# Chapter 2

**Accounting for Business Transactions**

**QUESTIONS**

**1. a. Common asset accounts: cash, accounts receivable, notes receivable, prepaid expenses (rent, insurance, etc.), office supplies, store supplies, equipment, building, and land.**

**b. Common liability accounts: accounts payable, notes payable, and unearned revenue, wages payable, and taxes payable.**

**c. Common equity accounts: common stock and dividends.**

**2. A note payable is formal promise, usually denoted by signing a promissory note to pay a future amount. A note payable can be short-term or long-term, depending on when it is due. An account payable also references an amount owed to an entity. An account payable can be oral or implied, and often arises from the purchase of inventory, supplies, or services. An account payable is usually short-term.**

**3. There are several steps in processing transactions: (1) Identify and analyze the transaction or event, including the source document(s), (2) apply double-entry accounting, (3) record the transaction or event in a journal, and (4) post the journal entry to the ledger. These steps would be followed by preparation of a trial balance and then with the reporting of financial statements.**

**4. A general journal can be used to record any business transaction or event.**

**5. Debited accounts are commonly recorded first. The credited accounts are commonly indented.**

**6. A transaction is first recorded in a journal to create a complete record of the transaction in one place. (The journal is often referred to as the book of original entry.) This process reduces the likelihood of errors in ledger accounts.**

**7. Expense accounts have debit balances because they are decreases to equity (and equity has a credit balance).**

**8. The recordkeeper prepares a trial balance to summarize the contents of the ledger and to verify the equality of total debits and total credits. The trial balance also serves as a helpful internal document for preparing financial statements and other reports.**

**9. The error should be corrected with a separate (subsequent) correcting entry. The entry’s explanation should describe why the correction is necessary.**

**10. The four financial statements are: income statement, balance sheet, statement of retained earnings, and statement of cash flows.**

**11. The balance sheet provides information that helps users understand a company’s financial position at a point in time. Accordingly, it is often called the statement of financial position. The balance sheet lists the types and dollar amounts of assets, liabilities, and equity of the business.**

**12. The income statement lists the types and amounts of revenues and expenses, and reports whether the business earned a net income (also called profit or earnings) or a net loss.**

**13. An income statement user must know what time period is covered to judge whether the company’s performance is satisfactory. For example, a statement user would not be able to assess whether the amounts of revenue and net income are satisfactory without knowing whether they were earned over a week, a month, a quarter, or a year.**

**14. (a) Assets are probable future economic benefits obtained or controlled by a specific entity as a result of past transactions or events. (b) Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events. (c) Equity is the residual interest in the assets of an entity that remains after deducting its liabilities. (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; Other assets.**

**Credit balance accounts on the Apple balance sheet include: Accounts Payable; Accrued expenses; Deferred revenue; Commercial paper; Current portion of long-term debt; Deferred revenue, non-current; Long-term debt; Other non-current liabilities; Common stock; Retained earnings; Accumulated other comprehensive income (current year abnormal debit balance).**

**17. The asset accounts with *receivable* in its account title are: Accounts receivable, net; 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 liabilities; Provisions; Other current liabilities; Liabilities held-for-sale.**

**Samsung’s balance sheet lists the following noncurrent liabilities: Debentures; Long-term borrowings; Long-term other payables; Net defined benefit liabilities; Deferred income tax liabilities; Provisions; Other non-current liabilities.**

**Quick Studies**

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

**The likely source documents include:**

**a. Sales 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** |
|  | ***Owner invests cash & equipment for stock.*** |  |  |  |

**3) Post**

|  |  |
| --- | --- |
| **Cash 101** | |
| **7,000** |  |

|  |  |
| --- | --- |
| **Common Stock 307** | |
|  | **10,000** |

|  |  |
| --- | --- |
| **Equipment 167** | |
| **3,000** |  |

**Quick Study 2-6 (Continued)**

**b.**

**1) Analyze:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Assets** | **=** | **Liabilities** | **+** | **Equity** |
| **Office Supplies** |  | **Accounts Payable** |  |  |
| **500** | **=** | **500** | **+** | **0** |

**2) Record:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Account Titles and Explanation** | **PR** | **Debit** | **Credit** |
| **May 21** | **Office Supplies** | **124** | **500** |  |
|  | **Accounts Payable** | **201** |  | **500** |
|  | ***Purchased office supplies on credit.*** |  |  |  |

**3) Post**

|  |  |
| --- | --- |
| **Office Supplies 124** | |
| **500** |  |

|  |  |
| --- | --- |
| **Accounts Payable 201** | |
|  | **500** |

**c.**

**1) Analyze:**

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

**2) Record:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Account Titles and Explanation** | **PR** | **Debit** | **Credit** |
| **May 25** | **Cash** | **101** | **4,000** |  |
|  | **Landscaping Revenue** | **403** |  | **4,000** |
|  | ***Received cash for landscaping services.*** |  |  |  |

|  |  |
| --- | --- |
| **Cash 101** | |
| **4,000** |  |

**3) Post**

|  |  |
| --- | --- |
| **Landscaping Revenue 403** | |
|  | **4,000** |

**Quick Study 2-6 (Continued)**

**d.**

**1) Analyze:**

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

**2) Record:**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Date** | **Account Titles and Explanation** | **PR** | **Debit** | **Credit** |
| **May 30** | **Cash** | **101** | **1,000** |  |
|  | **Unearned Landscaping Revenue** | **236** |  | **1,000** |
|  | ***Received cash in advance for landscaping services.*** |  |  |  |

|  |  |
| --- | --- |
| **Cash 101** | |
| **1,000** |  |

**3) Post**

|  |  |
| --- | --- |
| **Unearned Landscaping Revenue 236** | |
|  | **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. b. c.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | | |  | **Accounts Payable** | | | | |  | **Supplies** | | | | | |
|  | **100** |  |  | **50** |  |  | **2,000** |  |  | **8,000** |  | |  | **10,000** |  |  | **3,800** |  |
|  | **300** |  |  | **60** |  |  | **2,700** |  |  |  |  | |  | **1,100** |  |  |  |  |
|  | **20** |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |
| **Bal.** | **310** |  |  |  |  |  |  |  | **Bal.** | **3,300** |  | | **Bal.** | **7,300** |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |

d. e. f.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accounts Receivable** | | | | |  | **Wages Payable** | | | | |  | **Cash** | | | | | |
|  | **600** |  |  | **150** |  |  |  |  |  | **700** |  | |  | **11,000** |  |  | **4,500** |  |
|  |  |  |  | **150** |  |  | **700** |  |  |  |  | |  | **800** |  |  | **6,000** |  |
|  |  |  |  | **150** |  |  |  |  |  |  |  | |  | **100** |  |  | **1,300** |  |
|  |  |  |  | **100** |  |  |  |  |  |  |  | |  |  |  |  |  |  |
| **Bal.** | **50** |  |  |  |  |  |  |  | **Bal.** | **0** |  | | **Bal.** | **100** |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |  | |  |  |  |  |  |  |

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

**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 2-12 (10 minutes)

**Debt ratio = Total liabilities / Total assets = $30,624 mil / $39,946 mil = 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)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **Type of** | **Normal** | **Increase** |
|  | Account | **Account** | **Balance** | **(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)** | **$300,500** |
|  |  |  |
| **b.** | **Beginning accounts receivable (debit)** | **$102,500** |
|  | **Sales on account in October (debits)** | **?** |
|  | **Collections on account in October (credits)** | **(102,890)** |
|  | **Ending accounts receivable (debit)** | **$ 89,000** |
|  |  |  |
|  | **Sales on account in October (debits)** | **$ 89,390** |
|  |  |  |
| **c.** | **Beginning cash balance (debit)** | **$ ?** |
|  | **Cash received in October (debits)** | **102,500** |
|  | **Cash disbursed in October (credits)** | **(103,150)** |
|  | **Ending cash balance (debit)** | **$ 18,600** |
|  |  |  |
|  | **Beginning cash balance (debit)** | **$ 19,250** |

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

**Aug. 1Cash 6,500**

**Photography Equipment 33,500**

**Common Stock 40,000**

**Owner invests in business for stock.**

**2Prepaid Insurance 2,100**

**Cash 2,100**

**Acquired 2 years of insurance coverage.**

**5Office Supplies 880**

**Cash 880**

**Purchased office supplies.**

**20Cash 3,331**

**Photography Fees Earned 3,331**

**Collected photography fees.**

**31 Utilities Expense 675**

**Cash 675**

**Paid for August utilities.**

**Exercise 2-8 (30 minutes)**

***Part 1***

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Cash | | | | |  | Photography Equipment | | | | |
| **Aug. 1** | **6,500** |  | **Aug. 2** | **2,100** |  | **Aug. 1** | **33,500** |  | |  |
| **20** | **3,331** |  | **5** | **880** |  |  |  |  | |  |
|  |  |  | **31** | **675** |  | **Common Stock** | | | | |
| **Balance** | **6,176** |  |  |  |  |  |  | **Aug. 1** | | **40,000** |
|  |  |  |  |  |  |  |  | |  |  |
| **Office Supplies** | | | | |  | **Photography Fees Earned** | | | | |
| **Aug. 5** | **880** |  |  |  |  |  |  | **Aug. 20** | | **3,331** |
|  | | | | |  |  |  |  | | |
| **Prepaid Insurance** | | | | |  | **Utilities Expense** | | | | |
| **Aug. 2** | **2,100** |  |  |  |  | **Aug. 31** | **675** |  | |  |

***Part 2***

|  |  |  |
| --- | --- | --- |
| **Pose-for-pics** | | |
| **Trial Balance** | | |
| **August 31** | | |
|  | ***Debit*** | ***Credit*** |
| **Cash** | **$ 6,176** |  |
| **Office supplies** | **880** |  |
| **Prepaid insurance** | **2,100** |  |
| **Photography equipment** | **33,500** |  |
| **Common stock** |  | **$40,000** |
| **Photography fees earned** |  | **3,331** |
| **Utilities expense** | **675** | **\_\_\_\_\_\_** |
| **Totals** | **$43,331** | **$43,331** |

