------|
| (1)  | 30,000 | (2)  | 2,500  |
| (5)  | 4,200  | (3)  | 26,000 |
| (9)  | 1,900  | (6)  | 1,000  |
| (12) | 3,000  | (7)  | 700    |
|      |        | (10) | 900    |
|      |        | (11) | 200    |
|      |        | (13) | 2,400  |
|      |        | (14) | 120    |
|      |        | (15) | 305    |
|      |        | (16) | 700    |

## Exhibit 2.13

**Learning Objective 02-A1:** Analyze the impact of transactions on accounts and financial statements.

## NEED-TO-KNOW 2-3

Assume Tata began operations on January 1 and completed the following transactions during its first month of operations.

- Jan. 1     Jamsetji invested \$4,000 cash in the Tata company in exchange for its common stock.
- Jan. 5     The company purchased \$2,000 of equipment on credit.
- Jan. 14    The company provided \$540 of services for a client on credit.

For each transaction, (a) analyze the transaction using the accounting equation, (b) record the transaction in journal entry form, and c) post the entry using T-accounts to represent the general ledger accounts.

# NEED-TO-KNOW 2-3

Jan. 1 Jamsetji invested \$4,000 cash in the Tata company in exchange for common stock.

**a) Analyze**

**Assets = Liabilities + Equity**

+ \$4,000

+ \$4,000

**b) Record**

| Date   | General Journal | Debit | Credit |
|--------|-----------------|-------|--------|
| Jan. 1 | Cash            | 4,000 |        |
|        | Common Stock    |       | 4,000  |

**c) Post**

| Cash   |       |
|--------|-------|
| Jan. 1 | 4,000 |

| Common Stock |              |
|--------------|--------------|
|              | Jan. 1 4,000 |

| Assets             |                     | = | Liabilities        |                     | + | Equity                |                          |
|--------------------|---------------------|---|--------------------|---------------------|---|-----------------------|--------------------------|
| Increase<br>Debits | Decrease<br>Credits |   | Decrease<br>Debits | Increase<br>Credits |   | Decrease<br>Debits    | Increase<br>Credits      |
| <b>Normal</b>      |                     |   |                    | <b>Normal</b>       |   | Dividends<br>Expenses | Common stock<br>Revenues |

# NEED-TO-KNOW 2-3 SOLUTION

Jan. 5 The company purchased \$2,000 of equipment on credit.

**a) Analyze**

**Assets = Liabilities + Equity**

+ \$2,000    + \$2,000

**b) Record**

| Date   | General Journal  | Debit | Credit |
|--------|------------------|-------|--------|
| Jan. 5 | Equipment        | 2,000 |        |
|        | Accounts Payable |       | 2,000  |

**c) Post**

| Equipment |       |
|-----------|-------|
| Jan. 5    | 2,000 |

| Accounts Payable |                   |
|------------------|-------------------|
|                  | Jan. 5      2,000 |

| Assets             |                     | = | Liabilities        |                     | + | Equity                |                          |
|--------------------|---------------------|---|--------------------|---------------------|---|-----------------------|--------------------------|
| Increase<br>Debits | Decrease<br>Credits |   | Decrease<br>Debits | Increase<br>Credits |   | Decrease<br>Debits    | Increase<br>Credits      |
| <b>Normal</b>      |                     |   |                    | <b>Normal</b>       |   | Dividends<br>Expenses | Common Stock<br>Revenues |

## NEED-TO-KNOW 2-3 SOLUTION

Jan. 14 The company provided \$540 of services for a client on credit.

## a) Analyze

|                                      |         |
|--------------------------------------|---------|
| <b>Assets = Liabilities + Equity</b> |         |
| + \$540                              | + \$540 |

## b) Record

| Date    | General Journal     | Debit | Credit |
|---------|---------------------|-------|--------|
| Jan. 14 | Accounts receivable | 540   |        |
|         | Services revenue    |       | 540    |

### c) Post

| Accounts receivable |     |                  |
|---------------------|-----|------------------|
| Jan. 14             | 540 |                  |
|                     |     |                  |
| Services revenue    |     |                  |
|                     |     | Jan. 14      540 |

| Assets             |                     | = | Liabilities        |                     | + | Equity                |                          |
|--------------------|---------------------|---|--------------------|---------------------|---|-----------------------|--------------------------|
| Increase<br>Debits | Decrease<br>Credits |   | Decrease<br>Debits | Increase<br>Credits |   | Decrease<br>Debits    | Increase<br>Credits      |
| <b>Normal</b>      |                     |   |                    | <b>Normal</b>       |   | Dividends<br>Expenses | Common Stock<br>Revenues |

# **Learning Objective**

---

**02-P2:**

**Prepare and explain the  
use of a trial balance**

---

# Preparing the Trial Balance

Preparing a trial balance involves three steps:

1. List each account title and its amount (from ledger) in the trial balance. If an account has a zero balance, list it with a zero in the normal balance column (or omit it).
2. Compute the total of debit balances and the total of credit balances.
3. Verify (prove) total debit balances equal total credit balances.



After processing its remaining transactions for December, FastForward's Trial Balance is prepared.

Exhibit  
2.14

| FASTFORWARD<br>Trial Balance<br>December 31, 2016 |       |        |           |
|---|-------|--------|-----------|
|   | Debit |        | Credit    |
| Cash  | \$    | 4,275  |           |
| Accounts receivable                               |       | 0      |           |
| Supplies  |       | 9,720  |           |
| Prepaid insurance                                 |       | 2,400  |           |
| Equipment   |       | 26,000 |           |
| Accounts payable                                  |       |        | \$ 6,200  |
| Unearned consulting revenue                       |       |        | 3,000     |
| Common stock                                      |       |        | 30,000    |
| Dividends   |       | 200    |           |
| Consulting revenue                                |       |        | 5,800     |
| Rental revenue                                    |       |        | 300       |
| Salaries expense                                  |       | 1,400  |           |
| Rent expense                                      |       | 1,000  |           |
| Utilities expense                                 |       | 305    |           |
| Totals  | \$    | 45,300 | \$ 45,300 |

The trial balance lists all account balances in the general ledger. If the books are in balance, the total debits will equal the total credits.

# Searching for and Correcting Errors

**If the trial balance does not balance, the error(s) must be found and corrected.**

**① Make sure the trial balance columns are correctly added.**

**② Make sure account balances are correctly entered from the ledger.**

**③ See if debit or credit accounts are mistakenly placed on the trial balance.**

**④ Re-compute each account balance in the ledger.**

**⑤ Verify that each journal entry is posted correctly.**

**⑥ Verify that each original journal entry has equal debits and credits.**

# Learning Objective

---

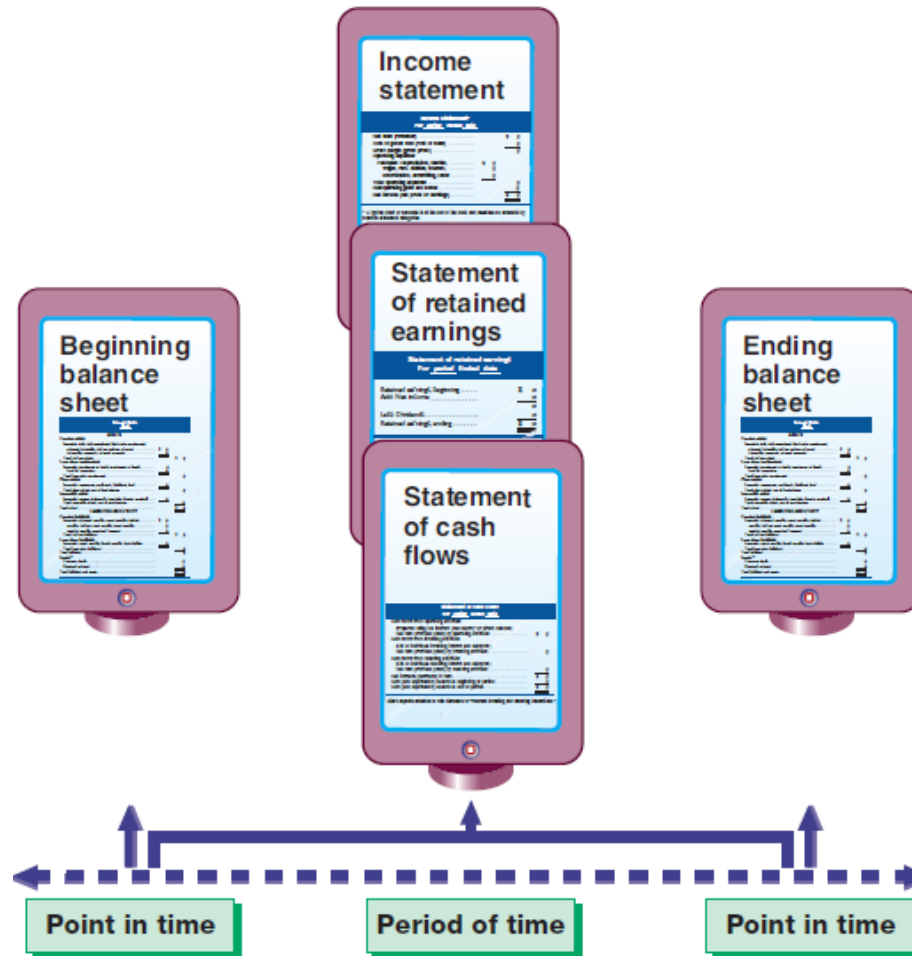
**02-P3:**

**Prepare financial statements  
from business transactions.**

---

# Using a Trial Balance to Prepare Financial Statements

Exhibit  
2.15



# Financial Statements

The four financial statements and their purposes are:

- 1. Income statement** — describes a company's revenues and expenses along with the resulting net income or loss over a period of time due to earnings activities.
- 2. Statement of retained earnings**— explains changes in the retained earnings from net income (or loss) and from any dividends declared over a period of time.
- 3. Balance sheet** — describes a company's financial position (types and amounts of assets, liabilities, and equity) at a point in time.
- 4. Statement of cash flows** —identifies cash inflows (receipts) and cash outflows (payments) over a period of time.