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

**a. Cash 100,750**

**Common Stock 100,750**

**Owner invested in the business for stock.**

**b. Office Supplies 1,250**

**Cash 1,250**

**Purchased supplies with cash.**

**c. Office Equipment 10,050**

**Accounts Payable 10,050**

**Purchased office equipment on credit.**

**d. Cash 15,500**

**Fees Earned 15,500**

**Received cash from customer for services.**

**e. Accounts Payable 10,050**

**Cash 10,050**

**Made payment toward account payable.**

**f. Accounts Receivable 2,700**

**Fees Earned 2,700**

**Billed customer for services provided.**

**g. Rent Expense 1,225**

**Cash 1,225**

**Paid for this period’s rental charge.**

**h. Cash 1,125**

**Accounts Receivable 1,125**

**Received cash toward an account receivable.**

**i. Dividends 10,000**

**Cash 10,000**

**Paid cash for dividends.**

**Exercise 2-9 (concluded)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | | | |  | | **Accounts Payable** | | | | | | |
| **(a)** | **100,750** |  | **(b)** | **1,250** | | |  | **(e)** | | **10,050** | | **(c)** | | **10,050** |
| **(d)** | **15,500** |  | **(e)** | **10,050** | | |  |  | |  | | **Balance** | | **0** |
| **(h)** | **1,125** |  | **(g)** | **1,225** | | |  |  | |  | |  | |  |
|  |  |  | **(i)** | **10,000** | | |  |  | |  | |  | |  |
| **Balance** | **94,850** |  |  |  | | |  | **Common Stock** | | | | | | |
|  |  |  |  |  | |  | |  | |  | | **(a)** | | **100,750** |
|  |  |  |  |  | | |  |  | |  | | **Balance** | | **100,750** |
|  |  |  |  |  | | |  |  | |  | |  | |  |
| **Accounts Receivable** | | | | | |  | | **Dividends** | | | | | | |
| **(f)** | **2,700** |  | **(h)** | | **1,125** |  | | **(i)** | | **10,000** | |  | |  |
| **Balance** | **1,575** |  |  | |  |  | | **Balance** | | **10,000** | |  | |  |
|  |  |  |  | |  |  | |  | |  | |  | |  |
| **Office Supplies** | | | | | |  | | **Fees Earned** | | | | | | |
| **(b)** | **1,250** |  |  | |  |  | |  |  | | **(d)** | | **15,500** | |
| **Balance** | **1,250** |  |  | |  |  | |  |  | | **(f)** | | **2,700** | |
|  |  |  |  | |  |  | |  |  | | **Balance** | | **18,200** | |
|  |  |  |  | |  |  | |  |  | |  | |  | |
| **Office Equipment** | | | | | |  | | **Rent Expense** | | | | | | |
| **(c)** | **10,050** |  |  | |  |  | | **(g)** | **1,225** | |  | |  | |
| **Balance** | **10,050** |  |  | |  |  | | **Balance** | **1,225** | |  | |  | |

**Exercise 2-10 (15 minutes)**

|  |  |  |
| --- | --- | --- |
| SPADE COMPANY | | |
| **Trial Balance** | | |
| **May 31, 2017** | | |
|  | ***Debit*** | ***Credit*** |
| **Cash** | **$ 94,850** |  |
| **Accounts receivable** | **1,575** |  |
| **Office supplies** | **1,250** |  |
| **Office equipment** | **10,050** |  |
| **Accounts payable** |  | **$ 0** |
| **Common stock** |  | **100,750** |
| **Dividends** | **10,000** |  |
| **Fees earned** |  | **18,200** |
| **Rent expense** | **1,225** | **\_\_\_\_\_\_\_\_** |
| **Totals** | **$118,950** | **$118,950** |

**Exercise 2-11 (20 minutes)**

**1.**

**a. Account Payable 2,000**

**Cash 2,000**

**Paid amount owed toward account payable.**

**b. Salaries Expense 1,200**

**Cash 1,200**

**Paid salary of receptionist.**

**c. Equipment 39,000**

**Cash 39,000**

**Paid for equipment purchase.**

**d. Utilities Expense 800**

**Cash 800**

**Paid utilities for the office.**

**e. Dividends 4,500**

**Cash 4,500**

**Paid cash dividends.**

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

**e This transaction is a distribution of cash to the owner. Even though equity decreased, that decrease did not occur in the process of providing goods or services to customers.**

**a This transaction decreased cash in settlement of a previously existing liability (equity did not change). Supplies expense is recorded when assets are used, not necessarily when cash is paid.**

**c This transaction involves the purchase of an asset. The form of the company’s assets changed, but total assets did not (and neither did equity).**

**Exercise 2-12 (20 minutes)**

**1.**

**a. Cash 20,000**

**Common Stock 20,000**

**Cash received from owner investment for stock.**

**b. Cash 900**

**Services Revenue 900**

**Provided services for cash.**

**c. Cash 10,000**

**Unearned Services Revenue 10,000**

**Cash received for future services.**

**d. Cash 3,500**

**Accounts Receivable 3,500**

**Cash received toward accounts receivable.**

**e. Cash 5,000**

**Note Payable 5,000**

**Cash received for note payable to bank.**

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

**d This transaction changed the form of an asset from receivable to cash. Total assets were not increased (revenue was recognized when the services were originally provided).**

**e This transaction brought in cash (increased assets), and it also increased a liability by the same amount (represented by the signing of a note to repay the amount).**

**a This transaction brought in cash, but this is an owner investment.**

**c This transaction brought in cash, and it created a liability to provide services to a client in the next year.**

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

**b 1. The company paid $4,800 cash in advance for prepaid insurance coverage.**

**a 2. D. Belle created a new business and invested $6,000 cash, $7,600 of equipment, and $12,000 in web servers in exchange for stock.**

**c 3. The company purchased $900 of supplies on account.**

**e 4. The company received $4,500 cash for services provided.**

**f 5. The company paid $900 cash towards accounts payable.**

**g 6. The company paid $3,400 cash for equipment.**

**d 7. The company paid $800 cash for selling expenses.**

Exercise 2-14 (30 minutes)

**a. Cash 6,000**

**Equipment 7,600**

**Web Servers 12,000**

**Common Stock 25,600**

**Owner investment in company for stock.**

**b. Prepaid Insurance 4,800**

**Cash 4,800**

**Purchased insurance coverage.**

**c. Supplies 900**

**Accounts Payable 900**

**Purchased supplies on credit.**

**d. Selling Expenses 800**

**Cash 800**

**Paid cash for selling expenses.**

**e. Cash 4,500**

**Services Revenue 4,500**

**Received cash for services provided.**

**f. Accounts Payable 900**

**Cash 900**

**Made payment on accounts payable.**

**g. Equipment 3,400**

**Cash 3,400**

***Paid cash for equipment.***

**Exercise 2-15 (20 minutes)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Calculation of change in equity for *part* *a* through *part d*** | | | | | | |
|  | | **Assets** | **-** | **Liabilities** | **=** | **Equity** |
| **Beginning of the year** | **$ 60,000** | **-** | **$20,000** | **=** | **$40,000** |
| **End of the year** | **105,000** | **-** | **36,000** | **=** | **69,000** |
| **Net increase in equity** |  |  |  |  | **$29,000** |

|  |  |  |
| --- | --- | --- |
| **a. Net income** | | **$ ?** |
| **Plus owner investments** | | **0** |
| **Less dividends** | | **(0)** | |
| **Change in equity** | | **$29,000** |
| **Net Income = $29,000** | |

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

|  |  |  |
| --- | --- | --- |
| **b. Net income** | | **$ ?** |
| **Plus owner investments** | | **0** |
| **Less dividends ($1,250/mo. x 12 mo.)** | | **(15,000)** | |
| **Change in equity** | | **$29,000** |
| **Net Income = $44,000** | |

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

|  |  |  |
| --- | --- | --- |
| **c. Net income** | | **$ ?** |
| **Plus owner investment** | | **55,000** |
| **Less dividends** | | **(0)** | |
| **Change in equity** | | **$29,000** |
| **Net Loss = $26,000** | |

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

|  |  |  |
| --- | --- | --- |
| **d. Net income** | | **$ ?** |
| **Plus owner investment** | | **35,000** |
| **Less dividends ($1,250/mo. X 12 mo.)** | | **(15,000)** | |
| **Change in equity** | | **$29,000** |
| **Net Income = $9,000** | |

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

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

**HELP TODAY**

**Income Statement**

**For Month Ended August 31**

**Revenues**

**Consulting fees earned $ 27,000**

**Expenses**

**Rent expense $ 9,550**

**Salaries expense 5,600**

**Telephone expense 860**

**Miscellaneous expenses 520**

**Total expenses 16,530**

**Net income $ 10,470**

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

**HELP TODAY**

**Statement of Retained Earnings**

**For Month Ended August 31**

**Retained earnings, July 31 $ 0**

**Add: Net income (from Exercise 2-16) 10,470**

**10,470**

**Less: Dividends 6,000**

**Retained earnings, August 31 $ 4,470**

Exercise 2-18 (15 minutes)

**HELP TODAY**

**Balance Sheet**

**August 31**

**Assets Liabilities**

**Cash $ 25,360 Accounts payable $ 10,500**

**Accounts receivable 22,360 Equity**

**Office supplies 5,250 Common stock 102,000**

**Office equipment 20,000 Retained earnings\* 4,470**

**Land 44,000 Total equity 106,470**

**Total assets $116,970 Total liabilities & equity $116,970**

**\* Amount from Exercise 2-17.**

Exercise 2-19 (15 minutes)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **(a)** |  | **(b)** |  | **(c)** |  | **(d)** |
| **Answers** | **$(28,000)** |  | **$42,000** |  | **$73,000** |  | **$(45,000)** |
| **Computations:** |  |  |  |  |  |  |  |
| **Equity, Dec. 31, 2016** | **$ 0** |  | **$ 0** |  | **$ 0** |  | **$ 0** |
| **Owner's investments** | **110,000** |  | **42,000** |  | **87,000** |  | **210,000** |
| **Dividends** | **(28,000)** |  | **(47,000)** |  | **(10,000)** |  | **(55,000)** |
| **Net income (loss)** | **22,000** |  | **90,000** |  | **(4,000)** |  | **(45,000)** |
| **Equity, Dec. 31, 2017** | **$104,000** |  | **$85,000** |  | **$73,000** |  | **$110,000** |

**Exercise 2-20 (20 minutes)**

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

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

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

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **a.** | **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%).**