# Income Statement

| FASTFORWARD<br>Income Statement<br>For Month Ended December 31, 2016 |            |                          |
|--|------------|--------------------------|
| Revenues   |            |                          |
| Consulting revenue (\$4,200 + \$1,600) . . . . .                     | \$ 5,800   |                          |
| Rental revenue . . . . .   | <u>300</u> |                          |
| Total revenues . . . . .   |            | \$ 6,100                 |
| Expenses   |            |                          |
| Salaries expense . . . . .   | 1,400      |                          |
| Rent expense . . . . .   | 1,000      |                          |
| Utilities expense . . . . .  | <u>305</u> |                          |
| Total expenses . . . . .   |            | <u>2,705</u>             |
| Net income . . . . .   |            | <u><u>\$ 3,395</u></u> ← |

# Statement of Retained Earnings

Exhibit  
2.16

| FASTFORWARD<br>Income Statement<br>For Month Ended December 31, 2016 |            |                        |
|--|------------|------------------------|
| Revenues   |            |                        |
| Consulting revenue (\$4,200 + \$1,600) .....                         | \$ 5,800   |                        |
| Rental revenue .....   | <u>300</u> |                        |
| Total revenues .....   |            | \$ 6,100               |
| Expenses   |            |                        |
| Salaries expense .....   | 1,400      |                        |
| Rent expense .....   | 1,000      |                        |
| Utilities expense .....  | <u>305</u> |                        |
| Total expenses .....   |            | <u>2,705</u>           |
| Net income .....   |            | <u><u>\$ 3,395</u></u> |

| FASTFORWARD<br>Statement of Retained Earnings<br>For Month Ended December 31, 2016 |              |                        |
|--|--------------|------------------------|
| Retained earnings, December 1, 2016 .....  | \$ 0         |                        |
| Plus: Net income .....   | <u>3,395</u> |                        |
|  |              | 3,395                  |
| → Less: Cash dividends .....   |              | <u>200</u>             |
| Retained earnings, December 31, 2016 .....   |              | <u><u>\$ 3,195</u></u> |

# Balance Sheet

Exhibit  
2.16

| FASTFORWARD<br>Statement of Retained Earnings<br>For Month Ended December 31, 2016 |                        |
|--|------------------------|
| Retained earnings, December 1, 2016 .....  | \$ 0                   |
| Plus: Net income .....   | <u>3,395</u>           |
|  | 3,395                  |
| ➔ Less: Cash dividends .....   | <u>200</u>             |
| Retained earnings, December 31, 2016 .....   | <u><u>\$ 3,195</u></u> |

| FASTFORWARD<br>Balance Sheet<br>December 31, 2016 |                        |                                   |                        |
|---|------------------------|-----------------------------------|------------------------|
| Assets  |                        | Liabilities                       |                        |
| Cash .....  | \$ 4,275               | Accounts payable .....            | \$ 6,200               |
| Supplies .....                                    | 9,720                  | Unearned consult. revenue ...     | <u>3,000</u>           |
| Prepaid insurance ..                              | 2,400                  | Total liabilities .....           | 9,200                  |
| Equipment .....                                   | 26,000                 | Equity                            |                        |
|   |                        | Common stock .....                | 30,000                 |
|   |                        | Retained earnings .....           | <u>3,195</u>           |
|   |                        | Total equity .....                | <u>33,195</u>          |
| Total assets .....                                | <u><u>\$42,395</u></u> | Total liabilities and equity .... | <u><u>\$42,395</u></u> |



# Presentation Issues

1. Dollar signs are not used in journals and ledgers.
2. Dollar signs appear in financial statements and other reports such as trial balances. The usual practice is to put dollar signs beside only the first and last numbers in a column.
3. When amounts are entered in the journal, ledger, or trial balance, commas are optional to indicate thousands, millions, and so forth.
4. Commas are always used in financial statements.
5. Companies commonly round amounts in reports to the nearest dollar, or even to a higher level.

## NEED-TO-KNOW 2-4

Prepare a trial balance for Apple using the following condensed data from its fiscal year-ended September 27, 2014.

|                         |          |                              |           |
|-------------------------|----------|------------------------------|-----------|
| Common stock            | \$23,313 | Investments and other assets | \$179,911 |
| Accounts payable        | 30,196   | Land and equipment (net)     | 20,624    |
| Other liabilities       | 90,096   | Selling and other expense    | 17,054    |
| Cost of sales (expense) | 126,231  | Accounts receivable          | 17,460    |
| Cash                    | 13,844   | Retained earnings            | 59,939    |
| Revenues                | 182,795  |                              |           |
| Dividends               | 11,215   |                              |           |

| APPLE<br>Trial Balance<br>September 27, 2014 |                  |        |
|--|------------------|--------|
|  | Debit            | Credit |
| Assets                                       | Normal           |        |
| Liabilities                                  |                  | Normal |
| Common Stock                                 |                  | Normal |
| Retained Earnings                            |                  | Normal |
| Dividends                                    | Normal           |        |
| Revenues                                     |                  | Normal |
| Expenses                                     | Normal           |        |
| Totals                                       | Debits = Credits |        |

# NEED-TO-KNOW 2-4 SOLUTION

Prepare a trial balance for Apple using the following condensed data from its fiscal year-ended September 27, 2014.

|                         |          |                              |           |
|-------------------------|----------|------------------------------|-----------|
| Common stock            | \$23,313 | Investments and other assets | \$179,911 |
| Accounts payable        | 30,196   | Land and equipment (net)     | 20,624    |
| Other liabilities       | 90,096   | Selling and other expense    | 17,054    |
| Cost of sales (expense) | 126,231  | Accounts receivable          | 17,460    |
| Cash                    | 13,844   | Retained earnings            | 59,939    |
| Revenues                | 182,795  |                              |           |
| Dividends               | 11,215   |                              |           |

| APPLE                        |                  |                  |  |
|------------------------------|------------------|------------------|--|
| Trial Balance                |                  |                  |  |
| September 27, 2014           |                  |                  |  |
|                              | Debit            | Credit           |  |
| Cash                         | \$13,844         |                  |  |
| Accounts receivable          | 17,460           |                  |  |
| Land and equipment (net)     | 20,624           |                  |  |
| Investments and other assets | 179,911          |                  |  |
| Accounts payable             |                  | \$30,196         |  |
| Other liabilities            |                  | 90,096           |  |
| Common stock                 |                  | 23,313           |  |
| Retained earnings            |                  | 59,939           |  |
| Dividends                    | 11,215           |                  |  |
| Revenues                     |                  | 182,795          |  |
| Cost of sales (expense)      | 126,231          |                  |  |
| Selling and other expense    | 17,054           |                  |  |
| Totals                       | <u>\$386,339</u> | <u>\$386,339</u> |  |

# Global View

## Financial Statements

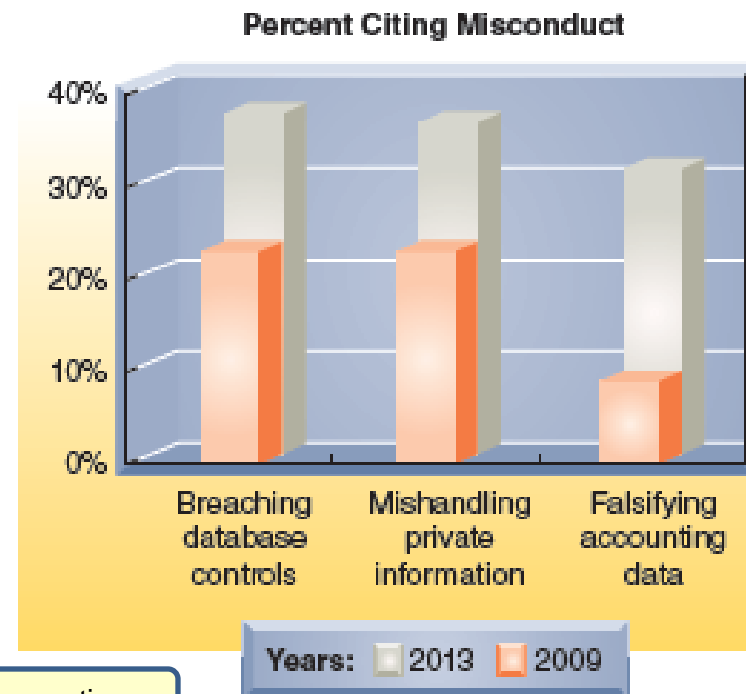
Both U.S. GAAP and IFRS prepare the same four basic financial statements. A few differences are found within each statement, but over time these differences are likely to be eliminated. Here is a typical IFRS balance sheet presentation.

| <b>PIAGGIO</b><br><b>Balance Sheet (in thousands of Euros)</b><br><b>December 31, 2014</b> |                   |                                    |                   |
|--|-------------------|------------------------------------|-------------------|
| <b>Assets</b>  |                   | <b>Equity and Liabilities</b>      |                   |
| Noncurrent assets .....  | €1,079,117        | Total equity .....                 | € 413,069         |
| Current assets .....   | 477,491           | Noncurrent liabilities .....       | 581,366           |
|  |                   | Current liabilities .....          | 562,173           |
| Total assets .....   | <u>€1,556,608</u> | Total equity and liabilities ..... | <u>€1,556,608</u> |

## Accounting Controls and Assurance

Accounting systems depend on control procedures that assure the proper principles were applied in processing accounting information. The passage of SOX legislation strengthened U.S. control procedures in recent years.

The graph here shows the percentage of employees in information technology who report observing specific types of misconduct and the increased risk of such misconduct in recent years (Source: KPMG 2013)



# Learning Objective

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**02-A2:**

**Compute the debt ratio and describe its use in analyzing financial condition.**

---

# Debt Ratio

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

Evaluates the level of debt risk.

A higher ratio indicates that there is a greater probability that a company will not be able to pay its debt in the future.

# Debt Ratio

Exhibit  
2.18

Skechers's debt ratio at each year-end  
from 2014 to 2010.

| \$ in millions            | 2014        | 2013        | 2012        | 2011        | 2010        |
|---------------------------|-------------|-------------|-------------|-------------|-------------|
| Total liabilities .....   | \$ 541      | \$ 429      | \$ 421      | \$ 389      | \$ 359      |
| Total assets .....        | \$1,675     | \$1,409     | \$1,340     | \$1,282     | \$1,305     |
| <b>Debt ratio .....</b>   | <b>0.32</b> | <b>0.30</b> | <b>0.31</b> | <b>0.30</b> | <b>0.28</b> |
| Industry debt ratio ..... | 0.49        | 0.47        | 0.46        | 0.47        | 0.49        |