**Exercise 2-23 (15 minutes)**

**Heineken N.V.**

**Balance Sheet (in Euro millions)**

**December 31, 2015**

**Assets Equity and liabilities**

**Noncurrent assets € 31,800 Total equity € 15,070**

**Current assets 5,914 Noncurrent liabilities 14,128**

**Current liabilities 8,516**

**Total assets € 37,714 Total equity and liabilities € 37,714**

**Problem sET A**

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

***Part 1***

**April 1 Cash 101 80,000**

**Office Equipment 163 26,000**

**Common Stock 307 106,000**

**Owner invested cash & equipment for stock.**

**2 Prepaid Rent 131 9,000**

**Cash 101 9,000**

**Prepaid twelve months’ rent.**

**3 Office Equipment 163 8,000**

**Office Supplies 124 3,600**

**Accounts Payable 201 11,600**

**Purchased equip. & supplies on credit.**

**6 Cash 101 4,000**

**Services Revenue 403 4,000**

**Received cash for services.**

**9 Accounts Receivable 106 6,000**

**Services Revenue 403 6,000**

**Billed client for completed work.**

**13 Accounts Payable 201 11,600**

**Cash 101 11,600**

**Paid balance due on account.**

**19 Prepaid Insurance 128 2,400**

**Cash 101 2,400**

**Paid premium for insurance.**

**22 Cash 101 4,400**

**Accounts Receivable 106 4,400**

**Collected part of amount owed by client.**

**25 Accounts Receivable 106 2,890**

**Services Revenue 403 2,890**

**Billed client for completed work.**

**28 Dividends 319 5,500**

**Cash 101 5,500**

**Paid cash for dividends.**

**29 Office Supplies 124 600**

**Accounts Payable 201 600**

**Purchased supplies on account.**

**30 Utilities Expense 690 435**

**Cash 101 435**

**Paid monthly utility bill.**

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

***Part 2***

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | | | | **Acct. No. 101** | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | **Balance** |
| **April** | **1** |  | **G1** | **80,000** |  | | **80,000** |
|  | **2** |  | **G1** |  | **9,000** | | **71,000** |
|  | **6** |  | **G1** | **4,000** |  | | **75,000** |
|  | **13** |  | **G1** |  | **11,600** | | **63,400** |
|  | **19** |  | **G1** |  | **2,400** | | **61,000** |
|  | **22** |  | **G1** | **4,400** |  | | **65,400** |
|  | **28** |  | **G1** |  | **5,500** | | **59,900** |
|  | **30** |  | **G1** |  | **435** | | **59,465** |
|  |  |  |  |  |  | |  |
| **Accounts Receivable** | | | | | **Acct. No. 106** | | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | **Balance** |
| **April** | **9** |  | **G1** | **6,000** |  | | **6,000** |
|  | **22** |  | **G1** |  | **4,400** | | **1,600** |
|  | **25** |  | **G1** | **2,890** |  | | **4,490** |
|  |  |  |  |  |  | |  |
| **Office Supplies** | | | | | **Acct. No. 124** | | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | **Balance** |
| **April** | **3** |  | **G1** | **3,600** |  | | **3,600** |
|  | **29** |  | **G1** | **600** |  | | **4,200** |
|  |  |  |  |  |  | |  |
| **Prepaid Insurance** | | | | | **Acct. No. 128** | | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | **Balance** |
| **April** | **19** |  | **G1** | **2,400** |  | | **2,400** |
|  |  |  |  |  |  | |  |
| **Prepaid Rent** | | | | | **Acct. No. 131** | | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | **Balance** |
| **April** | **2** |  | **G1** | **9,000** |  | | **9,000** |
|  |  |  |  |  |  | |  |
| **Office Equipment** | | | | | **Acct. No. 163** | | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | **Balance** |
| **April** | **1** |  | **G1** | **26,000** |  | | **26,000** |
|  | **3** |  | **G1** | **8,000** |  | | **34,000** |
|  |  |  |  |  |  | |  |

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Accounts Payable** | | | | | **Acct. No. 201** | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |
| **April** | **3** |  | **G1** |  | **11,600** | **11,600** |
|  | **13** |  | **G1** | **11,600** |  | **0** |
|  | **29** |  | **G1** |  | **600** | **600** |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| **Common Stock** | | | | | **Acct. No. 307** | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |
| **April** | **1** |  | **G1** |  | **106,000** | **106,000** |
|  |  |  |  |  |  |  |
| **Dividends** | | | | | **Acct. No. 319** | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |
| **April** | **28** |  | **G1** | **5,500** |  | **5,500** |
|  |  |  |  |  |  |  |
| **Services Revenue** | | | | | **Acct. No. 403** | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |
| **April** | **6** |  | **G1** |  | **4,000** | **4,000** |
|  | **9** |  | **G1** |  | **6,000** | **10,000** |
|  | **25** |  | **G1** |  | **2,890** | **12,890** |
|  |  |  |  |  |  |  |
| **Utilities Expense** | | | | | **Acct. No. 690** | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |
| **April** | **30** |  | **G1** | **435** |  | **435** |

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

***Part 3***

**LINKWORKS**

**Trial Balance**

**April 30**

**Debit Credit**

**Cash $ 59,465**

**Accounts receivable 4,490**

**Office supplies 4,200**

**Prepaid insurance 2,400**

**Prepaid rent 9,000**

**Office equipment 34,000**

**Accounts payable $ 600**

**Common stock 106,000**

**Dividends 5,500**

**Services revenue 12,890**

**Utilities expense       435**

**Total $119,490 $119,490**

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

***Part 1***

**a. Cash 101 100,000**

**Office Equipment 163 5,000**

**Drafting Equipment 164 60,000**

**Common Stock 307 165,000**

**Owner invested cash & equipment for stock.**

**b. Land 172 49,000**

**Cash 101 6,300**

**Notes Payable 250 42,700**

**Purchased land with cash and note payable.**

**c. Building 170 55,000**

**Cash 101 55,000**

**Purchased building.**

**d. Prepaid Insurance 108 3,000**

**Cash 101 3,000**

**Purchased 18-month insurance policy.**

**e. Cash 101 6,200**

**Engineering Fees Earned 402 6,200**

**Collected cash for completed work.**

**f. Drafting Equipment 164 20,000**

**Cash 101 9,500**

**Notes Payable 250 10,500**

**Purchased equipment with cash and note payable.**

**g. Accounts Receivable 106 14,000**

**Engineering Fees Earned 402 14,000**

**Completed services for client.**

**h. Office Equipment 163 1,150**

**Accounts Payable 201 1,150**

**Purchased equipment on credit.**

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

**i. Accounts Receivable 106 22,000**

**Engineering Fees Earned 402 22,000**

**Billed client for completed work.**

**j. Equipment Rental Expense 602 1,333**

**Accounts Payable 201 1,333**

**Incurred equipment rental expense.**

**k. Cash 101 7,000**

**Accounts Receivable 106 7,000**

**Collected cash on account.**

**l. Wages Expense 601 1,200**

**Cash 101 1,200**

**Paid assistant’s wages.**

**m. Accounts Payable 201 1,150**

**Cash 101 1,150**

***Paid amount due on account.***

**n. Repairs Expense 604 925**

**Cash 101 925**

***Paid for repair of equipment.***

**o. Dividends 319 9,480**

**Cash 101 9,480**

**Paid cash for dividends.**

**p. Wages Expense 601 1,200**

**Cash 101 1,200**

**Paid assistant’s wages.**

**q. Advertising Expense 603 2,500**

**Cash 101 2,500**

**Paid for advertising expense.**

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

***Part 2***

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash No. 101** | | | | |  | **Accounts Payable No. 201** | | | | |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  | **Date** | **PR** | Debit | **Credit** | **Balance** |
| **(a)** |  | **100,000** |  | **100,000** |  | **(h)** |  |  | **1,150** | **1,150** |
| **(b)** |  |  | **6,300** | **93,700** |  | **(j)** |  |  | **1,333** | **2,483** |
| **(c)** |  |  | **55,000** | **38,700** |  | **(m)** |  | **1,150** |  | **1,333** |
| **(d)** |  |  | **3,000** | **35,700** |  |  |  |  |  |  |
| **(e)** |  | **6,200** |  | **41,900** |  | **Notes Payable No. 250** | | | | |
| **(f)** |  |  | **9,500** | **32,400** |  | **Date** | **PR** | Debit | **Credit** | **Balance** |
| **(k)** |  | **7,000** |  | **39,400** |  | **(b)** |  |  | **42,700** | **42,700** |
| **(l)** |  |  | **1,200** | **38,200** |  | **(f)** |  |  | **10,500** | **53,200** |
| **(m)** |  |  | **1,150** | **37,050** |  |  |  |  |  |  |
| **(n)** |  |  | **925** | **36,125** |  |  |  |  |  |  |
| **(o)** |  |  | **9,480** | **26,645** |  | **Common Stock No. 307** | | | | |
| **(p)** |  |  | **1,200** | **25,445** |  | **Date** | **PR** | Debit | **Credit** | **Balance** |
| **(q)** |  |  | **2,500** | **22,945** |  | **(a)** |  |  | **165,000** | **165,000** |
|  |  |  |  |  |  |  |  |  |  |  |
| **Accounts Receivable No. 106** | | | | |  | **Dividends No. 319** | | | | |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  | **Date** | **PR** | Debit | **Credit** | **Balance** |
| **(g)** |  | **14,000** |  | **14,000** |  | **(o)** |  | **9,480** |  | **9,480** |
| **(i)** |  | **22,000** |  | **36,000** |  |  |  |  |  |  |
| **(k)** |  |  | **7,000** | **29,000** |  | **Engineering Fees Earned No. 402** | | | | |
|  |  |  |  |  |  | **Date** | **PR** | Debit | **Credit** | **Balance** |
| **Prepaid Insurance No. 108** | | | | |  | **(e)** |  |  | **6,200** | **6,200** |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  | **(g)** |  |  | **14,000** | **20,200** |
| **(d)** |  | **3,000** |  | **3,000** |  | **(i)** |  |  | **22,000** | **42,200** |
|  |  |  |  |  |  |  |  |  |  |  |
| **Office Equipment No. 163** | | | | |  | **Wages Expense No. 601** | | | | |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  | **Date** | **PR** | Debit | **Credit** | **Balance** |
| **(a)** |  | **5,000** |  | **5,000** |  | **(l)** |  | **1,200** |  | **1,200** |
| **(h)** |  | **1,150** |  | **6,150** |  | **(p)** |  | **1,200** |  | **2,400** |
|  |  |  |  |  |  |  |  |  |  |  |
| **Drafting Equipment No. 164** | | | | |  | **Equipment Rental Expense No. 602** | | | | |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  | **Date** | **PR** | Debit | **Credit** | **Balance** |
| **(a)** |  | **60,000** |  | **60,000** |  | **(j)** |  | **1,333** |  | **1,333** |
| **(f)** |  | **20,000** |  | **80,000** |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Building No. 170** | | | | |  | **Advertising Expense No. 603** | | | | |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  | **Date** | **PR** | Debit | **Credit** | **Balance** |
| **(c)** |  | **55,000** |  | **55,000** |  | **(q)** |  | **2,500** |  | **2,500** |
|  |  |  |  |  |  |  |  |  |  |  |
| **Land No. 172** | | | | |  | **Repairs Expense No. 604** | | | | |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  | **Date** | **PR** | Debit | **Credit** | **Balance** |
| **(b)** |  | **49,000** |  | **49,000** |  | **(n)** |  | **925** |  | **925** |