# **End of Chapter 2**

# Financial Statements and the Accounting System

Chapter 2

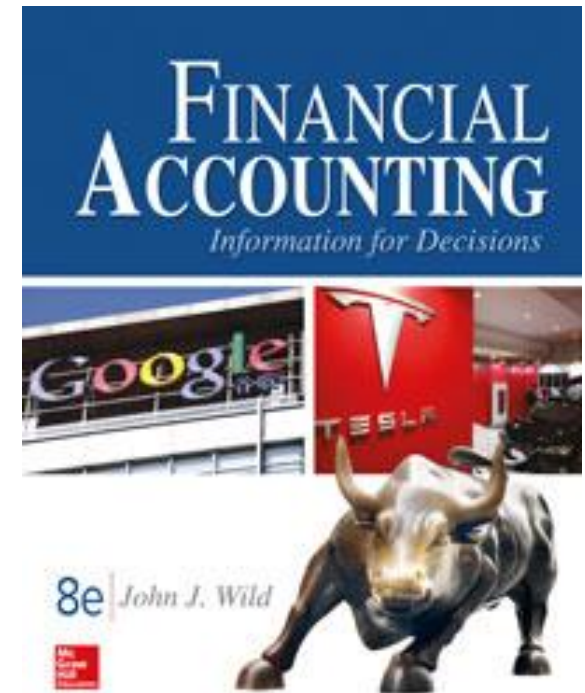
Exercise Presentation

PowerPoint

**John J. Wild**

**Financial Accounting: Information for Decisions**

**8th Edition**



## Chapter 2 – Financial Statements and the Accounting System

|                       |  | Click on links                |                                    |
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| Exercise 2-7 page 83  | Prepare Journal entries                  | <a href="#">Exercise 2-7</a>  | <a href="#">Exercise 2-7 Alt.</a>  |
| Exercise 2-8 page 83  | Prepare T-accounts                       | <a href="#">Exercise 2-8</a>  | <a href="#">Exercise 2-8 Alt.</a>  |
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| Exercise 2-19 page 85 | Analyze Changes in Equity                | <a href="#">Exercise 2-19</a> | <a href="#">Exercise 2-19 Alt.</a> |
| Exercise 2-20 page 86 | Analyzing Posting Errors – Trial Balance | <a href="#">Exercise 2-20</a> | <a href="#">Exercise 2-20 Alt.</a> |
| Exercise 2-21 page 86 | Analyzing Errors – Trial Balance         | <a href="#">Exercise 2-21</a> | <a href="#">Exercise 2-21 Alt.</a> |

# Exercise 2-6 page 83

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Use the information in each of the following separate cases.

|    |                                 |           |
|----|---------------------------------|-----------|
| a. | Payments on accounts in October | \$300,500 |
| b. | Sales on account in October     | \$89,390  |
| c. | Cash balance on September 30    | \$19,250  |

- a. Corentine Co. had \$152,000 of accounts payable on September 30 and \$132,500 on October 31. Total purchases on account during October were \$281,000. Determine how much cash was paid on accounts payable during October.
- b. On September 30, Valerian Co. had a \$102,500 balance in Accounts Receivable. During October, the company collected \$102,890 from its credit customers. The October 31 balance in Accounts Receivable was \$89,000. Determine the amount of sales on account that occurred in October.
- c. During October, Alameda Company had \$102,500 of cash receipts and \$103,150 of cash disbursements. The October 31 Cash balance was \$18,600 Determine how much cash the company had at the close of business on September 30.

Use the information in each of the following separate cases.

- a. Payments on accounts in October \$300,500
- b. Sales on account in October
- c. Cash balance on September 30

- a. Corentine Co. had \$152,000 of accounts payable on September 30 and \$132,500 on October 31. Total purchases on account during October were \$281,000. Determine how much cash was paid on accounts payable during October.

| Accounts Payable |         |               |         |
|------------------|---------|---------------|---------|
|                  |         | Sept. 30      | 152,000 |
| Cash paid        | 300,500 | Purch. on a/c | 281,000 |
|                  |         | Balance       | 132,500 |

Use the information in each of the following separate cases.

- |    |                                 |           |
|----|---------------------------------|-----------|
| a. | Payments on accounts in October | \$300,500 |
| b. | Sales on account in October     | \$89,390  |
| c. | Cash balance on September 30    |           |

- b. On September 30, Valerian Co. had a \$102,500 balance in Accounts Receivable. During October, the company collected \$102,890 from its credit customers. The October 31 balance in Accounts Receivable was \$89,000. Determine the amount of sales on account that occurred in October.

| Accounts Receivable |         |             |         |
|---------------------|---------|-------------|---------|
| Sept. 30            | 102,500 |             |         |
| Sales on a/c        | 89,390  | Collections | 102,890 |
| Balance             | 89,000  |             |         |

Use the information in each of the following separate cases.

|    |                                 |           |
|----|---------------------------------|-----------|
| a. | Payments on accounts in October | \$300,500 |
| b. | Sales on account in October     | \$89,390  |
| c. | Cash balance on September 30    | \$19,250  |

- c. During October, Alameda Company had \$102,500 of cash receipts and \$103,150 of cash disbursements. The October 31 Cash balance was \$18,600. Determine how much cash the company had at the close of business on September 30.

| Cash     |         |                       |
|----------|---------|-----------------------|
| Sept. 30 | 19,250  |                       |
| Receipts | 102,500 | Disbursements 103,150 |
| Balance  | 18,600  |                       |



Use the information in each of the following separate cases.

- a. Payments on accounts in October \$249,800
- b. Sales on account in October
- c. Cash balance on September 30

- a. Corentine Co. had \$150,000 of accounts payable on September 30 and \$140,200 on October 31. Total purchases on account during October were \$240,000. Determine how much cash was paid on accounts payable during October.

| Accounts Payable |         |               |         |
|------------------|---------|---------------|---------|
|                  |         | Sept. 30      | 150,000 |
| Cash paid        | 249,800 | Purch. on a/c | 240,000 |
|                  |         | Balance       | 140,200 |

Use the information in each of the following separate cases.

- |    |                                 |           |
|----|---------------------------------|-----------|
| a. | Payments on accounts in October | \$249,800 |
| b. | Sales on account in October     | \$75,000  |
| c. | Cash balance on September 30    |           |

- b. On September 30, Valerian Co. had a \$120,000 balance in Accounts Receivable. During October, the company collected \$106,000 from its credit customers. The October 31 balance in Accounts Receivable was \$89,000. Determine the amount of sales on account that occurred in October.

| Accounts Receivable |         |             |         |
|---------------------|---------|-------------|---------|
| Sept. 30            | 120,000 |             |         |
| Sales on a/c        | 75,000  | Collections | 106,000 |
| Balance             | 89,000  |             |         |

Use the information in each of the following separate cases.

|    |                                 |           |
|----|---------------------------------|-----------|
| a. | Payments on accounts in October | \$249,800 |
| b. | Sales on account in October     | \$75,000  |
| c. | Cash balance on September 30    | \$36,000  |

- c. During October, Alameda Company had \$135,000 of cash receipts and \$120,000 of cash disbursements. The October 31 Cash balance was \$51,000. Determine how much cash the company had at the close of business on September 30.

| Cash     |         |                       |
|----------|---------|-----------------------|
| Sept. 30 | 36,000  |                       |
| Receipts | 135,000 | Disbursements 120,000 |
| Balance  | 51,000  |                       |

## Exercise 2-7 page 83

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Prepare general journal entries for the following transactions of a new company called Pose for Pics.

- Aug. 1 Madison Harris, the owner, invested \$6,500 cash and \$33,500 of photography equipment in the Company in exchange for common stock.
- 2 The company paid \$2,100 cash for an insurance policy covering the next 24 months.
- 5 The company purchased office supplies for \$880 cash.
- 20 The company received \$3,331 cash in photography fees earned.
- 31 The company paid \$675 cash for August utilities.



| Date   | General Journal         | Debit  | Credit |
|--------|-------------------------|--------|--------|
| Aug 01 | Cash                    | 6,500  |        |
|        | Photography equipment   | 33,500 |        |
|        | Common Stock            |        | 40,000 |
| Aug 02 | Prepaid insurance       | 2,100  |        |
|        | Cash                    |        | 2,100  |
| Aug 05 | Office supplies         | 880    |        |
|        | Cash                    |        | 880    |
| Aug 20 | Cash                    | 3,331  |        |
|        | Photography fees earned |        | 3,331  |
| Aug 31 | Utilities expense       | 675    |        |
|        | Cash                    |        | 675    |

- Prepare general journal entries for the following transactions of a new company called Pose for Pics.
- Aug. 1 Madison Harris, the owner, invested \$10,700 cash and \$46,300 of photography equipment in the Company in exchange for common stock.
  - 2 The company paid \$3,800 cash for an insurance policy covering the next 24 months.
  - 5 The company purchased office supplies for \$2,400 cash.
  - 20 The company received \$3,300 cash in photography fees earned.
  - 31 The company paid \$600 cash for August utilities.



| Date   | General Journal         | Debit  | Credit |
|--------|-------------------------|--------|--------|
| Aug 01 | Cash                    | 10,700 |        |
|        | Photography equipment   | 46,300 |        |
|        | Common stock            |        | 57,000 |
| Aug 02 | Prepaid insurance       | 3,800  |        |
|        | Cash                    |        | 3,800  |
| Aug 05 | Office supplies         | 2,400  |        |
|        | Cash                    |        | 2,400  |
| Aug 20 | Cash                    | 3,300  |        |
|        | Photography fees earned |        | 3,300  |
| Aug 31 | Utilities expense       | 600    |        |
|        | Cash                    |        | 600    |

## Exercise 2-8 page 83

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Use the information below to prepare an August 31 trial balance for Pose for Pics. Begin by opening these T-accounts: Cash; Office Supplies; Prepaid Insurance; Photography Equipment; Common, Stock; Photography Fees Earned; and Utilities Expense. Then, post the general journal entries to these T-accounts (which will serve as the ledger), and prepare the trial balance.

| Date   | General Journal         | Debit  | Credit |
|--------|-------------------------|--------|--------|
| Aug 01 | Cash                    | 6,500  |        |
|        | Photography equipment   | 33,500 |        |
|        | Common stock            |        | 40,000 |
| Aug 02 | Prepaid insurance       | 2,100  |        |
|        | Cash                    |        | 2,100  |
| Aug 05 | Office supplies         | 880    |        |
|        | Cash                    |        | 880    |
| Aug 20 | Cash                    | 3,331  |        |
|        | Photography fees earned |        | 3,331  |
| Aug 31 | Utilities expense       | 675    |        |
|        | Cash                    |        | 675    |
|        |                         |        |        |



| Date   | General Journal         | Debit  | Credit |
|--------|-------------------------|--------|--------|
| Aug 01 | Cash                    | 6,500  |        |
|        | Photography equipment   | 33,500 |        |
|        | Common stock            |        | 40,000 |
| Aug 02 | Prepaid insurance       | 2,100  |        |
|        | Cash                    |        | 2,100  |
| Aug 05 | Office supplies         | 880    |        |
|        | Cash                    |        | 880    |
| Aug 20 | Cash                    | 3,331  |        |
|        | Photography fees earned |        | 3,331  |
| Aug 31 | Utilities expense       | 675    |        |
|        | Cash                    |        | 675    |

| Office supplies |     |
|-----------------|-----|
| Aug. 05         | 880 |
| Balance         | 880 |

| Photography fees earned |       |
|-------------------------|-------|
| Aug. 20                 | 3,331 |
| Balance                 | 3,331 |

| Utilities expense |     |
|-------------------|-----|
| Aug. 31           | 675 |
| Balance           | 675 |

| Cash    |       |
|---------|-------|
| Aug. 01 | 6,500 |
| Aug. 20 | 3,331 |
| Balance | 6,176 |

| Photography equipment |        |
|-----------------------|--------|
| Aug. 01               | 33,500 |
| Balance               | 33,500 |

| Common stock |        |
|--------------|--------|
| Aug. 01      | 40,000 |
| Balance      | 40,000 |

| Prepaid insurance |       |
|-------------------|-------|
| Aug. 02           | 2,100 |
| Balance           | 2,100 |

| 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              |                  |
|                         |                  |                  |
| Total                   | <u>\$ 43,331</u> | <u>\$ 43,331</u> |

| Office supplies |     |  |
|-----------------|-----|--|
| Aug. 05         | 880 |  |
|                 |     |  |
| Balance         | 880 |  |

| Photography fees earned |         |       |
|-------------------------|---------|-------|
|                         | Aug. 20 | 3,331 |
|                         |         |       |
|                         | Balance | 3,331 |

| Utilities expense |     |  |
|-------------------|-----|--|
| Aug. 31           | 675 |  |
|                   |     |  |
| Balance           | 675 |  |

| Cash    |       |         |       |
|---------|-------|---------|-------|
| Aug. 01 | 6,500 |         |       |
|         |       | Aug. 02 | 2,100 |
|         |       | Aug. 05 | 880   |
| Aug. 20 | 3,331 |         |       |
|         |       | Aug. 31 | 675   |
| Balance | 6,176 |         |       |

| Photography equipment |        |  |  |
|-----------------------|--------|--|--|
| Aug. 01               | 33,500 |  |  |
|                       |        |  |  |
| Balance               | 33,500 |  |  |

| Common stock |  |         |        |
|--------------|--|---------|--------|
|              |  | Aug. 01 | 40,000 |
|              |  |         |        |
|              |  | Balance | 40,000 |

| Prepaid insurance |       |  |  |
|-------------------|-------|--|--|
| Aug. 02           | 2,100 |  |  |
|                   |       |  |  |
| Balance           | 2,100 |  |  |

Use the information below to prepare an August 31 trial balance for Pose for Pics. Begin by opening these T-accounts: Cash; Office Supplies; Prepaid Insurance; Photography Equipment; Common Stock; Photography Fees Earned; and Utilities Expense. Then, post the general journal entries to these T-accounts (which will serve as the ledger), and prepare the trial balance.

| Date   | General Journal         | Debit  | Credit |
|--------|-------------------------|--------|--------|
| Aug 01 | Cash                    | 10,700 |        |
|        | Photography equipment   | 46,300 |        |
|        | Common stock            |        | 57,000 |
| Aug 02 | Prepaid insurance       | 3,800  |        |
|        | Cash                    |        | 3,800  |
| Aug 05 | Office supplies         | 2,400  |        |
|        | Cash                    |        | 2,400  |
| Aug 20 | Cash                    | 3,300  |        |
|        | Photography fees earned |        | 3,300  |
| Aug 31 | Utilities expense       | 600    |        |
|        | Cash                    |        | 600    |
|        |                         |        |        |

| Date   | General Journal         | Debit  | Credit |
|--------|-------------------------|--------|--------|
| Aug 01 | Cash                    | 10,700 |        |
|        | Photography equipment   | 46,300 |        |
|        | Common stock            |        | 57,000 |
| Aug 02 | Prepaid insurance       | 3,800  |        |
|        | Cash                    |        | 3,800  |
| Aug 05 | Office supplies         | 2,400  |        |
|        | Cash                    |        | 2,400  |
| Aug 20 | Cash                    | 3,300  |        |
|        | Photography fees earned |        | 3,300  |
| Aug 31 | Utilities expense       | 600    |        |
|        | Cash                    |        | 600    |

| Cash    |        |         |       |
|---------|--------|---------|-------|
| Aug. 01 | 10,700 |         |       |
|         |        | Aug. 02 | 3,800 |
|         |        | Aug. 05 | 2,400 |
| Aug. 20 | 3,300  |         |       |
|         |        | Aug. 31 | 600   |

| Photography Equipment |        |  |  |
|-----------------------|--------|--|--|
| Aug. 01               | 46,300 |  |  |

| Common Stock |  |         |        |
|--------------|--|---------|--------|
|              |  | Aug. 01 | 57,000 |

| Prepaid Insurance |       |  |  |
|-------------------|-------|--|--|
| Aug. 02           | 3,800 |  |  |

| Office Supplies |       |  |  |
|-----------------|-------|--|--|
| Aug. 05         | 2,400 |  |  |

| Photography Fees Earned |  |         |       |
|-------------------------|--|---------|-------|
|                         |  | Aug. 20 | 3,300 |

| Utilities Expense |     |  |  |
|-------------------|-----|--|--|
| Aug. 31           | 600 |  |  |

| Type         | Normal    | Why?   |
|--------------|-----------|--|
| Asset        | Debit     | Assets are on left-hand side of equation       |
| Liability    | Credit    | Liabilities are on right-hand side of equation |
| Equity       | 4 subsets | Equity is on the right-hand side of equation   |
| Common stock | Credit    | Increase equity with credits                   |
| Dividends    | Debit     | Decrease equity with debits                    |
| Revenues     | Credits   | Increase equity with credits                   |
| Expenses     | Debit     | Decrease equity with debits                    |

| Cash    |        |         |       |
|---------|--------|---------|-------|
| Aug. 01 | 10,700 |         |       |
|         |        | Aug. 02 | 3,800 |
|         |        | Aug. 05 | 2,400 |
| Aug. 20 | 3,300  |         |       |
|         |        | Aug. 31 | 600   |
| Balance | 7,200  |         |       |

| Photography Equipment |        |  |  |
|-----------------------|--------|--|--|
| Aug. 01               | 46,300 |  |  |
|                       |        |  |  |
|                       |        |  |  |
| Balance               | 46,300 |  |  |

| Common Stock |  |         |        |
|--------------|--|---------|--------|
|              |  | Aug. 01 | 57,000 |
|              |  |         |        |
|              |  |         |        |
|              |  | Balance | 57,000 |

| Prepaid Insurance |       |  |  |
|-------------------|-------|--|--|
| Aug. 02           | 3,800 |  |  |
| Balance           | 3,800 |  |  |

| Office Supplies |       |  |  |
|-----------------|-------|--|--|
| Aug. 05         | 2,400 |  |  |
| Balance         | 2,400 |  |  |

| Photography Fees Earned |  |         |       |
|-------------------------|--|---------|-------|
|                         |  | Aug. 20 | 3,300 |
|                         |  | Balance | 3,300 |

| Utilities Expense |     |  |  |
|-------------------|-----|--|--|
| Aug. 31           | 600 |  |  |
| Balance           | 600 |  |  |

| Pose for Pics |                         |           |           |
|---------------|-------------------------|-----------|-----------|
| Trial Balance |                         |           |           |
| August 31     |                         |           |           |
| Account Title |                         | Debit     | Credit    |
|               | Cash                    | \$ 7,200  |           |
|               | Office Supplies         | 2,400     |           |
|               | Prepaid Insurance       | 3,800     |           |
|               | Photography Equipment   | 46,300    |           |
|               | Common Stock            |           | \$ 57,000 |
|               | Photography Fees Earned |           | 3,300     |
|               | Utilities Expense       | 600       |           |
|               |                         |           |           |
|               | Total                   | \$ 60,300 | \$ 60,300 |

| Cash    |        |         |       |
|---------|--------|---------|-------|
| Aug. 01 | 10,700 |         |       |
|         |        | Aug. 02 | 3,800 |
|         |        | Aug. 05 | 2,400 |
| Aug. 20 | 3,300  |         |       |
|         |        | Aug. 31 | 600   |
| Balance | 7,200  |         |       |

| Photography Equipment |        |  |  |
|-----------------------|--------|--|--|
| Aug. 01               | 46,300 |  |  |
|                       |        |  |  |
|                       |        |  |  |
| Balance               | 46,300 |  |  |

| Common Stock |  |         |        |
|--------------|--|---------|--------|
|              |  | Aug. 01 | 57,000 |
|              |  |         |        |
|              |  |         |        |
|              |  | Balance | 57,000 |

| Prepaid Insurance |       |  |  |
|-------------------|-------|--|--|
| Aug. 02           | 3,800 |  |  |
| Balance           | 3,800 |  |  |

| Office Supplies |       |  |  |
|-----------------|-------|--|--|
| Aug. 05         | 2,400 |  |  |
| Balance         | 2,400 |  |  |

| Photography Fees Earned |  |         |       |
|-------------------------|--|---------|-------|
|                         |  | Aug. 20 | 3,300 |
|                         |  | Balance | 3,300 |

| Utilities Expense |     |  |  |
|-------------------|-----|--|--|
| Aug. 31           | 600 |  |  |
| Balance           | 600 |  |  |

## Exercise 2-9 page 83

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Prepare general journal entries to record the transactions below for Spade Company by using the following accounts: Cash; Accounts Receivable; Office Supplies; Office Equipment; Accounts Payable; Common stock; Dividends; Fees Earned; and Rent Expense. Use the letters beside each transaction to identify entries. After recording the transactions, post them to T-accounts, which serves as the general ledger for this assignment. Determine the ending balance of each T-account.

The transactions of Spade Company:

- a. Kacy Spade, owner, invested \$100,750 cash in the company in exchange for common stock
- b. The company purchased office supplies for \$1,250 cash.
- c. The company purchased \$10,050 of office equipment on credit.
- d. The company received \$15,000 cash as fees for services provided to a customer.
- e. The company paid \$10,050 cash to settle the payable for the office equipment purchased in transaction c.
- f. The company billed a customer \$2,700 as fees for services provided.
- g. The company paid \$1,225 cash for the monthly rent.
- h. The company collected \$1,125 cash as partial payment for the account receivable created in transaction f.
- i. The company paid \$10,000 cash to Spade (sole shareholder).