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

***Part 3***

**Aracel Engineering**

**Trial Balance**

**June 30**

***Debit Credit***

**Cash $ 22,945**

**Accounts receivable 29,000**

**Prepaid insurance 3,000**

**Office equipment 6,150**

**Drafting equipment 80,000**

**Building 55,000**

**Land 49,000**

**Accounts payable $ 1,333**

**Notes payable 53,200**

**Common stock 165,000**

**Dividends 9,480**

**Engineering fees earned 42,200**

**Wages expense 2,400**

**Equipment rental expense 1,333**

**Advertising expense 2,500**

**Repairs expense 925**

**Totals $261,733 $261,733**

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

***Part 1***

**Mar. 1 Cash 101 150,000**

**Office Equipment 163 22,000**

**Common Stock 307 172,000**

**Owner invested cash & equipment for stock.**

**2 Prepaid Rent 131 6,000**

**Cash 101 6,000**

**Prepaid six months’ rent.**

**3 Office Equipment 163 3,000**

**Office Supplies 124 1,200**

**Accounts Payable 201 4,200**

**Purchased equipment and supplies on credit.**

**6 Cash 101 4,000**

**Services Revenue 403 4,000**

**Received cash for services.**

**9 Accounts Receivable 106 7,500**

**Services Revenue 403 7,500**

**Billed client for completed work.**

**12 Accounts Payable 201 4,200**

**Cash 101 4,200**

**Paid balance due on account.**

**19 Prepaid Insurance 128 5,000**

**Cash 101 5,000**

**Paid premium for insurance.**

**22 Cash 101 3,500**

**Accounts Receivable 106 3,500**

**Collected part of amount owed by client.**

**25 Accounts Receivable 106 3,820**

**Services Revenue 403 3,820**

**Billed client for completed work.**

**29 Dividends 319 5,100**

**Cash 101 5,100**

**Paid cash for dividends.**

**30 Office Supplies 124 600**

**Accounts Payable 201 600**

**Purchased supplies on account.**

**31 Utilities Expense 690 500**

**Cash 101 500**

**Paid monthly utility bill.**

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

***Part 2***

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | | | | **Acct. No. 101** | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | **Balance** |
| **Mar.** | **1** |  | **G1** | **150,000** |  | | **150,000** |
|  | **2** |  | **G1** |  | **6,000** | | **144,000** |
|  | **6** |  | **G1** | **4,000** |  | | **148,000** |
|  | **12** |  | **G1** |  | **4,200** | | **143,800** |
|  | **19** |  | **G1** |  | **5,000** | | **138,800** |
|  | **22** |  | **G1** | **3,500** |  | | **142,300** |
|  | **29** |  | **G1** |  | **5,100** | | **137,200** |
|  | **31** |  | **G1** |  | **500** | | **136,700** |
|  |  |  |  |  |  | |  |
| **Accounts Receivable** | | | | | **Acct. No. 106** | | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | **Balance** |
| **Mar.** | **9** |  | **G1** | **7,500** |  | | **7,500** |
|  | **22** |  | **G1** |  | **3,500** | | **4,000** |
|  | **25** |  | **G1** | **3,820** |  | | **7,820** |
|  |  |  |  |  |  | |  |
| **Office Supplies** | | | | | **Acct. No. 124** | | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | **Balance** |
| **Mar.** | **3** |  | **G1** | **1,200** |  | | **1,200** |
|  | **30** |  | **G1** | **600** |  | | **1,800** |
|  |  |  |  |  |  | |  |
| **Prepaid Insurance** | | | | | **Acct. No. 128** | | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | **Balance** |
| **Mar.** | **19** |  | **G1** | **5,000** |  | | **5,000** |
|  |  |  |  |  |  | |  |
| **Prepaid Rent** | | | | | **Acct. No. 131** | | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | **Balance** |
| **Mar.** | **2** |  | **G1** | **6,000** |  | | **6,000** |
|  |  |  |  |  |  | |  |
| **Office Equipment** | | | | | **Acct. No. 163** | | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | **Balance** |
| **Mar.** | **1** |  | **G1** | **22,000** |  | | **22,000** |
|  | **3** |  | **G1** | **3,000** |  | | **25,000** |
|  |  |  |  |  |  | |  |

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

**Part 2 *(Continued)***

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Accounts Payable** | | | | | **Acct. No. 201** | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |
| **Mar.** | **3** |  | **G1** |  | **4,200** | **4,200** |
|  | **12** |  | **G1** | **4,200** |  | **0** |
|  | **30** |  | **G1** |  | **600** | **600** |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| **Common Stock** | | | | | **Acct. No. 307** | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |
| **Mar.** | **1** |  | **G1** |  | **172,000** | **172,000** |
|  |  |  |  |  |  |  |
| **Dividends** | | | | | **Acct. No. 319** | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |
| **Mar.** | **29** |  | **G1** | **5,100** |  | **5,100** |
|  |  |  |  |  |  |  |
| **Services Revenue** | | | | | **Acct. No. 403** | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |
| **Mar.** | **6** |  | **G1** |  | **4,000** | **4,000** |
|  | **9** |  | **G1** |  | **7,500** | **11,500** |
|  | **25** |  | **G1** |  | **3,820** | **15,320** |
|  |  |  |  |  |  |  |
| **Utilities Expense** | | | | | **Acct. No. 690** | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |
| **Mar.** | **31** |  | **G1** | **500** |  | **500** |