- a. Kacy Spade, owner, invested \$100,750 cash in the company in exchange for common stock.

| Date | General Journal | Debit   | Credit  |
|------|-----------------|---------|---------|
| a.   | Cash            | 100,750 |         |
|      | Common stock    |         | 100,750 |

| Cash |         |
|------|---------|
| a.   | 100,750 |

| Common stock |         |
|--------------|---------|
| a.           | 100,750 |

- b. The company purchased office supplies for \$1,250 cash.

| Date | General Journal | Debit | Credit |
|------|-----------------|-------|--------|
| b.   | Office Supplies | 1,250 |        |
|      | Cash            |       | 1,250  |

| Office Supplies |       |
|-----------------|-------|
| b.              | 1,250 |

| Cash |         |
|------|---------|
| a.   | 100,750 |
| b.   | 1,250   |

- c. The company purchased \$10,050 of office equipment on credit.

| Date | General Journal  | Debit  | Credit |
|------|------------------|--------|--------|
| c.   | Office Equipment | 10,050 |        |
|      | Accounts Payable |        | 10,050 |

| Office Equipment |        |
|------------------|--------|
| c.               | 10,050 |

| Accounts Payable |        |
|------------------|--------|
| c.               | 10,050 |

- d. The company received \$15,000 cash as fees for services provided to a customer.

| Date | General Journal | Debit  | Credit |
|------|-----------------|--------|--------|
| d.   | Cash            | 15,000 |        |
|      | Fees Earned     |        | 15,000 |

| Cash |         |    |       |
|------|---------|----|-------|
| a.   | 100,750 | b. | 1,250 |
| d.   | 15,000  |    |       |

| Fees Earned |  |    |        |
|-------------|--|----|--------|
|             |  | d. | 15,000 |

- e. The company paid \$10,050 cash to settle the payable for the office equipment purchased in transaction c.

| Date | General Journal  | Debit  | Credit |
|------|------------------|--------|--------|
| e.   | Accounts Payable | 10,050 |        |
|      | Cash             |        | 10,050 |

| Accounts Payable |        |    |        |
|------------------|--------|----|--------|
|                  |        | c. | 10,050 |
| e.               | 10,050 |    |        |

| Cash |         |    |        |
|------|---------|----|--------|
| a.   | 100,750 |    |        |
| d.   | 15,000  |    |        |
|      |         | b. | 1,250  |
|      |         | e. | 10,050 |

- f. The company billed a customer \$2,700 as fees for services provided.

| Date | General Journal     | Debit | Credit |
|------|---------------------|-------|--------|
| f.   | Accounts Receivable | 2,700 |        |
|      | Fees Earned         |       | 2,700  |

| Accounts Receivable |       |
|---------------------|-------|
| f.                  | 2,700 |

| Fees Earned |        |
|-------------|--------|
| d.          | 15,000 |
| f.          | 2,700  |

- g. The company paid \$1,225 cash for the monthly rent.

| Date | General Journal | Debit | Credit |
|------|-----------------|-------|--------|
| g.   | Rent Expense    | 1,225 |        |
|      | Cash            |       | 1,225  |

| Rent Expense |       |
|--------------|-------|
| g.           | 1,225 |

| Cash |         |
|------|---------|
| a.   | 100,750 |
| d.   | 15,000  |
| b.   | 1,250   |
| e.   | 10,050  |
| g.   | 1,225   |

- h. The company collected \$1,125 cash as partial payment for the account receivable created in transaction f.

| Date | General Journal     | Debit | Credit |
|------|---------------------|-------|--------|
| h.   | Cash                | 1,125 |        |
|      | Accounts Receivable |       | 1,125  |

| Cash |         |    |        |
|------|---------|----|--------|
| a.   | 100,750 | b. | 1,250  |
| d.   | 15,000  | e. | 10,050 |
| h.   | 1,125   | g. | 1,225  |

| Accounts Receivable |       |    |       |
|---------------------|-------|----|-------|
| f.                  | 2,700 | h. | 1,125 |



- i. The company paid \$10,000 cash in dividends to Spade (sole shareholder).

| Date | General Journal | Debit  | Credit |
|------|-----------------|--------|--------|
| i.   | Dividends       | 10,000 |        |
|      | Cash            |        | 10,000 |

| Dividends |        |
|-----------|--------|
| i.        | 10,000 |

| Cash |         |
|------|---------|
| a.   | 100,750 |
| d.   | 15,000  |
| h.   | 1,125   |
| b.   | 1,250   |
| e.   | 10,050  |
| g.   | 1,225   |
| i.   | 10,000  |

| Cash    |         |    |        |
|---------|---------|----|--------|
| a.      | 100,750 | b. | 1,250  |
| d.      | 15,000  | e. | 10,050 |
| h.      | 1,125   | g. | 1,225  |
|         |         | i. | 10,000 |
| Balance | 94,350  |    |        |

| Office Supplies |       |  |  |
|-----------------|-------|--|--|
| b.              | 1,250 |  |  |
| Balance         | 1,250 |  |  |

| Accounts Payable |        |    |        |
|------------------|--------|----|--------|
| e.               | 10,050 | c. | 10,050 |
|                  |        |    |        |

| Accounts Receivable |       |    |       |
|---------------------|-------|----|-------|
| f.                  | 2,700 | h. | 1,125 |
| Balance             | 1,575 |    |       |

| Dividends |        |  |  |
|-----------|--------|--|--|
| i.        | 10,000 |  |  |
| Balance   | 10,000 |  |  |

| Common stock |  |         |         |
|--------------|--|---------|---------|
|              |  | a.      | 100,750 |
|              |  |         |         |
|              |  | Balance | 100,750 |

| Office Equipment |        |  |  |
|------------------|--------|--|--|
| c.               | 10,050 |  |  |
| Balance          | 10,050 |  |  |

| Fees Earned |  |         |        |
|-------------|--|---------|--------|
|             |  | d.      | 15,000 |
|             |  | f.      | 2,700  |
|             |  | Balance | 17,700 |

| Rent Expense |       |  |  |
|--------------|-------|--|--|
| g.           | 1,225 |  |  |
| Balance      | 1,225 |  |  |

Prepare general journal entries to record the transactions below for Spade Company by using the following accounts: Cash; Accounts Receivable; Office Supplies; Office Equipment; Accounts Payable; Common stock; Dividends; Fees Earned; and Rent Expense. Use the letters beside each transaction to identify entries. After recording the transactions, post them to T-accounts, which serves as the general ledger for this assignment. Determine the ending balance of each T-account.

- a. Kacy Spade, owner, invested \$11,250 cash in the company in exchange for common stock..
- b. The company purchased office supplies for \$300 cash.
- c. The company purchased \$6,200 of office equipment on credit.
- d. The company received \$1,300 cash as fees for services provided to a customer.
- e. The company paid \$6,200 cash to settle the payable for the office equipment purchased in transaction c.
- f. The company billed a customer \$2,300 as fees for services provided.
- g. The company paid \$500 cash for the monthly rent.
- h. The company collected \$1,000 cash as partial payment for the account receivable created in transaction f.
- i. The company paid \$3,000 cash in dividends to Spade (sole shareholder).

- a. Kacy Spade, owner, invested \$11,250 cash in the company in exchange for common stock..

| Date | General Journal | Debit  | Credit |
|------|-----------------|--------|--------|
| a.   | Cash            | 11,250 |        |
|      | Common stock    |        | 11,250 |
|      |                 |        |        |

| Cash |        |
|------|--------|
| a.   | 11,250 |

| Common stock |        |
|--------------|--------|
| a.           | 11,250 |

- b. The company purchased office supplies for \$300 cash.

| Date | General Journal | Debit | Credit |
|------|-----------------|-------|--------|
| b.   | Office Supplies | 300   |        |
|      | Cash            |       | 300    |
|      |                 |       |        |

| Office Supplies |     |
|-----------------|-----|
| b.              | 300 |

| Cash |        |
|------|--------|
| a.   | 11,250 |
| b.   | 300    |

- c. The company purchased \$6,200 of office equipment on credit.

| Date | General Journal  | Debit | Credit |
|------|------------------|-------|--------|
| c.   | Office Equipment | 6,200 |        |
|      | Accounts Payable |       | 6,200  |
|      |                  |       |        |

| Office Equipment |       |
|------------------|-------|
| c.               | 6,200 |

| Accounts Payable |       |
|------------------|-------|
| c.               | 6,200 |

- d. The company received \$1,300 cash as fees for services provided to a customer.

| Date | General Journal | Debit | Credit |
|------|-----------------|-------|--------|
| d.   | Cash            | 1,300 |        |
|      | Fees Earned     |       | 1,300  |
|      |                 |       |        |

| Cash |        |    |     |
|------|--------|----|-----|
| a.   | 11,250 | b. | 300 |
| d.   | 1,300  |    |     |

| Fees Earned |  |    |       |
|-------------|--|----|-------|
|             |  | d. | 1,300 |

- e. The company paid \$6,200 cash to settle the payable for the office equipment purchased in transaction c.

| Date | General Journal  | Debit | Credit |
|------|------------------|-------|--------|
| e.   | Accounts Payable | 6,200 |        |
|      | Cash             |       | 6,200  |
|      |                  |       |        |

| Accounts Payable |       |    |       |
|------------------|-------|----|-------|
|                  |       | c. | 6,200 |
| e.               | 6,200 |    |       |

| Cash |        |    |       |
|------|--------|----|-------|
| a.   | 11,250 |    |       |
| d.   | 1,300  |    |       |
|      |        | b. | 300   |
|      |        | e. | 6,200 |



- f. The company billed a customer \$2,300 as fees for services provided.

| Date | General Journal     | Debit | Credit |
|------|---------------------|-------|--------|
| f.   | Accounts Receivable | 2,300 |        |
|      | Fees Earned         |       | 2,300  |
|      |                     |       |        |

| Accounts Receivable |       |
|---------------------|-------|
| f.                  | 2,300 |

| Fees Earned |       |
|-------------|-------|
| d.          | 1,300 |
| f.          | 2,300 |

- g. The company paid \$500 cash for the monthly rent.

| Date | General Journal | Debit | Credit |
|------|-----------------|-------|--------|
| g.   | Rent Expense    | 500   |        |
|      | Cash            |       | 500    |
|      |                 |       |        |

| Rent Expense |     |
|--------------|-----|
| g.           | 500 |

| Cash |        |
|------|--------|
| a.   | 11,250 |
| d.   | 1,300  |
| b.   | 300    |
| e.   | 6,200  |
| g.   | 500    |

- h. The company collected \$1,000 cash as partial payment for the account receivable created in transaction f.

| Date | General Journal     | Debit | Credit |
|------|---------------------|-------|--------|
| h.   | Cash                | 1,000 |        |
|      | Accounts Receivable |       | 1,000  |
|      |                     |       |        |

| Cash |        |    |       |
|------|--------|----|-------|
| a.   | 11,250 | b. | 300   |
| d.   | 1,300  | e. | 6,200 |
|      |        | g. | 500   |
| h.   | 1,000  |    |       |

| Accounts Receivable |       |    |       |
|---------------------|-------|----|-------|
| f.                  | 2,300 | h. | 1,000 |

- i. The company paid \$3,000 cash in dividends to Spade (sole shareholder).

| Date | General Journal | Debit | Credit |
|------|-----------------|-------|--------|
| i.   | Dividends       | 3,000 |        |
|      | Cash            |       | 3,000  |
|      |                 |       |        |

| Dividends |       |
|-----------|-------|
| i.        | 3,000 |

| Cash |        |
|------|--------|
| a.   | 11,250 |
| d.   | 1,300  |
| h.   | 1,000  |
| b.   | 300    |
| e.   | 6,200  |
| g.   | 500    |
| i.   | 3,000  |

| Cash    |              |
|---------|--------------|
| a.      | 11,250       |
| d.      | 1,300        |
| h.      | 1,000        |
| Balance | <u>3,550</u> |

| Office Supplies |            |
|-----------------|------------|
| b.              | 300        |
| Balance         | <u>300</u> |

| Accounts Payable |       |
|------------------|-------|
| e.               | 6,200 |
| c.               | 6,200 |

| Accounts Receivable |              |
|---------------------|--------------|
| f.                  | 2,300        |
| h.                  | 1,000        |
| Balance             | <u>1,300</u> |

| Dividends |              |
|-----------|--------------|
| i.        | 3,000        |
| Balance   | <u>3,000</u> |

| Common stock |               |
|--------------|---------------|
| a.           | 11,250        |
| Balance      | <u>11,250</u> |

| Office Equipment |              |
|------------------|--------------|
| c.               | 6,200        |
| Balance          | <u>6,200</u> |

| Fees Earned |              |
|-------------|--------------|
| d.          | 1,300        |
| f.          | 2,300        |
| Balance     | <u>3,600</u> |

| Rent Expense |            |
|--------------|------------|
| g.           | 500        |
| Balance      | <u>500</u> |

# Exercise 2-10 page 84

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| Spade Company       |                   |                   |
|---------------------|-------------------|-------------------|
| Trial Balance       |                   |                   |
| May 31              |                   |                   |
| Account Title       | Debit             | Credit            |
| Cash                | \$ 94,350         |                   |
| Accounts Receivable | 1,575             |                   |
| Office Supplies     | 1,250             |                   |
| Office Equipment    | 10,050            |                   |
| Accounts Payable    |                   |                   |
| Common stock        |                   | \$ 100,750        |
| Dividends           | 10,000            |                   |
| Fees Earned         |                   | 17,700            |
| Rent Expense        | 1,225             |                   |
|                     |                   |                   |
|                     |                   |                   |
| Total               | <u>\$ 118,450</u> | <u>\$ 118,450</u> |

| Cash           |           |
|----------------|-----------|
| a. 100,750     | b. 1,250  |
| d. 15,000      | e. 10,050 |
| h. 1,125       | g. 1,225  |
|                | i. 10,000 |
| Balance 94,350 |           |

| Office Supplies |  |
|-----------------|--|
| b. 1,250        |  |
| Balance 1,250   |  |

| Accounts Payable |           |
|------------------|-----------|
| e. 10,050        | c. 10,050 |
|                  |           |

| Accounts Receivable |          |
|---------------------|----------|
| f. 2,700            | h. 1,125 |
| Balance 1,575       |          |

| Dividends      |  |
|----------------|--|
| i. 10,000      |  |
| Balance 10,000 |  |

| Common stock |                 |
|--------------|-----------------|
|              | a. 100,750      |
|              |                 |
|              | Balance 100,750 |

| Office Equipment |  |
|------------------|--|
| c. 10,050        |  |
| Balance 10,050   |  |

| Fees Earned |                |
|-------------|----------------|
|             | d. 15,000      |
|             | f. 2,700       |
|             | Balance 17,700 |

| Rent Expense  |  |
|---------------|--|
| g. 1,225      |  |
| Balance 1,225 |  |

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After recording the transactions of Exercise 2-9 in T-accounts and calculating the balance of each account, prepare a trial balance. Use May 31, as its report date.



| Cash    |              |
|---------|--------------|
| a.      | 11,250       |
| d.      | 1,300        |
| h.      | 1,000        |
| Balance | <u>3,550</u> |

| Office Supplies |            |
|-----------------|------------|
| b.              | 300        |
| Balance         | <u>300</u> |

| Accounts Payable |       |
|------------------|-------|
| e.               | 6,200 |

| Accounts Receivable |              |
|---------------------|--------------|
| f.                  | 2,300        |
| Balance             | <u>1,300</u> |

| Dividends |              |
|-----------|--------------|
| i.        | 3,000        |
| Balance   | <u>3,000</u> |

| Common stock |               |
|--------------|---------------|
| a.           | 11,250        |
| Balance      | <u>11,250</u> |

| Office Equipment |              |
|------------------|--------------|
| c.               | 6,200        |
| Balance          | <u>6,200</u> |

| Fees Earned |              |
|-------------|--------------|
| d.          | 1,300        |
| f.          | 2,300        |
| Balance     | <u>3,600</u> |

| Rent Expense |            |
|--------------|------------|
| g.           | 500        |
| Balance      | <u>500</u> |

| Cash    |              |          |
|---------|--------------|----------|
| a.      | 11,250       |          |
|         |              | b. 300   |
| d.      | 1,300        |          |
|         |              | e. 6,200 |
| h.      | 1,000        |          |
|         |              | g. 500   |
|         |              | i. 3,000 |
| Balance | <u>3,550</u> |          |

| Office Supplies |            |  |
|-----------------|------------|--|
| b.              | 300        |  |
| Balance         | <u>300</u> |  |

| Accounts Payable |       |          |
|------------------|-------|----------|
|                  |       | c. 6,200 |
| e.               | 6,200 |          |
| Balance          |       |          |

| Accounts Receivable |              |          |
|---------------------|--------------|----------|
| f.                  | 2,300        |          |
|                     |              | h. 1,000 |
| Balance             | <u>1,300</u> |          |

| Dividends |              |  |
|-----------|--------------|--|
| i.        | 3,000        |  |
| Balance   | <u>3,000</u> |  |

| Common stock |  |               |
|--------------|--|---------------|
|              |  | a. 11,250     |
| Balance      |  | <u>11,250</u> |

| Office Equipment |              |  |
|------------------|--------------|--|
| c.               | 6,200        |  |
| Balance          | <u>6,200</u> |  |

| Fees Earned  |            |                      |
|--------------|------------|----------------------|
|              |            | d. 1,300             |
|              |            | f. 2,300             |
|              |            | Balance <u>3,600</u> |
| Rent Expense |            |                      |
| g.           | 500        |                      |
| Balance      | <u>500</u> |                      |

| Spade Company |                     |                  |                  |
|---------------|---------------------|------------------|------------------|
| Trial Balance |                     |                  |                  |
| May 31        |                     |                  |                  |
|               | Account Title       | Debit            | Credit           |
|               | Cash                | \$ 3,550         |                  |
|               | Accounts Receivable | 1,300            |                  |
|               | Office Supplies     | 300              |                  |
|               | Office Equipment    | 6,200            |                  |
|               | Accounts Payable    |                  | \$ -             |
|               | Common stock        |                  | 11,250           |
|               | Dividends           | 3,000            |                  |
|               | Fees Earned         |                  | 3,600            |
|               | Rent Expense        | 500              |                  |
|               |                     |                  |                  |
|               |                     |                  |                  |
|               | Total               | <u>\$ 14,850</u> | <u>\$ 14,850</u> |

# Exercise 2-15 page 85

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A corporation had the following assets and liabilities at the beginning and end of this year.

|                       | Assets    | Liabilities |
|-----------------------|-----------|-------------|
| Beginning of the year | \$ 60,000 | \$ 20,000   |
| End of the year       | 105,000   | 36,000      |

Determine the net income earned or net loss incurred by the business during the year for each of the following separate cases:

- Owner made no investments in the business and no dividends were paid during the year.
- Owner made no investments in the business but dividends were \$1,250 cash per month.
- No dividends were paid during the year, but the owner did invest an additional \$55,000 cash in exchange for common stock.
- Dividends were \$1,250 cash per month for and the owner invested an additional \$35,000 cash in exchange for common stock.

|                              | a.              | b.              | c.              | d.              |
|------------------------------|-----------------|-----------------|-----------------|-----------------|
| Beginning of the year equity | \$40,000        | \$40,000        | \$40,000        | \$40,000        |
| Investments by stockholder   | 0               | 0               | 55,000          | 35,000          |
| Dividends                    | 0               | (15,000)        | 0               | (15,000)        |
| Net income (loss)            | 29,000          | 44,000          | (26,000)        | 9,000           |
| End of the year equity       | <u>\$69,000</u> | <u>\$69,000</u> | <u>\$69,000</u> | <u>\$69,000</u> |

A corporation had the following assets and liabilities at the beginning and end of this year.

|                       | Assets    | Liabilities |
|-----------------------|-----------|-------------|
| Beginning of the year | \$ 85,000 | \$ 35,000   |
| End of the year       | 130,000   | 50,000      |

Determine the net income earned or net loss incurred by the business during the year for each of the following separate cases:

- Owner made no investments in the business and no dividends were paid during the year.
- Owner made no investments in the business but dividends were \$2,000 cash per month.
- No dividends were paid during the year, but the owner did invest an additional \$45,000 cash in exchange for common stock.
- Dividends were \$2,000 cash per month and the owner invested an additional \$35,000 cash in exchange for common stock.

|                              | a.              | b.              | c.              | d.              |
|------------------------------|-----------------|-----------------|-----------------|-----------------|
| Beginning of the year equity | \$50,000        | \$50,000        | \$50,000        | \$50,000        |
| Investments by stockholder   | 0               | 0               | 45,000          | 35,000          |
| Dividends                    | 0               | (24,000)        | 0               | (24,000)        |
| Net income (loss)            | 30,000          | 54,000          | (15,000)        | 19,000          |
| End of the year equity       | <u>\$80,000</u> | <u>\$80,000</u> | <u>\$80,000</u> | <u>\$80,000</u> |

# Exercise 2-16 page 85

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Carmen Camry operates a consulting firm called Help Today, which began operations on August 1. On August 31, the company's records show the following accounts and amounts for the month of August. Use this information to prepare an August income statement for the business.

### Dividends are reported on the Statement of Retained Earnings

|                     |           |                        |          |
|---------------------|-----------|------------------------|----------|
| Cash                | \$ 25,360 | Dividends              | \$ 6,000 |
| Accounts receivable | 22,360    | Consulting fees earned | 27,000   |
| Office supplies     | 5,250     | Rent expense           | 9,550    |
| Land                | 44,000    | Salaries expense       | 5,600    |
| Office equipment    | 20,000    | Telephone expense      | 860      |
| Accounts payable    | 10,500    | Miscellaneous expenses | 520      |
| Common stock        | 102,000   |                        |          |

| 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 (loss)         |          | <u>\$ 10,470</u> |

To Statement of  
Retained Earnings



Carmen Camry operates a consulting firm called Help Today, which began operations on August 1. On August 31, the company's records show the following accounts and amounts for the month of August. Use this information to prepare an August income statement for the business.