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

***Part 3***

**Venture Consultants**

**Trial Balance**

**March 31**

**Debit Credit**

**Cash $136,700**

**Accounts receivable 7,820**

**Office supplies 1,800**

**Prepaid insurance 5,000**

**Prepaid rent 6,000**

**Office equipment 25,000**

**Accounts payable $ 600**

**Common stock 172,000**

**Dividends 5,100**

**Services revenue 15,320**

**Utilities expense       500**

**Totals $187,920 $187,920**

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

***Part 1***

**a. Cash 101 60,000**

**Office Equipment 163 25,000**

**Common Stock 307 85,000**

**Owner invested cash & equipment for stock.**

**b. Land 172 40,000**

**Building 170 160,000**

**Cash 101 30,000**

**Notes Payable 250 170,000**

**Purchased land and building with cash and note payable.**

**c. Office Supplies 108 2,000**

**Accounts Payable 201 2,000**

**Purchased office supplies on account.**

**d. Automobiles 164 16,500**

**Common Stock 307 16,500**

**Owner contributed automobile to business for stock.**

**e. Office Equipment 163 5,600**

**Accounts Payable 201 5,600**

**Purchased office equipment on account.**

**f. Salaries Expense 601 1,800**

**Cash 101 1,800**

***Paid assistant’s salary.***

**g. Cash 101 8,000**

**Fees Earned 402 8,000**

**Provided services for cash.**

**h. Utilities Expense 602 635**

**Cash 101 635**

**Paid cash for utilities.**

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

**i. Accounts Payable 201 2,000**

**Cash 101 2,000**

**Paid cash on account.**

**j. Office Equipment 163 20,300**

**Cash 101 20,300**

**Purchased new equipment with cash.**

**k. Accounts Receivable 106 6,250**

**Fees Earned 402 6,250**

**Provided services on account.**

**l. Salaries Expense 601 1,800**

**Cash 101 1,800**

**Paid assistant’s salary.**

**m. Cash 101 4,000**

**Accounts Receivable 106 4,000**

***Received cash due on account.***

**n. Dividends 319 2,800**

**Cash 101 2,800**

***Paid cash for dividends.***

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

***Part 2***

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash No. 101** | | | | |  | **Land No. 172** | | | | | |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  | **Date** | **PR** | | Debit | **Credit** | **Balance** |
| **(a)** |  | **60,000** |  | **60,000** |  | **(b)** |  | | **40,000** |  | **40,000** |
| **(b)** |  |  | **30,000** | **30,000** |  |  |  | |  |  |  |
| **(f)** |  |  | **1,800** | **28,200** |  | **Accounts Payable No. 201** | | | | | |
| **(g)** |  | **8,000** |  | **36,200** |  | **Date** | | **PR** | Debit | **Credit** | **Balance** |
| **(h)** |  |  | **635** | **35,565** |  | **(c)** | |  |  | **2,000** | **2,000** |
| **(i)** |  |  | **2,000** | **33,565** |  | **(e)** | |  |  | **5,600** | **7,600** |
| **(j)** |  |  | **20,300** | **13,265** |  | **(i)** | |  | **2,000** |  | **5,600** |
| **(l)** |  |  | **1,800** | **11,465** |  |  |  | |  |  |  |
| **(m)** |  | **4,000** |  | **15,465** |  | **Notes Payable No. 250** | | | | | |
| **(n)** |  |  | **2,800** | **12,665** |  | **Date** | **PR** | | Debit | **Credit** | **Balance** |
|  |  |  |  |  |  | **(b)** |  | |  | **170,000** | **170,000** |
| **Accounts Receivable No. 106** | | | | |  |  | | | | | |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  |  | | | | | |
| **(k)** |  | **6,250** |  | **6,250** |  | **Common Stock No. 307** | | | | | |
| **(m)** |  |  | **4,000** | **2,250** |  | **Date** | **PR** | | Debit | **Credit** | **Balance** |
|  |  |  |  |  |  | **(a)** |  | |  | **85,000** | **85,000** |
| **Office Supplies No. 108** | | | | |  | **(d)** |  | |  | **16,500** | **101,500** |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  |  |  | |  |  |  |
| **(c)** |  | **2,000** |  | **2,000** |  |  |  | |  |  |  |
|  |  |  |  |  |  | **Dividends No. 319** | | | | | |
| **Office Equipment No. 163** | | | | |  | **Date** | **PR** | | Debit | **Credit** | **Balance** |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  | **(n)** |  | | 2,800 |  | **2,800** |
| **(a)** |  | **25,000** |  | **25,000** |  |  |  | |  |  |  |
| **(e)** |  | **5,600** |  | **30,600** |  | **Fees Earned No. 402** | | | | | |
| **(j)** |  | **20,300** |  | **50,900** |  | **Date** | **PR** | | Debit | **Credit** | **Balance** |
|  |  |  |  |  |  | **(g)** |  | |  | **8,000** | **8,000** |
|  |  |  |  |  |  | **(k)** |  | |  | **6,250** | **14,250** |
|  |  |  |  |  |  |  |  | |  |  |  |
| **Automobiles No. 164** | | | | |  | **Salaries Expense No. 601** | | | | | |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  | **Date** | **PR** | | Debit | **Credit** | **Balance** |
| **(d)** |  | **16,500** |  | **16,500** |  | **(f)** |  | | **1,800** |  | **1,800** |
|  |  |  |  |  |  | **(l)** |  | | **1,800** |  | **3,600** |
| **Building No. 170** | | | | |  |  |  | |  |  |  |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  | **Utilities Expense No. 602** | | | | | |
| **(b)** |  | **160,000** |  | **160,000** |  | **Date** | **PR** | | Debit | **Credit** | **Balance** |
|  |  |  |  |  |  | **(h)** |  | | **635** |  | **635** |

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

***Part 3***

**HV Consulting**

**Trial Balance**

**September 30**

**Debit Credit**

**Cash $ 12,665**

**Accounts receivable 2,250**

**Office supplies 2,000**

**Office equipment 50,900**

**Automobiles 16,500**

**Building 160,000**

**Land 40,000**

**Accounts payable $ 5,600**

**Notes payable 170,000**

**Common stock 101,500**

**Dividends 2,800**

**Fees earned 14,250**

**Salaries expense 3,600**

**Utilities expense   635**

**Total $291,350 $291,350**

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

***Part 1***

**NETTLE DISTRIBUTION**

**Balance Sheet**

**December 31, 2016**

**Assets Liabilities**

**Cash $ 64,300 Accounts payable $ 3,500**

**Accounts receivable 26,240**

**Office supplies 3,160**

**Trucks 148,000 Equity**

**Office equipment 44,000 Total equity 282,200**

**Total assets $285,700 Total liabilities and equity $285,700**

**NETTLE DISTRIBUTION**

**Balance Sheet**

**December 31, 2017**

**Assets Liabilities**

**Cash $ 15,640 Accounts payable $ 33,500**

**Accounts receivable 19,100 Note payable 40,000**

**Office supplies 1,960 Total liabilities 73,500**

**Trucks 157,000**

**Office equipment 44,000**

**Building 80,000 Equity**

**Land 60,000 Total equity 304,200**

**Total assets $377,700 Total liabilities and equity $377,700**

***Part 2***

**Computation of 2017 net income:**

|  |  |
| --- | --- |
| **Owner investment** | **$ 35,000** |
| **Add net income** | **?** |
| **Deduct dividends** | **(19,000)** |
| **Increase in equity during 2017\*** | **$ 22,000\*** |

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

**\* Computation of 2017 equity increase:**

|  |  |
| --- | --- |
| **Equity, December 31, 2016** | **$282,200** |
| **Plus net income (or less net loss)** | **?** |
| **Equity, December 31, 2017** | **$304,200** |
|  |  |
| **Thus, there is an increase in equity during 2017** | **$ 22,000** |

***Part 3***

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

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

***Part 1***

**Min Engineering**

**Trial Balance**

**May 31**

**Debit Credit**

**Cash $37,600**

**Office supplies 890**

**Prepaid insurance 4,600**

**Office equipment 12,900**

**Accounts payable $12,900**

**Common stock 18,000**

**Dividends 3,370**

**Engineering fees earned 36,000**

**Rent expense 7,540 .**

**Totals $66,900 $66,900**

***Part 2***

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

**Transactions *a* through *g* coded in T-account:**

**(a) Yi Min invested $18,000 cash in the business in exchange for stock.**

**(b) Paid $7,540 cash for May’s monthly rent expense.**

**(c) Paid $4,600 cash for this year’s insurance premium beginning immediately.**

**(d) Purchased office supplies for $890 cash.**

**(e) Purchased $12,900 of office equipment on credit (with accounts payable)—no cash effect; thus, not listed in T-account.**

**(f) Received $36,000 cash for engineering services provided in May.**

**(g) Paid $3,370 cash for dividends.**

**Problem sET b**

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

***Part 1***

**Sept. 1 Cash 101 38,000**

**Office Equipment 163 15,000**

**Common Stock 307 53,000**

**Owner invests assets in business for stock.**

**2 Prepaid Rent 131 9,000**

**Cash 101 9,000**

**Prepaid twelve months’ rent.**

**4 Office Equipment 163 8,000**

**Office Supplies 124 2,400**

**Accounts Payable 201 10,400**

**Purchased equipment and supplies on credit.**

**8 Cash 101 3,280**

**Services Revenue 401 3,280**

**Received cash for services.**

**12 Accounts Receivable 106 15,400**

**Services Revenue 401 15,400**

**Billed client for completed work.**

**13 Accounts Payable 201 10,400**

**Cash 101 10,400**

**Paid balance due on account.**

**19 Prepaid Insurance 128 1,900**

**Cash 101 1,900**

**Paid premium for insurance.**

**22 Cash 101 7,700**

**Accounts Receivable 106 7,700**

**Collected part of amount owed by client.**

**24 Accounts Receivable 106 2,100**

**Services Revenue 401 2,100**

**Billed client for completed work.**

**28 Dividends 319 5,300**

**Cash 101 5,300**

**Paid cash for dividends.**

**29 Office Supplies 124 550**

**Accounts Payable 201 550**

**Purchased supplies on account.**

**30 Utilities Expense 690 860**

**Cash 101 860**

**Paid monthly utility bill.**

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

***Part 2***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | | | | | | | | | | **Acct. No. 101** | | |
| **Date** |  | **Explanation** | | **PR** | | **Debit** | | **Credit** | | | | | **Balance** | |
| **Sept.** | **1** |  | | **G1** | | **38,000** | |  | | | | | **38,000** | |
|  | **2** |  | | **G1** | |  | | **9,000** | | | | | **29,000** | |
|  | **8** |  | | **G1** | | **3,280** | |  | | | | | **32,280** | |
|  | **13** |  | | **G1** | |  | | **10,400** | | | | | **21,880** | |
|  | **19** |  | | **G1** | |  | | **1,900** | | | | | **19,980** | |
|  | **22** |  | | **G1** | | **7,700** | |  | | | | | **27,680** | |
|  | **28** |  | | **G1** | |  | | **5,300** | | | | | **22,380** | |
|  | **30** |  | | **G1** | |  | | **860** | | | | | **21,520** | |
|  |  |  | |  | |  | |  | | | | |  | |
| **Accounts Receivable** | | | | | | | | | | | | **Acct. No. 106** | | |
| **Date** |  | **Explanation** | | **PR** | | **Debit** | | **Credit** | | | | | **Balance** | |
| **Sept.** | **12** |  | | **G1** | | **15,400** | |  | | | | | **15,400** | |
|  | **22** |  | | **G1** | |  | | **7,700** | | | | | **7,700** | |
|  | **24** |  | | **G1** | | **2,100** | |  | | | | | **9,800** | |
|  |  |  | |  | |  | |  | | | | |  | |
| **Office Supplies** | | | | | | | | | | | | **Acct. No. 124** | | |
| **Date** |  | **Explanation** | | **PR** | | **Debit** | | **Credit** | | | | | **Balance** | |
| **Sept.** | **4** |  | | **G1** | | **2,400** | |  | | | | | **2,400** | |
|  | **29** |  | | **G1** | | **550** | |  | | | | | **2,950** | |
|  |  |  | |  | |  | |  | | | | |  | |
|  |  |  | |  | |  | |  | | | | |  | |
| **Prepaid Insurance** | | | | | | | | | | | **Acct. No. 128** | | | |
| **Date** |  | | **Explanation** | | **PR** | | **Debit** | | **Credit** | | | | | **Balance** |
| **Sept.** | **19** | |  | | **G1** | | **1,900** | |  | | | | | **1,900** |
| **Prepaid Rent** | | | | | | | | | | **Acct. No. 131** | | | | |
| **Date** |  | | **Explanation** | | **PR** | | **Debit** | | **Credit** | | | | | **Balance** |
| **Sept.** | **2** | |  | | **G1** | | **9,000** | |  | | | | | **9,000** |
|  |  | |  | |  | |  | |  | | | | |  |
| **Office Equipment** | | | | | | | | | | | **Acct. No. 163** | | | |
| **Date** |  | | **Explanation** | | **PR** | | **Debit** | | **Credit** | | | | | **Balance** |
| **Sept.** | **1** | |  | | **G1** | | **15,000** | |  | | | | | **15,000** |
|  | **4** | |  | | **G1** | | **8,000** | |  | | | | | **23,000** |
|  |  | |  | |  | |  | |  | | | | |  |

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

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Accounts Payable** | | | | | | | **Acct. No. 201** | | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | | | **Balance** |
| **Sept.** | **4** |  | **G1** |  | **10,400** | | | | **10,400** |
|  | **13** |  | **G1** | **10,400** |  | | | | **0** |
|  | **29** |  | **G1** |  | **550** | | | | **550** |
|  |  |  |  |  |  | | | |  |
| **Common Stock** | | | | | | | | **Acct. No. 307** | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | | | **Balance** |
| **Sept.** | **1** |  | **G1** |  | **53,000** | | | | **53,000** |
|  |  |  |  |  |  | | | |  |
| **Dividends** | | | | | | **Acct. No. 319** | | | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | | | **Balance** |
| **Sept.** | **28** |  | **G1** | **5,300** |  | | | | **5,300** |
|  |  |  |  |  |  | | | |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Services Revenue** | | | | | | **Acct. No. 401** | | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | | **Balance** |
| **Sept.** | **8** |  | **G1** |  | **3,280** | | | **3,280** |
|  | **12** |  | **G1** |  | **15,400** | | | **18,680** |
|  | **24** |  | **G1** |  | **2,100** | | | **20,780** |
|  |  |  |  |  |  | | |  |
|  |  | **Utilities Expense** | | | | | **Acct. No. 690** | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | | **Balance** |
| **Sept.** | **30** |  | **G1** | **860** |  | | | **860** |

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

***Part 3***

**HuMBLE Management Services**

**Trial Balance**

**September 30**

**Debit Credit**

**Cash $21,520**

**Accounts receivable 9,800**

**Office supplies 2,950**

**Prepaid insurance 1,900**

**Prepaid rent 9,000**

**Office equipment 23,000**

**Accounts payable $ 550**

**Common stock 53,000**

**Dividends 5,300**

**Services revenue 20,780**

**Utilities expense 860 .**

**Totals $74,330 $74,330**

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

***Part 1***

**a. Cash 101 65,000**

**Office Equipment 163 5,750**

**Computer Equipment 164 30,000**

**Common Stock 307 100,750**

**Owner invested cash & equipment for stock.**

**b. Land 172 22,000**

**Cash 101 5,000**

**Notes Payable 250 17,000**

**Purchased land with cash and note payable.**

**c. Building 170 34,500**

**Cash 101 34,500**

**Purchased building.**

**d. Prepaid Insurance 108 5,000**

**Cash 101 5,000**

**Purchased 24-month insurance policy.**

**e. Cash 101 4,600**

**Fees Earned 402 4,600**

**Collected cash for completed work.**

**f. Computer Equipment 164 4,500**

**Cash 101 800**

**Notes Payable 250 3,700**

**Purchased equipment with cash and note payable.**

**g. Accounts Receivable 106 4,250**

**Fees Earned 402 4,250**

**Completed services for client.**

**h. Office Equipment 163 950**

**Accounts Payable 201 950**

**Purchased equipment on credit.**

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

**i. Accounts Receivable 106 10,200**

**Fees Earned 402 10,200**

**Billed client for completed work.**

**j. Computer Rental Expense 602 580**

**Accounts Payable 201 580**

**Incurred computer rental expense.**

**k. Cash 101 5,100**

**Accounts Receivable 106 5,100**

**Collected cash on account.**

**l. Wages Expense 601 1,800**

**Cash 101 1,800**

**Paid assistant’s wages.**

**m. Accounts Payable 201 950**

**Cash 101 950**

***Paid amount due on account.***

**n. Repairs Expense 604 608**

**Cash 101 608**

***Paid for repair of equipment.***

**o. Dividends 319 6,230**

**Cash 101 6,230**

**Paid cash for dividends.**

**p. Wages Expense 601 1,800**

**Cash 101 1,800**

**Paid assistant’s wages.**

**q. Advertising Expense 603 750**

**Cash 101 750**

**Paid for advertising expense.**

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

***Part 2***

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash No. 101** | | | | |  | **Accounts Payable No. 201** | | | | |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  | **Date** | **PR** | Debit | **Credit** | **Balance** |
| **(a)** |  | **65,000** |  | **65,000** |  | **(h)** |  |  | **950** | **950** |
| **(b)** |  |  | **5,000** | **60,000** |  | **(j)** |  |  | **580** | **1,530** |
| **(c)** |  |  | **34,500** | **25,500** |  | **(m)** |  | **950** |  | **580** |
| **(d)** |  |  | **5,000** | **20,500** |  |  |  |  |  |  |
| **(e)** |  | **4,600** |  | **25,100** |  | **Notes Payable No. 250** | | | | |
| **(f)** |  |  | **800** | **24,300** |  | **Date** | **PR** | Debit | **Credit** | **Balance** |
| **(k)** |  | **5,100** |  | **29,400** |  | **(b)** |  |  | **17,000** | **17,000** |
| **(l)** |  |  | **1,800** | **27,600** |  | **(f)** |  |  | **3,700** | **20,700** |
| **(m)** |  |  | **950** | **26,650** |  |  |  |  |  |  |
| **(n)** |  |  | **608** | **26,042** |  |  |  |  |  |  |
| **(o)** |  |  | **6,230** | **19,812** |  | **Common Stock No. 307** | | | | |
| **(p)** |  |  | **1,800** | **18,012** |  | **Date** | **PR** | Debit | **Credit** | **Balance** |
| **(q)** |  |  | **750** | **17,262** |  | **(a)** |  |  | **100,750** | **100,750** |
|  |  |  |  |  |  |  |  |  |  |  |
| **Accounts Receivable No. 106** | | | | |  | **Dividends No. 319** | | | | |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  | **Date** | **PR** | Debit | **Credit** | **Balance** |
| **(g)** |  | **4,250** |  | **4,250** |  | **(o)** |  | **6,230** |  | **6,230** |
| **(i)** |  | **10,200** |  | **14,450** |  |  |  |  |  |  |
| **(k)** |  |  | **5,100** | **9,350** |  | **Fees Earned No. 402** | | | | |
|  |  |  |  |  |  | **Date** | **PR** | Debit | **Credit** | **Balance** |
| **Prepaid Insurance No. 108** | | | | |  | **(e)** |  |  | **4,600** | **4,600** |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  | **(g)** |  |  | **4,250** | **8,850** |
| **(d)** |  | **5,000** |  | **5,000** |  | **(i)** |  |  | **10,200** | **19,050** |
|  |  |  |  |  |  |  |  |  |  |  |
| **Office Equipment No. 163** | | | | |  | **Wages Expense No. 601** | | | | |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  | **Date** | **PR** | Debit | **Credit** | **Balance** |
| **(a)** |  | **5,750** |  | **5,750** |  | **(l)** |  | **1,800** |  | **1,800** |
| **(h)** |  | **950** |  | **6,700** |  | **(p)** |  | **1,800** |  | **3,600** |
|  |  |  |  |  |  |  |  |  |  |  |
| **Computer Equipment No. 164** | | | | |  | **Computer Rental Expense No. 602** | | | | |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  | **Date** | **PR** | Debit | **Credit** | **Balance** |
| **(a)** |  | **30,000** |  | **30,000** |  | **(j)** |  | **580** |  | **580** |
| **(f)** |  | **4,500** |  | **34,500** |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| **Building No. 170** | | | | |  | **Advertising Expense No. 603** | | | | |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  | **Date** | **PR** | Debit | **Credit** | **Balance** |
| **(c)** |  | **34,500** |  | **34,500** |  | **(q)** |  | **750** |  | **750** |
|  |  |  |  |  |  |  |  |  |  |  |
| **Land No. 172** | | | | |  | **Repairs Expense No. 604** | | | | |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  | **Date** | **PR** | Debit | **Credit** | **Balance** |
| **(b)** |  | **22,000** |  | **22,000** |  | **(n)** |  | **608** |  | **608** |

**Problem 2-2B *(Concluded)***

***Part 3***

**SOFTWORKS**

**Trial Balance**

**April 30**

**Debit Credit**

**Cash $ 17,262**

**Accounts receivable 9,350**

**Prepaid insurance 5,000**

**Office equipment 6,700**

**Computer equipment 34,500**

**Building 34,500**

**Land 22,000**

**Accounts payable $ 580**

**Notes payable 20,700**

**Common stock 100,750**

**Dividends 6,230**

**Fees earned 19,050**

**Wages expense 3,600**

**Computer rental expense 580**

**Advertising expense 750**

**Repairs expense      608**

**Totals $141,080 $141,080**

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

***Part 1***

**Nov. 1 Cash 101 30,000**

**Office Equipment 163 15,000**

**Common Stock 307 45,000**

**Owner invested cash & equipment for stock.**

**2 Prepaid Rent 131 4,500**

**Cash 101 4,500**

**Prepaid six months’ rent.**

**4 Office Equipment 163 2,500**

**Office Supplies 124 600**

**Accounts Payable 201 3,100**

**Purchased equipment and supplies on credit.**

**8 Cash 101 3,400**

**Services Revenue 403 3,400**

**Received cash for services.**

**12 Accounts Receivable 106 10,200**

**Services Revenue 403 10,200**

**Billed client for completed work.**

**13 Accounts Payable 201 3,100**

**Cash 101 3,100**

**Paid balance due on account.**

**19 Prepaid Insurance 128 1,800**

**Cash 101 1,800**

**Paid premium for 24 months of insurance.**

**22 Cash 101 5,200**

**Accounts Receivable 106 5,200**

**Collected part of amount owed by client.**

**24 Accounts Receivable 106 1,750**

**Services Revenue 403 1,750**

**Billed client for completed work.**

**28 Dividends 319 5,300**

**Cash 101 5,300**

**Paid cash for dividends.**

**29 Office Supplies 124 249**

**Accounts Payable 201 249**

**Purchased supplies on account.**

**30 Utilities Expense 690 831**

**Cash 101 831**

**Paid monthly utility bill.**

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

***Part 2***

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash** | | | | | | **Acct. No. 101** | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | **Balance** |
| **Nov.** | **1** |  | **G1** | **30,000** |  | | **30,000** |
|  | **2** |  | **G1** |  | **4,500** | | **25,500** |
|  | **8** |  | **G1** | **3,400** |  | | **28,900** |
|  | **13** |  | **G1** |  | **3,100** | | **25,800** |
|  | **19** |  | **G1** |  | **1,800** | | **24,000** |
|  | **22** |  | **G1** | **5,200** |  | | **29,200** |
|  | **28** |  | **G1** |  | **5,300** | | **23,900** |
|  | **30** |  | **G1** |  | **831** | | **23,069** |
|  |  |  |  |  |  | |  |
| **Accounts Receivable** | | | | | **Acct. No. 106** | | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | **Balance** |
| **Nov.** | **12** |  | **G1** | **10,200** |  | | **10,200** |
|  | **22** |  | **G1** |  | **5,200** | | **5,000** |
|  | **24** |  | **G1** | **1,750** |  | | **6,750** |
|  |  |  |  |  |  | |  |
| **Office Supplies** | | | | | **Acct. No. 124** | | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | **Balance** |
| **Nov.** | **4** |  | **G1** | **600** |  | | **600** |
|  | **29** |  | **G1** | **249** |  | | **849** |
|  |  |  |  |  |  | |  |
| **Prepaid Insurance** | | | | | **Acct. No. 128** | | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | **Balance** |
| **Nov.** | **19** |  | **G1** | **1,800** |  | | **1,800** |
|  |  |  |  |  |  | |  |
| **Prepaid Rent** | | | | | **Acct. No. 131** | | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | **Balance** |
| **Nov.** | **2** |  | **G1** | **4,500** |  | | **4,500** |
|  |  |  |  |  |  | |  |
| **Office Equipment** | | | | | **Acct. No. 163** | | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | **Balance** |
| **Nov.** | **1** |  | **G1** | **15,000** |  | | **15,000** |
|  | **4** |  | **G1** | **2,500** |  | | **17,500** |
|  |  |  |  |  |  | |  |
| **Accounts Payable** | | | | | **Acct. No. 201** | | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | | **Balance** |
| **Nov.** | **4** |  | **G1** |  | **3,100** | | **3,100** |
|  | **13** |  | **G1** | **3,100** |  | | **0** |
|  | **29** |  | **G1** |  | **249** | | **249** |