## Dividends are reported on the Statement of Retained Earnings

|                     |           |                        |           |
|---------------------|-----------|------------------------|-----------|
| Cash                | \$ 25,000 | Dividends              | \$ 15,000 |
| Accounts receivable | 16,000    | Consulting fees earned | 32,000    |
| Office supplies     | 4,200     | Rent expense           | 3,000     |
| Land                | 43,000    | Salaries expense       | 9,000     |
| Office equipment    | 34,000    | Telephone expense      | 500       |
| Accounts payable    | 9,500     | Miscellaneous expenses | 1,800     |
| Common stock        | 110,000   |                        |           |

| Help Today                |          |                  |
|---------------------------|----------|------------------|
| Income Statement          |          |                  |
| For Month Ended August 31 |          |                  |
| Revenues:                 |          |                  |
| Consulting fees earned    |          | \$ 32,000        |
| Expenses:                 |          |                  |
| Rent expense              | \$ 3,000 |                  |
| Salaries expense          | 9,000    |                  |
| Telephone expense         | 500      |                  |
| Miscellaneous expenses    | 1,800    |                  |
|                           |          |                  |
|                           |          |                  |
| Total expenses            |          | 14,300           |
| Net income (loss)         |          | <u>\$ 17,700</u> |

To Statement of  
Retained Earnings



# Exercise 2-17 page 85

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Carmen Camry operates a consulting firm called Help Today, which began operations on August 1. On August 31, the company's records show the following accounts and amounts for the month of August. Use this information to prepare an August statement of retained earnings for the business.

|                     |    |         |
|---------------------|----|---------|
| Cash                | \$ | 25,360  |
| Accounts receivable |    | 22,360  |
| Office supplies     |    | 5,250   |
| Land                |    | 44,000  |
| Office equipment    |    | 20,000  |
| Accounts payable    |    | 10,500  |
| Common stock        |    | 102,000 |

|                        |    |        |
|------------------------|----|--------|
| Dividends              | \$ | 6,000  |
| Consulting fees earned |    | 27,000 |
| Rent expense           |    | 9,550  |
| Salaries expense       |    | 5,600  |
| Telephone expense      |    | 860    |
| Miscellaneous expenses |    | 520    |

| Help Today                     |  |         |
|--------------------------------|--|---------|
| Statement of Retained Earnings |  |         |
| For Month Ended August 31      |  |         |
| Retained earnings, August 1    |  | \$ 0    |
|                                |  |         |
| Add: Net income                |  | 10,470  |
|                                |  |         |
|                                |  |         |
| Less: Dividends                |  |         |
|                                |  | 6,000   |
|                                |  |         |
| Retained earnings, August 31   |  | \$4,470 |

To Balance Sheet

Carmen Camry operates a consulting firm called Help Today, which began operations on August 1. On August 31, the company's records show the following accounts and amounts for the month of August. Use this information to prepare an August statement of retained earnings for the business.

|                     |           |
|---------------------|-----------|
| Cash                | \$ 25,000 |
| Accounts receivable | 16,000    |
| Office supplies     | 4,200     |
| Land                | 43,000    |
| Office equipment    | 34,000    |
| Accounts payable    | 9,500     |
| Common stock        | 110,000   |

|                        |           |
|------------------------|-----------|
| Dividends              | \$ 15,000 |
| Consulting fees earned | 32,000    |
| Rent expense           | 3,000     |
| Salaries expense       | 9,000     |
| Telephone expense      | 500       |
| Miscellaneous expenses | 1,800     |

| Help Today                     |  |         |
|--------------------------------|--|---------|
| Statement of Retained Earnings |  |         |
| For Month Ended August 31      |  |         |
| Retained earnings, August 1    |  | \$ 0    |
|                                |  |         |
| Add: Net income                |  | 17,700  |
|                                |  |         |
|                                |  |         |
| Less: Dividends                |  | 15,000  |
|                                |  |         |
|                                |  |         |
| Retained earnings, August 31   |  | \$2,700 |

To Balance Sheet

# Exercise 2-18 page 85

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Carmen Camry operates a consulting firm called Help Today, which began operations on August 1. On August 31, the company's records show the following accounts and amounts for the month of August. Use this information to prepare an August 31 Balance Sheet for the business.

|                     |           |
|---------------------|-----------|
| Cash                | \$ 25,360 |
| Accounts receivable | 22,360    |
| Office supplies     | 5,250     |
| Land                | 44,000    |
| Office equipment    | 20,000    |
| Accounts payable    | 10,500    |
| Common stock        | 102,000   |

|                        |          |
|------------------------|----------|
| Dividends              | \$ 6,000 |
| Consulting fees earned | 27,000   |
| Rent expense           | 9,550    |
| Salaries expense       | 5,600    |
| Telephone expense      | 860      |
| Miscellaneous expenses | 520      |

| Help Today<br>Balance Sheet<br>August 31 |                   |                            |                   |
|--|-------------------|----------------------------|-------------------|
| Assets                                   |                   | Liabilities                |                   |
| Cash                                     | \$ 25,360         | Accounts payable           | \$ 10,500         |
| Accounts receivable                      | 22,360            |                            |                   |
| Office supplies                          | 5,250             |                            |                   |
| Land                                     | 44,000            | Equity                     |                   |
| Office equipment                         | 20,000            | Common stock               | 102,000           |
|  |                   | Retained Earnings          | 4,470             |
|  |                   |                            |                   |
| Total assets                             | <u>\$ 116,970</u> | Total liabilities & equity | <u>\$ 116,970</u> |

From Statement  
of Retained  
Earnings

Carmen Camry operates a consulting firm called Help Today, which began operations on August 1. On August 31, the company's records show the following accounts and amounts for the month of August. Use this information to prepare an August 31 Balance Sheet for the business.

|                     |    |         |                        |    |        |
|---------------------|----|---------|------------------------|----|--------|
| Cash                | \$ | 25,360  | Dividends              | \$ | 6,000  |
| Accounts receivable |    | 22,360  | Consulting fees earned |    | 27,000 |
| Office supplies     |    | 5,250   | Rent expense           |    | 9,550  |
| Land                |    | 44,000  | Salaries expense       |    | 5,600  |
| Office equipment    |    | 20,000  | Telephone expense      |    | 860    |
| Accounts payable    |    | 10,500  | Miscellaneous expenses |    | 520    |
| Common stock        |    | 102,000 |                        |    |        |

| 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 (loss)         |          | <u>\$ 10,470</u> |

| Help Today                     |  |                |
|--------------------------------|--|----------------|
| Statement of Retained Earnings |  |                |
| For Month Ended August 31      |  |                |
| Retained earnings, August 1    |  | \$ 0           |
| Add: Net income                |  | 10,470         |
|                                |  |                |
| Less: Dividends                |  | 6,000          |
|                                |  |                |
| Retained earnings, August 31   |  | <u>\$4,470</u> |

Carmen Camry operates a consulting firm called Help Today, which began operations on August 1. On August 31, the company's records show the following accounts and amounts for the month of August. Use this information to prepare an August 31 Balance Sheet for the business.

|                     |           |                        |           |
|---------------------|-----------|------------------------|-----------|
| Cash                | \$ 25,000 | Dividends              | \$ 15,000 |
| Accounts receivable | 16,000    | Consulting fees earned | 32,000    |
| Office supplies     | 4,200     | Rent expense           | 3,000     |
| Land                | 43,000    | Salaries expense       | 9,000     |
| Office equipment    | 34,000    | Telephone expense      | 500       |
| Accounts payable    | 9,500     | Miscellaneous expenses | 1,800     |
| Common stock        | 110,000   |                        |           |

| Help Today<br>Balance Sheet<br>August 31 |                   |                              |                   |
|--|-------------------|------------------------------|-------------------|
| Assets                                   |                   | Liabilities                  |                   |
| Cash                                     | \$ 25,000         | Accounts payable             | \$ 9,500          |
| Accounts receivable                      | 16,000            |                              |                   |
| Office supplies                          | 4,200             |                              |                   |
| Land                                     | 43,000            | <b>Equity</b>                |                   |
| Office equipment                         | 34,000            | Common stock                 | 110,000           |
|  |                   | Retained earnings            | 2,700             |
|  |                   |                              |                   |
| Total assets                             | <u>\$ 122,200</u> | Total liabilities and equity | <u>\$ 122,200</u> |

From Statement  
of Retained  
Earnings

Carmen Camry operates a consulting firm called Help Today, which began operations on August 1. On August 31, the company's records show the following accounts and amounts for the month of August. Use this information to prepare an August 31 Balance Sheet for the business.

|                     |    |         |                        |    |        |
|---------------------|----|---------|------------------------|----|--------|
| Cash                | \$ | 25,000  | Dividends              | \$ | 15,000 |
| Accounts receivable |    | 16,000  | Consulting fees earned |    | 32,000 |
| Office supplies     |    | 4,200   | Rent expense           |    | 3,000  |
| Land                |    | 43,000  | Salaries expense       |    | 9,000  |
| Office equipment    |    | 34,000  | Telephone expense      |    | 500    |
| Accounts payable    |    | 9,500   | Miscellaneous expenses |    | 1,800  |
| Common stock        |    | 110,000 |                        |    |        |

| Help Today                |          |                  |
|---------------------------|----------|------------------|
| Income Statement          |          |                  |
| For Month Ended August 31 |          |                  |
| Revenues:                 |          |                  |
| Consulting fees earned    |          | \$ 32,000        |
| Expenses:                 |          |                  |
| Rent expense              | \$ 3,000 |                  |
| Salaries expense          | 9,000    |                  |
| Telephone expense         | 500      |                  |
| Miscellaneous expense     | 1,800    |                  |
|                           |          |                  |
|                           |          |                  |
| Total expenses            |          | 14,300           |
| Net income (loss)         |          | <u>\$ 17,700</u> |

| Help Today                     |  |                 |
|--------------------------------|--|-----------------|
| Statement of Retained Earnings |  |                 |
| For Month Ended August 31      |  |                 |
| Retained earnings, August 1    |  | \$ -            |
| Add: Net income                |  | 17,700          |
| Less: Dividends                |  | (15,000)        |
|                                |  |                 |
| Retained Earnings, August 31   |  | <u>\$ 2,700</u> |



# Exercise 2-19 page 85

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Compute the missing amount for each of the following separate companies a through d

|                              | a.               | b.              | c.              | d.               |
|------------------------------|------------------|-----------------|-----------------|------------------|
| Beginning of the year equity | \$0              | \$0             | \$0             | \$0              |
| Owner investments for stock  | 110,000          | 42,000          | 87,000          | 210,000          |
| Dividends during the year    | (28,000)         | (47,000)        | (10,000)        | (55,000)         |
| Net income (loss)            | 22,000           | 90,000          | (4,000)         | (45,000)         |
| End of the year equity       | <u>\$104,000</u> | <u>\$85,000</u> | <u>\$73,000</u> | <u>\$110,000</u> |

Compute the missing amount for each of the following separate companies a through d

|                              | <b>a.</b>       | <b>b.</b>       | <b>c.</b>       | <b>d.</b>        |
|------------------------------|-----------------|-----------------|-----------------|------------------|
| Beginning of the year equity | \$0             | \$0             | \$0             | \$0              |
| Owner investments for stock  | 91,000          | 100,000         | 84,215          | 200,000          |
| Dividends during the year    | (85,000)        | (50,000)        | (9,000)         | (55,000)         |
| Net income (loss)            | 87,000          | 40,000          | (5,000)         | (45,000)         |
| End of the year equity       | <u>\$93,000</u> | <u>\$90,000</u> | <u>\$70,215</u> | <u>\$100,000</u> |

# Exercise 2-20 page 86

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Posting errors are identified in the following table. In column (1), enter the amount of the difference between the two trial balance columns (debit and credit) due to the error. In column (2), identify the trial balance column (debit or credit) with the larger amount if they are not equal. In column (3), identify the account(s) affected by the error. In column (4), indicate the amount by which the account(s) in column (3) is under- or overstated. Item (a) is completed as an example.