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Common Stock** | | | | | **Acct. No. 307** | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |
| **Nov.** | **1** |  | **G1** |  | **45,000** | **45,000** |
|  |  |  |  |  |  |  |
| **Dividends** | | | | | **Acct. No. 319** | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |
| **Nov.** | **28** |  | **G1** | **5,300** |  | **5,300** |
|  |  |  |  |  |  |  |
| **Services Revenue** | | | | | **Acct. No. 403** | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |
| **Nov.** | **8** |  | **G1** |  | **3,400** | **3,400** |
|  | **12** |  | **G1** |  | **10,200** | **13,600** |
|  | **24** |  | **G1** |  | **1,750** | **15,350** |
|  |  |  |  |  |  |  |
| **Utilities Expense** | | | | | **Acct. No. 690** | |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |
| **Nov.** | **30** |  | **G1** | **831** |  | **831** |

***Part 3***

**ZUCKER MANAGEMENT SERVICES**

**Trial Balance**

**November 30**

**Debit Credit**

**Cash $23,069**

**Accounts receivable 6,750**

**Office supplies 849**

**Prepaid insurance 1,800**

**Prepaid rent 4,500**

**Office equipment 17,500**

**Accounts payable $ 249**

**Common stock 45,000**

**Dividends 5,300**

**Services revenue 15,350**

**Utilities expense     831**

**Totals $60,599 $60,599**

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

***Part 1***

**a. Cash 101 35,000**

**Office Equipment 163 11,000**

**Common Stock 307 46,000**

**Owner invested cash & equipment for stock.**

**b. Land 172 7,500**

**Building 170 40,000**

**Cash 101 15,000**

**Notes Payable 250 32,500**

**Purchased land and building with cash and note payable.**

**c. Office Supplies 108 500**

**Accounts Payable 201 500**

**Purchased office supplies on account.**

**d. Automobiles 164 8,000**

**Common Stock 307 8,000**

**Owner contributed automobile to business for additional stock.**

**e. Office Equipment 163 1,200**

**Accounts Payable 201 1,200**

**Purchased office equipment on account.**

**f. Salaries Expense 601 1,000**

**Cash 101 1,000**

***Paid assistant’s salary.***

**g. Cash 101 3,200**

**Fees Earned 402 3,200**

**Provided services for cash.**

**h. Utilities Expense 602 540**

**Cash 101 540**

**Paid cash for utilities.**

**Problem 2-4B**

***Part 1—Concluded***

**i. Accounts Payable 201 500**

**Cash 101 500**

**Paid cash on account.**

**j. Office Equipment 163 3,400**

**Cash 101 3,400**

**Purchased equipment for cash.**

**k. Accounts Receivable 106 4,200**

**Fees Earned 402 4,200**

**Provided services on account.**

**l. Salaries Expense 601 1,000**

**Cash 101 1,000**

**Paid assistant’s salary.**

**m. Cash 101 2,200**

**Accounts Receivable 106 2,200**

***Received cash due on account.***

**n. Dividends 319 1,100**

**Cash 101 1,100**

***Paid cash for dividends.***

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

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Cash No. 101** | | | | |  | **Land No. 172** | | | | | |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  | **Date** | **PR** | | Debit | **Credit** | **Balance** |
| **(a)** |  | **35,000** |  | **35,000** |  | **(b)** |  | | **7,500** |  | **7,500** |
| **(b)** |  |  | **15,000** | **20,000** |  |  |  | |  |  |  |
| **(f)** |  |  | **1,000** | **19,000** |  | **Accounts Payable No. 201** | | | | | |
| **(g)** |  | **3,200** |  | **22,200** |  | **Date** | | **PR** | Debit | **Credit** | **Balance** |
| **(h)** |  |  | **540** | **21,660** |  | **(c)** | |  |  | **500** | **500** |
| **(i)** |  |  | **500** | **21,160** |  | **(e)** | |  |  | **1,200** | **1,700** |
| **(j)** |  |  | **3,400** | **17,760** |  | **(i)** | |  | **500** |  | **1,200** |
| **(l)** |  |  | **1,000** | **16,760** |  |  |  | |  |  |  |
| **(m)** |  | **2,200** |  | **18,960** |  | **Notes Payable No. 250** | | | | | |
| **(n)** |  |  | **1,100** | **17,860** |  | **Date** | **PR** | | Debit | **Credit** | **Balance** |
|  |  |  |  |  |  | **(b)** |  | |  | **32,500** | **32,500** |
| **Accounts Receivable No. 106** | | | | |  |  | | | | | |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  |  | | | | | |
| **(k)** |  | **4,200** |  | **4,200** |  | **Common Stock No. 307** | | | | | |
| **(m)** |  |  | **2,200** | **2,000** |  | **Date** | **PR** | | Debit | **Credit** | **Balance** |
|  |  |  |  |  |  | **(a)** |  | |  | **46,000** | **46,000** |
| **Office Supplies No. 108** | | | | |  | **(d)** |  | |  | **8,000** | **54,000** |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  |  |  | |  |  |  |
| **(c)** |  | **500** |  | **500** |  |  |  | |  |  |  |
|  |  |  |  |  |  | **Dividends No. 319** | | | | | |
| **Office Equipment No. 163** | | | | |  | **Date** | **PR** | | Debit | **Credit** | **Balance** |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  | **(n)** |  | | 1,100 |  | **1,100** |
| **(a)** |  | **11,000** |  | **11,000** |  |  |  | |  |  |  |
| **(e)** |  | **1,200** |  | **12,200** |  | **Fees Earned No. 402** | | | | | |
| **(j)** |  | **3,400** |  | **15,600** |  | **Date** | **PR** | | Debit | **Credit** | **Balance** |
|  |  |  |  |  |  | **(g)** |  | |  | **3,200** | **3,200** |
|  |  |  |  |  |  | **(k)** |  | |  | **4,200** | **7,400** |
|  |  |  |  |  |  |  |  | |  |  |  |
| **Automobiles No. 164** | | | | |  | **Salaries Expense No. 601** | | | | | |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  | **Date** | **PR** | | Debit | **Credit** | **Balance** |
| **(d)** |  | **8,000** |  | **8,000** |  | **(f)** |  | | **1,000** |  | **1,000** |
|  |  |  |  |  |  | **(l)** |  | | **1,000** |  | **2,000** |
| **Building No. 170** | | | | |  |  |  | |  |  |  |
| **Date** | **PR** | Debit | **Credit** | **Balance** |  | **Utilities Expense No. 602** | | | | | |
| **(b)** |  | **40,000** |  | **40,000** |  | **Date** | **PR** | | Debit | **Credit** | **Balance** |
|  |  |  |  |  |  | **(h)** |  | | **540** |  | **540** |

**Problem 2-4B *(Concluded)***

***Part 3***

**NUNCIO CONSULTING**

**Trial Balance**

**June 30**

**Debit Credit**

**Cash $17,860**

**Accounts receivable 2,000**

**Office supplies 500**

**Office equipment 15,600**

**Automobiles 8,000**

**Building 40,000**

**Land 7,500**

**Accounts payable $ 1,200**

**Notes payable 32,500**

**Common stock 54,000**

**Dividends 1,100**

**Fees earned 7,400**

**Salaries expense 2,000**

**Utilities expense 540**

**Total $95,100 $95,100**

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

***Part 1***

**TAMA CO.**

**Balance Sheet**

**December 31, 2016**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Assets** | | |  | **Liabilities** | |
| **Cash** | | **$ 30,000** |  | **Accounts payable** | **$ 4,000** |
| **Accounts receivable** | | **35,000** |  |  |  |
| **Office supplies** | | **8,000** |  |  |  |
| **Office equipment** | | **40,000** |  | **Equity** | |
| **Machinery** | | **28,000** |  | **Total equity** | **137,000** |
| **Total assets** | **$141,000** |  | **Total liabilities & equity** | **$141,000** | |

**TAMA CO.**

**Balance Sheet**

**December 31, 2017**

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

***Part 2***

**Computation of 2017 net income:**

|  |  |
| --- | --- |
| **Owner investment** | **$ 5,000** |
| **Add net income** | **?** |
| **Deduct dividends** | **(3,000)** |
| **Increase in equity during 2017\*** | **$ 13,000\*** |

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

**\* Computation of 2017 equity increase:**

|  |  |
| --- | --- |
| **Equity, December 31, 2016** | **$137,000** |
| **Plus net income (or less net loss)** | **?** |
| **Equity, December 31, 2017** | **$150,000** |
|  |  |
| **Thus, there is an increase in equity during 2017** | **$ 13,000** |