| Description of Posting Error   | (1)<br>Difference<br>between<br>Debit and<br>Credit<br>Columns | (2)<br>Column<br>with the<br>Larger<br>Total | (3)<br>Identify Account(s)<br>Incorrectly Stated | (4)<br>Amount that<br>Account(s) is Over-or<br>Understated |
|--|--|--|--|--|
| a. \$3,600 debit to Rent Expense is posted as a \$1,340 debit                    |  |  |  |  |
| b. \$6,500 credit to Cash is posted twice as two credits to Cash                 |  |  |  |  |
| c. \$10,900 debit to the Dividends account is debited to Common Stock.           |  |  |  |  |
| d. \$2,050 debit to Prepaid Insurance is posted as a debit to Insurance Expense. |  |  |  |  |
| e. \$38,000 debit to Machinery is posted as a debit to Accounts Payable.         |  |  |  |  |
| f. \$5,850 credit to Services Revenue is posted as a \$585 credit.               |  |  |  |  |
| g. \$1,390 debit to Store Supplies is not posted.                                |  |  |  |  |

| Description of Posting Error   | (1)<br>Difference<br>between<br>Debit and<br>Credit<br>Columns | (2)<br>Column<br>with the<br>Larger<br>Total | (3)<br>Identify Account(s)<br>Incorrectly Stated | (4)<br>Amount that<br>Account(s) is Over-or<br>Understated |
|--|--|--|--|--|
| a. \$3,600 debit to Rent Expense is posted as a \$1,340 debit                    | \$2,260  | Credit                                       | Rent Expense                                     | Understated by \$2,260                                     |
|  |  |  |  |  |
| b. \$6,500 credit to Cash is posted twice as two credits to Cash                 | \$6,500  | Credit                                       | Cash   | Understated by \$6,500                                     |
|  |  |  |  |  |
| c. \$10,900 debit to the Dividends account is debited to Common Stock.           | \$0  | N/A  | Common Stock                                     | Understated by \$10,900                                    |
|  |  |  | Dividends  | Understated by \$10,900                                    |
| d. \$2,050 debit to Prepaid Insurance is posted as a debit to Insurance Expense. | \$0  | N/A  | Prepaid Insurance                                | Understated by \$2,050                                     |
|  |  |  | Insurance Expense                                | Overstated by \$2,050                                      |
| e. \$38,000 debit to Machinery is posted as a debit to Accounts Payable.         | \$0  | N/A  | Machinery  | Understated by \$38,000                                    |
|  |  |  | Accounts Payable                                 | Understated by \$38,000                                    |
| f. \$5,850 credit to Services Revenue is posted as a \$585 credit.               | \$5,265  | Debit  | Service Revenue                                  | Understated by \$5,265                                     |
|  |  |  |  |  |
| g. \$1,390 debit to Store Supplies is not posted.                                | \$1,390  | Credit                                       | Store Supplies                                   | Understated by \$1,390                                     |
|  |  |  |  |  |

Posting errors are identified in the following table. In column (1), enter the amount of the difference between the two trial balance columns (debit and credit) due to the error. In column (2), identify the trial balance column (debit or credit) with the larger amount if they are not equal. In column (3), identify the account(s) affected by the error. In column (4), indicate the amount by which the account(s) in column (3) is under- or overstated. Item (a) is completed as an example.

| Description of Posting Error   | (1)<br>Difference<br>between<br>Debit and<br>Credit<br>Columns | (2)<br>Column<br>with the<br>Larger<br>Total | (3)<br>Identify Account(s)<br>Incorrectly Stated | (4)<br>Amount that<br>Account(s) is Over-or<br>Understated |
|--|--|--|--|--|
| a. \$4,300 debit to Rent Expense is posted as a \$1,360 debit                    |  |  |  |  |
| b. \$5,800 credit to Cash is posted twice as two credits to Cash                 |  |  |  |  |
| c. \$12,000 debit to the Dividends account is debited to Common Stock.           |  |  |  |  |
| d. \$3,100 debit to Prepaid Insurance is posted as a debit to Insurance Expense. |  |  |  |  |
| e. \$20,000 debit to Machinery is posted as a debit to Accounts Payable.         |  |  |  |  |
| f. \$9,500 credit to Services Revenue is posted as a \$950 credit.               |  |  |  |  |
| g. \$1,900 debit to Store Supplies is not posted.                                |  |  |  |  |

| Description of Posting Error   | (1)<br>Difference<br>between<br>Debit and<br>Credit<br>Columns | (2)<br>Column<br>with the<br>Larger<br>Total | (3)<br>Identify Account(s)<br>Incorrectly Stated | (4)<br>Amount that<br>Account(s) is Over-or<br>Understated |
|--|--|--|--|--|
| a. \$4,300 debit to Rent Expense is posted as a \$1,360 debit                    | \$2,940  | Credit                                       | Rent Expense                                     | Understated \$2,940  |
|  |  |  |  |  |
| b. \$5,800 credit to Cash is posted twice as two credits to Cash                 | \$5,800  | Credit                                       | Cash   | Understated by \$5,800                                     |
|  |  |  |  |  |
| c. \$12,000 debit to the Dividends account is debited to Common Stock.           | \$0  | N/A  | Common Stock                                     | Understated by \$12,000                                    |
|  |  |  | Dividends  | Understated by \$12,000                                    |
| d. \$3,100 debit to Prepaid Insurance is posted as a debit to Insurance Expense. | \$0  | N/A  | Prepaid Insurance                                | Understated by \$3,100                                     |
|  |  |  | Insurance Expense                                | Overstated by \$3,100                                      |
| e. \$20,000 debit to Machinery is posted as a debit to Accounts Payable.         | \$0  | N/A  | Machinery  | Understated by \$20,000                                    |
|  |  |  | Accounts Payable                                 | Understated by \$20,000                                    |
| f. \$9,500 credit to Services Revenue is posted as a \$950 credit.               | \$8,550  | Debit  | Service Revenue                                  | Understated by \$8,550                                     |
|  |  |  |  |  |
| g. \$1,900 debit to Store Supplies is not posted.                                | \$1,900  | Credit                                       | Store Supplies                                   | Understated by \$1,900                                     |
|  |  |  |  |  |



# Exercise 2-21 page 86

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You are told the column totals in a trial balance are not equal. After careful analysis, you discover only one error. Specifically, a correctly journalized credit purchase of an automobile for \$18,950 is posted from the journal to the ledger with a \$18,950 debit to Automobiles and another \$18,950 debit to Accounts Payable. The Automobiles account has a debit balance of \$37,100 on the trial balance. Answer each of the following questions and compute the dollar amount of any misstatement.

| Automobiles |        |
|-------------|--------|
|             |        |
| Balance     | 37,100 |

- Is the debit column total of the trial balance overstated, understated, or correctly stated?
- Is the credit column total of the trial balance overstated, understated, or correctly stated?
- Is the Automobiles account balance overstated, understated, or correctly stated in the trial balance?
- Is the Accounts Payable account balance overstated, understated, or correctly stated in the trial balance?
- If the debit column total of the trial balance is \$200,000 before correcting the error, what is the total of the credit column before correction?

|  | General Journal  | Debit  | Credit |
|--|------------------|--------|--------|
|  | Automobiles      | 18,950 |        |
|  | Accounts Payable |        | 18,950 |
|  |                  |        |        |

Assume Accounts payable related to all other items is \$55,000.

Should have been:

| Automobiles |        |
|-------------|--------|
| 18,150      |        |
| 18,950      |        |
| Balance     | 37,100 |

| Accounts Payable |        |
|------------------|--------|
|                  | 55,000 |
|                  | 18,950 |
| Balance          | 73,950 |

With error:

| Automobiles |        |
|-------------|--------|
| 18,150      |        |
| 18,950      |        |
| Balance     | 37,100 |

| Accounts Payable |        |
|------------------|--------|
|                  | 55,000 |
| 18,950           |        |
| Balance          | 36,050 |

- Is the debit column total of the trial balance overstated, understated, or correctly stated? **Correctly Stated**
- Is the credit column total of the trial balance overstated, understated, or correctly stated? **Understated by \$37,900**
- Is the Automobiles account balance overstated, understated, or correctly stated in the trial balance? **Correctly Stated**
- Is the Accounts Payable account balance overstated, understated, or correctly stated in the trial balance? **Understated by \$37,900**
- If the debit column total of the trial balance is \$200,000 before correcting the error, what is the total of the credit column before correction? **\$162,100**

You are told the column totals in a trial balance are not equal. After careful analysis, you discover only one error. Specifically, a correctly journalized credit purchase of an automobile for \$20,000 is posted from the journal to the ledger with a \$20,000 debit to Automobiles and another \$20,000 debit to Accounts Payable. The Automobiles account has a debit balance of \$57,000 on the trial balance. Answer each of the following questions and compute the dollar amount of any misstatement.

| Automobiles |        |
|-------------|--------|
|             |        |
| Balance     | 57,000 |

- Is the debit column total of the trial balance overstated, understated, or correctly stated?
- Is the credit column total of the trial balance overstated, understated, or correctly stated?
- Is the Automobiles account balance overstated, understated, or correctly stated in the trial balance?
- Is the Accounts Payable account balance overstated, understated, or correctly stated in the trial balance?
- If the debit column total of the trial balance is \$260,000 before correcting the error, what is the total of the credit column before correction?

|  | General Journal  | Debit  | Credit |
|--|------------------|--------|--------|
|  | Automobiles      | 20,000 |        |
|  | Accounts Payable |        | 20,000 |
|  |                  |        |        |

Assume Accounts payable related to all other items is \$55,000.

Should have been:

| Automobiles |        |
|-------------|--------|
| 37,000      |        |
| 20,000      |        |
| <hr/>       |        |
| Balance     | 57,000 |

| Accounts Payable |        |
|------------------|--------|
|                  | 55,000 |
|                  | 20,000 |
| <hr/>            |        |
| Balance          | 75,000 |

With error:

| Automobiles |        |
|-------------|--------|
| 37,000      |        |
| 20,000      |        |
| <hr/>       |        |
| Balance     | 57,000 |

| Accounts Payable |        |
|------------------|--------|
|                  | 55,000 |
| 20,000           |        |
| <hr/>            |        |
| Balance          | 35,000 |

- Is the debit column total of the trial balance overstated, understated, or correctly stated? **Correctly Stated**
- Is the credit column total of the trial balance overstated, understated, or correctly stated? **Understated by \$40,000**
- Is the Automobiles account balance overstated, understated, or correctly stated in the trial balance? **Correctly Stated**
- Is the Accounts Payable account balance overstated, understated, or correctly stated in the trial balance? **Understated by \$40,000**
- If the debit column total of the trial balance is \$260,000 before correcting the error, what is the total of the credit column before correction? **\$220,000**