***Part 3***

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

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

***Part 1***

**GOULD SOLUTIONS**

**Trial Balance**

**April 30**

**Debit Credit**

**Cash $20,000**

**Office supplies 750**

**Prepaid rent 1,800**

**Office equipment 12,250**

**Accounts payable $12,250**

**Common stock 15,000**

**Dividends 5,200**

**Consulting fees earned 20,400**

**Miscellaneous expenses 7,650**

**Totals $47,650 $47,650**

***Part 2***

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

**Transactions *a* through *g* coded in T-account:**

**(a) R.Gould, the owner, invested $15,000 cash in the business in exchange for stock.**

**(b) Paid $1,800 cash for monthly rent expense for April.**

**(c) Paid $7,650 cash for miscellaneous expenses.**

**(d) Purchased office supplies for $750 cash.**

**(e) Purchased $12,250 of office equipment on credit (with accounts payable)—no cash effect; thus, not listed in T-account.**

**(f) Received $20,400 cash for consulting services provided in April.**

**(g) Paid $5,200 cash for dividends.**

**Serial Problem — SP 2**

Part 1 (120 minutes) Serial Problem, Business Solutions

**2017**

**Oct. 1 Cash 101 45,000**

**Office Equipment 163 8,000**

**Computer Equipment 167 20,000**

**Common Stock 307 73,000**

**Owner invests cash & equipment for stock.**

**2 Prepaid Rent 131 3,300**

**Cash 101 3,300**

**Paid four months’ rent in advance.**

**3 Computer Supplies 126 1,420**

**Accounts Payable 201 1,420**

**Purchased supplies on credit.**

**5 Prepaid Insurance 128 2,220**

**Cash 101 2,220**

**Paid 12 months’ premium in advance.**

**6 Accounts Receivable 106 4,800**

**Computer Services Revenue 403 4,800**

**Billed customer for services.**

**8 Accounts Payable 201 1,420**

**Cash 101 1,420**

**Paid balance due on account payable.**

**10 *No entry necessary in the journal.***

**12 Accounts Receivable 106 1,400**

**Computer Services Revenue 403 1,400**

**Billed customer for services.**

**15 Cash 101 4,800**

**Accounts Receivable 106 4,800**

**Collected accounts receivable.**

**17 Repairs Expense—Computer 684 805**

**Cash 101 805**

***Paid for computer repairs.***

**20 Advertising Expense 655 1,728**

**Cash 101 1,728**

**Purchased ads in local newspaper.**

**22 Cash 101 1,400**

**Accounts Receivable 106 1,400**

**Collected accounts receivable.**

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

**28 Accounts Receivable 106 5,208**

**Computer Services Revenue 403 5,208**

**Billed customer for services.**

**31 Wages Expense 623 875**

**Cash 101 875**

**Paid employee for part-time work.**

**31 Dividends 319 3,600**

**Cash 101 3,600**

**Paid cash for dividends.**

**Nov. 1 Mileage Expense 676 320**

**Cash 101 320**

**Reimbursed Rey for mileage.**

**2 Cash 101 4,633**

**Computer Services Revenue 403 4,633**

**Collected cash revenue from client.**

**5 Computer Supplies 126 1,125**

**Cash 101 1,125**

**Purchased computer supplies for cash.**

**8 Accounts Receivable 106 5,668**

**Computer Services Revenue 403 5,668**

**Billed customer for services.**

**13 *No entry necessary. (No revenue recognized until work performed.)***

**18 Cash 101 2,208**

**Accounts Receivable 106 2,208**

**Collected accounts receivable.**

**22 Miscellaneous Expenses 677 250**

**Cash 101 250**

**Record donation. (Some companies use a Donations account.)**

**24 Accounts Receivable 106 3,950**

**Computer Services Revenue 403 3,950**

**Billed customer for services.**

**25 *No entry necessary.***

**28 Mileage Expense 676 384**

**Cash 101 384**

**Reimbursed Rey for mileage.**

**30 Wages Expense 623 1,750**

**Cash 101 1,750**

**Paid employee for part-time work.**

**30 Dividends 319 2,000**

**Cash 101 2,000**

**Paid cash for dividends.**

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

***Part 2***

**General Ledger accounts**

**Cash Acct. No. 101**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |

**Oct. 1 45,000 45,000**

**2 3,300 41,700**

**5 2,220 39,480**

**8 1,420 38,060**

**15 4,800 42,860**

**17 805 42,055**

**20 1,728 40,327**

**22 1,400 41,727**

**31 875 40,852**

**31 3,600 37,252**

**Nov. 1 320 36,932**

**2 4,633 41,565**

**5 1,125 40,440**

**18 2,208 42,648**

**22 250 42,398**

**28 384 42,014**

**30 1,750 40,264**

**30 2,000 38,264**

**Accounts Receivable Acct. No.106**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |

**Oct. 6 4,800 4,800**

**12 1,400 6,200**

**15 4,800 1,400**

**22 1,400 0**

**28 5,208 5,208**

**Nov. 8 5,668 10,876**

**18 2,208 8,668**

**24 3,950 12,618**

**Computer Supplies Acct. No. 126**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |

**Oct. 3 1,420 1,420**

**Nov. 5 1,125 2,545**

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

**Prepaid Insurance Acct. No. 128**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |

**Oct. 5 2,220 2,220**

**Prepaid Rent Acct. No. 131**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |

**Oct. 2 3,300 3,300**

**Office Equipment Acct. No. 163**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |

**Oct. 1 8,000 8,000**

**Computer Equipment Acct. No. 167**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |

**Oct. 1 20,000 20,000**

**Accounts Payable Acct. No. 201**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |

**Oct. 3 1,420 1,420**

**8 1,420 0**

**Common Stock Acct. No. 307**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |

**Oct. 1 73,000 73,000**

**Dividends Acct. No. 319**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |

**Oct. 31 3,600 3,600**

**Nov. 30 2,000 5,600**

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

**Computer Services Revenue Acct. No. 403**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |

**Oct. 6 4,800 4,800**

**12 1,400 6,200**

**28 5,208 11,408**

**Nov. 2 4,633 16,041**

**8 5,668 21,709**

**24 3,950 25,659**

**Wages Expense Acct. No. 623**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |

**Oct. 31 875 875**

**Nov. 30 1,750 2,625**

**Advertising Expense Acct. No. 655**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |

**Oct. 20 1,728 1,728**

**Mileage Expense Acct. No. 676**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |

**Nov. 1 320 320**

**28 384 704**

**Miscellaneous Expenses Acct. No. 677**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |

**Nov. 22 250 250**

**Repairs Expense—Computer Acct. No. 684**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Date** |  | **Explanation** | **PR** | **Debit** | **Credit** | **Balance** |

Oct. 17 805 805

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

***Part 3***

**BUSINESS SOLUTIONS**

**Trial Balance**

**November 30**

**Debit Credit**

**Cash $38,264**

**Accounts receivable 12,618**

**Computer supplies 2,545**

**Prepaid insurance 2,220**

**Prepaid rent 3,300**

**Office equipment 8,000**

**Computer equipment 20,000**

**Accounts payable $ 0**

**Common stock 73,000**

**Dividends 5,600**

**Computer services revenue 25,659**

**Wages expense 2,625**

**Advertising expense 1,728**

**Mileage expense 704**

**Miscellaneous expense 250**

**Repairs expense—Computer    805**

**Totals $98,659 $98,659**

**Reporting in Action — BTN 2-1**

**1. Apple reports ($ millions):**

**$171,124 in liabilities at September 26, 2015.**

**$120,292 in liabilities at September 27, 2014.**

**2. Apple reports ($ millions):**

**$290,479 in assets at September 26, 2015.**

**$231,839 in assets at September 27, 2014.**

**3. $ millions:**

**As of September 26, 2015 Debt Ratio = $171,124/$290,479 = 58.9%**

**As of September 27, 2014 Debt Ratio = $120,292/$231,839 = 51.9%**

**4. Apple employed more financial leverage as of September 26, 2015, when 58.9% of its assets were financed by debt, relative to September 27, 2014, when 51.9% of its assets were financed by debt. Consequently, its financing structure was more risky in its fiscal 2015 in comparison to its fiscal 2014.**

1. **Solution depends on the financial statements accessed.**

**Comparative Analysis — BTN 2-2**

**1. Apple ($ millions)**

**Current year debt ratio: $171,124/$290,479 = 58.9%**

**Prior year debt ratio: $120,292/$231,839 = 51.9%**

**2. Google ($ millions)**

**Current year debt ratio: $27,130/$147,461 = 18.4%**

**Prior year debt ratio: $25,327/$129,187 = 19.6%**

**3. Apple has the higher degree of financial leverage. Apple’s debt ratio is markedly higher for the current year than that of Google (58.9% vs. 18.4%). 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.**

**Communicating in Practice — BTN 2-4**

**MEMORANDUM**

**To: Lila Corentine**

**From:**

**Subject: Financial statements explanation**

**Date:**

**The four major 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. It helps explain how equity changes during a period due to earnings activities.**
2. ***Statement of retained earnings* explains changes in retained earnings due to net income (or net loss) and any dividends over a period of time.**
3. ***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.**
4. ***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)**

1. **The three years net cash *provided* by operations follows ($ millions):**

**2014 = $6,842 2013 = $5,475 2012 = $4,180**

1. **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***

1. **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.**
2. **Owner investment of $10,000 cash in business in exchange for stock.**
3. **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).

1. **Paid rent expense with $2,000 cash.**
2. **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 she chooses to contribute her own funds for the expansion, she will be risking her own money, but she will not have the expense of interest payments, nor will she have the risk of the inability to repay a loan.**
* **If she chooses to borrow, she will have interest and loan payments to make, and she will have more risk (as reflected in her company’s debt ratio).**
* **If she can pay the interest and loan payments, it can be to her advantage to borrow, as long as her 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**

**Balance Sheet**

**December 31, 2017**

**Assets Liabilities**

**Cash $ 3,600 Accounts payable $ 2,200**

**Accounts receivable 9,600 Unearned lesson fees 15,600**

**Prepaid insurance 1,500 Total liabilities 17,800**

**Prepaid rent 9,400**

**Store supplies 6,600 Equity**

**Equipment 50,000 Total equity 62,900**

**Total assets $80,700 Total liabilities and equity $80,700**

**2.**

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

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

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

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

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

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

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

**Hitting the Road — BTN 2-9**

**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 (20.4%) yields the greatest return on assets, followed by Google (11.8%), and then Samsung (8.1%), which yields the lowest return.**

**2. An analysis of the debt ratio suggests that Apple (at 58.9%) presents the greatest risk, followed by Samsung (26.1%), and then Google (18.4%) with the least risk. That is, Apple carries the most debt, and debt must be repaid with principal and interest. 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).**